SAPPORO HOLDINGS LIMITED Annual Report 2004

Decisive Choices, Solid Results

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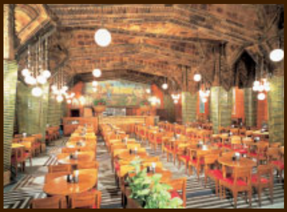
In July 2003, the Sapporo Group adopted a new structure centered on Sapporo Holdings Limited as the Group's holding company. Sapporo Holdings has four business segments: Alcoholic Beverages, based around Sapporo Breweries Ltd.; Soft Drinks, the core company of which is Sapporo Beverage Co., Ltd.; Restaurants, spearheaded by Sapporo Lion Ltd.; and Real Estate, where Yebisu Garden Place Co., Ltd. is the fulcrum.

As the publicly owned representative of the Sapporo Group, Sapporo Holdings is determined to meet the expectations of shareholders and other stakeholders. In this vein, the company is committed to maximizing enterprise value by achieving continuous growth and increasing the earnings of the Group.



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Financial Highlights

Years ended December 31

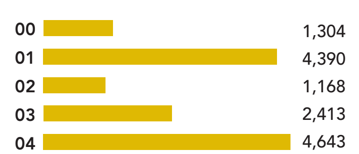
	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Net sales	**¥494,930**	¥479,520	**$4,749,804**
Net income	**4,643**	2,413	**44,562**
	Yen		U.S. dollars
Per share:			
Net income			
Primary	**¥13.07**	¥6.95	**$0.13**
Diluted	**12.01**	–	**0.12**
Cash dividends	**5.00**	5.00	**0.05**
	Millions of yen		Thousands of U.S. dollars
Shareholders' equity	**¥ 92,263**	¥ 87,364	**$ 885,444**
Total assets	**602,112**	630,637	**5,778,423**
Capital expenditures	**10,269**	10,081	**98,548**
Depreciation and amortization	**25,330**	28,435	**243,086**

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥104.20=US$1, the exchange rate prevailing on December 31, 2004.

Net Sales (¥ Million)

Operating Income (¥ Million)

Net Income (¥ Million)



Message From the President

I assumed the post of president and representative director of Sapporo Holdings Limited on March 30, 2005. I was also made CEO of the Sapporo Group. Under my predecessor Tatsushi Iwama, I did my utmost as managing director to develop the Sapporo Group. Likewise, I intend in this new capacity to fully dedicate myself to the task of developing our operations. Your support in this endeavor will be much appreciated.

About the Sapporo Group

In July 2003, the Sapporo Group adopted a holding company framework. Under it, our four main operating companies (Alcoholic Beverages, Soft Drinks, Restaurants and Real Estate) are implementing management reforms and building new business models, with the aim of being powerful companies in their respective industries.

The Sapporo Group's management philosophy is to make people's lives richer and more enjoyable. To this end, our fundamental management policy is to strive to satisfy all stakeholders, including our shareholders, customers and employees. And, as the representative, publicly owned company of the Sapporo Group, Sapporo Holdings is fully committed to maximizing corporate value by achieving both continuous growth for the entire Group and greater profitability.

Review of Operations

In the fiscal year ended December 31, 2004, Japan showed signs of having shaken free of deflation. Consumer spending also improved, hinting that the Japanese economy might indeed be on the road to recovery.

In Alcoholic Beverages, Soft Drinks, Restaurants and other industries where Sapporo Group companies are developing their businesses, the bipolarization of consumption trends, increasingly borderless nature of some sectors, diversifying consumer preferences and other dynamics became more pronounced. This fueled an economic climate that tested the collective strengths of enterprises to accurately identify and offer the products and services desired by customers.

In this environment, consolidated net sales improved 3.2% year on year to ¥494,930 million. Operating income rose 77.4% to ¥23,648 million, while net income, at ¥4,643 million, was 92.4% higher than the previous year. We also declared a full-year dividend of ¥5.0 per share. ROE was 5.2%.

Recognizing a Need

The Sapporo Group adopted the holding company framework so as to be able to enact speedy, flexible management through the independence and autonomy of Group companies. We recognized the need to recast ourselves as a fast and agile corporate group to raise corporate value.

2004 provided our first glimpse of the benefits of this new framework over a full fiscal year. All in all, the benefits were as we envisaged. We saw significantly improved performance from the Alcoholic Beverages business. Both Soft Drinks and Restaurants businesses moved into the black, reversing year-earlier operating losses. And the Real Estate business continued to remain firm. At this stage, no stone is unturned as we make steady progress on completing target changes.

Takao Murakami
President and
Representative Director,
Group CEO

My Mission

As the new president and CEO, this success puts me in a position to move us forward to the next stage of management reforms. Now that a solid Group management base is in place, the biggest task will be to realize expansive growth in each of our business segments. Doing so will require that we work faster to capture synergies within the Group, in addition to achieving growth in existing businesses. Other imperatives include identifying new investment opportunities, bolstering our overseas operations and continuing to propose new, innovative forms of value.

By delivering growth through sound business execution and communicating our successes, we will lift the corporate value of the entire Sapporo Group.

In Partnership With Stakeholders

At least one other major challenge awaits—promoting Group-wide management that enables us to fulfill our responsibilities as a good corporate citizen. Reinforcing and enhancing corporate governance, as well as ensuring strict compliance anchored by the Sapporo Group Code of Business Conduct, are priority management issues for the Group as we aim to continuously boost Group corporate value.

As the representative, publicly owned company of the Sapporo Group, Sapporo Holdings is keenly aware that returning profits to shareholders is its most important management policy. Accordingly, our fundamental stance is to maintain a stable dividend, but to determine dividends with reference to our operating results and financial position.

April 2005

T. Murakami

Takao Murakami
President and Representative Director, Group CEO

Decisive Choices, Solid Results

July 2003 marked the transition to a holding company structure under Sapporo Holdings. In 2004, each operating company responsible for the Group's four business domains—Alcoholic Beverages, Soft Drinks, Restaurants and Real Estate—delivered better-than-expected performances. This was the result of executing operations with the speed and autonomy afforded by the new operating framework.

At a Glance

	Share of Net Sales	Operating Revenues (¥ Million)/ Operating Income (Loss) (¥ Million)	Overview of Products and Services
Alcoholic Beverages **Sapporo Breweries Ltd.**	73.6%	03 341,924 04 364,585 03 4,542 04 18,810	Focused primarily on operations related to beer, *Happo-shu* (low-malt beer), wine and spirits, this segment is also developing an agribusiness, brewing equipment and brewing yeast-related businesses.
Soft Drinks **Sapporo Beverage Co., Ltd.**	14.0%	03 65,169 04 69,324 03 (835) 04 466	Led by mainstay green tea products, this segment is creating a diverse lineup that includes fruit juice-based soft drinks and mineral water products.
Restaurants **Sapporo Lion Ltd.**	5.4%	03 26,591 04 26,611 03 (1,089) 04 229	Driven by *Ginza Lion*, the paragon of Japan's beer hall chains, this segment is also developing the *Agura* chain of Japanese-style beer halls, as well as the *Brasserie* chain of French-style beer halls.
Real Estate **Yebisu Garden Place Co., Ltd.**	4.6%	03 33,430 04 22,506 03 13,511 04 5,973	This segment owns, manages, operates and develops the real estate business assets of the Sapporo Group. *Yebisu Garden Place* and *Sapporo Factory* are the segment's two main operations.

Sapporo Breweries

Question "Overall demand for beer was sluggish in Japan in 2004. Yet, Sapporo Breweries posted the highest growth in the country's beer industry. What were the factors behind this accomplishment?"

Total domestic demand in 2004 in the market for beer, *Happo-shu* and other new types of alcoholic beverage was only slightly up on the previous year. However, Sapporo Breweries achieved growth that significantly bettered the market's lackluster showing. In fact, we achieved the highest rate of growth in the industry and were the only company to increase our market share. Obviously, this means that we won considerable support from consumers. I put this down to the success we had implementing our unique strategy of concentrating resources on four price bands. Another key contributor is the ongoing emphasis we put on the quality of the ingredients used in our products.

The Alcoholic Beverages segment is one of the core businesses of the Sapporo Group. Its performance is thus directly linked to the market standing and value of the Group as a whole. As Sapporo Breweries' new president, I'm naturally delighted with this year's success, but I aim to achieve more growth. Key themes in this endeavor are maximizing profits and capturing market share. We are determined to do our best to make an even greater contribution to increasing the value of the Sapporo Group.

Masaru Fukunaga
President and Representative Director,
Sapporo Breweries Ltd.
(From March 25, 2005)

福永 勝

★*Draft One*
This hit product is just one of the new types of alcoholic beverage that Sapporo has produced.

Draft One Sales Volume (Unit: 10,000 cases*)

*1 case = 20 large 633ml bottles

Review of Operations

Sapporo Breweries Ltd. is engaged mainly in the production, import and sale of beer, *Happo-shu* (low-malt beer), wine and spirits in Japan. It is also developing its overseas operations, agribusiness, brewing equipment and brewing yeast-related businesses.

The Japanese market for beer, Sapporo Breweries' mainstay business, continues to face a headwind. Total demand remains lackluster due to the effects of an ageing society and a falling population over the drinking age. But these difficult conditions are also presenting opportunities. Changing consumer values are spawning new needs. Consumers, for example, are showing a greater preference for lighter, more refreshing beverages, and are increasingly interested in health, safety and reliability. Furthermore, polarization in consumption tendencies is seeing some consumers favor low-priced products while others choose value-added products that put a premium on quality.

Total demand in the Japanese beer and *Happo-shu* market in 2004 fell short of the level in 2003, slipping 4.2%, despite a hot summer and an improving economy that spurred consumption. However, new types of alcoholic beverage that fill a gap in the market not met by existing beer and *Happo-shu* products won strong support. The result was a 0.8% year-on-year rise in total demand for beer, *Happo-shu* and these new beverages combined.

Indeed, new types of alcoholic beverages took the Japanese beer industry by storm in 2004. Importantly for us, we led the market in this field. Spearheading our push was *Draft One*. Launched nationwide in February 2004, *Draft One* uses a pea protein instead of malt and barley to deliver an unparalleled sense of refreshment that has drawn consumer applause. In addition to the breakthrough represented by *Draft One*, our wine and spirits business turned in a strong performance, leading to results that eclipsed the previous year's.

The Alcoholic Beverages segment at Sapporo Holdings, which includes Sapporo Breweries Ltd., posted a 6.6% increase in operating revenues to ¥364,585 million, and operating income was 314.1 % higher than the previous year's level at ¥18,810 million.

The Successes of the New Framework

Following the adoption of a new Group structure, operating companies were prompted to execute management reforms and build new business models, with the aim of being companies that could be competitive in their respective industries. In a Japanese alcoholic beverage market that has continued to contract, Sapporo Breweries has worked to expedite operations by transferring authority to the front line, spurred by a sense of urgency that continuing with existing business models would not drive growth.

★ *Sapporo Black Label*
This long-selling product is backed by a loyal following.

★ *Yebisu Beer*
Select ingredients and a special production process are the trademarks of this premium beer brand.

I. The Path to Achieving Our Mission

The Alcoholic Beverages segment was entrusted with the mission of generating operating income of ¥10,000 million in 2006 and reducing financial liabilities to ¥115,000 million by December 31, 2006. We are pleased to report that these targets were achieved in 2004, ahead of schedule. Here's how we went about achieving our mission.

To bolster our top line, we improved the products on offer to customers, creating new value that draws on the strengths of Sapporo Breweries, to stimulate new demand in the Japanese alcoholic beverages market. *Draft One*, developed using our well-reputed fermentation technology, exemplifies this. A unique and unrivaled product strategy built around four price ranges—premium, standard, popular and economy—was another contributor. Channeling resources to enhance our brand in each of these price bands led to a dramatic rise in sales in 2004 for beer, *Happo-shu* and new categories combined. Moreover, in pursuit of "the Sapporo difference," we have made a pledge to consumers that 100% of our malt and hops will be produced under a collaborative contract system by 2006, demonstrating our hallmark commitment to the quality of raw materials. This, we believe, will enhance not only the equity of product brands but the Sapporo corporate brand as well. On a different front, we are developing various sales channels in the home-use and restaurant markets, as well as enhancing our product lineups with newly developed and imported products.

Strategies have targeted the bottom line, too. We have accelerated cost-cutting and asset reductions. In terms of cost-cutting, actions include efficiently using sales promotion expenses, improving productivity by creating a nationwide production system with only six breweries, and reducing the cost of purchases. With respect to the reduction of assets, we have made progress reducing inventories of materials, products and ingredients by reviewing supply chain management. This has translated into reductions in inventories and accounts receivable. These initiatives have enabled us to lower the breakeven point and generate cash flows, with which we have reduced financial liabilities.

Domestic Liquor Tax (per 350ml can)

★ *Grand Polaire*
This premium domestic wine is made from 100% domestically produced grapes, gathered from select vineyards across Japan and from Sapporo Breweries' own vineyards.

★ *Yellow Tail*
The top-selling imported wine in the U.S., Sapporo is now developing this casual wine from Australia in the Japanese market.

II. Creating Synergies

Behind the adoption of a holding company system was the desire to deliver results in all the industries where the Group operates by giving each segment the authority and responsibility of autonomous businesses to operate faster. Another aim was to create synergies among segments. As a core company of the Sapporo Group, we are contributing to this end.

One example concerns collaboration with the Soft Drinks segment. We share our SCM framework with this segment and develop new products that blend juice-related technologies with our own beer and wine fermentation technologies. With the Restaurants segment, we are developing sales channels for alcoholic beverages used as ingredients by customers of that segment. From the Real Estate segment we receive sophisticated know-how concerning real estate management that we put to good use in the management of the property, plant and equipment that we own.

For More Growth

Having achieved our goals much earlier than planned, we are in the process of formulating a new medium-term management plan. Avoiding complacency to maintain the same sense of urgency that gave rise to the holding company structure, we are determined to accelerate our growth strategy. Bringing to the fore qualities that have come to define Sapporo—handpicked natural raw materials and a focus on taste—we will expedite measures designed to transform us into a comprehensive supplier of alcoholic beverages to make the maximum contribution to raising the value of the Sapporo Group.

Collaborative Contract Farming System

By 2006, Sapporo Breweries aims to source 100% of its malt and hops from contract growers to deliver to customers beer and *Happo-shu* that is safe, reliable and of high quality. This collaborative contract farming system involves cooperation among growers, processors and Sapporo Breweries to make the finest ingredients right from the time the first seed is sown. This will give us a stable supply of reliable, fine-quality raw materials. Key to this system is the so-called "field man," of which there are presently 15. Responsible for communicating with growers in Japan and overseas, these people are engaged in a concerted effort to make raw materials of an even higher quality.

Sapporo Beverage

Question "You recorded an all-time high sales volume in the past year, but what does the future have in store?"

The Soft Drinks segment was handed the initial mission of achieving a growth rate above that of total domestic demand.

We took up this challenge. We stepped up marketing of sugar-free teas, mineral water and other products in the juice and carbonated soft drinks field, where we are particularly at home. We also pushed through various operational reforms and were given a helping hand by record-high summer temperatures in Japan in 2004. Together, these and other factors lifted our sales volume by over 8%, more than the 5% growth in demand for the industry as a whole in Japan. This was a record sales volume for Sapporo Beverage.

Sapporo Beverage has set a future goal of operating revenues of ¥100.0 billion. 2004 was a year in which we completed preparing the foundation for pushing toward this target. In 2005, we aim to rewrite our own sales volume record and, at the same time, contribute to the Group's results as a core operation and as a segment that creates real value.

Toshiaki Oka
President and Representative Director,
Sapporo Beverage Co., Ltd.

岡 俊明

★ *Gyokuro-Iri O-Cha*
Made with no artificial flavors or colors, this long-selling tea brand has embodied naturally good taste for more than 10 years.

★ *Ocean Spray Cranberry*
Sapporo has secured exclusive sales rights to launch this product from America's preeminent fruit juice brand, *Ocean Spray*, in Japan.

Review of Operations

In 2004, the Japanese soft drinks market recorded 5% year-on-year growth on the back of record-high summer temperatures. Sapporo Beverage outstripped this performance, posting high growth of over 8%; sales volume was an all-time high. The main factors behind this record-setting performance were growth in sugar-free teas and mineral water and major contributions from new and existing products in the juice and carbonated beverages fields.

Paced by these strong sales, the Soft Drinks segment at Sapporo Holdings, which includes Sapporo Beverage, posted a 6.4% increase in operating revenues to ¥69,324 million and operating income of ¥466 million, reversing the loss of the previous year by ¥1,301 million. Also highlighting the segment's performance was achievement of its 2006 operating revenue goal of ¥68,000 million ahead of plan.

The Successes of the New Framework

Our stellar performance in 2004 is the product of a virtuous cycle established by the shift to a holding company structure. The quicker decisions we can make to fulfill our responsibilities under this new structure produced results. Furthermore, the January 2004 change of name from Sapporo Beer's Beverage Co., Ltd. to Sapporo Beverage Co., Ltd. gave us impetus to work as one on an autonomous footing to fulfill our responsibilities.

In terms of operational reforms, we are improving capital efficiency by striving to innovate without clinging to conventional wisdom. In 2004, we simultaneously cut expenses but improved the effectiveness of the money we did spend by efficiently allocating sales promotion expenses to fields close to the consumer. And we did this without relying on the mass media. Moreover, amid a record heat wave in Japan, we more actively marketed sugar-free teas and mineral water as well as juice and carbonated beverages, where we are particularly at home. These actions led to the above-market rate of growth in sales.

Progress made with a reexamination of SCM, realignment of bases, reduction of inventory levels and other initiatives allowed us to absorb the effects of a rapid rise in raw materials expenses and accelerated our transformation into a profitable structure.

For More Growth

In 2004, we laid the foundation for achieving our goal of ¥100.0 billion in operating revenues in the future. However, we still rank only in the middle of the pack in terms of size in the Japanese soft drinks industry. As a core business of the Sapporo Group, our goals are to contribute more to the results of the Group and to widen the scope of business choices by using economies of scale to enhance our purchasing power. We will explore all possibilities to expand the scale of our business and resolutely execute management reforms.

Sapporo Lion

Question "You are facing a business environment in which it continues to be difficult to operate. How do you plan to overcome these conditions and drive growth?"

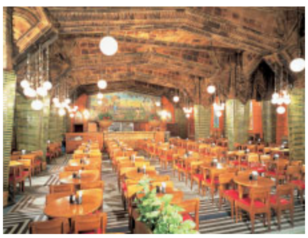
In recent years, the Japanese restaurant industry has been buffeted by the effects of unseasonable weather and consumer distrust toward food. There is no question that when the new Sapporo Group framework was adopted in July 2003 we embarked on our journey in the face of a storm.

But one mustn't lose sight of the fact that we opened Japan's first beer hall in 1899. And we have remained a pioneer in the country's restaurant industry ever since. We thus have a wealth of industry knowledge and a well-established brand. Management and staff have also pulled together to execute reforms that have yielded an improved performance. I believe that we have already put the post-bubble malaise behind us.

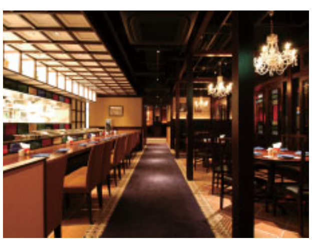
Looking ahead, we plan to increase earnings at existing stores, where a recovery is evident, while working to capture new customers by accelerating store openings of strongly performing new format outlets.

Norio Yamazaki
President and Representative Director,
Sapporo Lion Ltd.

Norio Yamazaki



Lion Ginza 7-chome, a famed Japanese beer hall that opened in 1934.



Located in the Plaza Building in front of Akihabara Station, *J's Table* is a new format store. It opened in March 2005.

Review of Operations

The Japanese restaurant industry contracted in 2004 for a variety of reasons. These included concerns about food caused by BSE (Bovine Spongiform Encephalopathy) and bird flu outbreaks, sharp rises in the prices of raw materials, a string of large typhoons that made landfall and expansion in the ready-made foods market.

Despite having to contend with these circumstances, Sapporo Lion Ltd.'s operating revenues rose 1.8%, the first year-on-year increase since 1997. And, amid a shrinking market, existing store sales edged up 0.3%, marking the first increase since 1992. As a result, Restaurants operations, which include Sapporo Lion, posted operating revenues of ¥26,611 million, up 0.1% year on year. The segment recorded operating income of ¥229 million, an improvement of ¥1,318 million from last year's loss.

The Successes of the New Framework

When Sapporo Lion was placed under the holding company structure operating conditions were difficult, characterized by a sluggish economy in the grips of deflation, a shrinking restaurant market and abnormal weather patterns. Having been entrusted with clear responsibilities and a Group mission at this time, Sapporo Lion launched management reforms with a real sense of urgency.

In terms of the operation of outlets, Sapporo Lion moved from a regionally based approach to managing outlets by format, rebuilding and strengthening its business portfolio along these lines. Non-performing outlets were resolutely recast and shuttered as part of this process. A series of management reforms were also quickly executed at the corporate level. Sapporo Lion adopted a new personnel system, shifted from a qualified pension plan to a defined contribution pension plan and applied impairment accounting earlier than required in line with Group policy. As a result of these and other actions, Sapporo Lion has enhanced its reputation with developers, which has enabled it to secure prime sites and thereby establish an unrivaled advantage over other companies.

While a painful exercise at times, these reforms were behind the improved results in 2004. And, importantly, they have allowed Sapporo Lion to put the post-bubble "hangover" behind it.

For More Growth

Moving forward, Sapporo Lion will devote its energies to reforming existing outlets and expanding new formats. The focus of both approaches will be to give Sapporo Lion outlets a slightly more upmarket appeal. Under the theme of reinvigorating beer halls, Sapporo Lion will promote the strengths of existing outlets that have been operating for more than a century by enhancing its ability to offer more to older customers with ample time and money to spend. At fast-growing new format outlets, Sapporo Lion will conduct marketing targeted at young adults and businesspeople and strengthen the development of sites suited to such formats, making full use of input from our younger employees. The goal is for these outlets to make a greater contribution to overall results.

Yebisu Garden Place

Question "Real Estate operations are now on an autonomous footing after previously being under the wing of a beer company. How will you contribute to the Group moving forward?"

The Sapporo Group's real estate business, which is run by Yebisu Garden Place, operates in a domain distinct from the Group's Alcoholic Beverages, Soft Drinks and other businesses. Since the July 2003 transition to a new holding company structure, we have contributed to the Group in our own unique way as an autonomous company specializing in real estate.

The real estate business in Japan is showing signs of an upswing after a period of malaise. As this recovery continues, we intend to do more than merely maximize earnings from existing property holdings. We will accelerate measures that are designed to transform Yebisu Garden Place into a comprehensive real estate management service company. We have reinforced our foundation, too. This has involved a mindset change among employees and the creation of a new organization and strategy for achieving our goals.

We are embarking on a new stage of growth as a company specializing in real estate. As the new president of Yebisu Garden Place, my mission goes beyond generating stable earnings. I believe that we must also take the lead in supplying our real estate know-how to Group companies, expand new services and take other actions that will contribute to the performance of the Sapporo Group as a whole.

Yukio Ashibu
President and Representative Director,
Yebisu Garden Place Co., Ltd.
(From March 29, 2005)

芦部之夫

Review of Operations

Generally speaking, the real estate industry in Japan enjoyed a change of fortunes in 2004. This was partly due to the oversupply of office buildings in central Tokyo, the so-called "2003 Problem," becoming less acute.

Core business *Yebisu Garden Place* celebrated its 10th anniversary with improvements in the occupancy rates of leased offices and condominiums. Another core business of the company, *Sapporo Factory*, performed better than planned due to the introduction of new stores, cost-cutting and other measures.

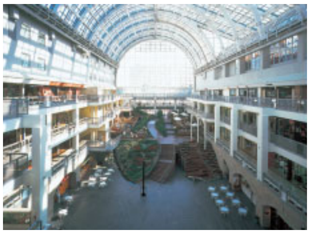
Nevertheless, the Real Estate segment at Sapporo Holdings, which includes *Yebisu Garden Place*, posted a 32.7% decrease in operating revenues to ¥22,506 million and a 55.8% decrease in operating income to ¥5,973 million. This was due to a substantial drop in gains on the sale of real estate for sale that were recorded in the previous fiscal year.

Yebisu Garden Place recently celebrated its 10th anniversary.

The Successes of the New Framework

Various actions have been taken to improve the structure of the company's finances in the nearly two years since the shift to the holding company structure. This has entailed the sale of assets, principally assets with low operating rates. In 2004, the company sold The Westin Tokyo. As a result, we reduced financial liabilities faster than planned to approximately ¥140,000 million at December 31, 2004. Originally, we had planned to bring these liabilities down to ¥165,000 million in 2006.

We have also succeeded in raising the value of two key assets: *Yebisu Garden Place* and *Sapporo Factory*. Standing on sites of former breweries, both are multifaceted commercial complexes that have been open for more than a decade. Our focus in recent times has been on the next stage of evolution of these assets—building brand power by emphasizing customers. This has involved refurbishing these complexes, enhancing our proposal ability, achieving greater efficiency in management and other initiatives, which have translated into higher occupancy rates and leasing revenue as well as lower operating costs. We are also offering the know-how gained from managing our own real estate assets to Group companies in a drive to capture synergies.



Sapporo Factory
One of the Company's core operations, *Sapporo Factory* is a commercial complex built on the site in Sapporo, Hokkaido, where Sapporo Beer was first founded.

For More Growth

Our growth strategy is clear. We will renovate existing businesses and strengthen marketing and operations to differentiate our properties from those of other companies. With respect to new investment projects, we will develop and operate appealing facilities that showcase our know-how. One example is the Ginza 7-chome Multifaceted Building Development, which is due to open in 2006. Expanding comprehensive real estate management services using our expertise is part of our growth strategy, too. In terms of our finances, we intend to continue paying down financial liabilities using cash generated by our leasing business to bolster our financial condition.

A Responsible Corporate Citizen

★*Social and Environmental Report 2004*

★*Enjoy Alcohol in a Healthy Way*
Sapporo has published a booklet to educate and enlighten customers on alcohol and its proper use.

Working With Stakeholders to Make People's Lives Richer and More Enjoyable

The Sapporo Group's management philosophy is to make people's lives richer and more enjoyable. We are committed both to realizing this corporate philosophy and to maintaining the best possible relations with our various stakeholders. We regard the fulfillment of corporate social responsibilities as an important management theme, one which has committed us to the observance of laws and regulations and adherence to corporate ethical standards. At the same time, we are determined to work with stakeholders to reduce our environmental impact and thereby contribute to the establishment of a sustainable society.

Raising Enterprise Value by Adhering to Corporate Ethical Standards

The Sapporo Group has adopted the Sapporo Group Code of Business Conduct as a basic policy statement for incorporating its management philosophy into daily activities. And by introducing a Whistle-Blower's Hotline and Helpline system, the Group is actively working to ensure prevention, as well as early detection and containment, of any impropriety. The establishment of these systems and the Code of Business Conduct are aimed at ensuring the Group develops its business activities in a sound manner.

Customers and the Sapporo Group

The Sapporo Group endeavors to supply customers with safe, high-quality products. So that customers get the most out of these products, it also actively disseminates information concerning responsible drinking. Furthermore, structures have been put in place to reflect customer feedback in products and services as well as to properly safeguard and manage customers' personal information. Through these measures, the Group works to earn a high level of trust.

The Environment and the Sapporo Group

The Sapporo Group formulated a basic environmental philosophy when the Group was restructured. Guided by this philosophy, each operating company set environmental action plans and goals. Working toward their respective goals, each company is engaged in environmental protection activities appropriate to their operations. Measures include resource and energy conservation, actions to help prevent global warming, the reduction of industrial waste and product recycling.

Management believes that cooperation with stakeholders is extremely important for reducing the environmental impact of business activities. The Sapporo Group is therefore improving communication with stakeholders, notably by publishing a social and environmental report, and reflecting the views of stakeholders in the initiatives that it actually implements.

Corporate Governance and Compliance

Sapporo Holdings regards strengthening and enhancing corporate governance as one of its top management priorities. It is also determined to bolster compliance to ensure continuous growth in the Sapporo Group's enterprise value and the fulfillment of its corporate social responsibilities.

The Corporate Governance Framework

Sapporo Holdings became the holding company of the Sapporo Group on July 1, 2003, but continues to use the previous corporate auditor system. As of March 30, 2005, the Board of Directors had five members, one of whom is an outside director, and the Board of Corporate Auditors had four members, two of whom come from outside the company. While Sapporo Holdings has not fully adopted the Committee System, it has established a Nominating Committee and a Compensation Committee with the goals of increasing transparency in respect of the nomination and remuneration of directors and preserving a sound management structure.

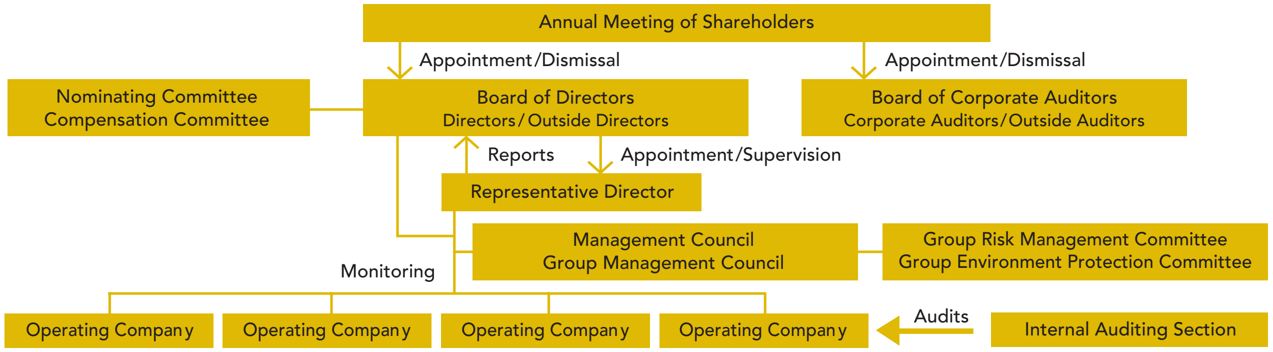
Supervision of Operating Companies by Sapporo Holdings

The adoption of a holding company system means that supervisory functions (holding company) and the execution of day-to-day operations (operating companies) are completely separate at the Sapporo Group. To improve supervision of operating companies by Sapporo Holdings and encourage collaboration among Group companies, the presidents of the main operating companies also serve as Group Executive Officers. As such, they attend the Group Management Council and give regular reports on the status of their companies. Each president makes commitments to the president of the holding company, clarifying his company's share of responsibilities for the Group's management goals.

Strengthening Compliance

To strengthen the Group's compliance system, the Sapporo Group has established the Group Risk Management Committee and Group Environment Protection Committee.

Corporate Governance Framework



Management

(As of March 30, 2005)

Board of Directors

Takao Murakami
President and
Representative Director,
Group CEO

Shinji Saito
Representative Director and
Executive Managing Director

Tatsushi Iwama
Director and Adviser

Yoshiyuki Mochida
Director

Hiroaki Eto
Director *

Board of Corporate Auditors

Satoshi Noguchi
Kunie Okamoto **
Norio Henmi **
Kazunori Kai

* Outside Director
** Outside Auditor

Five-year Summary

Years ended December 31

	Millions of yen				
	2004	2003	2002	2001	2000
Net sales	**¥494,930**	¥479,520	¥511,752	¥557,233	¥564,065
Alcoholic Beverages	**364,585**	341,924	374,524	417,906	
Soft Drinks	**69,324**	65,169	70,512	68,608	
Restaurants	**26,611**	26,591	28,050	29,041	
Real Estate	**22,506**	33,430	24,999	27,968	
Other	**11,904**	12,406	13,667	13,710	
Alcoholic Beverages & Soft Drinks					491,017
Restaurant & Hotel					43,092
Real Estate					27,889
Other					2,067
Operating cost and expenses	**471,282**	466,189	500,774	537,447	547,769
Operating income	**23,648**	13,331	10,978	19,786	16,296
Income (loss) before income taxes and minority interests	**7,762**	2,270	(3,349)	3,102	2,217
Net income	**4,643**	2,413	1,168	4,390	1,304

	Yen				
Per share:					
Net income:					
Primary	**¥ 13.07**	¥ 6.95	¥ 3.45	¥ 12.96	¥ 3.85
Diluted	**12.01**	–	–	12.90	–
Shareholders' equity	**259.81**	245.80	314.69	312.71	304.98
Cash dividends	**5.00**	5.00	5.00	5.00	5.00

	Millions of yen				
Year-end data:					
Shareholders' equity	**¥ 92,263**	¥ 87,364	¥106,527	¥105,945	¥103,337
Total assets	**602,112**	630,637	717,486	729,601	764,682
Financial liabilities	**289,854**	323,369	384,303	372,864	399,995
ROE (%)	**5.2**	2.5	1.1	4.2	1.3
Capital expenditures	**10,269**	10,081	13,640	12,256	26,504
Depreciation and amortization	**25,330**	28,435	31,463	32,322	33,251

Management's Discussion and Analysis

Sapporo Holdings Limited and the Sapporo Group

The Sapporo Group adopted a holding company framework on July 1, 2003. Under this new framework, Sapporo Holdings Limited (the Company) as the holding company oversees four main operating companies in the Alcoholic Beverages, Soft Drinks, Restaurants and Real Estate businesses. Aiming to be powerful companies in their respective industries, the four main operating companies are implementing management reforms and building new business models.

In terms of the scope of consolidation, the Company has 15 consolidated subsidiaries and 4 equity-method affiliates.

Operational Overview

The Japanese economy in 2004 failed to achieve a recovery despite an improvement in what had been lackluster consumer spending and other positive signs. The economy was held back by such factors as slowdowns in overseas economies in the second half of 2004, a correction in IT-related investment and the effects of a series of typhoons and earthquakes in Japan.

As the bipolarization of consumption, the increasingly borderless nature of some sectors, diversifying consumer preferences and other dynamics became more pronounced, this economic climate tested the collective strengths of enterprises to accurately identify and offer the products and services desired by customers. The same was true for firms operating in Alcoholic Beverages, Soft Drinks, Restaurants and other industries where Sapporo Group companies are developing their businesses.

Consolidated Operating Results

Net Sales

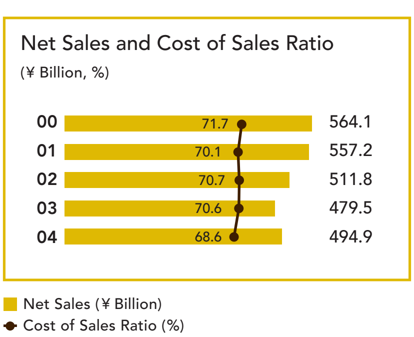
Net sales rose ¥15,410 million, or 3.2%, to ¥494,930 million. Although there was a large year-on-year decrease in the sale of real estate for sale in Real Estate operations, this was absorbed by sales increases on higher volumes in Alcoholic Beverages and Soft Drinks operations.

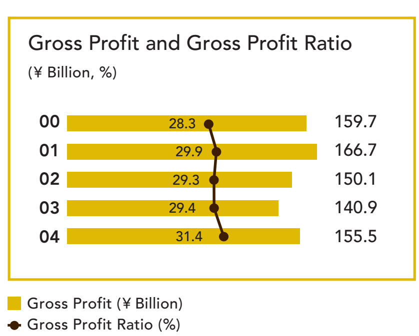
Gross Profit

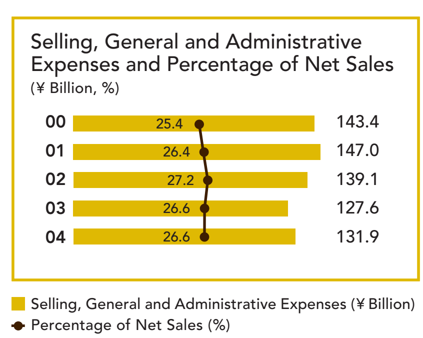
Gross profit increased ¥14,557 million, or 10.3%, to ¥155,504 million. The gross profit ratio improved by 2.0 percentage points to 31.4% due to a lower rate of increase in cost of sales than growth in sales volumes, the result of successful company-wide efforts to curb the cost of sales.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses rose ¥4,240 million, or 3.3%, to ¥131,856 million. This increase mainly reflected increases in sales incentives and commissions and advertising and promotion expenses due to aggressive promotional activities, especially for *Draft One*. As a percentage of net sales, SG&A expenses were the same as 2003 at 26.6%.







Operating Income

Operating income climbed ¥10,317 million, or 77.4%, to ¥23,648 million. While there was a ¥7,538 million decrease in operating income in Real Estate operations in the absence of gains on the sale of real estate for sale, there was a sharp ¥14,268 million increase in operating income in Alcoholic Beverages operations on the back of *Draft One's* strong performance. Other factors that contributed to the large overall increase in operating income included profits in Soft Drinks and Restaurants operations, which had both recorded losses in 2003. These turnarounds were attributable to a hot summer in respect to the former, while the latter benefited from progress made with rationalizing operations. The operating income ratio was 4.8%, a 2.0 percentage point improvement on 2003.

Other Income (Expenses)

Other expenses increased ¥4,825 million to ¥15,886 million. Main contributors to other income included an improvement in non-operating financial income due to a decrease in interest expense; a ¥6,820 million gain from the sale of a hotel business including land and buildings and 100% of shares in Sapporo Hotel Enterprises Ltd., a company that managed The Westin Tokyo, and a sharp decrease in losses on the disposal and sale of property, plant and equipment.

The main causes for the increase in other expenses included a significant decrease in gains on sales of real estate for sale. In addition, a ¥6,032 million loss on impairment was booked following the earlier-than-required application of impairment accounting for property, plant and equipment, and a loss on sale of property, plant and equipment of ¥7,589 million was recorded due to the sales of assets with unrealized losses.

Please refer to Note 9 of the Notes to Consolidated Financial Statements for a breakdown of other expenses.

Income Before Income Taxes and Minority Interests

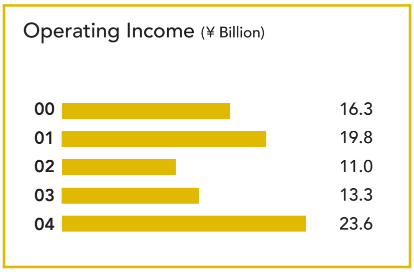
As a result of the above and other factors, income before income taxes and minority interests climbed ¥5,492 million, or 241.9%, to ¥7,762 million.

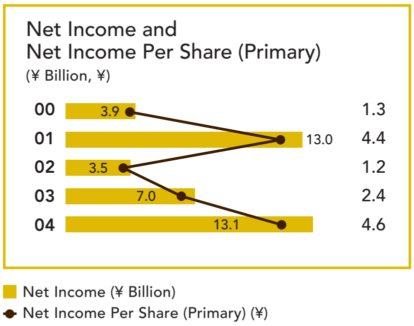
Net Income

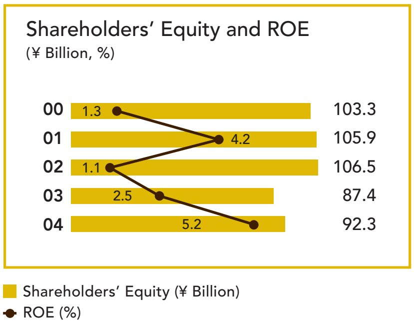
Net income increased ¥2,230 million, or 92.4%, to ¥4,643 million. Net income per share was ¥13.07, representing a ¥6.12 increase over the previous year. ROE rose from 2.5% to 5.2%. Cash dividends were ¥5.0 per share, the same as in 2003, and the payout ratio was 38.3%.

The Company set a target of achieving return on invested capital (ROIC)* of 5.0% as of December 31, 2006 in its medium-term management plan. In 2004, the Company achieved this target earlier than planned, raising ROIC from 3.1% in 2003 to 6.0% as of December 31, 2004.

*[(Ordinary income + Interest expenses)/(Shareholders' equity + Financial liabilities)]







Segment Information

Alcoholic Beverages

Total domestic demand in 2004 for beer and *Happo-shu*, including new types of alcoholic beverages such as *Draft One*, edged up over the previous year. Demand was boosted by hot temperatures in July but affected by typhoons, earthquakes and other natural disasters. In this operating environment, Sapporo Breweries' *Draft One*, launched nationwide in February 2004, proved a major hit, selling more than 18 million cases (227,800 kl). Also demonstrating the popularity of this beverage was that Sapporo Breweries twice revised upward its initial target of 10 million cases. Total sales volume of beer, *Happo-shu* and *Draft One* was 76.11 million cases (963,533 kl), 13.1% up on 2003. This increase was substantially above the growth rate for total demand in Japan. Further highlighting 2004 were decreases in fixed manufacturing costs, the result of the concentration of production in fewer breweries, and reductions in energy and other costs. These initiatives to improve operations also contributed to an increase in operating income.

Segment operating revenues rose ¥22,661 million, or 6.6%, to ¥364,585 million. Operating income increased ¥14,268 million, or 314.1%, to ¥18,810 million.

Depreciation and amortization expenses were ¥15,205 million and capital expenditures were ¥8,494 million.

Soft Drinks

Total demand in the Japanese soft drinks market in 2004 grew around 5% year on year, with sales growing particularly for sugar-free drinks. Spurring this growth were the increasing health consciousness of consumers and record-setting temperatures during the summer months. Capitalizing on these trends, Sapporo Beverage, the main operating company in this segment, successfully expanded sales of mainstay products, namely green teas, carbonated drinks and juices. With efforts to push new products also successful, the segment delivered year-on-year growth of 8%, above the growth in total domestic demand.

Operating revenues rose ¥4,155 million, or 6.4%, to ¥69,324 million, and the segment posted operating income of ¥466 million, reversing 2003's loss of ¥835 million.

Depreciation and amortization expenses were ¥289 million and capital expenditures were ¥382 million.

Restaurants

In 2004, the Japanese restaurant industry benefited from a comparatively dry rainy season and hot summer weather. However, these positive external forces were offset by a drop in customer footfall during the Summer Olympic Games, as well as the effects of typhoons and torrential rain. The result was a continuation of falling existing store sales, which did little to suggest that a recovery was at hand.

Under these conditions, Sapporo Lion, the core Group operating company in this segment, worked to turn around earnings at existing outlets and to increase sales by opening new outlets, particularly new format stores. Success at improving the quality of menus and effective sales promotion activities led Sapporo Lion to its first year-on-year increase in earnings at existing outlets since 1997. Sapporo Lion also met with success as operating revenues and earnings increased at new outlets, the result of closing unprofitable stores at the same time as it actively opened new outlets.

Segment operating revenues were ¥26,611 million, edging up ¥20 million higher year on year. The segment recorded a substantial improvement in earnings, reversing a loss of ¥1,089 million in 2003 to post operating income of ¥229 million.

Depreciation and amortization expenses were ¥765 million and capital expenditures were ¥769 million.

Real Estate

Although there was an improvement in the supply-demand balance of offices in the Tokyo metropolitan area, leading to an overall improvement in office occupancy rates in 2004, rents remained at low levels due to the weak economy and previous oversupply of office space.

Against this backdrop, *Yebisu Garden Place*, a commercial multiplex that is the fulcrum of the segment's business, celebrated its 10th anniversary. Various events were staged to attract more customers, while new amenities were added to increase convenience for the local community, including a hybrid convenience store/copy and office supply center and a daycare center. Attracting more customers was also the theme at *Sapporo Factory*, a commercial facility in Sapporo, Hokkaido. Actions included changing the tenant mix in the fashion area and refurbishing restaurant areas.

However, segment operating revenues fell ¥10,924 million, or 32.7%, to ¥22,506 million, and operating income dropped ¥7,538 million, or 55.8%, to ¥5,973 million. This was principally the result of a substantial drop in sales and gains from the sale of real estate for sale from 2003.

Depreciation and amortization expenses were ¥8,734 million and capital expenditures were ¥303 million.

Other

The mainstay business in this segment is the hotel business. In 2004, amid intensifying competition, efforts were made to increase the amount spent per guest and to improve the occupancy rate, such as by opening an executive lounge. On December 1, 2004, Sapporo Hotel Enterprises, which operates The Westin Tokyo, was sold to the Morgan Stanley Group. The move was taken to improve the Sapporo Group's finances and operations. The Westin Tokyo was highly rated and has been regarded as one of Tokyo's top three new hotels since its opening.

Segment operating revenues declined ¥502 million, or 4.0%, to ¥11,904 million, while the operating loss narrowed by ¥34 million to ¥265 million.

Depreciation and amortization expenses were ¥337 million and capital expenditures were ¥321 million.

Detailed segment information can be found in Note 15 of the Notes to Consolidated Financial Statements.

Assets, Liabilities and Shareholders' Equity

The Company's financial policy is to maintain an appropriate level of liquidity, secure funds for business activities and maintain a sound balance sheet. The Company procures funds from different sources with the aim of enhancing the stability of fund procurement and reducing funding costs. In addition, the Company reviews its funding structure on a flexible basis to take into account changes in the financing environment. The Company procures funds indirectly from diverse sources, including city banks, trust banks, regional banks, the upper-level central bank for cooperative financial institutions, government-affiliated financial institutions, and life and non-life insurance companies. The Company also procures funds directly through the issuance of corporate bonds and commercial paper, for example.

Assets

As of December 31, 2004, total assets stood at ¥602,112 million, ¥28,525 million, or 4.5%, down from a year ago. Current assets rose ¥49,574 million, or 36.8%, to ¥184,109 million. This was mainly due to an increase in cash and cash equivalents and time deposits from ¥8,541 million to ¥58,712 million along with an increase in free cash flow, and an increase in notes and accounts receivable—trade from ¥73,282 million to ¥79,826 million due to increased orders.

Investments and long-term loans, property, plant and equipment, and intangibles decreased ¥78,099 million, or 15.7% to ¥418,003 million.

Liabilities and Shareholders' Equity

Total liabilities decreased ¥33,401 million, or 6.1%, to ¥509,849 million. Current liabilities increased ¥38,425 million, or 19.7%, to ¥233,614 million, whereas long-term liabilities declined ¥71,826 million, or 20.6%, to ¥276,235 million. The increase in current liabilities was mainly the result of an increase in current portion of long-term debt. With respect to long-term liabilities, corporate bonds decreased ¥40,000 million to ¥59,720 million and long-term bank loans declined ¥29,974 million to ¥149,526 million.

Financial liabilities declined ¥33,515 million, or 10.4%, to ¥289,854 million, reflecting mainly the repayment of bank loans and redemption of corporate bonds. The Company's medium-term management plan called for financial liabilities to be reduced to ¥290,000 million at December 31, 2006. The Company has thus achieved this goal ahead of schedule.

Shareholders' equity rose ¥4,899 million, or 5.6%, to ¥92,263 million. There was a ¥3,155 million increase in retained earnings, mainly due to the increase in net income, and unrealized holding gain on securities increased ¥1,909 million. The equity ratio increased from 13.9% to 15.3%, and the ratio of financial liabilities to shareholders' equity improved from 3.7 times to 3.1 times. Detailed information concerning the Company's liabilities can be found in Note 7 of the Notes to Consolidated Financial Statements.

Cash Flows

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥32,242 million, ¥1,766 million higher than in 2003. This reflected an increase in income before income taxes and minority interests from ¥2,270 million to ¥7,762 million, depreciation and amortization of ¥25,330 million and the add back of losses on the sale and disposal of property, plant and equipment of ¥11,480 million.

Cash Flows From Investing Activities

Investing activities provided net cash of ¥53,314 million, ¥42,358 million more than in 2003. The main contributor was ¥49,660 million in proceeds from the sale of the hotel business. There were also proceeds of ¥9,423 million from the sale of a logistics center and other property, plant and equipment. These inflows far outweighed outflows such as ¥7,757 million for the acquisition of property, plant and equipment.

Cash Flows From Financing Activities

Financing activities used net cash of ¥35,418 million, ¥7,340 million less than in 2003. While the issuance of bonds provided cash of ¥20,100 million, the redemption of bonds used cash of ¥20,000 million and the repayment of long-term debt used cash of ¥33,990 million.

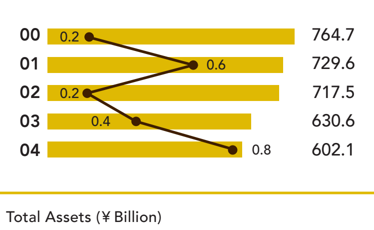
As a result of the above changes, cash and cash equivalents on a consolidated basis at December 31, 2004 were ¥58,706 million, ¥50,251 million, or 594.3%, more than the ¥8,455 million at December 31, 2003.

The Company believes that it is possible to procure the necessary working capital and funds for capital expenditures in the future to support its growth in the form of operating cash flows, loans from financial institutions, and the issuance of shares and bonds in capital markets.

Outlook for 2005

The Company is forecasting net sales of ¥482,000 million, down 2.6% from 2004, and a 72.3% increase in net income to ¥8,000 million. Sales in the Other segment are projected to fall 94.1% due to the effect of selling the hotel business. With regard to net income, the absence of ¥13,620 million in losses related to property, plant and equipment that were booked as other expenses in 2004 should result in a jump in earnings.

Total Assets and ROA (¥ Billion, %)



Capital Expenditures (¥ Billion)

Long-term Debt (¥ Billion)

Regarding the annual dividend, the Company plans to set it at ¥5.0 per share, the same as in 2004. This is in accordance with the Company's basic policy, which is to maintain a stable dividend while taking into consideration factors such as operating results and financial condition, as it emphasizes an appropriate return of profits to shareholders.

These forecasts are calculated and premised on information currently available to management and are subject to uncertainties that could affect future performance. Actual operating results may therefore differ from these forecasts due to various factors.

Risk Factors

Major risks that could potentially impact the operating results and financial position of the Sapporo Group, including stock price, are found below. Forward-looking statements in the following text reflect the judgment of management as of December 31, 2004.

High Dependency on Specific Business Areas

The Sapporo Group is highly dependent on its beer operations in Japan. The Group could thus be significantly affected by the performance of this business.

Food Product Safety

Quality problems relating to products and/or raw materials in the alcoholic beverages and soft drinks businesses, as well as food poisoning and other incidents in the restaurants business, could adversely affect operating results.

Unauthorized Disclosure of Customer Information

Problems such as the unauthorized disclosure of personal information could lead to damage claims, loss of trust in the Sapporo Group and other consequences that may adversely affect operating results.

Impact of Laws and Regulations

The unanticipated application of laws and regulations to Sapporo Group businesses in the future could adversely affect operating results.

Substantial Financial Liabilities

The Sapporo Group has a high level of financial liabilities relative to total assets. Operating results could therefore be adversely affected by a rise in market interest rates, the downgrade of the Group's credit rating and other factors.

Application of Impairment Accounting

In the fiscal year under review, the Company applied impairment accounting with respect to operating assets where there is expected to be difficulty recovering the amount invested due to declining profitability and other factors, as well as with respect to land where property prices have fallen. The possibility of recouping the investment in property, plant and equipment other than that previously mentioned is determined based on future earnings plans. Impairment losses will result in the event that there are no longer prospects for generating earnings in the future with respect to any of these assets. Such impairment losses could have an adverse effect on the Group's operating results. A decline in real estate prices, changes in the business environment or other factors could result in the booking of impairment losses or losses on the sale of property, plant and equipment.

Holding Company Risk

Sapporo Holdings derives income from brand licensing fees and commissions for management guidance, as well as interest and dividends paid by Group operating companies. Any deterioration in the financial position of Group operating companies could result in nonpayment, which may adversely affect Sapporo Holdings' business performance.

Dilution of Share Value

Requests by owners to redeem convertible bonds due 2009 and convertible bonds with stock acquisition rights due 2007 issued by Sapporo Holdings, and the exercise of related new share subscription rights, could potentially dilute the per-share share value of Sapporo Holdings.

Consolidated Balance Sheets

December 31, 2004 and 2003

ASSETS	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current assets:			
Cash and cash equivalents	**¥ 58,706**	¥ 8,455	**$ 563,398**
Time deposits	**6**	86	**58**
Marketable securities (Note 4)	**36**	18	**345**
Notes and accounts receivable—trade	**79,826**	73,282	**766,088**
Less: Allowance for doubtful receivables	**(286)**	(293)	**(2,746)**
Inventories (Note 5)	**23,054**	24,857	**221,249**
Deferred tax assets (Note 11)	**4,109**	3,960	**39,436**
Refundable income taxes	**553**	218	**5,302**
Other current assets	**18,105**	23,952	**173,752**
Total current assets	**184,109**	134,535	**1,766,882**
Investments and long-term loans:			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliates	**1,521**	1,395	**14,595**
Other	**30,335**	28,062	**291,122**
Long-term loans receivable	**11,151**	11,242	**107,020**
Less: Allowance for doubtful receivables	**(2,856)**	(2,602)	**(27,412)**
Deferred tax assets (Note 11)	**2,334**	2,856	**22,400**
Other investments	**21,310**	22,466	**204,511**
	63,795	63,419	**612,236**
Property, plant and equipment (Notes 6 and 7)**:**			
Land	**70,354**	91,711	**675,180**
Buildings and structures	**389,852**	448,962	**3,741,379**
Accumulated depreciation	**(166,340)**	(174,574)	**(1,596,356)**
Machinery and automobiles	**206,028**	205,060	**1,977,239**
Accumulated depreciation	**(154,320)**	(147,841)	**(1,480,999)**
Construction in progress	**2,147**	1,522	**20,607**
Other	**21,273**	23,701	**204,159**
Accumulated depreciation	**(17,261)**	(18,729)	**(165,655)**
Property, plant and equipment, net	**351,733**	429,812	**3,375,554**
Intangibles	**2,475**	2,871	**23,751**
	¥ 602,112	¥ 630,637	**$ 5,778,423**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 4,650**	¥ 10,281	**$ 44,626**
Current portion of long-term debt (Note 7)	**75,958**	33,868	**728,966**
Notes and accounts payable:			
Trade	**34,790**	31,215	**333,880**
Construction	**7,945**	5,324	**76,248**
Liquor taxes payable	**43,380**	43,693	**416,314**
Income taxes payable (Note 11)	**2,548**	1,617	**24,451**
Accrued bonuses (Note 2 (j))	**3,001**	752	**28,802**
Deposits received	**4,253**	4,192	**40,815**
Other current liabilities	**57,089**	64,247	**547,877**
Total current liabilities	**233,614**	195,189	**2,241,979**
Long-term debt (Note 7)	**209,246**	279,220	**2,008,117**
Dealers' deposits for guarantees	**34,455**	37,180	**330,660**
Employees' retirement benefits (Note 10)	**16,658**	16,628	**159,865**
Directors' and corporate auditors' severance benefits	**215**	471	**2,064**
Other long-term liabilities	**15,661**	14,562	**150,294**
Minority interests in consolidated subsidiaries	**–**	23	**–**
Contingent liabilities (Note 13)			
Shareholders' equity:			
Common stock (Notes 8 and 16)			
Authorized — 1,000,000,000 shares			
Issued — at December 31, 2004 356,179,485 shares	**43,832**	–	**420,649**
— at December 31, 2003 356,179,485 shares	**–**	43,832	**–**
Capital surplus	**36,242**	36,232	**347,810**
Retained earnings (Note 8)	**8,108**	4,953	**77,815**
Unrealized holding gain on securities	**4,804**	2,895	**46,103**
Foreign currency translation adjustments	**(386)**	(349)	**(3,700)**
Treasury stock, at cost	**(337)**	(199)	**(3,233)**
Total shareholders' equity	**92,263**	87,364	**885,444**
	¥602,112	¥630,637	**$5,778,423**

Consolidated Statements of Income

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Net sales	**¥494,930**	¥479,520	¥511,752	**$4,749,804**
Operating cost and expenses:				
Cost of sales	**339,426**	338,573	361,668	**3,257,449**
Selling, general and administrative expenses	**131,856**	127,616	139,106	**1,265,410**
Operating income	**23,648**	13,331	10,978	**226,945**
Other income (expenses):				
Interest and dividend income	**742**	706	949	**7,121**
Interest expense	**(4,864)**	(5,784)	(7,597)	**(46,676)**
Other, net (Note 9)	**(11,764)**	(5,983)	(7,679)	**(112,900)**
Income (loss) before income taxes and minority interests	**7,762**	2,270	(3,349)	**74,490**
Income taxes (Note 11)**:**				
Current	**3,672**	1,836	784	**35,236**
Deferred	**(615)**	(1,409)	(5,137)	**(5,899)**
	3,057	427	(4,353)	**29,337**
Minority interests	**(62)**	570	164	**(591)**
Net income (Note 14)	**¥ 4,643**	¥ 2,413	¥ 1,168	**$ 44,562**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Common stock:				
Balance at beginning of year	**¥43,832**	¥ 43,832	¥43,832	**$420,649**
Balance at end of year	**¥43,832**	¥ 43,832	¥43,832	**$420,649**
Capital surplus:				
Balance at beginning of year	**¥36,232**	¥ 32,242	¥32,242	**$347,714**
Shares issued in share exchange	**–**	3,990	–	**–**
Gain on decrease in treasury stock	**10**	–	–	**96**
Balance at end of year	**¥36,242**	¥ 36,232	¥32,242	**$347,810**
Retained earnings (Note 8)**:**				
Balance at beginning of year	**¥ 4,953**	¥ 30,281	¥29,960	**$ 47,538**
Net income	**4,643**	2,413	1,168	**44,562**
Increase resulting from inclusion of newly consolidated subsidiary	**126**	28	–	**1,205**
Increase resulting from initial application of equity method	**190**	–	–	**1,823**
Cash dividends	**(1,778)**	(1,693)	(847)	**(17,059)**
Decrease resulting from change in fiscal year end of consolidated subsidiary	**(26)**	–	–	**(254)**
Decrease resulting from merger of consolidated subsidiaries	**–**	(26,076)	–	**–**
Balance at end of year	**¥ 8,108**	¥ 4,953	¥30,281	**$ 77,815**
Unrealized holding gain on securities:				
Balance at beginning of year	**¥ 2,895**	¥ 460	¥ –	**$ 27,784**
Net change during the year	**1,909**	2,435	460	**18,319**
Balance at end of year	**¥ 4,804**	¥ 2,895	¥ 460	**$ 46,103**
Foreign currency translation adjustments (Note 2 (m))**:**				
Balance at beginning of year	**¥ (349)**	¥ (204)	¥ (75)	**$ (3,351)**
Net change during the year	**(37)**	(145)	(129)	**(349)**
Balance at end of year	**¥ (386)**	¥ (349)	¥ (204)	**$ (3,700)**
Treasury stock, at cost:				
Balance at beginning of year	**¥ (199)**	¥ (84)	¥ (14)	**$ (1,908)**
Net increase	**(138)**	(115)	(70)	**(1,325)**
Balance at end of year	**¥ (337)**	¥ (199)	¥ (84)	**$ (3,233)**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Three years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	**¥ 7,762**	¥ 2,270	¥ (3,349)	**$ 74,490**
Depreciation and amortization	**25,330**	28,435	31,463	**243,086**
Increase in employees' retirement benefits	**148**	661	2,088	**1,422**
Increase (decrease) in allowance for doubtful receivables	**252**	(475)	876	**2,418**
Interest and dividend income	**(742)**	(706)	(949)	**(7,121)**
Interest expense	**4,864**	5,779	7,593	**46,676**
Gain on sales of property, plant and equipment	**(2,410)**	(18,685)	(97)	**(23,125)**
Loss on sales and disposal of property, plant and equipment	**11,480**	22,946	3,121	**110,172**
Loss on impairment of property, plant and equipment	**6,032**	–	–	**57,884**
Gain on sales of investment securities	**(454)**	(1,179)	(461)	**(4,358)**
Devaluation of investment securities	**642**	423	3,690	**6,158**
Write-off of deposit for trade	**–**	438	–	**–**
Gain on sale of business (The Westin Tokyo)	**(6,820)**	–	–	**(65,455)**
(Increase) decrease in notes and accounts receivable	**(6,902)**	1,466	9,974	**(66,233)**
Decrease in inventories	**1,698**	4,161	3,975	**16,299**
Increase (decrease) in notes and accounts payable	**3,590**	(6,198)	(2,345)	**34,459**
(Decrease) increase in liquor taxes payable	**(313)**	68	(7,471)	**(3,002)**
Decrease in deposits received	**(2,382)**	(2,535)	(3,813)	**(22,860)**
Increase (decrease) in other current liabilities	**762**	1,225	(7,468)	**7,315**
Other	**(2,799)**	(473)	(6,141)	**(26,860)**
Subtotal	**39,738**	37,621	30,686	**381,365**
Interest and dividends received	**713**	786	966	**6,843**
Interest paid	**(5,131)**	(7,202)	(7,910)	**(49,242)**
Income taxes paid	**(3,078)**	(729)	(1,045)	**(29,540)**
Net cash provided by operating activities	**32,242**	30,476	22,697	**309,426**
Cash flows from investing activities:				
Purchases of investment securities	**(362)**	(2,371)	(1,987)	**(3,473)**
Proceeds from sales of investment securities	**1,151**	3,598	1,850	**11,043**
Proceeds from sale of business (The Westin Tokyo)	**49,660**	–	–	**476,581**
Purchases of property, plant and equipment	**(7,757)**	(8,424)	(10,654)	**(74,439)**
Proceeds from sales of property, plant and equipment	**9,423**	18,798	826	**90,433**
Purchases of intangibles	**(594)**	(399)	(1,247)	**(5,705)**
Increase in long-term loans receivable	**(602)**	(144)	(25)	**(5,777)**
Collection of long-term loans receivable	**4,528**	526	605	**43,460**
Other	**(2,133)**	(628)	(1,612)	**(20,470)**
Net cash provided by (used in) investing activities	**53,314**	10,956	(12,244)	**511,653**
Cash flows from financing activities:				
Net decrease in short-term bank loans	**(636)**	(14,585)	(12,650)	**(6,104)**
Proceeds from long-term debt	**6,107**	59,050	58,000	**58,605**
Repayment of long-term debt	**(33,990)**	(52,399)	(18,209)	**(326,198)**
Proceeds from issuance of bonds	**20,100**	–	30,000	**192,898**
Redemption of bonds	**(20,000)**	(50,000)	(48,702)	**(191,939)**
Payment of deposit for redemption of bonds	**–**	–	(20,000)	**–**
Refund of deposit for redemption of bonds	**–**	20,000	–	**–**
Cash dividends paid	**(1,772)**	(1,695)	(854)	**(17,007)**
Cash dividends paid to minority interests	**–**	(32)	(32)	**–**
Other	**(5,227)**	(3,097)	2,930	**(50,162)**
Net cash used in financing activities	**(35,418)**	(42,758)	(9,517)	**(339,907)**
Effect of exchange rate changes on cash and cash equivalents	**(37)**	(154)	(156)	**(352)**
Net increase (decrease) in cash and cash equivalents	**50,101**	(1,480)	780	**480,820**
Cash and cash equivalents at beginning of year	**8,455**	9,934	9,154	**81,146**
Cash and cash equivalents of additional consolidated subsidiaries	**126**	1	–	**1,205**
Cash and cash equivalents of subsidiaries excluded from consolidation	**(0)**	–	–	**(3)**
Increase in cash and cash equivalents upon change in fiscal year end of consolidated subsidiaries	**24**	–	–	**230**
Cash and cash equivalents at end of year	**¥ 58,706**	¥ 8,455	¥ 9,934	**$ 563,398**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiary, in conformity with that of its country of domicile. The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The relevant notes and consolidated statements of shareholders' equity have been prepared as additional information. In addition, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the years ended December 31, 2002 and 2003 to the 2004 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2004 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥104.20=U.S.$1.00, the exchange rate prevailing on December 31, 2004.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances, transactions and profits have been eliminated in consolidation.

Effective the year ended December 31, 2004, two additional subsidiaries have been included within the scope of consolidation, reflecting their increase in materiality, and two consolidated subsidiaries have been excluded from the scope of consolidation, reflecting the respective sales of investment securities. Accordingly, the number of consolidated subsidiaries has remained at 15. However, as the effect of these changes was immaterial, the consolidated financial statements issued prior to the year ended December 31, 2004 have not been restated.

The Company's remaining subsidiaries, whose gross assets, net sales, net income and retained earnings were not significant in the aggregate in relation to comparable balances in the consolidated financial statements, have not been consolidated.

During the year ended December 31, 2004, one consolidated subsidiary changed its fiscal year end from March 31 to December 31. As a result, the consolidated statements of shareholders' equity present the related profit or loss from October 1, 2003 to December 31, 2003.

(b) Investments in unconsolidated subsidiaries and affiliates

The Company's investment in one affiliate for the years ended December 31, 2003 and 2002 has been accounted for by the equity method.

Effective the year ended December 31, 2004, three additional affiliates have been accounted for by the equity method, reflecting a change from consolidation for one and an increase in materiality for the others. Accordingly, the number of affiliates accounted for by the equity method has been increased to 4. However, as the effect of these changes was immaterial, the consolidated financial statements issued prior to the year ended December 31, 2004 have not been restated.

Investments in unconsolidated subsidiaries and affiliates other than those accounted for by the equity method are stated at cost determined by the moving-average method, as, in the aggregate, they were not material.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(d) Marketable and investment securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity and other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value as of the end of the year, with any net unrealized gain or loss included as a separate component of shareholders' equity, net of the related taxes. Nonmarketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(e) Derivatives

Derivatives' positions are stated at fair value.

(f) Inventories

Inventories are stated at cost determined principally by the average method.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is computed by the declining-balance method over the estimated useful lives of the manufacturing facilities for alcoholic beverages and soft drinks, and by the straight-line method for the assets held for real estate and hotel operations and for buildings acquired in Japan subsequent to March 31, 1998. The annual provisions for depreciation have been computed over periods from 3 to 65 years for buildings and structures, and from 4 to 17 years for machinery and automobiles.

For property and equipment retired or otherwise disposed of, costs and related depreciation are charged to the respective accounts and the net difference, less any amount realized on disposal, is charged to operations.

Maintenance and repairs, including minor refurbishments and improvements, are charged to income as incurred.

(h) Intangibles

Intangibles with limited useful lives are amortized by the straight-line method over their estimated useful lives.

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is estimated as the average percentage of actual historical bad debts, which is then applied to the balance of receivables. In addition, an amount deemed necessary to cover uncollectible receivables is provided for specific doubtful accounts.

(j) Accrued bonuses

The accrual for employees' bonuses is based on an estimate of the amounts to be paid subsequent to the balance sheet date.

The Company and one consolidated subsidiary have adopted a system of bonuses linked to each entity's earnings. The estimated amount to be paid under this new system is recorded as accrued bonuses. As a result of the adoption of this new system, accrued bonuses increased by ¥2,343 million ($22,482 thousand) and Income before income taxes and minority interests decreased by ¥2,256 million ($21,650 thousand).

(k) Employees' retirement benefits

Employees' retirement benefits are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet date, as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized past service cost. The net retirement benefit obligation at transition is being amortized over a period of 15 years by the straight-line method. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the eligible employees (10 years through 15 years). Past service cost is amortized by the straight-line method over the average remaining years of service of the employees (15 years).

On November 15, 2002, the Company obtained approval from the Minister of Health, Labour and Welfare to be exempted from future payments related to the substitutional portion of the Welfare Pension Fund Plan ("WPFP"). The Company recognized this as an extinguishment on the day it received this approval, and recorded the retirement benefit obligation at an amount equivalent to the substitutional portion of the pension plan assets which must be returned. This is in accordance with the transitional measures prescribed in Section 47-2 of the Japanese Institute of Certified Public Accountants' Accounting Committee Report No. 13, "*Practical Guidelines for Accounting for Retirement Benefits (Interim Report).*" In conjunction with this recognition, the Company charged the full amount of the net retirement benefit obligation at transition of ¥5,523 million and the unrecognized actuarial loss of ¥3,178 million to income for the year ended December 31, 2002. The corresponding amount to be returned at December 31, 2002 was ¥9,999 million.

One consolidated subsidiary has adopted a defined contribution pension plan to replace its qualified pension plan. As a result, the retirement benefit obligation decreased by ¥2,339 million, the fair value of the plan assets decreased by ¥1,730 million, unrecognized actuarial gain or loss decreased by ¥514 million and employees' retirement benefits decreased by ¥95 million at December 31, 2003.

On December 1, 2003, the Company received approval from the Minister of Health, Labour and Welfare to transfer the substitutional portion of the past Welfare Pension Fund Plan to the government following enforcement of a law concerning defined benefit corporate pensions in Japan, the Defined Contribution Pension Law. On March 29, 2004, the Company returned the minimum actuarial liability to the government.

The difference between the equivalent amount to be returned, calculated as a result of applying the transitional measures prescribed in Section 47-2 of the Japanese Institute of Certified Public Accountants' Accounting Committee Report No. 13 "*Practical Guidelines for Accounting for Retirement Benefits (Interim Report)"* in 2002, and the actual amount returned was ¥114 million. This was recognized as an extraordinary gain in the fiscal year ended December 31, 2004.

(l) Directors' and corporate auditors' severance benefits

Directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum severance payments. Provisions for these officers' severance benefits are made at estimated amounts.

Effective the year ended December 31, 2004, the Company and one consolidated subsidiary abolished their directors' and corporate auditors' severance benefit system. Accordingly, additional provisions for these severance benefits have been recognized.

(m) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The resulting exchange gain or loss is credited or charged to income. Foreign currency translation adjustments arising from the translation of the financial statements of consolidated subsidiaries and affiliates accounted for by the equity method are recognized as a separate component of shareholders' equity.

(n) Income taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise tax. The Company and its consolidated subsidiaries have adopted deferred tax accounting. Income taxes are determined using the asset and liability approach whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax bases of the assets and liabilities and those reported in the financial statements.

(o) Research and development costs

Research and development costs are charged to income when incurred.

(p) Hedge accounting

Gain or loss on derivatives' positions designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized. In addition, if an interest-rate swap meets certain conditions, the interest expense is computed at a combined rate and recognized.

(q) Leases

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the leasee are accounted for as finance leases.

3. Change in Method of Accounting

Impairment of fixed assets

The Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended December 31, 2004. The effect of the adoption of this new standard was to decrease income before income taxes and minority interests by ¥6,032 million ($57,884 thousand) for the year ended December 31, 2004. The cumulative amount of an impairment loss is deducted directly from the acquisition cost of the related fixed asset. The effect of this adoption on each segment is outlined in Note 15.

4. Marketable Securities and Investment Securities

(a) Held-to-maturity debt securities with determinable fair value

The aggregate carrying value, fair value, gross unrealized gain and loss on held-to-maturity debt securities whose fair value was determinable at December 31, 2004 and 2003 are summarized as follows:

Securities whose carrying value is equal to or exceeds their fair value:

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2004			2003			**2004**		
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
Government bonds	**–**	**–**	**–**	¥10	¥10	–	**–**	**–**	**–**
Corporate bonds	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Other debt securities	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
	–	**–**	**–**	¥10	¥10	–	**–**	**–**	**–**

No securities whose fair value exceeds their carrying value were held at December 31, 2004 and 2003.

(b) Other securities with determinable fair value

The aggregate acquisition cost, carrying value, gross unrealized gain and loss on other securities whose fair value was determinable at December 31, 2004 and 2003 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2004	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥11,297**	**¥19,997**	**¥8,700**	**$108,412**	**$191,908**	**$83,496**
Debt securities	**9**	**10**	**1**	**82**	**94**	**12**
Other	**119**	**144**	**25**	**1,148**	**1,387**	**239**
Subtotal	**¥11,425**	**¥20,151**	**¥8,726**	**$109,642**	**$193,389**	**$83,747**
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 3,707**	**¥ 3,190**	**¥ (517)**	**$ 35,581**	**$ 30,615**	**$ (4,966)**
Debt securities						
Other						
Subtotal	**¥ 3,707**	**¥ 3,190**	**¥ (517)**	**$ 35,581**	**$ 30,615**	**$ (4,966)**
Total	**¥15,132**	**¥23,341**	**¥8,209**	**$145,223**	**$224,004**	**$78,781**

December 31, 2003	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥10,194	¥16,160	¥5,966
Debt securities	14	15	1
Other	119	132	13
Subtotal	¥10,327	¥16,307	¥5,980
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 5,490	¥ 4,497	¥ (993)
Debt securities	–	–	–
Other	–	–	–
Subtotal	¥ 5,490	¥ 4,497	¥ (993)
Total	¥15,817	¥20,804	¥4,987

(c) The realized gain and loss on sales of other securities for each of the three years in the period ended December 31, 2004 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Sales	**¥1,198**	¥3,602	¥1,837	**$11,500**
Gain on sales of securities	**454**	1,179	461	**4,358**
Loss on sales of securities	**3**	7	3	**26**

(d) The carrying value of securities whose fair value was not determinable at December 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
(1) Held-to-maturity debt securities:			
Domestic debt securities offered privately	**¥ 143**	¥ 143	**$ 1,372**
(2) Investments in subsidiaries and affiliates	**1,353**	1,246	**12,982**
(3) Other securities:			
Equity investments in unlisted companies	**5,372**	5,951	**51,556**
Domestic debt securities offered privately	**172**	172	**1,646**
Other	**1,342**	1,000	**12,881**

(e) The redemption schedules for securities with maturity dates, classified as held-to-maturity debt securities and other securities, at December 31, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
December 31, 2004	Due within one year	Due after one year, but within five years	Due within one year	Due after one year, but within five years
Debt securities:				
Government and municipal bonds	**¥28**	**¥ –**	**$268**	**$ –**
Corporate debt securities	**5**	**145**	**48**	**1,391**
Other	**3**	**100**	**29**	**960**
Other	**–**	**–**	**–**	**–**
	¥36	**¥245**	**$345**	**$2,351**

5. Inventories

Inventories at December 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Finished goods and merchandise	**¥ 8,596**	¥ 8,304	**$ 82,499**
Real estate for sale	**43**	310	**408**
Work in process	**3,802**	4,285	**36,487**
Raw materials	**9,888**	10,348	**94,892**
Supplies	**725**	1,610	**6,963**
	¥23,054	¥24,857	**$221,249**

6. Loss on Impairment of Property, Plant and Equipment

The Company and the consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2004:

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Sapporo Breweries Ltd.	Warehouse of	Lands	**¥1,671**	**$16,032**
KEIYO Physical Distribution Center (Narashino-shi, Chiba)	Physical distribution	Buildings	**333**	**3,195**
			¥2,004	**$19,227**
Sapporo Logistics System Ltd.	Warehouse for lease	Lands	**625**	**6,000**
KOBE Warehouse (Suma-ku, Kobe-shi)		Buildings	**123**	**1,179**
			¥ 748	**$ 7,179**
Sapporo Breweries Ltd.	Idle real estate	Lands	**¥2,362**	**$22,671**
Idle real estate (Kitakanbara-gun, Niigata)		Buildings	**139**	**1,332**
			¥2,501	**$24,003**
Sapporo Breweries Ltd.	Restaurants			
Restaurants for lease (Funabashi-shi, Chiba and other)	for lease	Buildings	**¥ 179**	**$ 1,720**
			¥ 179	**$ 1,720**
Sapporo Lion Ltd. and others	Restaurants	Buildings and	**¥ 487**	**$ 4,671**
Restaurants for business (Takasaki-shi, Gunma and 24 others)	for operations	others	**113**	**1,084**
			¥6,032	**$57,884**

The Company and the consolidated subsidiaries decide the asset group in consideration of division on the management accounting. The idle estate and the real estate for lease are grouped with each estate, and the stores of restaurant are grouped with each store.

About the warehouses of physical distribution, the warehouses for lease and the idle real estate, the amount by which the carrying amount of these assets exceeds its recoverable amount is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to further decline in land prices.

About the stores of restaurant for operation or lease, the amount by which the carrying amount of these assets exceeds the expected present value of these assets is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to a weak performance in profitability.

The recoverable amount is measured by the net selling price and the value in use. The net selling price is based on the estimated value by the trust bank and the value in use is based on the future cash flow discounted by 4%.

7. Short-term Bank Loans and Long-term Debt

Short-term bank loans represent notes or overdrafts. The annual average interest rates applicable to short-term bank loans for the years ended December 31, 2004 and 2003 were 0.40% and 0.27%, respectively.

The balances outstanding at December 31, 2003 under the domestic yen-denominated commercial paper program, which have been included in short-term bank loans, were ¥5,000 million.

No such program existed at December 31, 2004.

Long-term debt at December 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
1.2% convertible bonds due 2009	**¥ 19,720**	¥ 19,720	**$ 189,252**
2.225% bonds due 2005	**10,000**	10,000	**95,969**
1.62% bonds due 2005	**10,000**	10,000	**95,969**
2.06% bonds due 2007	**–**	10,000	**–**
0.86% bonds due 2006	**10,000**	10,000	**95,969**
1.31% bonds due 2008	**–**	10,000	**–**
1.27% bonds due 2007	**10,000**	10,000	**95,969**
0.87% bonds due 2005	**10,000**	10,000	**95,969**
1.22% bonds due 2005	**10,000**	10,000	**95,969**
Zero coupon convertible bonds with stock acquisition rights due 2007	**20,000**	–	**191,939**
Loans from banks and insurance companies maturing from 2003 to 2018 with weighted–average annual interest rates: 2004—1.24% 2003—1.54%			
Secured	**34,691**	48,666	**332,924**
Unsecured	**150,793**	164,702	**1,447,154**
	285,204	313,088	**2,737,083**
Less current portion	**(75,958)**	(33,868)	**(728,966)**
	¥209,246	¥279,220	**$2,008,117**

The 2.06% bonds due 2007 and the 1.31% bonds due 2008 were accounted for as redeemed due to a debt assumption agreement. The debt assumption contract requires the counterparties to assume the obligation to pay the principal and interest on these bonds.

The aggregate annual maturities of long-term debt subsequent to December 31, 2004 are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥ 75,958	$ 728,966
2006	58,493	561,351
2007	78,099	749,508
2008	27,242	261,438
2009	33,271	319,300
2010 and thereafter	12,141	116,520
	¥285,204	$2,737,083

The 1.2% convertible bonds due 2009 were convertible into shares of common stock of the Company at the option of the holders at the conversion price of ¥991.00 per share at December 31, 2004, subject to adjustment in certain circumstances including the issuance of common stock at a price below the fair market price.

Zero coupon convertible bonds with stock acquisition rights due 2007, are convertible into shares of common stock of the Company at the option of the holders at the conversion price of ¥576.00 per share at December 31, 2004, subject to adjustment in certain circumstances including the issuance of common stock at prices below the fair market price and specific circumstances.

The assets pledged as collateral for short-term bank loans and long-term debt of ¥34,691 million ($332,923 thousand) and ¥48,666 million at December 31, 2004 and 2003, respectively, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Investment securities	**¥5,082**	¥4,684	**$48,769**
Property, plant and equipment, at net book value	**1,549**	1,794	**14,864**

8. Shareholders' Equity

The Commercial Code of Japan provides that an amount not exceeding one half of the issue price of new shares may, with the approval of the Board of Directors, be accounted for as capital surplus.

Retained earnings include a legal reserve provided in accordance with the provisions of the Commercial Code. This reserve is not available for payment of dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

At the integration of the Company's real estate operations into Yebisu Garden Place Co., Ltd. in the year ended December 31, 2003, retained earnings decreased by ¥26,076 million as a result of devaluation in real estate assets immediately prior to the merger of a consolidated subsidiary into Yebisu Garden Place Co., Ltd., the surviving company, as permitted by the Commercial Code.

9. Other Income (Expenses)

"Other income (expenses)—Other, net" for each of the three years in the period ended December 31, 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Loss on sales and disposal of property, plant and equipment and intangibles, net	**¥ (9,070)**	¥(4,260)	¥(3,025)	**$ (87,047)**
Equity in income of an affiliate	**14**	10	34	**133**
Reversal of (provision for) doubtful receivables	**–**	–	181	**–**
Compensation for deconstruction of former factory	**–**	–	974	**–**
Gain on sales of investment securities	**454**	1,179	461	**4,358**
Gain on sale of business (The Westin Tokyo)	**6,820**	–	–	**65,455**
Gain on exemption from future payments of substitutional portion of the WPFP (Note 2 (k))	**115**	–	–	**1,101**
Subsidy for removal construction	**96**	–	–	**917**
Loss on disposal of inventories	**(1,662)**	(1,757)	(1,079)	**(15,957)**
Bond issuance expenses	**–**	–	(145)	**–**
Loss on impairment of property, plant and equipment (Note 6)	**(6,032)**	–	–	**(57,884)**
Loss on floriculture business	**(1,014)**	–	–	**(9,734)**
Loss on repayment of bonds	**(891)**	–	–	**(8,547)**
Devaluation of marketable securities and investments	**(642)**	(423)	(3,691)	**(6,158)**
Loss on liquidation of affiliate	**(78)**	–	–	**(745)**
Write-off of deposit for trade	**–**	(438)	–	**–**
Business reorganization costs	**–**	(570)	–	**–**
Loss on exemption from future payments of substitutional portion of the WPFP	**–**	–	(618)	**–**
Other	**126**	276	(771)	**1,208**
	¥(11,764)	¥(5,983)	¥(7,679)	**$(112,900)**

10. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans covering substantially all employees. Additional benefits may be granted to employees according to the conditions under which termination occurs.

Employees' retirement benefits as of December 31, 2004 and 2003 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Retirement benefit obligation	**¥(66,943)**	¥(64,472)	**$(642,447)**
Fair value of pension plan assets	**23,611**	22,069	**226,591**
	(43,332)	(42,403)	**(415,856)**
Unrecognized net retirement benefit obligation at transition	**17,052**	18,706	**163,652**
Unrecognized actuarial gain or loss	**9,037**	6,422	**86,728**
Unrecognized past service cost	**660**	711	**6,333**
Prepaid pension cost	**(75)**	(64)	**(722)**
Employees' retirement benefits	**¥(16,658)**	¥(16,628)	**$(159,865)**

The Company and certain consolidated subsidiaries have recognized past service cost related to a change in the level of benefits offered under their lump-sum retirement payment plans.

The components of retirement benefit expenses for each of the three years in the period ended December 31, 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Service cost	**¥1,800**	¥2,071	¥ 2,830	**$17,274**
Interest cost	**1,544**	1,691	2,150	**14,823**
Expected return on plan assets	**(983)**	(935)	(1,557)	**(9,435)**
Amortization of net retirement benefit obligation at transition	**1,572**	1,559	7,439	**15,084**
Amortization of actuarial gain or loss	**505**	768	3,780	**4,849**
Amortization of past service cost	**52**	47	16	**496**
Other	**190**	396	–	**1,827**
Retirement benefit expenses	**¥4,680**	¥5,597	¥14,658	**$44,918**

This includes the full amortization of unrecognized actuarial loss and the net transition obligation associated with the return of the substitutional portion of the WPFP in the year ended December 31, 2002. This full amortization has been recorded as an extraordinary loss and is offset by a gain on the return of the substitutional portion.

"Other" includes early retirement benefits.

The assumptions used in calculation of the above information for each of the three years in the period ended December 31, 2004 were as follows:

	2004	2003	2002
Discount rate	**2.0%**	2.0 – 2.5%	2.0 – 2.5%
Expected rate of return on plan assets	**3.0 – 4.5%**	3.0 – 4.5%	3.0 – 4.5%
Period of recognition of past service cost	**15 years**	15 years	15 years
Method of amortization	**Straight-line method**	Straight-line method	Straight-line method
Period of recognition of actuarial gain or loss (amortized by the straight-line method over the average number of remaining years of service of the eligible employees commencing in the following year)	**10 – 15 years**	10 – 15 years	10 – 15 years
Period of recognition of net retirement benefit obligation	**15 years**	15 years	15 years

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rates of 43.9% for the years ended December 31, 2004 and 2003, and 42.1% for the year ended December 31, 2002. This difference in tax rates arose as a result of the adoption of consolidated tax returns effective January 1, 2003. The differences from the corresponding effective tax rates are due primarily to (1) the accounting policy of not providing for deferred income taxes arising from timing differences between financial and tax reporting for unschedulable temporary differences, and (2) certain expenses which are not deductible for income tax purposes.

The effective tax rates reflected in the consolidated statements of income for each of the three years in the period ended December 31, 2004 differ from the corresponding statutory tax rates for the following reasons:

	2004	2003	2002
Statutory tax rates	**43.9%**	43.9%	42.1%
Effect of:			
Disallowed expenses, including entertainment expenses	**2.8**	18.5	(14.1)
Dividends and other income deductible for income tax purposes	**(2.7)**	(5.2)	3.6
Inhabitants' per capita taxes	**2.7**	9.3	(6.4)
Unschedulable temporary differences	**49.7**	137.9	(56.2)
Changes in valuation allowance	**(55.0)**	(187.1)	159.8
Other, net	**(2.0)**	1.5	1.2
Effective tax rates	**39.4%**	18.8%	130.0%

The significant components of deferred tax assets and liabilities at December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Deferred tax assets:			
Property, plant and equipment	**¥ 11,133**	¥ 10,950	**$ 106,846**
Employees' retirement benefits	**6,502**	6,305	**62,395**
Costs relating to closing of a factory	**1,975**	2,630	**18,953**
Investment securities	**1,304**	2,328	**12,516**
Tax loss carryforwards	**1,421**	2,192	**13,640**
Allowance for doubtful receivables	**987**	1,182	**9,475**
Accrued expenses	**546**	547	**5,238**
Equipment for promotional giveaways, etc.	**115**	265	**1,099**
Other	**3,205**	2,135	**30,754**
Gross deferred tax assets	**27,188**	28,534	**260,916**
Valuation allowance	**(14,467)**	(16,149)	**(138,835)**
Total deferred tax assets	**12,721**	12,385	**122,081**
Deferred tax liabilities:			
Reserve for advanced depreciation deduction, etc.	**3,243**	3,541	**31,128**
Unrealized holding gain on securities	**3,331**	2,029	**31,965**
Other	**4**	5	**36**
Total deferred tax liabilities	**6,578**	5,575	**63,129**
Net deferred tax assets	**¥ 6,143**	¥ 6,810	**$ 58,952**

Effective for years commencing on or subsequent to January 1, 2004, in accordance with the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing an assessment system based on estimates determined by the size of a business. In connection with this change in income tax rates for the calculation of deferred tax assets and liabilities, the Company and its domestic consolidated subsidiaries have applied an aggregate statutory income tax rate of 40.7% at December 31, 2003. As a result of this change, "Deferred tax assets" decreased by ¥40 million, "Deferred income taxes" increased by ¥108 million and "Unrealized holding gain on securities" increased ¥68 million compared with the amounts which would have been recorded under the previous local tax law.

12. Leases

(a) Finance lease

i) Lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at December 31, 2004 and 2003, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Acquisition costs:			
Machinery and automobiles	**¥ 805**	¥ 609	**$ 7,722**
Other	**14,314**	16,145	**137,379**
	¥15,119	¥16,754	**$145,101**
Accumulated depreciation:			
Machinery and automobiles	**¥ 478**	¥ 410	**$ 4,583**
Other	**7,205**	9,375	**69,150**
	¥ 7,683	¥ 9,785	**$ 73,733**
Net book value:			
Machinery and automobiles	**¥ 327**	¥ 199	**$ 3,139**
Other	**7,109**	6,770	**68,229**
	¥ 7,436	¥ 6,969	**$ 71,368**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥3,153 million ($30,258 thousand) and ¥4,289 million, which equaled the corresponding depreciation on the respective leased assets computed by the straight-line method over the lease terms for the years ended December 31, 2004 and 2003, respectively.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2004 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥2,633	$25,275
2006 and thereafter	4,846	46,505
Total	¥7,479	$71,780

ii) Lessor

One consolidated subsidiary subleases certain leased property to third party.

One consolidated subsidiary subleases the leased property in nearly the same condition of the original lease contracts. Therefore, almost the same amount of unpaid lease expense is included in the balance as the lessee.

Future minimum lease receivables, including the interest portion thereon, subsequent to December 31, 2004 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥10	$ 93
2006 and thereafter	33	319
Total	¥43	$412

(b) Operating lease

Future minimum lease payments subsequent to December 31, 2004 for operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥13	$125
2006 and thereafter	15	143
Total	¥28	$268

There is no recorded loss on impairment at leased assets.

13. Contingent Liabilities

Contingent liabilities at December 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Guarantee of loans, principally loans for employees' housing	**¥ 3,232**	¥3,459	**$31,020**
Debt assumption,			
2.06% bonds due 2007	**10,000**	–	**95,969**
1.31% bonds due 2008	**10,000**	–	**95,969**

14. Amounts Per Share

Until the year ended December 31, 2002, basic net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year, and diluted net income per share was computed based on the net income reported and the weighted average number of shares of common stock outstanding during each year after allowing for the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds. Amounts per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which went into effect on January 1, 2003, basic net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share has been computed based on the net income available for distribution to shareholders and the weighted average number of shares of common stock outstanding during the year after allowing for the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. Amounts per share of net assets have been computed based on the net assets available for distribution to shareholders and the number of shares of common stock outstanding at each balance sheet date.

This change had no impact on the consolidated financial statements for the years ended December 31, 2003 and 2002.

Year ended December 31

	Yen			U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Net income	**¥13.07**	¥6.95	¥3.45	**$0.13**
Diluted net income	**12.01**	–	–	**0.12**

As of December 31

	Yen		U.S. dollars (Note 1)
	2004	2003	**2004**
Net assets	**¥259.81**	¥245.80	**$2.49**

15. Segment Information

The Company and its consolidated subsidiaries underwent a reorganization in the year ended December 31, 2003. On July 1, 2003, Sapporo Lion Ltd. became a wholly-owned subsidiary of the Company through a share exchange. Effective the same date, the Company separated its alcoholic beverages, soft drinks and real estate business, and became a holding company. The Company has used this restructuring as an opportunity to commence the disclosure of information in a format which more appropriately reflects the performance of each business in the group. Consequently, the constituent elements of the former alcoholic beverages & soft drinks segment are now disclosed separately as alcoholic beverages and soft drinks. The former restaurant & hotel segment has been split and, restaurant operations are now disclosed separately as restaurants, and hotel operations are included in other. Operations related to the alcoholic beverage operations, including the leasing of eating and drinking establishments adjoining breweries, which were previously included in the real estate segment, are now included in alcoholic beverages.

The segment information for the year ended December 31, 2002 has been restated to reflect this revised classification of segment information effective the years ended December 31, 2004 and 2003.

Financial information by business segment is summarized as follows:

Year ended or as of December 31, 2004	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	¥364,585	¥69,324	¥26,611	¥ 22,506	¥11,904	¥494,930	¥ –	¥494,930
Intra–group sales and transfers	4,985	263	–	4,931	37	10,216	(10,216)	–
Total	369,570	69,587	26,611	27,437	11,941	505,146	(10,216)	494,930
Operating expenses	350,760	69,121	26,382	21,464	12,206	479,933	(8,651)	471,282
Operating income (loss)	¥ 18,810	¥ 466	¥ 229	¥ 5,973	¥ (265)	¥ 25,213	¥ (1,565)	¥ 23,648
Identifiable assets	¥303,808	¥19,737	¥15,146	¥197,449	¥ 519	¥536,659	¥ 65,453	¥602,112
Depreciation and amortization	¥ 15,205	¥ 289	¥ 765	¥ 8,734	¥ 337	¥ 25,330	¥ –	¥ 25,330
Loss on impairment	¥ 5,432	¥ –	¥ 600	¥ –	¥ –	¥ 6,032	¥ –	¥ 6,032
Capital expenditures	¥ 8,494	¥ 382	¥ 769	¥ 303	¥ 321	¥ 10,269	¥ –	¥ 10,269

Year ended or as of December 31, 2004	Thousands of U.S. dollars (Note 1)							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	$3,498,898	$665,293	$255,382	$ 215,986	$114,245	$4,749,804	$ –	$4,749,804
Intra-group sales and transfers	47,845	2,523	–	47,325	353	98,046	(98,046)	–
Total	3,546,743	667,816	255,382	263,311	114,598	4,847,850	(98,046)	4,749,804
Operating expenses	3,366,218	663,342	253,187	205,993	117,139	4,605,879	(83,020)	4,522,859
Operating income (loss)	$ 180,525	$ 4,474	$ 2,195	$ 57,318	$ (2,541)	$ 241,971	$ (15,026)	$ 226,945
Identifiable assets	$2,915,628	$189,411	$145,352	$1,894,907	$ 4,983	$5,150,281	$628,142	$5,778,423
Depreciation and amortization	$ 145,923	$ 2,775	$ 7,344	$ 83,817	$ 3,227	$ 243,086	$ –	$ 243,086
Loss on impairment	$ 52,129	$ –	$ 5,755	$ –	$ –	$ 57,884	$ –	$ 57,884
Capital expenditures	$ 81,517	$ 3,664	$ 7,380	$ 2,906	$ 3,081	$ 98,548	$ –	$ 98,548

Year ended or as of December 31, 2003	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	¥341,924	¥65,169	¥26,591	¥ 33,430	¥12,406	¥479,520	¥ –	¥479,520
Intra–group sales and transfers	4,944	240	–	4,586	40	9,810	(9,810)	–
Total	346,868	65,409	26,591	38,016	12,446	489,330	(9,810)	479,520
Operating expenses	342,326	66,244	27,680	24,505	12,745	473,500	(7,311)	466,189
Operating income (loss) . . .	¥ 4,542	¥ (835)	¥ (1,089)	¥ 13,511	¥ (299)	¥ 15,830	¥(2,499)	¥ 13,331
Identifiable assets	¥327,650	¥19,535	¥18,142	¥247,872	¥12,269	¥625,468	¥ 5,169	¥630,637
Depreciation and amortization	¥ 17,038	¥ 346	¥ 810	¥ 9,867	¥ 374	¥ 28,435	¥ –	¥ 28,435
Capital expenditures	¥ 7,644	¥ 215	¥ 874	¥ 1,187	¥ 161	¥ 10,081	¥ –	¥ 10,081

Year ended or as of December 31, 2002	Millions of yen							
	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General corporate and intercompany eliminations	Consolidated
Operating revenues	¥374,524	¥70,512	¥28,050	¥ 24,999	¥13,667	¥511,752	¥ –	¥511,752
Intra-group sales and transfers	5,447	169	–	4,167	30	9,813	(9,813)	–
Total	379,971	70,681	28,050	29,166	13,697	521,565	(9,813)	511,752
Operating expenses	372,284	70,602	28,404	21,827	13,623	506,740	(5,966)	500,774
Operating income (loss) . . .	¥ 7,687	¥ 79	¥ (354)	¥ 7,339	¥ 74	¥ 14,825	¥ (3,847)	¥ 10,978
Identifiable assets	¥361,741	¥22,506	¥17,747	¥271,519	¥12,579	¥686,092	¥31,394	¥717,486
Depreciation and amortization	¥ 19,168	¥ 395	¥ 851	¥ 10,499	¥ 417	¥ 31,330	¥ 133	¥ 31,463
Capital expenditures	¥ 9,100	¥ 210	¥ 1,062	¥ 2,859	¥ 328	¥ 13,559	¥ 81	¥ 13,640

1. The above business segment information has been prepared in accordance with an ordinance under the Securities and Exchange Law of Japan.
2. (i) Unallocated operating expenses amounted to ¥1,752 million ($16,810 thousand), ¥2,722 million and ¥4,025 million for the years ended December 31, 2004, 2003 and 2002, respectively, and, until June 30, 2003, consisted principally of expenditures related to general administration, but from July 1, 2003, consisted of the holding company's expenditures.
   (ii) Unallocated assets, which amounted to ¥75,501 million ($724,575 thousand), ¥22,841 million and ¥40,619 million at December 31, 2004, 2003 and 2002, respectively, consisted principally of cash and cash equivalents, short-term and long-term investments and assets of general administration at December 31, 2004 and 2002, but consisted of cash and cash equivalents and short-term and long-term investments of the holding company at December 31, 2003.
3. Sales outside Japan and sales to overseas customers comprised less than 10% of the Company's consolidated sales for each of the years ended December 31, 2004, 2003 and 2002. Accordingly, geographical segment information and overseas sales have not been disclosed.

16. Subsequent Events

On March 30, 2005, the following appropriation of retained earnings was approved at the annual general meeting of the Company's shareholders:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends	¥1,776	$17,040

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100
Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
Sapporo Holdings Limited

We have audited the accompanying consolidated balance sheets of Sapporo Holdings Limited and consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sapporo Holdings Limited and consolidated subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in Japan.

As described in Note 3, Sapporo Holdings Limited and consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended December 31, 2004.

As described in Note 15, the classification of business activities composing business segments was revised effective the year ended December 31, 2003.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

Tokyo, Japan
March 30, 2005

A MEMBER OF ERNST & YOUNG GLOBAL

Corporate Data

(As of December 31, 2004)

Company Name
SAPPORO HOLDINGS LIMITED

Business
Holding company

Date of Establishment
September 1949

Capital
¥43,832 million

Number of Shares Issued
356,179,485

Fiscal Year-end
December 31

Head Office
20-1, Ebisu 4-chome, Shibuya-ku,
Tokyo 150-8522, Japan
info@sapporoholdings.jp

Number of Employees
3,979
(Consolidated)

88
(Parent company)

Main Banks
Mizuho Corporate Bank, Ltd.
The Bank of Tokyo-Mitsubishi, Ltd.
The Norinchukin Bank

Securities Traded: Common Stock
Tokyo Stock Exchange, First Section

Annual Meeting of Shareholders
The annual meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

Auditors
Ernst & Young ShinNihon

SAPPORO

SAPPORO HOLDINGS LIMITED

20-1, Ebisu 4-chome, Shibuya-ku,
Tokyo 150-8522, Japan
http://www.sapporoholdings.jp/english/

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