

Flash Report on the Consolidated Business Results for the Year Ended December 31, 2006

February 9, 2007

Company Name: OENON HOLDINGS, INC.

Code Number: 2533

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

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

Location of Head Office (Prefecture): Metropolis of Tokyo

Representative: Yukio Nagai, President & CEO

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Date of the Board of Directors' Meeting on the Closing of Accounts: February 9, 2007

Adoption of U.S. GAAP: No

1. Consolidated Performance for the Year Ended December 31, 2006 (from January 1, 2006, to December 31, 2006)

(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	%
Year ended December 2006	72,966	(4.4)	2,415	(29.3)	2,356	(27.6)
Year ended December 2005	76,324	(5.0)	3,416	13.0	3,256	14.5

	Net income		Net income per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended December 2006	883	(29.5)	13.51	11.76
Year ended December 2005	1,253	117.6	18.36	17.92

	Return on equity (ROE)	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	%	%	%
Year ended December 2006	5.1	3.9	3.2
Year ended December 2005	7.6	5.2	4.3

Note: a. Equity in net income or loss of unconsolidated subsidiaries and affiliates: -

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

Year ended December 2006: 65,385,498 shares

Year ended December 2005: 65,275,848 shares

c. Change in accounting method: No

d. 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	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended December 2006	58,309	19,414	29.9	266.66
Year ended December 2005	62,360	17,156	27.5	261.58

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

Year ended December 2006: 65,403,156 shares

Year ended December 2005: 65,377,058 shares

(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 period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended December 2006	3,562	(2,579)	(2,098)	2,301
Year ended December 2005	4,742	(1,889)	(2,036)	3,417

(4) Scope of consolidation and application of equity method

Number of consolidated subsidiaries: 11

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 equity method

Consolidation: (newly included): 0 (Excluded): 1

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

2. Forecast Consolidated Performance for the Year Ending December 2007

(from January 1, 2007, to December 31, 2007)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Interim period ending June 30, 2007	35,000	1,300	300
Year ending December 31, 2007 (full year)	77,000	2,800	1,000

(Reference) Forecast net income per share (full year): ¥15.29

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 9, 2007). There are many uncertain factors inherent in forecasting, and there might be cases in which actual results differ from forecast values. See page 7 of the attachment for further information on forecasts.

Operating Results and Financial Position

1. Review of Operations

(1) Overview of Operations

During the year ended December 31, 2006, the Japanese economy extended its longest recovery period since the end of World War II to surpass the so-called “Izanagi Economic Boom,” together with the uptrend in personal consumption. Meanwhile, the economy developed with several uncertainties with the prices of oil and raw materials remaining high as well as concerns over higher interest rates and fluctuations in stock prices and foreign exchange rates.

For the liquor industry, on the other hand, the total demand continued to decrease in an environment where a certain corporate philosophy is strictly required in the industry, as drunk driving has been recognized as a social problem. In addition, the business environment surrounding the liquor industry remained severe with intensified competition among companies regardless of their conventional product categories and distribution channels and accelerated movements of reorganization of the industry, against the backdrop of changes in the trends of alcohol consumption due to diversified preference, liberalization of Liquor Sales Licensing Laws, and amendments to the Liquor Tax Law.

By product category, sales of sweet potato-based *shochu* products remained robust, while other varieties of Group B *shochu* (*Otsu-type shochu*) in general faced stagnant sales, clearly indicating an end to the *shochu* boom. The Group A *shochu* (*Kou-type shochu*) market had tended to shrink as companies faced significantly higher production costs reflecting the prices of raw materials hovering at a high level, in addition to intense competition among large-volume products. Nevertheless, a bright sign was seen in the steady sales growth of the mixed *shochu* products of Groups A and B. Sales of beer beverages category including low-malt beverages and non-malt beverages with a beer taste suffered a year-on-year decrease for the second consecutive year, as did sales of *chu-hi* (a refreshing beverage mixed with the clear distilled spirit *shochu*), cocktails and other low-alcohol beverages hit by fierce price competition, in addition to sales of *sake* in general tracing a downward trend, contributing to poor performance as a whole.

In this environment, we focused on applying the holding company structure to spur dynamic business development and management optimization of the Oenon Group, applying our fundamental business orientations toward customers and profits. We sought to take a customer perspective in offering products that ensure security and safety.

During the year under review, we specifically emphasized improvement of corporate values and management quality of the Group by “Jointly Creating Future Values,” aiming to:

- a. Create synergy effects of the Group with the primary purpose of optimization of the Group as a whole, by clearly distinguishing the management supervisory functions of the holding company and the operational functions of the respective group companies;
- b. Create new corporate cultures based on the corporate cultures of the respective group companies;
- c. Recognize a customer as an “Individual Customer” and implement management emphasizing “Individuality,” by respecting the “Characteristics” of each group company and making the most of the “Individuality” of each employee;
- d. Put into practice our “Three types of realism” for corporate management—real goods, real markets, and real circumstances.

Furthermore, we concentrated our efforts on restructuring toward further improvement of corporate values by merging the two subsidiaries of GODO SHUSEI CO., LTD., and Ushiku Chateau Garden Co., Ltd., in October 2006, as one of our activities of concentration and reorganization of our food service business.

As a result of these factors, consolidated net sales for the year under review decreased by 4.4% year-on-year to ¥72,966 million, reflecting the sluggish performance of the entire liquor industry in addition to our ongoing strategic efforts to retreat from unprofitable items. In terms of profits, consolidated ordinary income declined by 27.6% year-on-year to ¥2,356 million, due to higher production costs attributable to the surging prices of crude oil and raw materials, in addition to the strong influence of increased selling costs caused by intensified competition, despite group synergy effects achieved in the liquor business, increased sales in the profitable enzymes and pharmaceuticals business, and improvement in financial account balance.

While the Company recorded gains on the sale of fixed assets as extraordinary gain, from the sale of land of the Kurume Plant for construction of Kyushu Shinkansen railways, extraordinary losses were also recorded in relation to impairment losses and loss on disposal of fixed assets. As a result, the consolidated net income was ¥883 million, a decrease of 29.5% from the previous year.

An outline of the operating results by business segment is given below:

(2) Operating Results by Business Segment

Alcoholic Beverages:

In the alcoholic beverages segment, the combined sales of Japanese and Western-style alcohol decreased by 5.9% year-on-year to ¥63,491 million, as a result of restructuring our product portfolio by focusing on reinforcement of the sale of high-value-added products on the one hand and implementing strategic withdrawal from unprofitable items on the other.

In the category of *shochu* products, sales of Group B *shochu* (*Otsu-type shochu*) remained roughly unchanged from the previous year mainly due to a decline in the sales of raw-material liquors before tax payment for commercial use.

However, in addition to existing products such as *Shiso Shochu Tantakatan* flavored with the Japanese herb *shiso*, the *Hakata no Hana* series and *Mugizakari*, the Group launched new products for restaurant use like the barley-based *shochu Tsukudukushi*, which emphasizes the blessings of nature of the Tsukushi region, and *wasabi* horseradish-based *shochu Wasabi Shochu Izumisawa*, which was developed as the first of the *shochu* series of the products made in line with the Local Production for Local Consumption movement, using the Izu region's select raw *wasabi* horseradish. For household use, we positively brought into the market new products such as sweet-scented and mild-tasting *shochu "Satsuma Bijin Kogane Sengan,"* and canned *shochu* with water products for casual occasions, "*Tennensuiwari Hakata no Hana Kurokouji Mugi*" and "*Tennensuiwari Satsuma Bijin Kogane Sengan.*"

At the 2006 Monde Selection, "*Hakata no Hana Sannen Chozo*" and "*Hakata no Hana Maromi no Toki*" in our mainstay "*Hakata no Hana*" series won gold medals, and in particular, the former won the International High Quality Trophy—presented only to outstanding three-consecutive-year gold-medal winners. Such honors attest to the high quality of our products.

Sales of Group A *shochu* (*Kou-type shochu*) products for the year under review decreased from the previous year, facing the effects of lower-price competition in the industry, despite our consistent efforts in the sale of high-value-added products based on our management incentives for profits.

As a result, the overall sales of *shochu* shrank by 7.0% year-on-year to ¥37,049 million.

In *sake* compounds, sales of our top brand “*Genroku Bijin*,” which showed tremendous support from our customers, continued to expand in the shrinking industry hit by the impact of increased liquor tax. While sales of private-brand products declined, we held on to 4.5% sales decrease of *sake* compounds year-on-year, approximately matching the industry average sales, to ¥5,952 million.

With regard to *sake* product groups, as a result of the sales strategies implemented to feature regional characteristics, the “*Taisetsu no Kura*” series, “*Nanbu Gura*” series and “*Ono no Komachi*” series enjoyed brisk sales. Furthermore, in line with our marketing policies to match increasingly diverse consumer preferences and to shift to more profitable product lines, we redesigned our original *sake*-in-a-cup, “*Fukumusume*,” and launched a new *sake* product “*Kunpuku*,” to which a piece of a fin of a globefish landed at the Shimonoseki Port is attached for use in hot *sake*. As a result, sales of *sake* products decreased by 8.0% year-on-year to ¥8,256 million.

Among the specially brewed high-quality *sake* products, “*Itteki Senryo*” earned a gold medal, and both “*Taisetsu no Kura*” and “*Nanbu Gura Chogetsuka*” won prizes in the “National Research Institute of Brewing *Sake* Awards 2005.” We believe that such designations attest to our successful ongoing efforts to launch high-quality premium products that highlight traditional characteristics.

Sales of alcohol surged by 17.9% year-on-year to ¥3,151 million, owing to the customers’ high recognition that we received in relation to our expertise in high-quality products based on our orientation toward security and safety along with high cost performance, and our aggressive efforts to cultivate new customers, offering products with food and medical applications.

In the category of low-alcohol drinks such as *chu-hi* and *mirin* (sweet *sake* for cooking), both of which have been visibly under the pressure of lower price, the total sales of Japanese-style alcohol fell by 6.6% year-on-year to ¥57,070 million, as a result of our profit-focused sales strategies that kept us from low-priced competition.

In the Western-style alcohol category, sales of *ume* (plum) liquor products expanded by 16.1% year-on-year as “*Ohshukubai Pack*” posted strong sales sustained by the health-oriented consumer trend, as well as the newly launched “*Umeshu Rose Hip Blend*” and “*Ohshukubai Saeshizuku Jikomi*” and “*Ohshukubai Junmaishu Jikomi*,” which were added to the “*Ohshukubai*” series.

For wine products, sales surpassed the previous year by 4.0%, owing to the success of our strategic sales promotions and profit-oriented sales policies for restaurant as well as household consumption, in addition to the nationwide marketing of “*Strawberry Sparkling Wine Fresita*,” which has become popular mainly in South America and Europe.

Faring extremely well in the Western-style alcohol category was “*La Tomato*,” a fruity and crisply refreshing the Group’s original liquor distilled with domestic tomatoes. Sales of “*La Tomato*” increased by approximately 40.0% during the period. We successfully launched new original products that met diversifying consumer demand.

The category of Western-style alcohol for processing remained sluggish as the confectionery and food-processing industries continued to fall. However, sales decreased by 2.9% year-on-year after we launched small-packaged products of the “*Neptune*” confectionery liquor series. We believe that our sales policy to “Provide Individual Products to Meet Individual Customer Needs” gained market recognition.

Consequently, sales of Western-style alcohol, a category that continues to shrink, rebounded to ¥6,421 million, up 1.3%.

Food Products:

In the Food products segment, the Group continued to benefit from the market's recognition of our consistent production capabilities and superior product quality in processing starch. Sales in this segment increased significantly from the previous year, owing to its various purposes for, among others, beer brewing and snack food ingredients.

In seasonings, although we focused on high-quality products and continued to withdraw from the sale of unprofitable items for the past several years, such quality-oriented products have achieved wide acceptance among our customers.

Consequently, total sales in the Food products segment increased by 5.1% year-on-year to ¥4,645 million, the second consecutive year to surpass the preceding term.

Enzymes and Pharmaceuticals:

In this segment, total sales recorded two-digit growth of 12.5% from the previous year, amounting to ¥3,154 million, and operating income also increased significantly.

By major product category, lactose-splitting enzymes in the enzyme sector maintained their approximately 20% growth helped by further enhanced efforts with existing clients in addition to newly started sales to milk-product manufacturers worldwide. Furthermore, robust sales of enzymes for the production of isomerized sugar syrup helped boost sales consistently in enzymes section by 11.7% year-on-year.

The sales of bulk pharmaceuticals benefited from a growing acceptance of generic drugs. The sales of hyperlipidemia treatments more than doubled that for the previous year, dramatically raising the total sales in the bulk pharmaceuticals section by 67.2% year-on-year.

While health food sales remained stagnant during the period under review, sales of reagents to test for blood in the stool in the diagnostic product sector increased from the previous year, leading the total sales in the enzymes and pharmaceuticals business to a historic high.

Real Estate and Others:

Modestly lower revenues in the Real estate segment compared with the previous year reflected proactive efforts to improve the Group's internal utilization of owned real estate. Sales in the Other segments increased from the previous year, which is attributable to various events featuring history and culture held in the food business assuming the role of corporate communication activities. In combination, net sales in the Real estate and Others segments reached ¥1,674 million, 2.4% increase on a year-on-year basis.

(3) Outlook for Fiscal Year 2007

In 2007, we expect personal consumption to remain steady rather than showing strong recovery, despite negative factors including uncertainties over the overseas economy and the prices of crude oil and raw materials. Therefore, we anticipate that a modest economic recovery will continue.

The liquor industry, among the trend of decreasing overall demands, will continue to be affected by diverse consumer lifestyles with a growing emphasis on leisure and abundance, in addition to institutional changes including introduction of a new transaction system, which will be triggered by the scheduled massive retirement of baby boomers and the growing number of senior citizens along with low birthrate. These factors will draw the market's attention, and corporate competition is expected to further intensify in an environment where quality matters more than quantity.

The Group will respond to such changes in its business environment by reinforcing the Group management and clearly emphasizing our dual orientation toward customers and profits. By realizing "Mission Management," a management strategy recognizing the respective corporate mission as the prime concept, we will concentrate on creating future corporate value and enhancing management quality.

In our quest to raise future corporate value, we will focus on our role as a holding company. By clearly exercising management supervisory functions while other companies in the Group concentrate on their respective business activities, we will enhance the Group synergy, giving top priority to the optimal working of the entire Group in the respective functions of distribution, production and product development.

More concretely, from a marketing perspective, we will implement consistent Supply Chain Management (SCM) from procurement of resources and materials to product development and distribution. Furthermore, we will apply the Group's technical expertise to develop and launch differentiated products, and promote them in a highly targeted way.

In profit-center areas such as sales, we will invest strategically in sales promotion. We will endeavor to employ more efficient and effective sales activities, applying better selectivity and focusing on high-value-added products. And, in addition to the conventional high-value-added products targeting bars and restaurants, we will implement alternative sales strategies for more reasonably priced products, taking into consideration the trend of the "Return to Home" drinking scene.

As for cost-center areas such as production and logistics, we will reduce gross costs including raw material costs and logistics costs while reaffirming the safety and security of food products companies to maintain and further improve quality.

From a financial perspective, we will work to strengthen our financial structure by holding down our debt ratio to ensure financial stability and safety, and raise management efficiency while keeping a close eye on the capital cost.

We will endeavor to entrench our new personnel system and improve the IT infrastructure. While pushing forward various management issues, we will continue to seek to practice three types of realism—real goods, real markets, and real circumstances, constantly paying attention to the importance of individuality as it applies to individual customers and individual characteristics.

For the fiscal year ending December 31, 2007, we forecast consolidated net sales of ¥77.0 billion, a 5.5% increase on a year-on-year basis, ordinary income of ¥2.8 billion, up 18.8%, and net income of ¥1.0 billion, up 13.2%.

2. Financial Position (Consolidated Cashflow Situation)

During the year, net cash provided by operating activities increased to ¥3,562 million. Of this amount, income taxes paid required ¥1,159 million. Income before income taxes and minority interests provided ¥1,936 million, and depreciation and amortization generated ¥2,095 million. The liquidation of notes and accounts receivable helped create a ¥1,591 million.

Net cash used in investing activities was ¥2,579 million. This change was primarily attributable to payments for the acquisition of fixed assets.

Net cash used in financing activities was ¥2,098 million. Principal factors included proceeds of ¥3,200 million in long-term debt, with possible higher interest rates in the mid- to long-term range anticipated, a net decrease of ¥2,700 million in short-term debt, and repayment of ¥2,120 million in long-term debt.

As a result, cash and cash equivalents as of December 31, 2006 totaled ¥2,301 million, down ¥1,115 million from the ¥3,417 million recorded at the beginning of the fiscal year.

Cash flow indicators of the Group's activities are as follows:

	Year ended December 31, 2004	Year ended December 31, 2005	Year ended December 31, 2006
Equity ratio (%)	25.0	27.5	29.9
Equity ratio at market valuation (%)	27.5	46.2	44.1
Debt redemption (years)	2.9	2.8	3.3
Interest coverage ratio (times)	19.1	16.2	19.7

Note: Equity ratio: $(\text{Net assets} - \text{Minority interests}) / \text{total assets}$

Equity ratio at market valuation: $\text{Total market capitalization} / \text{total assets}$

Debt redemption: $\text{Interest-bearing debt} / \text{operating cash flow}$

Interest coverage ratio: $\text{Operating cash flow} / \text{interest payments}$

* All of the above indicators are calculated on a consolidated basis.

* Total market capitalization is calculated by multiplying the closing price of the Company's shares at the end of the fiscal year by the number of shares issued and outstanding at the end of the fiscal year.

* 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.

3. Operating and Other Risks

(1) The Operating Environment Surrounding the Alcoholic Beverages Business

a. Alcoholic Beverages Business

The alcoholic beverages business is inherently susceptible to changing preferences. In recent years, recognition of drunk driving as a social problem, the trends toward reduced prices and a growing health orientation have affected overall sales of alcoholic beverages. The operating environment is also undergoing tumultuous change, affected by the liberalization of liquor sales licenses and other changes to the Liquor Tax law.

The possibility exists that such changes in the market environment will affect the Group's operating performance.

b. Liquor Tax Law and Other Legislation

The Liquor Tax Law provides defining legislation that governs the Group's alcoholic beverage business, such as licenses on the production and sale of alcoholic beverages, and liquor taxes.

The possibility exists that changes to Liquor Tax Law legislation, as well as the liquor tax rate, could affect alcohol sales prices and trends.

c. Fluctuation of Raw Material Prices

The Group uses some principal raw materials such as crude alcohol and heavy oil, the prices of which fluctuate indirectly reflecting the climate and economic situations of the countries or areas of origin. Higher prices of such principal raw materials may lead to increased manufacturing costs, affecting the Group's operating performance.

(2) Group Strategies

a. Acquisition of Subsidiaries during Recent Years

In January 2000, we acquired all the shares in Yamashin Trading Co., Ltd., which imports and sells wine and other products. In January 2001, we acquired 80% of the outstanding shares in FUKUTOKUCHO CO., LTD., From MORINAGA & CO., LTD (As of December 31, 2006, we owned a 100% stake in this company.). We have converted both companies into consolidated subsidiaries. In so doing, we also converted to a consolidated subsidiary AKITAKENHAKKO KOGYO CO., LTD., a subsidiary of FUKUTOKUCHO CO., LTD (In April 2005, we split off AKITAKENHAKKO KOGYO, turning it into a direct subsidiary of the Company.). In July 2003, we acquired from Asahi Kasei Corporation all shares in FUKUMUSUME SAKE BREWERY CO., LTD., and converted this company to a consolidated subsidiary.

b. Acquisition of Subsidiaries and Other Group Strategies

One of the Company's aggressive business expansion strategies has been to acquire shares in companies that we believe will employ Group management assets efficiently and effectively, and converting them to subsidiaries. In October 2006, we reorganized the Group for the purpose of concentration and restructuring of the Food service business and in pursuit of further efficiency of the businesses, by completing the merger of two subsidiaries, GODO SHUSEI CO., LTD., and Ushiku Chateau Garden Co., Ltd.

Recently, we determined to convert Kitanohomare Shuzou CO., LTD., into a subsidiary to reinforce our *sake* business. Through this, we will make utmost efforts to further utilize the Group's synergy effects to expand our business. Over the medium-to long-term, however, we do expect to acquire subsidiaries in line with the Group's business expansion policy. In the event that we acquire additional subsidiaries, the possibility exists that changes in the operating environment could temporarily cause the Group to post additional losses. It is also possible that the positive effects of such acquisitions may be less than the Group has anticipated.

(3) Enzymes and Pharmaceuticals Business

The Group's enzymes and pharmaceuticals business divides in to four major product areas: enzymes, diagnostics, bulk pharmaceuticals and health foods. We plan to expand our bulk pharmaceuticals production capacity and to promote the development of new enzymes. To this end, we have conducted capital investment in the construction of the second

purification plant, efficient allocation of fermentation facilities, etc., since September 2003, which started operation in 2006.

In line with growing demand for bulk pharmaceuticals and health foods, it is possible that competition will become more stringent. As a result, it is possible that the Group's enzymes and pharmaceuticals business may be affected more severely than we anticipate.

Consolidated Balance Sheets

(Amounts below one million yen are truncated.)

	Fiscal year 2005 (As of Dec. 31, 2005)		Fiscal year 2006 (As of Dec. 31, 2006)		Change	
	Amount (Millions of yen)	Percent of total (%)	Amount (Millions of yen)	Percent of total (%)	Amount (Millions of yen)	
(Assets)						
I Current assets						
1 Cash and deposits	3,421		2,306			(1,115)
2 Notes and accounts receivable	20,607		19,015			(1,591)
3 Inventories	8,422		8,429			6
4 Deferred tax assets	338		450			112
5 Prepaid expenses	143		132			(11)
6 Other current assets	464		506			41
7 Allowance for doubtful accounts	(45)		(32)			12
Total current assets	33,353	53.5	30,807	52.8		(2,545)
II Fixed assets						
1 Tangible fixed assets						
(1) Buildings	18,058		18,008			(49)
Accumulated depreciation	(9,653)	8,404	(9,854)	8,154		(201)
(2) Structures	3,961		3,799			(162)
Accumulated depreciation	(2,478)	1,483	(2,421)	1,378		56
(3) Machinery, equipment and vehicles	25,001		23,861			(1,140)
Accumulated depreciation	(19,591)	5,410	(18,996)	4,864		594
(4) Tools, furniture and fixtures	1,930		1,837			(92)
Accumulated depreciation	(1,578)	351	(1,545)	292		33
(5) Land		7,700		7,087		(613)
(6) Construction in progress		669		203		(466)
Total tangible fixed assets		24,020		21,980	37.7	(2,039)
2 Intangible fixed assets						
(1) Leasehold		11		11		-
(2) Goodwill		1,001		924		(77)
(3) Software		142		169		26
(4) Other intangible fixed assets		399		386		(13)
Total intangible fixed assets		1,554	2.5	1,491	2.6	(63)
3 Investments and other assets						
(1) Investment securities		2,239		1,940		(298)
(2) Long-term loans receivable		10		7		(3)
(3) Long-term prepaid expenses		204		208		4
(4) Deferred tax assets		398		597		198
(5) Long-term deposits		-		500		500
(6) Other investments and other assets		639		825		186
(7) Allowance for doubtful accounts		(60)		(50)		10
Total investments and other assets		3,432	5.5	4,030	6.9	597
Total fixed assets		29,007	46.5	27,501	47.2	(1,505)
Total Assets		62,360	100.0	58,309	100.0	(4,051)

(Amounts below one million yen are truncated.)

	Fiscal year 2005 (As of Dec. 31, 2005)		Fiscal year 2006 (As of Dec. 31, 2006)		Change
	Amount (Millions of yen)	Percent of total (%)	Amount (Millions of yen)	Percent of total (%)	Amount (Millions of yen)
(Liabilities)					
I Current liabilities					
1 Notes and accounts payable	6,639		6,050		(589)
2 Short-term debt	8,670		5,003		(3,667)
3 Other payables	5,035		5,499		464
4 Accrued liquor tax	7,398		7,241		(156)
5 Accrued consumption tax	521		282		(238)
6 Accrued income tax	704		674		(30)
7 Allowance for employees' bonuses	73		70		(3)
8 Allowance for directors' bonuses	-		61		61
9 Accrued expenses	209		207		(2)
10 Deposits payable	316		277		(39)
11 Other current liabilities	1,028		581		(446)
Total current liabilities	30,598	49.1	25,950	44.5	(4,648)
II Long-term liabilities					
1 Warrant bonds	4,000		3,984		(16)
2 Long-term debt	1,902		3,949		2,047
3 Long-term deposits payable	3,205		3,254		48
4 Allowance for employees' retirement benefits	938		1,021		83
5 Allowance for directors' retirement benefits	214		251		37
6 Other long-term liabilities	2,502		483		(2,018)
Total long-term liabilities	12,762	20.4	12,944	22.2	181
Total liabilities	43,361	69.5	38,894	66.7	(4,466)
(Minority Interests)					
Minority interests	1,843	3.0	-	-	(1,843)
(Shareholders' Equity)					
I Common stock	6,938	11.1	-	-	(6,938)
II Capital surplus	5,568	8.9	-	-	(5,568)
III Retained earnings	3,973	6.4	-	-	(3,973)
IV Valuation difference of other securities	717	1.1	-	-	(717)
V Treasury stock	(41)	(0.0)	-	-	41
Total shareholders' equity	17,156	27.5	-	-	(17,156)
Total Liabilities, Minority Interests and Shareholders' Equity	62,360	100.0	-	-	(62,360)
(Net Assets)					
I Shareholders' equity					
1 Common stock	-	-	6,946	11.9	6,946
2 Capital surplus	-	-	5,577	9.6	5,577
3 Retained earnings	-	-	4,344	7.5	4,344
4 Treasury stock	-	-	(47)	(0.1)	(47)
Total shareholders' equity	-	-	16,820	28.9	16,820
II Valuation, currency translation and other adjustments					
1 Valuation difference of other securities	-	-	619	1.0	619
2 Deferred hedging gains	-	-	0	0.0	0
Total valuation, currency translation and other adjustments	-	-	620	1.0	620
III Minority interests	-	-	1,974	3.4	1,974
Total net assets	-	-	19,414	33.3	19,414
Total liabilities and net assets	-	-	58,309	100.0	58,309

Consolidated Statements of Income

(Amounts below one million yen are truncated.)

	Fiscal year 2005 (Jan. 1, 2005 – Dec. 31, 2005)		Fiscal year 2006 (Jan. 1, 2006 – Dec. 31, 2006)		Change		
	Amount (Millions of yen)	Percent of total (%)	Amount (Millions of yen)	Percent of total (%)	Amount (Millions of yen)		
I Net sales		76,324	100.0		72,966	100.0	(3,357)
II Cost of sales		54,306	71.2		52,126	71.4	(2,180)
Gross profit		22,017	28.8		20,840	28.6	(1,177)
III Selling, general and administrative expenses		18,600	24.3		18,424	25.3	(176)
Operating income		3,416	4.5		2,415	3.3	(1,000)
IV Nonoperating income							
1 Interest income	0			2		1	
2 Dividend income	28			33		5	
3 Rental income	73			73		0	
4 Foreign currency exchange gain	5			4		(0)	
5 Other nonoperating income	85	192	0.3	56	170	0.2	(28)
V Nonoperating expenses							
1 Interest expenses	285			178		(106)	
2 Other nonoperating expenses	67	353	0.5	51	230	0.3	(16)
Ordinary income		3,256	4.3		2,356	3.2	(899)
VI Extraordinary income							
1 Gain on sales of fixed assets	0			774		774	
2 Gain on sales of investment securities	42			0		(42)	
3 Reversal of allowance for doubtful accounts	1			5		4	
4 Amount of received from damages for breach of contract	-			28		28	
5 Gain on reversal of accrued pension liabilities	-			12		12	
6 Others	0	44	0.0	27	848	1.2	27
VII Extraordinary loss							
1 Loss on sales and disposal of fixed assets	152			419		266	
2 Loss on impairment	-			436		436	
3 Loss on disposal of inventories	355			191		(163)	
4 Loss on revaluation of memberships	-			2		2	
5 Loss on revaluation of investment securities	3			137		133	
6 Loss on transition to defined contribution pension plan	168			-		(168)	
7 Others	69	749	1.0	81	1,268	1.7	12
Income before income taxes and minority interests		2,550	3.3		1,936	2.7	(614)
Income, residential and enterprise taxes	1,144			1,239		94	
Adjustment for income taxes	14	1,158	1.5	(337)	901	1.3	(351)
Minority interests		138	0.2		151	0.2	13
Net income		1,253	1.6		883	1.2	(370)

Consolidated Statements of Retained Earnings

(Amounts below one million yen are truncated.)

	Fiscal year 2005 (Jan. 1, 2005 – Dec. 31, 2005)	
	Amount (Millions of yen)	
(Capital surplus)		
I Capital surplus at beginning of fiscal year		5,540
II Increase in capital surplus		
1 Gain on disposal of treasury stock	0	
2 Gain on corporate separation of subsidiaries	27	28
III Capital surplus at end of fiscal year		5,568
(Retained earnings)		
I Retained earnings at beginning of fiscal year		3,043
II Increase in retained earnings		
1 Gain on corporate separation of subsidiaries	48	
2 Net income	1,253	1,301
III Decrease in retained earnings		
1 Dividends paid	324	
2 Bonuses to directors and corporate auditors	47	372
IV Retained earnings at end of fiscal year		3,973

Consolidated Statements of Changes in Shareholders' Equity

Fiscal year 2006 (January 1, 2006 — December 31, 2006)

(Amounts below one million yen are truncated.)

	Shareholders' equity				
	Shareholders' equity (Millions of yen)	Capital surplus (Millions of yen)	Retained earnings (Millions of yen)	Treasury stock (Millions of yen)	Total shareholders' equity (Millions of yen)
Balance as of December 31, 2005	6,938	5,568	3,973	(41)	16,439
Changes during the period under review					
Issuance of new stock	8	7	-	-	16
Dividends from capital surplus	-	-	(457)	-	(457)
Executive bonuses from appropriation of earnings	-	-	(54)	-	(54)
Net income during the period under review	-	-	883	-	883
Acquisition of treasury stock	-	-	-	(7)	(7)
Disposal of treasury stock	-	0	-	0	1
Net changes to items other than shareholders' equity during the period under review	-	-	-	-	-
Total change during the period under review	8	8	371	(6)	381
Balance as of December 31, 2006	6,946	5,577	4,344	(47)	16,820

	Valuation, currency translation and other adjustments			Minority interests (Millions of yen)	Total net assets (Millions of yen)
	Valuation difference of other securities (Millions of yen)	Deferred hedging gains (losses) (Millions of yen)	Total valuation, currency translation and other adjustments (Millions of yen)		
Balance as of December 31, 2005	717	-	717	1,843	18,999
Changes during the period under review					
Issuance of new stock	-	-	-	-	16
Dividends from capital surplus	-	-	-	-	(457)
Executive bonuses from appropriation of earnings	-	-	-	-	(54)
Net income during the period under review	-	-	-	-	883
Acquisition of treasury stock	-	-	-	-	(7)
Disposal of treasury stock	-	-	-	-	1
Net changes to items other than shareholders' equity during the period under review	(97)	0	(96)	130	33
Total change during the period under review	(97)	0	(96)	130	415
Balance as of December 31, 2006	619	0	620	1,974	19,414

Consolidated Statements of Cash Flows

(Amounts below one million yen are truncated.)

	Fiscal year 2005 (Jan. 1, 2005 – Dec. 31, 2005)	Fiscal year 2006 (Jan. 1, 2006 – Dec. 31, 2006)	Change
	Amount (Millions of yen)	Amount (Millions of yen)	Amount (Millions of yen)
I Cash flows from operating activities:			
1 Income before income taxes and minority interests	2,550	1,936	(614)
2 Depreciation and amortization	2,207	2,095	(112)
3 Amortization of consolidation adjustments	76	-	(76)
4 Amortization of goodwill	-	77	77
5 Increase (decrease) in allowance for employees' retirement benefits	(512)	83	595
6 Increase (decrease) in allowance for directors' retirement benefits	(57)	37	94
7 Increase (decrease) in allowance for doubtful accounts	7	(23)	(30)
8 Interest and dividend income	(29)	(36)	(6)
9 Interest expenses	285	178	(106)
10 Loss (gain) on sales of investment securities	(42)	(0)	42
11 Loss on revaluation of investment securities	3	137	133
12 Gain on sale of fixed assets	(0)	(774)	(774)
13 Loss on sale and disposal of fixed assets	152	419	266
14 Loss on revaluation of memberships	-	2	2
15 Loss on disposal of inventories	355	191	(163)
16 Loss on transition to defined contribution pension system	168	-	(168)
17 Impairment loss	-	436	436
18 Decrease (increase) in trade receivables	1,367	1,591	223
19 Decrease (increase) in inventories	492	(198)	(691)
20 Increase (decrease) in accounts payable	(556)	(589)	(33)
21 Increase (decrease) in accrued liquor tax	(468)	(156)	312
22 Decrease (increase) in other current assets	(26)	(299)	(272)
23 Increase (decrease) in other current liabilities	255	100	(154)
24 Increase (decrease) in other fixed liabilities	552	(185)	(738)
25 Others	(439)	(155)	283
Subtotal	6,344	4,868	(1,475)
Interest and dividends received	29	34	4
Interest paid	(293)	(180)	112
Income taxes paid	(1,337)	(1,159)	178
Net cash provided by operating activities	4,742	3,562	(1,179)
II Cash flows from investing activities:			
1 Increase in time deposits	(4)	(4)	-
2 Decrease in time deposits	4	4	-
3 Increase in long-term deposits	-	(500)	(500)
4 Payments for acquisition of fixed assets	(1,429)	(2,510)	(1,081)
5 Proceeds from and payments for disposal or sale of fixed assets	(47)	522	569
6 Payments for acquisition of investment securities	(38)	(5)	32
7 Proceeds from sale of investment securities	80	0	(80)
8 Payments for acquisition of additional shares in subsidiaries	(487)	-	487
9 Proceeds from collection of loans	15	5	(9)
10 Others	16	(91)	(108)
Net cash used in investing activities	(1,889)	(2,579)	(690)

III Cash flows from financing activities:			
1 Net increase (decrease) in short-term loans payable	1,350	(2,700)	(4,050)
2 Proceeds from long-term loans payable	600	3,200	2,600
3 Repayments for long-term loans payable	(2,634)	(2,120)	513
4 Proceeds from issuance of warrant bonds	4,000	-	(4,000)
5 Payment for redemption of bonds	(5,000)	-	5,000
6 Dividends paid	(324)	(457)	(132)
7 Dividends paid to minority interests	(20)	(14)	6
8 Others	(7)	(5)	1
Net cash used in financing activities	(2,036)	(2,098)	(61)
IV Net increase (decrease) in cash and cash equivalents	816	(1,115)	(1,931)
V Cash and cash equivalents at beginning of period	2,601	3,417	816
VI Cash and cash equivalents at end of period	3,417	2,301	(1,115)

(Segment Information)**(a) Business Segments**

(Amounts below one million yen are truncated.)

	Fiscal year 2005 (January 1, 2005 - December 31, 2005)							
	Alcoholic beverages	Food products	Enzymes and pharmaceuticals	Real estate	Others	Total	Elimination or corporate	Consolidated
1. Net sales and operating income/expenses								
Net sales								
(1) Sales to outside customers	67,464	4,420	2,804	371	1,263	76,324	-	76,324
(2) Inter-segment sales/transfers	73	2	-	533	7,231	7,841	(7,841)	-
Total net sales	67,538	4,422	2,804	905	8,494	84,165	(7,841)	76,324
Operating expenses	65,629	4,112	2,202	398	8,406	80,748	(7,841)	72,907
Operating income (loss)	1,908	310	602	507	88	3,416	(-)	3,416
2. Assets, depreciation and amortization, and capital expenditures								
Assets	46,597	3,137	2,655	3,181	5,112	60,683	1,676	62,360
Depreciation and amortization	1,665	89	194	78	179	2,207	-	2,207
Capital expenditures	1,547	42	232	3	18	1,844	-	1,844

Note:

1. 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 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 ¥4,411 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.)

	Fiscal year 2006 (January 1, 2006 - December 31, 2006)							
	Alcoholic beverages	Food products	Enzymes and pharmaceuticals	Real estate	Others	Total	Elimination or corporate	Consolidated
1. Net sales and operating income/expenses								
Net sales								
(1) Sales to outside customers	63,491	4,645	3,154	364	1,310	72,966	-	72,966
(2) Inter-segment sales/transfers	72	2	-	519	6,876	7,471	(7,471)	-
Total net sales	63,564	4,648	3,154	883	8,186	80,437	(7,471)	72,966
Operating expenses	62,852	4,236	2,399	365	8,168	78,021	(7,471)	70,550
Operating income (loss)	711	412	755	518	17	2,415	(-)	2,415
2. Assets, depreciation and amortization, and capital expenditures								
Assets	44,408	3,207	3,129	3,117	3,984	57,848	460	58,309
Depreciation and amortization	1,526	82	254	68	162	2,095	-	2,095
Capital expenditures	1,411	17	613	0	47	2,090	-	2,090

Note:

1. 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 ¥3,088 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 assets and sales in Japan account for more than 90% of total assets and sales in each category for the year under review (January 1, 2006 - December 31, 2006) and the preceding term (January 1, 2005 - December 31, 2005), assets and 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 (January 1, 2006 - December 31, 2006) and the preceding term (January 1, 2005 - December 31, 2005), 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 2005	Fiscal year 2006	Change (%)
		(Jan. 1, 2005 – Dec. 31, 2005) (Kiloliters)	(Jan. 1, 2006 – Dec. 31, 2006) (Kiloliters)	
Alcoholic beverages	<i>Shochu</i>	87,766	79,092	90.1
	<i>Chu-hi</i>	9,030	5,448	60.3
	<i>Sake</i>	25,032	24,497	97.9
	<i>Sake compounds</i>	31,883	29,441	92.3
	Brewing alcohol	30,240	29,144	96.4
	<i>Mirin</i> (sweet sake for cooking)	4,691	4,361	93.0
	Western-style alcohol	5,437	6,130	112.7
	Total	194,082	178,117	91.8
Food products	Seasonings	5,306	4,643	87.5

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 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 2005	Fiscal year 2006	Change (%)
		(Jan. 1, 2005 – Dec. 31, 2005) (Millions of yen)	(Jan. 1, 2006 – Dec. 31, 2006) (Millions of yen)	
Alcoholic beverages	<i>Shochu</i>	39,817	37,049	93.0
	<i>Chu-hi</i>	1,782	1,100	61.8
	<i>Sake</i>	8,972	8,256	92.0
	<i>Sake compounds</i>	6,235	5,952	95.5
	Brewing alcohol	2,674	3,151	117.9
	<i>Mirin</i> (sweet sake for cooking)	1,641	1,558	94.9
	Western-style alcohol	6,340	6,421	101.3
	Total	67,464	63,491	94.1
Food products		4,420	4,645	105.1
Enzymes and pharmaceuticals		2,804	3,154	112.5
Real estate		371	364	98.0
Others		1,263	1,310	103.7
Total		76,324	72,966	95.6

Note:

- 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.