

Year ended December 31, 2004

Flash Report on the Consolidated Results for the Year Ended December 31, 2004

February 14, 2005

Company Name: OENON HOLDINGS, INC.

Code Number: 2533

(URL <http://www.oenon.jp>)

Stock Exchange Listings: Tokyo, Osaka, Nagoya and Sapporo

Location of Head Office (Prefecture): Metropolis of Tokyo

Representative: Yukio Nagai, President &CEO

Contact: Yoshito Takagi, Director, Corporate Communication Dept.

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Date of the Board of Directors Meeting on the Closing of Accounts: February 14, 2005

Adoption of U.S. GAAP: No

1. Consolidated Performance for the Year Ended December 2004 (from January 1, 2004, to December 31, 2004)

(1) Consolidated operating results

Note: Amounts below one million yen are truncated.

| | Net sales | | Operating income | | Ordinary income | |
|--------------------------|-----------|-----|------------------|------|-----------------|------|
| | ¥ Million | % | ¥ Million | % | ¥ Million | % |
| Year ended December 2004 | 80,313 | 6.6 | 3,022 | 33.3 | 2,843 | 38.5 |
| Year ended December 2003 | 75,364 | 5.9 | 2,267 | 19.8 | 2,053 | 22.1 |

| | Net income | | Net income per share | Fully diluted net income per share |
|--------------------------|------------|------|----------------------|------------------------------------|
| | ¥ Million | % | ¥ | ¥ |
| Year ended December 2004 | 576 | 10.0 | 8.98 | — |
| Year ended December 2003 | 523 | 5.6 | 9.72 | — |

| | Return on equity (ROE) | Ratio of ordinary income to total capital | Ratio of ordinary income to net sales |
|--------------------------|------------------------|---|---------------------------------------|
| | % | % | % |
| Year ended December 2004 | 4.0 | 4.4 | 3.5 |
| Year ended December 2003 | 4.2 | 3.3 | 2.7 |

Notes: 1. Equity in net income or loss of unconsolidated subsidiaries and affiliates: -

2. Average number of shares outstanding during the year (consolidated):

Year ended December 2004: 58,889,941 shares

Year ended December 2003: 50,665,490 shares

3. Change in accounting method: Yes

4. Percentage figures for net sales, operating income, ordinary income and net income indicate respective changes from the previous fiscal year.

(2) Consolidated financial position

| | Total assets | Shareholders' equity | Equity ratio | Shareholders' equity per share |
|--------------------------|--------------|----------------------|--------------|--------------------------------|
| | ¥ Million | ¥ Million | % | ¥ |
| Year ended December 2004 | 63,323 | 15,839 | 25.0 | 243.09 |
| Year ended December 2003 | 65,279 | 13,280 | 20.3 | 236.67 |

Note: Number of shares issued and outstanding at the end of the year (consolidated):

64,965,832 shares at December 31, 2004

55,982,459 shares at December 31, 2003

(3) Consolidated cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of year |
|--------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | ¥ Million | ¥ Million | ¥ Million | ¥ Million |
| Year ended December 2004 | 6,508 | (4,294) | (2,420) | 2,601 |
| Year ended December 2003 | 3,774 | (796) | (1,902) | 2,807 |

(4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 12

Number of unconsolidated subsidiaries accounted for by the equity method: 0

Number of affiliates accounted for by the equity method: 0

(5) Change in the scope of consolidation and application of the equity method

Consolidation: (newly included): 0 (Excluded): 0

Equity method: (newly applied): 0 (Excluded): 0

2. Forecast Consolidated Performance for the Year Ending December 2005 (from January 1, 2005, to December 31, 2005)

| | Net sales | Ordinary income | Net income |
|---|-----------|-----------------|------------|
| | ¥ Million | ¥ Million | ¥ Million |
| Interim period ending June 30, 2005 | 38,500 | 1,000 | 300 |
| Year ending December 31, 2005 (full year) | 82,000 | 3,200 | 1,000 |

(Reference) Forecast net income per share (full year): ¥15.39

Note: These projected performance figures are based on information available to the Company's management as of the day for releasing the above data (February 14, 2005). There are many uncertain factors inherent in forecasting, and there might be cases in which actual results differ from forecast values. See page 9 of the Attachment for further information on forecasts.

Management Policies

1. Basic Management Policy

Our Group philosophy is, “From the bounty of nature and with biotechnology as our base, we aim to help people find enjoyment and health through food”. Based on this philosophy, the Oenon Group engages in biotechnology-based businesses around our core fermentation technology in such fields as Alcohol and Enzymes and pharmaceuticals.

In its business activities, the Group aggressively pursues a combined customer and earnings orientation to ensure qualitative improvements in business administration, thereby maximizing Group corporate value, as its priority management policy while fulfilling the critical mission of delivering products security and safety to customers.

2. Medium- and Long-Term Management Strategies

The Company has formulated the following medium- and long-term management strategies:

- 1) Prioritize shareholder-first management.
- 2) Strengthen areas of core competence to ensure earnings-focused management and further promote the restructuring of our business portfolio via selectivity and focus.
- 3) Optimize our sharing of functions among Company and Group members, in line with the holding company system.
- 4) Seek out values that customers demand and ensure customer loyalty by supplying differentiated products and services.
- 5) Demonstrate a cost leadership role in the industry by reducing total costs.
- 6) Continuously improve our financial structure and strengthen our management foundation.
- 7) Strengthen compliance management to ensure that we meet our corporate social responsibilities.

3. Targeted Financial Indicators

The Oenon Group’s priority targets are to raise operating income, ordinary income and net income, which are basic financial indicators of consolidated group management, while also improving net income per share and return on equity (ROE), which are typical profitability indicators. Meanwhile, the Group aims to reinforce shareholders’ equity by ensuring a certain level of cash flows.

To that end, the Group has set specific medium- and long-term targets: net sales of ¥100 billion and ordinary income of ¥5.0 billion to be achieved within the next 5 years.

4. Basic Policy on Profit Distribution

The Oenon Group’s top priority on profit distribution to shareholders is to maintain a stable dividend level of at least ¥5 per share, and to increase this amount when possible. At the same time, we take into account the Company’s

operating performance, payout ratio and other factors, while maintain internal reserves that allow for future business development and expanding our financial base, including making capital investments to boost our competitiveness. For the year ended December 31, 2004, we propose a year-end cash dividend of ¥5 per share, and in the year ending December 31, 2005, we intend to distribute dividends of ¥7 per share, up ¥2 per share.

5. Our Tasks Ahead

The liquor industry as a whole is reorganizing, triggered partly by such liberalization measures as the deregulation of liquor licenses. The industry also faces harsh operating conditions, including a long-term decline in the alcohol-drinking population.

In addition, customers' concept of values and lifestyles are becoming increasingly diverse and the conventional categories set forth in the Liquor Tax Law are decreasingly relevant. Accordingly, we are addressing such issues as the supply of appropriate environments for alcohol consumption, improved safety through higher product quality, the implementation of new liquor trade systems and an overall review of the current liquor tax system.

As part of these measures, the Company has revised its name to Oenon Holdings, Inc., and has established itself as the holding company for the Oenon Group.

Under the holding company system, the Company seeks to optimize management for all members of the Oenon Group. We formulate Groupwide guidelines and strategies for such fundamental areas as distributing resources appropriately among Group companies, set internal and external communication policies and carry out research and development. Companies within the Group perform daily business operations based on the above Group guidelines and strategies while capitalizing on their individual corporate strengths. Group management exercises flexibility to maximize synergies, thereby increasing overall corporate value and improving the management of Group companies.

6. Basic Views on Corporate Governance and the Implementation of Governance Measures

The Oenon Group's fundamental management concept is to be a good corporate citizen that complies with all laws and ordinances, and manage its operations in a transparent, impartial, flexible and speedy manner.

As the holding company responsible for overall Group management, the Company exercises management supervision while other companies in the Group concentrate on their respective business activities. As a result, the division between the Group management supervision and execution functions is clear.

By optimizing the number of directors, the Company has streamlined its managerial system to allow swifter decision-making. We have also strengthened corporate governance by employing the auditor system set forth under Japan's Commercial Code.

To promulgate shared goals throughout the Group, the Company periodically holds Group Management Conferences, attended by the presidents of major Group companies. These meetings focus on specific measures and compliance-related subjects.

In addition, the Group Company Management Rules stipulate that Group companies must consult with us prior to taking certain actions and must provide management information reports to confirm their proper and appropriate execution of business.

Furthermore, the Group has instituted several measures to upgrade and strengthen corporate governance. Such measures include establishing the Compliance Committee to put compliance into practice, performing quality control and other mutual internal audits among Group companies and ensuring conformance to corporate ethics.

Operating Results and Financial Position

1. Review of Operations

(1) Overview of operations

During the year ended December 31, 2004, the liquor industry continued to experience flat demand. The operating environment was severe, owing to increasingly stringent competition from unconventional sales channels. The liberalization of liquor sales licensing laws lowered barriers to entry into the liquor business from other fields. Also, liquor consumption shifted, owing to increasing consumer health-consciousness and more diverse drinking styles. Unusually warm summer weather also hampered sales in some product categories.

Sales trends by product category grew more diverse during the term. Sales of beer and low-malt beverages were sluggish, and sales of refined *sake* and wine continued to decline. Conversely, sales of beerlike alcoholic beverages launched during the year were robust, and sales were steady for low-alcohol drinks such as *chu-hi* (a refreshing beverage mixed with the clear distilled spirit *shochu*). Sales of *shochu*, especially Group B *shochu* (*Otsu-type shochu*), continued to expand significantly.

In this environment, the Oenon Group focused on the following tasks:

- 1) Increasing Group management efficiency by more appropriately distributing managerial resources in line with the Group's perceptions of its operating environment, and further demonstrating Group synergies;
- 2) Reviewing and revising business and product portfolios to improve product mixes based on the concept of selectivity and focus. These efforts included:
 1. Developing distinctive products that draw upon the strengths of individual Group companies
 2. Concentrating on products that deliver the best value, phasing out low-yield and unprofitable products and nurturing new brands;
- 3) Shifting entirely from a "product-out" to a "market-in" sales system, and investing effectively in marketing and communication expenses to establish powerful brands; and
- 4) Conducting thorough checks of corporate activities to reduce total costs, and thoroughly reviewing all functional cost items from procurement, purchasing and production to distribution and sales, including the costs that help create Group synergies.

As a result of these factors, consolidated net sales for the year under review increased 6.6% to ¥80,313 million. Consolidated ordinary income surged 38.5% to a record ¥2,843 million, owing principally to higher net sales, and better profitability because of our focus on high-value-added products, the more effective investment of marketing expenditures and economies of scale as the Group expanded.

Net income rose 10.0% to ¥576 million, despite extraordinary losses for the disposal of fixed assets as we renewed our facilities, the establishment of a reserve for executive retirement benefits, and a loss on disposal of inventories.

(2) Operating results by business segment

Alcoholic beverages:

Overall sales of *shochu* products advanced 14.5% to ¥41,731 million. Within this group, sales of Group B *shochu* (*Otsu-type shochu*) increased 39.3%, buoyed by our strong promotional efforts for such products as *Tantakatan* - flavored with the Japanese herb *shiso*, *Hakata no Hana* and *Komezō*, which rode the crest of a swell in *shochu* popularity.

Tantakatan sales were particularly strong, soaring 80%. Also popular was *Hakata no Hana* a traditional *shochu* variety made from barley, rice and buckwheat, with sales jumping 60%.

Sales of innovative new *shochu* varieties also increased, fitting into the demand niches that resulted from increasingly diverse consumer lifestyles. Such products included *Konkanetan* (flavored with *konbu* seaweed), *Goshotan* (a potato-based *shochu*), *Mugi-no-Kaori*, *Hakata-no-Hana Shochu-Mizuwari* and *Gokoku Shochu*. *Shiso-Shochu Tantakatan* and *Hakata-no-Hana*, *Sannen Chozo* both received awards for their distinguishing regional characteristics and excellent product quality.

Among products made from Group A *shochu* (*Kou-type shochu*), such high-value-added products as *Grand Bleu*, which is made from deep-ocean water, and *Chu-hi Senka* sold well. For Group A *shochu* (*Kou-type shochu*) products overall, we successfully maintained the preceding year's level of net sales through ongoing efforts to improve our distribution cost efficiency on products with low profitability.

In low-alcohol products, we focused on the launch of products in the *Tobikkiri Sour* and *La Cocktail* series, marketing them selectively and with an emphasis on value. Nevertheless, sales of these products declined 18.9% to ¥3,232 million.

In the *sake* compounds category, sales of our industry-leading *Genroku-Bijin* brand increased firmly despite overall sluggishness of business in this category. Group companies supported the product lineup, for example, with the addition of *Hataage*, contributing to a 13.0% rise in sales, to ¥6,526 million.

Despite a long-term sales decline in the *sake* category, our regional *Taisetsu no Kura* and *Nambu Gura* series, premium brands and sales from FUKUMUSUME SAKE BREWERY CO., LTD., bolstered sales. As a result, net sales of *sake* edged up 1.0% to ¥10,177 million.

Four Group companies exhibited products at the "National Research Institute of Brewing Sake Awards 2003." All eight of the *sake* products the Group won prizes, six of them gold awards. Overall, the Group's levels of technology and quality were evaluated highly.

During the year, we also enhanced our lineup of products based on the changing customer conscious toward the environment and health. Total net sales of Japanese-style alcohol products rose 9.1% to ¥65,268 million, posting a considerable improvement despite the phasing out of low-yield and unprofitable products.

Among Western-style alcohol, *ume* (plum) liquor sales expanded 6.8%, whereas health-oriented liquor sales rose 3.2%, reflecting the Group's launch of original products. Despite harsh ongoing market conditions in the category of Western alcohol for processing, net sales in this category advanced 4.6%.

The wine category followed the Oenon Group strategy of enhancing product lineups by eliminating low-yield products and concentrating on medium- and premium-priced products. We continued global promotion efforts and provided a broad assortment of *Beaujolais Nouveau* wines, which feature traditional manufacturing methods and are distributed by many importers. Despite these earnings-focused measures, our wine sales fell 4.6%.

As a result, net sales from the Western alcohol department fell 6.3% to ¥6,709 million.

Total net sales of the alcoholic beverages segment improved 7.5% to ¥71,977 million, exceeding the segment sales target set at the beginning of the year.

Food products:

The Group benefited from the market's recognition of our consistent production capabilities and superior product quality, which buoyed performance in this segment despite an unfavorable business environment marked by sluggish unit prices for processing starch. By vigorously cultivating new customers and developing new applications, we succeeded in increasing net sales of processing starch.

In seasonings, we suspended our sales efforts for agrifoods (pickles), owing to unprofitable delivery prices, and transferred this business out of the Group in August 2003, prompting a decline in sales. Overall, however, net sales of food products segment remained at approximately the previous year's level, edging down 0.1% to ¥4,377 million.

Enzymes and Pharmaceuticals:

In this segment, our mainstay lactose-splitting enzyme performed favorably, as we expanded sales channels in the North American and Nordic markets, helped by our proactive proposals for future applications.

In bulk pharmaceuticals, we are gradually shift from our existing pharmaceutical offerings and moving into generic drugs. Against this backdrop, sales of generic pharmaceutical bulk products released in 2003 increased, showing strong signs of recovery during the second half of the year.

In health foods and diagnostics, we introduced various products to meet increasingly diverse customer needs. However, sales failed to increase, reflecting intensified product competition in this category.

Overall, net sales of enzymes and pharmaceuticals fell 2.3% to ¥2,282 million, as stronger sales of mainstay products partly offset declines in sales of products that faced increasingly severe competition.

Real estate and others:

Lower revenues in the real estate segment partly reflected improvements in the Group's internal utilization of owned real estate, such as the integration of sales bases among multiple group companies, which reduced segment rental income. Sales in the others segment increased, thanks to our success in better understanding and meeting consumer trends in this area. Combined net sales in the real estate and others segments declined 0.1% to ¥1,676 million.

(3) Outlook

In 2005, we expect competition within the liquor industry to intensify, partly owing to ongoing changes in consumption styles, including decreasing popularity in certain categories. The industry will reorganize, prompting more selectiveness and focus among sales channels. We also anticipate a general review of the Liquor Tax Law and moves to revise liquor sales systems.

The Oenon Group will respond to such changes in its business environment by reinforcing Group management and clearly emphasizing our dual orientation toward customers and earnings. Under this basic management policy, we aim to enhance our brands, bolster quality and strengthen our financial base by proactively addressing our “5S” targets, thereby achieving consistent future growth.

1) SWITCH <Move to profitability>

We will make a radical shift in our operational focus from quantity to quality, both for products and our overall operations. We will cultivate potential customers in a high profit, high-growth markets. To this end, we will endeavor to practice quality-first marketing and production activities.

2) SLIM <Improve productivity>

By carefully reviewing our activities from the viewpoint of intra-group functionality, we will pursue synergies in all business operations. We will streamline production, sales and administrative systems, leading to higher productivity.

3) SHARE <Work together>

We will effectively share assets, expertise and information among Group companies, and revitalize internal organization at the Group level by encouraging cross-group organizations. We will seek to standardize activities to improve Groupwide administration and management. Furthermore, we will strive to maximize innovation and understanding through corporate communication activities that share our values with customers and shareholders.

4) SPEED <Respond quickly>

We will seek to develop a corporate culture that promotes quick and precise responses to the management issues facing the Group. We will revise social rules and review risks in the pursuit of speedy solutions.

5) SELECTION <Concentrate on selectivity and focus>

By taking into full account future values and radically reviewing existing businesses and products, we will strengthen our processes that ensure selectivity and focus.

To ensure the ongoing creation of corporate value, we will maintain leading-edge technical and product development capabilities. Our Research and Institute focuses on short-, medium- and long-term research themes that have promising potential for Groupwide business development.

By implementing these tasks, for the fiscal year ending on December 31, 2005, we forecast consolidated net sales of ¥82.0 billion, a 2.1% increase; ordinary income of ¥3.2 billion, up 12.5%; and net income of ¥1.0 billion, up 73.6%.

2. Financial Position (Consolidated Cashflow Situation)

During the year, net cash provided by operating activities increased to ¥6,508 million. Of this amount, income before income taxes and minority interests provided ¥1,684 million, and depreciation and amortization generated ¥2,408 million. The liquidation of receivables helped create a ¥1,471 million decrease in trade receivables. The increase in other fixed liabilities provided ¥1,678 million, while income taxes paid used ¥1,264 million.

Net cash used in investing activities was ¥4,294 million. This change was primarily attributable to ¥4,250 million in payments for the acquisition of fixed assets.

Net cash used in financing activities was ¥2,420 million. Principal factors included ¥2,133 million in proceeds from the issuance of new shares, a ¥1,060 million new increase in short-term borrowings, and ¥3,174 million in payments for long-term loans payable.

As a result, cash and cash equivalents as of December 31, 2004, totaled ¥2,601 million, compared with ¥2,807 million at the end of the previous fiscal year.

Cashflow indicators of the Group's activities are as follows:

| | Year ended December 31, 2002 | Year ended December 31, 2003 | Year ended December 31, 2004 |
|--------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Equity ratio (%) | 19.8 | 20.3 | 25.0 |
| Equity ratio at market valuation (%) | 17.3 | 19.6 | 27.5 |
| Debt redemption (years) | 5.7 | 6.0 | 2.9 |
| Interest coverage ratio (times) | 10.8 | 10.4 | 19.1 |

Notes:

Equity ratio: Shareholders' equity/total assets

Equity ratio at market valuation: Total market capitalization/total assets

Debt redemption: Interest-bearing debt/operating cash flow

Interest coverage ratio: Operating cash flow/interest payments

1. All of the above indicators are calculated on a consolidated basis.
2. Total market capitalization is calculated by multiplying the closing price of the Company's shares at the end of the year by the number of shares issued and outstanding at the end of the year.
3. Operating cash flow is the value stated as "cash flows from operating activities" in the consolidated statements of cash flows. Interest-bearing debt indicates the portion of balance-sheet liabilities on which interest is paid. Interest payment corresponds to the amount of interest paid in the consolidated statements of cash flows.

Consolidated Balance Sheets

(Amounts below one million yen are truncated.)

| Account item | Fiscal year 2003 (As of Dec. 31, 2003) | | Fiscal year 2004 (As of Dec. 31, 2004) | | Change | |
|------------------------------------|---|----------------------------|---|----------------------------|-----------------------------|---------|
| | Amount (Millions of yen) | Percent of total (%) | Amount (Millions of yen) | Percent of total (%) | Amount (Millions of yen) | |
| (Assets) | | | | | | |
| Current assets | | | | | | |
| Cash and deposits | 2,811 | | 2,605 | | | (206) |
| Notes and accounts receivable | 23,446 | | 21,974 | | | (1,471) |
| Marketable securities | 49 | | — | | | (49) |
| Inventories | 9,531 | | 9,271 | | | (260) |
| Deferred tax assets | 238 | | 324 | | | 86 |
| Prepaid expenses | 162 | | 146 | | | (15) |
| Other current assets | 584 | | 438 | | | (146) |
| Allowance for doubtful accounts | (51) | | (47) | | | 4 |
| Total current assets | 36,774 | 56.3 | 34,714 | 54.8 | | (2,060) |
| Fixed assets | | | | | | |
| Tangible fixed assets | | | | | | |
| Buildings | 17,008 | | 17,813 | | 805 | |
| Accumulated depreciation | (8,957) | 8,050 | (9,100) | 8,712 | (143) | 662 |
| Structures | 3,749 | | 3,875 | | 126 | |
| Accumulated depreciation | (2,258) | 1,490 | (2,342) | 1,532 | (83) | 42 |
| Machinery, equipment and vehicles | 24,858 | | 24,724 | | (134) | |
| Accumulated depreciation | (19,042) | 5,816 | (18,963) | 5,760 | 79 | (55) |
| Tools, furniture and fixtures | 1,860 | | 1,913 | | 53 | |
| Accumulated depreciation | (1,498) | 361 | (1,522) | 391 | (23) | 30 |
| Land | 7,654 | | 7,704 | | | 49 |
| Construction in progress | 794 | | 193 | | | (601) |
| Total tangible fixed assets | 24,167 | 37.0 | 24,295 | 38.4 | | 128 |
| Intangible fixed assets | | | | | | |
| Leasehold | 11 | | 11 | | | — |
| Consolidation adjustments | 1,176 | | 1,037 | | | (139) |
| Software | 220 | | 174 | | | (46) |
| Other intangible fixed assets | 522 | | 420 | | | (102) |
| Total intangible fixed assets | 1,930 | 3.0 | 1,643 | 2.6 | | (287) |
| Investments and other assets | | | | | | |
| Investment securities | 1,376 | | 1,624 | | | 248 |
| Long-term loans receivable | 28 | | 22 | | | (5) |
| Long-term prepaid expenses | 210 | | 190 | | | (20) |
| Deferred tax assets | 413 | | 444 | | | 31 |
| Other investments and other assets | 447 | | 440 | | | (7) |
| Allowance for doubtful accounts | (68) | | (51) | | | 16 |
| Total investments and other assets | 2,408 | 3.7 | 2,670 | 4.2 | | 262 |
| Total fixed assets | 28,505 | 43.7 | 28,609 | 45.2 | | 104 |
| Total Assets | 65,279 | 100.0 | 63,323 | 100.0 | | (1,955) |

| Account item | Fiscal year 2003 (As of Dec. 31, 2003) | | Fiscal year 2004 (As of Dec. 31, 2004) | | Change | |
|--|---|----------------------------|---|----------------------------|-----------------------------|---------|
| | Amount (Millions of yen) | Percent of total (%) | Amount (Millions of yen) | Percent of total (%) | Amount (Millions of yen) | |
| (Liabilities) | | | | | | |
| Current liabilities | | | | | | |
| Notes and accounts payable | 7,572 | | 7,196 | | | (376) |
| Short-term debt | 9,172 | | 7,784 | | | (1,388) |
| Bonds redeemable within 1 year | — | | 5,000 | | | 5,000 |
| Other payables | 5,164 | | 4,561 | | | (603) |
| Accrued liquor tax | 7,997 | | 7,867 | | | (130) |
| Accrued consumption tax | 863 | | 584 | | | (279) |
| Accrued income tax | 850 | | 831 | | | (19) |
| Allowance for employees' bonuses | 84 | | 78 | | | (5) |
| Accrued expenses | 200 | | 215 | | | 14 |
| Deposits payable | 215 | | 208 | | | (6) |
| Other current liabilities | 1,845 | | 785 | | | (1,060) |
| Total current liabilities | 33,967 | 52.1 | 35,111 | 55.4 | | 1,144 |
| Long-term liabilities | | | | | | |
| Bonds | 5,000 | | — | | | (5,000) |
| Long-term debt | 6,319 | | 3,472 | | | (2,846) |
| Long-term deposits payable | 3,152 | | 3,143 | | | (9) |
| Allowance for employees' retirement benefits | 1,254 | | 1,450 | | | 196 |
| Allowance for directors' retirement benefits | 84 | | 271 | | | 187 |
| Other long-term liabilities | 116 | | 1,778 | | | 1,661 |
| Total long-term liabilities | 15,927 | 24.4 | 10,116 | 16.0 | | (5,810) |
| Total liabilities | 49,895 | 76.5 | 45,228 | 71.4 | | (4,666) |
| (Minority Interests) | | | | | | |
| Minority interests | 2,104 | 3.2 | 2,255 | 3.6 | | 151 |
| (Shareholders' Equity) | | | | | | |
| Common stock | 5,867 | 9.0 | 6,938 | 11.0 | | 1,071 |
| Capital surplus | 4,477 | 6.8 | 5,540 | 8.7 | | 1,063 |
| Retained earnings | 2,779 | 4.2 | 3,043 | 4.8 | | 264 |
| Valuation difference of other securities | 185 | 0.3 | 351 | 0.6 | | 165 |
| Treasury stock | (29) | (0.0) | (34) | (0.1) | | (4) |
| Total shareholders' equity | 13,280 | 20.3 | 15,839 | 25.0 | | 2,559 |
| Total Liabilities, Minority Interests and Shareholders' Equity | 65,279 | 100.0 | 63,323 | 100.0 | | (1,955) |

Consolidated Statements of Income

(Amounts below one million yen are truncated.)

| Account item | Fiscal year 2003 (Jan. 1, 2003 – Dec. 31, 2003) | | Fiscal year 2004 (Jan. 1, 2004 – Dec. 31, 2004) | | Change | | | |
|---|--|-------------------------|--|-------------------------|-----------------------------|-------|-------|-------|
| | Amount (Millions of yen) | Percent of total (%) | Amount (Millions of yen) | Percent of total (%) | Amount (Millions of yen) | | | |
| Net sales | | 75,364 | 100.0 | | 80,313 | 100.0 | | 4,949 |
| Cost of sales | | 54,142 | 71.8 | | 57,547 | 71.7 | | 3,405 |
| Gross profit | | 21,221 | 28.2 | | 22,766 | 28.3 | | 1,544 |
| Selling, general and administrative expenses | | 18,954 | 25.2 | | 19,743 | 24.5 | | 789 |
| Operating income | | 2,267 | 3.0 | | 3,022 | 3.8 | | 755 |
| Nonoperating income | | | | | | | | |
| Interest income | 3 | | | 1 | | | (1) | |
| Dividend income | 21 | | | 26 | | | 5 | |
| Rental income | 66 | | | 76 | | | 9 | |
| Foreign currency exchange gain | 4 | | | 2 | | | (1) | |
| Other nonoperating income | 123 | 218 | 0.3 | 104 | 211 | 0.2 | (18) | (7) |
| Nonoperating expenses | | | | | | | | |
| Interest expenses | 354 | | | 344 | | | (10) | |
| Other nonoperating expenses | 77 | 432 | 0.6 | 45 | 390 | 0.5 | (32) | (42) |
| Ordinary income | | 2,053 | 2.7 | | 2,843 | 3.5 | | 790 |
| Extraordinary income | | | | | | | | |
| Gain on sales of fixed assets | 282 | | | 16 | | | (266) | |
| Reversal of allowance for doubtful accounts | 13 | | | 9 | | | (4) | |
| Others | 0 | 296 | 0.4 | 1 | 27 | 0.1 | 1 | (268) |
| Extraordinary loss | | | | | | | | |
| Directors' retirement benefits | 28 | | | 20 | | | (7) | |
| Transfer to directors' retirement benefits reserve | — | | | 138 | | | 138 | |
| Loss on sales and disposal of fixed assets | 382 | | | 429 | | | 47 | |
| Loss on disposal of inventories | 305 | | | 306 | | | 0 | |
| Loss on revaluation of memberships | 3 | | | 115 | | | 112 | |
| Loss on sales of investment securities | 0 | | | 3 | | | 3 | |
| Loss on revaluation of investment securities | 3 | | | 51 | | | 48 | |
| Others | 172 | 894 | 1.2 | 122 | 1,187 | 1.5 | (50) | 292 |
| Income before income taxes and minority interests | | 1,454 | 1.9 | | 1,684 | 2.1 | | 229 |
| Income, residential and enterprise taxes | 1,144 | | | 1,241 | | | 97 | |
| Reversal of income taxes payable for previous periods | — | | | (43) | | | (43) | |
| Adjustment for income taxes | (302) | 842 | 1.1 | (257) | 940 | 1.2 | 44 | 98 |
| Minority interests | | 88 | 0.1 | | 167 | 0.2 | | 78 |
| Net income | | 523 | 0.7 | | 576 | 0.7 | | 52 |

Consolidated Statements of Retained Earnings

(Amounts below one million yen are truncated.)

| Account item | Fiscal year 2003 (Jan. 1, 2003 – Dec. 31, 2003) | | Fiscal year 2004 (Jan. 1, 2004 – Dec. 31, 2004) | | Change | |
|---|--|-------|--|-------|-----------------------------|-------|
| | Amount (Millions of yen) | | Amount (Millions of yen) | | Amount (Millions of yen) | |
| (Capital surplus) | | | | | | |
| Capital surplus at beginning of year | | 3,935 | | 4,477 | | 541 |
| Increase in capital surplus | | | | | | |
| New issue of stock due to capital increase | 515 | | 1,062 | | 547 | |
| Gain on disposal of treasury stock | 26 | 541 | 0 | 1,063 | (26) | 521 |
| Capital surplus at end of year | | 4,477 | | 5,540 | | 1,063 |
| (Retained earnings) | | | | | | |
| Retained earnings at beginning of year | | 2,543 | | 2,779 | | 236 |
| Increase in retained earnings | | | | | | |
| Net income | 523 | 523 | 576 | 576 | 52 | 52 |
| Decrease in retained earnings | | | | | | |
| Dividends paid | 255 | | 279 | | 23 | |
| Bonuses to directors and corporate auditors | 31 | | 31 | | (0) | |
| (of which, bonuses to corporate auditors) | 2 | 287 | — | 311 | (2) | 23 |
| Retained earnings at end of year | | 2,779 | | 3,043 | | 264 |

Consolidated Statements of Cash Flows

(Amounts below one million yen are truncated.)

| Account item | Fiscal year 2003 (Jan. 1, 2003 – Dec. 31, 2003) | Fiscal year 2004 (Jan. 1, 2004 – Dec. 31, 2004) | Change |
|--|---|---|-----------------------------|
| | Amount (Millions of yen) | Amount (Millions of yen) | Amount (Millions of yen) |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | 1,454 | 1,684 | 229 |
| Depreciation and amortization | 2,173 | 2,408 | 235 |
| Amortization of consolidation adjustments | 130 | 139 | 8 |
| Increase (decrease) in allowance for employees' retirement benefits | (503) | 196 | 699 |
| Increase (decrease) in allowance for directors' retirement benefits | — | 187 | 187 |
| Increase (decrease) in allowance for doubtful accounts | (40) | (21) | 18 |
| Interest and dividend income | (24) | (27) | (3) |
| Interest expenses | 354 | 344 | (10) |
| Loss (gain) on sales of investment securities | 0 | 3 | 2 |
| Loss on revaluation of investment securities | 3 | 51 | 48 |
| Gain on sales of fixed assets | (282) | (16) | 266 |
| Loss on sales and disposal of fixed assets | 382 | 429 | 47 |
| Loss on revaluation of memberships | 3 | 115 | 112 |
| Loss on disposal of inventories | 305 | 306 | 0 |
| Decrease (increase) in trade receivables | (484) | 1,471 | 1,955 |
| Increase in inventories | (808) | (45) | 763 |
| Increase (decrease) in accounts payable | 562 | (376) | (938) |
| Increase (decrease) in accrued liquor tax | 1,004 | (130) | (1,135) |
| Decrease (increase) in other current assets | (255) | 160 | 416 |
| Increase (decrease) in other current liabilities | 433 | (187) | (620) |
| Increase (decrease) in other fixed liabilities | 52 | 1,678 | 1,625 |
| Others | 211 | (285) | (496) |
| Subtotal | 4,673 | 8,086 | 3,413 |
| Interest and dividends received | 24 | 28 | 3 |
| Interest paid | (363) | (340) | 22 |
| Income taxes paid | (559) | (1,264) | (704) |
| Net cash provided by operating activities | 3,774 | 6,508 | 2,734 |
| Cash flows from investing activities: | | | |
| Decrease in time deposits | (4) | (4) | — |
| Increase in time deposits | 4 | 4 | — |
| Payments for acquisition of fixed assets | (1,753) | (4,250) | (2,497) |
| Proceeds from sales of fixed assets | 1,043 | 24 | (1,018) |
| Payments for acquisition of investment securities | (16) | (42) | (25) |
| Proceeds from sales of investment securities | 0 | 13 | 13 |
| Payments for acquisition of stock in newly consolidated subsidiaries | 62 | — | (62) |
| Proceeds from sales of stock in newly consolidated subsidiaries | 3 | — | (3) |
| Proceeds from collection of loans | 8 | 7 | (0) |
| Others | (143) | (46) | 96 |
| Net cash used in investing activities | (796) | (4,294) | (3,497) |

Consolidated Statements of Cash Flows (continued)

| | | | |
|--|---------|---------|---------|
| Cash flows from financing activities: | | | |
| Net decrease (increase) in short-term loans payable | (3,582) | (1,060) | 2,522 |
| Proceeds from long-term loans payable | 3,681 | — | (3,681) |
| Payments for long-term loans payable | (2,881) | (3,174) | (293) |
| Proceeds from issuance of new shares | 1,032 | 2,133 | 1,101 |
| Dividends paid | (256) | (279) | (22) |
| Dividends paid to minority interests | (16) | (12) | 4 |
| Others | 120 | (28) | (148) |
| Net cash used in (provided by) financing activities | (1,902) | (2,420) | (518) |
| Net increase (decrease) in cash and cash equivalents | 1,075 | (206) | (1,281) |
| Cash and cash equivalents at beginning of period | 1,731 | 2,807 | 1,075 |
| Cash and cash equivalents at end of period | 2,807 | 2,601 | (206) |

(Segment Information)

(a) Business segments

(Amounts below one million yen are truncated.)

| Item | Fiscal year 2003 (January 1, 2003 – December 31, 2003) | | | | | | | |
|---|--|---------------|-----------------------------|-------------|--------|--------|--------------------------|--------------|
| | Alcoholic beverages | Food products | Enzymes and pharmaceuticals | Real estate | Others | Total | Elimination or corporate | Consolidated |
| 1. Sales and operating income/expenses | | | | | | | | |
| Sales: | | | | | | | | |
| Sales to outside customers | 66,967 | 4,381 | 2,337 | 456 | 1,221 | 75,364 | — | 75,364 |
| Inter-segment sales/transfers | 87 | 0 | — | 222 | 5,856 | 6,166 | (6,166) | — |
| Total sales | 67,054 | 4,381 | 2,337 | 678 | 7,078 | 81,530 | (6,166) | 75,364 |
| Operating expenses | 65,681 | 4,295 | 1,927 | 305 | 6,985 | 79,195 | (6,098) | 73,097 |
| Operating income (loss) | 1,373 | 86 | 409 | 373 | 92 | 2,335 | (68) | 2,267 |
| 2. Assets, depreciation and amortization, and capital expenditures | | | | | | | | |
| Assets | 51,300 | 4,355 | 1,639 | 3,560 | 6,230 | 67,086 | (1,806) | 65,279 |
| Depreciation and amortization | 1,679 | 100 | 133 | 114 | 145 | 2,173 | — | 2,173 |
| Capital expenditures | 3,088 | 38 | 190 | 84 | 186 | 3,588 | — | 3,588 |

Notes:

1. Segmentation: Businesses of the Oeon Group are categorized into five segments (alcoholic beverages, food products, enzymes and pharmaceuticals, real estate and others), depending on product types and characteristics, as well as similarities of their respective markets.

2. Major products of each business segment

| Business segment | Major products/business areas |
|-----------------------------|--|
| Alcoholic beverages | <i>Shochu, chu-hi, sake</i> compounds, <i>sake</i> , Western-style alcohol for processing, wines |
| Food products | Processing starch, pickles, seasonings |
| Enzymes and pharmaceuticals | Enzymes, diagnostics, bulk pharmaceuticals, health foods |
| Real estate | Purchase and sale, leasing and rental of real estate |
| Others | Food services, warehousing, packaging, cargo handling |

3. Within assets, the “elimination or corporate” category amounted to ¥2,654 million. Major items were funds for surplus fund management (cash and marketable securities), long-term investments (investment securities) and assets related to administrative departments.

(Amounts below one million yen are truncated.)

| Item | Fiscal year 2004 (January 1, 2004 - December 31, 2004) | | | | | | | |
|---|--|---------------|-----------------------------|-------------|--------|--------|--------------------------|--------------|
| | Alcoholic beverages | Food products | Enzymes and pharmaceuticals | Real estate | Others | Total | Elimination or corporate | Consolidated |
| 1. Sales and operating income/expenses | | | | | | | | |
| Sales: | | | | | | | | |
| Sales to outside customers | 71,977 | 4,377 | 2,282 | 409 | 1,266 | 80,313 | — | 80,313 |
| Inter-segment sales/transfers | 78 | 0 | — | 482 | 7,449 | 8,011 | (8,011) | — |
| Total sales | 72,056 | 4,377 | 2,282 | 891 | 8,716 | 88,325 | (8,011) | 80,313 |
| Operating expenses | 70,207 | 4,025 | 1,981 | 442 | 8,646 | 85,302 | (8,011) | 77,291 |
| Operating income (loss) | 1,849 | 352 | 301 | 449 | 70 | 3,022 | (-) | 3,022 |
| 2. Assets, depreciation and amortization, and capital expenditures | | | | | | | | |
| Assets | 48,933 | 3,116 | 2,621 | 3,276 | 5,010 | 62,959 | 364 | 63,323 |
| Depreciation and amortization | 1,872 | 75 | 182 | 84 | 193 | 2,408 | — | 2,408 |
| Capital expenditures | 1,671 | 59 | 778 | 45 | 150 | 2,705 | — | 2,705 |

Notes:

1. Segmentation: Businesses of the Oeon Group are categorized into five segments (alcoholic beverages, food products, enzymes and pharmaceuticals, real estate and others), depending on product types and characteristics, as well as similarities of their respective markets.

2. Major products of each business segment

| Business segment | Major product/business lines |
|-----------------------------|--|
| Alcoholic beverages | <i>Shochu, chu-hi, sake</i> compounds, <i>sake</i> , Western-style alcohol for processing, wines |
| Food products | Processing starch, seasonings |
| Enzymes and pharmaceuticals | Enzymes, diagnostics, bulk pharmaceuticals, health foods |
| Real estate | Purchase and sale, leasing and rental of real estate |
| Others | Food services, warehousing, packaging, cargo handling |

3. Within assets, the “elimination or corporate” category amounted to ¥3,287 million. Major items were funds for surplus fund management (cash and marketable securities), long-term investments (investment securities) and assets related to administrative departments.

(b) Geographical segments

As sales in Japan account for more than 90% of total sales in each category for the year under review and the preceding term, segment sales by geographical region are omitted.

(c) Overseas sales

As overseas sales account for less than 10% of total net sales for the year under review and the preceding term, information on overseas sales is omitted.

Production, Orders Received and Sales Performance

1. Production

The production performance by major product category is as follows:

| Business segment | Item (Major product category) | Fiscal year 2003 | Fiscal year 2004 | Change (%) |
|---------------------|--|---|---|------------|
| | | (Jan. 1, 2003 to Dec. 31, 2003) (Kiloliters) | (Jan. 1, 2004 to Dec. 31, 2004) (Kiloliters) | |
| Alcoholic beverages | <i>Shochu</i> | 96,465 | 100,842 | 104.5 |
| | <i>Chu-hi</i> | 20,697 | 16,566 | 80.0 |
| | <i>Sake</i> | 28,789 | 28,881 | 100.3 |
| | <i>Sake compounds</i> | 28,771 | 32,982 | 114.6 |
| | Brewing alcohol | 15,113 | 20,778 | 137.5 |
| | <i>Mirin</i> (sweet <i>sake</i> for cooking) | 5,415 | 5,241 | 96.8 |
| | Western-style alcohol | 6,144 | 5,513 | 89.7 |
| | Total | 201,397 | 210,806 | 104.7 |
| Food products | Seasonings | 9,009 | 6,223 | 69.1 |

Note: The production in the enzymes and pharmaceuticals segment is not stated, as quantitative computation is difficult. The real estate and others segments are not listed, as these segments had no production outputs.

2. Orders received

The Oeon Group does not conduct production on a made-to-order basis.

3. Sales performance

The sales performance by item (major product category) is as follows:

(Amounts below one million yen are truncated.)

| Business segment | Item (Major product category) | Fiscal year 2003 | Fiscal year 2004 | Change (%) |
|-----------------------------|--|--|--|------------|
| | | (Jan. 1, 2003 to Dec. 31, 2003) (Millions of yen) | (Jan. 1, 2004 to Dec. 31, 2004) (Millions of yen) | |
| Alcoholic beverages | <i>Shochu</i> | 36,455 | 41,731 | 114.5 |
| | <i>Chu-hi</i> | 3,985 | 3,232 | 81.1 |
| | <i>Sake</i> | 10,074 | 10,177 | 101.0 |
| | <i>Sake compounds</i> | 5,776 | 6,526 | 113.0 |
| | Brewing alcohol | 1,648 | 1,849 | 112.2 |
| | <i>Mirin</i> (sweet <i>sake</i> for cooking) | 1,863 | 1,751 | 94.0 |
| | Western-style alcohol | 7,164 | 6,709 | 93.7 |
| | Total | 66,967 | 71,977 | 107.5 |
| Food products | | 4,381 | 4,377 | 99.9 |
| Enzymes and pharmaceuticals | | 2,337 | 2,282 | 97.7 |
| Real estate | | 456 | 409 | 89.8 |
| Others | | 1,221 | 1,266 | 103.7 |
| Total | | 75,364 | 80,313 | 106.6 |

Notes:

- The above amounts do not include consumption taxes.
- As sales performance at each destination accounts for less than 10% of total sales performance, sales performance by destination is omitted.