

Flash Report on the Consolidated Business Results for the Fiscal Year Ended December 31, 2007

February 8, 2008

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

Representative: Yukio Nagai, President & CEO

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Date of the ordinary general meeting of shareholders: March 27, 2008

Date of dividend payout: March 28, 2008

Date of issue of the annual securities report: March 27, 2008

(Amounts below one million yen are truncated.)

1. Consolidated Performance for the Year Ended December 31, 2007

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

(1) Consolidated operating results

Percentages represent comparisons with the preceding fiscal year.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended December 2007	77,439	6.1	1,434	(40.6)	1,493	(36.6)
Year ended December 2006	72,966	(4.4)	2,415	(29.3)	2,356	(27.6)

	Net income		Net income per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended December 2007	727	(17.7)	11.12	9.68
Year ended December 2006	883	(29.5)	13.51	11.76

	Return on equity (ROE)	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	%	%	%
Year ended December 2007	4.2	2.5	1.9
Year ended December 2006	5.1	3.9	3.3

Reference:

Equity in net income or loss of unconsolidated subsidiaries and affiliates:

Year ended December 31, 2007: -

Year ended December 31, 2006: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended December 2007	61,482	19,853	28.5	267.70
Year ended December 2006	58,309	19,414	29.9	266.66

Reference:

Shareholders' equity:

Year ended December 31, 2007: ¥17,504 million

Year ended December 31, 2006: ¥17,440 million

(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 2007	2,264	(2,268)	(588)	1,709
Year ended December 2006	3,562	(2,579)	(2,098)	2,301

2. Dividend Status

Record date	Dividends per share		Total dividends paid	Dividend payout ratio	Ratio of dividends to net assets
	December 31	Full year	Full year	Consolidated	Consolidated
Year ended December 2006	Yen 7.00	Yen 7.00	Millions of yen 457	% 51.8	% 2.7
Year ended December 2007	7.00	7.00	457	62.9	2.6
Year ending December 2008 (Forecast)	7.00	7.00		50.9	

3. Forecast Consolidated Performance for the Year Ending December 31, 2008

(From January 1, 2008, to December 31, 2008)

Percentages represent comparisons with the preceding fiscal year.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Interim period ending June 30, 2008	36,500	2.9	500	65.7	500	42.6
Year ending December 31, 2008 (full year)	80,000	3.3	2,050	42.9	2,000	33.9

	Net income		Net income per share
	Millions of yen	%	Yen
Interim period ending June 30, 2008	200	(25.7)	3.06
Year ending December 31, 2008 (full year)	900	23.8	13.76

4. Other

(1) Changes in important subsidiaries during the period (changes in specific subsidiaries owing to changes in the scope of consolidation): None

Newly included: 0 companies

Excluded: 0 companies

(2) Changes in the method, procedure and presentation, etc. of accounting for the preparation of consolidated financial statements:

Changes due to revisions to accounting standards, etc.: Yes

Other changes: No

(3) Number of outstanding shares (common stock)

	Number of Outstanding Shares (including Treasury Stock)	Treasury Stock
December 31, 2007	65,586,196	198,765
December 31, 2006	65,586,196	183,040

Reference: Overview of Non-Consolidated Performance

1. Non-consolidated Performance (From January 1, 2007, to December 31, 2007)

(1) Non-consolidated operating results

Percentages represent comparisons with the preceding fiscal year.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended December 2007	2,704	6.7	1,277	4.0	1,253	2.1
Year ended December 2006	2,534	10.4	1,227	14.9	1,227	31.5

	Net income		Net income per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Year ended December 2007	958	9.8	14.65	12.76
Year ended December 2006	873	17.1	13.35	11.62

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Year ended December 2007	33,707	17,859	53.0	273.14
Year ended December 2006	33,308	17,575	52.8	268.73

Reference:

Shareholders' equity:

Year ended December 31, 2007: ¥17,859 million

Year ended December 31, 2006: ¥17,575 million

2. Forecast Non-Consolidated Performance (From January 1, 2008, to December 31, 2008)

Percentages represent comparisons with the preceding fiscal year.

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Interim period ending June 30, 2008	1,800	3.5	1,050	2.6	1,050	2.9
Year ending December 31, 2008 (full year)	2,800	3.5	1,300	1.8	1,300	3.7

	Net income		Net income per share
	Millions of yen	%	Yen
Interim period ending June 30, 2008	800	(14.8)	12.23
Year ending December 31, 2008 (full year)	1,000	4.4	15.29

Cautionary statement regarding business performance forecasts

The projected performance figures indicated above are based on information available to the Company's management as of the day of releasing the above data. Actual results could differ significantly from forecast figures depending on a variety of factors which may occur hereafter. For further information on forecasts, please refer to page 4, "1. Operating Results," "(1) Analysis of Operating Results."

1. Operating Results

(1) Analysis of Operating Results

Operating Results for the Fiscal Year Ended December 31, 2007

During the fiscal year under review (January 1, 2007, to December 31, 2007), the Japanese economy stuck to its course of gradual recovery, stimulated by robust corporate earnings and other factors, despite hikes in oil, cereal and other raw material prices and concerns over the U.S. sub-prime loan problem.

The liquor industry faced an increasingly harsh operating environment, with ongoing reductions in overall demand accompanying trends toward an aging and diminishing population and low birthrate, in addition to cost reduction measures to counter escalating cereal prices.

By product category, sales of Group B *shochu* (single-distillation, *otsu*-type *shochu*) downturned, with the exception of sweet potato-based *shochu* products, which remained steady. The Group A *shochu* (*kou*-type *shochu*) market continued to contract, led by price revisions reflecting rising raw material costs. Furthermore, the market for beer beverages, including low-malt and beer-like alcoholic beverages, declined, as did the market for low-alcohol beverages, such as *chu-hi* (a refreshing beverage mixed with the clear distilled spirit *shochu*) and canned cocktail drinks. In addition, refined *sake* sales remained on their long-term course of contraction, contributing to severe overall business conditions.

In this environment, the Oenon Group capitalized on its holding company structure to pursue business development through optimal management. In particular, we worked to maintain our customer-oriented stance toward safety and security, with emphasis on customers and profits. During the year, we launched the Oenon New Value Plan, a new medium-term management plan, strove to implement mission management, the ultimate statement of our mission philosophies, and worked to improve the Group's corporate value and quality of management through shared creation of future value.

In March 2007, we acquired Kitanohomare Shuzo Co., Ltd., and Koshinohana Shuzo Co., Ltd., as part of the Oenon Group strategy aimed at further increasing corporate value.

As a result of these endeavors, consolidated net sales grew 6.1% from the preceding fiscal year, to ¥77,439 million. With the industry in recession overall, we increased income by promoting products that are both highly value-added and reasonably priced, thus focusing on the requirements of the customer. However, in terms of profits the Oenon Group incurred increased strategic advertising and marketing expenses. This was exacerbated by rapidly rising cereal prices, driven by increased demand for use of such materials in biofuel production, and the impact of falling exchange rates for the yen on raw material costs. Despite group synergy effects achieved in our liquor business and increased sales in our profitable enzymes and pharmaceuticals business, consolidated ordinary income for the year fell 36.6%, to ¥1,493 million.

Although we recorded an impairment loss as an extraordinary loss, gain from the sale of investment securities as extraordinary income during the year resulted in net income of ¥727 million, 17.7% below the previous year.

Performance by business segment is described below.

Alcoholic beverages

During the year ended December 31, 2007, sales of alcoholic beverages grew for the mixed *kou-otsu shochu* that is one of the Oenon Group's leading product sectors, including *Shiso Shochu Tantakatan*, as well as for the low-alcohol sector, including *La Cocktail* products. Sales of alcohol for industrial uses, including food and medicinal applications, increased. Total net sales for both Japanese and Western-style alcoholic beverages thus rose 6.2%, to ¥67,426 million. Nevertheless, operating income dropped 98%, to ¥14 million, as a result of increased cost of sales arising from escalating costs of alcohol and other raw materials and the impact of the falling yen.

Among the staple products in our *shochu* product line as *Shiso Shochu Tantakatan*, the *Hakata no Hana* series and *Mugi Zakari*, we aggressively promoted new product launches. We have also brought out products in the *kou-shochu* category that are tailored to customer demand. A prime example is our ongoing marketing endeavors for such differentiated products as *Shochu Yuuyuu*, which earned "Yokohama Goods" Yokohama 001 certification. As a result, overall sales of *shochu* products increased 4.0%, ¥38,518 million.

At the 2007 Monde Selection, our *Hakata no Hana* series produced two gold medal winners. *Hakata no Hana Sannen Chozo* took the prize for the fourth year in a row, and *Hakata no Hano Maromi no Toki* took home its fifth consecutive such award. A first time entry, *Satsuma Bijin Kogane Sengan*, also won a gold medal. Such honors continue to attest to the worldwide recognition of the high quality of the Oenon Group's products.

The market for *sake* compounds is shrinking overall due to higher liquor taxes. However, *Genroku Bijin*, the Oenon Group's mainstay top-selling brand in this sector, still enjoys great popularity with customers. Net sales of *sake* compounds overall eased 5.8% during the year, to ¥5,605 million, keeping pace with the industry as a whole.

In the refined *sake* segment, such products as the *Taisetsu no Kura* series, the *Nanbu Gura* series, and the *Ono no Komachi* series, which showcase the Oenon Group's initiative for drawing on regional specialties as a marketing tool, continue to enjoy significant popularity. Kitanohomare Shuzo Co., Ltd., and Koshinohana Shuzo Co., Ltd., which joined the Oenon Group in March 2007, made their respective contributions to overall net sales, which came to ¥8,965 million, a rise of 8.6% year on year—the Oenon Group succeeded in generating net sales that exceeded those of the previous year, even as the market overall remained in a prolonged slump.

In the name brand refined *sake* category, *Nanbu Gura Chougetsuka*, *Kita no Homare*, and *Koshinohana* all won gold medals at the 2006 National Research Institute of Brewing Awards, where *Taisetsu no Kura* also won an award. These commendations reiterate the high esteem with which the Oenon Group is held for applying tradition to brewing high-quality *sake*.

In the low-alcohol sector, including *chu-hi* and La Cocktail canned cocktail drinks, the additions of *Umeshu* (plum liqueur) Sparkling and Fruits Sparkling series to our lineup contributed to a 146.8% leap in sales, to ¥2,716 million.

Net sales of other alcohol products, including alcohol for brewing and industrial uses, increased 22.8% to ¥3,869 million during the year. Total net sales of Japanese alcohol products, including *mirin* (sweet *sake* for cooking), rose 7.1%, to ¥61,149 million.

In the Western-style alcohol segment, such products as the *Oushukubai* series, which we have been expanding since 2006, and *Umeshu Rose Hips Blend*, remained popular with customers. As a result, net sales of *umeshu* rose 5.8%.

A combination of strategic promotions and profit-driven marketing initiatives, as well as the additions of such labels as French Grand Cru champagne Mailly, kept net sales in the wine sector on a par with the previous fiscal year.

La Tomato continues to do very well. Expanding sales channels from the industrial market, where it has long been popular, into the household market raised net sales approximately 70% year on year.

In Western-style alcohol for engineering and processing, the Oenon Group has been introducing products targeting a wide range of customers. This has included adding a small size to its Neptune series of Western-style alcohol for use in making cakes and other sweets. The Group is also carrying out such initiatives as withdrawing from low-profit imported Western-style alcohol products. Nevertheless, net sales of Western-style alcohol overall declined 2.2% year on year, to ¥6,277 million.

Food products

In the food products sector, total net sales grew 8.4%, to ¥5,035 million, during the year. However, this failed to compensate for the impact of raw material price hikes, leading to a 62.8% falloff in operating income, to ¥153 million.

In the starch for food processing segment, costs increased as a consequence of the rise in prices of source corn that is, in turn, affected by the growth in demand for bioethanol in the United States. However, sales of corn grits, led by demand for use in beer brewing, enjoyed sales growth.

In the seasonings segment, net sales declined during the year, despite the Oenon Group concentrating on sales of high-quality products.

Enzymes and pharmaceuticals

Performance by the enzymes and pharmaceuticals sector continued on its favorable path, with net sales increasing 5.6%, to ¥3,331 million and operating income climbing 12.6%, to ¥850 million.

In enzymes, a mainstay category in this segment, we attained sales for enzyme for lactose degradation above the previous year's performance, despite increasingly aggressive competition from other market players. This was achieved through initiatives to improve ties with dairy producers. Sales of other enzymes continued to grow steadily, including of cell dispersion enzymes and enzymes for protein degradation, resulting in double-digit growth in net sales in the enzymes sector overall.

Sales of bulk pharmaceuticals diminished, partially as a result of a falloff in demand for hyperlipidemia treatments, one of the mainstay generic treatments in this category. Sales of health foods also waned during the year. However, in addition to robust performance by enzymes and pharmaceuticals, diagnostic pharmaceuticals recorded growth in sales, supporting steady advances by the enzymes and pharmaceuticals sector overall.

Real estate and others

Efforts to promote effective internal utilization of real estate owned by the Oenon Group caused a reduction in net sales from real estate business from the preceding year. Sales from food and beverage operations and other operations, which are responsible for one aspect of the Oenon Group's corporate communications, maintained the previous year's sales levels. Nevertheless, net sales in the real estate and others sector declined 1.7% during the year, to ¥1,646 million, while operating income fell 22.3%, to ¥416 million.

Outlook for the Fiscal Year Ending December 31, 2008

The economic outlook falls short of a full-blown recovery, because of further anticipated oil and raw material price rises and personal consumption capped by modest salary increases. Nonetheless, gradual economic recovery can be expected, albeit dependent on overseas demand.

Amid market contraction, the alcoholic beverage industry is pursuing high-value-added products, in the wake of shifts from quantity to quality generated by increasingly diverse lifestyles that demand comfort and luxury. Further, responses are required to ongoing demands for reasonably priced products and the introduction of a new transaction system. Continued soaring raw material prices, including for oil and cereals, render cost increases unavoidable, and competition between companies is set to further intensify.

Against this backdrop, the Oenon Group will retain its management orientation focusing on customers and profits and seek to maximize the Group's corporate value through shared creation of future value. Focus on total optimization and synergies throughout the Group are pivotal for raising its corporate value. We shall pursue these targets through the objectives of the Oenon New Value Plan, our new medium-term management plan.

For the fiscal year ending December 31, 2008, we forecast consolidated net sales of ¥80,000 million, a 3.3% increase year-on-year. Operating income is anticipated to grow 42.9% to ¥2,050 million, ordinary income to climb 33.9% to ¥2,000 million, and net income to advance 23.8% to ¥900 million.

(2) Analysis of Financial Position

(i) Assets, Liabilities and Net Assets

As of December 31, 2007, total assets stood at ¥61,482 million, ¥3,172 million up from a year earlier. The primary cause was an increase in notes and accounts receivable accompanying growth in net sales.

Total liabilities grew ¥2,734 million, to ¥41,628 million, primarily led by advances in notes and accounts payable arising in conjunction with greater purchasing and increase in accrued liquor tax led by sales growth.

Net assets at the end of the year were ¥19,853 million, ¥438 million more than a year earlier. Principally contributing were higher retained earnings in accounting for net income.

Net assets per share grew ¥1.04 during the year, to ¥267.70, with the equity ratio standing at 28.5%.

(ii) Cash Flows

During the year in review, net cash provided operating activities was ¥2,264 million. This was primarily due to income before taxes and minority interests and depreciation and amortization, which provided ¥1,619 million and ¥2,014 million, respectively. Principal uses of cash included loss on sales of investment securities of ¥897 million, an increase in trade receivables of ¥1,836 million and growth in inventories of ¥866 million.

Net cash used in investing activities amounted to ¥2,268 million. Sales of investment securities provided ¥996 million, but payments for acquisition of fixed assets came to ¥2,993 million.

Net cash used in financing activities was ¥588 million, despite a net increase in short-term loans payable of ¥965 million and owing to ¥1,175 million in repayment of long-term loans.

As a result of these factors, during the year, the net decrease in cash and cash equivalents was ¥592 million. Cash and cash equivalents at the end of the period in review totaled ¥1,709 million, compared with ¥2,301 million at the beginning of the period in review.

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

	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2007
Equity ratio (%)	27.5	29.9	28.5
Equity ratio at market valuation (%)	46.2	44.1	27.2
Debt redemption (years)	2.8	3.3	5.4
Interest coverage ratio (times)	16.2	19.7	10.8

Notes:

Equity ratio: (Net assets – minority interests)/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

- * 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 period by the number of shares issued and outstanding at the end of the period (excluding treasury stock).
- * 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) Policy on Dividends and Dividends Payment (Fiscal Years Ended December 2007 and Ending December 2008)

The Oenon Group considers returning its profits to its shareholders to be one of its most important policy initiatives. Accordingly, our fundamental policy is to make dividend disbursements in a reliable, sustained manner, and to gradually increase the dividends that we pay out over the medium term. In doing so, we take into account the Group's operations, consolidated results, medium-term profitability, capital investment plans, internal capital holdings, and ability to pay dividends.

With the foregoing in mind, the Oenon Group expects to pay dividends of ¥7 per share, as per the previous period. Moreover, we anticipate paying dividends of ¥7 per share for the next fiscal period.

(4) Operational and Other Risks

(i) The Operating Environment Surrounding the Alcoholic Beverages Business

· 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 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 effect the Group's operating performance.

· 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.

· 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.

(ii) Group Strategies

· 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. Further, in March 2007 we acquired 79.1% of the outstanding shares of Kitanohomare Shuzo Co., Ltd., bringing our holding as of December 31, 2007, to 88.2%, and converted this company to a consolidated subsidiary. In so doing, we also converted to a consolidated subsidiary Koshinohana Shuzo Co., Ltd., a subsidiary of Kitanohomare Shuzo Co., Ltd.

· 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 January 2008, we reorganized the Group for the purpose of upgrading Group business management efficiency by completing the merger of two subsidiaries, GODO SHUSEI CO., LTD., and Godo Shoji Co., Ltd.

We do not implement a plan for the acquisition of new subsidiaries. We are pursuing a policy of reinforcing the respective functions of each part of the Group organization to attain Groupwide cost reductions. However, over the medium to long term, 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.

(iii) 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.

Furthermore, 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.

(iv) Currency Exchange Rate Fluctuations

The Oenon Group imports part of its products and raw materials on a foreign currency denominated basis, so depreciation of the yen may have an adverse effect on the Group's business results.

Further, to reduce the impact of short-term currency exchange fluctuations, part of the Group's foreign-currency-denominated import transactions is conducted through exchange contracts, thus stabilizing purchasing costs.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Fiscal year 2006 As of Dec. 31, 2006		Fiscal year 2007 As of Dec. 31, 2007		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	2,306		1,724			(582)
2 Notes and accounts receivable	19,015		21,047			2,032
3 Inventories	8,429		9,694			1,264
4 Deferred tax assets	450		669			218
5 Prepaid expenses	132		126			(5)
6 Other current assets	506		765			259
7 Allowance for doubtful accounts	(32)		(33)			(1)
Total current assets	30,807	52.8	33,993	55.3		3,185
II Fixed assets						
1 Tangible fixed assets						
(1) Buildings	18,008		18,772		764	
Accumulated depreciation	(9,854)	8,154	(10,710)	8,062	(856)	(92)
(2) Structures	3,799		3,876		77	
Accumulated depreciation	(2,421)	1,378	(2,536)	1,340	(114)	(37)
(3) Machinery, equipment and vehicles	23,861		25,498		1,637	
Accumulated depreciation	(18,996)	4,864	(20,916)	4,582	(1,919)	(282)
(4) Tools, furniture and fixtures	1,837		1,964		126	
Accumulated depreciation	(1,545)	292	(1,644)	319	(99)	27
(5) Land		7,087		8,680		1,593
(6) Construction in progress		203		514		311
Total tangible fixed assets		21,980		23,500		1,520
2 Intangible fixed assets						
(1) Leasehold		11		11		—
(2) Goodwill		924		163		(760)
(3) Software		169		148		(20)
(4) Other intangible fixed assets		386		485		99
Total intangible fixed assets		1,491		809	1.3	(681)
3 Investments and other assets						
(1) Investment securities		1,940		1,775		(164)
(2) Long-term loans receivable		7		4		(2)
(3) Long-term prepaid expenses		208		214		5
(4) Deferred tax assets		597		241		(355)
(5) Long-term deposits		500		500		—
(6) Other investments and other assets		825		492		(333)
(7) Allowance for doubtful accounts		(50)		(50)		0
Total investments and other assets		4,030	6.9	3,178	5.2	(851)
Total fixed assets		27,501	47.2	27,488	44.7	(13)
Total Assets		58,309	100.0	61,482	100.0	3,172

	Fiscal year 2006 As of Dec. 31, 2006		Fiscal year 2007 As of Dec. 31, 2007		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	6,050		6,880		830
2 Short-term debt	5,003		5,749		746
3 Other payables	5,499		5,443		(56)
4 Accrued liquor tax	7,241		8,130		888
5 Accrued consumption tax	282		584		301
6 Accrued income tax	674		337		(336)
7 Allowance for employees' bonuses	70		66		(3)
8 Allowance for directors' bonuses	61		61		—
9 Accrued expenses	207		248		40
10 Deposits payable	277		293		15
11 Other current liabilities	581		771		189
Total current liabilities	25,950	44.5	28,566	46.5	2,616
II Long-term liabilities					
1 Warrant bonds	3,984		3,984		—
2 Long-term debt	3,949		3,670		(279)
3 Long-term deposits payable	3,254		3,307		53
4 Allowance for employees' retirement benefits	1,021		1,154		132
5 Allowance for directors' retirement benefits	251		58		(192)
6 Other long-term liabilities	483		887		403
Total long-term liabilities	12,944	22.2	13,061	21.2	117
Total liabilities	38,894	66.7	41,628	67.7	2,734
(Net assets)					
I Shareholders' equity					
1 Common stock	6,946	11.9	6,946	11.3	—
2 Capital surplus	5,577	9.6	5,577	9.1	0
3 Retained earnings	4,344	7.5	4,614	7.5	269
4 Treasury stock	(47)	(0.1)	(53)	(0.1)	(5)
Total shareholders' equity	16,820	28.9	17,084	27.8	264
II Valuation, currency translation and other adjustments					
1 Valuation difference of other securities	619	1.0	413	0.7	(206)
2 Deferred hedging gains (losses)	0	0.0	6	0.0	5
Total valuation, currency translation and other adjustments	620	1.0	419	0.7	(200)
III Minority interests	1,974	3.4	2,348	3.8	374
Total net assets	19,414	33.3	19,853	32.3	438
Total net liabilities	58,309	100.0	61,482	100.0	3,172

(2) Consolidated Statements of Income

	Fiscal year 2006 (Jan. 1, 2006 – Dec. 31, 2006)			Fiscal year 2007 (Jan. 1, 2007 – Dec. 31, 2007)			Change	
	Amount (Millions of yen)		Percent of total (%)	Amount (Millions of yen)		Percent of total (%)	Amount (Millions of yen)	
I Net sales		72,966	100.0		77,439	100.0		4,473
II Cost of sales		52,126	71.4		55,873	72.1		3,747
Gross profit		20,840	28.6		21,566	27.9		726
III Selling, general and administrative expenses		18,424	25.3		20,132	26.0		1,707
Operating income		2,415	3.3		1,434	1.9		(981)
IV Nonoperating income								
1 Interest income	2			10			7	
2 Dividend income	33			42			8	
3 Rental income	73			72			0	
4 Foreign currency exchange gain	4			4			0	
5 Amortization of negative goodwill	—			120			120	
6 Other nonoperating income	56	170	0.2	90	341	0.4	34	170
V Nonoperating expenses								
1 Interest expenses	178			218			39	
2 Other nonoperating expenses	51	230	0.3	63	281	0.4	12	51
Ordinary income		2,356	3.2		1,493	1.9		(862)
VI Extraordinary income								
1 Gain on sales of fixed assets	774			1			(773)	
2 Gain on sales of investment securities	0			902			902	
3 Reversal of allowance for doubtful accounts	5			0			(5)	
4 Proceeds from breach of contract	28			—			(28)	
5 Reversal of retirement reserve	12			—			(12)	
6 Others	27	848	1.2	126	1,030	1.3	99	182
VII Extraordinary loss								
1 Loss on sales and disposal of fixed assets	419			188			(230)	
2 Impairment loss on fixed assets	436			511			75	
3 Loss on disposal of inventories	191			53			(138)	
4 Loss on revaluation of memberships	2			—			(2)	
5 Loss on revaluation of investment securities	137			81			(56)	
6 Others	81	1,268	1.7	69	904	1.1	(12)	(364)
Income before income taxes and minority interests		1,936	2.7		1,619	2.1		(316)
Income, residential and enterprise taxes	1,239			409			(829)	
Adjustment for income taxes	(337)	901	1.3	431	840	1.1	769	(60)
Interest in income (loss) in minority holdings		151	0.2		52	0.1		(99)
Net income		883	1.2		727	0.9		(156)

(3) Statements of Changes in Shareholders' Equity

Fiscal Year Ended December 2006 (From January 1, 2006, to December 31, 2006)

	Shareholders' equity				
	Common stock (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)
Directors' 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)
Directors' 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

Fiscal Year Ended December 2007 (From January 1, 2007, to December 31, 2007)

	Shareholders' equity				
	Common stock (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, 2006	6,946	5,577	4,344	(47)	16,820
Changes during the period under review					
Dividends from capital surplus	—	—	(457)	—	(457)
Net income during the period under review	—	—	727	—	727
Acquisition of treasury stock	—	—	—	(7)	(7)
Disposal of treasury stock	—	0	—	1	2
Net changes to items other than shareholders' equity during the period under review	—	—	—	—	—
Total change during the period under review	—	0	269	(5)	264
Balance as of December 31, 2007	6,946	5,577	4,614	(53)	17,084

	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, 2006	619	0	620	1,974	19,414
Changes during the period under review					
Dividends from capital surplus	—	—	—	—	(457)
Net income during the period under review	—	—	—	—	727
Acquisition of treasury stock	—	—	—	—	(7)
Disposal of treasury stock	—	—	—	—	2
Net changes to items other than shareholders' equity during the period under review	(206)	5	(200)	374	174
Total change during the period under review	(206)	5	(200)	374	438
Balance as of December 31, 2007	413	6	419	2,348	19,853

(4) Consolidated Statements of Cash Flows

	Fiscal year 2006 (Jan. 1, 2006 – Dec. 31, 2006)	Fiscal year 2007 (Jan. 1, 2007 – Dec. 31, 2007)	Change
	Amount (Millions of yen)	Amount (Millions of yen)	Amount (Millions of yen)
I Cash flows from operating activities:			
Income before income taxes and minority interests	1,936	1,619	
Depreciation and amortization	2,095	2,014	
Asset impairment loss	436	511	
Amortization of goodwill	77	75	
Amortization of negative goodwill	—	(120)	
Increase (decrease) in allowance for employees' retirement benefits	83	10	
Increase (decrease) in allowance for directors' retirement benefits	37	(5)	
Increase (decrease) in allowance for doubtful accounts	(23)	1	
Increase (decrease) in allowance for directors bonuses	61	—	
Interest and dividend income	(36)	(52)	
Interest expenses	178	218	
Gain on sales of investment securities	(0)	(897)	
Loss on revaluation of investment securities	137	81	
Gain on sales of fixed assets	(774)	(1)	
Loss on sales and disposal of fixed assets	419	188	
Loss on revaluation of memberships	2	—	
Loss on disposal of inventories	191	53	
Proceeds from compensation for damages	—	(45)	
Decrease (increase) in trade receivables	1,591	(1,836)	
Decrease (Increase) in inventories	(198)	(866)	
Increase (decrease) in accounts payable	(589)	779	
Increase (decrease) in accrued liquor tax	(156)	864	
Decrease (increase) in other current assets	(299)	(242)	
Increase (decrease) in other current liabilities	100	343	
Increase (decrease) in other fixed liabilities	(185)	(203)	
Others	(217)	633	
Subtotal	4,868	3,125	(1,742)
Interest and dividends received	34	52	
Interest paid	(180)	(209)	
Compensation for damages received	—	45	
Income taxes paid	(1,159)	(749)	
Net cash provided by operating activities	3,562	2,264	(1,298)
II Cash flows from investing activities:			
Increase in time deposits	(4)	(14)	
Decrease in time deposits	4	199	
Increase in long-term deposits	(500)	—	
Payments for acquisition of fixed assets	(2,510)	(2,993)	
Proceeds from disposal of fixed assets	522	9	
Payment for acquisition of investment securities	(5)	(346)	
Proceeds from sales of investment securities	0	996	
Payment for acquisition of additional shares in subsidiaries	—	(5)	
Payments for subsidiaries' shares in line with inclusion in scope of consolidation	—	(59)	
Proceeds from collection of loans	5	2	
Others	(91)	(56)	
Net cash used in investing activities	(2,579)	(2,268)	311
III Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(2,700)	965	
Proceeds from long-term loans payable	3,200	100	
Payments for long-term loans payable	(2,120)	(1,175)	
Dividends paid	(457)	(458)	
Dividends paid to minority interests	(14)	(15)	
Others	(5)	(5)	
Net cash (used in) provided by financing activities	(2,098)	(588)	1,509
IV Net increase (decrease) in cash and cash equivalents	(1,115)	(592)	523
V Cash and cash equivalents at beginning of period	3,417	2,301	(1,115)
VI Cash and cash equivalents at end of period	2,301	1,709	(592)

Segment Information

1. Business segments

(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	Consoli-dated
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

Notes:

1. Businesses of the Oenon 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, 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.

4. The Company began applying the “Accounting Standard for Directors’ Bonuses” (Accounting Standards Board of Japan, Accounting Standard No. 4, November 29, 2005) from the consolidated fiscal year under review. The effect of this change was to increase operating expenses in the alcoholic beverages segment ¥26 million, the food products segment ¥8 million, the enzymes and pharmaceuticals segment ¥0 million, the real estate segment ¥0 million and the others segment ¥26 million, and to reduce operating income by the same amount, compared to the figures that would have resulted had this change not been implemented.

(Amounts below one million yen are truncated)

	Fiscal year 2007 (January 1, 2007 – December 31, 2007)							
	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 customer	67,426	5,035	3,331	358	1,288	77,439	—	77,439
(2) Inter-segment sales/transfers	92	0	—	506	6,873	7,473	(7,473)	—
Total net sales	67,519	5,035	3,331	865	8,161	84,913	(7,473)	77,439
Operating expenses	67,505	4,882	2,481	377	8,232	83,479	(7,473)	76,005
Operating income (loss)	14	153	850	487	(71)	1,434	(—)	1,434
2. Assets, depreciation and amortization, and capital expenditures Assets	47,275	3,821	3,375	3,075	4,589	62,137	(655)	61,482
Depreciation and amortization	1,513	78	251	54	118	2,014	—	2,014
Capital expenditures	1,335	100	146	5	1,232	2,820	—	2,820

Notes:

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 areas
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 ¥2,153 million. Major items were funds for surplus fund management (cash and marketable securities), long-term investments (investment securities) and assets related to administrative departments.
4. During the fiscal year, Oeon recorded impairment losses of ¥511 million. By segment, this impacted ¥508 million on alcoholic beverages and ¥2million on real estate.

2. 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, 2007 – December 31, 2007) and the preceding term (January 1, 2006 – December 31, 2006), assets and sales by geographical region are omitted.

3. Overseas sales

As overseas sales account for less than 10% of total net sales for the year under review (January 1, 2007 – December 31, 2007) and the preceding term (January 1, 2006 – December 31, 2006), 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 2006	Fiscal year 2007	Change (%)
		(Jan. 1, 2006- Dec. 31, 2006) (Kiloliters)	(Jan. 1, 2007- Dec. 31, 2007) (Kiloliters)	
Alcoholic beverages	<i>Shochu</i>	79,092	83,014	105.0
	<i>Chu-hi</i>	5,448	15,378	282.3
	<i>Sake</i>	24,497	24,747	101.0
	<i>Sake compounds</i>	29,441	26,754	90.9
	Brewing alcohol	29,144	34,650	118.9
	<i>Mirin</i> (sweet <i>sake</i> for cooking)	4,361	4,300	98.6
	Western-style alcohol	6,130	5,781	94.3
	Total	178,117	194,626	109.3
Food products	Seasonings	4,643	4,138	89.1

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 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:

Business segment	Item (Major product category)	Fiscal year 2006	Fiscal year 2007	Change (%)
		(Jan. 1, 2006- Dec. 31, 2006) (Millions of yen)	(Jan. 1, 2007- Dec. 31, 2007) (Millions of yen)	
Alcoholic beverages	<i>Shochu</i>	37,049	38,518	104.0
	<i>Chu-hi</i>	1,100	2,716	246.8
	<i>Sake</i>	8,256	8,965	108.6
	<i>Sake compounds</i>	5,952	5,605	94.2
	Brewing alcohol	3,151	3,869	122.8
	<i>Mirin</i> (sweet <i>sake</i> for cooking)	1,558	1,473	94.5
	Western-style alcohol	6,421	6,277	97.8
	Total	63,491	67,426	106.2
Food products		4,645	5,035	108.4
Enzymes and pharmaceuticals		3,154	3,331	105.6
Real estate		364	358	98.2
Others		1,310	1,288	98.3
Total		72,966	77,439	106.1

Notes:

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