

Flash Report on the Consolidated Results for the First Three Quarters of the Fiscal Year Ending December 31, 2005 (January 1, 2005, to September 30, 2005)

November 11, 2005

Company Name: OENON HOLDINGS, INC.

Code Number: 2533

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

Stock Exchange Listings: First Section of Tokyo, Osaka and Nagoya stock exchanges, and Sapporo Stock Exchange

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1. Items pertaining to the preparation of quarterly financial information

- ① Application of simplified accounting methods: Yes

Description: The simplified method for accounting for corporate and other taxes is used.

Depreciation and amortization expenses are approximated as that portion of depreciation and amortization expenses that applies to the quarter under review.

- ② Changes in accounting methods subsequent to preceding fiscal year: No

- ③ Changes in applied scope of consolidation or equity method application: No

2. Consolidated Performance for the First Three Quarters of the Year Ending December 2005 (from January 1, 2005, to September 30, 2005)

(1) Consolidated operating results

Note: Amounts below one million yen are truncated.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
First three quarters of year ending December 2005 (Jan. 1, 2005 – Sept. 30, 2005)	53,155	(5.1)	1,598	17.7	1,509	23.6
First three quarters of year ended December 2004 (Jan. 1, 2004 – Sept. 30, 2004)	55,989	—	1,358	—	1,221	—
(For reference) Year ended December 2004	80,313		3,022		2,843	

	Net income		Net income per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
First three quarters of year ending December 2005 (Jan. 1, 2005 – Sept. 30, 2005)	501	205.9	7.69	—
First three quarters of year ended December 2004 (Jan. 1, 2004 – Sept. 30, 2004)	164	—	2.88	—
(For reference) Year ended December 2004	576		8.98	—

Note: Percentage changes in net sales, operating income, etc. are in comparison with the same quarter of the preceding year.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
First three quarters of year ending December 2005 (Jan. 1, 2005 – Sept. 30, 2005)	55,121	16,210	29.4	247.95
First three quarters of year ended December 2004 (Jan. 1, 2004 – Sept. 30, 2004)	59,308	15,098	25.5	236.02
(For reference) Year ended December 2004	63,323	15,839	25.0	243.09

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 period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
First three quarters of year ending December 2005 (Jan. 1, 2005 – Sept. 30, 2005)	2,134	(1,837)	(839)	2,059
First three quarters of year ended December 2004 (Jan. 1, 2004 – Sept. 30, 2004)	2,379	(4,075)	547	1,658
(For reference) Year ended December 2004	6,508	(4,294)	(2,420)	2,601

Qualitative Information Pertaining to Consolidated Operating Results

During the first three quarters of the fiscal year under review (from January 1, 2005, to September 30, 2005), consolidated net sales decreased 5.1%, compared with the same period of the preceding term, to ¥53,155 million. However, consolidated operating income expanded 17.7%, to ¥1,598 million, consolidated ordinary income increased 23.6%, to ¥1,509 million, and consolidated net income surged 205.9%, to ¥501 million.

Performance by business segment is described below.

Alcoholic beverages:

While the overall market for Group B *shochu* (*Otsu-type shochu*) is in an adjustment phase, our *Shiso Shochu Tantakatan* product enjoyed double-digit sales growth, and sales of *Hakata no Hana* continued to expand. In July 2005, we launched *Katsumi Gyokuro Shochu*, which is made with carefully selected leaves of refined green tea grown in Japan. This recent introduction is one example of the Company's ongoing strategy of introducing high-value-added products to the Japanese beverage market. Owing to such efforts, our sales of Group B *shochu* were approximately the same as the same period of the preceding term, despite strategic cuts of unprofitable products in this category.

Sales of Group A *shochu* (*Kou-type shochu*) declined, as our focus on profitability prompted us to curtail spending to counteract market trends in this category. Nevertheless, overall *shochu* sales were approximately the same as in the corresponding period of the previous term.

Overall sales of refined *sake* decreased, as we revised our product portfolio to meet changing consumer tastes and our profit-oriented focus. However, our *sake* products continue to be very well received. We again won gold medals from the National Research Institute of Brewing *Sake Awards*, and we received the first certification under the Hokkaido Food Product Certification System. We believe that such designations attest to our successful ongoing efforts to launch premium products.

In the *sake* compounds category, we slashed sales of low-margin private-brand offerings and dynamically employed group product brands, including *Genroku Bijin* and *Shujinko*, whose leading market shares became increasingly entrenched.

Sales of alcohol for brewing and other purposes increased sharply. In our view, such expansion evinces the market's awareness of the quality of our products in this category.

In the *chu-hi* and low-alcohol product category, we launched such value-added products as *Bin-chu*—a bottled *chu-hai*—and *Wa no Sparkling (Ume)*. Despite a favorable initial response and our shift toward a strong portfolio of products, overall sales of Japanese-style alcohol decreased 6.4%, to ¥42,612 million.

In the Western-style alcohol category, *Oshukubai Pack ume* (plum) liquor posted strong sales, as did *Zeitaku Umeshu*. Also faring extremely well was *La Tomato*, an Oeon Group original, an example of our ongoing introductions to the beverage market.

For wine products, the Company carefully selects quality wines from various chateaux, then offers these to customers through various promotions. This sales strategy focuses on ensuring profits.

Overall sales of Western-style alcohol, including the above-mentioned categories and alcohol for processing, amounted to ¥3,971 million, down 7.0% from the corresponding period of the preceding term.

The Company continues to implement a strategy of reconfiguring its product portfolio for both Japanese- and Western-style alcohol. Owing to these shifts, overall sales of alcoholic beverages slipped 6.5%, to ¥46,584 million.

Enzymes and pharmaceuticals:

Within the enzymes and pharmaceuticals category, sales of enzymes benefited from sharply higher sales of our mainstay lactase than we initially forecast. During the period, we cultivated sales routes in North America, Latin America, Europe, Asia and Oceania. We were also proactive in proposing new applications for this enzyme. Sales of new products, such as a protease, also contributed to robust performance in this area.

Sales of bulk pharmaceuticals continued to increase steadily, benefiting from a growing acceptance of generic drugs and strong sales of hyperlipidemia agent. Our newly introduced bulk pharmaceutical for diabetes agent also had a significant positive impact on sales in this category.

Sales continue to expand for such diagnostic products as a reagent to test for hemoglobin in feces. The positive results outlined above culminated in a 30.5% increase in sales, to ¥2,241 million.

Food products, real estate and others:

Food product sales dropped 3.1%, to ¥3,118 million. While sales of processing starch expanded, sales of seasonings declined as a result of efforts to pare down unprofitable products. Revenues in the real estate segment decreased slightly, in line with aggressive moves to improve the Group's internal utilization of owned real estate. Sales in the others segment increased, buoyed by a recovery in sales from restaurant operations. Consequently, sales in the real estate and others category was ¥1,211 million, down a slight 1.8%.

Consolidated financial position

As of September 30, 2005, total assets decreased ¥4,186 million, to ¥55,121 million, down notably from one year earlier. In particular, notes and accounts receivable decreased, resulting from aggressive efforts to promote the liquidity of receivables.

Total liabilities decreased ¥4,883 million, to ¥37,108 million, as we used the cash generated from higher liquidity of receivables and increased income to pay down borrowings. Total shareholders' equity at the end of the period was ¥16,210 million, up ¥1,112 million. As a result, the equity ratio was 29.4%, a substantial improvement from the 25.5% recorded one year ago.

Net cash provided by operating activities was ¥2,134 million. Major factors included higher income before income taxes and minority interests and depreciation and amortization, a decrease in trade receivables, these factors offset decreased trade payables and lower accrued liquor tax, as well as income tax paid.

Net cash used in investing activities was ¥1,837 million. Primary factors were the net change in fixed assets, as we acquired such assets. Net cash used in financing activities was ¥839 million, affected by a decline in net borrowings and dividends paid.

Outlook

At this time, we make no revisions to our full fiscal year forecast announced in August 2005.

(Attachments)

1. Consolidated Balance Sheets (Abbreviated)

(Amounts below one million yen are truncated)

Account item	First three quarters of fiscal year ending December 31, 2005 (As of September 30, 2005)	First three quarters of fiscal year ended December 31, 2004 (As of September 30, 2004)	(For reference) Fiscal year 2004 (As of December 31, 2004)
	(Millions of yen)	(Millions of yen)	(Millions of yen)
(Assets)			
I. Current assets			
Cash and deposits	2,063	1,662	2,605
Notes and accounts receivable	13,811	17,456	21,974
Inventories	9,977	10,417	9,271
Other current assets	951	972	862
Total current assets	26,804	30,508	34,714
II. Fixed assets			
Tangible fixed assets	23,449	24,505	24,295
Intangible fixed assets	1,597	1,788	1,643
Investments and other assets	3,269	2,505	2,670
Total fixed assets	28,316	28,799	28,609
Total Assets	55,121	59,308	63,323
(Liabilities)			
I. Current liabilities			
Notes and accounts payable	5,567	5,760	7,196
Short-term debt	8,495	10,366	7,784
Bonds redeemable within 1 year	5,000	—	5,000
Other payables	2,947	3,152	4,561
Accrued liquor tax	3,780	4,658	7,867
Other current liabilities	1,982	2,226	2,702
Total current liabilities	27,773	26,163	35,111
II. Long-term liabilities			
Bonds	—	5,000	—
Long-term debt	2,270	4,091	3,472
Long-term deposits payable	3,262	3,322	3,143
Allowance for employees' retirement benefits	940	1,414	1,450
Other long-term liabilities	2,861	2,000	2,050
Total long-term liabilities	9,334	15,828	10,116
Total liabilities	37,108	41,992	45,228
(Minority Interests)			
Minority interests	1,802	2,217	2,255
(Shareholders' Equity)			
I. Common stock	6,938	6,819	6,938
II. Capital surplus	5,568	5,422	5,540
III. Retained earnings	3,222	2,631	3,043
IV. Treasury stock	481	224	316
Total shareholders' equity	16,210	15,098	15,839
Total Liabilities, Minority Interests and Shareholders' Equity	55,121	59,308	63,323

2. Consolidated Statements of Income (Abbreviated)

(Amounts below one million yen are truncated)

Account item	First three quarters of fiscal year ending December 31, 2005 (Jan. 1, 2005–Sept. 30, 2005)	First three quarters of fiscal year ended December 31, 2004 (Jan. 1, 2004–Sept. 30, 2004)	(For reference) Fiscal year 2004 (Jan. 1, 2004–Dec. 31, 2004)
	(Millions of yen)	(Millions of yen)	(Millions of yen)
I. Net sales	53,155	55,989	80,313
II. Cost of sales	38,063	40,464	57,547
Gross profit	15,091	15,524	22,766
III. Selling, general and administrative expenses	13,493	14,166	19,743
Operating income	1,598	1,358	3,022
IV. Nonoperating income	161	168	211
V. Nonoperating expenses	250	306	390
Ordinary income	1,509	1,221	2,843
VI. Extraordinary income	43	25	27
VII. Extraordinary loss	259	513	1,187
Income before income taxes and minority interests	1,293	732	1,684
Income, residential and enterprise taxes	693	438	940
Minority interests	97	129	167
Net income	501	164	576

3. Consolidated Statements of Cash Flows (Abbreviated)

(Amounts below one million yen are truncated)

Account item	First three quarters of fiscal year ending December 31, 2005 (Jan. 1, 2005–Sept. 30, 2005)	First three quarters of fiscal year ended December 31, 2004 (Jan. 1, 2004–Sept. 30, 2004)	(For reference) Fiscal year 2004 (Jan. 1, 2004 – Dec. 31, 2004)
	(Millions of yen)	(Millions of yen)	(Millions of yen)
I. Cash flows from operating activities:			
Income before income taxes and minority interests	1,293	732	1,684
Depreciation and amortization	1,629	1,806	2,408
Decrease (increase) in trade receivables	8,163	5,989	1,471
Decrease (increase) in inventories	(740)	(885)	(45)
Increase (decrease) in accounts payable	(1,629)	(1,812)	(376)
Others	(5,173)	(2,097)	2,943
Subtotal	3,542	3,733	8,086
Income taxes paid	(1,201)	(1,114)	(1,264)
Others	(206)	(239)	(312)
Net cash provided by operating activities	2,134	2,379	6,508
II. Cash flows from investing activities:			
Net change in fixed assets	(1,372)	(3,959)	(4,226)
Net change in investment securities	43	(41)	(28)
Others	(508)	(74)	(39)
Net cash used in investing activities	(1,837)	(4,075)	(4,294)
III. Cash flows from financing activities:			
Net increase (decrease) in loans payable	(490)	(1,033)	(4,234)
Proceeds from issuance of new shares	–	1,896	2,133
Dividends paid	(321)	(276)	(279)
Others	(26)	(39)	(41)
Net cash (used in) provided by financing activities	(839)	547	(2,420)
IV. Revaluation of cash and cash equivalents	–	–	–
V. Net increase (decrease) in cash and cash equivalents	(542)	(1,149)	(206)
VI. Cash and cash equivalents at beginning of period	2,601	2,807	2,807
VII. Cash and cash equivalents at end of period	2,059	1,658	2,601

4. Segment Information

Business segments

(Millions of yen/Amounts below one million yen are truncated)

Item	First three quarters of fiscal year 2005 (January 1, 2005 – September 30, 2005)							
	Alcoholic beverages	Food products	Enzymes and pharmaceuticals	Real estate	Others	Total	Elimination or corporate	Consolidated
Sales:								
Sales to outside customers	46,584	3,118	2,241	280	931	53,155	—	53,155
Inter-segment sales/transfers	40	1	—	400	5,140	5,583	(5,583)	—
Total sales	46,624	3,120	2,241	680	6,071	58,738	(5,583)	53,155
Operating expenses	46,036	2,921	1,784	303	6,094	57,140	(5,583)	51,557
Operating income (loss)	588	198	456	377	(22)	1,598	(—)	1,598

(Millions of yen/Amounts below one million yen are truncated)

Item	First three quarters of fiscal year 2004 (January 1, 2004 – September 30, 2004)							
	Alcoholic beverages	Food products	Enzymes and pharmaceuticals	Real estate	Others	Total	Elimination or corporate	Consolidated
Sales								
Sales to outside customers	49,821	3,217	1,717	314	918	55,989	—	55,989
Inter-segment sales/transfers	51	0	—	349	5,323	5,724	(5,724)	—
Total sales	49,873	3,217	1,717	664	6,242	61,714	(5,724)	55,989
Operating expenses	49,186	2,962	1,655	334	6,217	60,356	(5,724)	54,631
Operating income (loss)	686	255	62	329	24	1,358	(—)	1,358

(For Reference)

(Millions of yen/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
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

Geographical segments

As sales in Japan accounted for more than 90% of total sales in each category for the first three quarters under review (January 1, 2005, to September 30, 2005), the first three quarters of the preceding term (January 1, 2004, to September 30, 2004) and the preceding fiscal year (January 1, 2004, to December 31, 2004), segment sales by geographical region are omitted.

Overseas sales

As overseas sales accounted for less than 10% of total net sales for the first three quarters under review (January 1, 2005, to September 30, 2005), the first three quarters of the preceding term (January 1, 2004, to September 30, 2004) and the preceding fiscal year (January 1, 2004, to December 31, 2004), information on overseas sales is omitted.

5. Sales performance

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

(Amounts below one million yen are truncated)

Business segment		First three quarters of fiscal year 2005 (Jan. 1, 2005, to Sept. 30, 2005)	First three quarters of fiscal year 2004 (Jan. 1, 2004, to Sept. 30, 2004)	(For reference) Fiscal year 2004 (Jan. 1, 2004, to Dec. 31, 2004)
	Item (Major product category)			
Alcoholic beverages	<i>Shochu</i>	28,190	29,323	41,731
	<i>Chu-hi</i>	1,412	2,694	3,232
	<i>Sake</i>	5,851	6,651	10,177
	<i>Sake compounds</i>	4,272	4,510	6,526
	Brewing alcohol	1,807	1,192	1,849
	<i>Mirin</i> (sweet <i>sake</i> for cooking)	1,077	1,176	1,751
	Western-style alcohol	3,971	4,271	6,709
	Total	46,584	49,821	71,977
	Food products	3,118	3,217	4,377
	Enzymes and pharmaceuticals	2,241	1,717	2,282
	Real estate	280	314	409
	Others	931	918	1,266
	Total	53,155	55,989	80,313