

SFOODS NEWS

Annual Report

Interim Fiscal Year ended August 31, 2005

Top Reports



Hayao Morishima
President & CEO

Report on Performance and Results of the Corporate Group

Overview of the Market and Company's Management Strategy

While an increase in exports and improved profitability of companies, especially of exporting companies, has led the corporate sector's performance to a recovery trend, full-scale recovery of the domestic economy seems not yet to have started. Changes in trends of individual consumption caused by the aging population with a lower birthrate and women's greater participation in society also influence the marketing climate.

To cope with the ever-changing market and to search for even wider business fields, S Foods Inc. and Murachiku Co., Ltd. merged on March 1 and the newborn S Foods started to make its way as a general meat company. We have agreed that the merger is the best solution for both companies because it will strengthen the management base



An OM2 Network owned meat shop

and we can increase market share by combining the advantages of the respective companies: imported beef with a concentration on variety meat, and domestic beef. Furthermore, we purchased OM2 Network Co., Ltd through a takeover bid, making it a consolidated subsidiary of our company, which added the nation-wide 160 meat-shop chain to our group.

Our Tasks and Long-Term Prospect

Our current tasks are: enhancing group management by utilizing our advantages and complementing each other's disadvantages; establishing a business model for pork variety meat; and reconstructing the business models destroyed by the halt of U.S. beef imports. As for the long-term prospect, we are trying to realize the slogan "Top Quality and Sales: Variety Meat in the World and Meat in Japan", becoming a general meat company that sincerely sells safe foods such as imported and domestic beef, pork and chicken that are precious sources of animal protein in the human diet, and to disseminate meat culture at home and abroad.



Wagyu cuisine, shabu-shabu

Specific Measures ~ Developing New Products and Enhancing Group Management

We have been contributing to the improvement of food culture through disseminating Yakiniku style cuisine. But nearly 2 years of U.S. beef disruption induced by BSE in the U.S. devastated meat retailers and food-service companies, as well as the yakiniku industry that mainly used U.S. beef. During this period, we have been implementing countermeasures, believing our corporate task and role is to save and reconstruct those devastated industries.

Specifically, we developed and promoted meat products other than beef, including Tontetchan that is made from pork large intestine. Also, we developed and expanded the sales of Flavorful Yakimiku that is processed from Australian beef with our skillful technique to suit Japanese taste. We also started exclusive sales of Naruo Bokujo brand Australian qualified beef products, acquiring the distributorship for Australian Rangers Valley Highland Ranch beef products in Japan.

Moreover, merger of Murachiku Co., Ltd. on March 1 provided S Foods with robust purchasing and sales channels for domestic beef. For the maximum synergy effect of the acquisition, we are working on the reinforcement of the sales section with infrastructure improvement and on the improvement of management efficiency with computer system integration. Also, on August 9, we purchased majority shares of OM2 Network Co., Ltd. through a takeover bid to build a general meat company group.



Nagoya branch rendering

Result for the Interim Term

By rapidly implementing the above measures, we secured the following results. Sales for the interim term were 37,295 million yen (a 94.5% increase from the previous interim term), profit before extraordinary items was 1,311 million yen (a 49.0% increase from the previous interim term) and net income was 758 million yen (a 55.6% increase from the previous interim term).

Prospect for the Year

It is now widely believed that import of U.S. beef, which used to occupy more than half of our sales, will be allowed within this year at the earliest. But the import quantity would still be limited even if it resumes and we cannot expect full resumption until the next fiscal year. Thus, we

exclude sales of U.S. beef in the prospect for the term. As for the meat market, prices had been extraordinary hiked up due to the short supply after the BSE case occurred in the U.S., but once resumption seemed to draw near, prices fell sharply. It seems the market is entering a correction phase toward normalization.

We are working on the penetration of Tontetchan brand and promotion of Buta-Motsunabe that is one of our main Tontetchan brand products, as well as preparing for the reconstruction of broken business models including Kotetchan. Regarding the acquisition of Murachiku Co., Ltd., specific effects have been achieved, such as the enhancement of the sales section through the construction and integration of sales offices. A typical example is the construction of the Nagoya sales office with a meat-processing center in late October, aiming to increase our market share in the growing mid-Japan area. We expect the temporary negative factors such as losses derived from a drop in market price caused by speculation that the import ban will be lifted; switching from substitutes to U.S. beef; and expenditure for resumption. Meanwhile, we will appropriately dispose of unused fixed assets generated from integration of sales offices, and we plan to record an extraordinary loss (loss on sales of fixed assets) of around 300 thousand yen this term in total for the group. We have resolved to maintain a wholesome balance sheet based on a "sound financial policy without non-performing assets".

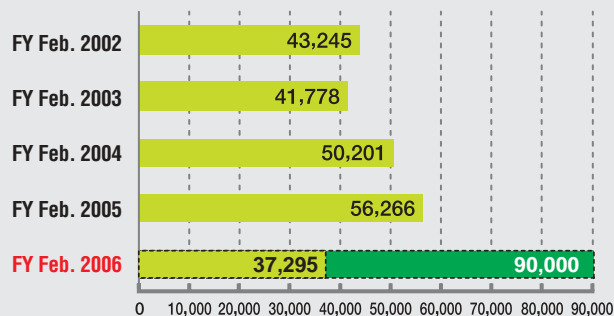
Considering the above circumstances, we have revised our prospect, and we now expect sales for the term ending February 2006 to be 90 billion yen, up 60.0% from the previous year, pre-tax earnings of 3 billion yen, up 53.1% over the previous year, and net income of 1.25 billion, a year on year increase of 19.8%.



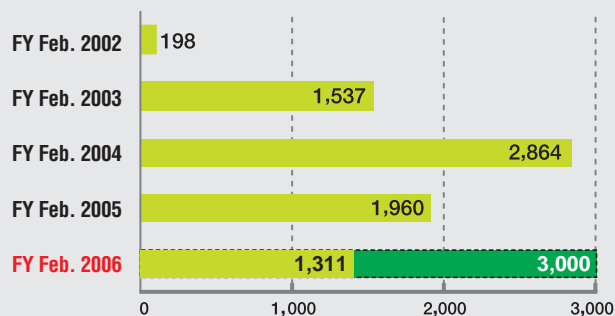
Pork variety meat pot with vegetables

Consolidated Business Result

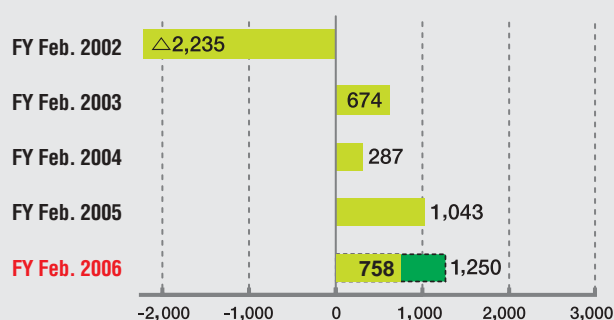
Sales (in millions of yen)



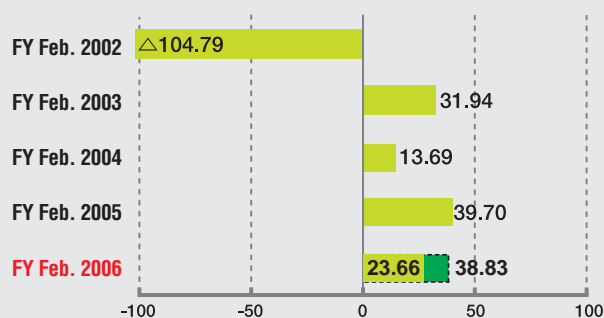
Net Income Before Taxes (in millions of yen)



Net Income (in millions of yen)

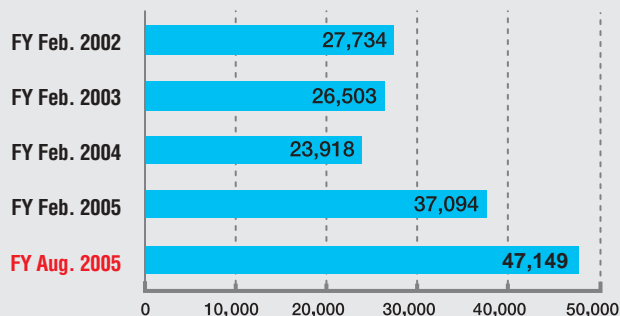


Earnings Per Share (yen)

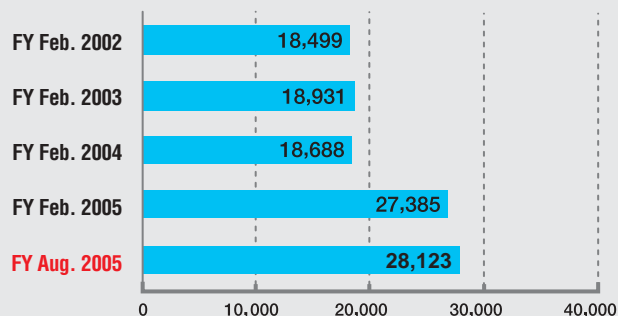


Consolidated Financial Position

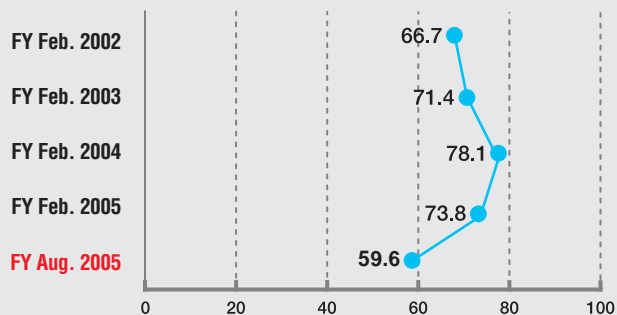
Total Assets (in millions of yen)



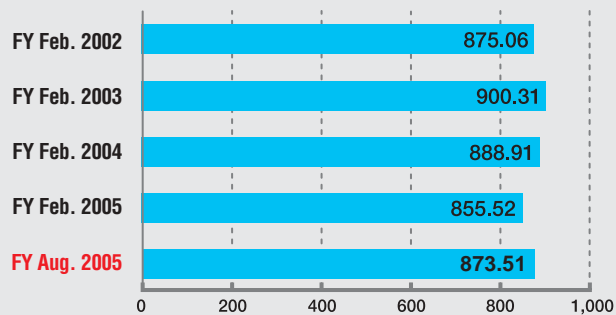
Shareholders' Equity (in millions of yen)



Shareholders' Equity Ratio (%)



Shareholders' Equity per Share (yen)



Summary of Cash Flow Statement (in millions of yen)

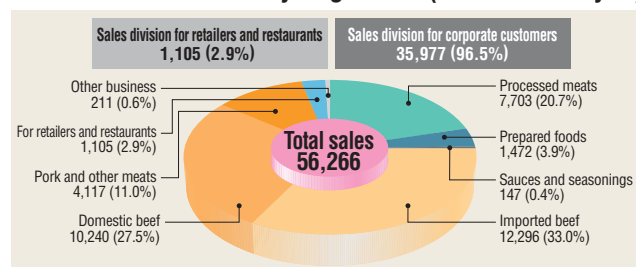
	to Aug. 31 2004	to Aug. 31 2005	to Feb. 28 2005
Cash flow from operating activities	2,436	1,017	5,475
Cash flow from investing activities	1,101	129	555
Cash flow from financial activities	237	167	1,034
Cash and cash equivalents at end of year	3,294	5,033	6,078
Bank borrowing and corporate bond balance at end of year	25	2,208	383

Dividends (yen)

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

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

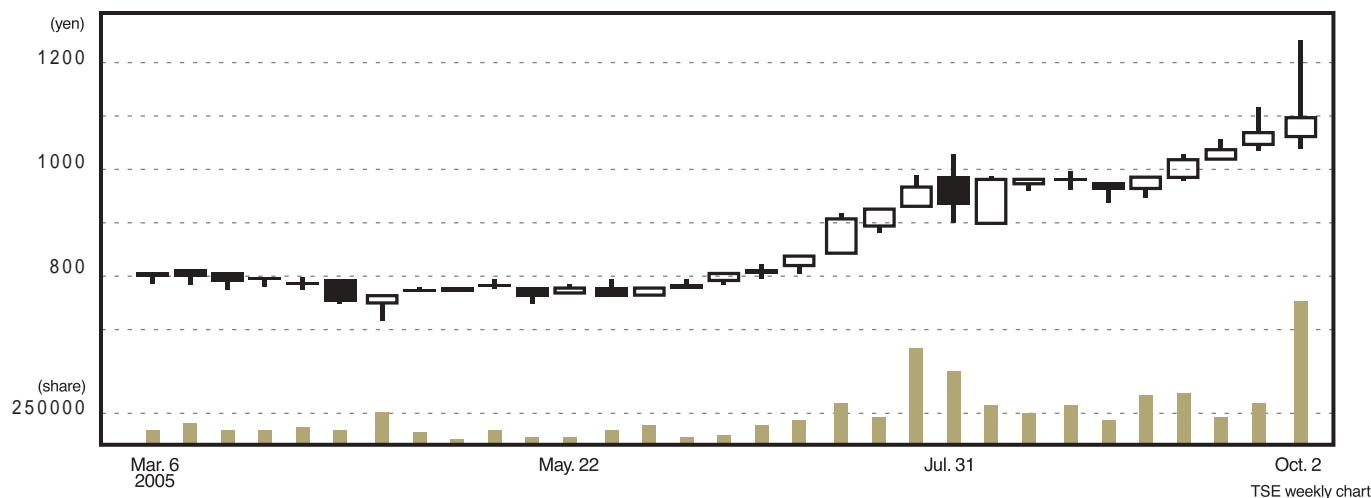
Consolidated Sales by Segments (in millions of yen)



Shares

Total numbers of shares authorized 120,000,000
Number of shares of common stock issued 32,230,721
Number of shareholders 2,955

Trends in Share Values and Trading Volumes



Information

New season, new taste, new experience

Pork variety meat pot

RENEWAL



Tontetchan pork variety meat pot [soy sauce flavor]

Tasty and rich flavor based on the taste of Hakata.

Only pork intestine of soft texture is selected as material.



Tontetchan pork variety meat pot [miso flavor]

Two types of popular miso are blended to give uncompromised quality.

Only pork intestine of soft texture is selected as material.



Tontetchan pork variety meat pot [kimchi flavor]

Specially flavored mild kimchi allows the whole family to enjoy the same pot.

The soft texture of pork small intestine is combined with flavorful kimchi.

Stew

NEW



Stewed pork intestine, miso flavor
Rich and tasty with full-flavored miso, using pork intestine suitable for stew and konnyaku made in Gumma Prefecture



Stewed beef membrane
Heavy taste with blended miso, using pork intestine suitable for stew and konnyaku made in Gumma

Soup for pot



Soup for Motsu-nabe
Soy sauce flavor with the taste of dried bonito and pork



Soup for Buta-miso-nabe
Long-term aged miso, to give a mellow flavor



Soup for Kimchi nabe
Mild flavored kimchi that the whole family can enjoy



Soup for Shio-channko-nabe
Simple salt flavor with chicken bone stock



Soup for Harihari-nabe
Plain soy sauce flavor that brings out the taste of meat and vegetables

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: 4,286 million yen

Number of Employees: 1,121
(Consolidated)

Business Lines: Manufacturing and Sales of Processed Meat Products,
Prepared Food Products,Sauces and Seasonings and
Sale of Foodstuffs

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

Investor Information:

■ Stock Exchange Listing: First Section of Tokyo and Osaka Stock Exchanges

■ Transfer Agent: Mitsubishi UFJ Trust Banking Corporation
1-4-5 Marunouchi, Chiyoda-ku, Tokyo

■ Location of Transfer Operations: Mitsubishi UFJ Trust Banking Corporation
Corporate Agency Department
3-6-3 Fushimi-cho, Chuo-ku, Osaka
Phone: 0120-094-777 (toll free)

■ Number of shares in a purchase unit: 500



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



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