

Financial Highlights

Millions of Yen (except per share data)

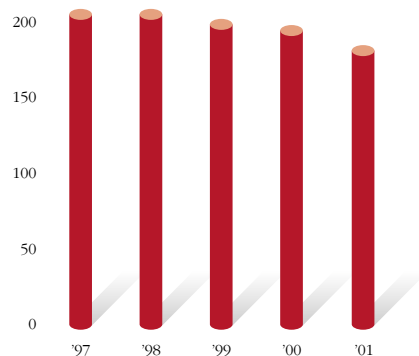
Thousands of U.S.dollars
Note 1-a
(except per share data)

	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

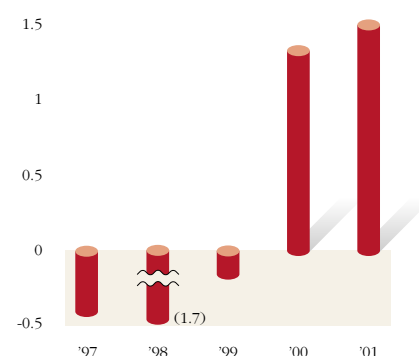
Note 1-a: The U.S. dollar amounts above and elsewhere in this report are translated from yen, for convenience only, at the rate of ¥123.90 = US \$1.

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

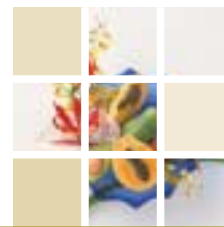
In the fiscal year under review, the Japanese economy showed strong private-sector capital expenditure and some improved corporate earnings. The problem of bad debt, however, continued to plague financial institutions while the stock market remained sluggish. In addition, the deflationary trend persisted, 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.

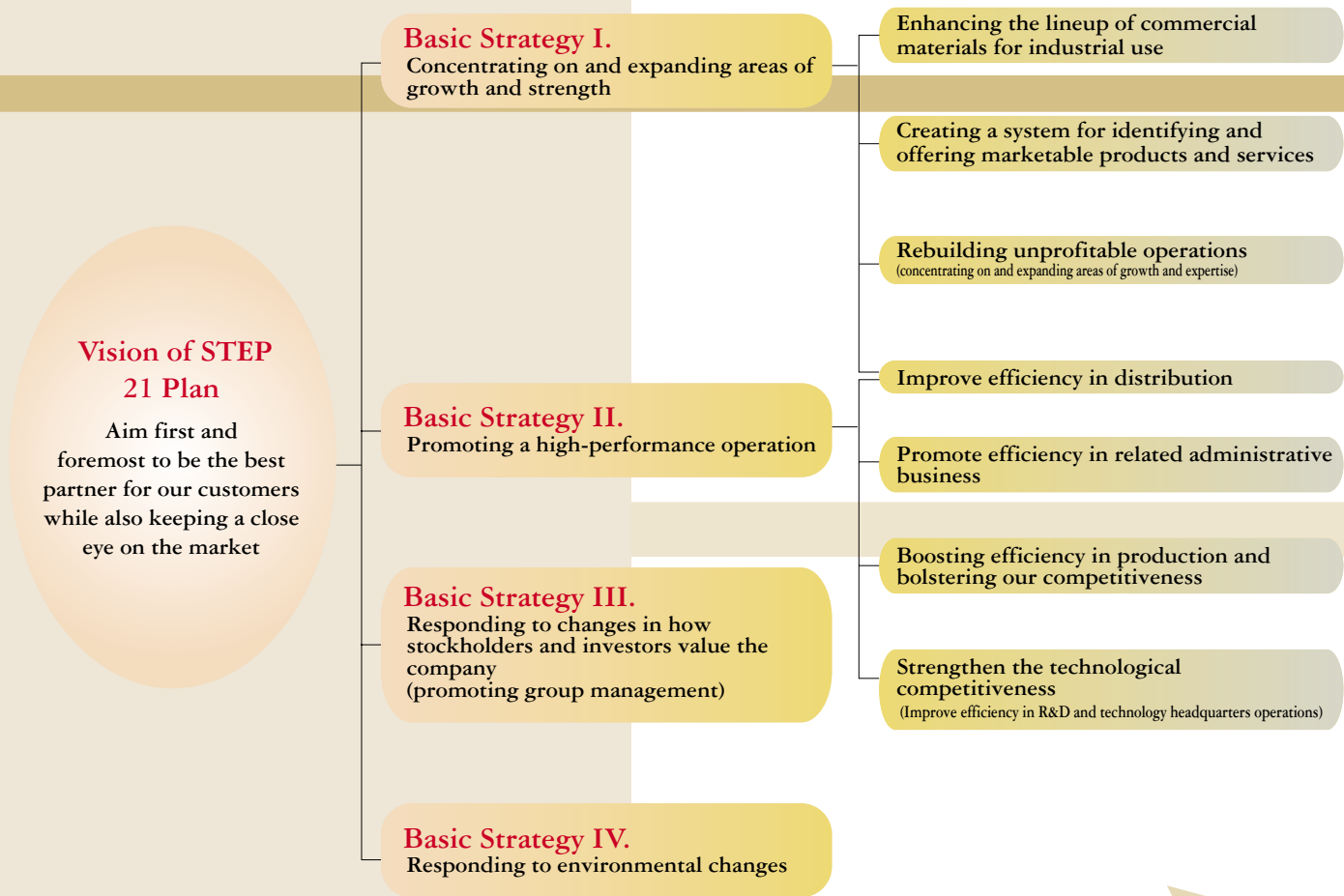
We believe that our efforts to improve shareholder and corporate value will also advance our corporate principle of contributing to a rich and healthful diet that has its origins in the bounties of nature. We will continue to build our efforts around this principle in the future.

Mutsuo Kanehara
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.

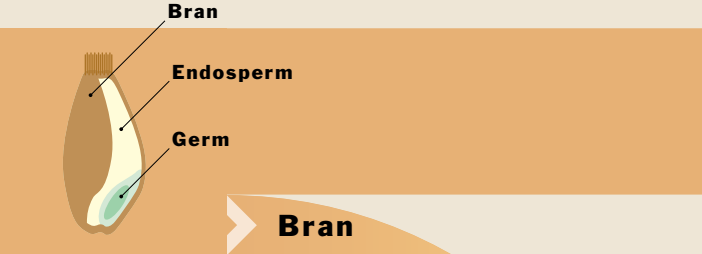
Other operations include warehousing business for grains and real-estate leasing business for effective use of real estates.

BUSINESS DEVELOPMENT

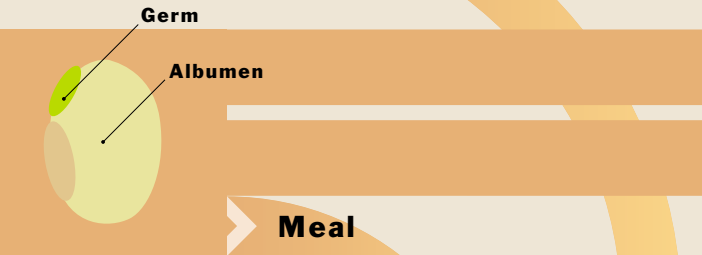


Showa Sangyo **Others**

WHEAT



SOY



CORN

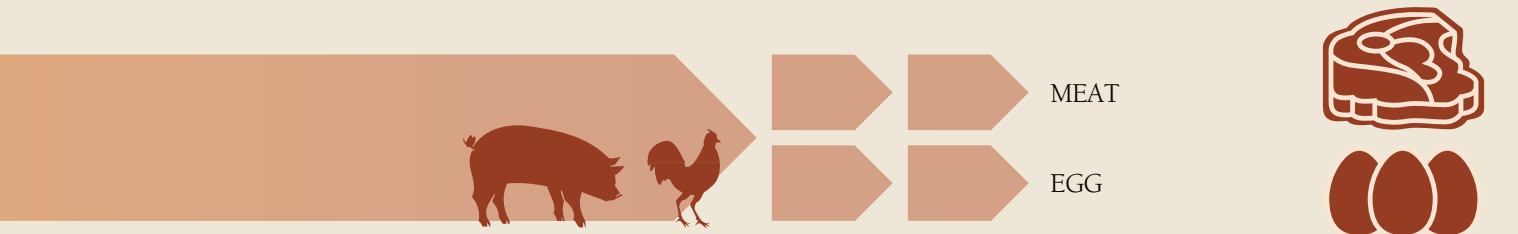
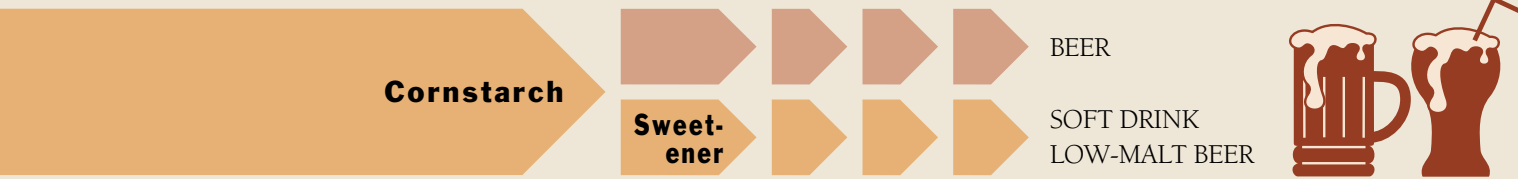
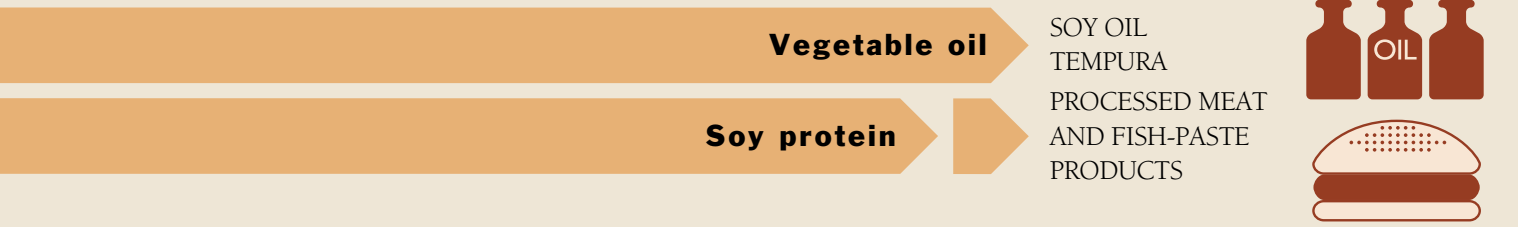
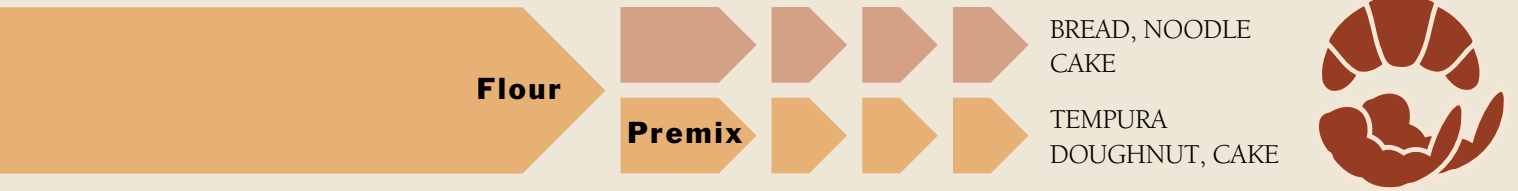


FEED

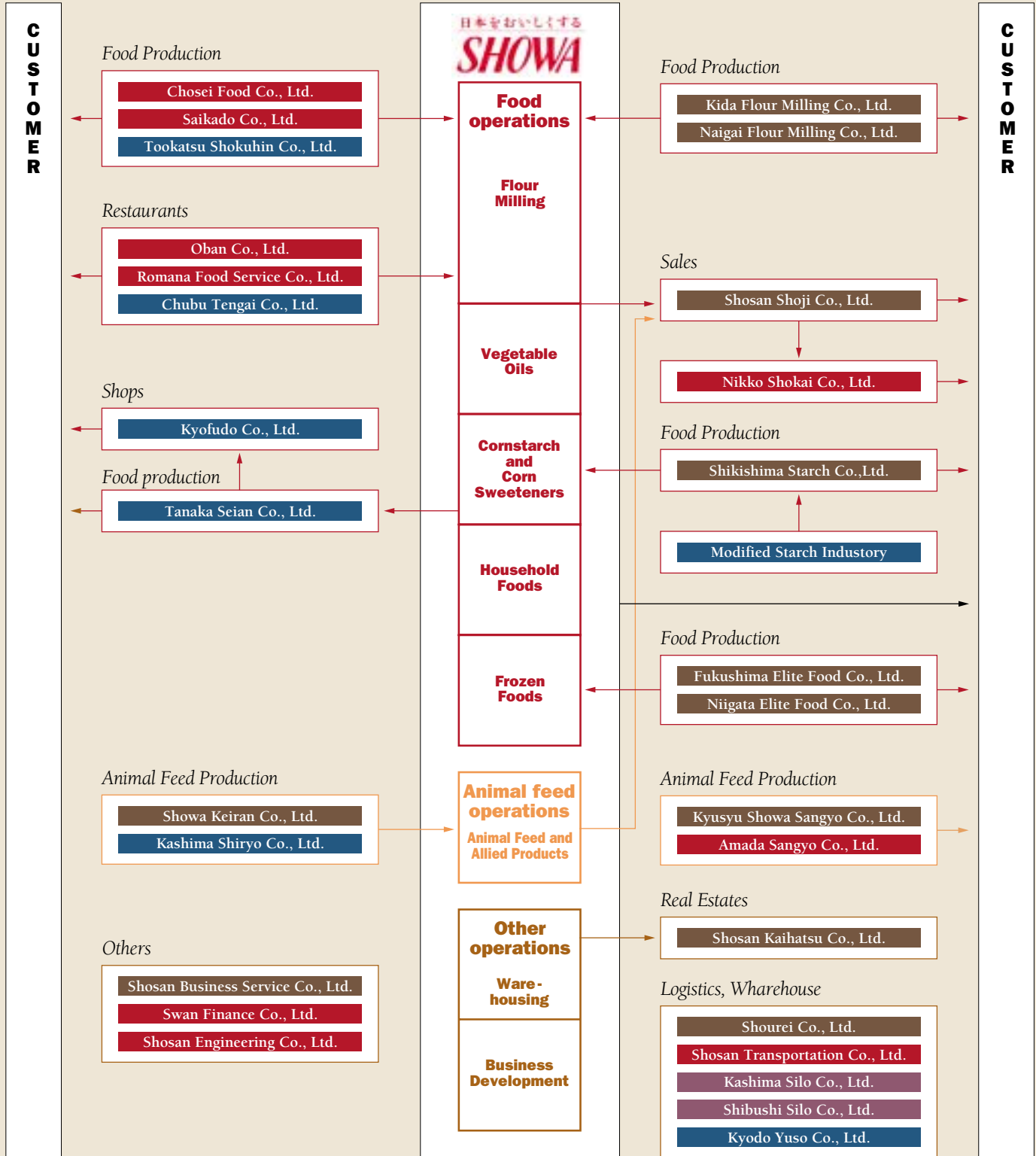


SILO





Showa Sangyo's Group Network



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

Showa Sangyo's **M**ain 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 Shiryo Co. and Kyushu Showa Sangyo Co.

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

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 isomalto-oligosaccharides 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.

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.

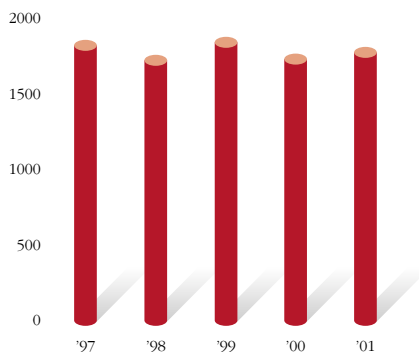
In the area of animal feeds, we began selling compound feeds with isomalt-oligo-saccharides as the main component, produced at our own production facilities, and also developed artificial milk formula for piglets and poultry feed.

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.

R&D Expenses

(Million ¥)



Showa Sangyo and the Environment

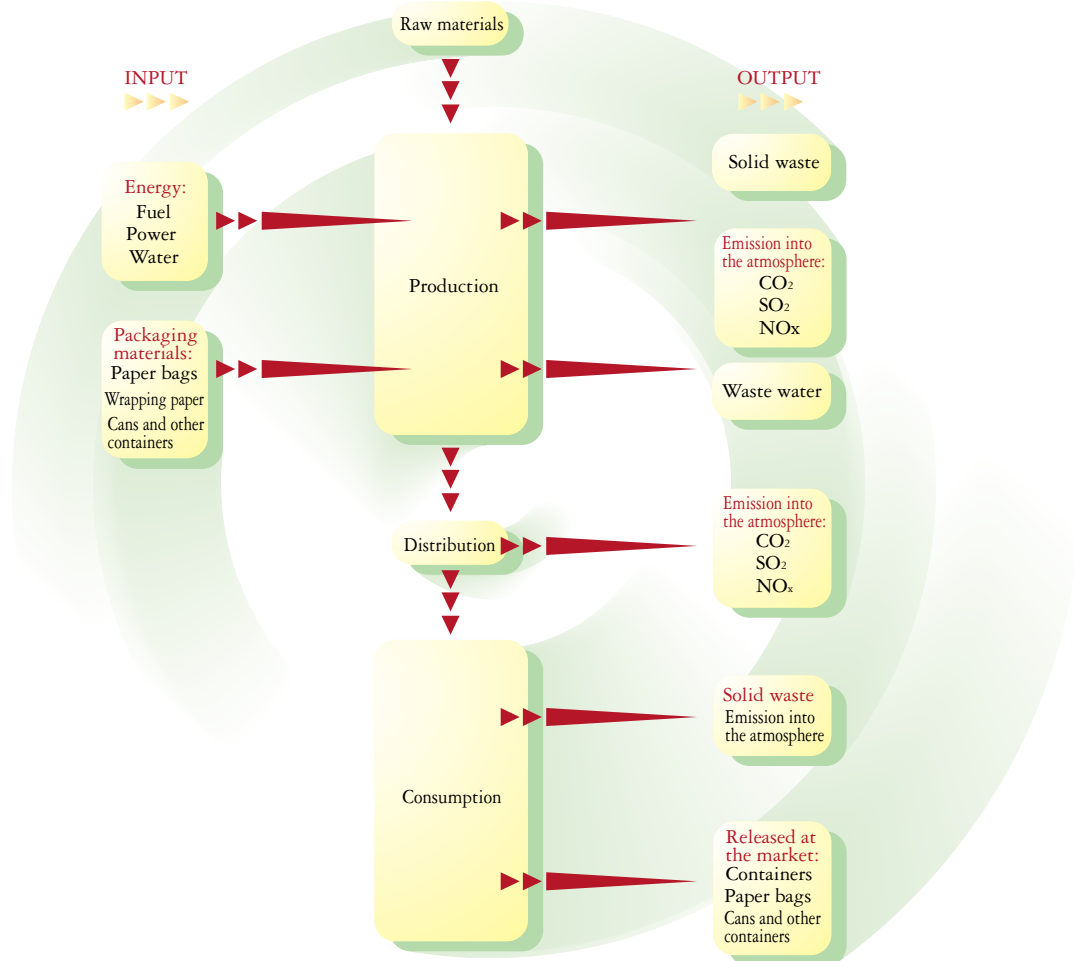
As environmental problems grow on a global level, the Showa Sangyo Group is more and more carefully scrutinizing ways to protect the environment.

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.

Production 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



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Senior Managing Director
Koukichi Hirasawa*



Senior Managing Director
Yoshifumi Tsubone



Senior Managing Director
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Managing Director
Hiroshi Usui



Managing Director
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Managing Director
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Managing Director
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Yasuo Hitoki



Managing Director
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Statutory Auditors

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*Representative Director