

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

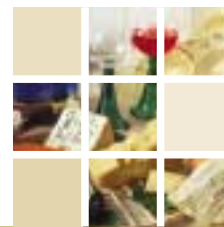
The fiscal year ended March 31, 2001 was the first year of STEP 21 Plan, the three-year business plan for the Company to pull through this period of difficult changes and be on our way to a powerful growth again in the 21st century. Having at the end of the previous fiscal year completed our Re-Born 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.

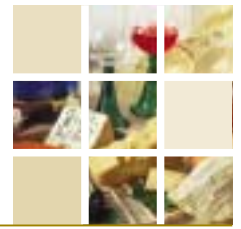
Income before Income Taxes

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.

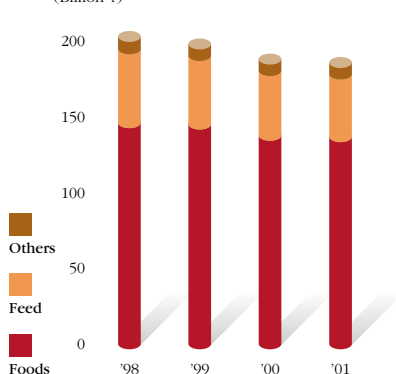
On the other hand, due to the trend of declining prices, the trend of declining product prices of raw materials we have purchased also continued, leading to a drop in the cost rate. Our operating income for the Food Operation Segment thus increased 6.4% to 3.1 billion yen. This increase in operating 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.

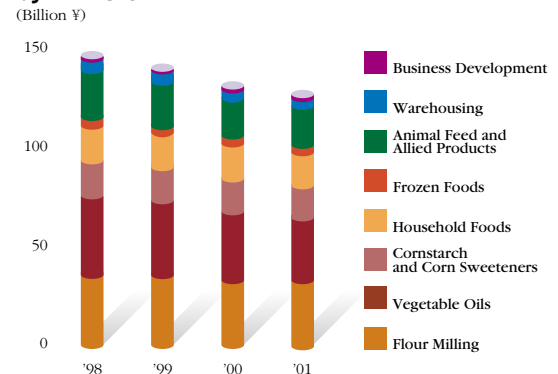
Flour Milling Division

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

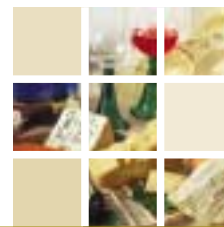
In our Animal Feed Operations Segment, we sell mixed animal feeds to domestic livestock farmers. This fiscal year continued to see an increase in the volume of imported livestock products while domestic production dropped.

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.

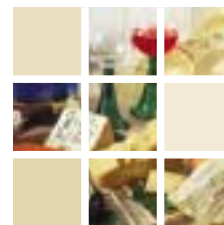
RISK MANAGEMENT

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

| | <i>Millions of yen</i> | | <i>Thousands of U.S. dollars (Note 1-a)</i> |
|---|------------------------|----------|---|
| | 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.

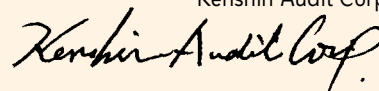
We have audited the consolidated balance sheets of Showa Sangyo Co.,Ltd. and its consolidated subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. We conducted our audit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

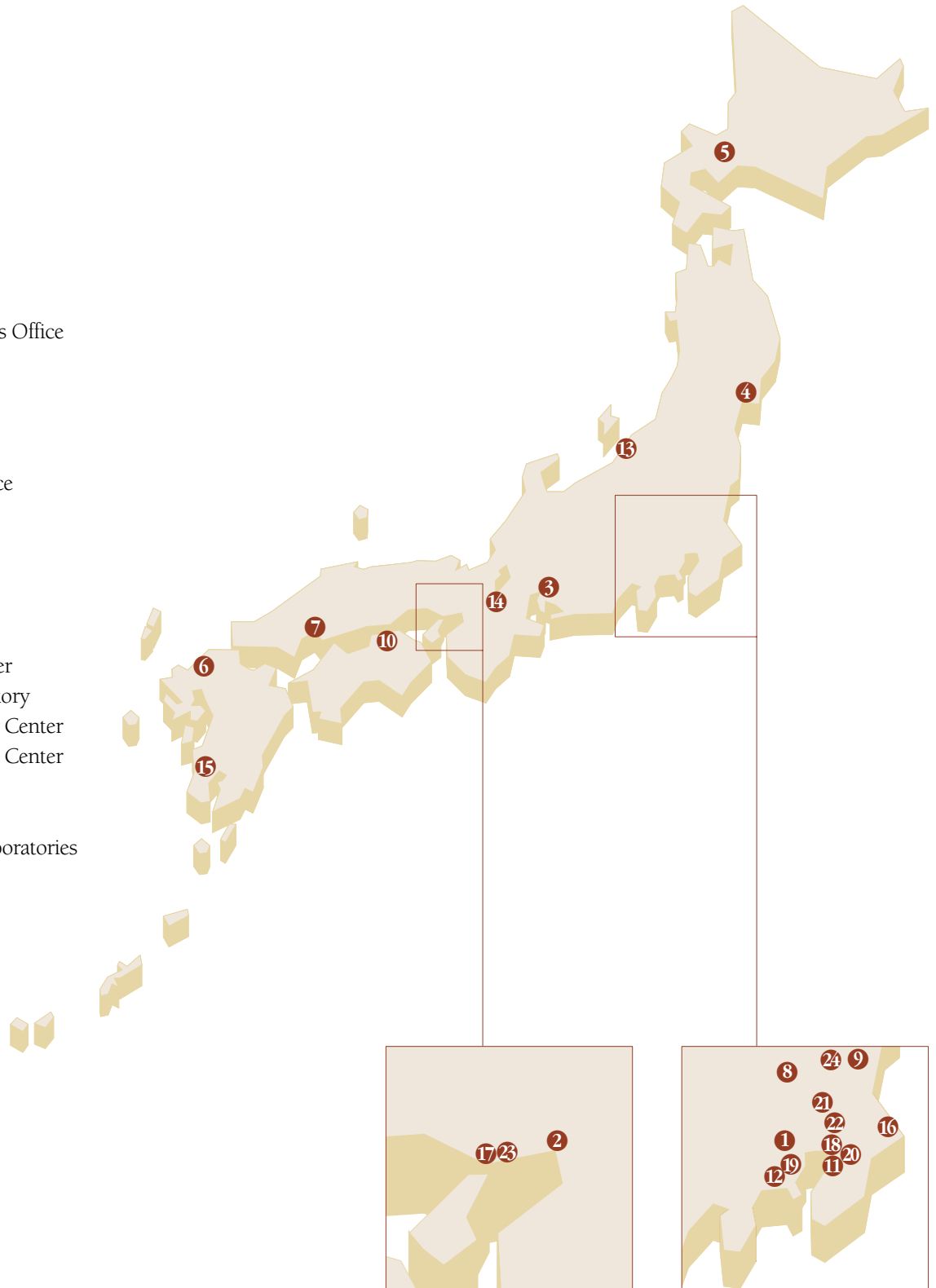
28th June, 2001
Tokyo, Japan

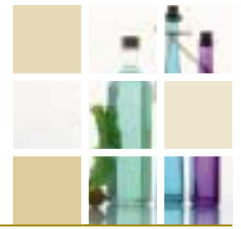
Kenshin Audit Corp.



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

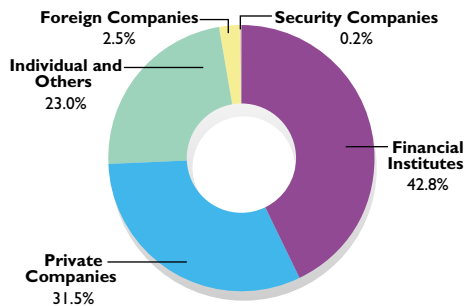
The shares of common stock of the Company are listed on the Tokyo and Osaka Stock Exchanges. On 31st March, 2001, there were 15,184 shareholders listed on the Company's register of shareholders. The following table lists the ten largest shareholders appearing on the register at that date.

| 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 |

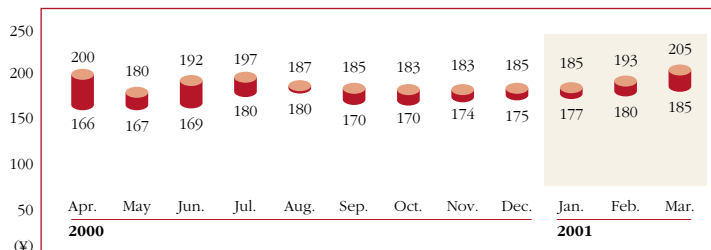
GENERAL INFORMATION ON SHARES

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

Showa Sangyo Co., Ltd.
Kamakuragashi Building
2-1, Uchikanda 2-chome, Chiyoda-ku,
Tokyo 101-8521, Japan
Phone : +81 3-3257-2036
Facsimile : +81 3-3257-2938
URL : <http://www.showa-sangyo.co.jp/>



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

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