



SFoods News

Annual Report for the period ended February 29, 2008

March 1, 2007 - February 29, 2008



Shinnosuke Murakami
President

Business Overview

The Japanese economy has been very unstable during the current fiscal year, mainly due to the subprime mortgage crisis that occurred in the U.S., which has spread to Japan. Another important factor behind the sluggish Japanese economy is the soaring prices of oil and other materials that are now being reflected in consumer prices as well. The meat industry has been struggling in this severe business environment, with the food service industry, particularly yakiniku restaurants, suffering from a slump over the past several years. The retail meat business has also begun showing signs of decline since the beginning of the current fiscal year. Under these circumstances, we have strengthened our three core businesses: wholesale meats, products,

and retail & food service, thereby ensuring consistent operation of the entire process from procurement of meats to distribution of food products to end consumers.

In the wholesale meat business, we mainly deal in domestic and imported beef and pork. In our domestic beef category, we established a new brand called "Wagyu Master," under which we supply our wagyu both to the Japanese market and to the U.S. and Hong Kong markets. Also, to better respond to local needs, we intensified the functions of our existing sales offices. Specifically, we relocated the Kyushu sales office in April 2007, and merged the previous Kyoto and Shiga sales offices in November the same year into a newly established Kyoto-Shiga sales office. Having a meat processing center on premises, these sales offices can now fulfill the needs of local customers more quickly and meticulously than ever before.

In our products business, we



S Foods Inc. Kyoto-Shiga sales office

aired a TV commercial of "Kotetchan" in the Kansai region in April 2007 in efforts to raise brand recognition following resumed sales in the previous consolidated fiscal year. In March this year, we began selling Kotetchan again in the Kanto region as well. Moreover, under the concepts of good taste and health, we rolled out a new brand called "Biken Deli" (cooked food products containing collagen, liver, etc.) targeted at health- and beauty-conscious women consumers. Introduction of this new brand signaled our stepped-up efforts to expand our customer base.



Kotetchan

In the retail & food service business, in March 2007 our group company OM2 Network Co., Ltd. acquired the entire share capital of the food service company Yakiniku no Gyuta Co., Ltd., making it a wholly owned subsidiary. This acquisition was part of our strategy to strengthen downstream operations in the face of the general slowdown of the retail meat industry. Meanwhile, all shares of our retail subsidiary Mr. Stamina Co., Ltd. were transferred from SFoods to OM2 Network to improve efficiency in our group management system. At the same time, all shares of our struggling subsidiary Star Chain Marushin Co., Ltd. were sold to parties outside our group.

Despite the above measures, consolidated sales for this fiscal year were 113,707 million yen, down 0.4% from the previous year; income from operations was 3,903 million yen, down 1.4% from the previous year; and pre-tax earnings were 3,847 million yen, down 9.1% from the previous year. Still, net income for this fiscal year was 1,901 million yen, up 20.3% from the previous year, because the impairment loss and tax expenses decreased from the previous consolidated fiscal year.



Major Issues

Rapid economic growth of countries like the BRICs is bringing about tremendous changes to the international food supply-and-demand environment. For Japan, a country that depends on imports for a large portion of its food consumption, maintaining a stable food supply, along with food safety, are expected to become major issues in the near future.

At S Foods, we will continue to contribute to Japan's food security through stable meat procurement and supply, making the most of our own conventional meat supply channels both at home and abroad. Our current tasks are to: diversify and stabilize our overseas meat procurement channels, especially those from Australia and the U.S.; establish overseas sales channels for domestic meats, particularly wagyu; further reinforce our domestic sales system designed to cater to local needs; strengthen our product brands through development and promotion of new products; and step up our compliance-based management by establishing effective internal controls.



Wagyu beef (Wagyu Master)

In the medium and long term, we will collaborate more closely with our affiliate companies and establish ourselves as a general meat company group in the domestic market. In overseas markets, we seek to build international food supply and sales networks. We believe that our greatest mission is to carry out our business activities in ways that contribute to further development of the Japanese livestock industry and a stable food supply.

Through the above measures, we will continue to increase our corporate value, live up to the expectations of our shareholders and of society in general, and thereby fulfill our social responsibilities.

Prospect

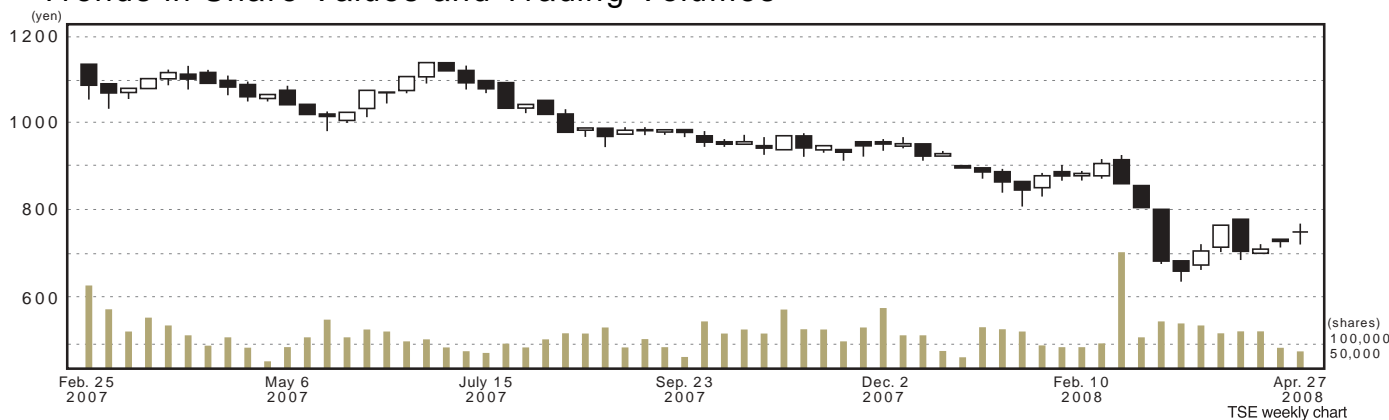
Our business environment is becoming increasingly severe due to the worsening of business confidence resulting from rising consumer prices. For the past several years, our group has been making strenuous efforts to increase our market share through vertical integration of all sectors of the food industry and taking an aggressive approach to underdeveloped market segments. This year, despite concern about the slowdown of the domestic economy, we expect a gradual growth in our achievements due to the above-mentioned steps that we have taken. We project sales for next year of 120 billion yen, up 5.5% from the current year; an increase in income from operations of 10.2%, to 4.3 billion yen; and an increase in pre-tax earnings of 17.0%, to 4.5 billion yen. We also expect net income to be 2.0 billion yen, up 5.2% from the current year.

Business Results and Financial Position (Consolidated)

Term \ Item	FY Feb. 2006 (40th term)	FY Feb. 2007 (41st term)	FY Feb. 2008 (42nd term)	FY Feb. 2009 (43rd term) projected
Sales	92,676	114,150	113,707	120,000
Income from operations	1,896	3,961	3,903	4,300
Pre-tax earnings	2,447	4,232	3,847	4,500
Net income	988	1,581	1,901	2,000
Total assets	46,551	45,845	50,587	
Shareholders' equity	28,237	32,336	33,820	
Dividend per share	16yen	16yen	20yen	22yen

Unit: Million yen (excl. dividends)

Trends in Share Values and Trading Volumes



Information

New products

Biken Deli Series

Chinese fried beef tendon and tofu: Beef tendon contains lots of collagen, a protein essential for healthy skin and joints. This new product offers a simple and delicious solution for those who want to cook ingredients that are hard to cook at home.



Fried beef tendon and tofu



(Serving suggestion)

Yakiniku-Oh Sauce Series

Teppanyaki-nabe Sauce: This sauce is a simple solution for those who want to enjoy delicious home-cooked chiritori nabe, a specialty of Osaka. Chiritori nabe is a healthy meal containing lots of vegetables and meat.



Teppanyaki-nabe Sauce



Teppanyaki-nabe
(Serving suggestion)

Shareholder special benefit plan

Shareholders will be presented S Food products as a token of our gratitude. Two types of presents are available. Please enjoy the rich flavor and taste unique to S Foods products.

Qualification : Shareholders registered in the shareholders' list and the list of substantial shareholders, who own one sales unit (500) or more shares as of the end of February each year

Presentation date : November (planned)

Details of benefit plan :

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

Shareholders with 2,000 or more shares Domestic beef (wagyu) worth 10,000 yen

Domestic beef (wagyu)



Our specially selected domestic beef will be cut into shabu-shabu, steak or barbecue style as each qualified shareholder specifies before being sent.

Roast beef



A block of round meat from Naruo Bokujo brand Australian beef will be delicately cooked whole using our unique recipe to make succulent and flavorful roast beef.

Photos above are for illustrative purposes only. Vegetables, plates and utensils in the photos are not included in the gifts.

Company Profile

Company Name:	S Foods Inc. (Listing exchanges: 1st sections of Tokyo Stock Exchange and the Osaka Securities Exchange, Securities code 2292)
Founding:	May 22, 1967
Representative:	Shinnosuke Murakami, President
Capital:	4,298,350,000 yen
Businesses: (Groups)	Wholesale meat business, products business, retail & food service business

Investor Information

Ordinary General Meeting of Shareholders:	May of every year
Reference Date:	Ordinary General Meeting : last day of February Dividend Term End : last day of February Interim : August 31
Publication:	Announcement on the company website *Announcement will be done on our website below. When use of the website is impossible due to unavoidable circumstances, we will place the announcement in the Nihon Keizai Shimbun. (http://www.sfoods.co.jp/investor/koukoku.html)
Administrator of Shareholder list:	Mitsubishi UFJ Trust and Banking Cooperation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
Location of share-related procedures (Contact):	Mitsubishi UFJ Trust and Banking Corporation Osaka Corporate Agency Division 1-1-5 Dojimahama, Kita-ku, Osaka 530-0004 Phone: 0120-094-777 (toll free)
Location of transfer operations:	Mitsubishi UFJ Trust and Banking Corporation All branches of Mitsubishi UFJ Trust and Banking in Japan
* To request forms concerning stock-related procedures, please contact Mitsubishi UFJ Trust and Banking at either of the phone numbers below. Requests are also taken online 24 hours a day on the company website. Phone (toll free) : +81 0120-244-479 (Corporate Agency Div., Head Office) +81 0120-684-479 (Osaka Corporate Agency Div.) Website: http://www.tr.mufj.jp/daikou/ (in Japanese)	

Shares per sales unit: 500



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