

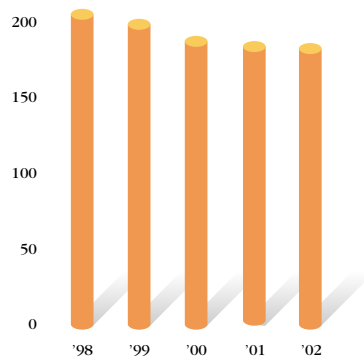
Financial Highlights

	<i>Millions of Yen (except per share data)</i>					<i>Thousands of U.S.dollars Note 1-a (except per share data)</i>	
	1998	1999	2000	2001	2002	2002	
Result of operation:							
Net sales	¥ 204,855	¥ 198,250	¥ 188,251	¥ 185,085	¥ 184,757	\$	1,386,543
Gross profit	36,214	36,950	38,237	37,353	34,883		261,785
Operating income	2,512	3,717	5,677	5,288	2,935		22,024
Income tax	751	1,307	1,578	1,504	(553)		(4,149)
Net income (loss)	(1,765)	(164)	1,321	1,526	(1,376)		(10,324)
Financial position:							
Total assets	¥ 177,960	¥ 167,959	¥ 157,338	¥ 157,129	¥ 150,930	\$	1,132,682
Properties, plant and equipment	93,645	89,444	85,363	82,776	83,308		625,200
Interest-bearing liabilities	81,302	77,461	67,025	65,274	63,535		476,814
Shareholders' equity	53,568	46,124	45,495	47,223	43,072		323,241
Per share data:							
Net income (loss)	¥ (9.13)	¥ (0.85)	¥ 6.85	¥ 7.95	¥ (7.36)	\$	0.055
Cash dividends	6.00	5.00	6.00	6.00	6.00		0.045
Shareholders' equity	277.04	239.16	235.90	249.94	236.62		1.776
Common stock:							
Numbers of shares-issued (Unit:thousand shares)	193,359	192,859	192,859	188,939	182,053		-
Composition of sales by business:							
Foods	¥ 147,905	¥ 145,319	¥ 137,872	¥ 136,792	¥ 136,022	\$	1,020,798
Feed	48,864	45,368	42,856	40,847	41,475		311,259
Other	8,086	7,563	7,523	7,446	7,260		54,486
Consolidated total	204,855	198,250	188,251	185,085	184,757		1,386,543

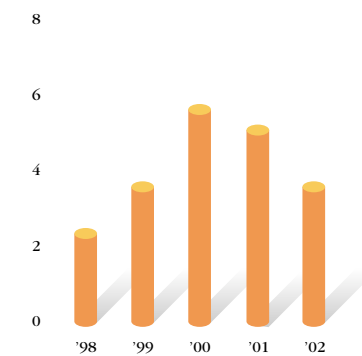
Note 1-a: The U.S. dollar amounts above and elsewhere in this report are translated from yen, for convenience only, at the rate of ¥133.25= US \$1.

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.

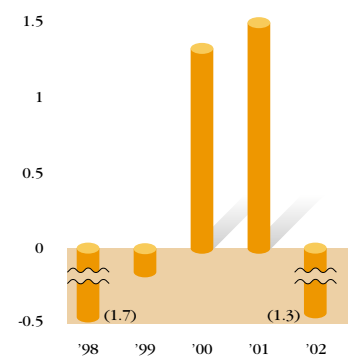
Net Sales
(¥ Billion)



Operating Income
(¥ Billion)



Net Income (loss)
(¥ Billion)



President's Message



This fiscal year marked the second year into our three-year business plan STEP 21, which was established in April of 2000. We have continued to build on our previous year's achievements, implementing a variety of measures for a new growth in the 21st century by promoting fundamental changes in Showa Sangyo.

In June 2002, Mutsuo Kanehara, the former president of Showa Sangyo, assumed the post of representative director and chairman, while Shigeo Fukui, the former senior managing director, assumed the post of representative director and president. This new top management system is part of our efforts to build a system that responds quickly to the rapidly changing business environment. Working together to lead Showa Sangyo, the two of us will do everything in our power to complete the STEP 21 Plan with success.

In particular, we will conduct a thorough tracking of profit and loss for each product category in our business divisions, determine profitability, and select products on which we will focus. We will then establish a unique style of increasing profitability through the synergetic effects of being a company handling a line of diverse products.

In the vegetable oil industry, as seen by the recent births of two major corporate groups, the trend now is to reorganize. At Showa Sangyo Group, however, we have determined that we have sufficient means to survive and grow on our own. The means include aggressively promoting the above business model, as well as streamlining our entire process from manufacturing to sales to further cut costs.

This fiscal year in Japan, several incidents in the food industry have had an unfortunate effect of causing consumers to lose their confidence in food products. As an honest member of society and a leader in the food industry, we will strive to improve the industry's corporate ethics and transparency, as well as raise the awareness of each one of our employees to do the same.

Business Environment and Results for this Fiscal Year

The Japanese economy this fiscal year continued to show no signs of a recovery as financial insecurity, serious deflation, poor consumer spending and severe employment situation loomed. The year was especially harsh for the food industry as several incidents prompted consumers to question the reliability of food and food safety management.

Added to that were the trend of a weakening yen and the higher cost of raw material imports owing to a surge in the rapeseed price, which, in turn, could not be passed on fully to the sales price due to deflation in the domestic market. As a result, our income declined.

This fiscal year, our sales decreased 0.2% to ¥184,757 million while our operating income declined 44.5% to ¥2,935 million. We posted a net loss of ¥1,376 million.

From Divisions to Categories

To address such a difficult business environment, we resorted to drawing a clear plan on improving profitability. A thorough tracking of profit and loss for each product category thus became crucial.

Showa Sangyo handles a number of products in many divisions. It is difficult for the management to accurately keep track of profitability of each of these products, as it is impractical in terms of cost effectiveness. To date, Showa Sangyo had tracked profit and loss according to operational divisions. This, however, is changing. We will now step up our measures by categorizing our products and tracking profit and loss individually for each category.

Our plan is to determine the profitability of each category and build individual strategies focusing on the growth of high-profit categories. We will then increase the number of categories in which our product becomes No.1.

To date, our strong categories for industrial-use include the vegetable oils division's mini-tank system, while for household-use, strong categories include Olein Rich, the healthful oil, Tempura Daisakussen!, a functional tempura premix, and Okama ni Pon, an oil for cooking rice. We will continue to focus on their growth.

Maximizing Showa Sangyo's Unique Synergetic Effect

Another crucial step toward increasing our future possibilities is to make an organic connection within the Showa Sangyo Group's existing infrastructure. This will enhance our unique synergetic effect from the variety of raw materials we handle.

Until now, at the Showa Sangyo Group's five food operation divisions, each division operated independently from each other with not many exchanges among the different staffs. We had referred to this infrastructure as the foundation of our total strength. From now on, however, our total strength will consist of the synergetic effects of independent divisions working together. It will be our new source of profits.

For example, in addition to our vegetable oils division selling food materials such as tempura flour and pasta as we had conventionally done (i.e., providing flour to meet

the needs of our oil customers), our flour division began selling vegetable oils for use by bakeries (i.e., providing oil to meet the needs of our flour customers). We will develop and sell new products in forms that meet the needs of our customers by combining flour and vegetable oils in ways that achieve the customer's ultimate goal. As part of our STEP 21 Plan vision, we will build a relationship with our customers as their best partner, and increase sales and gross margin rates.

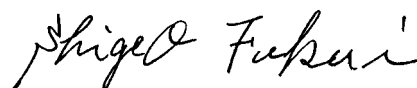
Such synergetic effects can only be generated by the Showa Sangyo Group, a corporation that possesses expertise in both flour milling and vegetable oils. In the future, we also intend to extend our synergetic effects to those generated between flour and sweeteners and other possible combinations.

We are now actively promoting exchanges between staffs of different divisions, which until now had been minimal. Under the new personnel system we are building, those in the management level will transfer frequently among divisions and young staffers will be required to experience working in two to three divisions.

Increasing Shareholder Value by Being an Honest Company

This fiscal year in Japan, the mad cow disease and other major incidents involving food prompted consumers to lose their confidence in food products. As a food company in such an environment, we at the Showa Sangyo Group must act in absolute compliance of the law. We intend to maintain transparency and raise awareness of each one of us at Showa Sangyo to be an honest company for our customers. To increase the public's confidence in food products, we are building a system to provide safe and reliable products to our customers. Our efforts have so far included obtaining ISO 9000 series of certifications at all of our plants, and enhancing quality assurance through organizational changes that clarify the roles, responsibilities and authorities regarding quality.

It is our intention to continue generating values as a responsible member of society, creating value for all of our stakeholders at the Showa Sangyo Group including shareholders, customers and employees.

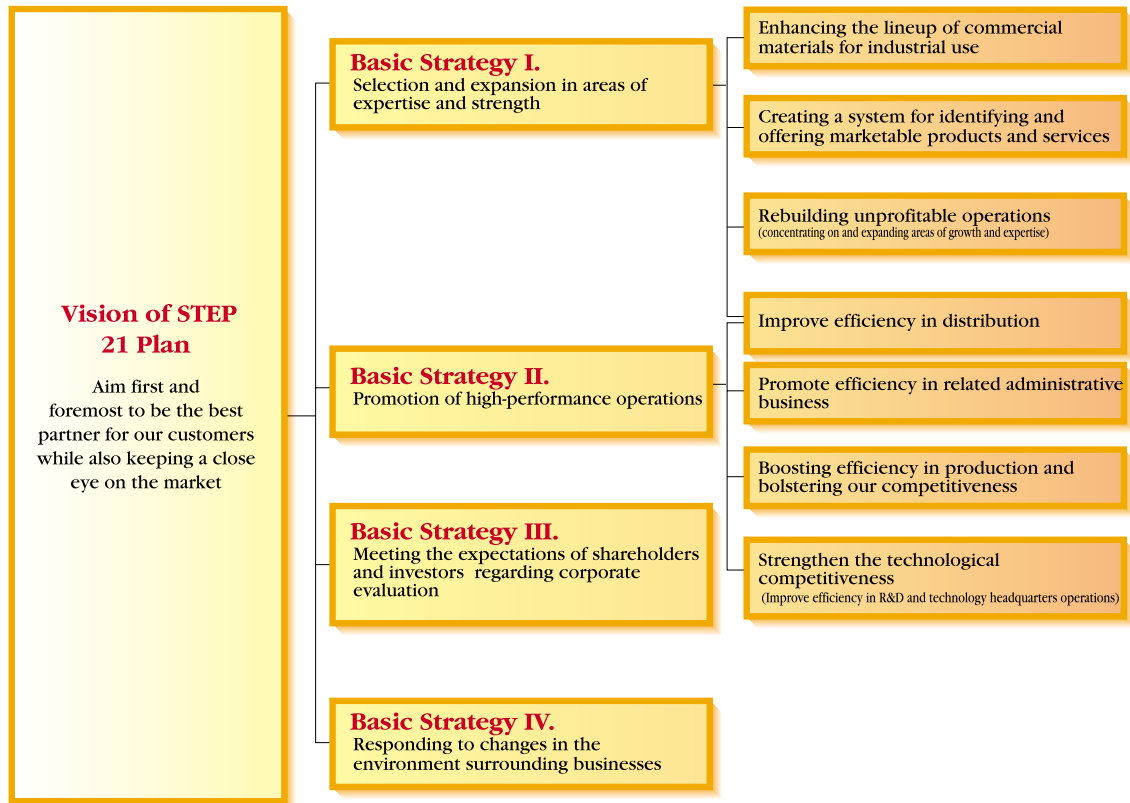


Shigeo Fukui
President

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.



Measures taken in Fiscal Year Ended March 31, 2002 for the STEP 21 Plan

The Showa Sangyo Group is promoting its three-year medium-term plan, STEP 21. The vision informing this plan is to be the best possible partner for our customers, while keeping a watchful eye on the market. We have been working to attain goals spelled out in our four basic strategies: I. Selection and expansion in areas of expertise and strength; II. Promotion of high-performance operations; III. Meeting the expectations of shareholders and investors regarding corporate evaluation; IV. Responding to changes in the environment surrounding businesses.

Our achievements in the four strategic areas of STEP 21 Plan for the fiscal year ended March 31, 2002 are as noted below.

I. Selection and expansion in areas of expertise and strength

■ The market for low-malt beer, a new area that makes use of sweeteners, is strong. To meet with this demand, we constructed new corn syrup production facilities at our Kashima Plant and placed them in operation in May 2001. We raised production capacity from 220 to 320 tons a day, an increase of 45.5%. We boosted our sales volume by roughly 50% from the year-earlier amount.

■ This year, we celebrated our 40th anniversary of selling tempura flour, the key product of our Household Foods Division, by marketing a new product, Tempura Daisakussen!, in September 2001. The concept behind the product is that anyone can easily make delicious tempura. Shipments of the product, sold mostly through major supermarkets, have been strong. It has also contributed to sales of existing products. The sales volume overall of our

home-use tempura flour rose by 4% from the previous year.

- We have also been concentrating efforts on expanding vegetable oil sales through our mini-tank system and installing more storage tanks nationwide as a measure to make our company less susceptible to market influences. In this fiscal year, we installed three new tank stations. Now at the end of March 2002, we have a total of 14 tank stations nationwide. Sales volume rose by 8.7% from the previous year.
- To restructure our Frozen Foods Division, we transferred parent operations in frozen food sales to our wholly owned subsidiary Showa Frozen Foods Co. By integrating production and sales, we are speeding up decision making, accelerating product development and improving productivity.

II. Promotion of high-performance operations

- To promote distribution efficiency, we opened a distribution center at our Funabashi Plant in September 2001. We expect to save about 200 million yen a year as a result of streamlining.
- In October 2001, we opened our West Japan Order-processing Center and in February 2002, we opened our East Japan Order-processing Center. The two sites consolidate order processing that had previously taken place in multiple locations. Through the new facilities, we aim to reduce personnel costs, improve supply-and-demand-control accuracy and shrink inventories.
- In March 2002, we began construction of our seventh silo at our Kashima Plant, where silo space had been insufficient. The new facility will improve profitability by resolving problems related to the shortage of space, which had caused the outflow of outside companies' cargo to other berths, increases in demurrage, and congestion in berths.
- We launched a new purchasing system with the aim of restructuring our company-wide system for purchasing supplies. The new system has improved our ability to monitor purchasing company-wide and improved traceability. At the same time, the system has improved the efficiency of our purchasing operations and lowered purchasing prices.

III. Meeting the expectations of shareholders and investors regarding corporate evaluation

- In April 2001, we introduced a cash management system to centrally manage the surplus capital in our group. This was our first step toward creating a business support center that consolidates accounting operations for the group. Through centralized management of capital and efficient operation, we succeeded in shaving our interest-bearing liabilities by about 1.7 billion yen.
- Since the fiscal year ended March 2001, we have continued to retire our own shares, boost our profits per share, and improve our return on equity (ROE). In the fiscal year ended March 2002, we retired about 6.9 million shares (worth about 1.58 billion yen). The cumulative amount retired since the fiscal year ended March 2001 has been about 10.8 million shares (worth about 2.31 billion yen).

IV. Responding to changes in the environment surrounding businesses

- As a result of heightened awareness of food safety, we have altered our organization to clarify roles and responsibilities of our headquarters and plants with regard to quality. This is in an effort to further strengthen our quality management system.
- We introduced co-generation equipment in our Kobe Plant. Operation of the equipment began in November 2001. The plant now supplies 51% of its own electricity. The equipment makes effective use of exhaust heat and also helps to prevent air pollution.
- In the fiscal year ended March 2002, we completed earning ISO 9000 series certification for all our plants of all our divisions, a goal we have been working toward since 1999 as part of our continuous efforts to establish a quality assurance system for Showa Sangyo as a whole.
- We have begun acquiring ISO 14001 certification on a company-wide basis as one step toward promoting environmental management. In the fiscal year ended March 2002, the Environmental Management Group at the Showa Sangyo head office, as well as the Funabashi Plant and our General Research Institute, acquired certification.

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 Group



Others



WHEAT



SOY



CORN

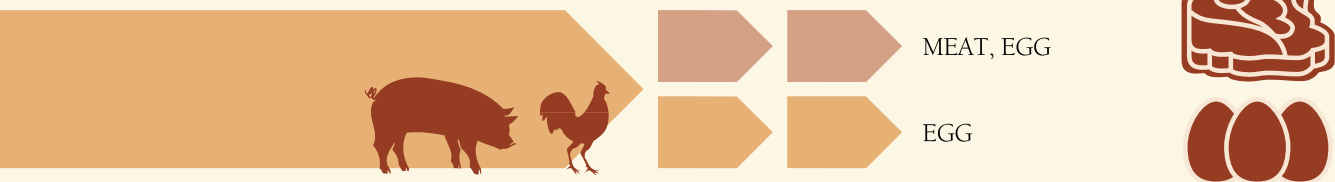
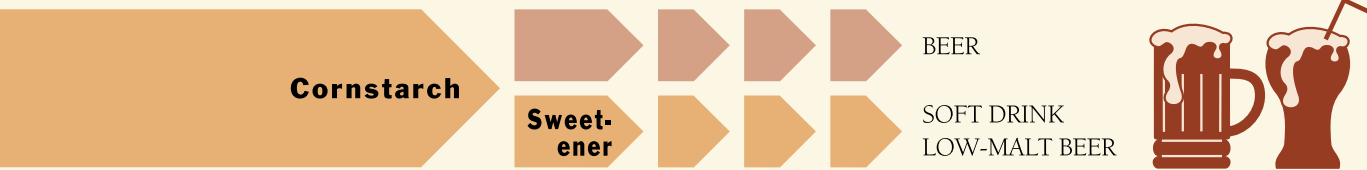
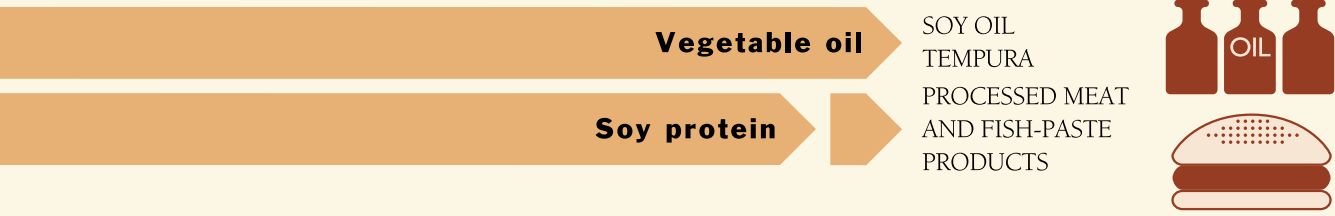


FEED

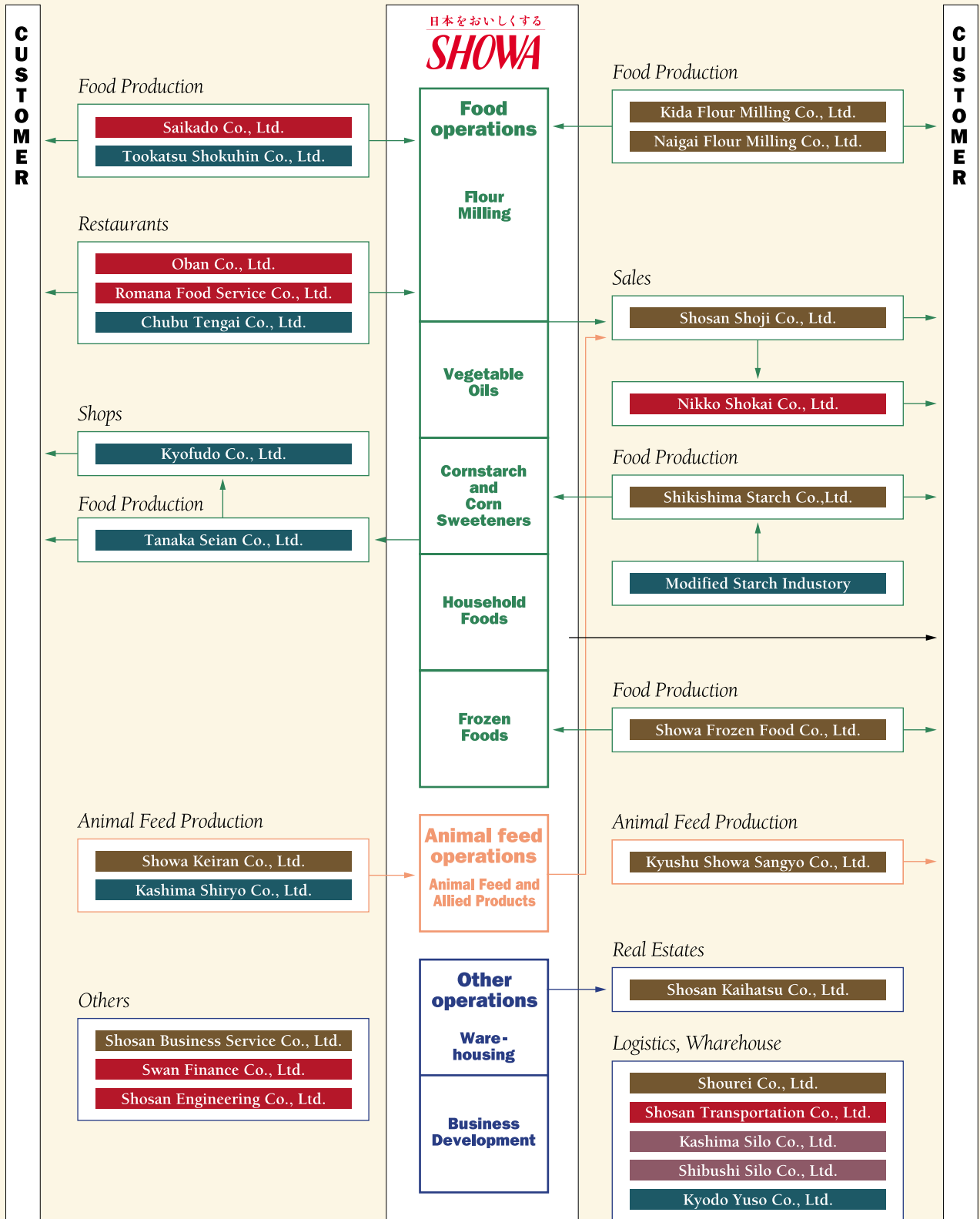


SILO





Showa Sangyo's Group Network



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

Showa Sangyo's Main Plants

Kashima Plant

- Flour Milling
- Vegetable Oils
- Cornstarch and Corn Sweeteners
- Household Foods



Kobe Plant

- Flour Milling
- Vegetable Oils
- Household Foods
- Animal Feed and Allied Products

Funabashi Plant

- Flour Milling
- Household Foods



Flour Milling Division

Wheat flour is the key product of our flour milling division. In addition, we also manufacture processed products made from flour, including various premixes and frozen dough products. These products are made at our Kashima, Kobe and Funabashi plants, as well as at three subsidiaries, namely, Naigai Flour Milling Co., Kida Flour Milling Co. and Showa Frozen Foods Co. that specializes in making frozen dough. The products are sold to food-processing companies, supermarkets and restaurants.

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, Chinese noodles, udon noodles, buckwheat noodles, Japanese sweet buns and tempura. It is an important food that is integral to our diet. The Showa Sangyo Group conducts thorough research and development activities 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 flavorings 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, bread and doughnuts. 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 52 types of premixes and 50 types of frozen dough, dramatically increasing our sales volume.
- Since the distribution of domestic wheat has switched to non-governmental, private transactions, we can now obtain a variety of wheat with which we are developing flour products to meet market needs.
- In addition to our flour products, we now provide bakeries with premixed oils for donuts and other products, as well as secondary raw materials such as processed rye products for mixing into bread. By making such a wide range of ingredients available, we plan to expand our business in ways no competitor can.

Vegetable Oils Division

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

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.

This division 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.



Vegetable oils

Showa Sangyo uses carefully selected soybeans, rapeseed and corn 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 replacing conventional oil cans with environmentally friendly, can-free, bag-in-a-box products, 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 soy sauce, 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

- Sales of premium high-value-added oils such as Fumi Sawayaka Oil and Premixed Oil C&L are strong. In addition, we are also introducing these products in environmentally friendly bag-in-a-box packaging.
- We are installing mini-tank relay stations from Hokkaido to Kyushu in an effort to further improve our distribution network. We introduced a remote monitoring system to measure the volume remaining in vegetable oil storage mini-tanks at the sites of our customers. The number of customer plants equipped with our remotely monitored mini-tanks is steadily increasing.



Cornstarch and Corn Sweeteners Division

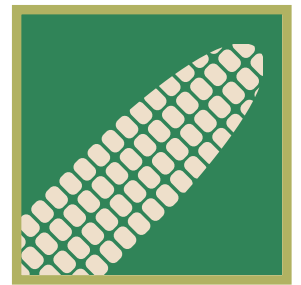
This division produces cornstarch as well as starch sweeteners such as corn syrup, dextrose, high-fructose corn syrup and oligosaccharides. The products are made at our Kashima Plant and our subsidiary, Shikishima Starch Co. under strict quality control standards. The goods are used in a variety of products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

Cornstarch

Cornstarch is made by drying out starch derived from corn. It is used in 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 the recently popular low-malt beer, as well as confectioneries, bread, milk products, bean paste and jams.
- Dextrose is used in beverages, confectioneries and bakery products. The substance also has medical applications. Further, it is used in seasonings such as mirin sake.
- High-fructose corn syrup is used mainly by the beverage industry for use in products such as soft drinks and lactic drinks.
- Oligosaccharides are receiving attention for their ability to promote bifidus bacteria growth and their ability to prevent tooth decay. Through its own research, Showa Sangyo developed isomalto-oligosaccharides, which are superior in health-promoting qualities and are valued for ease of processing. Isomalto-oligosaccharides are designated by Japan's Ministry of Health and Welfare as a food for specified health use.



T O P I C S

- 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 corn sweeteners production facilities at the Kashima Plant. Operation at the enhanced facilities began in May 2001.
- Currently, we are working with a focus on enhancing the sales of functional sweeteners such as isomalto-oligosaccharides, maltotetraose and maltotriose that add value to processed foods.

Household Foods Division

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

Wheat flour

A variety of wheat flours made from high-quality wheat.

Premixes

A selection of premixes including Tempura Daisakussen!, Tempura Flour Ogon and Karaage Meat Tenderizing Flour.

Pasta

Products such as 100% durum semolina spaghetti.

Vegetable oils

A lineup of vegetable oils including healthful oils rich in oleic acid.

Gift sets

An array of gift packages containing various food products of the Showa Sangyo Group, from flours to oils.

Taiyo no Ristorante

A brand of Italian foods that makes it easy to enjoy Italian cuisine at home. Products include pasta and pasta sauces.

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 September 2001, we began selling Tempura Daisakussen!, a new product to mark our 40th anniversary of selling tempura flour. Using a new, innovative production technology, we developed this product so that consumers can easily make delicious tempura in their homes. Since its introduction, the premix has been winning acclaim surpassing that of our classic products.
- Our Olein Rich, which we began selling in March 2000, is healthful oil rich in oleic acid. The product is winning over customers because it is strongly resistant to oxidation and heat and suitable for all types of cooking. In addition to promoting this as a regular household product, we are also marketing it as a key gift set product. It is enjoying strong sales.



Frozen Foods Division

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

Our frozen foods operations involve the production and sale of goods including snack foods, everyday dishes, Italian foods, and tempura. Our subsidiary Showa Frozen Foods Co. develop, manufacture and sell the foods, making use of Showa Sangyo Group'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 for their taste, nutritional value and safety, contributing to the varied menus available at supermarkets, pubs and karaoke lounges.

Snack foods

We offer an assortment of Japanese snack products such as taiyaki, takoyaki and imagawayaki. Our great-tasting snack foods reflect the technology and experience of the Showa Sangyo Group, which carries a varied line of foodstuffs.

Everyday dishes

We boast a varied selection of products including delicatessen meats, such as both Japanese-style and American-style fried chickens and wontons.

Italian foods

Our ravioli and other dishes 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

- On August 1, 2002, we transferred Showa Sangyo's frozen food operations to our subsidiary, Niigata Elite Foods Co., and renamed it as the new Showa Frozen Foods Co. By integrating the product development, manufacturing and sales processes under the new company, we will speed up our decision-making and product development, and streamline our production system. Our aim is to revamp the Showa Sangyo Group's frozen food operations.

Animal Feed and Allied Products Division

Mixed feeds

Showa Sangyo Group'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 passed every company's quality management standards test, including one that is reputed to be one of the strictest in the industry. 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 concepts of safety, freshness and stable supply.

TOPICS

- We built new heat-treated feed manufacturing facilities, which we use to produce feed for our egg-laying hens. The heat treatment eliminates harmful bacteria, such as salmonella, which is a cause of food poisoning. This heat-treated feed helps to ensure the quality of livestock and poultry food products, such as eggs, milk and meats.



Warehousing Division

Showa Sangyo's 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 and stored in the silos. Companies in our Group, Kashima Silo Co., and Shibushi Silo Co., also have large silos that, combined, can store more than 270,000 tons of grain. The grain stored in these silos is sent to Showa Sangyo Groups' plants as needed, as well as being supplied to other manufacturers of flour, vegetable oils 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



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

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

Research and Development

The most important aspect of developing and expanding our operations as a general manufacturer of processed foods is research and development (R&D) aimed at creating new technologies and products. At Showa Sangyo's General Research Institute, Food Development Center, and Animal Feed Technology Center, numerous diverse technology groups are engaged in a broad range of efforts. The efforts include everything from applied research – which includes developing products that meet 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 enzyme-utilization 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.

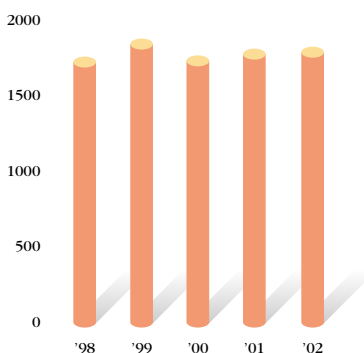
Showa Sangyo views such societal issues as environmental problems and the more sophisticated use of biological resources as its own concerns. Our environmental measures include waste reduction through new, unconventional technologies such as enzyme and membrane technology, and explorations of technologies 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 developed a variety of products: wheat flours such as Deluxe Red Neon, bakery mixes such as Loaf Bread Base Mix, pastas, vegetable oils, starch sweeteners for use as raw ingredients for processed foods, tempura flour, karaage flour, batter mixes, frozen bread doughs, frozen foods and prepared foods. These products are chiefly for commercial use and are being supplied mainly to food processing companies and convenience stores. For the household market, on the other hand, we introduced a various new products including premixes such as Tempura Daisakussen!, sauces such as Asari no Tomato Sauce and gift sets. In addition, we have put analysis technology in place to help us cope with problems of food safety, such as ingredients that cause food allergies.

R&D Expenses
(¥ Million)



In the area of animal feeds, we developed new products to further improve the safety of these feeds. We developed heated mash feed, which is conventional mash feed that has undergone heating for sterilization, and began marketing products such as our Progressive Series for poultry and Century Series for pigs.

Furthermore, our R&D activities are conducted within the scope of company-wide efforts to obtain ISO 9000 and ISO 14001 certification as well as mastering GMO (genetically modified organisms) analysis technology. We also worked to make further improvements in our products, reduce costs, guarantee safety and preserve the environment.

Our R&D expenses for this fiscal year were 1,778 million yen.

Showa Sangyo and the Environment

Showa Sangyo's Fundamental Environmental Policies

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.

Showa Sangyo's Negative Impact on the Environment



Electricity	Electricity purchased from electric power companies for use in plants
Gas	City gas, LPG and LNG used as energy in plants
Fuel Oil	Fuel oil and light oil used as energy in plants
Coal	Coal used as energy in plants
Water	Tap water, industrial water and sea water used in plants
Chemical substances	Substances in plants subject to be reported in the pollutant release and transfer register (PRTR).

CO2	Carbon dioxide arising from the use of electricity, gas and fuel
NOx	Nitrogen oxides arising from the use of gas and fuel oil
SOx	Sulfur oxides arising from the use of coal and fuel oil
Waste water	Waste water from plant production processes and facilities
Waste products	Waste products arising from operating activities
Recycling rate	Rate in which waste products are used as materials, raw materials and resources through reusing, material recycling and thermal recycling

The Showa Sangyo Group takes providing high-quality, safe and reliable food products for customers as its obligation. At the same time, we also see it as our duty not to disrupt the global environment, to coexist with the earth and to create a recycling society.

In order to promote environmental management in accord with basic strategy IV – Responding to changes in the environment surrounding businesses – of our Step 21 medium-term business plan, we are working to strengthen our environmental upkeep system and to acquire ISO 14001 integrated certification. Our major activities this fiscal year included the February 2002 acquirement of ISO 14001 integrated certification at the head office's Environmental Management Group, the Funabashi Plant and the General Research Institute. We plan to continue increasing the number of our certified operation sites, and have already added Kobe Plant and Tsurumi Plant in May 2002. In addition, to help combat global warming and promote energy conservation, we have introduced co-generation equipment to our Kobe Plant.

Preserving the environment is our responsibility to society. We will continue to put in our best efforts to creating an environment in which people can live healthy lives with peace of mind.

Showa Sangyo issues its Environmental Report to provide the public with information on its environmental activities (Japanese only).



Environmental Report

Environmental Activities

■ ISO 14001 Integrated Certification

In February 2002, to clearly define Showa Sangyo's corporate ethics at the company-wide level, we acquired ISO 14001 integrated certification. We are building and operating a common environmental management system for the entire company.

In the future, our primary certification activities will be for plants and research facilities, which place a relatively heavy burden on the environment compared to offices. Our secondary certification activities will be expanded to our head office and branches.



Co-generation Equipment (Kobe Plant)

■ Introduction of Co-generation Equipment (Kobe Plant)

We have introduced LNG-fueled gas turbine co-generation equipment, which make efficient use of waste heat.

Compared to fuel oil and LPG (liquefied petroleum gas), LNG (liquefied natural gas) has even lower carbon dioxide emissions and has zero sulfur oxide emissions. In addition, we have installed Japan's first LNG satellite system at a business site and are making efficient use of the waste energy that arises during the vaporization of LNG.

■ Streamlining of Distribution

The creation of an efficient distribution network is helping to conserve energy and preserve the atmosphere.

● Establishment of East Japan and West Japan Order-processing Centers

We consolidated and centralized the operations surrounding receipt of orders and shipments and created an efficient distribution system.

● Construction of Funabashi Distribution Center

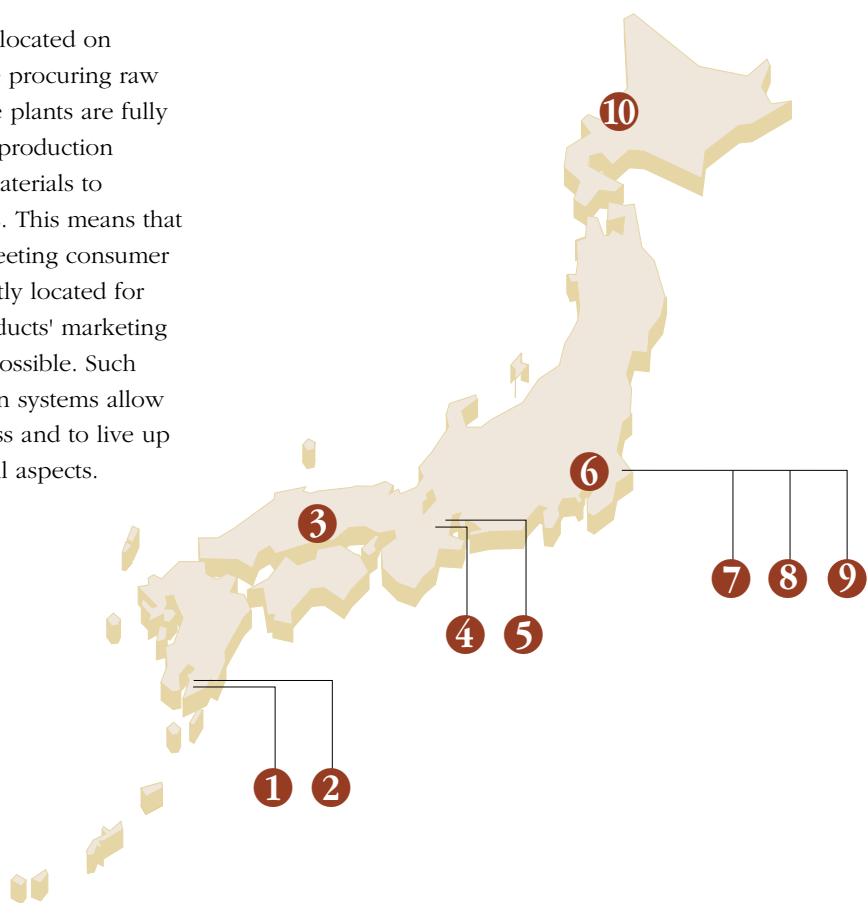
By centralizing distribution, we are reducing the movement of forklifts and trucks within the premises. This cuts down nitrogen oxide emissions and helps combat global warming.



Funabashi Distribution Center

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.



Production and Distribution

	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 Shiryo 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			18,300t/month			
Animal Feed										
Raw Materials Processing Ability	25,000t/month		18,500t/month					50,000t/month		
Silo										
Storage Capacity		131,600t	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 27, 2002



Chairman
Mutsuo Kanehara*



President
Shigeo Fukui*



Senior Managing Director
Yoshifumi Tsubone



Managing Director
Toshio Watanabe



Managing Director
Hajime Takaku



Managing Director
Hideo Fujii

Statutory Auditors

Yoshiro Yamamoto
Isao Igita
Katsuhiko Fukazawa
Masahiro Shimizu

* Representative Director