

# SFoods Annual Report for the 38th Term

## Completing Our Reengineering Plan

**Toward the Value-Creating Company through  
Developing Successful Business Models**

Hayao Morishima  
President and CEO  
May 2004



### Environment

During the term ended this February, the Japanese economy showed signs of recovery led by capital investment and export, but it is still gripped by deflation. The food industry faced challenges such as the single detection of BSE (bovine spongiform encephalopathy) in the U.S. late last year, followed by the spread of the bird flu virus infection. Consumers became more cautious and distrustful of what they eat. Our group found itself in a very severe business environment.

### Business Results

Our group implemented various measures to "complete the process of reengineering" as set forth in the year's management policy. Specifically, we transferred the fixed assets (such as land and buildings) including branches that are our sales bases to our group's property management company Naruo Kosan, posting a loss of ¥2,056 million. To reassure customers by providing safer products, we set up a special section for quality management to guarantee the quality of our products. We also introduced the traceability system for raw and processed meat to improve the reliability of our products. Our business went smoothly for the first three quarters.

Our good business performance was disrupted by the single case of BSE in the U.S. on December 24, 2003 and the subsequent import ban on US beef. Our business model incorporating "Kotetchan" and "Motsu-nabe" products no longer worked. We set up headquarters headed by the company president to take emergency measures to deal with the BSE problem. Specifically, we reorganized our company structure. When meat import from the U.S. was halted, we temporarily closed our Funabashi factory to improve the efficiency of production, and reopened the No.2 Funabashi factory. On the sales front, we decided on February 13, 2004 to acquire the right to sell Australian Rangers Valley beef products in Japan from Marubeni Chikusan. In this way we strengthened ties with overseas suppliers. By gaining a greater market share of Australian beef whose consumption in Japan is expected to grow in the future, we hope to bolster our business structure.

In the February 2004 term we achieved sharp increase in both sales and profit. Sales increased by 20.2% over the previous term to ¥50,201 million, and the current profit increased by 86.3% to ¥2,864 million. We posted an extraordinary loss from the transfer of fixed assets as mentioned above, and the net profit was down 57.3% to ¥287 million.

### Dividends

Our company has consistently since its foundation conducted business by giving top priority to the interests of our shareholders. For the term under review, we plan an annual dividend of ¥22 per share by paying a ¥11 per-share term-end dividend as initially planned, having already paid a ¥11 per-share interim dividend for a more timely return of profits to our shareholders. Also in the future, we intend to return, through the improvement of performance, even more profits to our shareholders, up to 40% in the pay-out ratio, while setting a regular dividend of ¥12 per share as the basic target for stable/continuous return of profits.

### Business Prospect in the Future

We are resolved to rebuild our business models now falling apart amid the BSE syndrome and create a new business model, expanding our business base by adopting our management policy of "innovation, creation and advance" for the 39th term (ending February 2005). With import ban on American beef, we are forced to stop temporarily the production of our mainstay "Kotetchan" products this May. We developed "Tontoko" from hog intestine and marketed it as a post-Kotetchan series in March. Extensive promotion of the product starting May, when shipments of material from the U.S. and other countries are expected to arrive, is planned to boost our sales. We will also make positive efforts to cultivate the markets for restaurant food and takeout meals, so that we can offer attractive products which are tasteful and healthful and which are prepared with loving care and our processing technology, as well as beef products of Rangers Valley from Australia.

In the February 2005 term, we expect to achieve sales of ¥56,000 million (up 11.6% from the previous term), current income of ¥1,700 million (down 40.7%) and net income of ¥950 million (up 230.1%). Our projections for the full-year term were calculated on the assumption that our company and Murachiku will integrate operations. They are the result of simple addition of our projected consolidated figures for the full-year term and Murachiku's projected consolidated figures for six months after the exchange of shares. Transactions between the two companies have not been taken into account.

# Innovation! Creation! Advance!

## S Foods Inc. and Murachiku Co, Ltd. Will Be Integrated

S Foods Inc. and Murachiku Co, Ltd have concluded the agreement concerning management integration by means of share exchange. On approval at the coming each shareholders' meeting, although this share exchange aims to provide equal-footing integration, S Foods shall be parent company and Murachiku be affiliate company on September 1, 2004 formally.

S Foods has established a unique position as a pioneer of "yakiniku" or Japanese-style barbeque, and variety meat sales on the basis of firm and close relation with foreign business partners. Meanwhile Murachiku has developed the strong domestic market system that unifies production through sales. Integration of these two companies will create the successful entity with united advantages and specialties as well as help the sound and strong development of meat industry. We, as a general meat company that faithfully provide safe meat including beef, pork and poultry that are essential protein source for healthy human life, are resolved to contribute to the dissemination of food culture we propose to the world.

### 1. Share Exchange Ratio

Company	S Foods (parent)	Murachiku (Subsidiary)
Share Exchange Ratio	1	1.733

### 2. Schedule for Share Exchange

April 14, 2004	Conclusion of the Agreement
May 20, 2004	Annual Shareholders Meeting (S Foods) Approval of Agreement
June 24, 2004	Extraordinary Shareholders Meeting (Murachiku) Approval of Agreement
September 1, 2004	Execution of Share Exchange

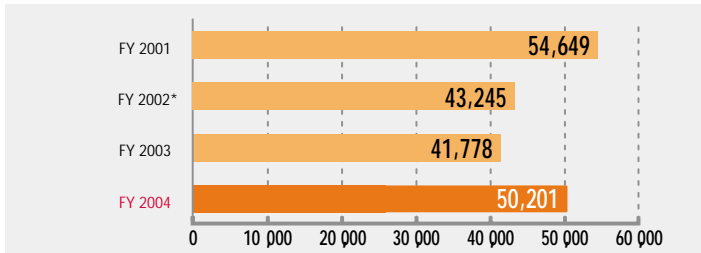
### 3. Outline of the Interested Companies in Share Exchange

(1) Corporate Name	S Foods	Murachiku
(2) Description of Business	Production and Sales of Processed Foods Production and Sales of Cooked Foods and Prepared Foods Production and Sales of Sauce and Spices Sales of Meat Retailing and Restaurant Business	Production and Sales of Meat Process of Meat Wholesale of Meat
(3) Foundation	May 22, 1967	December 24, 1982
(4) Headquarter	1-22-13, Naruohama, Nishinomiya, Hyogo	1451-6, Togo-cho, Himeji, Hyogo
(5) Representative	President Hayao Morishima	President Shinnosuke Murakami
(6) Paid in Capital	¥ 4,226 million	¥ 623 million
(7) Number of Shares Authorized	21,446,659 shares (As of February 29, 2004)	6,115,000 shares (As of November 30, 2003)
(8) Residual Shares	298,000 shares	---
(9) Shareholders Equity	¥ 18,098 million	¥ 6,181 million
(10) Total Assets	¥ 22,250 million	¥ 11,320 million
(11) Fiscal Year	End of February	End of May
(12) Number of Employee	340	169

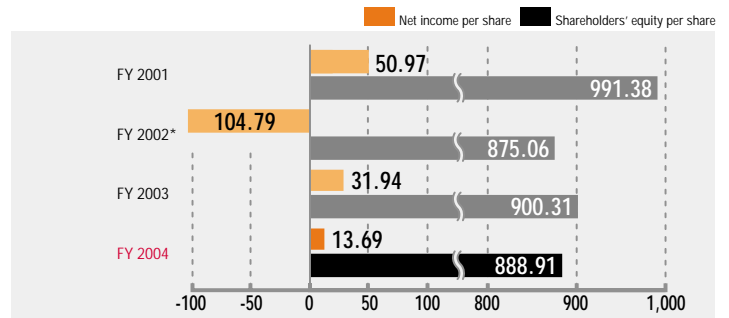
## Consolidated Sales Results and Asset Position

The decline in sales results were chiefly due to the bovine spongiform encephalopathy (BSE) crisis.

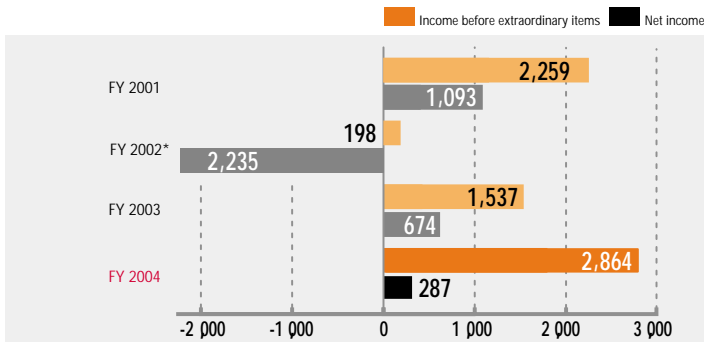
Net sales (yen in millions)



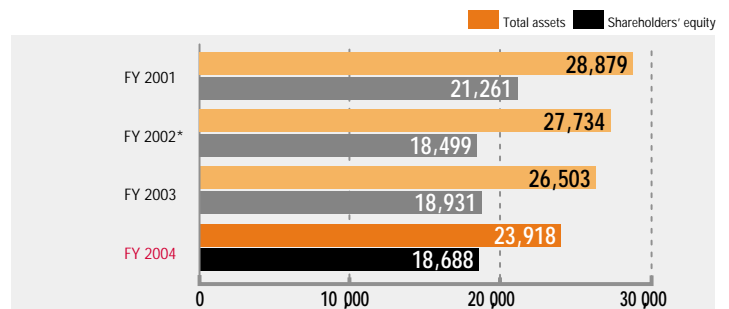
Current net income/Shareholders' equity per share (Yen)



Income before extraordinary items/Current net income (yen in millions)



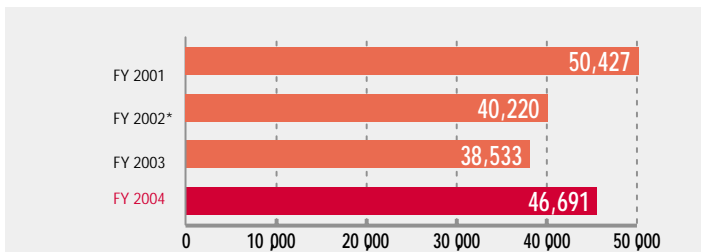
Total assets/Shareholders' equity (yen in millions)



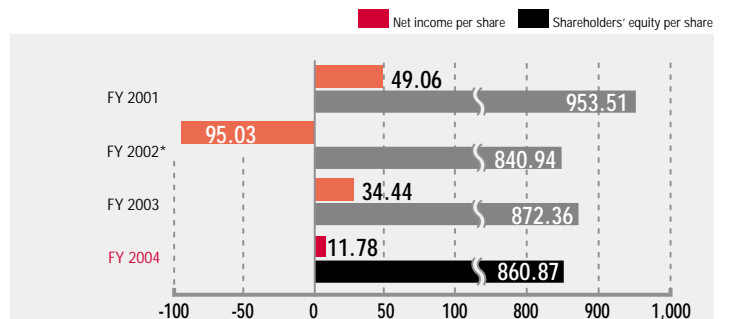
## Non-consolidated Sales and Asset Position for S Foods Inc.

The decline in sales results were chiefly due to the bovine spongiform encephalopathy (BSE) crisis.

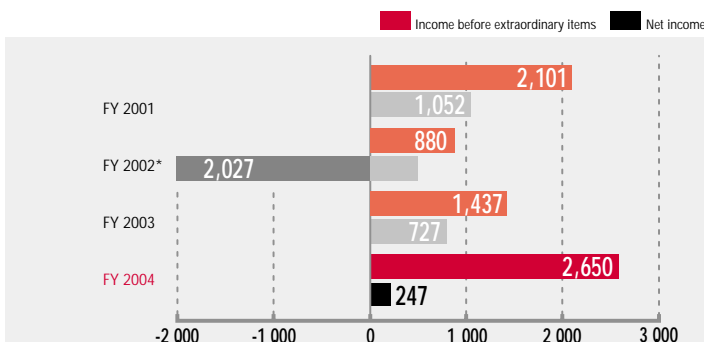
Net sales (yen in millions)



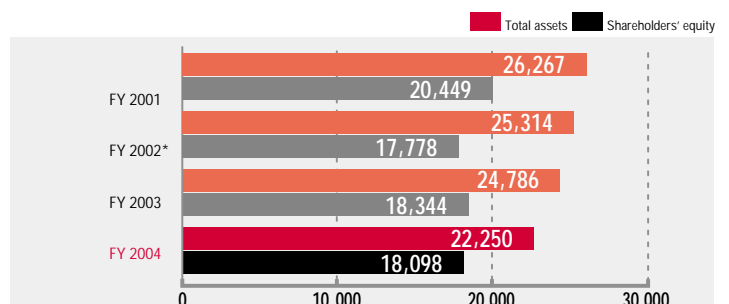
Current net income/Shareholders' equity per share (Yen)



Income before extraordinary items/Current net income (yen in millions)



Total assets/Shareholders' equity (yen in millions)



### Summary of Cash Flows Statement (Yen in millions)

Subject	2004/02	2003/02
Cash Flows from Operating Activities	1,839	4,293
Cash Flows from Investing Activities	959	613
Cash Flows from Financing Activities	1,443	3,300
Cash and Cash Equivalents at End of Year	2,204	2,671
Dep and Corporate Bond Balance at End of Year	103	836

## Company Profile

### Directors & Auditors (Effective May 20,2004)

Representative Director	Hayao Morishima
Director	Susumu Tomisawa
Director	Mineichi Nagasaka
Director	Yoshimitsu Morishima
Director	Akihiro Tsujita
Director	Kenichi Nishida
Auditor	Yujiro Ohiro
Auditor	Mineo Kushiro
Auditor	Masanobu Nakano
Auditor	Tadashige Otsuka

### Year of foundation

May 22, 1967

### Paid in capital

¥4,226.64million (As of End of February, 2004)

### Number of employee

709(As of End of February, 2004)

### Annusl sales

¥50.2billion

### Line of business

Manufacturing, processing, wholesale and retail of meat products, sauce and seasoning

### Affiliates

Mr. Stamina KK  
 KK Kenshoku  
 FOEM Shokuhin KK  
 KK.Ajicho  
 Goai Yakiniku Concept KK  
 Fremont Beef Company  
 Sukoyaka Shokuhin KK  
 KK Shizuola Ajicho  
 Naruo Kosan KK

\*From the end of Eebruary 2004, all subsidiaries will be set as the object consolidated statements.

### Web Site

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

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 Nagano, Shizuoka, Okazaki, Tokai-nisi, Kyoto  
 Wakayama, Nishinomiya, Himeji(Branch office)  
 Okayama, Hiroshima  
 Factory:  
 Nishinomiya(No.1 & No.2), Funabashi(No.1 & No.2)