SINANEN

Committed in energy business and services
that enhance consumers' lifestyles.

Annual Report 2003

Profile

Originally established in 1927 and incorporated in 1934, Sinanen Co., Ltd. has grown to become Japan's leading full-range supplier of fuel products. By capitalizing on its nationwide network of regional subsidiaries and affiliates, sales offices and fuel depots, the Company distributes oil products, liquefied petroleum gas (LPG) and solid fuels. It also operates a network of directly managed gasoline service stations and sells a wide range of energy-related housing equipment.

Sinanen has also diversified into non-energy business areas, encompassing the development and marketing of antimicrobial agents, the processing of recycled materials into fuel, and real estate management. The Company is committed to its flagship energy business and to delivering extensive and useful products and services that enhance consumers' lifestyles.

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Consolidated Financial Highlights

Sinanen Co.,Ltd. and Consolidated Subsidiaries For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
For the year:			
Net sales	**¥178,928**	¥167,820	**$1,488,586**
Operating income	**3,937**	4,606	**32,754**
Net income	**1,466**	1,947	**12,196**
At the year-end:			
Total assets	**¥ 94,171**	¥ 94,673	**$ 783,453**
Total shareholders' equity	**44,968**	45,665	**374,110**
Common stock	**15,630**	15,630	**130,034**

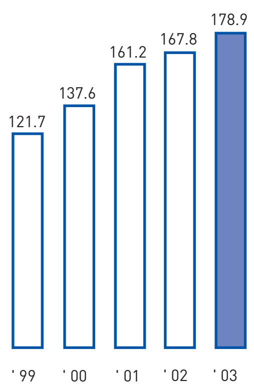
	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Per share of common stock:			
Net income:			
Basic	**¥19.24**	¥25.39	**$0.16**
Diluted	**—**	¥25.31	**—**
Cash dividends attributable to the year	**9.00**	9.00	**0.07**

Notes1: U.S. dollar amounts presented here and elsewhere in this annual report are translated from yen, for the readers' convenience only, at ¥120,20 = U.S.$1.00, the rate of exchange on March 31, 2003.

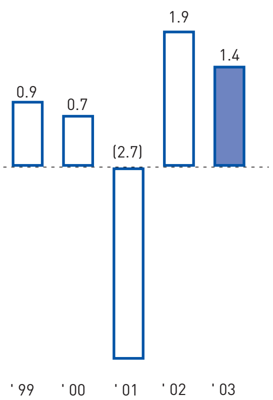
2: In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share for the year ended March 31, 2003 was computed based on the net income attributable to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share was computed based on the net income attributable to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of common stock to be issued upon the exercise of stock options. The effect of the adoption of this new standard on net income per share for the year ended March 31, 2002 was immaterial.

No diluted net income per share is presented for the year ended March 31, 2003 because the effect of any exercise would be antidilutive.

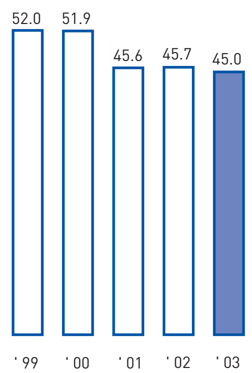
Net Sales
(Billions of yen)



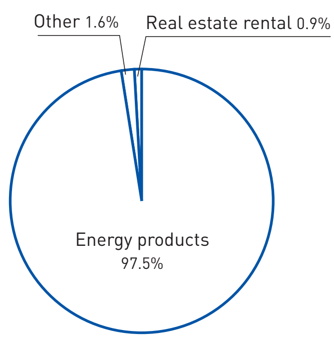
Net Income (Loss)
(Billions of yen)



Total Shareholders' Equity
(Billions of yen)



Net Sales Breakdown for Fiscal 2003



To Our Shareholders

Economic and Corporate Environment

In fiscal 2002 ended March 31, 2003, the Japanese economy fell further into general deflation, marking the third consecutive year of negative growth in nominal GDP. While private-sector capital outlays likewise maintained a sluggish pace, pressures for corporate restructuring remained steadfast, leading to further deterioration of employment and income conditions continuing from the previous year and further dampening of consumer spending. This created an effect of curbing the number of new housing construction starts, especially in detached homes.

With respect to Sinanen's business segment, the energy industry saw petroleum oil products face a constant rise in crude oil price since December due to the effect of, for instance, the Iraqi situation and the general strike in Venezuela. In the Japanese market, while competition intensified as a result of the increased number of self-service gas stations and new competitors entering from other industries, such as home improvement centers, profit making became more difficult as the crude oil price increase could not be reflected in retail pricing. Although the LPG industry enjoyed a stable import price in the first half of the year, the price started rising in the latter half of the year and even went on to hit a record high at the end of March 2003, affected by the Iraqi situation and other adverse factors. The abruptness and magnitude of this import price increase, coupled with intensified competition in the wake of market deregulation, made it difficult to pass the increase on to market prices, causing profitability to dwindle.

Efforts and Performance

In such a business environment, the oil products business unit of Sinanen worked to establish new kerosene depots and also made efforts to strengthen its cost competitiveness particularly by streamlining the physical distribution function through the efficient use of kerosene depots resulting from shared-use initiatives with other companies. The LPG unit carried out the "Himawari (Sunflower)" Plan and held "Exhibitions" nationwide to demonstrate the suitability of gas, in an attempt to build solid relationships of trust with customers amidst increasingly fierce competition with other companies or with other energy products such as electricity. Other efforts by the LPG unit also include physical distribution cost-cutting through the joint LPG filling and delivery with competitors in the industry.

In an effort to increase sales, the housing equipment unit drove campaigns with a strong regionally tailored focus and aggressively conducted proposal-based marketing, emphasizing comfortable living with the housing equipment suited for the needs of each customer.

For antimicrobial zeolite products, Sinanen developed a new material that offers deodorizing effects in addition to existing antimicrobial effects so that it could be adopted to broader needs, such as for nursing care products of the textile industry. In the meantime, we also worked aggressively on marketing "Zeomighty," an antimicrobial compound for concrete products, to sewerage applications.

As a result, consolidated net sales for fiscal 2003 ended March 31, 2003 reached ¥178.9 billion (US$1,489 million), up 6.6% from the previous fiscal year. Operating income declined 14.5% from the previous year, to ¥3.9 billion (US$33 million), as the Company was not able to sufficiently transfer the procurement price increase to retail prices. Net income for the year fell 24.8% from the previous year, to ¥1.4 billion (US$12 million).

New Mid-Term Management Plan"Plan 236"

Sinanen drew up a mid-term management plan, laying out its vision for the next five years for its kerosene and LPG businesses, its main profit base, and introduced it in April 2003. The linchpin of this plan is to accelerate the "selective focus" management approach and thereby overhaul our profit-making structure to secure stable profits. In enhancing our LPG retail sales while also pushing forward the kerosene wholesale business, Sinanen ultimately aims to grow into a company that will be chosen by our target customers, i.e., households, as a "provider of comfortable living."

The figures in the plan title, 2, 3 and 6, are derived from our management targets set for the fiscal year which will end in March 2008, the final year of the plan, namely: 2 million kiloliters in kerosene sales volume, 300,000 households in LPG-serviced customers and 6.0% in ROE. To achieve these targets, we will focus our management resource investment on the improvement of kerosene business efficiency and aggressive penetration into the LPG retail market. More specifically, we will work on further expansion and enhancement of our kerosene business foundation in specific regions by having each kerosene shipment base function as a core, and will strive to gain 150,000 new customer households in the LPG business, which would double the current figure. In terms of ROE performance, we are working to boost 3.3% recorded for the year under review to 6.0% through profit expansion and cost-cutting efforts by stepping up group-wide sharing of our management resources.

While accelerating the "selective focus" approach in the kerosene and LPG businesses, our core operations, on one hand, we will also strive to explore and develop a new profit center for which our management resources can be exploited effectively. We anticipate an increase in demand for fuels from recycled waste in light of various recycling laws in effect. Sinanen will work to expand sales in this field and promote the development of associated business models. With the implementation of the RPS Law (RPS = Renewables Portfolio Standard; a law that requires the adoption of renewable energy sources), we will also further expand our biomass-related business, such as the supply of wood fuels to electricity generators.

Non-Energy Business

For antimicrobial products, Sinanen intends to explore overseas markets beyond America and Europe by aggressively broadening its marketing efforts to Asian countries such as South Korea, Thailand and Taiwan. In the meantime, we are planning on consolidating and downsizing our real estate business upon judging that it will be difficult to secure profit in the future.

Management Structure Enhancement

As of May 2003, Sinanen has introduced an executive officer system with the aim of speeding up the management decision-making process and separating management from business execution. This has enabled the Board of Directors to hold adequate discussion and make faster and flexible decisions in addressing important corporate issues. As well, clarifying the respective responsibilities for management and business execution has helped establish a structure in which to fulfill commitments to our shareholders as well as other stakeholders.

In the regular general shareholders' meeting for the 68th Fiscal Year held on June 26, 2002, in the meantime, the Company resolved to purchase its own stock up to, under the provisions of Article 210 of the Commercial Law, three million shares in common stock and ¥1.5 billion in total acquisition cost, for the purpose of implementing flexible capital measures commensurate with changes in economic conditions. By June 25, 2003, we completed the purchase of three million common shares at the total acquisition cost of ¥1.268 billion.

Furthermore, in the regular general shareholders' meeting for the 69th Fiscal Year held on June 26, 2003, the Company made a proposal, which was then approved, to acquire its own stock up to three million shares in common stock and ¥1.5 billion in total acquisition cost. We also altered the Articles of Incorporation in this meeting and adopted a system of trading stock below one share unit.

Last but not least, on behalf of Sinanen's management team, I would like to express our sincere gratitude to our shareholders, customers and business partners for their generous support and to our employees for their continued service.

June 2003

T. Hattori

Teruo Hattori
President and CEO

Top Interview

Towards the Achievement of the Mid-Term Management Plan "Plan 236"
An Interview with Teruo Hattori, President and CEO

Q1. In the "Plan 236," Sinanen has clearly shown to both insiders and outsiders its focus on retailing. To begin with, could you explain the overview of this mid-term management plan as well as the background of its introduction?

A1. After peaking in the fiscal year ended in March 1999, both our operating income and operating income margin have been on the decrease. In particular, profitability of our kerosene business has been declining while its sales proceeds have increased. One of the external factors for this is the intensified competition resulting from other energy products and the new market entry of other industrial sectors. Meanwhile, internal factors include our limited profit-making structure that relies only on the wholesale business. That's why we set our basic strategy on aggressive penetration into retailing and the improvement of our wholesale business efficiency, with the aim of attaining 2 million kiloliters in annual kerosene sales volume, 300,000 households for our LPG user base, and 6% in ROE. Still being in good shape, we gather that we are presented with a good chance to make these goals.

Q2. Regarding your remark that Sinanen's profit has been squeezed by the intensified competition resulting from other energy products and the new market entry of other industrial sectors, could you please describe each issue more specifically, together with your plan of action?

A2. Facing the increasing propensity for electricity, which is an energy product we compete with, as the sole household energy, the city gas and LPG industries will cooperate to counter this challenge. Sinanen will also work on enhancing communications with customers by, for example, offering equipment checkup services, in an effort to demonstrate the convenience and usability of LPG.
On the subject of the new entry of other sectors, i.e., kerosene sales by home centers, we are also intending to carry out aggressive wholesale activities.

Q3. Given that the objectives for the fiscal year, which will end in March 2008, include an increase in kerosene sales volume from the current figure of 1.6 million kiloliters to 2 million kiloliters, how are you planning to improve and expand kerosene sales when its gross margin rate is declining?

A3. We are in the process of cutting physical distribution costs by strengthening kerosene depots where retailers come for refills. We are also working to streamline our operation thoroughly, including collaboration with competitors in our industry as required, in the areas of joint filling and shipment, for instance.
The targeted increase of 400,000 kiloliters will be achieved mainly by wholesale efforts, coupled with retail sales of kerosene by gas vendors. We are bent on attaining the improvement of turnover rate, that is effective use of kerosene depots, through sales scale expansion.

Q4. Let me now ask about the consumer base of 300,000 households which represents "3" in the plan title "236." Is this figure limited to the LPG business?

A4. That's correct. It's limited to the LPG business only. The plan is to boost the current figure of 150,000 households up to 300,000 households in five years. For this purpose, we have established a business acquisition strategy and formed a special acquisition team.

Review of Operations

Energy Products

Sales of energy products for fiscal 2003, which ended in March 31, 2003, totaled ¥174.4 billion (US$1,452 million), up 7.1% from the previous fiscal year. This sales growth is due mainly to higher sales prices and increased sales volume resulting from business acquisition. Sales of energy products which consist mainly of petroleum oil and LPG represented 97.5% of our net sales. Operating income, however, declined 10.6% year on year, to ¥4.82 billion (US$40 million) as the sales could not entirely cover the procurement price increase.

Oil Products

During fiscal 2003, the influence of the Iraqi situation kept the crude oil price several dollars higher at a yearly average premium of US$3.56 than normal. As demand rose because of worldwide cold spells, decreased stockpiles in the United States due to the general strike in Venezuela provided yet another cause for upward price moves, resulting in the price hike continuing even further since the end of last year.

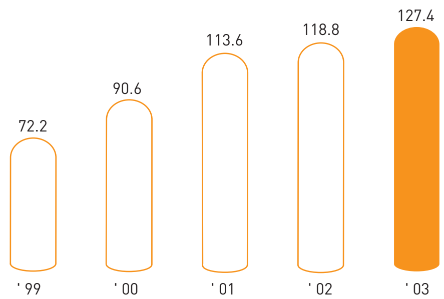
In the meantime, in Japan, primary oil distributors accelerated their output cuts starting around the end of the summer, which boosted the primary distribution market as it was followed by other good demand-driving factors, i.e., the growing demand for oil due to Tokyo Gas's suspension of its nuclear power plants, and the premature arrival of a cold spell. Nevertheless, competition with self-service gas stations and home improvement centers. prevented wholesalers and retailers from adequately passing the costs on to wholesale or retail prices, which caused their profits to decline substantially.

Under such circumstances, our oil products business unit strengthened its cost competitiveness and concentrated efforts to further improve its market share. Thanks to the successful promotion of the shared use of kerosene depots and enhanced sales structure, as well as thanks to cooperation with our group sales outlets, sales increased 7.3% over the previous year, to ¥127.4 billion (US$1,060 million).

As the crude oil price is highly likely to fluctuate again in the next fiscal year and ahead, it is expected that the domestic demand for electricity will decline and, as a result, the market for oil products as a whole will revert back to one of oversupply.

Adjusting to such expectations, the oil products unit will make efforts to improve the operating rate of each kerosene depot, while also carrying out regional strategies designed to exert our market influence hand in hand with our group sales outlets, and promptly passing the costs on to consumers, all in an attempt to upturn profits.

Oil Products Sales (Billions of yen)



LPG

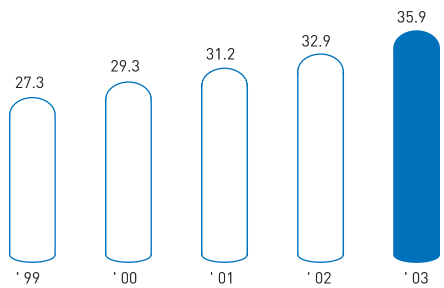
The LPG industry initially saw the contract price for imports remain stable in the first half of the year under review, but the price started rising due mainly to the adverse effects of the Iraqi situation and even went on to hit a record high in March 2003. Although this caused profits in the latter half of the year to drop in both retail and wholesale businesses, normal household demand increased by 3.9% thanks to the earlier-than-usual arrival of a cold weather front. However, competition intensified due to the entry of new competitors following deregulation, and it became difficult to pass the increased contract price for imports on to market prices. As a result, profit margins shrank.

Fiscal 2003 being the second year of its "Himawari (Sunflower)" Plan, the LPG business unit set the "Customers First" Initiative as an objective for the year and laid its focus on the formation of solid relationships of trust with customers. Specifically, we implemented a program, dubbed "Himawari Fureai (More Contacts) Inspections," of visiting customers once a year and held "Exhibitions" centering on 45 business branches nationwide to demonstrate the convenience and amenity of LPG through the vigorous promotion of our "Himawari Gas" brand. We also continued to expand our retail network. Following the acquisition of the LPG business division of Kyoritsushokai Co., Ltd. in February of last year in an effort to boost business in Shizuoka Prefecture, we acquired the LPG sales division of Fujipro's Numazu branch in April of this year. Furthermore, Nichimen Energy Gas Sales Co., Ltd., which we established in September 2001 as a result of acquiring the LPG division of Nichimen Energy Inc., acquired Kazo Gas Co., Ltd., an LPG retailer in Saitama Prefecture, in November of last year. We also made efforts to cut physical distribution costs by proactively carrying out the joint LPG filling and delivery with competitors in the Kanto region, including Itochu Enex Co., Ltd. and Mitsuuroko Co., Ltd. Thanks to these efforts, sales of the LPG business unit grew 9.1% over the previous year, to ¥35.9 billion (US$299 million).

In the next fiscal year and ahead, with the Iraqi situation becoming more stable, the import price is expected to drop and level off. Still, Sinanen braces for an inevitable drop in the retail price, particularly in urban areas, in the face of intensifying competition not only between competitors but also between energy products.

In order to expand sales volume, the LPG business unit will be committed to implementing aggressive business acquisition on one hand, and pushing forward the adjustment to IT progress, service standardization and "Himawari Gas" brand dissemination, on the other.

LPG Sales (Billions of yen)



Solid Fuels

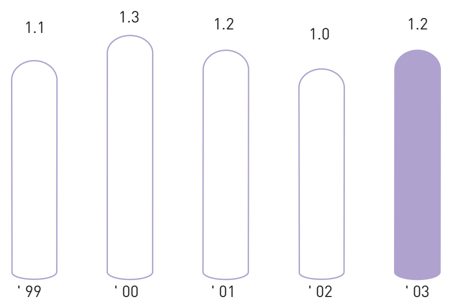
Despite the favorable weather factor of having an early cold spell, total shipments of charcoal briquettes in Japan were affected by sluggish shipment of briquettes for use in the production of concrete products due to public works cuts. On the market, sales of solid fuels mostly remained at the same level as last year, except that some of the prices in home improvement centers showed lower figures compared to last year.

The solid fuels unit shifted the production of ball briquettes from Shinagawa Briquette Co., Ltd., formerly our main charcoal briquette production base, to Ishinen Co., Ltd. and also consigned the production of other briquettes to a third party, all in an attempt to streamline operations and strengthen competitiveness. Following these measures, Sinanen absorbed Shinagawa Briquette Co., Ltd. and dissolved the company in December of last year. With a view of achieving a stable sales volume to be the issue of first priority, we also strove to expand sales channels and ensure early shipment. As a result, sales of solid fuels expanded 17.7% over the previous year, to ¥1.2 billion (US$10 million).

We anticipate that demand for charcoal briquettes will continue to decline into the next fiscal year and ahead, which will likely lead to increased OEM arrangements between companies in consideration of physical distribution cost reduction.

In order to counter these challenging circumstances surrounding the solid fuel business unit, we are determined to place our priority on market share expansion and stable profit generation by maximizing the merit of production consolidation.

Solid Fuel Sales (Billions of yen)



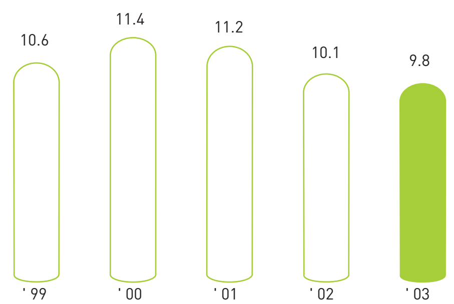
Housing Equipment

During the period between April 2002 and March 2003, starts of housing starts remained sluggish at 1.15 million units, down 2.5% from the previous fiscal year, and this trend will likely continue in the future. On the product market, fiercer competition and deflation are placing unit prices of products, especially in gas hot-water supply systems, our main product line, on a major downward trend.

In an attempt to expand sales under such challenging circumstances, the housing equipment unit held regionally tailored campaigns at leading LPG stores in different regions by targeting Sinanen product users, and aggressively conduct proposal-based marketing emphasizing amenity of the housing equipment suited for the needs of customers. We also set up the "Rental Business Promotion Project Team" in April of last year as a company-wide organization to spur the water purifier leasing business which Sinanen has undertaken as an activity to foster communications with customers as well as a source of profit other than fuels. Three years after this initiative was started, an accumulated sales volume has surpassed 35,000 units which includes 11,000 units sold in the year under review. On the other hand, sales of housing equipment decreased 2.4% from the previous year, to ¥9.8 billion (US$82 million) due to decreased demand as seen in the smaller number of housing starts.

Amidst increasingly intensifying competition to win customers of energy products, we will work to expand sales by running our "Gas Is It" campaign for demonstrating the usability of gas and thereby increasing the opportunities for direct communications with customers. We are also determined, at the same time, to offer proposals suited to the ever-diversifying needs of customers.

Housing Equipment Sales (Billions of yen)



Non-Energy Products

Sales of non-energy products totaled ¥4.5 billion (US$37 million), down 9.8% from the previous fiscal year. Operating income declined 11.0% from the previous year, to ¥768 million (US$6 million).

Other

In the antimicrobial product industry, antimicrobial agent makers as a whole have continuously been struggling because of the inclination for low-cost products and demands for smaller amounts of agents on the part of their users, product makers. Amidst such market trend, we developed an inorganic antimicrobial agent called "Zeomic," which has antimicrobial as well as deodorizing effects and conducted proposal-based marketing to promote the use of the product in such fields as textiles and hygienic materials, while working to expand sales in the deodorant industry. In Japan, Zeomic was used for all construction materials, except for ceilings, a swimming pool and other facilities of a fitness center which was opened by the town of Johoku in Ibaraki Prefecture in July of last year. For overseas sales, AgION Technologies L.L.C. of the United States is engaging in developing a market for Zeomic in America and Europe (under the product name of "AgION"), which led to the successful adoption of the product by Vygon of France in February of last year for the use in its surgical catheters that require the highest-grade antimicrobial function. The product was also approved in seven European countries including Germany and Holland, as well as adopted by a major catheter maker in the United States. In the meantime, Sinanen Zeomic Co., Ltd. conducted proposal-based marketing activities targeting other Asian countries such as South Korea, Thailand, China and Taiwan, which contributed to the adoption of the product for urethane foam, water purifier resin and other applications in South Korea.

We also worked aggressively on introducing "Zeomighty," an antimicrobial agent for concrete products, to the sewer industry.

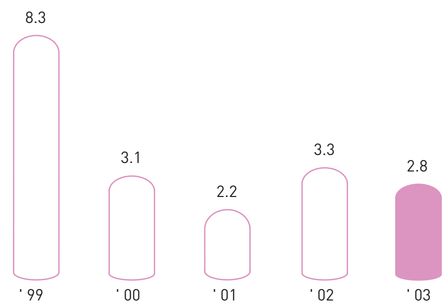
With actual application of environmental products becoming more permanent under various recycle-related laws, players on the market are accelerating their pace of preparations for the implementation of the newly enacted Construction Material Recycling Law and Automobile Recycling Law. Under such circumstances, the environmental product unit engaged in sales of recycled fuels and environment-related plants and also concentrated efforts to develop new business models.

In the end, sales from other businesses consisting of antimicrobial products and environmental products totaled ¥2.8 billion (US$24 million), a 14.5% decline from the previous year. The closing down of a golf practice range due to the land sale is one of the main causes for the decrease.

As the surplus supply of office space in the greater Tokyo area developed into a real issue. Called by some as the year 2003 problem, we strove to maintain the level of our profit from the real estate rental business and successfully contained the decrease to 0.2% year on year with sales of ¥1.6 billion (US$14 million).

As a result, sales of non-energy products for fiscal 2003 reached ¥4.5 billion (US$37 million), down 9.8% from the previous year.

Other Sales (Billions of yen)



Consolidated Six-Year Summary

Sinanen Co.,Ltd. and Consolidated Subsidiaries For the Years ended March 31

	Millions of Yen					
	2003	2002	2001	2000	1999	1998
Net sales	**¥178,928**	¥167,820	¥161,156	¥137,642	¥121,741	¥128,704
Operating income	**3,937**	4,606	4,186	3,920	5,260	4,623
Net income (loss)	**1,466**	1,947	(2,666)	738	873	605
Total assets	**94,171**	94,673	102,781	107,595	115,045	109,853
Total shareholders' equity	**44,968**	45,665	45,588	51,948	52,035	54,743
Common stock	**15,630**	15,630	15,630	15,630	15,630	15,630

	Yen					
	2003	2002	2001	2000	1999	1998
Per share of common stock:						
Net income (loss):						
Basic	**¥ 19.24**	¥ 25.39	¥ (32.03)	¥ 8.51	¥ 10.06	¥ 6.75
Diluted	**–**	25.31	–	–	–	–
Cash dividends attributable to the year	**9.00**	9.00	9.00	9.00	9.00	9.00

Note: In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share for the year ended March 31, 2003 was computed based on the net income attributable to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share was computed based on the net income attributable to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of common stock to be issued upon the exercise of stock options. The effect of the adoption of this new standard on net income (loss) per share was immaterial.

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Financial Review

Operating Results

Net sales for fiscal 2003 increased by ¥11,108 million over the previous fiscal year, to ¥178,928 million (US$1,489 million). The increase is due mainly to higher sales prices in the oil products business unit, as well as to business acquisition and expanded sales in the gas business unit. Gross profit expanded by ¥385 million year on year, to ¥27,891 million (US$232 million). This mainly resulted from increased sales volume in the gas business unit, making up for a decrease in profit caused by slower business in oil products, due to price movements, and the closing-down of a golf practice range. Operating income nevertheless decreased by ¥669 million to ¥3,937 million (US$33 million), as it was affected by the sales and administrative expenses for Nichimen Energy Gas Sales Co., Ltd., which was established in the previous year.

As for extraordinary income, the Company posted ¥3,463 million (US$29 million), down ¥6,306 million from the previous year. This decrease reflects the fact that the gain in sales of Higashi Shinagawa Golf Center was accounted for in the previous year. The major sources of extraordinary income for fiscal 2003 are ¥2,025 million (US$17 million) for the transfer from the retirement benefit reserve and ¥879 million (US$7 million) for the gain in fixed asset sales. Meanwhile, extraordinary losses for the year decreased ¥7,012 million over the previous year, to ¥4,717 million (US$39 million). This decrease likewise reflects the fact that the expenses associated with the aforementioned establishment of Nichimen Energy Gas Sales Co., Ltd. were accounted for in the previous year. Included in extraordinary losses for the year under review are ¥2,641 million (US$22 million) for the transfer to the reserve for real estate business consolidation losses and ¥978 million (US$8 million) for the valuation loss and loss on sale of investment securities.

As a result, net income for fiscal 2003 adds up to ¥1,465 million (US$12 million), down ¥482 million from the previous year.

Cash Flows

Cash flow provided by operating activities was ¥202 million (US$2 million), which decreased by ¥3,717 million from the previous year. This decrease, which resulted despite income before income taxes reaching ¥3,386 million (US$28 million), ¥410-million year-on-year growth, is attributed mainly to a ¥3,805-million decrease in trade receivables and a ¥4,251-million increase in trade payables, both marking a negative turnaround from the previous year, and ¥4,628-million (US$39 million) payment for corporate income taxes, a ¥2,780-million increase year on year, due to the gain in fixed asset sales in the previous year.

Net cash used in investing activities totaled ¥822 million (US$7 million), down ¥914 million from the previous year. The main contributing factors for this decline include the relocation of the building and equipment of Chibanen Co., Ltd., the Company's consolidated subsidiary, as well as investment in its city gas supply equipment to adjust to a change in the built-in energy supply system. Net cash used in financing activities was ¥1,989 million (US$17 million), down ¥5,613 million from the previous year. This is due mainly to the repurchase of its own shares and payment of dividends to shareholders.

As a result, cash and cash equivalents at the end of fiscal 2003 totaled ¥9,632 million (US$80 million), down ¥2,637 million from the previous year (down 21.5%).

Financial Position

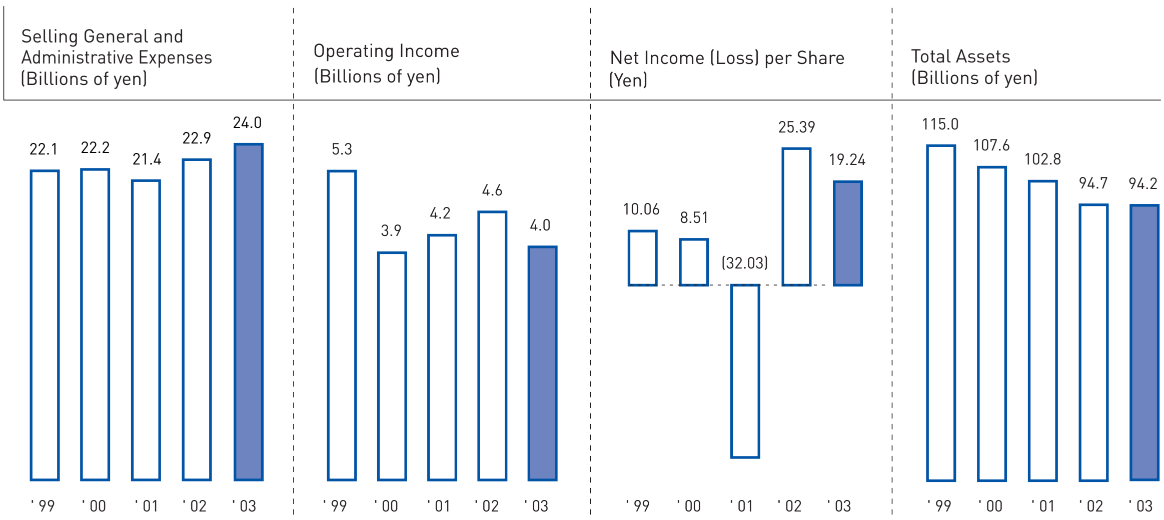
At the end of fiscal 2003, total current assets were ¥42,566 million (US$354 million), up 10.4% from the previous fiscal year-end. This result, while affected by a decrease in cash and deposits following corporate bond redemption and increased corporate income tax payment, is due mainly to an increase in notes and accounts receivable, thanks to sales growth, and an increase in securities holdings. Meanwhile, fixed assets decreased to ¥56,105 million (US$467 million), down 8.0% from the previous fiscal year-end. The decrease is attributed mainly to sales of investment securities and asset impairment and to a decrease in deferred tax assets.

Total current liabilities at the end of fiscal 2003 increased 42.0% over the previous year-end, to ¥36,567 million (US$304 million). This is due mainly to increases in trade payables such as notes and accounts payable, resulting from higher purchasing costs, and in corporate bonds with a maturity of under one year, also coupled with the transfer to the reserve for real estate business consolidation losses. Total fixed liabilities were ¥11,876 million (US$99 million), down 47.8% from the previous year-end. This is due mainly to corporate bond redemption and a decrease in the retirement benefit reserve as a result of the dissolution of the employees' pension fund.

Total shareholders' equity at the end of fiscal 2003 totaled ¥44,968 million (US$374 million), down 1.5% from the previous year-end. This is due mainly to the repurchase of its own shares.

As a result, the Company's year-end current ratio came to 1.16%, a decline of 0.33 percentage points from the previous year-end. The debt ratio decreased 0.1 percentage point to 51.4%. Similarly, the debt-to-equity ratio* decreased 0.3 percentage points to 38.3%.

*Debt-to-equity ratio = Interest-bearing liabilities / Shareholders' equity



Consolidated Blance Sheets

Sinanen Co.,Ltd.and Consolidated Subsidiares   As of March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
Assets			
Current Assets:			
Cash and cash equivalents	¥ 9,632	¥12,269	$ 80,133
Short-term investments (Note 4)	2,128	998	17,704
Trade notes and accounts receivable	23,294	19,465	193,794
Less allowance for doubtful accounts	(120)	(160)	(998)
	23,174	19,305	192,796
Inventories	2,507	2,520	20,857
Deferred tax assets (Note 5)	2,175	1,269	18,095
Other current assets	2,950	2,207	24,542
Total current assets	42,566	38,568	354,127
Property,plant and equipment (Notes 6 and 7)**:**			
Land	15,311	15,313	127,379
Buildings and structures	40,232	40,144	334,709
Machinery and equipment	8,672	8,569	72,146
Construction in progress	8	—	67
	64,223	64,026	534,301
Less accumulated depreciation	(21,734)	(21,184)	(180,815)
Property, plant and equipment, net	42,489	42,842	353,486
Investments and other assets:			
Investments in securities (Note 4)	3,261	6,346	27,130
Deferred tax assets (Note 5)	303	1,481	2,521
Other assets	5,552	5,436	46,189
	9,116	13,263	75,840
Total assets	¥94,171	¥94,673	$783,453

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	2003
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank borrowings (Note 6)	¥ 3,143	¥ 96	$ 26,148
Current portion of long-term debt (Note 6)	10,000	5,000	83,195
Trade notes and accounts payable	16,208	11,940	134,842
Income taxes payable (Note 5)	229	2,276	1,905
Deferred tax liabilities (Note 5)	2,641	—	21,972
Accrued expenses and other current liabilities	4,346	6,445	36,156
Total current liabilities	36,567	25,757	304,218
Long-term liabilities:			
Long-term debt, less current portion (Note 6)	4,059	12,226	33,769
Accrued retirement benefits (Note 8)	4,026	7,458	33,494
Deferred tax liabilities (Note 5)	529	—	4,401
Other long-term liabilities	3,262	3,076	27,138
	11,876	22,760	98,802
Minority interests in consolidated subsidiaries	760	491	6,323
Shareholders' equity (Notes 9 and 15)**:**			
Common stock, without par value:			
Authorized — 237,603,000 shares at March 31, 2002 and 240,276,000 shares at March 31, 2001			
Issued — 75,752,958 shares at March 31, 2002 and 78,425,958 shares at March 31, 2001	15,630	15,630	130,034
Additional paid-in capital	11,861	11,861	98,677
Retained earnings	18,597	17,846	154,717
Unrealized gains on other securities	199	465	1,656
Translation adjustments	1	2	8
	46,288	45,804	385,092
Treasury stock, at cost	(1,320)	(139)	(10,982)
Total shareholders' equity	44,968	45,665	374,110
Contingent liabilities (Note 10)			
Total liabilities and shareholders' equity	¥94,171	¥94,673	$783,453

Consolidated Statements of Operations

Sinanen Co.,Ltd. and Consolidated Subsidiares For the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2003	2002	2001	2003
Net sales	¥178,928	¥167,820	¥161,156	$1,488,586
Cost of sales (Note 11)	151,037	140,314	135,579	1,256,548
Gross profit	27,891	27,506	25,577	232,038
Selling, general and administrative expenses (Note 11)	23,954	22,900	21,391	199,284
Operating income	3,937	4,606	4,186	32,754
Other income (expenses):				
Interest and dividend income	259	280	313	2,155
Interest expense	(405)	(508)	(651)	(3,369)
Devaluation loss on securities	(791)	(2,069)	(164)	(6,581)
Gain on sales of property, plant and equipment	863	8,750	—	7,180
Equity in (losses) earnings of affiliates	0	1	(1)	0
Reversal of accrued retirement benefits	2,025	—	—	16,847
Amortization of net retirement benefit obligation at transition	—	—	(6,277)	—
Provision for loss on business reorganization	(2,641)	—	—	(21,972)
Expenses related to acquisition of business	(235)	(8,274)	—	(1,955)
Other, net	374	189	(1,432)	3,111
	(551)	(1,631)	(8,212)	(4,584)
Income (loss) before income taxes	3,386	2,975	(4,026)	28,170
Income taxes (Note 5):				
Current	665	3,655	1,312	5,532
Deferred	997	(2,677)	(2,596)	8,295
	1,662	978	(1,284)	13,827
Income (loss) before minority interests	1,724	1,997	(2,742)	14,343
Minority interests	(258)	(50)	76	(2,147)
Net income(loss)	¥ 1,466	¥ 1,947	¥ (2,666)	$ 12,196

	yen			U.S. dollars (Note 3)
	2003	2002	2001	2003
Amounts per share of common stock:				
Net income (loss)				
Basic	¥ 19.24	¥ 25.39	¥ (32.03)	$ 0.16
Diluted	—	25,31	—	—
Cash dividends attributable to the year	9.00	9.00	9.00	0.07

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Sinanen Co.,Ltd. and Consolidated Subsidiares For the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2003	2002	2001	2003
Common Stock:				
Balance at beginning of year	¥15,630	¥15,630	¥15,630	$130,034
Redemption and retirement of treasury stock (2002 — 2,673 thousand shares; 2001 — 8,224 thousand shares)	—	—	—	—
Balance at end of year	¥15,630	¥15,630	¥15,630	$130,034
Capital surplus				
Balance at beginning of year	¥11,861	¥13,194	¥16,223	$ 98,677
Redemption and retirement of treasury stock	—	(1,333)	(3,029)	—
Balance at end of year	¥11,861	¥11,861	¥13,194	$ 98,677
Retained earning				
Balance at beginning of year	¥17,846	¥16,605	¥20,095	$148,469
Adjustments for exclusion from consolidation	—	—	(9)	—
Adjustments for inclusion in consolidation	2	—	—	17
Net income (loss)	1,466	1,947	(2,666)	12,196
Cash dividends paid	(679)	(706)	(780)	(5,649)
Directors, bonuses	(38)	—	(35)	(316)
Balance at end of year	¥18,597	¥17,846	¥16,605	$154,717
Unrealized gains on other securities				
Balance at beginning of year	¥ 465	¥ 160	¥ —	$ 3,869
Net changes during the year	(266)	305	160	(2,213)
Balance at end of year	¥ 199	¥ 465	¥ 160	$ 1,656
Translation adjustments				
Balance at beginning of year	¥ 2	¥ (1)	¥ —	$ 16
Adjustments arising from translation of foreign currency financial statements	(1)	3	¥ (1)	(8)
Balance at end of year	¥ 1	¥ 2	¥ (1)	$ 8

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statments of Cash Flows

Sinanen Co.,Ltd.and Consolidated Subsidiares　For the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2003	2002	2001	2003
Operating activities				
Income (loss) before income taxes	¥3,386	¥ 2,975	¥ (4,026)	$28,170
Depreciation and amortization	2,686	2,598	2,493	22,346
Increase (decrease) in allowance for doubtful accounts	86	13	389	715
(Decrease) increase in provision for retirement benefit	(3,431)	(569)	7,662	(28,544)
Provision for loss on business reorganization	2,641	—	—	21,972
Interest and dividend income	(268)	(339)	(416)	(2,230)
Interest expense	405	508	651	3,369
Loss on disposal of property,plant and equipment	384	328	354	3,195
(Gain) loss on sales of property, plant and equipment	(863)	(8,750)	543	(7,180)
Compensation for expropriation	(488)	(83)	(11)	(4,060)
Expenses related to acquisition of business	235	8,274	—	1,955
(Increase) decrease in trade receivables	(3,806)	(3,355)	(895)	(31,664)
Decrease (increase) in inventories	42	(97)	(230)	349
Increase (decrease) in trade payables	4,251	(3,213)	2,519	35,366
Increase (decrease) in deposits received	29	(1,274)	(341)	241
Other	(852)	2,064	1,772	(7,088)
Sub total	4,437	5,790	6,920	36,913
Interest and dividends received	301	411	311	2,504
Interest paid	(406)	(516)	(658)	(3,378)
Proceeds from compensation for expropriation	499	82	335	4,151
Income taxes (paid) refund	(4,629)	(1,848)	53	(38,511)
Net cash provided by operating activities	202	3,919	6,981	1,679
Investing activities				
Decrease in short-term investments	81	147	286	674
Proceeds from sales of securities	200	1,500	381	1,664
Purchases of short-term investments	—	(101)	(81)	—
Proceeds from sales of investment securities	418	5,852	3,386	3,478
Purchases of investment securities	(447)	(3,976)	(1,746)	(3,719)
Proceeds from sales of property, plant and equipment	1,463	8,219	554	12,171
Purchases of property, plant and equipment	(1,829)	(1,848)	(1,160)	(15,216)
Decrease in short-term loans	251	69	111	2,088
Collection of long-term loans	12	6	13	100
Long-term loans made	(370)	(605)	(67)	(3,078)
Acquisition of business	(235)	(11,044)	—	(1,955)
Acquisition of investments in subsidiary resulting in change in scope of consolidation	(686)	—	—	(5,707)
Other	320	45	0	2,662
Net cash provided by investing activities	(822)	1,736	1,677	(6,838)
Financing activities				
Decrease in bank borrowings	1,310	(415)	(1,270)	10,899
Proceeds from issuance of long-team debt	3,570	—	—	29,700
Repayments or redemption of long-term debt	(5,000)	(5,000)	(5,000)	(41,597)
Cash dividends paid	(682)	(709)	(780)	(5,697)
Cash dividends paid to minority shareholders	(6)	(6)	(7)	(50)
Acquisition of treasury stock	(1,181)	(1,472)	(3,029)	(9,825)
Net cash used in financing activities	(1,989)	(7,602)	(10,086)	(16,547)
Effect of exchange rate changes on cash and cash equivalents	(28)	1	21	(233)
Net decrease in cash and cash equivalents	(2,637)	(5,420)	(1,407)	(21,939)
Cash and cash equivalents at beginning of year	12,269	17,689	19,096	102,072
Cash and cash equivalents at end of year	¥9,632	¥12,269	¥17,689	$80,133

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of Preparation

Sinanen Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of the countries of their domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, accordingly, have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and companies controlled directly or indirectly by the Company. Significant companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 5 years on a straight-line basis. Such amortization is included in selling, general and administrative expenses.

Investments in companies which are not consolidated or accounted for by the equity method are carried at cost.

Foreign Currency Translation

The revenue and expense accounts of the foreign consolidated subsidiary are translated at the rate of exchange in effect at the balance sheet date, and, except for the components shareholders' equity, its balance sheet accounts are also translated into yen at the rate of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as a component of shareholders' equity and minority interests in the consolidated financial statements.

Cash Equivalents

For the purposes of the consolidated statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

Inventories

Inventories are stated at cost determined principally by the following methods:

Merchandise -- moving average method

Construction work in progress -- specific identification method

Short-Term Investments and Investment Securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is computed by the declining-balance method (excluding buildings and structures for rent and buildings acquired in Japan subsequent to March 31, 1998, on which depreciation is computed by the straight-line method) at the rates based on the estimated useful lives of the respective assets.

Significant renewals and improvements are capitalized at cost. Maintenance and repairs are charged to income as incurred.

Bond Issuance Expenses

Bond issuance expenses are capitalized and amortized over 3 years in accordance with the Commercial Code of Japan.

Research and Development Expenses

Research and development expenses are charged to income as incurred.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the respective assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Retirement Benefits

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet, as adjusted for unrecognized actuarial loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.
The net retirement benefit obligation at transition was fully charged to income for the year ended March 31, 2001.
Prior service cost is amortized as incurred by the straight-line method over a period of 5 years which is shorter than the average remaining years of service of the employees.
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 10 years which is shorter than the average remaining years of service of the employees.

Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

Derivative Financial Instruments

The Company has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, interest rates and petroleum product prices. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

Amounts per Share

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basicThe computation of net income per share for the year ended March 31, 2003 was computed based on the net income attributable to common shareholders of common stock and the weighted average number of shares of common stock outstanding during each year.
Diluted net income per share was computed based on the net income attributable to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of common stock to be issued upon the exercise of stock options. The effect of the adoption of this new standard on net income per share for the years ended March 31, 2002 and 2001 was immaterial.
No diluted net income per share is presented for the year ended March 31, 2003 because the effect of any exercise would be antidilutive.
Cash dividends per share represent the cash dividends declared as applicable to the respective years.

Treasury Stock and Reduction of Legal Reserves

Effective April 1, 2002, the Company adopted a new accounting standard for treasury stock and reduction of legal reserves. The adoption of this new accounting standard had no effect on operating results for the year ended March 31, 2003.

3. U.S. Dollar Amounts

The U.S. dollar amounts included in the accompanying consolidated financial statements present the arithmetic results of translating yen into U.S. dollars at ¥120.20 = U.S.$1, the rate of exchange prevailing on March 31, 2003. The U.S. dollar amounts are included solely for the convenience of the reader and it should not be construed that the assets and liabilities expressed in U.S. dollar equivalents can actually be realized in or extinguished by U.S. dollars at the exchange rate used in the accompanying translation or at any other rate.

4. Securities

a) Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2003 and 2002 is as follows:

Marketable held-to-maturity debt securities — As of March 31

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:									
Government bonds	¥ 10	¥ 10	¥ 0	¥ 10	¥ 10	¥ 0	$ 83	$ 83	$ 0
Subtotal	¥ 10	¥ 10	¥ 0	¥ 10	¥ 10	¥ 0	$ 83	$ 83	$ 0
Securities whose carrying value exceeds their fair value:									
Corporate bonds	—	—	—	¥ 100	¥ 100	¥ —	—	—	—
Subtotal	¥ —	¥ —	¥ —	¥ 100	¥ 100	¥ —	$ —	$ —	$ —
Total	¥ 10	¥ 10	¥ 0	¥ 110	¥ 110	¥ 0	$ 83	$ 83	$ 0

Marketable other securities — As of March 31

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	¥ 935	¥1,390	¥ 455	¥1,811	¥2,627	¥ 816	$ 7,779	$11,564	$ 3,785
Others	¥ 16	¥ 17	¥ 1	—	—	—	$ 133	$ 141	$ 8
Subtotal	¥ 951	¥1,407	¥ 456	¥1,811	¥2,627	¥ 816	$ 7,912	$11,705	$ 3,793
Securities whose acquisition cost exceeds their carrying value:									
Stock	¥1,341	¥1,151	¥(190)	¥1,311	¥1,311	¥ (0)	$11,156	$ 9,576	$ (1,580)
Corporate bonds	¥1,414	¥1,413	¥ (1)	¥1,550	¥1,535	¥ (15)	$11,764	$11,755	$ (9)
Others	¥ 34	¥ 33	¥ (1)	¥ 40	¥ 40	¥ (0)	$ 283	$ 275	$ (8)
Subtotal	¥2,789	¥2,597	¥(192)	¥2,901	¥2,886	¥ (15)	$23,203	$21,606	$ (1,597)
Total	¥3,740	¥4,004	¥ 264	¥4,712	¥5,513	¥ 801	$31,115	$33,311	$31,115

b) The following is a summary of other securities sold during the years ended March 31, 2003, 2002 and 2001:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Proceeds from sales	¥ 582	¥4,602	¥3,188	$ 4,842
Gains on sales	¥ 99	¥ 887	¥ 426	$ 824
Losses on sales	¥ (221)	¥ (790)	¥ (504)	$ (1,839)

c) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities as of March 31, 2003 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	As of March 31, 2003					
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year throug five years	Due after five years thhrough ten years
Government bonds	¥ 10	¥ —	¥ —	$ 83	$ —	$ —
Corporate bonds	1,400	—	200	11,647	—	1,664
Total	¥1,410	¥ —	¥ 200	$11,730	$ —	$ 1,664

5. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rates of 41.7% for 2003, 2002 and 2001. Income taxes of foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of operations for the years ended March 31, 2003, 2002 and 2001 differ from the statutory rates for the following reasons:

	2003	2002	2001
Statutory tax rates	41.7%	41.7%	(41.7)%
Effects of:			
Expenses not deductible for income tax purposes	4.5	3.6	2.7
Dividend income deductible for income tax purposes	(1.0)	(11.2)	(1.4)
Inhabitants' per capita taxes	1.9	2.1	1.5
Amortization of excess of cost over net assets acquired	1.0	—	—
Adjustment in deferred tax liabilities due to the change in tax rate	(0.1)	—	—
Income recognized by consolidated subsidiaries that do not adopt tax-effect accounting	0.3	(1.0)	0.3
Increase (decrease) of valuation allowance	0.0	(2.5)	6.4
Others	0.8	0.2	0.3
Effective tax rates	49.1%	32.9%	(31.9)%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 41.7% to 40.4% effective the fiscal year beginning after March 31, 2004. The effect of this tax rate change was to decrease deferred tax liabilities (net of deferred tax assets) by ¥8 million ($67 thousand) at March 31, 2003 and to decrease income taxes — deferred by ¥4 million ($33 thousand) for the year ended March 31, 2003.

Significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S dollars
	2003	2002	2003
Deferred tax asset:			
Allowance for doubtful accounts	¥ 116	¥ 225	$ 965
Accrued bonuses	174	153	1,448
Accrued enterprise tax	17	270	141
Accrued retirement benefits	1,507	2,956	12,537
Net operating loss carryforwards	510	107	4,243
Inventories	2	14	17
Depreciation	2,053	2,676	17,080
Enterprise arrangement loss reserve-fund	1,100	—	9,151
Other	288	196	2,396
Total gross deferred tax assets	5,767	6,597	47,978
Less valuation allowance	(232)	(248)	(1,930)
Net deferred tax assets	5,535	6,349	46,048
Deferred tax liabilities:			
Allowance for doubtful accounts	(8)	(9)	(67)
Unrealized gains on other securities	(136)	(340)	(1,131)
Reserve for advanced depreciation	(3,441)	(3,251)	(28,627)
Total deferred tax liabilities	(3,585)	(3,600)	(29,825)
Net deferred tax assets	¥1,950	¥2,749	$16,223

6. Short-Term Bank Borrowings and Long-Term Debt

Short-term bank borrowings were due principally in 365 days, at average interest rates of 1.65% and 1.80% per annum for the years ended March 31, 2003 and 2002, respectively.

A summary of long-term debt at March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S dollars
	2003	2002	2003
2.075% yen unsecured bonds due 2002	¥ —	¥ 5,000	$ —
2.375% yen unsecured bonds due 2003	5,000	5,000	41,597
3.3% yen unsecured bonds due 2003	5,000	5,000	41,597
Unsecured loans from banks and insurance companies due 2005 to 2007	3,500	2,200	29,118
Long-term bank borrowings due 2003	—	26	—
Long-term borrowings from Government financial agency due 2022	559	—	4,651
	14,059	17,226	116,963
Less current portion	(10,000)	(5,000)	(83,194)
	¥ 4,059	¥12,226	$ 33,769

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥10,000	$ 83,194
2005	30	250
2006	3,030	25,208
2007	30	250
2008 and thereafter	969	8,061
	¥14,059	$116,963

The assets pledged as collateral at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S dollars
	2003	2002	2003
Land	¥206	¥206	$1,714
Buildings	1	2	8
	¥207	¥208	$1,722

7. Property for Rent

The Company rents out certain land, buildings and structures which were completed in 1993. The acquisition costs and related accumulated depreciation of this property at March 31, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S dollars
	2003	2002	2003
Acquisition costs	¥24,114	¥24,114	$200,616
Accumulated depreciation	(7,273)	(6,619)	(60,507)
Net book value	¥16,841	¥17,495	$140,109

8. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

On March 28, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to a dissolution of its welfare pension fund and accounted for the dissolution as of the date of approval assuming that the retirement benefit obligation and related pension assets under the welfare pension fund plans had been eliminated as of that date.

Consequently, the Company recognized a gain of ¥2,025 million ($16,847 thousand) for the year ended March 31, 2003.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S dollars
	2003	2002	2003
Retirement benefit obligation	¥(6,267)	¥(17,199)	$(52,138)
Plan assets at fair value	1,514	6,717	12,596
Unfunded retirement benefit obligation	(4,753)	(10,482)	(39,542)
Unrecognized actuarial loss	794	3,268	6,606
Unrecognized prior service cost	(146)	(517)	(1,215)
	¥(4,105)	¥ (7,731)	$ (34,151)
Other current liabilities	79	273	657
Accrued retirement benefits	¥(4,026)	¥ (7,458)	$(33,494)

The components of retirement benefit expenses for the years ended March 31, 2003, 2002 and 2001 are outlined as follows:

	Millions of yen			Thousands of U.S dollars
	2003	2002	2001	2003
Service cost	¥ 549	¥ 612	¥ 567	$ 4,567
Interest cost	395	476	511	3,286
Expected return on plan assets	(164)	(214)	(265)	(1,364)
Amortization of unrecognized actuarial loss	344	168	—	2,862
Amortization of net retirement benefit obligation at transition	—	—	6,277	—
Amortization of unrecognized prior service cost	(129)	(129)	—	(1,073)
Additional retirement bonus	83	230	—	690
Total retirement benefit expenses	¥ 1,078	¥1,143	¥7,090	$ 8,968
Gain on dissolution of the welfare pension fund plans	¥(2,025)	¥ —	¥ —	$(16,847)

The assumptions used in accounting for the above plans were as follows:

	2003	2002
Discount rate	2.5%	2.5%
Expected rate of return on assets	2.5%	3.0%

9.Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to nil and ¥1,406 million as of March 31, 2003 and 2002, respectively.

The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. In addition, the Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment came into effect, the Company's shares had a par value of ¥50.

Pursuant to resolutions approved at the shareholders' meetings held on June 28, 2001 and June 29, 2000, the Company redeemed and retired 2,673 thousand shares and 8,224 thousand shares, respectively, of the Company's common stock for the aggregate amounts of ¥1,333 million and ¥3,029 million during the years ended March 31, 2002 and 2001, respectively.

On June 28, 2001, the shareholders of the Company approved a stock option plan which entitles the directors and key employees to purchase shares of the Company's common stock at ¥565 ($4.70) per share which had been purchased by the Company on stock exchanges in accordance with the Code. The option price is subject to change if new shares are issued at a price lower than fair market value.

Under this plan, a maximum of 250,000 shares were granted to the directors and employees and the stock options are exercisable during the period from July 1, 2002 to June 30, 2004. As of June 26, 2003, 245,000 shares have been granted to the directors and employees.

10.Contingent Liabilities

At March 31, 2003 and 2002, the Company had contingent liabilities as guarantor of indebtedness of affiliates and employees amounting to ¥248 million ($2,063 thousand) and ¥254 million, respectively.

11.Research and Development Expenses

Research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 amounted to ¥82 million ($682 thousand), ¥54 million and ¥74 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2003 and 2002 which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S dollars
	2003	2002	2003
Machinery and equipment:			
Acquisition costs	¥1,449	¥1,564	$12,055
Accumulated depreciation	(603)	(819)	(5,017)
Net book value	¥ 846	¥ 745	$ 7,038

Lease payments relating to finance leases accounted for as operating leases amounted to ¥289 million ($2,404 thousand), ¥304 million and ¥332 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms for the years ended March 31, 2003, 2002 and 2001, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥262	$2,180
2005 and thereafter	583	4,850
	¥845	$7,030

13. Derivative Transactions

As of March 31, 2003

Type	Millions of yen: Contractual value or notional principal amount: Total	Over 1 year	Market value	Unrealized gains (losses)
Listed on exchange:				
Commodity future contracts:				
Petroleum product				
Sold	¥ 497	¥ —	¥ 445	¥ (52)
Bought	1,637	—	1,478	159
Over-the-counter:				
Fuel price swaps:				
Petroleum product	733	—	(67)	(67)

As of March 31, 2003

Type	Thousands of U.S. dollars: Contractual value or notional principal amount: Total	Over 1 year	Market value	Unrealized gains (losses)
Listed on exchange:				
Commodity future contracts:				
Petroleum product				
Sold	$ 4,135	$ —	$ 3,702	$ (433)
Bought	13,619	—	12,296	1,323
Over-the-counter:				
Fuel price swaps:				
Petroleum product	6,098	—	(557)	(557)

Note: The notional amounts of derivatives entered into to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets and of derivative transactions for which hedge accounting has been adopted have been excluded from the above disclosure.

The disclosure of fair value information for derivatives as of March 31, 2002 was omitted since all derivatives were accounted for as hedges.

14. Supplementary Cash Flow Information

The following is a summary of assets and liabilities of a subsidiary which was included in consolidation upon acquisition of its interests for the year ended March 31, 2003:

	Millions of yen	Thousands of U.S dollars
Current assets	¥ 161	$1,339
Fixed assets	29	241
Current liabilities	(20)	(166)
Minority interests	(19)	(158)
Excess of cost over net assets acquired	641	5,333
Acquisition price	¥ 792	$6,589
Cash and cash equivalents	(106)	(882)
Net cash used for acquisition	¥ 686	$5,707

The following is a summary of assets and liabilities increased as a result of acquisition of LP-gas business from Nichimen Energy Inc. for the year ended March 31, 2002:

	Millions of yen
Current assets	¥1,460
Fixed assets	1,827
	¥3,287
Current liabilities	¥ 130
Long-term liabilities	386
	¥ 516

15. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in sales of energy products, including fuel and related equipment, and in the rental of real estate principally in Japan.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2003, 2002 and 2001 is as follows:

	Millions of yen					
	Year ended March 31, 2003					
	Energy products	Real estate rental	Other	Total	Elimi-nations	Consoli-dated
I.Sales and operating income						
Sales to third parties	¥ 174,426	¥ 1,644	¥ 2,858	¥ 178,928	¥ —	¥ 178,928
Intra-group sales and transfers	8	—	218	226	(226)	—
Total sales	174,434	1,644	3,076	179,154	(226)	178,928
Operating expenses	169,614	1,141	2,810	173,565	1,426	174,991
Operating income	¥ 4,820	¥ 503	¥ 266	¥ 5,589	¥(1,652)	¥ 3,937
II.Assets, depreciation and capital expenditures						
Total assets	¥ 57,743	¥ 17,968	¥ 1,660	¥ 77,371	¥ 16,800	¥ 94,171
Depreciation	1,850	661	81	2,592	94	2,686
Capital expenditures	2,648	36	7	2,691	108	2,799

	Thousands of U.S. dollars					
	Year ended March 31, 2003					
	Energy products	Real estate rental	Other	Total	Elimi-nations	Consoli-dated
I.Sales and operating income						
Sales to third parties	$1,451,131	$ 13,677	$23,778	$1,488,586	$ —	$1,488,586
Intra-group sales and transfers	67	—	1,814	1,881	(1,881)	—
Total sales	1,451,198	13,677	25,592	1,490,467	(1,881)	1,488,586
Operating expenses	1,411,098	9,493	23,378	1,443,969	11,863	1,455,832
Operating income	$ 40,100	$ 4,184	$ 2,214	$ 46,498	$ (13,744)	$ 32,754
II.Assets, depreciation and capital expenditures						
Total assets	$ 480,391	$149,484	$13,810	$ 643,685	$139,768	$ 783,453
Depreciation	15,391	5,499	674	21,564	782	22,346
Capital expenditures	22,030	300	58	22,388	898	23,286

	Millions of yen					
	Year ended March 31, 2003					
	Energy products	Real estate rental	Other	Total	Elimi-nations	Consoli-dated
I.Sales and operating income						
Sales to third parties	¥ 162,831	¥ 1,646	¥ 3,343	¥ 167,820	¥ —	¥ 167,820
Intra-group sales and transfers	7	253	244	504	(504)	—
Total sales	162,838	1,899	3,587	168,324	(504)	167,820
Operating expenses	157,444	1,207	3,415	162,066	1,148	163,214
Operating income	¥ 5,394	¥ 692	¥ 172	¥ 6,258	¥ (1,652)	¥ 4,606
II.Assets, depreciation and capital expenditures						
Total assets	¥ 52,663	¥ 18,611	¥ 1,988	¥ 73,262	¥ 21,411	¥ 94,673
Depreciation	1,711	682	102	2,495	103	2,598
Capital expenditures	4,665	16	13	4,694	62	4,756

	Millions of yen					
	Year ended March 31, 2003					
	Energy products	Real estate rental	Other	Total	Elimi-nations	Consoli-dated
I.Sales and operating income						
Sales to third parties	¥ 157,493	¥ 1,460	¥ 2,203	¥161,156	¥ —	¥ 161,156
Intra-group sales and transfers	11	252	271	534	(534)	—
Total sales	157,504	1,712	2,474	161,690	(534)	161,156
Operating expenses	151,824	1,019	2,419	155,262	1,708	156,970
Operating income	¥ 5,680	¥ 693	¥ 55	¥ 6,428	¥ (2,242)	¥ 4,186
II.Assets, depreciation and capital expenditures						
Total assets	¥ 51,001	¥ 19,602	¥ 1,607	¥ 72,210	¥ 30,571	¥ 102,781
Depreciation	1,525	744	111	2,380	113	2,493
Capital expenditures	1,888	16	21	1,925	28	1,953

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiary constituted less than 10% of consolidated net sales for the years ended March 31, 2003, 2002 and 2001.

16. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2003, were approved at a shareholders' meeting held on June 26, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥654	$5,441
Director's bonuses	¥ 11	$ 92

Report of Independent Auditors

The Board of Directors
Sinanen Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sinanen Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sinanen Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis set forth in Note 3 to the consolidated financial statements.

Tokyo, Japan
June 26, 2003

Shin Nihon & Co.

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Sinanen Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Board of Directors and Auditors

President and
Chief Excutive Officer
Teruo Hattori

Senior Managing Director
Akio Sadanaga

Managing Director
Youichi Shimizu

Managing Director
Genji Nakamura

Directors
Takao Nishiuchi
Takeo Yoshida
Hiroyuki Suzuki
Shushi Sueyasu
Mutsuo Sezaki

Standing Corporete Auditors
Takashi Shiga
Takao Nakazawa

Corporete Auditor
Senichi Yamagishi

As of June 26, 2003

Corporate Data

Date Established:
April 11,1927

Date Incorporated:
April 25,1934

Head Office:
4-22, Kaigan 1-Chome,
Minato-ku,Tokyo 105-8525, Japan
Tel : (03) 5470-7104
Fax: (03) 5470-7140
http://www.sinanen.com

Number of Employees:
1,284

Branches:
Kansai(Osaka), Chubu(Aichi), Kanagawa,
Kanto(Saitama),
Keiyo(Chiba), Ibaraki, Kita-Kanto(Tochigi),
Sendai(Miyagi),
Morioka(Iwate), Ohu(Aomori), Sapporo(Hokkaido)

Sales Office (Non-Consolidated):
45 throughout Japan

LPG Filling Stations:
51 throughout Japan

As of March 31, 2003

Principal Subsidiaries and Affiliates

Consolidated Subsidiaries

Overseas:

Sinanen Singapore Pte.Ltd.

Domestic:

Chibanen Co., Ltd.
Miyanen Co., Ltd.
Shinagawa Hainen Co., Ltd.
Matuba Sangyo Co., Ltd.
Ishinen Co., Ltd.
Hidaka City Gas Co., Ltd.
Sinanen Petroleum Sales Co., Ltd.
Chibanen Petroleum Sales Co., Ltd.
Sinanen Auto Gas Co., Ltd.
Miyagi Sinanen Sales Co., Ltd.
Aomori Sinanen Sales Co., Ltd.
Sinanen Kanto Gas Sales Co., Ltd.
Gifu Sinanen Sales Co., Ltd.
Aichi Sinanen Sales Co., Ltd.
Iwate Sinanen Sales Co., Ltd.
Osaka Sinanen Sales Co., Ltd.
Nagano Sinanen Sales Co., Ltd.
Fukuyo Gas Co., Ltd.
Shikoku Sinanen Sales Co., Ltd.
Sapporo Sinanen Sales Co., Ltd.
Sinanen Zeomic Co., Ltd.
Okano Co., Ltd.
Sinanen Hokkaido Himawari Gas Center Co., Ltd.
Sinanen Tohoku Himawari Gas Center Co., Ltd.
Sinanen Kita-Kanto Himawari Gas Center Co., Ltd.
Sinanen Chuo Himawari Gas Center Co., Ltd.
Sinanen Kanagawa Himawari Gas Center Co., Ltd.
Sinanen Chubu Himawari Gas Center Co., Ltd.
Sinanen Kansai Himawari Gas Center Co., Ltd.
Nanohana Gas Center Co., Ltd.
Hainen Himawari Gas Center Co., Ltd.
Nichimen Energy Gas Sales Co., Ltd.
Tochigi Briquette Co., Ltd.
Shinagawa Development Co., Ltd.

Affiliated Companies

Shinagawa Oil Co., Ltd.
Matsuba Home Gas Co., Ltd.
Niigata Shinagawa Co., Ltd.
Gunshina Co., Ltd.
Yamanashi Shinagawa Fuel Co., Ltd.
Mikawa Shinagawa Fuel Co., Ltd.
Shonai Shinagawa Co., Ltd.
Yamaken Co., Ltd.
K.S.C.M. Co., Ltd.
Security Network Co., Ltd.
Ibaraki Energic Co., Ltd.
Musashi Energic Center Co., Ltd.
Kanagawa Energic Co., Ltd.
Home Energic Keiyo Co., Ltd.

As of March 31, 2003

Investor Infomation

Shares of Common Stock:

Authorized: 237,603,000
Issued: 75,752,958

Capital:

¥15,630 Million

Number of Shareholders:

5,316

Stock Listing:

Tokyo Stock Exchange

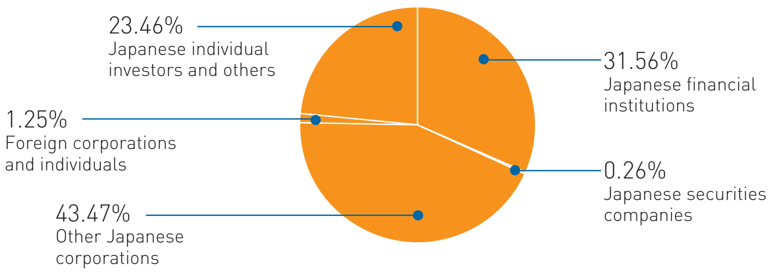
Transfer Agent:

Mizuho Trust & Banking Co., Ltd.
6-2, Marunouchi 1-chome,
Chiyoda-ku,Tokyo 100-0005, Japan

Independent Certified Public Accountants:

Shin Nihon & Co.

Breakdown of Shareholders:



Major Shareholders:

ITOCHU ENEX Co., LTD.
The Yasuda Mutual Life Insurance Company
COSMO OIL Co., Ltd.
Sumitomo Mitsui Banking Corporation
Mizuho Corporate Bank, Ltd.

Annual Meeting of Shareholders:

The annual meeting of shareholders of the Company is normally held in June each year in Tokyo.

As of March 31, 2003

SINANEN CO., LTD.

4-22, Kaigan 1-chome, Minato-ku,Tokyo 105-8525, Japan
Tel: (03) 5470-7104   Fax: (03) 5470-7140
http://www.sinanen.com