

Message and Report to Stockholders

Overview of the 37th term

During the term under review, the Japanese economy remained sluggish. Although the Japanese government declared that the economy bottomed out, the unemployment rate reached the worst levels in history due to concerns over the global economy and the sluggish stock markets. In our industry, the series of food industry scandals following the BSE (bovine spongiform encephalopathy) problem took a toll on consumers' trust in meat products. Combined with sluggish personal consumption, the situation has continued to create an extremely difficult environment for our company.

Hayao Morishima
CEO
May 2003



Turning profitable

We deployed "Challenge 21 – Reengineering Plan," a major reform plan to our business that is designed to quickly pull our company out of business loss, caused primarily by BSE in the last year, and to develop a slim and strong business organization without futility. As a facet of this plan, we engaged in sales activities to become "Top company in variety meat of the world" and "Top of Yakiniku (A meaning is Japanese-style Barbecue) in Japan". Besides aggressively advancing such projects as the "Kotecchan 20th Anniversary Campaign" and "Motsu Nabe 10th Anniversary Campaign," we acquired the ISO 9001:2000 certification and created a traceability system that allows us to track and investigate the production history of products to provide our customers with safe products that they can use with confidence. In addition to such efforts to improve reliability and value added, we placed our emphasis on sales volume rather than sales revenue in an effort to increase market share.

As a result of these activities, we made sound progress in our reengineering plan, and sales volume increased to 55,571 tons, up 7.3% over last year. Due to lower unit prices and an increase in the sale of lower priced products, sales revenue amount fell 4.2% from last year to 38,533 million Yen. Our income before extraordinary items rose 292.0% from last year to 1,437 million Yen and net income amounted to 727 million Yen. In other words, we have attained the result exceeding our initial objective of the plan.

Basic business policies

As our company's basic business policies, we contribute to the world by supplying savoy, safe, healthy and appealing stamina food products, and "we experience self-actualization through our work and improve our lives and culture while fostering the growth and development of the company." The manufacture and sale of a processed meat product and a prepared food product which bring happiness to people of the world is set to the main domains, and we are engaged in a global business with the aim of becoming a corporate group that can enhance its self-worth.

As the meaning of the appealing stamina food products which is our purpose, we must create and supply the appealing stamina food products, and services which can respond to customer's needs that are high quality, safety, high functionality, nutrition good for system, reasonable price, enjoyable and satisfying meals, through our product and merchandise development and sales activities. We will continue to enhance the reputation and value of our company and realize the management vision of realizing a strong company under S Foods Code of Conduct, which serves as the action guideline that encompasses the company creed, the company motto based on the "five love's" (love our customers, love our products, love our company, love our employees, and love our stockholders), and compliance with corporate ethics and laws.

Improvement of corporate governance

We will develop a highly transparent and reliable management system, with emphasis on improved corporate governance and speedy decision-making and execution, to build a strong company that can win the completion in the 21st century.

We will clarify the roles and functions of directors (decision-making and managerial responsibilities), change their term in office (from two years to one), review the number of board of directors, and introduce the mandatory retirement system to rejuvenate and streamline the board of directors. In addition, we plan to further improve operational efficiency through the new executive officer system that we have implemented.

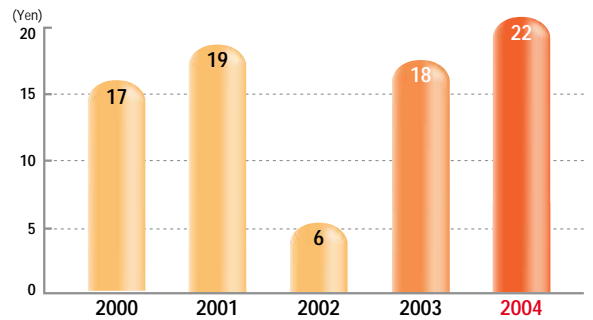
As for compliance, our Compliance Committee and the newly formed Quality Assurance Section will take the initiative in reinforcing the correspondence to the display based on a Food Sanitation Law of Ministry of Health and Welfare and quality control systems and safety sanitation and risk management systems.

We will also advance active disclosure (disclosure of quarterly financial statements) and solidify our finances by discarding negative assets.

Q1. Why did you increase the dividend for the 37th fiscal year?

A. Since our company was founded, we have always considered stockholders' value to be the most important issues in managing the business. As we have begun to see the results of our reengineering plan, we have scheduled a dividend of 18Yen per share (dividend pay-out ratio of 52%), including 6Yen per share to commemorate the 20th year of Kotecchan and 10th year of Motsu Nabe. Our dividend policy for the future is to return more profit to stockholders by improving business performance. Our basic target is to deliver consistent and continuous return of 12Yen per share in normal dividend and also to achieve dividend pay-out ratio of around 40%.

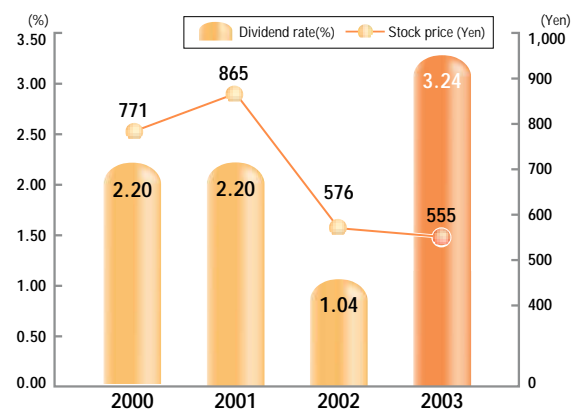
● The dividend per share (Yen)



Q2. What is your aim of selling more stock to individual investors?

A. We want to broaden the fan base of S Foods by encouraging as many consumers (individual investors) who patronize our products to become our stockholders. Therefore, we reduced the trading lot size from 1,000 shares to 500 shares at the securities exchange from July 1, 2002. From the 38th fiscal year, we will disclose quarterly financial statements and full information on our website. At the 37th General Stockholders' Meeting, we adopted a request to increase the purchase of odd stocks.

● Stock price at the end of year (Yen/a stock) and Dividend rate(%)



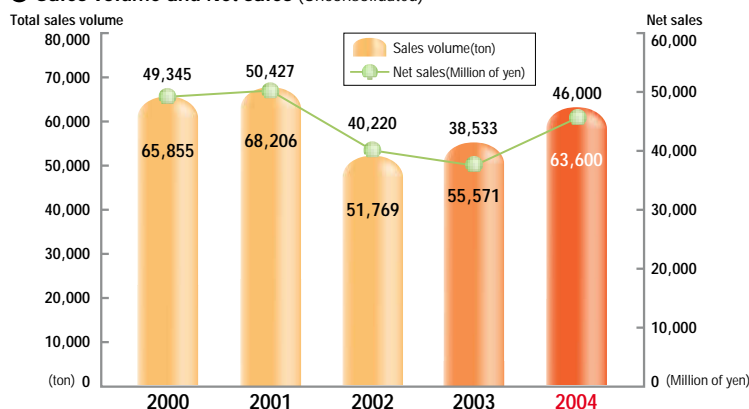
Q3. What is your outlook for the 38th fiscal year?

A. Our policy for the 38th fiscal year is to become a value creation company. We will accomplish this by completing our reengineering plan effort and advancing business modeling. We will shift enterprise resources to measure which we can create more value (further reinforce the existing business models) and we can have hope and pleasure in the future (create new business models). We will develop core products (strong products such as Kotecchan) and sales channels. Based on these activities, our company (non-consolidated) expects to achieve 63,600 ton in sales volume (up 14.4% from last fiscal year) in the 38th fiscal year, 46,000 million Yen in sales revenue (up 19.4%), 2,200 million Yen in our income before extraordinary items (up 53.0%), and 1,200 million Yen in net income (up 65.0%).

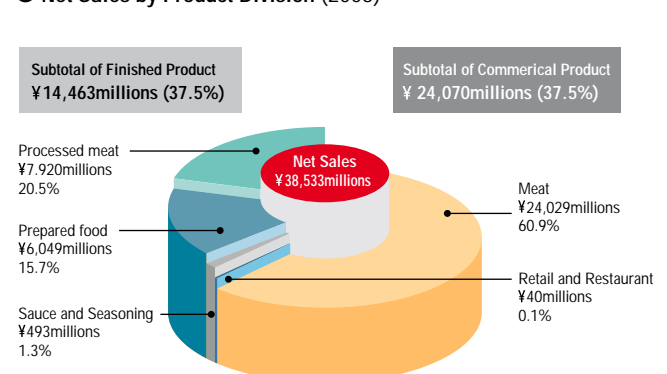
S Foods Business Model

- One with value of existence
- One that will be number one
- One that will be profitable and enhance prosperity
- One that will not be destroyed
- One that will develop itself and diversity globally and extensively

● Sales volume and Net sales (Unconsolidated)

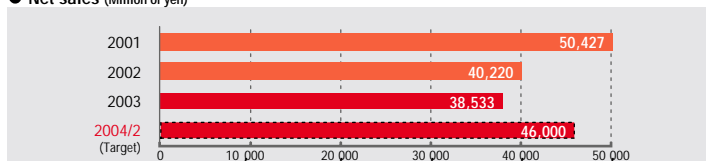


● Net Sales by Product Division (2003)

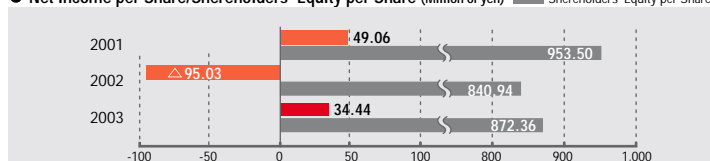


Financial Summary (unconsolidated)

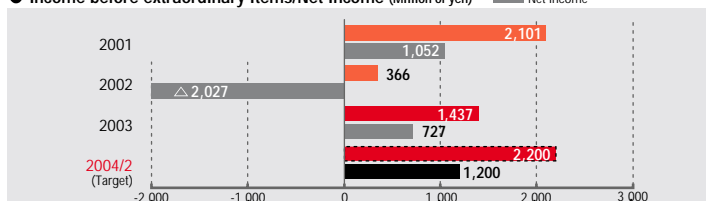
● Net sales (Million of yen)



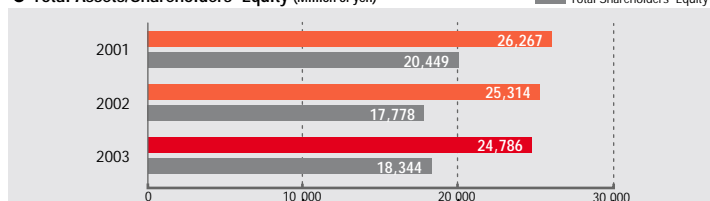
● Net Income per Share/Shareholders' Equity per Share (Million of yen)



● Income before extraordinary items/Net income (Million of yen)



● Total Assets/Shareholders' Equity (Million of yen)



Balance Sheet & Income Statement

● Individual Balance Sheet (Summary)

(Million of yen)

	February 28 2003	February 28 2002
Assets		
Current assets	10,693	10,480
Fixed assets	14,093	14,834
Total assets	24,786	25,314
Liabilities		
Current liabilities	6,039	7,145
Fixed liabilities	402	390
Total liabilities	6,442	7,536
Shareholders' Equity		
Common stock	4,226	4,226
Additional paid-in capital	4,171	4,171
Earned surplus	590	590
Retained earnings	9,595	8,995
Total shareholders' equity	18,344	17,778
Total liabilities & shareholders' equity	24,786	25,314

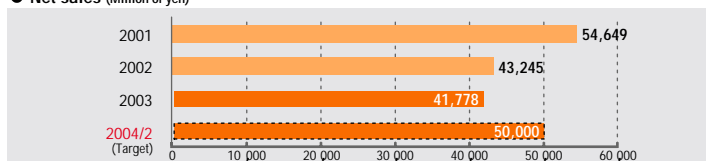
● Individual Statements of Income (Summary)

(Million of yen)

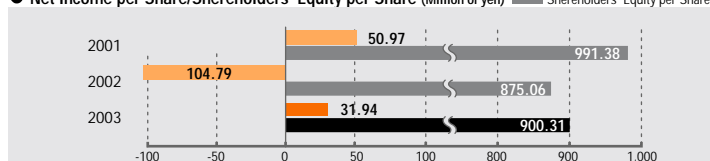
	2004/2 Annual term (Target)	2003/2 Annual term	2002/2 Annual term
Above the line			
Net sales	46,000	38,533	40,220
Cost and expenses	43,800	37,089	40,355
Operating income	2,200	1,444	△135
Non-operating income		204	553
Non-operating expenses		211	51
Income before extraordinary items	2,200	1,437	366
Below the line			
Extraordinary gains		12	166
Extraordinary losses		128	4,026
Income before income taxes		1,321	△3,493
Income taxes-current		35	60
-deferred		558	△1,526
Net income	1,200	727	△2,027
Retained earnings carried forward	1,139	806	960
Unappropriated retained earnings	2,339	1,533	△1,066

Consolidated Financial Summary

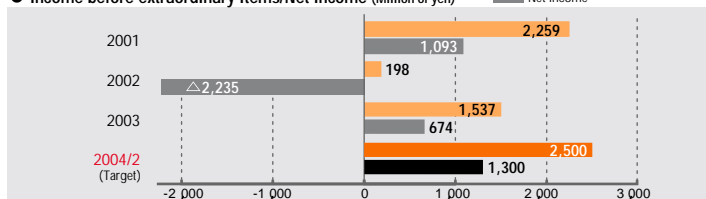
● Net sales (Million of yen)



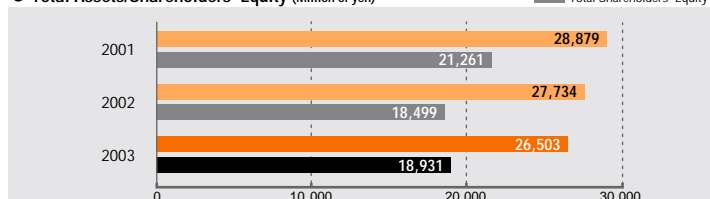
● Net Income per Share/Shareholders' Equity per Share (Million of yen)



● Income before extraordinary items/Net income (Million of yen)



● Total Assets/Shareholders' Equity (Million of yen)



Consolidated Balance Sheet & Income Statement

● Consolidated Balance Sheet (Summary)

(Million of yen)

	February 29 2003	February 28 2002
Assets		
Current assets	11,858	12,129
Fixed assets	14,644	15,604
Total assets	26,503	27,734
Liabilities		
Current liabilities	6,415	8,067
Fixed liabilities	494	434
Total liabilities	6,910	8,502
Minority interests	660	732
Shareholders' Equity		
Common stock	4,226	4,226
Additional paid-in capital	4,171	4,171
Consolidated retained earnings	10,748	10,200
Treasury stocks	△254	△194
Total shareholders' equity	18,931	18,499
Total liabilities, minority interest & shareholders' equity	26,503	27,734

● Consolidated Statements of Income (Summary)

(Million of yen)

	February 29 2004 (Target)	February 28 2003	February 28 2002
Above the line			
Net sales	50,000	41,778	43,245
Cost and expenses	47,500	40,175	43,465
Operating income	2,500	1,603	△220
Non-operating income		148	499
Non-operating expenses		214	80
Income before extraordinary items	2,500	1,537	198
Below the line			
Extraordinary gains		20	114
Extraordinary losses		232	3,958
Income before income taxes		1,326	△3,646
Income taxes-current		90	114
-deferred		542	△1,558
Net income	1,300	674	△2,235

◎ Summary of Cash Flows Statement (Millions of Yen)

Subject	2003/02 annual term	2002/02 annual term
Net Cash providedg by Operatin Activities	4,293	△1,261
Net Cash used in Investing Activities	△ 613	△196
Net Cash used in Financing Activities	△3,300	2,267
Cash and Cash Equivalents at End of Year	2,671	2,301
Dept & Corporate bond balance at the end of year	836	3,953

Company Profile

■ **Directors & Auditors** (Effective May 22,2003)

Representative Director	Hayao Morishima
Director	Susumu Tomisawa
Director	Naoki Tomonaga
Director	Kunitaka Dan
Director	Motohiro Tanaka
Director	Kenichi Nishida
Auditor	Yujiro Ohiro
Auditor	Masanobu Nakano
Auditor	Tadashige Otsuka

■ **Year of foundation**

May 22, 1967

■ **Paid in capital**

¥4,226.64milion (As of end February, 2003)

■ **Number of employee**

361 (As of end February, 2003)

■ **Annual sales**

¥38.5 billion

■ **Line of business**

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

■ **Affiliates**

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

*From the end of February2004, all subsidiaries will be set as the object of consolidated statements.

■ **Offices**

Head office:

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Phone No.+81-798-43-1065 Fax NO.+81-798-43-1067

Tokyo Head office:

38-24 Takasecho, Funabashi City, Chiba

Phone No.+81-47-435-0811 Fax NO.+81-47-433-3301

Branch:

Nagoya, Kyusyu

Office:

Sapporo, Sendai, Ibaragi, Funabashi, Kitakanto, Hachioji, Yokohama

Sizuoka, Nagano, Okazaki, Tokai-nisi, Kyoto, Nishinomiya, Rinku,

Wakayama, Okayama, Hirishima, Himezi(Branch office)

Factory:

Nishinomiya(No.1 & No.2), Funabashi