



SFoods News

Annual Report for the period ended February 28, 2007

To Shareholders:



Shinnosuke Murakami
President

Overview of Business

The Japanese economy during our current fiscal year has sustained solid growth, mainly owing to exporting companies' favorable results. The country is experiencing its longest post-war economic expansion, as of November 2006. However, domestic demand has remained sluggish with flagging consumer prices. The meat industry has suffered from a severe business environment with sluggish consumption and soaring prices of materials. Amid this situation, importation of U.S. beef resumed on July 27, 2006, which was welcomed by concerned parties including the food service industry. We expect imports will gradually increase although tough import conditions will not allow a sharp growth in supply quantity.

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)	1,041
Business Lines:	Meat Wholesale Business, Products Business, Meat Retail Business

Investor Information

■ Ordinary General Meeting of Shareholders:	May of every year
■ Reference Date:	Ordinary General Meeting The last day of February Dividend Term end The last day of February Interim The last day of August
■ Publication:	Announcement on the Website (http://www.sfoofs.co.jp/investor/koukoku.html)
■ 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 Osaka Corporate Agency Department 1-1-5 Dojimahama, Kita-ku, Osaka Phone: 0120-094-777 (toll free)
■ Number of shares per sales unit:	500



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Under these circumstances, we have strengthened our three major business lines: the meat wholesale business, in which we mainly deal in domestic or imported beef and pork; the products business, in which beef and pork are processed; and the meat retail business. As for the meat wholesale business, we have been improving the facilities of sales offices since the previous fiscal year. In October 2005, the Nagoya sales office with a meat processing center opened, merging two offices to build up its sales force in the



American beef on store shelves

Central Japan area. Also, two other similar sales offices are scheduled to open this year in April, in the Kyushu area and in October or later in the Kyoto-Shiga area.

In the products business, we worked to recover market share and boost the operating rates of our plants through the development of new products utilizing our original processing techniques and steady sales activities. Specifically, products such as "Tontetchan" and "Motsunabe" that are made from pork large intestine, and "Ajiwai kobo" that is processed from Australian meat to satisfy Japanese taste, were improved in quality and their sales were promoted. Also, the sale of "Kotetchan" resumed in limited areas in August 2006 after being halted two years ago. Sales areas will be expanded with the increase in material supply.



"Kotetchan" sale resumed



"Gyuta", a yakiniku restaurant chain, joined the group in March.

service, such as operating a yakiniku restaurant chain, as another downstream strategy, as with the retail business.

As a result of the above measures, consolidated sales for this fiscal year were 114,150 million yen, up 23.2% from the previous year; pre-tax earnings were 4,232 million yen, up 72.9% from the previous year; and net income was 1,581 million yen, up 60.0%.

The meat retail business has been developed mainly by OM2 Network Co., Ltd. Trading among the group companies has grown and contributed to the profit in this fiscal year, which is the second year since it became the S Foods' affiliate company. OM2 Network is planning to go into food

Major Issues

S Foods has been trying to contribute to the improvement of dietary life and the dissemination of rich food culture, providing healthy and nourishing food products with stable quality, quantity and price to our customers.

Our current tasks are: to enhance the products business by reconstructing the overseas supply chain in response to the resumption of U.S. beef imports; to maximize the group profit by promoting trade and cooperation among the group companies and; to heighten our corporate value by establishing effective internal control. Furthermore, we will vitalize our group by penetrating new business fields as well as by closely collaborating with our affiliate companies and by strengthening integrity in the group and promoting our effectiveness.

Prospect

Favorable factors such as the resumption of U.S. beef imports, ongoing improvement of our sales offices and the resumption of "Kotetchan" sale are expected to be reflected in our performance soon.

Despite the continuing severe environment in the whole food industry, we expect a gradual growth in our achievements due to the above-mentioned factors. We project sales for the next year of 120 billion yen, up 5.1% from the current year, and an increase in pre-tax earnings of 6.3%, to 4.5 billion yen. We also expect net income to be 2.0 billion yen, up 26.5%.

Business Result and Financial Position (Consolidated)

(in millions of yen)

	FY Feb. 2005	FY Feb. 2006	FY Feb. 2007	FY Feb. 2008 projection
Sales	56,266	92,676	114,150	120,000
Income from operations	1,707	1,896	3,961	4,300
Pre-tax earnings	1,960	2,447	4,232	4,500
Net income	1,043	988	1,581	2,000
Total assets	37,094	46,551	45,845	—
Shareholders' equity	27,385	28,237	32,336	—

Information

"Kotetchan"-Resumption of Sale

The sales of "Kotetchan" resumed after a discontinuation of two years caused by the shortage of material in May 2004. Many customers asked about when it would resume or encouraged us to resume it when we announced the discontinuation. Since then, we have been trying hard and we succeeded to restart selling "Kotetchan" in August 2006 in the restricted area of West Japan because of the limited supply of material. We are still trying hard to expand the sales area with the increase of material supply.



Our new products



Aiming at housewives and single women who are concerned with their health and beauty, a new brand, "Biken deli", was established. It provides the solution to customers who are not familiar with variety meats that are said to be good for health but who still want to take them in their diet.



Fried beef membrane and bean-starch vermicelli



Saufeed leek and liver



Chinese risotto with beef membrane (yukke-ian flavor)

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 :**
- Shareholders with between 500 and 1,999 shares**
S Foods products (roast beef) worth 3,000 yen
 - 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.

Roasted beef



Round meat from Naruo Bokujyo 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.

●Trends in Share Values and Trading Volumes

