

Quarter ended March 31, 2005

Flash Report on the Consolidated Results for the First Quarter of the Fiscal Year Ending December 31, 2005

May 27, 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 Quarter of the Year Ending December 2005
(from January 1, 2005, to March 31, 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 quarter of year ending December 2005	16,343	(1.6)	272	—	242	—
First quarter of year ended December 2004	16,609	—	(31)	—	(75)	—
(For reference) Year ended December 2004	80,313		3,022		2,843	

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

	Net income		Net income per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
First quarter of year ending December 2005	54	—	0.85	—
First quarter of year ended December 2004	(160)	—	(2.87)	—
(For reference) Year ended December 2004	576		8.98	—

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
First quarter of year ending December 2005	54,915	15,512	28.2	238.81
First quarter of year ended December 2004	60,789	12,914	21.2	230.72
(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 quarter of year ending December 2005	1,298	(585)	(1,141)	2,172
First quarter of year ended December 2004	(483)	(2,214)	2,723	2,832
(For reference) Year ended December 2004	6,508	(4,294)	(2,420)	2,601

Qualitative Information Pertaining to Consolidated Operating Results

During the quarter under review (from January 1, 2005, to March 31, 2005), consolidated net sales decreased 1.6%, compared with the same quarter of the preceding term, to ¥16,343 million. However, income categories all improved substantially compared with the first quarter of fiscal 2004. Consolidated operating income was ¥272 million, consolidated ordinary income ¥242 million and consolidated net income ¥54 million, compared with a consolidated operating loss of ¥31 million, consolidated ordinary loss of ¥75 million and consolidated net loss of ¥160 million.

Performance by business segment is described below.

Alcoholic beverages:

In the alcoholic beverages segment, surging market demand for *shochu* (a clear, distilled alcoholic beverage) products continued to boost sales in the Group B *shochu* (*Otsu-type shochu*) category. Sales of *Shiso-Shochu Tatakatan*, which is flavored with the Japanese herb *shiso*, expanded 30%, and *Hahakata-no-Hana* posted double-digit sales growth. Our volume of sales for *Gokoku Shochu* expanded, as more people began enjoying this product. Overall, the Company's expansion in this category outstripped the market rate of growth for Group B *shochu* (*Otsu-type shochu*) products. However, in line with our management policy of focusing specifically on profitable products, we scaled down excessive marketing costs for Group A *shochu* (*Kou-type shochu*) products, and sales declined. Nevertheless, combined sales of *shochu* products in Group A and Group B categories increased.

We are in the process of shifting our emphasis in *sake* products to a portfolio of premium brands. During the quarter, we experienced a temporary dip in *sake* sales as a result. Sales of private-brand *sake* compounds decreased, but sales of our industry-leading *Genroku-Bijin* brand rose firmly, as we successfully matched shifting consumer demand for healthier, low-alcohol products. Overall, Oenon experienced a significant increase in sales of brewing alcohol during the term, reflecting the Group's reputation in the marketplace for advanced technologies and outstanding product quality.

Total sales of Japanese-style alcohol products dipped only 1.9%, to ¥13,313 million, despite our continued efforts to remove low-profit items from our portfolio.

Sales of Western-style liquor were favorable, buoyed by firm demand for *ume* (plum) liquor and health-oriented alcohol products. For example, *La Tomato*, Oenon Group original, enjoys growing market acclaim.

For wine products, the Company carefully selects quality wines in the medium-priced and premium ranges, then offers them to customers via various promotions. This strategy has enabled us to surpass market sales trends.

The combination of the sales and product strategies above, combined with falling consumption of processed liquors, resulted in a 7.6% decline in sales of Western-style alcohol, to ¥1,113 million. Overall Group sales of alcoholic beverages decreased 2.4%, to ¥14,426 million.

Enzymes and pharmaceuticals:

Sales in the enzymes and pharmaceuticals segment surged 41.8%, to ¥653 million. Our lactose-splitting enzyme performed favorably, as we continued to expand sales routes, particularly in Europe. Sales of drug substances also expanded, as the level of market acceptance for generic pharmaceuticals grew, and sales of drug substances for hyperlipidemia treatments climbed steadily. Sales of diagnostics products also improved, boosted by a reagent to test for blood in the stool.

Food products, real estate and others:

Combined net sales of the food products and real estate and others segments fell 17.4%, to ¥314

million. Within the food products segment, sales of processing starch expanded, but sales of seasonings dropped as a result of our suspension of sales for products having unprofitable delivery prices. Consequently, sales in the food products segment fell 3.9%, to ¥949 million.

Lower revenues in the real estate segment partly reflected improvements in the Group's internal utilization of owned real estate. Sales declines in other product areas were also due to a shift in sales to the second quarter of the fiscal year, influenced by a shift in weather patterns.

Consolidated financial position

As of March 31, 2005, the end of the first quarter, total assets were ¥54,915 million, down ¥5,874 million from one year previously. This shift was due largely to efforts to improve our receivables liquidity, which successfully reduced notes and accounts receivable

In addition to improving receivables liquidity, we increased shareholders' equity by issuing new shares at the end of 2004. This move enabled us to reduce notes and accounts payable.

Consequently, total liabilities amounted to ¥37,132 million at the end of the term, down ¥8,615 million from a year earlier, and total shareholders' equity increased ¥2,597 million, to ¥15,512 million. In line with these changes, the shareholders' equity ratio improved from 21.2% to 28.2%.

During the quarter, cash flows from operating activities provided ¥1,298 million, reflecting income before income taxes and minority interests, lower depreciation and amortization expenses and a decrease in trade receivables. Accounts payable and accrued liquor tax decreased, while income taxes paid rose.

Cash used in investing activities amounted to ¥585 million, mostly for the acquisition of fixed assets. Net cash provided by financing activities was ¥1,141 million, reflecting an increase in loans payable and dividends paid.

Outlook

At this time, we make no revisions to our medium-term business performance forecast announced in February 2005.

1. Consolidated Balance Sheets (Abbreviated)

(Amounts below one million yen are truncated.)

Account item	First quarter of fiscal year ending December 31, 2005 (As of March 31, 2005)	First quarter of fiscal year ended December 31, 2004 (As of March 31, 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	2,177	2,836	2,605
Notes and accounts receivable	13,970	17,791	21,974
Inventories	9,730	10,023	9,271
Other current assets	867	977	862
Total current assets	26,746	31,630	34,714
II. Fixed assets			
Tangible fixed assets	23,959	24,855	24,295
Intangible fixed assets	1,610	1,876	1,643
Investments and other assets	2,599	2,427	2,670
Total fixed assets	28,169	29,159	28,609
Total Assets	54,915	60,789	63,323
(Liabilities)			
I. Current liabilities			
Notes and accounts payable	5,818	7,205	7,196
Short-term debt	7,565	12,880	7,784
Bonds redeemable within 1 year	5,000	—	5,000
Other payables	2,803	3,294	4,561
Accrued liquor tax	4,285	4,147	7,867
Other current liabilities	2,113	2,867	2,702
Total current liabilities	27,586	30,395	35,111
II. Long-term liabilities			
Bonds	—	5,000	—
Long-term debt	2,897	5,628	3,472
Long-term deposits payable	3,262	3,314	3,143
Allowance for employees' retirement benefits	1,439	1,334	1,450
Other long-term liabilities	1,947	75	2,050
Total long-term liabilities	9,546	15,353	10,116
Total liabilities	37,132	45,748	45,228
(Minority Interests)			
Minority interests	2,269	2,126	2,255
(Shareholders' Equity)			
I. Common stock	6,938	5,867	6,938
II. Capital surplus	5,540	4,477	5,540
III. Retained earnings	2,726	2,307	3,043
IV. Treasury stock	307	262	316
Total shareholders' equity	15,512	12,914	15,839
Total Liabilities, Minority Interests and Shareholders' Equity	54,915	60,789	63,323

2. Consolidated Statements of Income (Abbreviated)

(Amounts below one million yen are truncated.)

Account item	First quarter of fiscal year ending December 31, 2005 (Jan. 1, 2005 – Mar. 31, 2005)	First quarter of fiscal year ended December 31, 2004 (Jan. 1, 2004 – Mar. 31, 2004)	(For reference) Fiscal year 2004 (Jan. 1, 2004 – Dec. 31, 2004)
	(Millions of yen)	(Millions of yen)	(Millions of yen)
I. Net sales	16,343	16,609	80,313
II. Cost of sales	11,864	12,271	57,547
Gross profit	4,478	4,338	22,766
III. Selling, general and administrative expenses	4,206	4,369	19,743
Operating income	272	(31)	3,022
IV. Nonoperating income	57	52	211
V. Nonoperating expenses	86	96	390
Ordinary income	242	(75)	2,843
VI. Extraordinary income	41	16	27
VII. Extraordinary loss	6	42	1,187
Income before income taxes and minority interests	277	(101)	1,684
Income, residential and enterprise taxes	180	17	940
Minority interests	42	41	167
Net income	54	(160)	576

3. Consolidated Statements of Cash Flows (Abbreviated)

(Amounts below one million yen are truncated.)

Account item	First quarter of fiscal year ending December 31, 2005 (Jan. 1, 2005 – Mar. 31, 2005)	First quarter of fiscal year ended December 31, 2004 (Jan. 1, 2004 – Mar. 31, 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 (loss) before income taxes and minority interests	277	(101)	1,684
Depreciation and amortization	561	594	2,408
Decrease (increase) in trade receivables	8,004	5,654	1,471
Increase in inventories	(459)	(498)	(45)
Decrease in accounts payable	(1,378)	(367)	(376)
Others	(4,867)	(4,857)	2,943
Subtotal	2,138	424	8,086
Income taxes paid	(751)	(807)	(1,264)
Others	(88)	(100)	(312)
Net cash provided by (used in) operating activities	1,298	(483)	6,508
II. Cash flows from investing activities:			
Net change in fixed assets	(635)	(2,177)	(4,226)
Net change in investment securities	43	(27)	(28)
Others	6	(10)	(39)
Net cash used in investing activities	(585)	(2,214)	(4,294)
III. Cash flows from financing activities:			
Net decrease (increase) in loans payable	(793)	3,017	(4,234)
Proceeds from issuance of new shares	–	–	2,133
Dividends paid	(325)	(279)	(279)
Others	(22)	(14)	(41)
Net cash used in (provided by) financing activities	(1,141)	2,723	(2,420)
IV. Revaluation of cash and cash equivalents	–	–	–
V. Net increase (decrease) in cash and cash equivalents	(428)	24	(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	2,172	2,832	2,601

4. Segment Information

Business segments

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

Item	First quarter of fiscal year 2005 (January 1, 2005 – March 31, 2005)							
	Alcoholic beverages	Food products	Enzymes and pharmaceuticals	Real estate	Others	Total	Elimination or corporate	Consolidated
Sales								
Sales to outside customers	14,426	949	653	95	218	16,343	—	16,343
Inter-segment sales/transfers	2	—	—	133	1,600	1,737	(1,737)	—
Total sales	14,429	949	653	229	1,819	18,080	(1,737)	16,343
Operating expenses	14,396	885	545	99	1,881	17,808	(1,737)	16,071
Operating income (loss)	33	63	107	129	(61)	272	(—)	272

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

Item	First quarter of fiscal year 2004 (January 1, 2004 – March 31, 2004)							
	Alcoholic beverages	Food products	Enzymes and pharmaceuticals	Real estate	Others	Total	Elimination or corporate	Consolidated
Sales								
Sales to outside customers	14,780	988	460	110	269	16,609	—	16,609
Inter-segment sales/transfers	2	—	—	110	1,640	1,753	(1,753)	—
Total sales	14,782	988	460	221	1,910	18,362	(1,753)	16,609
Operating expenses	14,903	916	490	108	1,973	18,393	(1,753)	16,640
Operating income (loss)	(121)	71	(29)	112	(63)	(31)	(—)	(31)

(For Reference)

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

Item	Fiscal year 2004 (January 1, 2004 – March 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 quarter under review (January 1, 2005, to March 31, 2005), the first quarter of the preceding term (January 1, 2004, to March 31, 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 quarter under review (January 1, 2005, to March 31, 2005), the first quarter of the preceding term (January 1, 2004, to March 31, 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 quarter of fiscal year 2005 (Jan. 1, 2005, to Mar. 31, 2005) (Millions of yen)	First quarter of fiscal year 2004 (Jan. 1, 2004, to Mar. 31, 2004) (Millions of yen)	(For reference) Fiscal year 2004 (Jan. 1, 2004, to Dec. 31, 2004) (Millions of yen)
	Item (Major product category)			
Alcoholic beverages	<i>Shochu</i>	8,356	8,315	41,731
	<i>Chu-hi</i>	402	621	3,232
	<i>Sake</i>	2,237	2,467	10,177
	<i>Sake compounds</i>	1,373	1,436	6,526
	Brewing alcohol	640	377	1,849
	<i>Mirin</i> (sweet sake for cooking)	303	355	1,751
	Western-style alcohol	1,113	1,205	6,709
	Total	14,426	14,780	71,977
Food products		949	988	4,377
Enzymes and pharmaceuticals		653	460	2,282
Real estate		95	110	409
Others		218	269	1,266
Total		16,343	16,609	80,313