



# S Foods Shareholders' Letter

## Review of the Interim of the 2004 fiscal year

2003.3.1-2003.8.31  
(PDF Version)

### Message and Report to Our Stockholders

# Business Results and Financial Situation.



Hayao Morishima  
President and CEO  
October 2003

### Overview

During the interim period under review (March 1 to August 31, 2003), the outlook for the Japanese economy remained unclear, despite some signs of recovery. In our industry, safeguards on imports of frozen beef and pork and a persistent deflationary spiral depressed net sales at existing supermarkets and food services. Overall the business environment enfolding the S Foods Group remains severe.

### Business Results

In this environment, S Foods committed vigorous efforts toward creating a slim, powerful management constitution during the period under review, marshaling a variety of proactive measures to complete our "Reengineering Plan". Anticipating changes in the business climate, the Company speedily implemented its operating strategy across purchasing, production and sales. S Foods also took decisive steps to boost consumer safety and confidence, introducing traceability systems as well as a Group-wide quality control framework, led by the newly established Quality Assurance Section. Through these and other measures, the Company strove to build consumer confidence and offer improved value-added. Sales volume recovered smartly in the period under review, with net sales expanding 31.4% over the same period the previous year to 26,054 million yen. This rise in net sales, coupled with a drop in sales, general and administrative expenses ratio achieved through the reengineering effort, more than quadrupled income before extraordinary items 325.9% to 1,837 million yen. To strengthen Group management, the Company transferred fixed assets, such as land and buildings previously owned by branches and sales offices, to Naruo Kosan KK, the Group's asset management affiliate. This action incurred an extraordinary loss of 2,056 million yen, resulting in an interim net loss of 212 million yen.

### Dividends

Since its foundation, the Company has consistently guided its operations by the principle that shareholder earnings are its top management priority. With the ongoing efforts to complete our "Reengineering Plan," the Company's business activities are once again on a firm footing. The Company therefore plan to distribute a dividend of 22 yen per share as planned. To ensure a timely return to profitable operation, S Foods is distributing an interim dividend of 11 yen per share. The Company remains as committed as ever to improving returns. It is aiming to provide a dividend ratio of 40%, with its basic target of stable and consistent profitability demonstrated by an ordinary dividend of 12 yen, and will redouble its efforts to improve business results to achieve this objective.

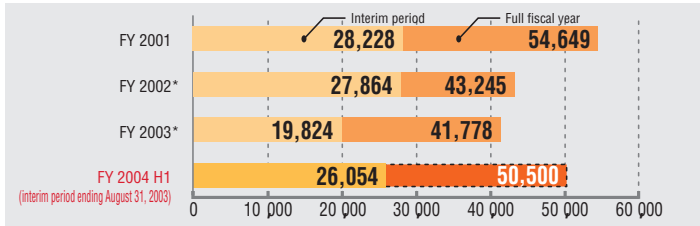
### Forecast for the Current Fiscal Year

In the second half of the 2004 fiscal year (fiscal year ending February 29, 2004), the Group will diligently pursue our "Reengineering Plan", laying the groundwork for even faster reform when the S Foods Group rolls out its new medium-term management plan, "Challenge 21 Innovation Plan", next fiscal year. Specific moves will include the start of production in September 2003 at the Himeji Plant of Ajicho KK, the Group's meat-processing company, to strengthen and enhance the S Foods Group's production framework. With the aim of creating a production platform that meets and exceeds today's need for safety and confidence, the Group will completely reorganize its plants. A new training system will ensure that the Group's employees are fully capable of the challenges of the new medium-term management plan. Through all of these efforts, the Group is investing proactively to ensure a bright future for itself and its affiliates. In the forecast of results for the full fiscal year, we expect that net sales will rise 20.9% from the previous fiscal year to 50.5 billion yen; income before extraordinary items will nearly double, growing 82.1% to 2.8 billion yen; and net income will reach 350 million yen.

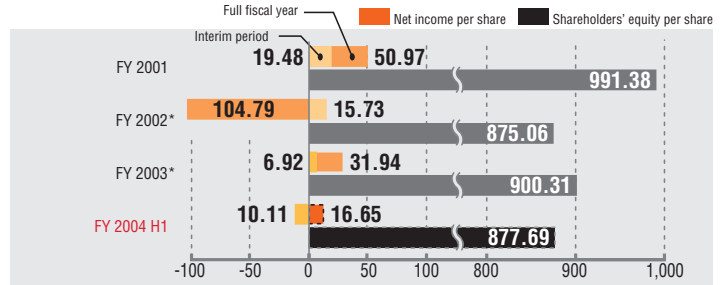
## Consolidated Sales Results and Asset Position

\* The decline in sales results in the 2002 and 2003 fiscal years were chiefly due to the bovine spongiform encephalopathy (BSE) crisis.

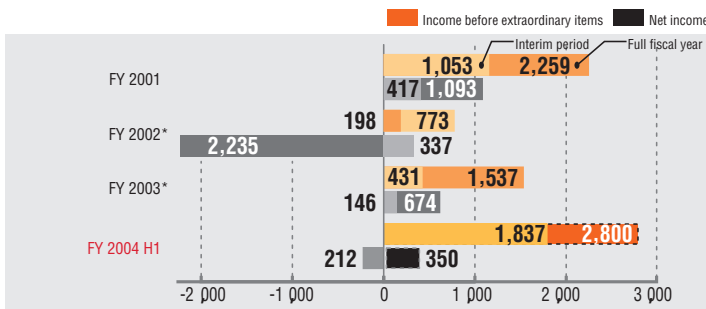
### Net sales (Millions of yen)



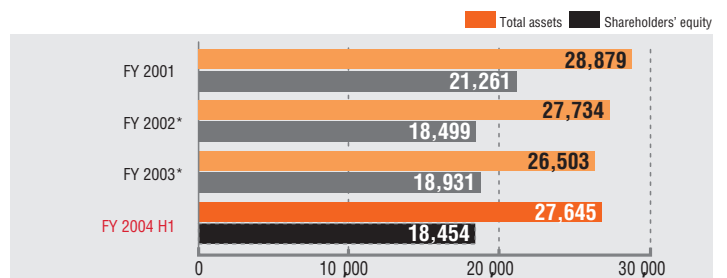
### Current (Interim) net income/Shareholders' equity per share (Yen)



### Income before extraordinary items/Current (Interim) net income (Millions of yen)



### Total assets/Shareholders' equity (Millions of yen)



## Consolidated Balance Sheet and Statement of income

### Consolidated interim balance sheet (Summary)

	(Millions of yen)		
	End of H1 2004 As of August 31, 2003	End of H1 2003 As of August 31, 2002	End of previous fiscal year As of February 28, 2003
<b>Assets</b>			
Current assets	14,483	11,759	11,858
Fixed assets	13,161	14,983	14,644
<b>Total assets</b>	<b>27,645</b>	<b>26,742</b>	<b>26,503</b>
<b>Liabilities</b>			
Current liabilities	7,986	7,252	6,415
Fixed liabilities	514	419	494
<b>Total liabilities</b>	<b>8,500</b>	<b>7,672</b>	<b>6,910</b>
<b>Minority interests</b>	<b>690</b>	<b>633</b>	<b>660</b>
<b>Shareholders' equity</b>			
Common stock	4,226	4,226	4,226
Additional paid-in capital	4,171	4,171	4,171
Consolidated retained earnings	10,185	10,219	10,748
Treasury stocks	256	196	254
<b>Total shareholder equity</b>	<b>18,454</b>	<b>18,435</b>	<b>18,931</b>
<b>Total liabilities, minority interests &amp; shareholder equity</b>	<b>27,645</b>	<b>26,742</b>	<b>26,503</b>

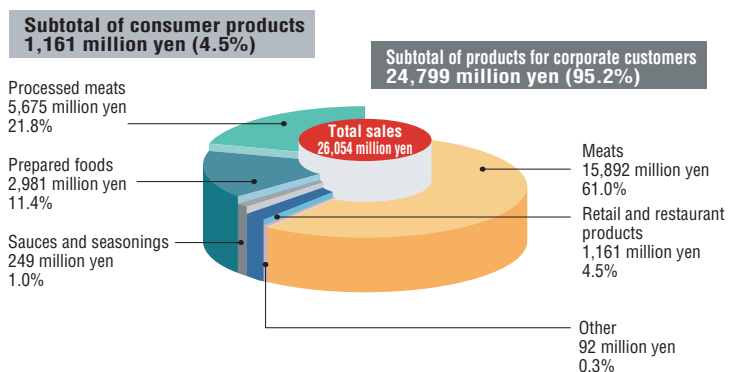
### Consolidated interim statement of income

	(Millions of yen)		
	FY 2004 H1 March 1, 2003-August 31, 2003	FY 2003 H1 March 1, 2002-August 31, 2002	Previous fiscal year (FY 2003) March 1, 2002-February 28, 2003
<b>Ordinary items</b>			
<b>Net sales</b>	<b>26,054</b>	<b>19,824</b>	<b>41,778</b>
<b>Cost and sales expenses</b>	<b>24,311</b>	<b>19,238</b>	<b>40,175</b>
<b>Operating income</b>	<b>1,742</b>	<b>586</b>	<b>1,603</b>
<b>Non-operating income</b>	<b>104</b>	<b>93</b>	<b>148</b>
<b>Non-operating expenses</b>	<b>9</b>	<b>249</b>	<b>214</b>
<b>Income before extraordinary items</b>	<b>1,837</b>	<b>431</b>	<b>1,537</b>
<b>Extraordinary items</b>			
Extraordinary gain	7	18	20
Extraordinary losses	2,115	85	232
<b>Income before income taxes</b>	<b>271</b>	<b>364</b>	<b>1,326</b>
Income taxes-current	45	19	90
-deferred	126	206	542
<b>Current (Interim) net</b>	<b>212</b>	<b>146</b>	<b>674</b>

### Cash flow (Millions of yen)

Item	FY 2004 H1	FY 2003 H1
Net cash flow from operating activities	74	2,077
Net cash flow from investing activities	785	249
Net cash flow from financial activities	606	2,176
Cash and cash equivalents at end of year	1,482	1,972
Balance of debts and corporate bonds at end of year	772	1,921

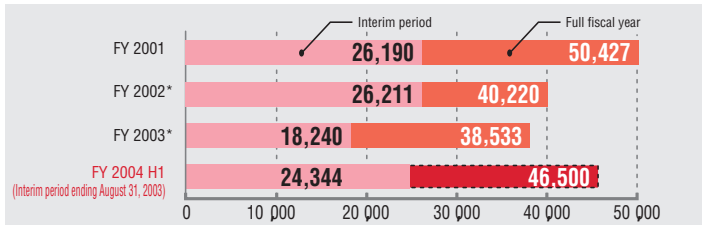
### Net sales by product division



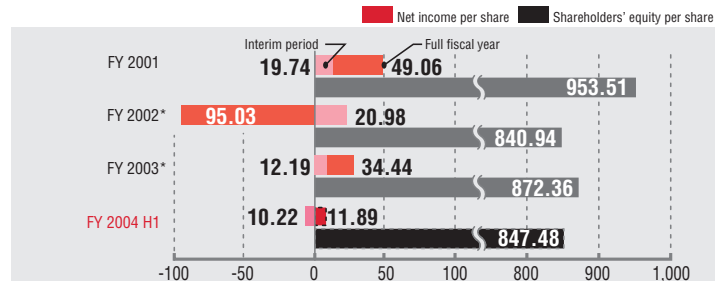
## Non-consolidated Sales and Asset Position for S Foods Inc.

\* The decline in sales results in the 2002 and 2003 fiscal years were chiefly due to the bovine spongiform encephalopathy (BSE) crisis.

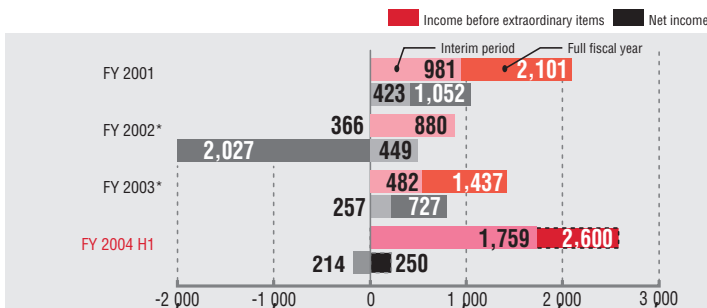
Net sales (Millions of yen)



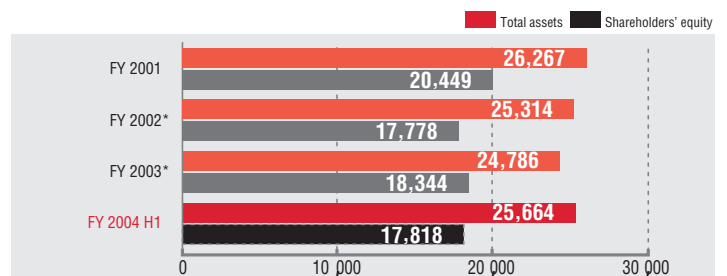
Current (Interim) net income/Shareholders' equity per share (Yen)



Income before extraordinary items/Current (Interim) net income (Millions of yen)



Total assets/Shareholders' equity (Millions of yen)



## Non-consolidated Balance Sheet and Statement of income for S Foods Inc.

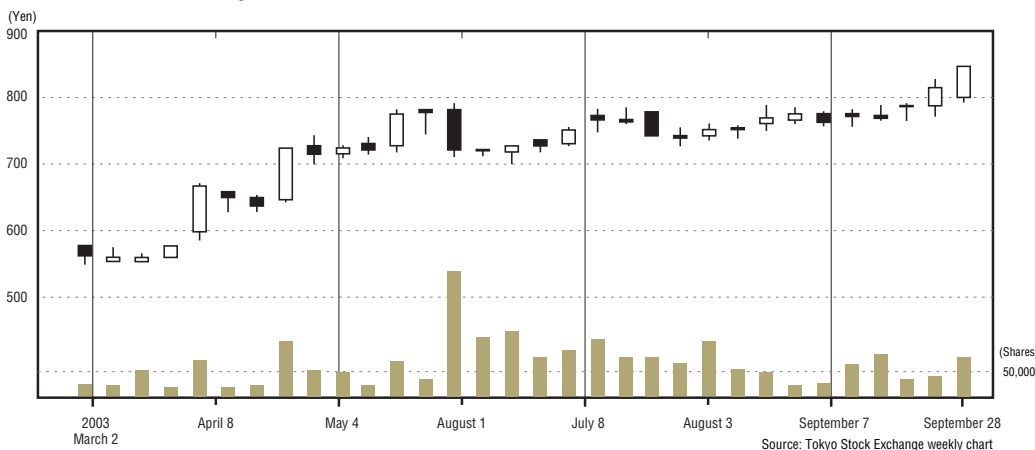
Non-consolidated interim balance sheet (Summary)

	End of H1 2004 As of August 31, 2003	End of H1 2003 As of August 31, 2002	End of previous fiscal year As of February 28, 2003
(Millions of yen)			
<b>Assets</b>			
Current assets	12,948	10,660	10,693
Fixed assets	12,715	14,380	14,093
<b>Total assets</b>	<b>25,664</b>	<b>25,040</b>	<b>24,786</b>
<b>Liabilities</b>			
Current liabilities	7,429	6,746	6,039
Fixed liabilities	416	384	402
<b>Total liabilities</b>	<b>7,845</b>	<b>7,131</b>	<b>6,442</b>
<b>Shareholders' equity</b>			
Common stock	4,226	4,226	4,226
Additional paid-in capital	4,171	4,171	4,171
Consolidated retained earnings	9,574	9,716	10,185
<b>Total shareholder equity</b>	<b>17,818</b>	<b>17,908</b>	<b>18,344</b>
<b>Total liabilities &amp; shareholder equity</b>	<b>25,664</b>	<b>25,040</b>	<b>24,786</b>

Non-consolidated interim statement of income

	FY 2004 H1 March 1, 2003-August 31, 2003	FY 2003 H1 March 1, 2002-August 31, 2002	Previous fiscal year (FY 2003) March 1, 2002-February 28, 2003
(Millions of yen)			
<b>Ordinary items</b>			
<b>Net sales</b>	<b>24,344</b>	<b>18,240</b>	<b>38,533</b>
Cost and sales expenses	22,682	17,656	37,089
<b>Operating Income</b>	<b>1,661</b>	<b>584</b>	<b>1,444</b>
Non-operating income	111	142	204
Non-operating expenses	13	244	211
<b>Income before extraordinary items</b>	<b>1,759</b>	<b>482</b>	<b>1,437</b>
<b>Extraordinary items</b>			
Extraordinary gain	22	10	12
Extraordinary losses	2,108	19	128
<b>Income before income taxes</b>	<b>326</b>	<b>474</b>	<b>1,321</b>
Income taxes-current	6	9	35
-deferred	118	207	558
<b>Current (Interim) net income</b>	<b>214</b>	<b>257</b>	<b>727</b>
Retained earnings carried forward	1,139	806	806
<b>Unappropriated retained earnings</b>	<b>925</b>	<b>1,064</b>	<b>1,533</b>

Share values and trading volume



All forecasts, strategies and plans described in this interim business report are only forecasts of future results. They are based solely on the Company's judgment and we do not recommend depending on these forecasts in forming a general opinion of the Company's prospects. A wide range of important factors, both internal and external to the Company, can affect actual results, and may cause results to differ significantly to those forecast here.

# Fall/Winter Motsu Nabe Campaign!

**S Foods has a renewal lineup of three Motsu Nabe and a completely new lineup of four Nabe Soup dishes. They're easy to prepare—just add vegetables! S Foods is vigorously promoting the new products in TV and radio ads.**

Katsuobushi (dried bonito) added for an even richer taste!

**Kotetchan Motsu Nabe  
Soy sauce flavor**



A great blend with carefully aged miso!

**Kotetchan Motsu Nabe  
Miso flavor**



The "mild spicy" dish from Red Pepper sauce!

**Kotetchan Motsu Nabe  
Kimchi flavor**



**Introducing  
Motsu Nabe Soup  
for livening up  
your beef, pork, chicken  
or anything else!**



Soy sauce flavor offers a satisfying taste.



Liven up your ingredients with the light, simple taste of soy sauce!



Deep, rich miso taste!



A clean, tasty salt flavor!



## Soy sauce flavor Motsu Nabe

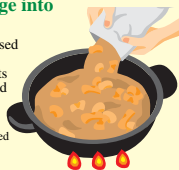
Ingredients (serves 2 people)

1/4 or 1/2 head of cabbage (about 250 g), two leeks (about 200 g), udon or Chinese noodles as desired

**(1) Pour the contents of the Motsu Nabe package into a saucepan.**

This product can be used straight from the package. Pour contents into a saucepan of cold water and bring to the boil.

If you like, add garlic or red pepper for extra flavor.



**(2) Once the broth is boiling, add vegetables.**

When the broth comes to a boil, add vegetables. Wait until hot all the way through, and it's ready to eat!



**(3) Have udon or noodles using leftover soup.**

You can add udon or Chinese noodles to the leftover soup, or use it to make rice or vegetable porridge.



**Change the ingredients,  
change the flavor!**

**Try a variety of ingredients of your choice—vegetables, tofu, mushrooms—the list is endless! Motsu Nabe is the perfect companion to your favorite food.**

## S Foods Company Profile

Company name: S Foods Inc.

Listing exchanges: First sections of the Tokyo Stock Exchange and Osaka Securities Exchange (securities code: 2292)

Date established: May 22, 1967

Representative director: Hayao Morishima, President and CEO

Capital: 4,226,640,000 yen (as of August 31, 2003)

Number of employees (entire Group): 780 (as of August 31, 2003)

Annual net sales (entire Group): 50.5 billion yen planned for year ending February 29, 2004)

Line of business: Manufacturing, processing, and wholesale and retail sale of meat products, sauces and seasonings

Major correspondent banks: The UFJ Bank, Ltd.

The Mitsui Sumitomo Bank, Ltd.

The Mizuho Corporate Bank, Ltd.

The Bank of Tokyo Mitsubishi, Ltd.

The UFJ Trust Bank, Ltd.

Affiliates: Mr. Stamina KK/KK Kenshoku/FOEM Shokuhinkakou KK/KK Ajicho

Goai Yakiniku Concept KK/Fremont Beef Company

Sukoyaka Shokuhin KK/Naruo Kosan KK

Website: <http://www.sfoods.co.jp/>

Offices

Head office: 1-22-13 Naruhama, Nishinomiya, Hyogo Prefecture

Tel: +81-799-43-1065

Funabashi Head Office: 24-38 Takasecho, Funabashi, Chiba Prefecture

Tel: +81-47-435-0811

Share information

Number of shares issued: 21,446,659

Number of shareholders: 2,408 (as of August 31, 2003)

Share transfers

Share transfer agent: The UFJ Trust Bank, Ltd.

1-4-3 Marunouchi, Chiyoda-ku, Tokyo

Location of stock transfer operations: The UFJ Trust Bank, Ltd.

3-6-3 Fushimicho, Chuo-ku, Osaka

Corporate Agency Department Tel: +81-6-6229-3011

Share transfer locations: All branches in Japan of the UFJ Trust Bank, Ltd.

To order forms for share transactions, please visit the website below.

URL: <http://www.ufjtrustbank.co.jp/>