

SHOWA

ANNUAL REPORT 2001

YEAR ENDED MARCH 31, 2001



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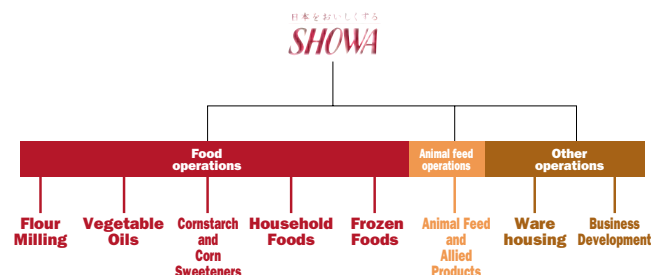
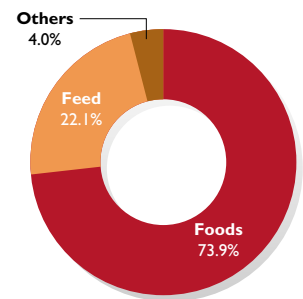
PROFILE

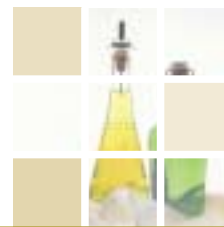
Since its founding in 1936, Showa Sangyo has continually diversified its operations to meet with the changing demands of the times. Today, the Company's operations are categorized into Food, Animal Feed and Other operations. Food Operations consist of Flour Milling, Vegetable Oils, Cornstarch and Corn 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)

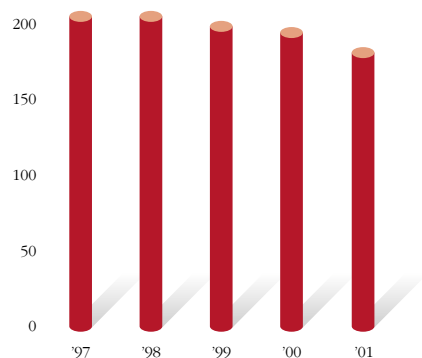
Thousands of U.S.dollars
Note 1-a
(except per share data)

	1997	1998	1999	2000	2001	2001
RESULT OF OPERATION:						
Net sales	¥ 204,847	¥ 204,855	¥ 198,250	¥ 188,251	¥ 185,085	\$ 1,493,828
Gross profit	35,194	36,214	36,950	38,237	37,353	301,475
Operating income	2,447	2,512	3,717	5,677	5,288	42,677
Income taxes	1,338	751	1,307	1,578	1,504	12,134
Net income (loss)	(405)	(1,765)	(164)	1,321	1,526	12,320
FINANCIAL POSITION:						
Total assets	¥ 180,474	¥ 177,960	¥ 167,959	¥ 157,338	¥ 157,129	\$ 1,268,191
Property, plant and equipment	94,765	93,645	89,444	85,363	82,776	668,092
Interest-bearing liabilities	81,235	81,302	77,461	67,025	65,274	526,832
Shareholders' equity	58,719	53,568	46,124	45,495	47,223	381,137
PER SHARE DATA:						
Net income (loss)	¥ (2.10)	¥ (9.13)	¥ (0.85)	¥ 6.85	¥ 7.95	\$ 0.064
Cash dividends	6.00	6.00	5.00	6.00	6.00	0.048
Shareholders' equity	303.68	277.04	239.16	235.90	249.94	2.017
COMMON STOCK:						
Numbers of shares-issued (Unit:thousand shares)	193,359	193,359	192,859	192,859	188,939	-
COMPOSITION OF SALES BY BUSINESS						
Foods	¥ 146,443	¥ 147,905	¥ 145,319	¥ 137,872	¥ 136,792	\$ 1,104,049
Feed	50,184	48,864	45,368	42,856	40,847	329,677
Others	8,220	8,086	7,563	7,523	7,446	60,102
Consolidated total	204,847	204,855	198,250	188,251	185,085	1,493,828

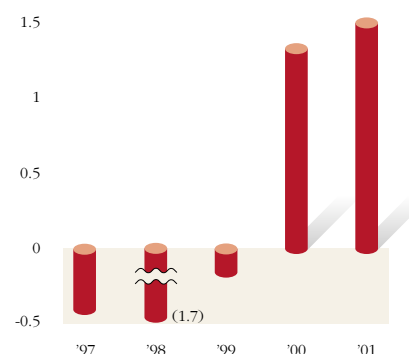
Note 1-a: The U.S. dollar amounts above and elsewhere in this report are translated from yen, for convenience only, at the rate of ¥123.90 = US \$1.

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)





At the close of the fiscal year ended March 31, 2000, we concluded our Re-Born Plan Phase II, whose purpose was to ensure a profitable base for our company and enhance its financial strength. Having yielded significant results from the plan, in the fiscal year ended March 31, 2001, we formulated our STEP 21 Plan, a three-year plan designed to promote new growth in our group operations in the 21st century.

In this plan, which conforms with our corporate philosophy of contributing to people's rich and healthful diet, we aim first and foremost to be the best partner for our customers while also keeping a close eye on the market.

The fiscal year ended March 2001 was the first year of that plan. We recorded declines in sales chiefly due to declines in the prices of wheat flour and other products. In spite of the results, however, we also embarked on various key measures to advance our STEP 21 Plan.

Operating Environment and Performance

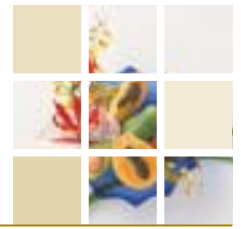
In the fiscal year under review, the Japanese economy showed strong private-sector capital expenditure and some improved corporate earnings. The problem of bad debt, however, continued to plague financial institutions while the stock market remained sluggish. In addition, the deflationary trend persisted, concerns about employment mounted, and consumer spending showed no sign of revival. The market environment for our operations thus remained challenging.

In addition, abroad, the market for grain products, including corn, was weak. Further, the strong value of the yen in the first half fueled the decline in prices for products such as edible oils, saccharified products and mixed feeds in Japan.

In this environment, our consolidated sales for the year came to 185.09 billion yen, a year-on-year decline of 1.7%. In volume, we recorded gains in sales of some products. Declines in prices for products, however, directly influenced our results.

Further, largely due to an increase in our sales-to-cost ratio, our operating margin declined. As a result, operating income fell by 6.9% to 5.29 billion yen.

On the other hand, net income showed a 15.6% gain to 1.53 billion yen. The introduction of retirement benefit accounting this fiscal year reduced net income. But with the sale of our U.S. consolidated subsidiary GranPac Foods Inc., we did not



incur extraordinary losses from this operation, which totaled 1.36 billion yen in the preceding fiscal year.

Implementing STEP 21 Plan

At present, we are promoting our medium-term business plan, STEP 21 Plan. Our goal is to be the best partner for our customers while keeping a close eye on the market. To this end, we are improving product quality, bolstering our cost competitiveness, and promoting efficiency to suit the market. Below are the chief measures that we implemented in the fiscal year ended March 2001 that follow the basic strategies outlined in STEP 21 Plan.

1. Concentrating on and expanding areas of growth and strength

Growth in demand for low-malt beer in recent years has resulted in increased demand for corn syrup, which is used in the brewing process. In response, we augmented our syrup production equipment to meet the demand. In addition, in our Household Foods Division and Frozen Foods Division, we reduced the number of brands we offer to concentrate on our competitive products and to expand with them.

2. Promoting a high-performance operation

We have begun construction of a multi-level automated warehouse at our Funabashi Plant that will manage inventory and incoming and outgoing shipments by computer. We hope this will help to speed up shipment processes and help us reduce personnel. In addition, we are also establishing order centers in Kobe and at our home office to consolidate ordering processes that have been carried out at multiple locations. This will help to cut down on personnel costs, more precisely match supply and demand, and reduce inventory.

3. Responding to changes in how stockholders and investors value the company (promoting group management)

We developed the concept of a business center to consolidate accounting operations of Showa Sangyo and its subsidiaries and thereby speed up group financial

settlement and simplify administration. The goal is to supply information to improve group management. In April 2001, as our first step, we introduced a cash management service for managing excess capital in our group. The purpose is to consolidate management of capital and improve efficiency.

4. Responding to environmental changes

We appointed an environmental director and created a system to further our environmental management, such as efforts to obtain ISO 14001 certification.

Showa Sangyo's Commitment to the Future

In response to rapid changes in society, we formulated our STEP 21 Plan and implemented various measures in the fiscal year under review to boost the efficiency of our management, capitalize on our strengths and continue to move forward boldly as the 21st century advances.

The various strategic categories included in STEP 21 Plan are an expression of the commitment of our management to the future of Showa Sangyo. STEP 21 Plan is a vital reform plan that will continue to create value for everyone associated with the company, including our shareholders, customers, employees and society as a whole.

We believe that our efforts to improve shareholder and corporate value will also advance our corporate principle of contributing to a rich and healthful diet that has its origins in the bounties of nature. We will continue to build our efforts around this principle in the future.

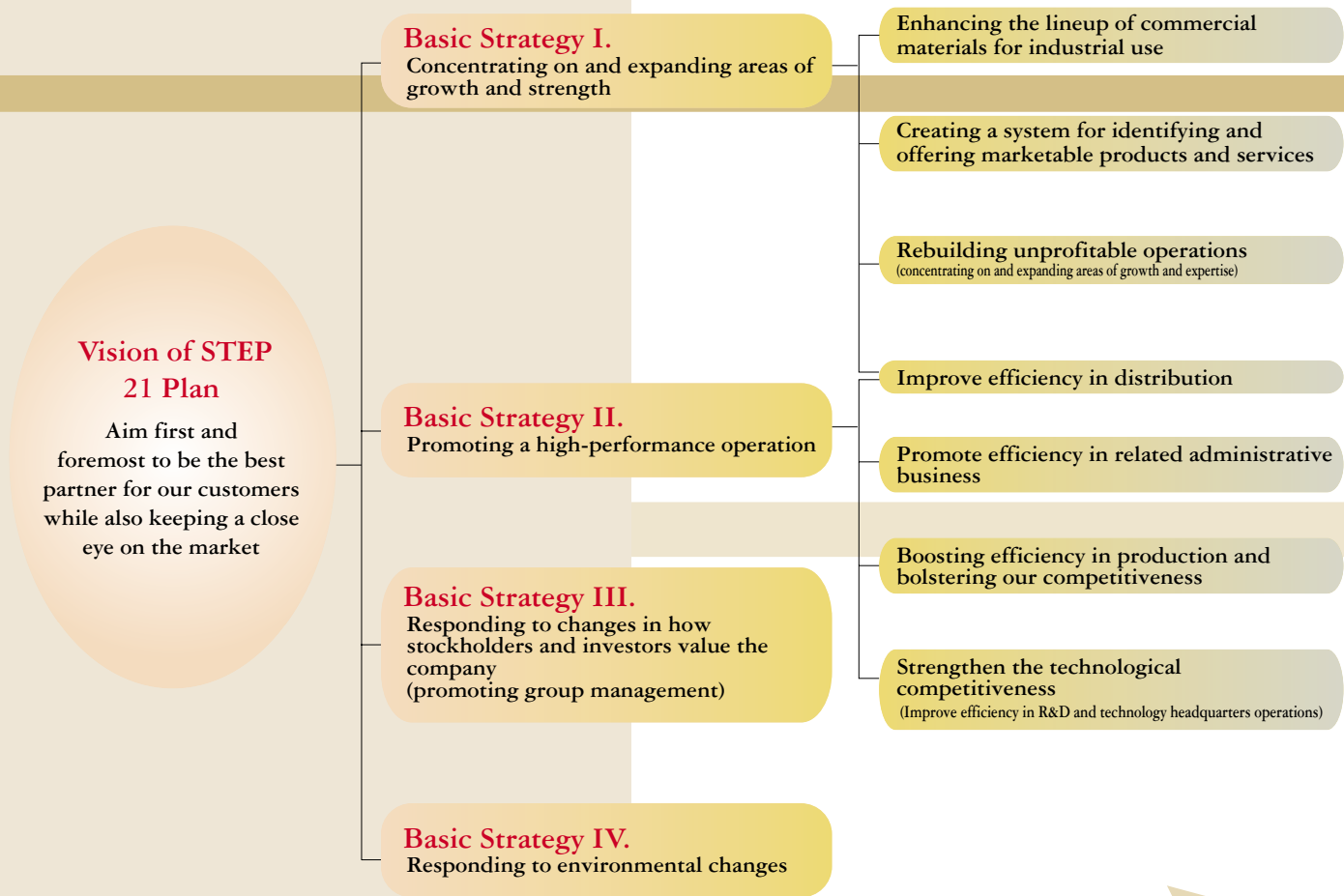
Mutsuo Kanehara

Mutsuo Kanehara
President

STEP 21 Plan

Basic Strategies in STEP 21 Plan

An outline of the medium-term business plan we are promoting, STEP 21 Plan, is as below.



Policies Implemented under STEP 21 Plan

In the fiscal year under review, we implemented the following policies to achieve the basic strategies of STEP 21 Plan.

Basic Strategy I. Concentrating on and expanding areas of growth and strength

Our most important effort in this area was expanding production facilities for corn syrup at our Kashima Plant on investments of roughly 1.2 billion yen. In recent years, demand for this product has grown as demand for low-malt beer has risen. Through our expansion, we created a system to respond to this demand.

In addition, in our Household Foods Division and Frozen Foods Division, we concentrated on competitive products,

revamped our product lineup and cut down on our brand offerings to expand our operations and improve our gross profit margin. As a result, we expect to improve merchandise turnover rates and reduce inventory levels.

Further, in our Vegetable Oils Division, we are creating a system that is less susceptible to changes in the market by increasing the sales ratio of high-value-added products, such as processed oils and functional oils, as well as that of our mini-tank system, to shift from our chief, traditional method of selling oil in cans. With our mini-tank system that employs a

remote-monitoring system using PHS (personal handyphone system) technology, we help facilitate our customers' operations by checking on their store of oil to make deliveries when reserves become low, and by mobilizing our sales and research staff to make recommendations on the timing of oil disposal and optimal methods of oil use.

In our Flour Milling Division, we are expanding our efforts in product development for convenience store vendors and increasing our business in this area, which is one of the few growth areas for this division in the midst of our current economic stagnation.

Basic Strategy II. Promoting a high-performance operation

In promoting a high-performance operation, improving efficiency in distribution is a key concern. To this end, we will establish order centers in Kobe and at our home office to consolidate ordering processes that have been carried out at multiple locations. This will help reduce the number of employees, match supply and demand more precisely and cut inventory levels.

To improve efficiency within our Funabashi Plant, we have begun construction of a multistorey automated warehouse that will manage inventory and incoming and outgoing shipments by computer. The warehouse, in which we have invested about 1.4 billion yen, will help us speed up shipment processes and trim personnel numbers. The new structure will also consolidate warehouses that were scattered throughout the plant and create space for new facilities.

We also have revamped our sales network to simplify organization and improve efficiency and have retooled our sales sites to improve service.

In addition to improving efficiency in distribution, we are also boosting efficiency in production and bolstering our competitiveness. To reconstruct the system for procuring stock and supplies company-wide, we introduced a new purchasing system to promote efficiency in related administrative business and help reduce purchase prices. Through this system, we will centralize information management at our headquarters.

Also, we have newly created the post of technical manager to supervise technical issues related to production, quality control, and research and development. The goal is to strengthen our technological competitiveness as a manufacturer.

Basic Strategy III. Responding to changes in how stockholders and investors value the company (promoting group management)

To improve the corporate value of the Showa Sangyo group, we developed the concept of a business center to consolidate accounting operations of Showa Sangyo and its subsidiaries to speed up group financial settlement, simplify administration and provide valuable information to aid in group management. As our first step, we introduced a cash management service to enhance the Group's financial health by overseeing surplus capital in our Group, consolidating its management and improving efficiency of its use.

In addition, we took steps to improve earnings per share and return on equity (ROE) by buying back and retiring our own shares worth 730 million yen with our capital reserves. To make more efficient use of assets through asset and liability reduction, we also liquidated accounts receivable worth 2 billion yen.

Basic Strategy IV. Responding to environmental changes

To promote protection of the environment, we appointed an environmental director and created a system to promote our environmental management, including efforts to obtain ISO 14001 certification.

We are introducing a multi-track personnel system that values the individual. We are working to cultivate human resources via a system in which employees voluntarily educate themselves in skills that they need, and to enhance the strength of our organization through a system for selecting the right personnel for each job.

Productive Presentation

Our 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.

We 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.

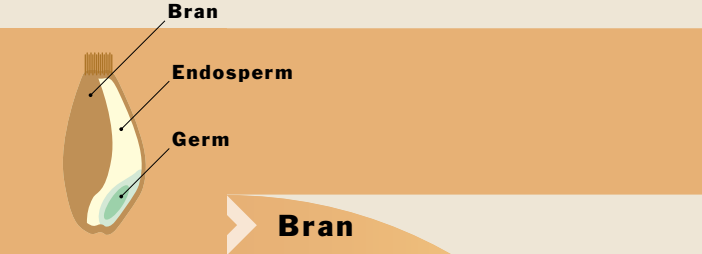
Other operations include warehousing business for grains and real-estate leasing business for effective use of real estates.

BUSINESS DEVELOPMENT

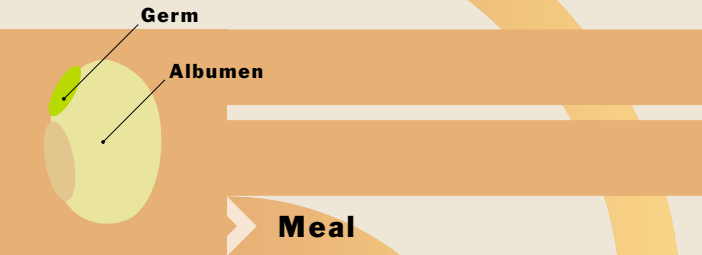


Showa Sangyo **Others**

WHEAT



SOY



CORN

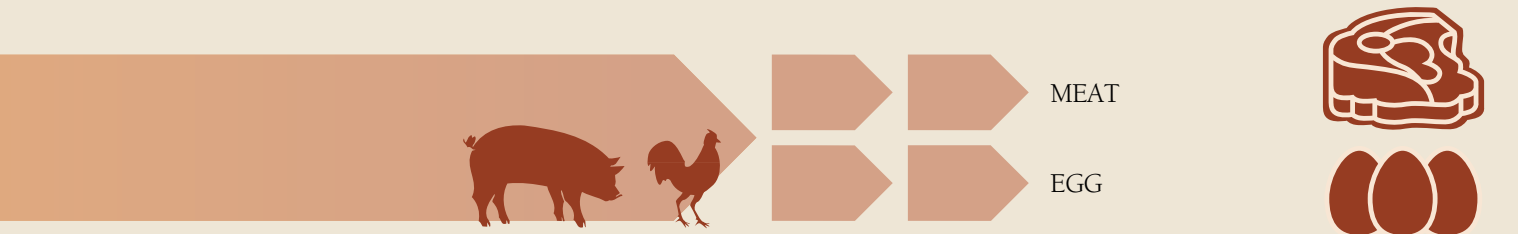
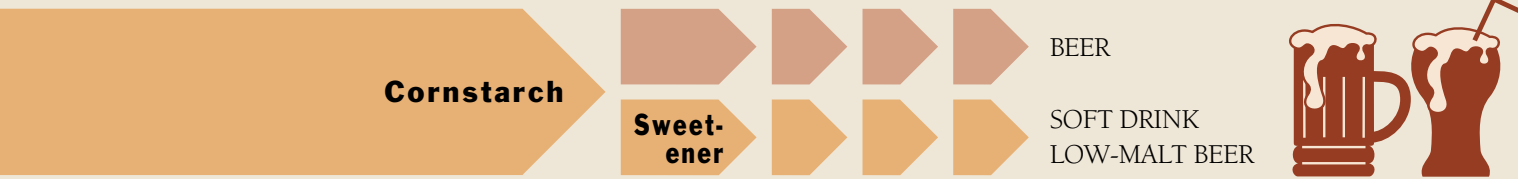
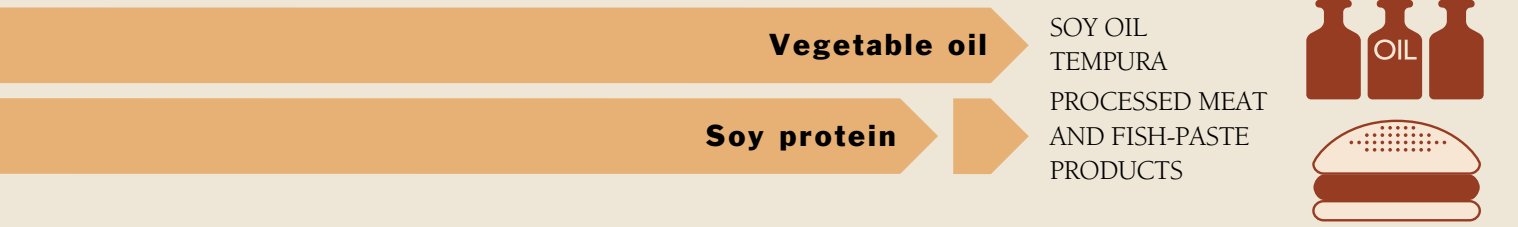
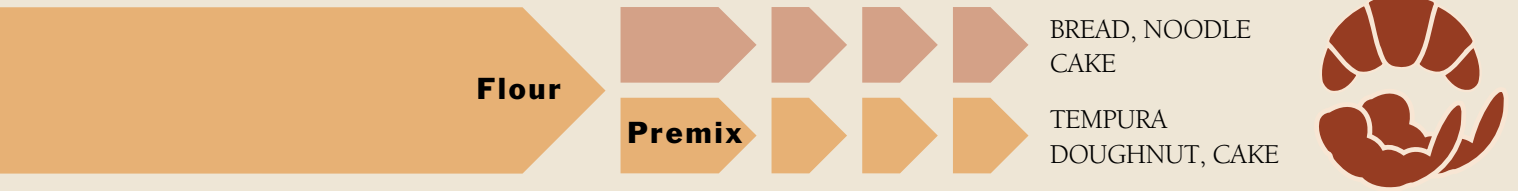


FEED

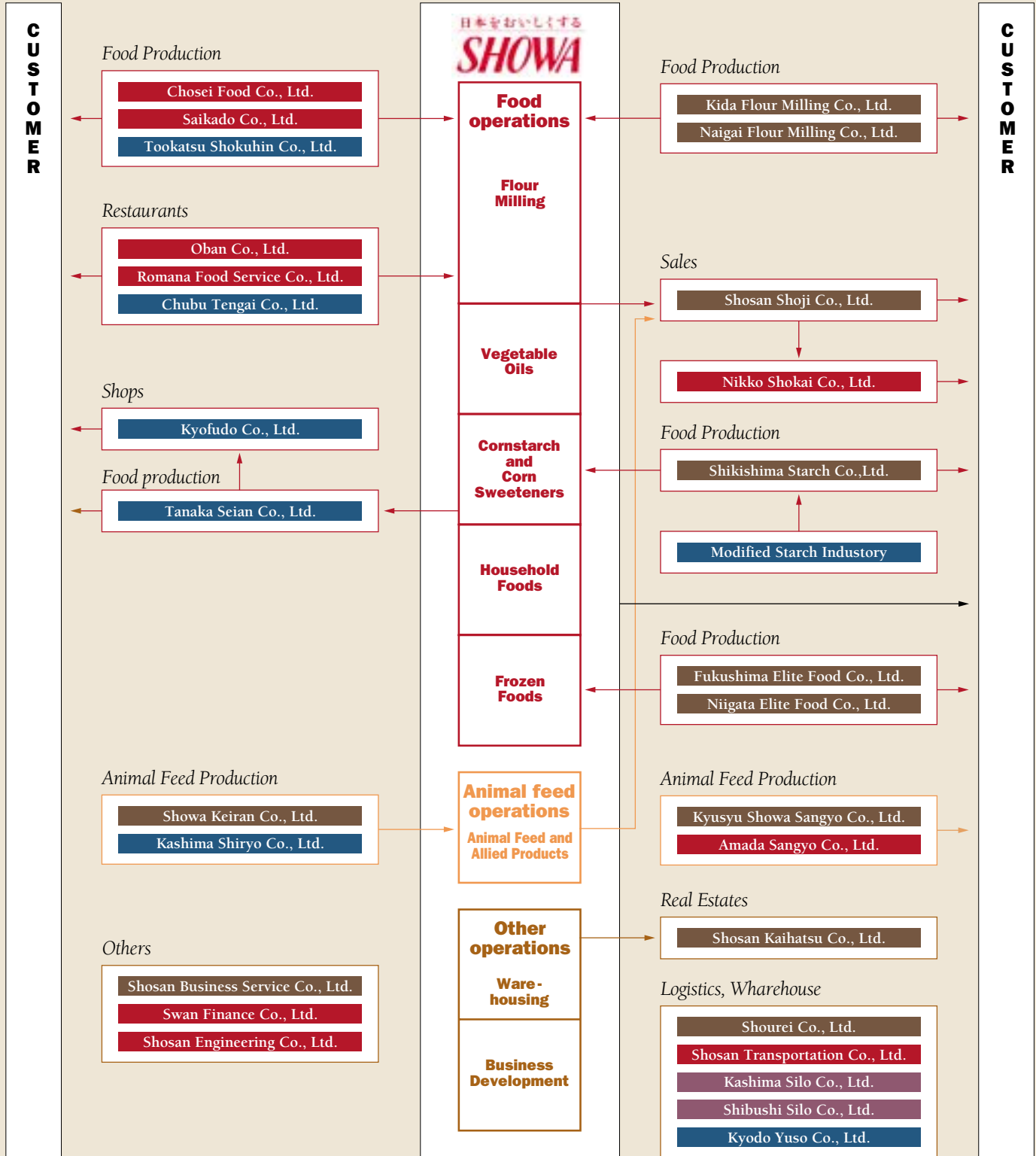


SILO





SHOWA Sangyo's Group Network



■ Consolidated subsidiaries ■ Non-consolidated subsidiaries ■ Companies accounted for by equity accounting method ■ Affiliates

Showa Sangyo's Main Plants

Kashima Plant



Kobe Plant



Funabashi Plant





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 to supermarkets.

Wheat flour

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 sweet buns. It is an important food that has become integral to our diet. The Showa Sangyo group conducts thorough research and development to create a variety of wheat flour products that offer improved quality, functions and reliability to meet the increasingly varied needs of our users.

Premixes

Premixes are convenient processed flour products that combine starch, sugar, salt, oils and spices in just the right blend for different purposes. They allow for easy, reliable and speedy preparation of foods such as high-quality 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.

Frozen dough

We sell our frozen dough products primarily to bakeries. By freezing bread dough, we make bread-making easy and fast with just the leavening and baking processes, enabling bakeries to cut down on labor and streamline operations. The frozen dough also contributes to enhance the bakers' product lineup.

TOPICS

- We aggressively developed new products and marketed 56 types of premixes and 50 types of frozen dough, dramatically increasing our sales volume.
- Since switching the distribution of domestic wheat to non-governmental, private transactions, we can now obtain a variety of wheat with which we are developing flour products to meet market needs.





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 as raw ingredients for margarine and mayonnaise, as well as sold to the restaurant and take-out food industries. 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.

Vegetable oil

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. We also help facilitate our customers' operations by offering environmentally friendly, can-free, bag-in-a-box products to replace conventional oil cans, and employing the mini-tank system in which small oil-storage tanks are set at the customer's site for periodical oil delivery.

Defatted soybeans

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.

Soybean protein

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

- To be less vulnerable to the volatility of commodity prices and currency exchange rates, we are increasing the sales ratio of high-value added products such as processed and functional oils, as well as that of mini-tank systems.
- 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.



Cornstarch and Corn Sweeteners Division

FOOD OPERATIONS



This division produces cornstarch as well as starch sweeteners such as corn 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 (corn syrup, dextrose, high-fructose corn syrup, oligosaccharides)

- Corn 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, jams and the more recently popular low-malt beer.
- 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

- With the rise in demand for low-malt beer, the demand for its ingredient, corn syrup, is also rising. To meet with the demand, we began construction to enhance corn-syrup production ability at our dextrose production facilities at the Kashima Plant. Operation at the enhanced facilities began in May 2001.
- Our dextrose production facilities at the Kashima Plant began operating its sulfur combustion facility to cut back on manufacturing costs.





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

- In response to increased health awareness among consumers, we have materialized our concept of Natural and Healthy as the now popular Olein Rich, a natural, high-quality sunflower oil with more oleic acid than olive oil or safflower oil to support a healthy lifestyle.



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 Japanese-style and American-style fried chickens - made only with chickens raised without the use of antibiotics - and dim-sum dishes, such as wontons and pot-stickers.

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

- Our new product, Cool Imagawa-yaki, proposes an innovative way to enjoy the Japanese sweet treat. Instead of heating the Imagawa-yaki in the traditional manner, Cool Imagawa-yaki can be enjoyed cold, like ice cream, with our improved dough and fillings.





Mixed feeds

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 mainly at our Kobe Plant, Kashima Shiryō 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 isomaltoligosaccharides, which have beneficial effects on the intestinal tracts of animals.

Chicken eggs

Showa Sangyo group contributes to the stable supply of chicken eggs.

We have built a quality-control system that covers everything from chicken feed, production farms, grade-packing centers and distribution to how the eggs reach the consumers. 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 began marketing Oligo-Tafuton, a mixed feed containing isomaltoligosaccharides for female and male seed pigs.
- We renovated our grade-packing center and began refrigerated distribution to maintain the freshness of eggs and to prevent bacterial contamination.



Warehousing Division

OTHER OPERATIONS



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 manufacturers of flour, vegetable oil and animal feed.



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.

Business Development Division

OTHER OPERATIONS



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.

R esearch 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 customer needs and customer demands for quality and safety, 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.

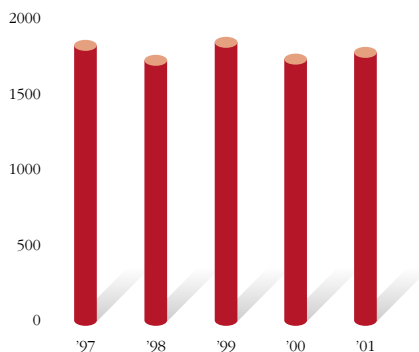
Showa Sangyo views such societal issues as environmental problems and the more sophisticated use of biological resources as its own concerns. Our environmental measures include waste reduction through new, unconventional technologies such as fermentation and membrane technology, and explorations of technologies 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 made with wheat bran 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: Patriot bread flour and other types of wheat flour, bakery mixes such as Cream Puff Shell Mix, oils for cooking rice and chow mein, a glucide for use as an ingredient in processed foods, flour for tempura coatings, flour for karaage coatings, batter mix, frozen bread dough, frozen food and prepared foods. These are being provided mainly to food processing manufacturers or convenience stores for commercial use.

R&D Expenses
(Million ¥)



For the household market, on the other hand, we have introduced Fukkura Torohri Okonomiyaki Mix and other flour mixes, the Taiyo no Ristorante series of sauces, and a variety of gift packs.

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 artificial milk formula for piglets and poultry feed.

Furthermore, our company-wide R&D efforts have involved obtaining ISO 9000 certification, 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 1,762 million yen.

Showa Sangyo and the Environment

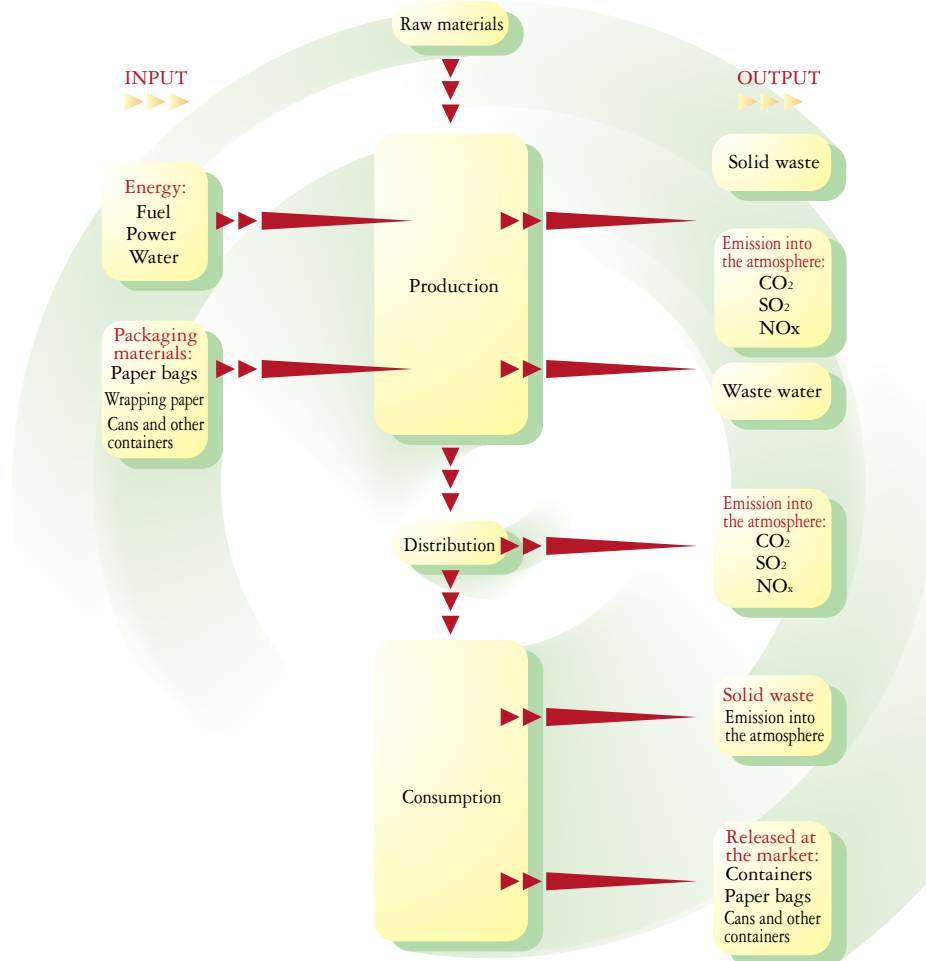
As environmental problems grow on a global level, the Showa Sangyo Group is more and more carefully scrutinizing ways to protect the environment.

In 1992, we established our Environmental Policy Committee and in 1999, we renamed it our Environmental Management Committee. We added three special committees: a committee to handle ecological packaging, one to handle ecological plants, and another to work toward environmental ISO certification. We also have implemented a number of policies and measures to protect the environment. These include measures to reduce packaging linked to dioxins and endocrine disruption; setting guidelines for designing containers and packaging; an initiative to reduce carbon dioxide by 6%; a policy to reduce industrial-waste emissions to zero; a treatment policy for hazardous waste, such as carbon dioxide and fluorocarbons; and a policy to preserve greenery within plant compounds.

In addition, to promote environmental management for the Showa Sangyo Group as a whole, we added a dedicated staff in 2000 and, in 2001, added an executive position to oversee environmental management. Through our various committees, we are identifying concrete problems by drawing on the Group's core environmental policy principles, action guidelines and action goals. We are promoting the 3Rs – reduction, reuse and recycling – of waste, utility expenses reduction, Material Safety Data Sheets (MSDSs) for chemical substances, and the Pollutant Release and Transfer Register (PRTR) system.

We will also further strengthen the management of our business by obtaining ISO 14001 certification granted by the International Organization for Standardization. The Showa Sangyo Group will make environmental policy an integral part of its management and strive to reach its goal of creating an environment in which people feel safe and live healthy lives.

Diagram of Showa Sangyo's Major Environmental Loads



Showa Sangyo's Environmental Management System

Basic Principles

The destruction of the environment and the misuse of resources are a growing problem worldwide. In such an era, it is becoming more and more important for companies to keep future generations in mind while engaging in environmentally sound management.

Our mission as a company in the business of food products is to contribute to the health of people and safety in food. To help create an environment in which people can live safely and healthfully, we not only abide by applicable laws and regulations but also aim to fulfill our corporate social responsibilities through a company-wide maximum effort on the basis of the action guidelines below.

Action Guidelines

1. Making effective use of vegetation resources

As a food industry company that makes use of vegetation resources such as wheat, soybeans and corn, we will promote more effective use of those materials and contribute to the health of society and safe food.

2. Combating environmental pollution

We will eliminate air pollutants and prevent water pollution.

3. Promoting energy conservation

We will promote energy conservation in our production plants and strive for efficient shipping in our distribution processes.

4. Reducing the volume of industrial waste

In line with our long-term vision, we will take steps to minimize industrial-waste products.

5. Promoting resource recycling

We will effectively recycle various types of resources.

6. Development of environmentally friendly products

We will develop products that can easily be disposed of properly after use, particularly products used in the home.

7. Environmental practices for administrative divisions

We will control the output of waste products from our non-manufacturing divisions, promote reuse of waste products by using recycled products, and sort waste products.

Independent Environmental Action Plan

As economies develop rapidly, environmental destruction and misuse of resources are expanding on a global scale. Given this situation, companies are obliged to take a proactive stance and make effective use of resources, conserve energy and improve management of chemicals. To contribute to making people healthy and foods safe, we are promoting operations in

which the management is one with its environmental policy to fulfil our obligations to society. We will carry out our operations with a company-wide concern that springs from our basic environmental principles.

Below is our independent environmental action plan, which will help to ensure a rich global environment and the continued existence of a healthy society.

1. We will establish an environmental management system and obtain joint ISO 14001 certification for our chief sites.
2. We will promote energy conservation and cleaner burning fuel to prevent global warming.
 - In the fiscal year through March 2002, we will introduce a co-generation system at our Kobe Plant following the introduction of one at our Kashima Plant.
 - In all our divisions, we will abide by the Energy-Use Rationalization Law (Energy Conservation Law) and continually strive to make reductions.
3. We will promote reductions in air pollutants.
 - To prevent the generation of dioxins that are readily produced by small-scale incinerators, we will scrap our incinerators and reduce dioxins by making use of such facilities as semi-public recycling centers.
4. We aim to reduce the generation of landfill waste to zero by promoting the three Rs: reducing, reusing and recycling waste.
5. We will conduct a strict management of chemical substances by employing Material Safety Data Sheets (MSDSs) and the Pollutant Release and Transfer Register (PRTR) system.
6. In designing products, we will conduct life-cycle assessments (LCAs) and create products that are highly recyclable.
7. We will explain our environmental policy to all our employees and take steps to educate and enlighten them on environmental issues. By doing so, we will engage in production with a high degree of awareness of environmental loads.
8. In operating our business sites, we will be mindful of the unique characteristics of each local environment and work to continually improve those environments.
9. Each of the sites granted joint certification will undergo an internal audit (first-party audit) and a parent audit (second-party audit) more than once a year. We will continually strive toward improvement at these sites.
10. We will issue the Showa Sangyo Environmental Report and work toward greater transparency in our dealings with the public.

P roduction and Distribution

All of our production bases are located on oceanfront properties that make procuring raw materials easy. 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 us to efficiently perform business and to live up to consumers' expectations in all aspects.



	1	2	3	4	5	6	7	8	9	10
	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			5,850t/month				15,000t/month			
Cornstarch and Corn Sweeteners										
Cornstarch				15,000t/month			27,000t/month			
Corn Sweeteners				5,000t/month			16,800t/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 28, 2001



President
Mutsuo Kanehara*



Senior Managing Director
Koukichi Hirasawa*



Senior Managing Director
Yoshifumi Tsubone



Senior Managing Director
Shigeo Fukui



Managing Director
Hiroshi Usui



Managing Director
Toshio Watanabe



Managing Director
Hajime Takaku



Managing Director
Hideo Fujii



Managing Director
Yasuo Hitoki



Managing Director
Akira Namiki

Statutory Auditors

Yoshiro Yamamoto
Isao Igita
Katsuhiko Fukazawa
Masahiro Shimizu

*Representative Director

M anagement'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. These financial statements have been prepared according to generally accepted accounting principles in Japan.

INTRODUCTION

As management, our mission is to improve and maximize our shareholder and corporate values. We believe that meeting this goal will advance our corporate principle of contributing to a rich and healthful diet that has its origins in the bounties of nature.

To meet this goal through our day-to-day operations, we must continue to create new value in all of our businesses. To that end, it is essential that we maximize our long-term cash flow. We believe we must minimize our fund procurement cost through appropriate financial measures and invest strategically in highly profitable operations, keeping our financial profit in mind.

Technology and total corporate ability are our greatest strengths: Technology that we have fostered through our experience making and combining processed foods made mostly from raw material grains; and the wealth of knowledge and abilities we have integrated to make our company what it is today. With such strengths as our foundation, we are determined to continue creating new values for the world.

The Company

We are a combined processed food manufacturer that produce and process a diversified range of food materials from raw material grains, such as flour, vegetable oils, corn sweeteners and animal feed. Our consolidated financial statement is composed of figures for Showa Sangyo, 11 of its subsidiaries and 2 affiliate companies.

Our operations are divided into three business segments: Food Operations, which include flour milling, vegetable oils, 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 warehouse division and real estate leasing. The percentages of sales for each segment

this fiscal year were 73.9%, 22.1%, and 4.0%, respectively.

OPERATIONS

Overview

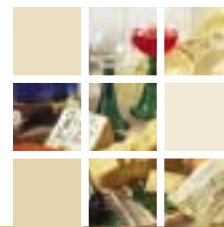
The fiscal year ended March 31, 2001 was the first year of STEP 21 Plan, the three-year business plan for the Company to pull through this period of difficult changes and be on our way to a powerful growth again in the 21st century. Having at the end of the previous fiscal year completed our Re-Born Plan, Phase II, whose main purpose was to establish a profitable system for our Company and strengthen our financial health, we now have a solid foundation on which we can build. The STEP 21 Plan, thus, takes us to the next level. It is our plan to be an offensive player toward our goal to be the best partner for our customers while also keeping a close eye on the market.

Following the Plan, we strove under its four basic strategies to determine our direction: 1) Concentrating on and expanding areas of growth and strength, 2) Promoting a high-performance operation, 3) Responding to changes in how stockholders and investors value the Company, and 4) Responding to environmental changes.

This being only the first year of the Plan, however, our financial statement for this fiscal year does not yet reflect results from the various policies that were created following the Plan's basic strategies. Despite our sales declining due to an overall drop in the price of products, this fiscal year was an important one in which we were able to draw up several essential measures for the future, including one on streamlining distribution. It was an important step that signified that, after an overhaul, we are now moving ahead with growth strategies.

Net Sales

This fiscal year, our net sales fell 1.7% from the previous year to 185.09 billion yen. The decline was due primarily



to the deflationary trend in Japan, as well as to the drop in product prices caused mainly by the falling raw materials market. The drop in product prices was especially significant in our Animal Feed Operations, mainly with mixed animal feeds. As a result, net sales in Animal Feed Operations dropped 4.7%, or 2.09 billion yen, which accounts for almost 63% of the total decrease in net sales over the previous year.

Net sales in Food Operations, our core operation, also dropped 0.8%, or 1.08 billion yen. This was also due primarily to price drops in flour- and vegetable-oil-related products.

Due to the nature of the business the Company is involved in, we cannot completely exempt ourselves from the influences of the commodities and other markets. We will reexamine some products the Company handles and shift to high-value-added products in our effort to become less susceptible to direct market influences.

Currently, we are implementing a variety of measures in this aspect. In our Vegetable Oils Division, for example, we are working to increase the sales ratio of high-value-added products such as processed oils and functional oils. Other measures we have vigorously worked on include building a relationship with our customers that lead to stable prices – such as developing products that meet the specific needs of the customer – and developing high-value-added products for convenience stores.

Cost of Sales

This fiscal year, our cost of sales decreased 1.5% to 147.73 billion yen. Its ratio to net sales, however, increased slightly from 79.7% to 79.8%.

A factor contributing to the slight increase in our cost of sales was a drop in prices of some of the raw materials at the Chicago Commodities Exchange. Because we purchase a certain amount of raw materials from overseas, when the Chicago market price drops after our purchase, the selling

price for our stock in Japan also drops as it is tied to the current market price in Chicago. Thus, we are ordinarily exposed to risks from price fluctuations for the amount we have in stock. Because soybeans and soy oil tended to drop in prices at the Chicago Commodities Exchange throughout this fiscal year, overall selling prices in Japan also were influenced and dropped accordingly, contributing to the increase in our cost ratio.

To reduce such price fluctuation risks that generate from everyday operation, we initiated several measures this fiscal year. One was the major cutback in the number of product brands in our Household Foods Division and Frozen Foods Division. We believe this action will improve the product turnover rate and, in turn, reduce the amount of products in stock.

We also began working on measures to improve distribution and inventory management. To improve distribution, we will concentrate our order-processing operation in two locations – at our head office and in Kobe – instead of processing orders at multiple locations as we had in the past. To improve inventory management, we have invested 1.4 billion yen at our Funabashi Plant and began building a new, multiple-level automatic warehouse to manage inventory and traffic of products going in and out of the warehouse. We believe that such measures not only reduce inventory and improve the inventory turnover rate that are much needed in our operations, but also provide major cutbacks in staffing and space expenses.

Selling Expenses and General Administrative Expenses

Selling expenses and general administrative expenses for this fiscal year fell 1.5% to 32.07 billion yen. Its ratio to net sales remained at nearly the same percentage as last year's, at 17.3%.

In addition to the above-mentioned measures that aim to

reduce inventory and improve inventory efficiency, we also forged ahead with various measures to improve our Company's overall efficiency. Examples include rebuilding an efficient sales network, reexamining sales outlets and employing a purchasing system for the purpose of centralizing information management.

Research expenses included in selling expenses and general administrative expenses this fiscal year were 1.76 billion yen, a 2% increase from the previous year. Today, a strong ability in research and development is sought in producing food products for convenience stores, a promising market for growth. Showa Sangyo's preeminence in the market is due to its ability to develop high value-added products, an ability we realize could be maintained by research and development. We will continue to identify growth fields and strive to research and develop high-value-added products.

Operating Income

Because of our activities mentioned above, our operating income this fiscal year decreased 6.9% from the year-earlier result to 5.29 billion yen. The drop in domestic product prices stated above also caused our operating margin to decline from 3% to 2.8%.

We believe that the effects of our STEP 21 Plan will begin showing in actual numbers from the next fiscal year.

Other Income and Expenses

The net amount of our other income and expenses for this fiscal year amounted to a loss of 2.29 billion yen, which is 15.8% less than the loss incurred the previous year.

This reduction in the amount of loss is due primarily to a drop in net interest expenses, resulting from our continued effort to reduce interest-bearing liabilities. The previous fiscal year's loss was also higher because of the loss incurred from having sold a subsidiary. The sale of the subsidiary signifies the tentative end to the string of actions

we had taken to reexamine, organize and improve the structure of the Company as a whole. We can now declare our readiness to move on to a growth strategy.

The loss was largely due to the introduction of Japan's new accounting standards for retirement benefits. In Japan, introducing new accounting standards for retirement benefits became a requirement starting this fiscal year. We have implemented this new accounting system which requires at its introduction that the difference between plan assets and accrued pension and severance costs be amortized in a certain number of years. Our difference was a shortfall of 9.8 billion yen at the end of this fiscal year before amortization. In the interest of stabilizing profit, financial health and shareholders' equity, Showa Sangyo and its subsidiary, Shosan Shoji, have decided to amortize this amount in 10 years, which is within the allotted time frame of 15 years. Other subsidiaries, however, have all made lump-sum repayments. The amount of amortization this fiscal year was 1.65 billion yen as first-year payment. Our plan is to amortize the balance evenly in the years to come, at 910 million yen a year.

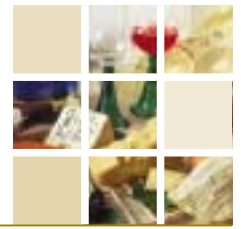
Income before Income Taxes

Our income before income taxes this fiscal year increased 1.4% to 3 billion yen due to a drop in other income and expenses.

Income Taxes

Due to regular payments and the influence of tax effect accounting, our income tax burden was 1.54 billion yen at an effective tax rate of 50.1%, down from the previous year's 53.4%.

Although the total amount of income taxes did not change much from the previous year, the outstanding amount of current tax decreased this fiscal year while deferred tax increased. This was due to reduction in tax payment the year following the liquidation of our



subsidiary. We plan on using the resulting increase in our cash toward a concentrated investment on growth fields in our on-going STEP 21 Plan.

Net Income

Net income this fiscal year increased 15.5% from the previous year to 1.53 billion yen. This increased our basic net income per share from 6.85 yen to 7.95 yen, and improved ROE from 2.9% to 3.3%.

SEGMENT ANALYSIS

Food Operations Segments

In this fiscal year, while sales of some products in the Food Operations Segments increased in terms of the volume sold, sales were affected by the overall decline in product prices and fell 0.8% from the previous year to 136.79 billion yen. The biggest factor in the sales decrease was the drop in the raw materials prices. We refine and sell vegetable oils using soybeans and rapeseed as raw materials. Our selling prices this fiscal year, however, directly reflected the drop in the prices of these raw materials and contributed to a drop in our income.

The prices of many of the products we handle are always susceptible to influences in the exchange markets for raw materials and grains, such as soybeans and corn. The same rule also applied this fiscal year in which the drop in the

raw materials' market prices was reflected in the selling prices, leading to an overall drop in the Food Operation Segment's sales despite the sales volume remaining at the same level as the previous year.

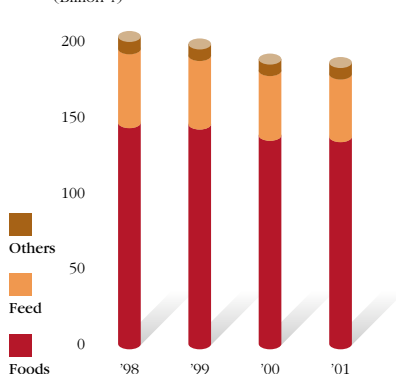
On the other hand, due to the trend of declining prices, the trend of declining product prices of raw materials we have purchased also continued, leading to a drop in the cost rate. Our operating income for the Food Operation Segment thus increased 6.4% to 3.1 billion yen. This increase in operating income also reflects the 325-million-yen drop in depreciation expenses that resulted from our effort to minimize investments, following the Re-Born Plan. Our operating income to sales in this Segment increased from 2.1% to 2.3%.

The following are the sales trends by product for products in our Food Operations Segment.

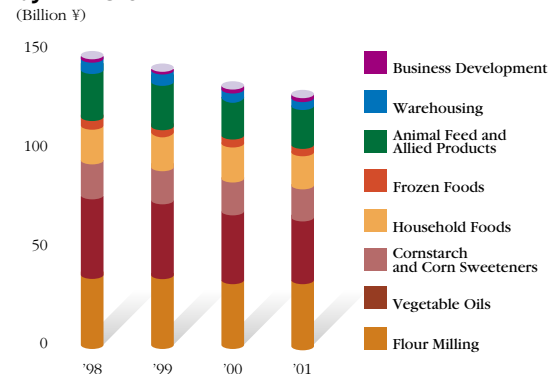
Flour Milling Division

This fiscal year, our Flour Milling Division engaged aggressively in sales activities. We achieved as much sales in volume as the previous year with flours, and increased the sales in volume of premixes for use in snacks and prepared foods, marketing new products and implementing sales campaigns. Due primarily to the influence of the drop in flour prices, however, our sales fell 1.7% to 37.62 billion yen. In Japan where the

Sales by Segment
(Billion ¥)



Non-consolidated Sales by Division
(Billion ¥)



government controls the price of wheat, our raw material, the government decreased the unit price of imported wheat by 5%, accordingly our selling price was dropped.

Vegetable Oils Division

This fiscal year, the selling price of defatted soybeans increased over the previous year, influenced by international market prices. Our sales volume, however, decreased from the previous year. Meanwhile, our sales volume of vegetable oils and foods for commercial use remained at the same level as the previous year but the selling price of vegetable oils decreased. Sales for our Vegetable Oils Division thus decreased 3.1% to 34.12 billion yen.

Cornstarch and Corn Sweeteners Division

Along with the changes in consumers' tastes dropped the demand for high-fructose corn syrup for soft drinks. However, shipment of corn syrup for use in low-malt beer grew steadily, leading to our sales volume increase over the previous year. Meanwhile, the sales volume of cornstarch decreased from the previous year. The product prices dropped from the previous year due to corn market price remaining weak. In the Cornstarch and Corn Sweeteners Division, our sales came to 24.33 billion yen, a 0.9% decrease.

Household Foods Division

Our sales volume for secondary processed wheat flour products for home use increased over the previous year, especially for the tempura flour. As a result of our aggressive effort to promote the sales of household vegetable oils, their sales volume remained as high as the previous year. On the other hand, affected by the economic recession, the sales volume of gift sets dropped while sales volume for rice and imported foods grew. Our Household Foods Division sales this fiscal year grew 3.7%

to 34.43 billion yen.

Frozen Foods Division

This fiscal year, despite maintaining the same sales volume as the previous year with our aggressive effort to market new products and to expand sales channels, our Frozen Foods sales dropped 5.7% to 6.29 billion yen due to weak demand in the restaurant industry and drop in consumer spending. The selling price drop also reflects the drop in consolidated subsidiaries owing to the sales of stocks.

Animal Feed Operations Segment

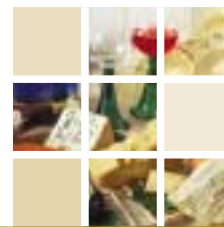
In our Animal Feed Operations Segment, we sell mixed animal feeds to domestic livestock farmers. This fiscal year continued to see an increase in the volume of imported livestock products while domestic production dropped.

This led to a drop in the sales volume from the previous year and, with the weak raw materials market, also a drop in the selling price. Meanwhile, while our sales volume of eggs remained the same as the previous year, both their selling price and sales dropped. The overall sales from our Animal Feed Operations Segment thus dropped 4.7% to 40.85 billion yen.

Our operating income came to 19 million yen due primarily to an increase in the cost rate caused by a drop in the product prices.

Other Operations Segments

With respect to our other operations segments, both the amount of cargo and storage space handled in the Warehousing Division increased from the previous year. In the Business Development Division, however, sales decreased due to suspended operations in some facilities during their renovation period. As a result, the overall sales from our Other Operations Segments fell 1% to 7.45 billion yen. Our operating income to sales decreased from 43.0% to 42.2%.



FINANCIAL POSITION

This fiscal year, we implemented several measures to improve capital structure and financial strength so that we could use assets more efficiently and increase our corporate value.

The first action we took this fiscal year was to use our retained earnings to buy back 729 million yen in our company stock. We also sold 2-billion-yen worth of accounts receivable to further reduce our interest-bearing liabilities by 1.7 billion yen in addition to the 10.4 billion reduced the previous year. Primarily due to these factors, our total assets at the end of this fiscal year decreased 0.1% to 157.13 billion yen. We plan to continue to further reduce our interest-bearing liabilities from the next fiscal year by introducing a cash management service to manage all the Company's surplus funds together.

Viewed by item, among assets, our current assets increased 2.2% to 55.77 billion yen. The increase was primarily due to the last day of the fiscal year having been a banking holiday, which prompted the payment date of accounts receivable and the clearing of notes to be carried over to the following month, thereby increasing the amount of accounts receivable. Accounts and notes receivable increased 844 million yen, or 2.8%, at the end of this fiscal year to 30.46 billion yen. The actual accounts receivable that carried over to the following month, however, were 3.06 billion yen.

Our investments and advances increased 9.2% this fiscal year to 18.11 billion yen. The biggest factor for the increase was the 679 million yen that was allotted as investment securities this year instead of securities as part of liquid assets. This was because we adopted Japan's new accounting standards for financial instruments. In addition, we liquidated unprofitable subsidiaries to use our assets more efficiently. This reduced our long-term loans by 1.32 billion yen and our bad-debt reserves by 1.15 billion yen.

On the other hand, we reduced our property, plant and equipment by 3% to 82.78 billion yen. This was primarily due to our keeping investments to a minimum except for the purpose of improving efficiency, such as in the Funabashi Plant. Our capital investment this fiscal year was 4.6 billion yen while depreciation amounted to 6.77 billion yen. Up until now, our entire company had followed the Re-Born Plan and continued to engage in conservative investments. In making the transition to the STEP 21 Plan, we plan to invest aggressively in growth fields starting the next fiscal year.

Total liabilities at the end of this fiscal year dropped 1.7% to 108.5 billion yen, due primarily to the reduction of interest-bearing liabilities. Current liabilities increased 2.6% to 63.8 billion yen. The primary reason for its increase was the increase in accounts payable and notes, which was caused by the last day of this fiscal year having been a banking holiday. Liquidity ratio, at 0.87, barely changed from the previous year.

Our fixed liabilities this fiscal year decreased 7% to 44.7 billion yen due to the reduction in interest-bearing liabilities. Because of the new accounting standards for retirement introduced this fiscal year, the 3.71 billion yen allotted as retirement and severance benefits was reclassified as accrued pension and severance costs. The balance of accrued pension and severance costs at the end of this fiscal year was 4.33 billion yen.

As for shareholders' equity, our capital reserves decreased by 729 million yen due to the redemption of treasury stocks. Our shareholders' equity, however, increased by 3.7% to 47.22 billion yen primarily due to this fiscal year's net income. This also improved our equity ratio from 28.9% to 30.1%.

This fiscal year, we purchased 4,882,000 shares of our stock back from the stock market and retired them, using capital reserves. This was because we had determined that, in consideration of our future growth potential and our

book value per share of 235.90 yen, the stock price at the time was low; we wanted to improve our earning per share. If, in the future, we should again determine our stock price to be low as compared to our value, we will plan on purchasing shares from the market to retire them, while taking our financial situation into account, so that we may return profit to our shareholders.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our ability to generate cash flow from operating activities to continuously invest in new growth fields is an important element in raising our corporate value. It is the foundation of the financial strength of the Company. We are also always working to maintain sufficient liquidity to allow for versatile implementations of our business strategies and to respond to changes in our business environment.

In this fiscal year, we generated a free cash flow of 2.49 billion yen. This helped improve our balance sheet by redemption of treasury stocks and by reducing interest-bearing liabilities, and to improve shareholder value.

Our cash flow this fiscal year from operating activities came to 7.44 billion yen, down 4.78 billion yen from the previous year. The decline is primarily due to the increase in amount of tax payment and the increase in accounts receivable owing to the last day of the fiscal year having been a banking holiday.

The cash flow used in investment activities increased 566 million yen from the previous year to 5.03 billion yen. One reason for this was the investment we made in Funabashi Plant, which is one of our main plant and others to improve efficiency.

On the other hand, the cash flow used in financial activities decreased 7.84 billion yen from the previous year to 3.65 billion yen. This was primarily due to the 10.4 billion yen reduction in interest-bearing liabilities that we implemented the previous year, which was the final year

of our Re-Born Plan Phase II.

Due to such activities, our cash and cash equivalents at the end of this fiscal year fell 1.24 billion yen from the previous year to 6.14 billion yen.

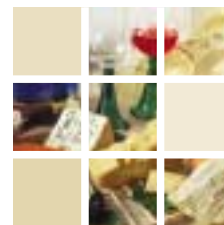
RISK MANAGEMENT

We are exposed to a variety of risks in the course of our normal business operations, including risks arising from currency and interest rate fluctuations. As a means of effectively managing those risks, we engage in derivative trading.

Our use of currency-related derivatives consists of exchange forward contracts and currency option contracts to avoid currency fluctuation risks associated with foreign currency-denominated trading, mainly import of raw material grains. Regarding trading of interest-rate derivatives, we use interest-rate swap agreements and interest rate floor agreements to reduce the cost of raising funds and to avoid interest-rate fluctuation risks.

We do not engage in such trading for speculative purposes or with the aim of making profits from the trading itself.

Derivative trading itself is accompanied by its own risks. The most important of these are market risks and credit risks. Market risk refers to the chance that a particular trading position will incur a profit or loss due to changes in the market. The exchange forward contracts used by the Company are vulnerable to currency fluctuations, while our interest-rate swap agreements are subject to risk from changes in interest rates. Credit risk refers to the possibility that a trading partner will fail to meet its obligations, thereby making it impossible for us to enjoy anticipated future results were we to continue trading with the partner. Because we conduct derivative trading with banks that have appropriate credit ratings, we believe there is negligible risk that our trading partners will fail to meet their obligations.



All the exchange forward contracts that we conclude are hedge transactions in which any of our exchange risks on our balance sheet caused by actual product demand are offset. To determine the total amount of exchange forward contracts related to business transactions, we employ a system in which the head office's Finance Division compiles the total amount of exchange exposures calculated from each operating department's total scheduled transactions, and allows each department to engage in hedge transactions with the hedge ratio not exceeding 75% of each exposure at the time of purchasing commodities. In doing so, we pay our utmost attention in preventing fraud and error, and arrange superior personnel in terms of integrity and diligence in separate departments, between those who make decisions on placing orders on individual derivative transactions and those who order, execute and manage the contracts. The total amount of concluded exchange forward contracts is always under the management of the Finance Division at the head office.

On the other hand, when currency exchange forward contracts, currency option contracts, interest-rate swap agreements or interest rate floor agreements are entered into for finance purposes, the Finance Division concludes the deal after the decision is requested in-house and the president gives his transaction approval. The results are then managed by the Finance Division. We do not engage in other derivative transactions. Our consolidated subsidiaries also take the same procedures, with our Finance Division confirming important transactions.

In addition to the risks described above, we may be exposed to non-financial or immeasurable risks in the course of our normal business operations. Such risks include country risks, credit risks and legal risks, but because of their unpredictable nature, we do not address them in this annual report. However, we can say that as of the end of this fiscal year, we were not involved in any ongoing litigation.

Currency Risk

We procure many of our raw material grains from overseas, for which we pay in U.S. dollars. To this extent, we are vulnerable to the risk of fluctuations in currency markets. To reduce currency rate risks mainly in import of raw material grains, we make use of currency exchange forward contracts and currency options.

All the exchange forward contracts that we use are a hedge position in which risks are offset by all underlying risks on our balance sheet. Thus they have no exposure risks outside of minimal credit risks.

Interest Risk

We are exposed to risks arising from interest-rate fluctuations through our investment activities and cash management activities. We participate in interest-rate swap agreements and interest rate option agreements largely to fix interest rates that apply to our variable-interest obligations. Most of the positions we hold are offset by their underlying risks. At the end of this fiscal year, the total notional amount of the contracts was 500 million yen, which meant there was a revaluation loss of 17 million yen against fair value.

The value of contract represents the nominal value of the contract, and it does not mean that the full amount of notional principal is not subject to market risks or credit risks.

Stock Market Risk

For investment purposes, we hold shares in various listed and unlisted companies and are therefore exposed to share price fluctuation risk. According to Japan's new accounting standards for financial instruments employed from this fiscal year, the total of these listed stocks is posted at 10.06 billion yen.

In addition, we have 3.17 billion yen in stocks stated at cost.

Consolidated Balance Sheets

Showa Sangyo Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2000 and 2001

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1-a)
	2000	2001	2001
Current assets:			
Cash and cash equivalents	¥ 7,340	¥ 6,104	\$ 49,264
Marketable securities	999	150	1,209
Accounts and notes receivables:			
Trade	28,890	29,798	240,501
Non-consolidated subsidiaries and affiliates	727	662	5,344
Less: Allowance for doubtful receivables	(263)	(262)	(2,111)
Inventories :			
Merchandise and finished goods	6,672	6,787	54,776
Raw materials and supplies	6,682	7,214	58,224
Work-in-progress	656	814	6,568
Short-term loans	659	927	7,485
Deferred tax assets (Note 5)	1,015	1,184	9,553
Prepaid expenses and other current assets	1,217	2,394	19,326
Total current assets	54,594	55,772	450,139
Investments and advances:			
Investment securities (Note 3)	10,584	12,185	98,344
Investments in and advances to non-consolidated subsidiaries and affiliates	5,201	3,358	27,105
Other investments and advances (Note 3 and 5)	3,369	3,923	31,659
Less: Allowance for doubtful receivables	(2,569)	(1,355)	(10,938)
Total investments and advances	16,585	18,111	146,170
Property, plant and equipment (Note 3):			
Land	20,679	20,544	165,808
Buildings and structures	86,704	86,965	701,897
Machinery and equipment	110,062	111,172	897,277
Construction in progress	27	531	4,286
	217,472	219,212	1,769,268
Less : Accumulated depreciation	(132,109)	(136,436)	(1,101,176)
Total property, plant and equipment	85,363	82,776	668,092
Foreign exchange adjustment	240	-	-
Other assets	556	470	3,790
Total assets	¥157,338	¥157,129	\$1,268,191

The accompanying notes are integral parts of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1-a)
	2000	2001	2001
Current liabilities:			
Short-term borrowing (Note 3)	¥ 33,135	¥ 32,565	\$ 262,833
Current portion of long-term borrowing (Note 3)	1,621	3,319	26,790
Accounts payable and notes: (Note 3)			
Trade	15,235	17,196	138,790
Non-consolidated subsidiaries and affiliates	383	394	3,182
Accrued taxes on income	2,923	351	2,829
Accrued expenses and other current liabilities	8,967	9,975	80,511
Total current liabilities	62,264	63,800	514,935
Long-term liabilities:			
Bonds (Note 3)	10,000	10,000	80,710
Long-term borrowing (Note 3)	22,269	19,390	156,499
Retirement and severance benefit for employees (Note 4)	3,714	-	-
Accrued pension and severance costs (Note 4)	-	4,334	34,981
Retirement and severance benefit for directors and statutory auditors (Note 4)	1,100	923	7,449
Deferred tax liabilities (Note 5)	4,645	4,224	34,090
Other liabilities (Note 3)	6,356	5,829	47,046
Total long-term liabilities	48,084	44,700	360,775
Consolidation adjustment	15	2	14
Minority interests	1,480	1,404	11,330
Contingent liabilities (Note 7)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized -749,500,000 shares for 2000 and 745,580,000 shares for 2001			
Issued as at 31 March, 2000 - 192,858,898 shares (Note 6)	12,778	-	-
Issued as at 31 March, 2001 - 188,938,898 shares (Note 6)	-	12,778	103,132
Additional paid-in capital	11,600	10,871	87,741
Legal reserve (Note 6)	3,185	3,305	26,670
Retained earnings	17,933	20,228	163,261
Unrealized gains on securities	-	42	341
Less: Treasury stock	(1)	(1)	(8)
Total shareholders' equity	45,495	47,223	381,137
Total liabilities and shareholders' equity	¥157,338	¥157,129	\$1,268,191

Consolidated Statements of Income

Showa Sangyo Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1-a)
	2000	2001	2001
Net sales	¥188,251	¥185,085	\$1,493,828
Cost of sales	150,014	147,732	1,192,353
Gross profit	38,237	37,353	301,475
Selling, general and administrative expenses	32,560	32,065	258,798
Operating income	5,677	5,288	42,677
Other income (expenses):			
Interest expenses	(977)	(810)	(6,540)
Interest and dividend income	233	205	1,659
Net loss on sale, disposition and revaluation of property, plant and equipment	(1,685)	(443)	(3,575)
Net gain (loss) on sale and revaluation of marketable securities and investment	736	(8)	(68)
Foreign currency exchange gain (loss)	85	(87)	(702)
Other, net	(1,112)	(1,146)	(9,250)
Total	(2,720)	(2,289)	(18,476)
Income before income taxes and minority interests	2,957	2,999	24,201
Income taxes (Note 5):			
Current	3,626	550	4,437
Deferred	(2,048)	954	7,697
Total	1,578	1,504	12,134
Income before minority interests	1,379	1,495	12,067
Minority interests	(58)	31	253
Net income	¥ 1,321	¥ 1,526	\$ 12,320
Per share data (Note 2-i):			
Net income	¥ 6.85	¥ 7.95	\$ 0.064
Diluted net income	-	-	-
Cash dividends, applicable to the year	¥ 6.00	¥ 6.00	\$ 0.048

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, 1999, 2000 and 2001

	<i>Millions of yen</i>			
	Common stock	Additional Paid-in Capital	Legal reserve	Retained earnings
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 6)			105	
Transfer to legal reserve (Note 6)				(105)
Decrease due to a newly consolidated subsidiary				(1,371)
Increase due to companies newly accounted for by the equity method				403
Balance at March 31, 2000	¥ 12,778	¥ 11,600	¥ 3,185	¥ 17,933
Net income				1,526
Cash dividends paid				(1,154)
Bonuses to directors and statutory auditors				(18)
Transfer from retained earnings (Note 6)			120	
Transfer to legal reserve (Note 6)				(120)
Increase due to exclusion consolidated subsidiaries (Note 1-b)				2,061
Redemption of treasury stock		(729)		
Balance at March 31, 2001	¥ 12,778	¥ 10,871	¥ 3,305	¥ 20,228

	<i>Thousands of U.S. dollars (Note 1-a)</i>			
	Common stock	Additional Paid-in Capital	Legal reserve	Retained earnings
Balance at March 31, 2000	\$ 103,132	\$ 93,621	\$ 25,705	\$ 144,737
Net income				12,320
Cash dividends paid				(9,318)
Bonuses to directors and statutory auditors				(148)
Transfer from retained earnings (Note 6)			965	
Transfer to legal reserve (Note 6)				(965)
Increase due to exclusion consolidated subsidiaries (Note 1-b)				16,635
Redemption of treasury stock		(5,880)		
Balance at March 31, 2001	\$ 103,132	\$ 87,741	\$ 26,670	\$ 163,261

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, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1-a)
	2000	2001	2001
Cash flows from operating activities:			
Income before income taxes	¥ 2,957	¥ 2,999	\$ 24,201
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	7,158	6,774	54,671
Amortization arisen from consolidation adjustment	(8)	(14)	(114)
Accrued pension and severance costs	-	4,334	34,981
Provision for (reversal of) retirement and severance benefit for employees	(39)	(3,714)	(29,976)
Provision for (reversal of) retirement and severance benefit for directors and statutory auditors	75	(176)	(1,424)
Provision for (reversal of) allowance for doubtful receivables	1,045	100	805
Interest and dividend income	(233)	(205)	(1,659)
Interest charges	977	810	6,540
Foreign currency exchange loss (gain)	(85)	87	702
Equity in earning of affiliates	(73)	(114)	(918)
Net loss (gain) on sale, revaluation and disposition of property, plant and equipment	1,685	443	3,575
Net loss (gain) on sale and revaluation of marketable securities	(736)	8	68
(Increase) decrease in receivables, trade	585	(944)	(7,617)
(Increase) decrease in inventories	1,590	(996)	(8,041)
Increase (decrease) in payables, trade	(328)	2,108	17,013
Bonuses paid for directors and statutory auditors	(25)	(25)	(202)
	14,545	11,475	92,605
Interest and dividends received	240	236	1,906
Interest paid	(1,056)	(788)	(6,357)
Income taxes paid	(1,656)	(3,123)	(25,204)
Other, net	74	(361)	(2,912)
Net cash provided by operating activities	12,147	7,439	60,038
Cash flows from investing activities:			
(Increase) decrease in time deposit	17	(4)	(32)
Purchases of marketable securities	(423)	(0)	(1)
Proceeds from sale of marketable securities	464	8	64
(Increase) decrease in other short-term investments	1,268	(104)	(839)
Purchases of investment securities	(979)	(1,133)	(9,143)
Proceeds from sale of investment securities	376	439	3,545
Purchases of property, plant and equipment	(4,406)	(4,917)	(39,684)
Proceeds from sales and disposition of property, plant and equipment	289	275	2,223
(Increase) decrease in other long-term investment and advances	(1,070)	406	3,273
Net cash used in investing activities	(4,464)	(5,030)	(40,594)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowing	(9,910)	(570)	(4,603)
Payment for financing leases	(66)	-	-
Proceeds from long-term borrowing	1,230	1,500	12,106
Repayment of long-term borrowing	(1,174)	(2,681)	(21,636)
Redemption of convertible bonds	(582)	-	-
Dividends paid	(964)	(1,154)	(9,318)
Dividends paid to minority shareholders	(17)	(11)	(90)
Redemption of treasury stock	-	(729)	(5,880)
Net cash used in financing activities	(11,483)	(3,645)	(29,421)
Effect of exchange rate changes on cash and cash equivalents	5	-	-
Net increase (decrease) in cash and cash equivalents	(3,796)	(1,236)	(9,977)
Cash and cash equivalents at beginning of year	11,093	7,340	59,241
Increase in cash and cash equivalents from newly consolidated subsidiaries	42	-	-
Cash and cash equivalents at end of year	¥ 7,340	¥ 6,104	\$ 49,264

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) Basis of Presentation

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 has 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 ¥123.90=U.S.\$1, the rate of exchange prevailing on March 31, 2001.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Showa Sangyo Co., Ltd. (hereinafter, the "Company", including consolidated subsidiaries, unless the context otherwise requires) and its 11 significant subsidiaries. Material inter company balances, transactions and profits have been eliminated in consolidation. Due to the sale of subsidiaries' stocks, from the fiscal year ended March 31, 2001, GranPac

Foods Inc. and Swan Foods Oregon Inc. were excluded from the consolidated subsidiaries.

Investments in a few affiliates are accounted for by the equity method.

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 Showa Sangyo'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.

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 and Investment Securities

As of this consolidated fiscal year, the Company has adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999), accordingly they are valued by market price. Marketable securities and investment securities quoted on market are stated at market price method, its variance of the estimate is included to equity. Other securities such as securities issued by non-public companies are stated at cost, cost being determined by the moving-average method.

(c) Inventories

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

(d) Property, Plant and Equipment

Property, plant and equipment are 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.

(e) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided in amounts referred to past bad debt losses and 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 are translated at the exchange rate in effect at each year-end.

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:**Short-term and Long-term Borrowings**

Short-term borrowings at March 31, 2001 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Loan from banks and other	¥ 29,165	\$ 235,391
Commercial paper	3,400	27,442
	¥ 32,565	\$ 262,833

The principal range of interest rates applicable to short-term borrowings at March 31, 2000 and 2001 were from 0.6 per cent to 1.3 per cent and from 0.5 per cent to 1.5 per cent, respectively.

Long-term borrowings at March 31, 2001 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Loans with and without collateral, principally from banks, due 2001 to 2015, with interest ranging from 0.3 per cent to 6.0 per cent.	¥ 22,709	\$ 183,289
2.125 per cent bonds due 2002	10,000	80,710
	32,709	263,999
Less: Portion due within one year	3,319	26,790
	¥ 29,390	\$ 237,209

The aggregate annual maturities of long-term borrowings during each of the years ending March 31, 2005 and thereafter were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2002	¥ 3,319	\$ 26,790
2003	6,142	49,574
2004	3,388	27,346
2005 and thereafter	¥ 9,860	\$ 79,579

At March 31, 2001, property, plant and equipment, net of accumulated depreciation, amounting to ¥49,138 million (\$396,590 thousand), investment securities amounting to ¥25 million (\$199 thousand) and other asset amounting to ¥10 million (\$81 thousand) were pledged as collateral for short-term borrowings, long-term borrowings, repayment obligations of deposits and trade account payable.

Note 4:**Retirement and Severance Indemnities**

Employees whose service with the Company 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.

Showa Sangyo and certain subsidiaries have contributory funded pension plans for employees. Under these plans, part of the total retirement and severance benefits is paid by pension plans.

Net periodic benefit cost for the contributory, funded benefit pension plans and the unfunded lump-sum payment plans of the Company for the year ended March 31, 2001 consisted of the following components:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Service cost - benefits earned during the year	¥ 1,111	\$ 8,968
Interest cost on projected benefit obligation	756	6,102
Expected return on plan assets	(512)	(4,137)
Amortization of unrecognized net obligation	1,651	13,327
Net periodic benefit cost	¥ 3,006	\$ 24,260

Condition of ending balances of the benefit obligations of the contributory, funded benefit pension plans and the unfunded lump-sum payment plans and the fair value of the plan assets, and actuarial assumptions used at March 31, 2001 are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Benefit obligations at end of year	¥ 24,674	\$ 199,144
Fair value of plan assets at end of year	¥ 10,221	\$ 82,491
Unrecognized actuarial loss	¥ 1,925	\$ 15,538
Unrecognized net obligation as of April 1, 2000 being recognized over a period of 10 years	¥ 8,194	\$ 66,134
Accrued pension and severance costs on consolidated balance sheet	¥ 4,334	\$ 34,981

Discount rate	3.5%
Expected return on plan assets	5.0%

“Accounting for Retirement Benefits”(Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits issued by the Business Accounting Deliberation Council on June 16, 1998) is adopted from current year. The adoption increased pension and severance costs by ¥1,486 million (\$11,994 thousand) and decreased income before income taxes by ¥1,486 million (\$11,994 thousand) for the ended March 31, 2001.

The Company has adopted the policy of accruing lump-sum severance indemnities for directors and statutory auditors.

Note 5:

Income Taxes

The Japanese statutory tax rates applicable to income before income taxes for the fiscal years ended March 31, 2000 and 2001 were 42.0%, respectively. The difference between the statutory tax rates and effective tax rates reflects future tax effects of temporary differences as shown below.

	2000	2001
Statutory tax rate	42.0%	42.0%
Other non deductible expenses not qualifying for deduction	7.3	6.4
Dividends and other non taxable income	-2.3	-2.2
Residents tax per capital basis	1.8	1.8
Others	4.6	2.1
Effective tax rate	53.4	50.1

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2001 are presented below.

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current:		
Deferred tax assets		
Net operation loss carried forward	¥ 880	\$ 7,105
Accrued bonus	273	2,201
Others	31	247
	¥ 1,184	\$ 9,553
Fixed:		
Deferred tax assets		
Accrued pension and severance costs	¥ 440	\$ 3,551
Others	20	162
	¥ 460	\$ 3,713
Deferred tax liabilities		
Reserve for advanced depreciation	¥ 5,667	\$ 45,741
Accrued pension and severance costs	(382)	(3,080)
Allowance for doubtful receivables	(405)	(3,271)
Retirement and severance benefit for directors and statutory auditors	(307)	(2,485)
Others	(349)	(2,815)
	¥ 4,224	\$ 34,090

Note 6:

Shareholders' Equity

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.

The Company bought back and retired 500,000 treasury stocks by March 31, 2000, 3,920,000 treasury stocks from April 1, 2000 to March 31, 2001 and 962,000 treasury stocks from April 1, 2001 to June 28, 2001.

Note 7:

Contingent Liabilities

Contingent liabilities at March 31, 2000 and 2001 for loans guaranteed in the ordinary course of business amounted to ¥2,138 million and ¥2,047 million (\$16,518 thousand), respectively.

Note 8:

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, 2001, 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	¥ 635	\$ 5,131
Accumulate depreciation	(466)	(3,764)
Net investment	¥ 169	\$ 1,367

At March 31, 2001, the future lease payment to be received for each of the fiscal years were as follows: ¥97 million (US\$785 thousand) in 2002 and ¥123 million (US\$993 thousand) in 2003 and thereafter.

The income and accumulated depreciation of the leased property at March 31, 2001 were ¥116 million (US\$934 thousand) and ¥61 million (US\$491 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, 2001 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	¥ 1,823	\$ 14,710
Accumulated depreciation	(1,073)	(8,657)
	¥ 750	\$ 6,053

At March 31, 2001, the future minimum leases payments were as follows: ¥259 million (US\$2,087 thousand) in 2002 and ¥491 million (US\$3,966 thousand) in 2003 and thereafter.

Note 9:

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 March 31, 2001 is summarized as follows:

	<i>Millions of yen</i>					
	<i>Foods</i>	<i>Feed</i>	<i>Others</i>	<i>Total</i>	<i>Elimination</i>	<i>Total</i>
Net sales:						
Outside customers	¥ 136,792	¥ 40,847	¥ 7,446	¥ 185,085	¥ -	¥ 185,085
Intersegment	2,626	363	2,121	5,110	(5,110)	-
Total	139,418	41,210	9,567	190,195	(5,110)	185,085
Operating expenses	136,323	41,191	5,533	183,047	(3,250)	179,797
Operating income	3,095	19	4,034	7,148	(1,860)	5,288
Assets	98,306	16,391	26,836	141,533	15,596	157,129
Depreciation	4,587	478	1,547	6,612	162	6,774
Capital expenditures	2,852	297	1,297	4,446	164	4,610

	<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	\$ 1,104,049	\$ 329,677	\$ 60,102	\$ 1,493,828	\$ -	\$ 1,493,828
Intersegment	21,196	2,928	17,119	41,243	(41,243)	-
Total	1,125,245	332,605	77,221	1,535,071	(41,243)	1,493,828
Operating expenses	1,100,264	332,449	44,664	1,477,377	(26,226)	1,451,151
Operating income	24,981	156	32,557	57,694	(15,017)	42,677
Assets	793,427	132,293	216,592	1,142,312	125,879	1,268,191
Depreciation	37,022	3,858	12,483	53,363	1,308	54,671
Capital expenditures	23,021	2,395	10,465	35,881	1,330	37,211

Note 10:

Derivative Financial Instruments

The Company enters 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 Company does 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.

As of this consolidated fiscal year, the Company has adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999). Accordingly, the derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other current assets or in other current liabilities until the hedge item is recognized in earnings.

Foreign Currency Forward and Foreign Currency Options Agreement

Upon purchases of raw materials, the Company uses 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, 2001, the aggregate principal amount in the foreign currency forward agreements was ¥2,579 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 Company enters 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 2010. As of March 31, 2001, the aggregate notional amount of interest rate swaps agreements was ¥18,402 million and there was no outstanding interest rate floor agreement.

Note 11:

Subsequent Event

The following appropriations of retained earnings were approved at the general meeting of shareholders of the Company held in June 28, 2001:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Appropriations:		
Cash dividends (¥3.0 per share)	¥ 567	\$ 4,575
Transfer to legal reserve	0	0
Bonuses to directors and statutory auditors	35	282

Report of Independent Public Accountants

Kenshin Audit Corp.
Certified Public Accountants
3-2-12 Uchikanda, Chiyoda-ku, Tokyo 101-0047, Japan
TEL 03-3252-2728 FAX 03-3252-2726

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

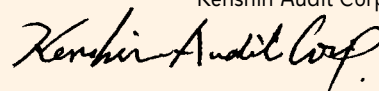
We have audited the consolidated balance sheets of Showa Sangyo Co.,Ltd. and its consolidated subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. We conducted our audit 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, 2000 and 2001, 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, 2001 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.

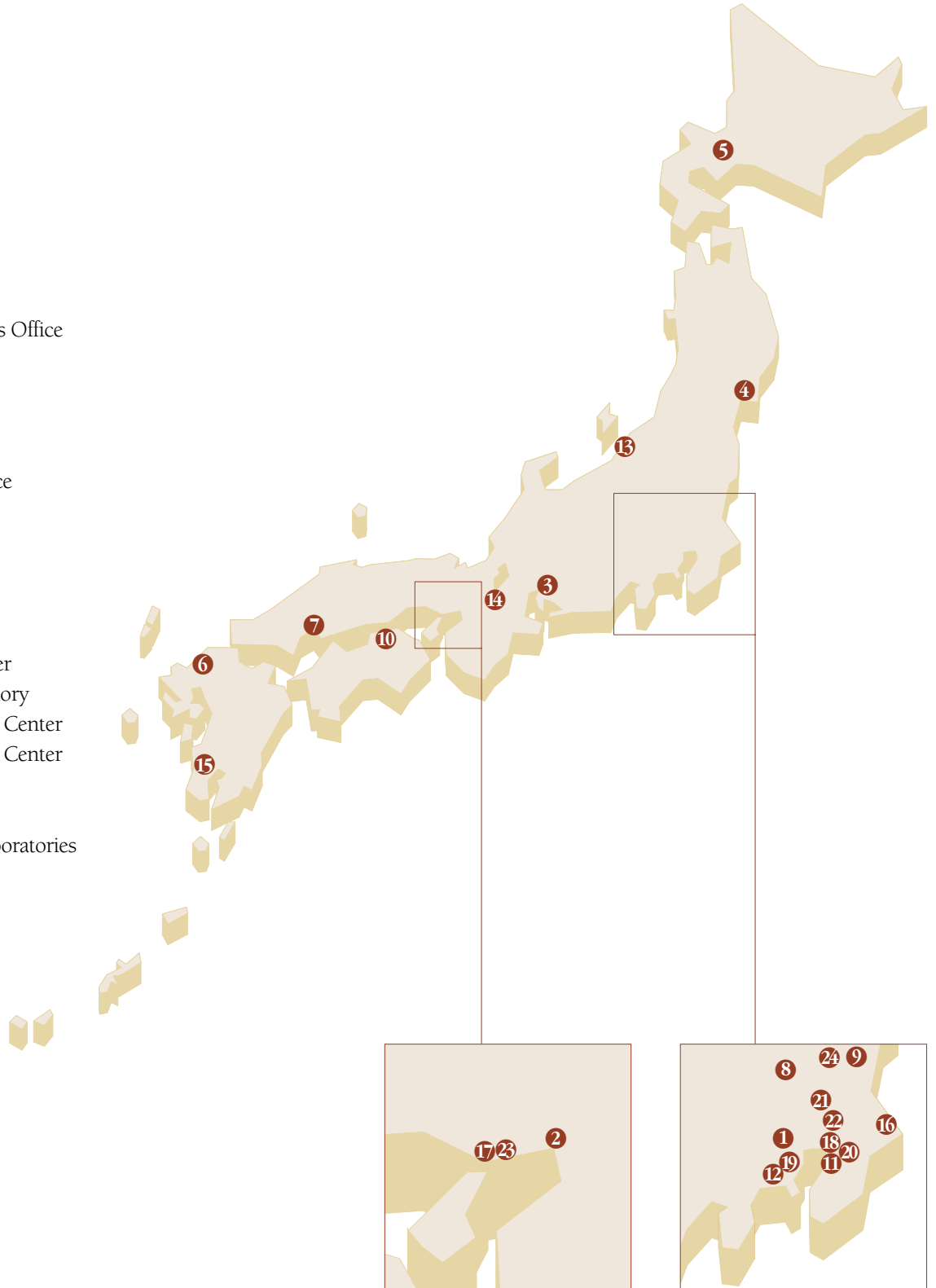
28th June, 2001
Tokyo, Japan

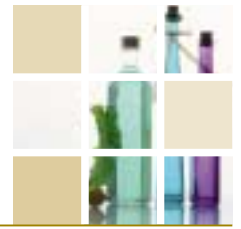
Kenshin Audit Corp.



Domestic Network

- ① Head Office
- ② Osaka Branch
- ③ Nagoya Branch
- ④ Sendai Branch
- ⑤ Sapporo Branch
- ⑥ Fukuoka Branch
- ⑦ Hiroshima Branch
- ⑧ Ohta Branch
- ⑨ Mito Branch
- ⑩ Takamatsu Business Office
- ⑪ Chiba Office
- ⑫ Kanagawa Office
- ⑬ Niigata Office
- ⑭ Kyoto Office
- ⑮ South Kyushu Office
- ⑯ Kashima Plant
- ⑰ Kobe Plant
- ⑱ Funabashi Plant
- ⑲ Tsurumi Plant
- ⑳ Research and Development Center
- ㉑ Bio Science Laboratory
- ㉒ Food Development Center
- ㉓ Food Development Center (Western Division)
- ㉔ Animal Feed and Allied Products Laboratories





PRINCIPAL SHAREHOLDERS

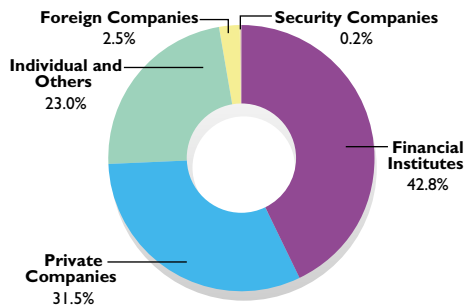
The shares of common stock of the Company are listed on the Tokyo and Osaka Stock Exchanges. On 31st March, 2001, there were 15,184 shareholders listed on the Company's register of shareholders. The following table lists the ten largest shareholders appearing on the register at that date.

Name	Number of Shares Held (Unit : Thousand shares)	Percentage of Total Shares Outstanding
Nissho Iwai Corporation	17,545	9.3
The Dai-ichi Kangyo Bank, Limited	9,238	4.9
Nippon Fire & Marine Insurance Co.,Ltd.	8,711	4.6
The Chiba Bank, Ltd.	7,875	4.2
The Industrial Bank of Japan Ltd.	6,786	3.6
The Norinchukin Bank	5,515	2.9
ITOCHU Saeco Co., Ltd	5,495	2.9
The Yasuda Fire and Marine Insurance Co., Ltd.	5,101	2.7
Yuasa Funashoku Co., Ltd.	5,049	2.7
Nissho Iwai Foods Co., Ltd.	4,070	2.2

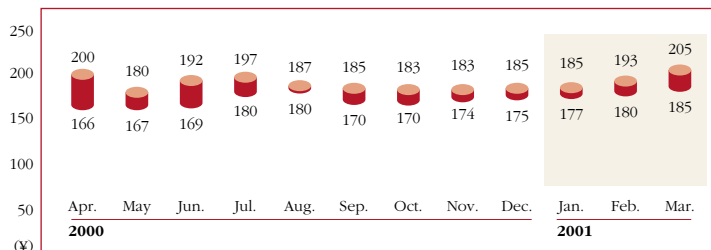
GENERAL INFORMATION ON SHARES

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 recycled paper with soy ink.

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