



SFoods News

Annual Report for the period ended February 28, 2006



Shinnosuke Murakami
President

To Shareholders:

On March 1, 2006, I assumed the Presidency of S Foods Inc. and Mr. Hayao Morishima, the former President, became Chairman. We are resolved to make every effort for the continuous development of our company despite the severe business environment.

Recently, the Japanese food industry is facing a difficult situation in which any lack or failure in food safety or corporate ethics could have fatal consequences for the company. S Foods believes corporate responsibility lies in complying with these requirements concerning food and diet. We are resolved to supply safe and nourishing foods to our customers while keeping in mind our corporate motto: "We contribute to the world by supplying appealing savory and wholesome stamina food products."

As our long-range target, we aim to establish ourselves as a general meat company, living up to the slogan: "Top quality and sales: meat in Japan and variety meat in the world."

Company 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 Directors	Hayao Morishima, Chairman Shinnosuke Murakami, President
Capital	4,298 million yen
Number of Employees (Consolidated)	1,113
Business Lines	Manufacturing and Sale of Processed Meat Products, Prepared Food Products, Sauces and Seasonings and Sale of Foodstuffs

Investor Information

Stock Exchange Listing:	First Section of the Tokyo and Osaka Stock Exchanges
Administrator of Shareholder list:	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
Location of Transfer Operations:	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Department 3-6-3 Fushimi-cho, Chuo-ku, Osaka Phone: 0120-094-777 (toll free)
Number of shares per sales unit:	500



Overview of Business

The meat market in Japan has been plagued by extreme price fluctuations. Beef prices stayed high because of supply shortage in the first half of the year. In the latter half of the year, prices plunged in the wake of speculation that the trade ban on U.S. beef would be lifted. Finally, prices became unstable when, shortly after the resumption of trade, the trade ban was re-imposed.



"Tontetchan" for consumers

While the Japanese meat market has been confused ever since the halt of U.S. beef imports in December 2003, in this fiscal year our company continued to carry out measures to stably supply safe and tasty meat products. These measures are achieving steady results.

Specifically, we have developed and expanded sales of meat products other than beef, such as Tontetchan, Motsu-nabe and Purukogi-style Umabuta-guts, all of which have pork variety meat as the main ingredient. We also enhanced the line and improved the quality of Ajikai-Yakiniku that is Australian beef products processed to Japanese taste with our unique processing skills. Naruo Bokujo, the high-quality Australian beef brand we started selling exclusively in March 2004, has been penetrating the market.



Variety meat product of "Ajikai Koubou" for barbecue



Cuisine using meat from "Naruo Bokujo"

On March 1, 2005, the merger with Murachiku provided us with robust supply channels and a sales network for domestic beef. To achieve optimal synergy from the merger, we reinforced our sales network by upgrading our sales branches and improved management efficiency by integrating our computer systems.

Construction of the Nagoya sales branch, which opened on October 29, 2005 and has a meat processing center, represents the business development of the newly born S Foods.



Nagoya Sales Office

Also, we made OM2 Network Co., Ltd. into a consolidated subsidiary of S Foods Inc. through a takeover bid on August 9, 2005. This takeover enabled us to form the basis of a general meat company group with companies both upstream and downstream. As a result of the above measures, consolidated sales for this fiscal year were 92,676 million yen, up 64.7% from the previous year, pre-tax earnings were 2,447 million yen, up 24.9% from the previous year, and net income was 988 million yen, down 5.2%.

Prospect

The Japanese meat industry has been tormented by successive problems, including BSE affecting beef, avian influenza affecting chicken and tax-evasion allegations in the pork industry. These issues that may possibly undermine consumers' confidence are yet to be resolved. Amid the turmoil, we continue to provide safe and reliable meat products. Also, we are trying to establish a trustworthy general meat company group with affiliates from manufacturers down to retailers, and are strengthening corporate governance by enforcing internal control. Specifically, we will improve sales branches by utilizing advantages of the merger, boost operation rates and enhance competitiveness through efficient operation.

We project that these measures will provide sales for the year ending February 28, 2007 of 110 billion yen, up 18.7% from the previous year, and an increase in pre-tax earnings of 63.4%, to 4.0 billion yen. We also expect net income to be 1.5 billion yen, up 51.7%.

Business Result and Financial Position (Consolidated)

	FY Feb. 2005	FY Feb. 2006	FY Feb.2007 projection
Sales	56,266	92,676	110,000
Income from operations	1,707	1,896	3,800
Pre-tax earnings	1,960	2,447	4,000
Net income	1,043	988	1,500
Total assets	37,094	46,551	
Shareholders' equity	27,385	28,237	

(in millions of yen)

Tip

Visit our website and find unique French cuisine recipes using beef variety meat shown in a serial form.

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



Information

Our new products

Tontetchan renewed



Tontetchan was renewed enriching its taste with fresh vegetable flavor best for a barbeque, side dish or appetizer. Two tastes are available: for barbeque and for stir-fry with vegetable.

Purukogi-style Umabuta Guts



Neither a barbeque nor a stew, but a new cuisine you have never seen. Just boil meat with a bunch of vegetables in this salty-sweet purukogi-style sauce.

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.

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

We plan to send the products in November.

Domestic beef (Wagyu)



Specially selected domestic beef is to be cut as each qualified shareholder specifies into the style of shabu-shabu, steak or barbeque before being sent.



Round meat from Naruo-Bokujuyo-brand Australian beef is delicately cooked with our unique recipe to make succulent and flavorful roast beef.

Note: Contents of the products are subject to change.