

SFOODS NEWS

Annual Report
Fiscal Year ended February 28, 2005

Top Reports



Hayao Morishima
President & CEO

Report on Performance and Results of the Corporate Group

Overview of the Market

During the fiscal year of S Foods, ended February 28, 2005, profits of Japanese companies generally grew, backed by brisk exports and corporate reform. But weak domestic consumption caused a slight drop in consumer prices, causing a deflationary spiral that left the Japanese economy flat.

The meat industry suffered greatly from the sudden halt of U.S. beef imports. It is not an exaggeration to say that we spent the whole year coping with turmoil caused by the halt. It has been more than a year since the supply of U.S. beef stopped, and the road map for resolution is yet to be seen.

Tasks and Development

The government's beef import ban, causing a severe shortage of U.S. beef in the market, has obliged most retailers, restaurants and distributors that sell beef to substitute other meat or food for U.S. beef. We have worked

hard to establish a stable supply system of substitute products for U.S. beef, especially for yakiniku items, which are our customers' main requirement, and that was our primary task for the term. We should provide not just substitutes, but satisfactory products that are delicious, healthy and safe. To satisfy our customers' needs, we have aggressively developed our business, such as by developing meat products other than beef, developing yakiniku items using Australian beef, and promoting sales of domestic beef and Australian beef.

Specific Measures

We developed and launched the pork-variety-meat product Uma-buta Guts, in which our Kotetchan manufacturing technique is used, and Ajiwai Yakiniku, which is made from Australian beef with our unique technique to suit Japanese taste that prefers flavorful and tender beef.

On March 31, 2004, we acquired the distributorship in Japan for beef products of Rangers Valley High-



Uma-buta Guts



Ajiwai Yakiniku

land Ranch from Marubeni Corporation. This gave us the exclusive right to sell Naruo Bokujyo brand beef that is made with a stringent safety management system and long-term grain feeding system to suit the taste of the Japa-

nese, who love tender and flavorful meat. Furthermore, the pork-variety-meat product Tontetchan was released this January, and is positioned as a post-Kotetchan product. It is now becoming popular among consumers who miss Kotetchan.



Tontetchan

Synergy

S Foods Inc. and Murachiku K.K. integrated their management on September 1, 2004. (The two companies later merged on March 1, 2005) The two companies, which share the same business field of meat, have their own core competencies of imported beef and domestic beef, respectively. Synergetic effects of the merger, such as increased share of the overall meat market, are fully expected.



Result for the Term

During the term reported here, we worked hard to expand sales of domestic beef that is safe and authentic by utilizing the SQF20001 system, and we also took all the necessary steps for a smooth merger. By promptly implementing these measures, we increased consolidated sales for the year ended February 2005 by 12.1% from the previous year, to 56,266 million yen. Profit before extraordinary items decreased by

31.6% to 1,960 million yen from the previous year. Net income reached 1,043 million yen, up 262.5% compared with the previous year. These figures are better than we expected at the beginning of the year.



SQF2000 (Safe Quality Food 2000): A food safety standard that incorporates ISO 9000, a quality management system, and HACCP, a food safety system.

Prospect

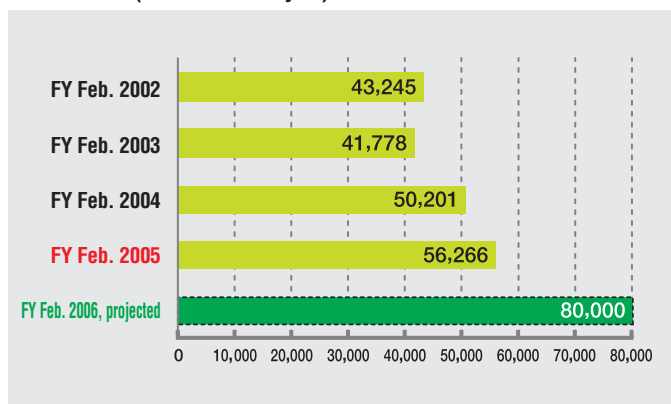
We do not include sales of U.S. beef after the resumption of trade in the projected sales for the current year, since no official schedule has been announced for the resumption, which is the biggest concern and most vital issue in our industry.

Our current tasks are reconstruction of our business models that were destroyed by the halt of U.S. meat imports, and smooth management of our system from purchasing through production to sales. Our group companies are trying to increase our market share by increasing sales to current customers and acquiring new customers.

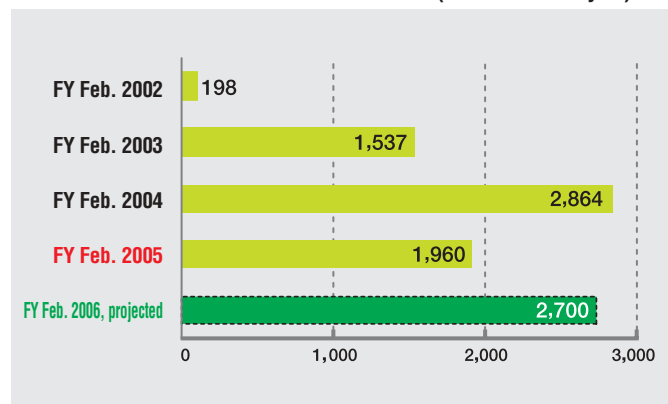
We project that the above measures will provide sales for the current year of 80 billion yen, up 42.2% from the previous year, and an increase in pre-tax earnings of 37.7%, to 2.7 billion yen. We also expect net income to be 1.5 billion yen, up 43.8%.

Consolidated Business Result

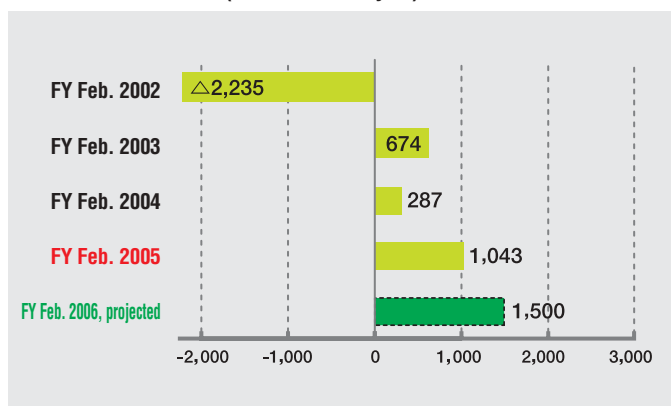
●Sales (in millions of yen)



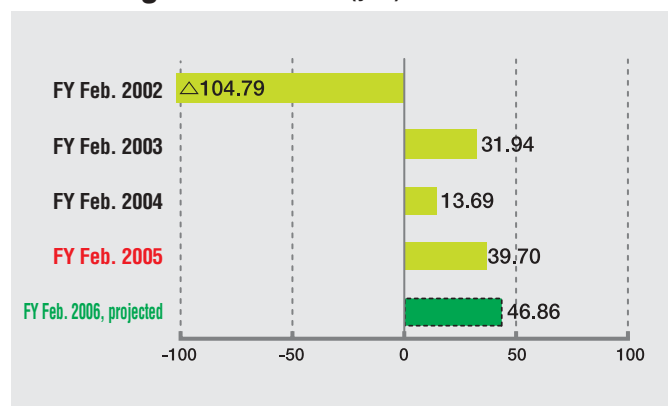
●Net Income Before Taxes (in millions of yen)



●Net Income (in millions of yen)

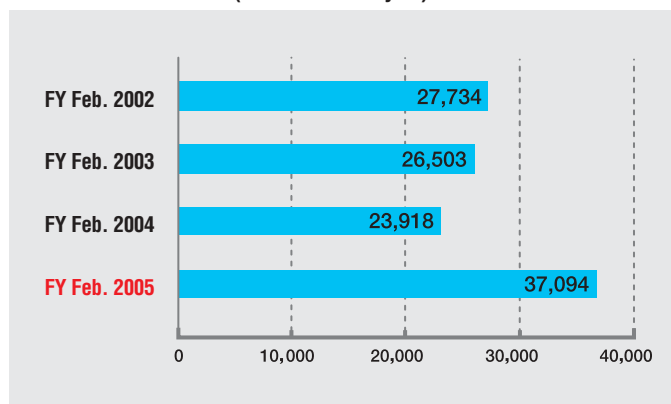


●Earnings Per Share (yen)

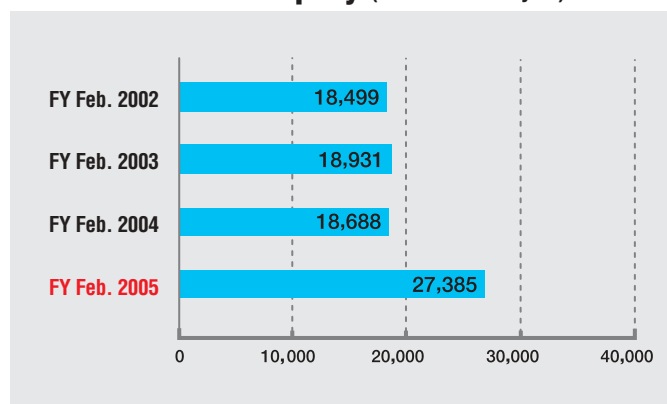


Consolidated Financial Position

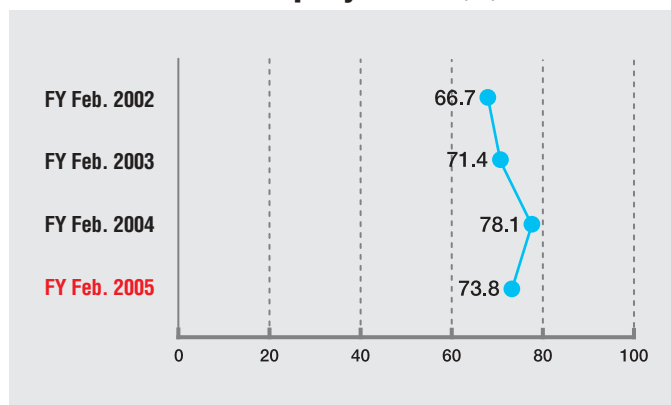
● Total Assets (in millions of yen)



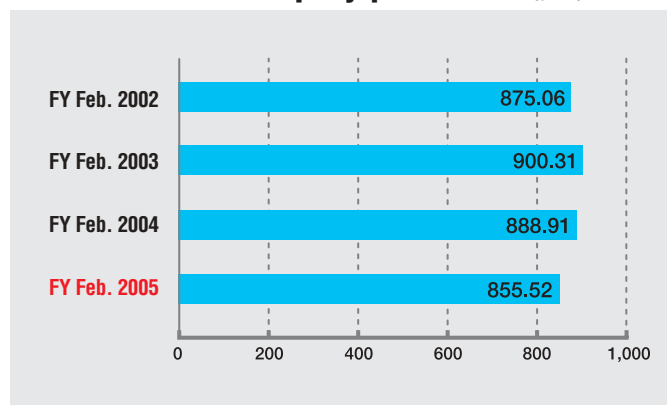
● Shareholders' Equity (in millions of yen)



● Shareholders' Equity Ratio (%)



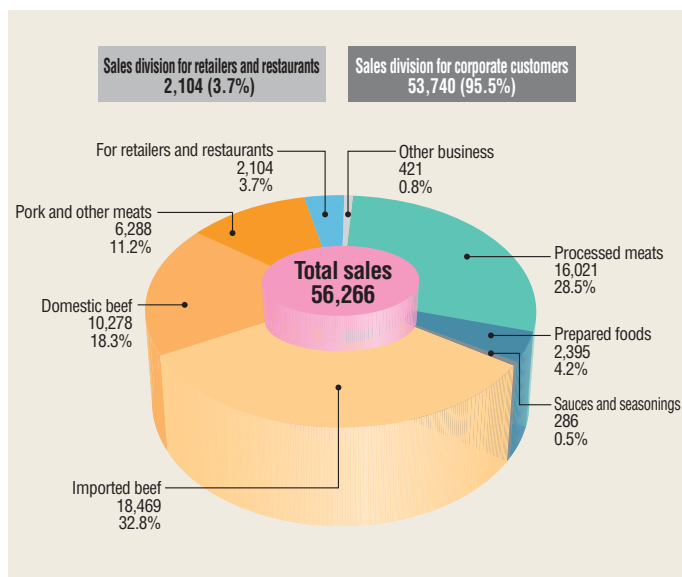
● Shareholders' Equity per Share (yen)



● Summary of Cash Flow Statement (in millions of yen)

	FY2003 to Feb. 28	FY2004 to Feb. 29	FY2005 to Feb. 28
Cash flow from operating activities	4,293	1,839	5,475
Cash flow from investing activities	△613	△959	△555
Cash flow from financial activities	△3,300	△1,443	△1,034
Cash and cash equivalents at end of year	2,671	2,204	6,078
Bank borrowing and corporate bond balance at end of year	836	103	383

● Consolidated Sales by Segments (in millions of yen)



● Appropriation of Unconsolidated Retained Earnings (in thousands of yen)

Unappropriated retained earnings at end of year	1,439,724
Withdrawal of special depreciation reserve	4,393
Total	1,444,118

The appropriation was as follows:

Cash dividends (6yen per share)	192,064
Special depreciation reserve	26,908

Unappropriated retained earnings to be carried forward	1,225,145
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Note: The interim dividend, totaling 126,124,000 yen (6yen per share) was paid on November 5, 2004.

● Shares

- Total numbers of shares authorized 120,000,000
- Number of shares of common stock issued 32,042,221
- Number of shareholders 3,008

● Dividends (yen)

	FY2003	FY2004	FY2005	FY2006, projected
Dividends per share	18	22	12	16
(Interim dividends)	(-)	(11)	(6)	(8)
(Year-end dividends)	(18)	(11)	(6)	(8)

Note: Dividend in FY2003 includes commemorative dividend of 6yen per share.

Information

Shareholder Special Benefit Plan

Shareholders will be presented S Foods products as a token of our gratitude.

Qualification: Shareholders with 500 or more shares as of the end of February, each year.

We plan to send the products in November.

Details: 1. Shareholders with between 500 and 1,999 shares S Foods products (roast beef) worth 3,000 yen
2. Shareholders with 2,000 or more shares Domestic beef (wagyu) worth 10,000 yen



Domestic beef (Wagyu)

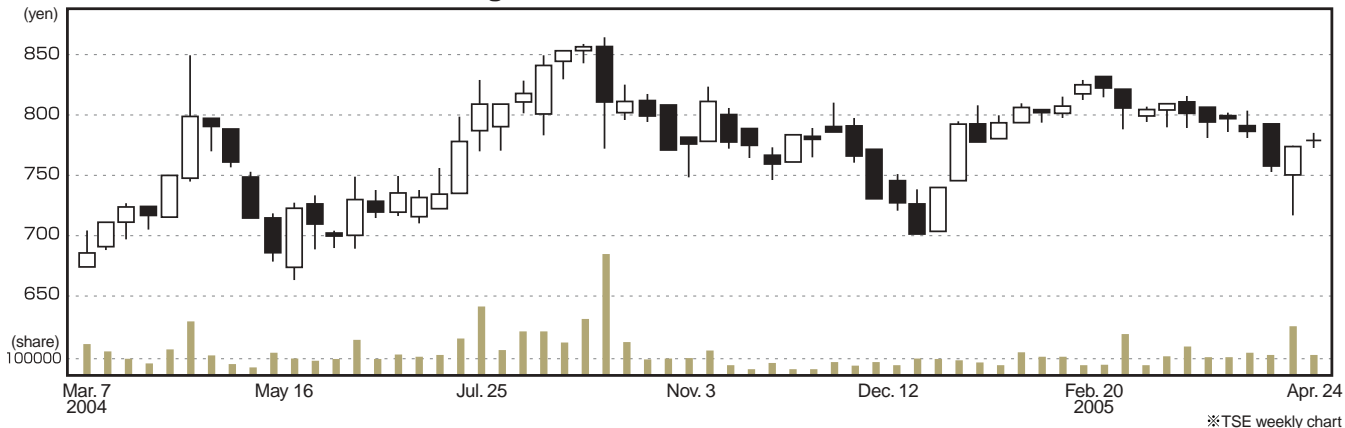


Roast beef



Note: Contents of the products are subject to change.

Trends in Share Values and Trading Volumes



Corporate Profile

Company Name: S Foods Inc.

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

Foundation: May 22,1967

Representative Hayao Morishima, President & CEO

Directors: Shinnosuke Murakami, Executive Vice President

Capital: 4,226 million yen

Number of Employees: 573
(Consolidated)

Business Lines: Manufacturing and sale of processed meat products,
prepared food products, sauces and seasonings and
sale of foodstuffs

Affiliates: M & M Shokuhin KK
Mr. Stamina KK
KK Kenshoku
FOEM Shokuhin Kakou KK
KK Ajicho
Goai Yakiniku Concept KK
Fremont Beef Copmany (U.S.A.)
Sukoyaka Shokuhin KK
Naruo Kousan KK
OM2 Network Co., Ltd.(Listed on JASDAQ)

Investor Information:

■ Stock Exchange Listing: Tokyo, Osaka

■ Transfer Agent: UFJ Trust Bank Limited
1-4-3 Marunouchi, Chiyoda-ku, Tokyo

■ Location of Transfer Operations: UFJ Trust Bank Limited
Corporate Agency Department
3-6-3 Fushimi-cho, Chuo-ku, Osaka
Phone: +81-6-6229-3011

■ Number of shares relevant to a unit: 500



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