TaKaRa

Annual Report 2005

Consolidated Financial Information 2005

Year ended March 31, 2005

TAKARA HOLDINGS INC.

Contents

Management's Discussion and Analysis

Net Sales

In the fiscal year ended March 31, 2005 (fiscal 2005), net sales decreased a slight 0.8% year-on-year to 195,359 million yen. An analysis of sales by business segment follows.

Alcoholic Beverages and Foods

With respect to the alcoholic beverages and foods segment, our core business, the full-scale deregulation of alcoholic beverage retail licensing was introduced into most regions in September 2003. The deregulation allowed some 80% of the major convenience stores and supermarkets to obtain the alcoholic beverage retail licensing. Responding to this change, many beer manufacturers began a strategy of putting greater emphasis on comprehensive diversification in their lines of liquor products, and they are now concentrating on their shochu and light-alcohol refreshers products, which is further intensifying competition in the marketplace.

With the liquor and food market being so competitive, the Takara Group, with a focus on consumers' tastes is striving to develop value-added products that appeal to consumers and build up its brand image while continuing to expand its sales through aggressive promotion activities.

In fiscal 2005, sales to customers in the alcoholic beverages and foods segment decreased 0.9% year-on-year to 178,068 million yen.

The breakdown of sales to customers in the alcoholic beverages and foods segment is as follows:

– Shochu
79,319 million yen (100.8% of the previous year)
– Sake
24,436 million yen (91.7% of the previous year)
– Light-alcohol refreshers
21,617 million yen (99.8% of the previous year)
– Other liquors
10,430 million yen (95.0% of the previous year)
– Hon Mirin
15,668 million yen (96.0% of the previous year)
– Other seasonings
4,542 million yen (105.2% of the previous year)
– Beverages
14,228 million yen (101.2% of the previous year)
– Raw alcohol
3,678 million yen (107.4% of the pervious year)
– Other
4,146 million yen (116.5% of the previous year)

Biomedical

The biomedical segment is promoting its business by making the most of the biotechnologies that the Group has developed and accumulated over many years and by concentrating management resources in the three sectors of genetic engineering research, gene medicine, and agribio business.

In the genetic engineering research sector, Takara Mirus Bio Inc., established in the U.S. in January 2004, contributed to the Group's research reagents sales. The net sales from this sector, however, decreased due to a decline in sales of scientific instruments, such as cell sorters.

Sales in the gene medicine sector decreased slightly from the previous year. On the other hand, the agribio business sector successfully increased its sales as a result of efforts to further strengthen its sales and marketing strategies centering on fucoidan-related, agar-related, mushroom-related, and ashitaba-related products.

In fiscal 2005, sales to customers in the biomedical segment increased 0.8% year-on-year to 13,671 million yen.

The breakdown of sales to customers in the biomedical segment is as follows:

– Research reagents
6,581 million yen (104.6% of the previous year)
– Scientific instruments
2,922 million yen (86.2% of the previous year)
– Contracted services and other
2,341 million yen (100.2% of the previous year)
– Genetic engineering research sector
11,844 million yen (98.6% of the previous year)
– Gene medicine sector
118 million yen (61.8% of the previous year)
– Agribio sector
1,708 million yen (126.5% of the previous year)

Other Operations

Other operations comprise mainly printing, information and telecommunications, and rental real estate. Sales to customers from these operations decreased 1.2% year-on-year to 3,618 million yen.

Cost of Sales, Selling, General and Administrative Expenses, and Operating Income

While net sales decreased 0.8% year-on-year, the cost of sales increased 0.1% despite cost-cutting efforts. This resulted in gross profit of 76,244 million yen, a 2.1% decline from the previous fiscal year. Selling, general and administrative expenses increased 0.5% year-on-year to 68,841 million yen. As a result of these factors, operating income in fiscal 2005 was down 20.9% year-on-year to 7,402 million yen. Results by business segment are as follows.

Alcoholic Beverages and Foods

The alcoholic beverages and foods segment is still facing a very severe business climate, including low-price-oriented consumption by consumers, increased competition from beer manufacturers, and the long-term decline in sake consumption. While suffering from stagnant general sales growth, the Group has been shifting its efforts toward sales of alcohol products that carry a higher percentage of liquor taxes, which has raised the cost of sales ratio of this segment. In addition, the combination of the deregulation of alcoholic beverage retail licensing and certain other factors increased market competition, which resulted in the need to spend more on sales promotion activities. As a result of these factors, operating income amounted to 8,644 million yen, which is 85.7% of the previous fiscal year. The increase in sales promotion expenses over the past several years is a result of strategic investment, which is necessary to establish the Group's strong position in the market, where deregulation and changes in the way businesses are operated are leading to intensified competition. The Group will strive harder to control promotion related spending by being more selective in where to direct such spending and secure profit.

Biomedical

The biomedical segment has recorded operating losses for three straight fiscal years. In the fiscal year under review, the operating loss amounted to 1,076 million yen, due to an increase in the cost of sales ratio, accompanying higher depreciation and amortization associated with the construction of a new honshimeji production plant, and an increase in selling, general and administrative expenses, including research and development expenses and employees' compensation expenses. The biomedical segment, however, is determined to increase its profits drastically in the future by aggressively investing in research and development in new fields, such as gene therapy and agribio, in addition to increasing profit by expanding existing business models. Thus, the Group is convinced that it is absolutely necessary to accelerate investments in this segment in the years to come.

Other Operations

Operating income in the other operations segment in fiscal 2005 increased 104.1% year-on-year to 634 million yen. The major lines of business included in this segment are printing, information and telecommunications, and rental real estate. The Group worked very hard to cut selling, general and administrative expenses in each sector, which resulted in the increase in operating income from fiscal 2004.

Other Income and Expenses and Net Income

Other income in the fiscal year under review included, among other items, a 2,310 million yen gain resulting from changes in ownership in subsidiaries when Takara Bio Inc. issued new stocks at the time of its public offering and a 1,133 million yen gain on sales of property, plant and equipment. Other income was partially offset by an impairment loss of 3,469 million yen resulting from the early adoption of the accounting standard for impairment of fixed assets. As a result of these factors, income before income taxes and minority interests in fiscal 2005 amounted to 6,813 million yen. Details of the impairment loss are listed in note 5 to the consolidated financial statements.

The Group allocated a valuation allowance to a part of its deferred tax assets related to the impairment loss, as it was unable to schedule such tax assets. In addition, because Takara Bio Inc. incurred tax loss carryforwards, after a review of the possibility of recovering deferred tax assets, it was decided to reduce a part of deferred tax assets. For these reasons, the actual effective tax rate, including adjustments for income taxes paid, increased, which resulted in a significant decrease in net income to 2,614 million yen, or 46.1% of the previous fiscal year's net income.

Cash Flows

The net cash provided by operating activities amounted to 7,489 million yen, taking into account income before income taxes and minority interests of 6,813 million yen; depreciation and amortization of 6,393 million yen; income taxes paid of 4,342 million yen; and adjustments for non-cash items, such as loss on impairment of long-lived assets of 3,469 million yen and gain resulting from changes in ownership in subsidiaries by issuance of new stocks of Takara Bio Inc. of 2,310 million yen.

As a result of these factors, net cash provided by operating activities increased by 2,440 million yen from fiscal 2004, when, among other factors, the Group had an increase in trade receivables and a decrease in consumption tax payable.

Net cash used in investing activities increased by 556 million yen year-on-year to 4,786 million yen, owing to outlays of 8,380 million yen for acquisition of property, plant and equipment and intangible fixed assets, in spite of cash inflow from proceeds from sales of property, plant and equipment of 1,459 million yen, such as the sale of the land of the Fushimi Plant of Takara Shuzo Co., Ltd., and proceeds from sales of investment securities of 1,569 million yen.

Net cash provided by financing activities increased by 283 million yen year-on-year to 5,047 million yen, reflecting cash inflow from proceeds from issuance of stock to minority shareholders by Takara Bio Inc. of 7,477 million yen and such outlays as cash dividends paid of 1,647 million yen.

Also, the Group had cash inflow of 10,000 million yen from proceeds from issuance of commercial paper, all of which was redeemed by the end of fiscal 2005.

As a result of these factors, cash and cash equivalents at the end of fiscal 2005 increased by 7,713 million yen year-on-year to 28,151 million yen.

Financial Position

Total assets increased by 1,356 million yen year-on-year to 190,773 million yen at the end of fiscal 2005. The major gains and losses included, among other items, a decrease of 3,339 million yen for land, mainly due to the early adoption of the new accounting standard for impairment of fixed assets and an increase of 7,713 million yen in cash and cash equivalents mainly from proceeds from issuance of new stocks when Takara Bio Inc. was listed on the stock market. Total liabilities decreased by 5,762 million yen to 91,263 million yen, mainly due to a decrease in accounts payable related to facilities.

Minority interests increased by 5,646 million yen to 10,030 million yen, due to growth in the number of minority shareholders following the listing of Takara Bio Inc. stock listing and other factors.

Shareholders' equity increased by 1,471 million yen from the end of the previous fiscal year to 89,478 million yen, mainly thanks to increases in retained earnings and unrealized gain on available-for-sale securities.

As a result of these factors, the equity ratio increased by 0.4 percentage points to 46.9%.

Medium-to-Long-Term Business Strategies

The Takara Group's sixth medium-term business plan (covering the three years from April 2005 through March 2008) contains the following basic business strategies.

- The Takara Shuzo Group should enhance the profitability of its core business, the domestic liquor business, while aggressively expanding its domestic non-liquor and overseas operations. The group should also make efforts to evolve into a corporate group that can readily adapt to changes in society.
- The Takara Bio Group should establish a stable foundation of revenue by focusing on the three business segments of genetic engineering research, gene medicine, and agribio business. At the same time, the group should reform its business structure to establish a solid foundation for future growth.
- The Takara Group should launch new operations suited to an aging population and a declining birthrate that can grow into a new business foundation in the future.
- In accordance with the principles of corporate governance, which has been promoted since the whole Group reorganized itself into a holding company, the Takara Group should enhance its corporate value by adapting effectively to changes in the commercial environment, including those related to revisions in the Commercial Law, and by

strengthening its consolidated business structure.

- The whole Group should enhance its corporate value even further by establishing a code of corporate ethics, encouraging efforts to observe the law, maintaining its compliance system, and conducting activities that benefit society, such as protecting the environment.

Analysis of Capital Resources and Liquidity

The Takara Group's cash and cash equivalents increased by 7,713 million yen from the end of the previous fiscal year to 28,151 million yen, thanks to proceeds of 7,477 million yen from issuance of stock to minority interests when Takara Bio Inc. was listed on the stock market. In addition to this, the Group raised short-term working capital of 10,000 million yen through issuance of commercial paper, all of which was redeemed by the end of the fiscal year under review.

Funds for future investments in property, plant and equipment in the alcoholic beverages and foods segment will be raised internally or through issuance of bonds if necessary. Rating and Investment Information, Inc. (R&I) and Japan Credit Rating Agency, Ltd. (JCR) have affirmed A ratings on the Company's outstanding bonds and assigned preliminary A ratings to the shelf registration of the Company.

In addition, the Group has contracted a commitment line of 10,000 million yen and a term loan with a maximum limit of 10,000 million yen.

Funds for future investments in research and development and property, plant and equipment in the biomedical segment will be financed by proceeds from issuance of stock in December 2004 and cash inflow from future operating income. However, since the Group intends to launch new operations and expand its existing operations, it may need more funds in the years to come. The Group may therefore raise funds through paid-in capital increases as well.

Business Risks

The following are major potential risks to which the Takara Group (the Group and its affiliated companies) is exposed in business and other activities. In addition, conditions that may not become any risk are also described from the viewpoint of positive information disclosure to investors.

Upon identification of the possibility of such risks, the Group will make the best efforts to avoid such occurrence or take countermeasures against such occurrence. Please note that the following descriptions do not cover all of the risk factors concerning investment decisions.

Descriptions related to future occurrences are based on the Group's judgments as of the end of the fiscal year ended March 31, 2005.

(1) Risks concerning the alcoholic beverages and foods business and the environment of the business

<1> Risks concerning dependence on particular markets and products

More than 90% of the Group's alcoholic beverages and foods segment sales are generated inside Japan and the market is highly vulnerable to changes in consumer trends. The Group therefore is making efforts to develop original products that meet changes in consumers' tastes and unique products that differentiate the Group from competitors. However, changes in consumer trends have accelerated recently. For this reason, if the Group fails to offer attractive products in line with changes in consumers' tastes and market trends, business growth and profitability will suffer and so too will business performance and the Group's financial position. Furthermore, the Japanese population is growing older, with more aged people and less children. The total population is expected to peak in 2006 and then decline. If these factors result in a decline in liquor demand, the Group's business could be adversely affected.

<2> Risks concerning market competition

The removal of the supply-demand adjustment requirement for alcoholic beverage retail licensing enforced in September 2003 has changed the liquor distribution structure and prompted competing companies to formulate and implement new price and product strategies, which has intensified competition in the marketplace. In such a business environ-

ment, the Group is striving to cut costs, develop and cultivate high-value-added products, strengthen brand power, and carry out sales activities to meet changes in distribution channels. However, if the competition increases to a level that cannot be countered by these measures, the Group's business performance and financial position may be adversely affected.

In addition, the Alcohol Business Law enforced in April 2001 will deregulate the sales of industrial alcohol in April 2006. While this planned deregulation may enable the Group's raw alcohol business to expand its sales into the industrial alcohol market, it may also expose its business to competition from low-priced imported alcohol.

<3> Risks concerning dependence on particular plants for manufacturing

Most of the Group's alcoholic beverages are manufactured at the Fushimi Plant (Fushimi Ward, Kyoto City) and the Matsudo Plant (Matsudo City, Chiba Prefecture), and the Group is expanding the production lines in these two plants. Therefore, in the event of a major earthquake or any other occurrence that prevents operations in any of these areas, it may threaten to seriously affect the manufacture and supply of products, which may adversely affect the Group's business performance and financial position. In addition, ethyl alcohol, a major raw material used by the Group, is classified by the Fire Service Law as a hazardous material, Class 4 (inflammable liquid, possessing a serious risk of starting and spreading a fire, which, once started, is hard to extinguish).

<4> Risks concerning fluctuations of raw material prices

The Group's procurement of raw materials could be affected directly or indirectly by the climatic and economic conditions of the supplier countries and regions. Raw alcohol comes mainly from South America and Asian countries, and rice for sake and other products is procured in Japan; therefore, the prices of these raw materials are influenced by weather conditions in these areas and the raw material market. Recently, the skyrocketing market prices of crude oil and sugar have been pushing up the purchase price of raw alcohol. Any hike in the procurement cost of raw materials beyond what the Group's cost-cutting measures can cope with may cause deterioration in the Group's price competitiveness and profitability, which in turn may adversely affect the Group's business performance and financial position.

<5> Risks concerning Japan's legal regulations

The alcoholic beverages business of the Group is subject to regulations specified by the Liquor Tax Law governing licenses for manufacturing and/or selling alcoholic beverages and liquor taxes in Japan. In accordance with the Liquor Tax Law, the Group has obtained, in addition to the license for the seller, the license for manufacturing each type of product and for operating each manufacturing plant from the relevant taxation office. In future business operation, the Group will continue to be regulated by the Liquor Tax Law, and any change to the liquor taxes rate may affect selling prices and sales trends.

<6> Risks concerning the social attitude toward drinking

It has been said that drinking alcoholic beverages in moderation generally relieves weariness, increases the appetite, eases stress, and works as a social lubricant. On the other hand, many problems in habitual drinking have been pointed out, such as intoxication, organ damage due to chronic drinking, alcoholism, under-age drinking, and damage to the fetus owing to drinking by pregnant women, none of which is seen in any other beverages or foods. Realizing these problems, the Group, as an organization producing and selling alcoholic beverages, is carrying out various activities to spread the idea of "controlled, moderate drinking" from the viewpoint of meeting its social responsibilities by helping to maintain and improve people's health. If these alcohol-attributable problems become more serious socially, the Group's production and sales activities may be affected or regulated, and the future growth, the business performance, and the financial position of the Group's alcoholic beverages business may deteriorate.

(2) Risks concerning the biomedical business and the environment of the business

<1> Risks concerning research and development activities

In the biomedical business, the development of innovative new technologies leads to growth and a competitive advantage in the future; therefore, the Group places great importance on research and development activities and invests in such activities accordingly. However, there is no guarantee that the research and development activities will advance as planned, and because clinical development in the field of gene medicine takes a very long time, it is also not guaranteed that any research and development activities will bear satisfactory fruit in a timely manner. A delay in research and development activities may adversely affect the business plan, the business performance, and the financial position of the Group's biomedical business. Furthermore, there is no guarantee that the research and development activities currently in progress will produce their expected results. Such a failure could hinder the Group from meeting its planned revenue making expectations.

<2> Risks concerning market competition

Currently, the revenue base of the Group's biomedical business is generated by genetic engineering research, whose major product is research reagents related to the polymerase chain reaction (PCR *) method. These research reagents are manufactured and sold under licenses by F. Hoffman – La Roche Ltd. and Roche Molecular Systems, Inc., but as these licenses are not exclusive and many companies are granted them, competition is increasingly intensified. Since, unlike medical equipment, neither permission nor approval is required for the manufacture and sale of scientific instruments, entry into the market is relatively easy, and many enterprises are competing.

In the gene medicine sector, various genetic gene transfer methods and effective vectors have been developed recently, and the applications of gene therapy are expanding from congenital diseases, infectious diseases, and various types of cancer to non-fatal chronic illnesses. Also, today, gene therapy is used to improve patients' quality of life (QOL) and not just to cure the diseases themselves. Thus, a potentially enormous market has opened up, which has resulted in many enterprises investing in the research and development of gene therapy, centering on Western venture businesses.

In the agribio business sector, the health food industry is booming and many businesses, not just food manufacturers but many pharmaceutical companies as well, are entering the rapidly growing market. Legal regulations impose restrictions on the descriptions of efficacies and effects, and it is prohibited to use experimental data in sales promotions for differentiation. As a result, this market is easy for any company with no more than marketing abilities to enter, which is intensifying the competition. Under these market conditions, the Group is striving to take every measure possible, including the enhancement of the research and development system, the start-up of new business projects, the early commercialization of projects in their research and development phase, the improvement of manufacturing facilities, and the enhancement of marketing abilities. However, if these measures fail to advance as planned or a competitor successfully commercializes a new technology before the Group does, the business plans, the business performance, and the financial position of the Group may be adversely affected.

* PCR method: Polymerase chain reaction method (DNA duplication using the polymerase chain reaction)

<3> Risks concerning dependence in manufacturing

Currently, the Group's biomedical business depends mostly on Takara Biotechnology (Dalian) Co., Ltd., a Chinese subsidiary of the Takara Group, for manufacturing products related to the genetic engineering research sector, which is the major source of revenue for the biomedical business. Therefore, in the event of deterioration in security, a major earthquake, or any other occurrence that prevents operations in this region of the subsidiary, the whole Group could lose most of its capacity to manufacture the products concerned and this may adversely affect the Group's business performance and financial position.

<4> Risks concerning legal regulations specific to the biomedical business

Research and development activities in genetic engineering are regulated by relevant legislations, such as the Law Concerning Prevention from Radiation Hazards due to Radioisotopes, etc. and the Law Concerning the Conservation and Sustainable Use of Biological Diversity through

Regulations on the Use of Living Modified Organisms, and the Group has to observe these laws and regulations. In sales of research reagents, the Group is also required to follow the Poisonous and Deleterious Substance Control Law. When these regulations are tightened or new regulations are enforced following the expansion of gene-related industries, however, the Group's business may be adversely affected. Research reagents are not drugs defined by the Pharmaceutical Affairs Law, and therefore they are not regulated by that law.

When launching the business of gene and cell therapies or commercializing these therapies, the Group will be subject to relevant laws and regulations, such as the Pharmaceutical Affairs Law. These laws and regulations, such as the Pharmaceutical Affairs Law, are targeted at securing the quality, effectiveness, and safety of drugs, quasi drugs, cosmetics, and medical instruments, and the trading of these products requires obtaining approval or permission from relevant authorities. At present, it is uncertain whether or not the Group will be granted any necessary permission or approval based on the Pharmaceutical Affairs Law for each project for which it is carrying out research and development activities. To start the gene diagnosis business, the Group has to register as a sanitary inspection institute under the Law for Clinical Laboratory Technicians and Health Laboratory Technicians and observe the related laws and regulations.

<5>Risks concerning intellectual property rights

In the biomedical segment, where the success of business depends solely on the success of research and development, the Group regards securing intellectual property rights, including patents, as the critical factor, and it protects technologies developed in-house with patent rights to prevent competitors from imitating them. The Group will continue placing the highest priority on applications for patents in research and development activities. All of the applications are not always registered, however, and when a registered patent is made invalid for any reason, or expires, the Group's business strategies or operational results may suffer serious impact.

In addition, the Group is always mindful that, in bio-related industries with continuous cutthroat competition in research and development, its technology guarded with a patent right may be overridden at any time by a competitor's development that is superior to its own. The Group is willing to acquire or buy licenses for promising patent rights held by others, but this strategy may be very expensive or there is a possibility that the Group may not be able to acquire licenses for necessary patent rights.

(3) Risks shared by the whole Group

<1>Risks concerning impairment losses of investment securities

The Group owns marketable securities. If their market values fall drastically, the difference between the acquisition cost and market price is booked as a loss for the fiscal year. Such a loss may adversely affect the Group's business performance and financial position.

<2>Risks concerning impairment accounting of fixed assets

The Group owns fixed assets. If the Group determines that an impairment loss should be recognized on any fixed assets or asset group specified by the accounting standard for impairment of fixed assets, the book value of the asset or asset group in question is lowered to the recoverable price, and the difference is booked as a loss for the fiscal year. Such a loss may adversely affect the Group's business performance and financial position.

<3>Risks concerning retirement benefit liabilities

The Group calculates the cost of its employees' retirement benefits and pension liabilities based on such preconditions as the discount rate used in actuarial calculations and the expected return rate of pension assets. If the actual results are different from the preconditions or the preconditions have been changed, the effects are accumulated and regularly recognized in the future, and generally affect expenses recognized and liabilities booked in future periods. The loss on pension asset management in recent years has increased the pension expenses of the Group. A further worsening of the yield on the investment rate may adversely affect the business performance and the financial position of the Group.

<4> Risks concerning overseas operations

The Group's operations include the manufacture and sale of merchandise in North America, Europe, and China and other

regions of Asia. If any of those countries or regions experiences a drastic change in the condition of their economies, politics, and/or their societies, or suffers damage from a natural disaster, such as a major earthquake, the demand for the Group's products could deteriorate and/or production facilities might have to suspend production. Such occurrences could seriously affect the Group's business plan and performance.

<5>Risks concerning fluctuations in exchange rates

Local-currency-denominated items, including sales, expenses, and assets accounts, are translated to yen for the purpose of the preparation of consolidated financial statements. These items may be affected by the exchange rate at translation. The Group contracts forward exchanges and exchange hedging to minimize the adverse effects caused by short-term fluctuations in exchange rates between the U.S. dollar and yen. In the medium to long term, however, the Group may fail to accurately carry out procurement and sales activities as planned due to fluctuations in exchange rates. Therefore, fluctuations in exchange rates may adversely affect the business performance and the financial position of the Group.

<6>Risks concerning product liabilities

All of the products developed and manufactured by the Group are exposed to risks of compensations for product liabilities. If any defect is found during a manufacturing, selling or clinical testing process, or any health impairment is caused by an alcoholic beverage, food, drug, or medical instrument in particular, the Group may be subject to a product liability. Despite insurance contracts against compensations for product liabilities, it is uncertain whether or not the insurance will cover the full amount of the final compensation. A defect that results in large-scale recalls or compensations for product liabilities not only causes a huge amount of costs but also affects the Group's reputation, business performance, and financial position.

<7>Risks concerning legal regulations

The Group is developing business in various nations under local governmental regulations, such as permissions for operations and investments, export restrictions because of national security or other reasons, and trade conditions, including tariff duties. The Group is also subject to legislation governing trade, monopoly, patents, consumers, taxation, foreign currency exchanges, and environmental and recycling issues. If the Group is unable to observe any of the legislative regulations, its activities may be restricted and a rise in costs may occur.

Also, as a corporation involved in the manufacture and sale of food products, the Group is maintaining business facilities, managing tools, containers, and packages, and controlling production processes and sales activities in accordance with the provisions of the Food Sanitation Law. The Group observes the Food Sanitation Law and is taking extra care to control food hygiene. Food safety matters, including food hygiene and such problems as intentional interference, are an unavoidable issue. Therefore, if any problem should arise related to this issue, the business performance of the Group may be adversely affected.

Moreover, in sales of health foods, the Group is making its best efforts to observe the provisions of the Pharmaceutical Affairs Law for expressions and advertising of efficacies and effects and the directions for proper usage. Due to the general nature of health foods, however, the Group cannot completely rule out the possibility of it violating any provision on mandatory information. If any violation occurs within the Group, trust in the Group may deteriorate and the business performance of the Group may be adversely affected.

As the Group is also selling certain products on the Internet, the Group is subject to mandatory information regulations based on the Specified Commercial Transactions Law.

<8> Risks concerning information control

The Group retains personal information about numerous individuals through, among other activities, sales promotion campaigns and mail order sales. The Group is taking every precaution to prevent the leakage of such information by establishing an information control system, appointing personnel in charge of information security, conducting ongoing staff training, and taking other measures. However, the risk remains that some unexpected incidents could lead to

the loss, leakage, or falsification of personal and other internal information. In such cases, the Group could lose its credibility among the general public, which may adversely affect the Group's business.

<9> Risks concerning lawsuits

The Group is striving to observe all the laws and regulations relevant to its business operations by enhancing its compliance measures. However, as the Group conducts its business both in and outside Japan, there remains a risk of a third party filing a suit over such issues as the Product Liability Law, intellectual property rights, or a claim for compensation for an invention irrespective of whether or not the Group or its employees have violated any law. If a court case were to be brought against the Group, or if the court decision were to go against the Group, the Group's business performance and financial position may be adversely affected.

Consolidated Balance Sheets

Takara Holdings Inc. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
ASSETS			
***CURRENT ASSETS*:**			
Cash and cash equivalents	**¥ 28,151**	¥ 20,437	**$ 263,093**
Time deposits	**538**	377	**5,028**
Marketable securities (Note 3)	**613**	732	**5,728**
Notes and accounts receivable:			
Trade	**49,535**	50,526	**462,943**
Unconsolidated subsidiary and associated companies	**332**	288	**3,102**
Other	**1,178**	1,171	**11,009**
Allowance for doubtful accounts	**(205)**	(250)	**(1,915)**
Inventories (Notes 4 and 7)	**23,724**	24,053	**221,719**
Deferred tax assets (Note 12)	**1,568**	1,705	**14,654**
Prepaid expenses and other current assets	**765**	829	**7,149**
Total current assets	**106,202**	99,872	**992,542**
PROPERTY, PLANT AND EQUIPMENT (Notes 5, 6 and 17)**:**			
Land	**13,833**	17,173	**129,280**
Buildings and structures	**39,542**	37,168	**369,551**
Machinery, equipment and vehicles	**72,017**	70,127	**673,056**
Tools, furniture and fixtures	**12,463**	12,452	**116,476**
Construction in progress	**151**	4,162	**1,411**
Total	**138,008**	141,085	**1,289,794**
Accumulated depreciation	**(86,124)**	(84,927)	**(804,897)**
Net property, plant and equipment	**51,884**	56,158	**484,897**
***INVESTMENTS AND OTHER ASSETS*:**			
Investment securities (Note 3)	**21,852**	21,345	**204,224**
Investments in and advances to unconsolidated subsidiary and associated companies	**3,338**	3,298	**31,196**
Consolidation goodwill	**69**	154	**644**
Deferred tax assets (Note 12)	**1,796**	2,415	**16,785**
Other assets	**5,629**	6,172	**52,607**
Total investments and other assets	**32,685**	33,386	**305,467**
TOTAL	**¥190,773**	¥189,416	**$1,782,925**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
LIABILITIES AND SHAREHOLDERS' EQUITY			
***CURRENT LIABILITIES*:**			
Short-term bank loans (Note 6)	**¥ 4,875**	¥ 5,332	**$ 45,560**
Current portion of long-term debt (Note 6)	**5,057**	298	**47,261**
Notes and accounts payable:			
Trade	**14,724**	15,735	**137,607**
Unconsolidated subsidiary and associated companies	**530**	552	**4,953**
Construction and other	**2,811**	4,634	**26,271**
Liquor taxes payable (Note 7)	**9,579**	10,216	**89,523**
Accrued income taxes	**2,264**	2,469	**21,158**
Accrued expenses	**6,862**	7,166	**64,130**
Other current liabilities	**2,503**	3,448	**23,392**
Total current liabilities	**49,207**	49,854	**459,878**
***LONG-TERM LIABILITIES*:**			
Long-term debt (Note 6)	**21,495**	26,553	**200,887**
Liability for retirement benefits (Note 8)	**8,230**	7,999	**76,915**
Deposits from customers	**7,483**	7,838	**69,934**
Deferred tax liabilities (Note 12)	**4,570**	4,353	**42,710**
Other	**275**	426	**2,570**
Total long-term liabilities	**42,056**	47,171	**393,046**
MINORITY INTERESTS	**10,030**	4,384	**93,738**
CONTINGENT LIABILITIES (Note 14)			
SHAREHOLDERS' EQUITY (Notes 9 and 17)**:**			
Common stock, authorized, 400,000,000 shares; issued, 217,699,743 shares	**13,226**	13,226	**123,607**
Capital surplus	**3,158**	3,158	**29,514**
Retained earnings	**68,510**	67,601	**640,280**
Unrealized gain on available-for-sale securities	**6,936**	6,378	**64,822**
Foreign currency translation adjustments	**(859)**	(971)	**(8,028)**
Treasury stock, at cost —2,063,508 shares in 2005 and 1,904,510 shares in 2004	**(1,493)**	(1,386)	**(13,953)**
Total shareholders' equity	**89,478**	88,006	**836,242**
TOTAL	**¥190,773**	¥189,416	**$1,782,925**

Consolidated Statements of Income

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
NET SALES (Notes 10 and 18)	**¥195,359**	¥196,897	**$1,825,785**
COST OF SALES (Notes 7, 10 and 18)	**119,114**	119,023	**1,113,214**
Gross profit	**76,244**	77,874	**712,560**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 18)	**68,841**	68,514	**643,373**
Operating income	**7,402**	9,360	**69,177**
***OTHER INCOME (EXPENSES)*:**			
Interest and dividend income (Note 10)	**258**	218	**2,411**
Grant received for research and development	**135**	135	**1,261**
Gain on sales of property, plant and equipment	**1,133**	609	**10,588**
Gain resulting from changes in ownership in subsidiaries	**2,310**	1,203	**21,588**
Gain on sales of investment securities (Note 3)	**895**	694	**8,364**
Interest expense	**(557)**	(720)	**(5,205)**
Loss on disposals of inventories	**(514)**	(767)	**(4,803)**
Loss on disposals of property, plant and equipment	**(984)**	(491)	**(9,196)**
Loss on impairment of long-lived assets (Note 5)	**(3,469)**		**(32,420)**
Other, net	**203**	211	**1,897**
Other income (expenses), net	**(588)**	1,093	**(5,495)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**6,813**	10,453	**63,672**
INCOME TAXES (Note 12)**:**			
Current	**3,807**	4,471	**35,579**
Deferred	**539**	264	**5,037**
Total income taxes	**4,347**	4,735	**40,626**
MINORITY INTERESTS IN NET INCOME (LOSS)	**(147)**	49	**(1,373)**
NET INCOME	**¥ 2,614**	¥ 5,668	**$ 24,429**
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.o and 16)**:**			
Basic net income	**¥11.74**	**¥25.93**	**$0.10**
Cash dividends applicable to the year	**7.50**	**7.50**	**0.07**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock, at cost
BALANCE AT APRIL 1, 2003	215,830	¥13,226	¥3,158	¥63,631	¥1,640	¥(403)	¥(1,365)
Net income				5,668			
Cash dividends, ¥7.5 per share				(1,624)			
Bonuses to directors and corporate auditors				(68)			
Disposal of treasury stock	8			(6)			13
Repurchase of treasury stock	(43)						(34)
Net increase resulting from decrease in associated companies accounted for by the equity method				1			
Net increase in unrealized gain on available-for-sale securities					4,737		
Net decrease in foreign currency translation adjustments						(568)	
BALANCE AT MARCH 31, 2004	215,795	13,226	3,158	67,601	6,378	(971)	(1,386)
Net income				**2,614**			
Cash dividends, ¥7.5 per share				**(1,624)**			
Bonuses to directors and corporate auditors				**(72)**			
Disposal of treasury stock	**10**			**(8)**			**15**
Repurchase of treasury stock	**(169)**						**(121)**
Net increase in unrealized gain on available-for-sale securities					**557**		
Net increase in foreign currency translation adjustments						**111**	
BALANCE AT MARCH 31, 2005	**215,636**	**¥13,226**	**¥3,158**	**¥68,510**	**¥6,936**	**¥(859)**	**¥(1,493)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock, at cost
BALANCE AT MARCH 31, 2004	$123,607	$29,514	$631,785	$59,607	$(9,074)	$(12,953)
Net income			**24,429**			
Cash dividends, $0.07 per share			**(15,177)**			
Bonuses to directors and corporate auditors			**(672)**			
Disposal of treasury stock			**(74)**			**140**
Repurchase of treasury stock						**(1,130)**
Net increase in unrealized gain on available-for-sale securities				**5,205**		
Net increase in foreign currency translation adjustments					**1,037**	
BALANCE AT MARCH 31, 2005	**$123,607**	**$29,514**	**$640,280**	**$64,822**	**$(8,028)**	**$(13,953)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
***OPERATING ACTIVITIES*:**			
Income before income taxes and minority interests	**¥ 6,813**	¥ 10,453	**$ 63,672**
Adjustments for:			
Income taxes paid	**(4,342)**	(5,164)	**(40,579)**
Depreciation and amortization	**6,393**	6,427	**59,747**
Loss on impairment of long-lived assets	**3,469**		**32,420**
Provision for retirement benefits	**229**	126	**2,140**
Reversal of allowance for doubtful accounts	**(119)**	(12)	**(1,112)**
Loss on disposals of property, plant and equipment	**984**	491	**9,196**
Loss on write-down of investment securities	**18**	72	**168**
Gain on sales of property, plant and equipment	**(1,133)**	(609)	**(10,588)**
Gain on sales of investment securities	**(895)**	(694)	**(8,364)**
Gain resulting from changes in ownership in subsidiaries	**(2,310)**	(1,203)	**(21,588)**
Equity in earnings of associated companies	**(51)**	(171)	**(476)**
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	**920**	(4,481)	**8,598**
Decrease (increase) in inventories	**402**	(626)	**3,757**
Decrease in interest and dividend receivable	**19**	25	**177**
Decrease in other current assets	**194**	1,113	**1,813**
(Decrease) increase in trade payables	**(976)**	720	**(9,121)**
(Decrease) increase in liquor taxes payable	**(637)**	2,121	**(5,953)**
Decrease in consumption taxes payable	**(764)**	(2,684)	**(7,140)**
Other, net	**(724)**	(854)	**(6,766)**
Total adjustments	**675**	(5,404)	**6,308**
Net cash provided by operating activities	**7,489**	5,049	**69,990**
***INVESTING ACTIVITIES*:**			
Proceeds from sales of property, plant and equipment	**1,459**	659	**13,635**
Proceeds from sales of investment securities	**1,569**	1,302	**14,663**
Proceeds from sales of investments in a subsidiary	**930**		**8,691**
Purchases of property, plant and equipment	**(7,523)**	(6,368)	**(70,308)**
Purchases of investment securities	**(111)**	(312)	**(1,037)**
(Increase) decrease in time deposits, net	**(178)**	634	**(1,663)**
Purchases of investments in subsidiaries	**(20)**	(60)	**(186)**
Net decrease in cash and cash equivalents by sale of investment and deconsolidation of a consolidated subsidiary	**(35)**		**(327)**
Other, net	**(876)**	(84)	**(8,186)**
Net cash used in investing activities	**(4,786)**	(4,229)	**(44,728)**
***FINANCING ACTIVITIES*:**			
(Decrease) increase in short-term bank loans, net	**(422)**	417	**(3,943)**
Proceeds from long-term loans		435	
Repayments of long-term loans	**(298)**	(2,497)	**(2,785)**
Proceeds from issuance of bonds		9,921	
Redemption of bonds		(5,000)	
Proceeds from issuance of stock to minority shareholders	**7,477**	3,182	**69,878**
Proceeds from issuance of commercial paper	**10,000**		**93,457**
Redemption of commercial paper	**(10,000)**		**(93,457)**
Cash dividends paid	**(1,647)**	(1,630)	**(15,392)**
Other, net	**(61)**	(64)	**(570)**
Net cash provided by financing activities	**5,047**	4,764	**47,168**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(37)**	(108)	**(345)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,713**	5,475	**72,084**
CASH AND CASH EQUIVALENTS DECREASED BY DECONSOLIDATION OF CONSOLIDATED SUBSIDIARIES		(240)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,437**	15,202	**191,000**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 28,151**	¥ 20,437	**$263,093**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classifications used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Takara Holdings Inc. (the "Company") is incorporated and operates. Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share data. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005. U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollar, except for per share data. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2005 include the accounts of the Company and its 25 significant (26 in 2004) subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in eight (eight in 2004) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiary and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The difference of the cost of an acquisition from the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, trust fund investments and commercial paper, all of which mature or become due within three months of the date of acquisition.

c. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 15 years for machinery, equipment and vehicles.

f. Long-lived assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, Accounting for Impairment of Fixed Assets, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2005 by ¥3,469 million ($32,420 thousand).

g. Retirement and Pension Plans—Each of the employees' retirement benefits programs of the Company and certain consolidated subsidiaries consists of an unfunded lump-sum severance payment plan and a non-contributory trusteed pension plan as described in Note 8.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors, corporate auditors and executive officers are provided at the amount which would be required if all directors, corporate auditors and executive officers retired at the balance sheet date.

h. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

i. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

j. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

l. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

m. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. The resulting translation differences less those attributable to minority interests are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

n. Derivative Financial Instruments—The Group uses derivative financial instruments, such as foreign currency forward contracts and foreign currency swaps as a means of hedging exposure to foreign currency risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in payments of royalties. Payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Foreign currency swaps are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. These swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as an other liability or asset.

o. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because it is anti-dilutive and no dilutive securities are outstanding for the years ended March 31, 2005 and 2004, respectively.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Current:			
Government and corporate bonds	**¥ 613**	¥ 732	**$ 5,728**
Non-current:			
Investment equity securities	**21,633**	21,257	**202,177**
Government and corporate bonds	**118**	88	**1,102**
Other	**100**		**934**
Total	**¥21,852**	¥21,345	**$204,224**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

	Millions of Yen			
March 31, 2005	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	**¥6,375**	**¥11,788**	**¥47**	**¥18,116**
Debt securities	**460**		**2**	**458**

	Millions of Yen			
March 31, 2004	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	¥6,993	¥10,867	¥68	¥17,793
Debt securities	543		1	542

	Thousands of U.S. Dollars			
March 31, 2005	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	**$59,579**	**$110,168**	**$439**	**$169,308**
Debt securities	**4,299**		**18**	**4,280**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Available-for-sale:			
Equity securities	**¥3,517**	¥3,463	**$32,869**
Debt securities	**118**	118	**1,102**
Other	**100**		**934**
Held-to-maturity	**155**	159	**1,448**
Total	**¥3,891**	¥3,742	**$36,364**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥1,563 million ($14,607 thousand) and ¥1,309 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥895 million ($8,364 thousand) and ¥694 million for the years ended March 31, 2005 and 2004, respectively. Gross realized loss on these sales, computed on the moving average cost basis, was ¥16 million for the year ended March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥468	¥155	$4,373	$1,448
Due after one year through five years	60		560	
Total	¥528	¥155	$4,934	$1,448

4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Finished products and merchandise	**¥12,560**	¥12,458	**$117,383**
Semi-finished products	**7,196**	7,965	**67,252**
Work in process	**1,210**	1,260	**11,308**
Raw materials and supplies	**2,756**	2,368	**25,757**
Total	**¥23,724**	¥24,053	**$221,719**

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss for buildings and structures, and land. With respect to the related land and structures listed below, which were purchased by the Group for the purpose of constructing a factory with drainage and other structures completed, only a portion is utilized and most of such property remains unused. Probability for utilization is remote, and there is material decline in the market value of land.

			Millions of Yen	Thousands of U.S. Dollars
Location	Description	Classification	Impairment Loss	
Nishigo-mura, Nishi-shirakawa-gun, Fukushima	Idle property	Buildings and structures	¥ 112	$ 1,046
Nishigo-mura, Nishi-shirakawa-gun, Fukushima	Idle property	Land	3,357	31,373
Total			¥3,469	$32,420

The recoverable amount was measured at its net selling price determined by quotation from a real-estate appraiser.

See Note 18b.

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans consisted principally of bank overdrafts and bore interest at annual rates ranging from 0.400% to 1.375% and from 0.390% to 1.575% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Loans principally from banks, due serially to January 2022 with interest rates ranging from 0% to 1.75% (0% to 2.5% in 2004):			
Collateralized	**¥ 1,118**		**$ 10,448**
Unsecured	**435**	¥ 1,851	**4,065**
1.40% unsecured bonds, due July 2005	**5,000**	5,000	**46,728**
1.79% unsecured bonds, due July 2007	**5,000**	5,000	**46,728**
2.21% unsecured bonds, due July 2010	**5,000**	5,000	**46,728**
0.89% unsecured bonds, due May 2013	**5,000**	5,000	**46,728**
0.44% unsecured bonds, due May 2008	**5,000**	5,000	**46,728**
Total	**26,553**	26,851	**248,158**
Less current portion	**5,057**	298	**47,261**
Long-term debt, less current portion	**¥21,495**	¥26,553	**$200,887**

Annual maturities of long-term debt as of March 31, 2005 for the next five years and thereafter were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 5,057	$ 47,261
2007	185	1,728
2008	5,086	47,532
2009	5,087	47,542
2010	89	831
2011 and thereafter	11,045	103,224
Total	¥26,553	$248,158

At March 31, 2005, building and structures of ¥524 million ($4,897 thousand) and land of ¥250 million ($2,336 thousand) ware pledged as collateral for long- term debt (including current portion of long-term debt) of ¥1,118 million ($10,448 thousand).

7. LIQUOR TAXES PAYABLE

Liquor taxes are calculated at various rates according to the quantities of categorized beverages containing more than 1% of alcohol when delivered from manufacturing lots or taken outside of a bonded area. Liquor taxes are included in cost of sales and inventories. The amounts of liquor taxes payable are to be paid by the end of the following two months.

8. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors, corporate auditors and executive officers.

Under most circumstances, employees terminating their employment are entitled to certain lump-sum severance payments based on their rate of pay at the time of termination, length of service and certain other factors. In most circumstances, if the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, employees are entitled to greater payments than in the case of voluntary termination.

In addition, the Company and certain domestic subsidiaries have non-contributory trusteed pension plans covering all employees. Under the plans, employees terminating their employment are, in most circumstances, entitled to pension payments based on their rates of pay at the time of termination and length of service.

The liability for retirement benefits for directors, corporate auditors and executive officers are ¥654 million ($6,112 thousand) and ¥630 million at March 31, 2005 and 2004, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders in accordance with the Japanese Commercial Code.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Projected benefit obligation	**¥11,455**	¥11,371	**$107,056**
Fair value of plan assets	**(3,385)**	(3,379)	**(31,635)**
Unrecognized actuarial loss	**(523)**	(757)	**(4,887)**
Prepaid pension cost	**29**	134	**271**
Net liability	**¥ 7,576**	¥ 7,368	**$ 70,803**

The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Service cost	**¥748**	¥721	**$6,990**
Interest cost	**237**	242	**2,214**
Expected return on plan assets	**(94)**	(84)	**(878)**
Recognized actuarial loss	**61**	105	**570**
Net periodic benefit costs	**¥953**	¥985	**$8,906**

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	**2.2%**	2.2%
Expected rate of return on plan assets	**3.0%**	3.0%
Recognition period of actuarial gain/loss	**15 years**	15 years

9. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the"Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥51,797 million ($484,084 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable.

10. RELATED PARTY TRANSACTIONS

Net sales, purchases and interest and dividend income representing transactions of the Group with an unconsolidated subsidiary and associated companies for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Net sales	**¥1,077**	¥ 889	**$10,065**
Purchases	**2,363**	2,289	**22,084**
Interest and dividend income	**1**	1	**9**

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥3,353 million ($31,336 thousand) and ¥3,127 million for the years ended March 31, 2005 and 2004, respectively.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% and 42% for the years ended March 31, 2005 and 2004, respectively. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 41% as at March 31, 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Current Deferred Tax Assets:			
Inventories	**¥ 258**	¥ 378	**$ 2,411**
Accrued bonuses	**852**	791	**7,962**
Tax loss carryforwards	**294**	74	**2,747**
Enterprise tax payable	**254**	237	**2,373**
Unrealized profit on sales of inventories	**71**	45	**663**
Other	**158**	203	**1,476**
Less valuation allowance	**(295)**		**(2,757)**
Total	**¥ 1,594**	¥1,731	**$ 14,897**
Current Deferred Tax Liabilities:			
Allowance for doubtful accounts	**¥ 25**	¥ 26	**$ 233**
Total	**¥ 25**	¥ 26	**$ 233**
Net Current deferred tax assets	**¥ 1,568**	¥1,705	**$ 14,654**
Non-current Deferred Tax Assets:			
Retirement benefits	**¥ 3,278**	¥3,092	**$ 30,635**
Loss on impairment of long-lived assets	**1,376**		**12,859**
Marketable and investment securities	**770**	770	**7,196**
Depreciation	**601**	574	**5,616**
Unrealized profit on sales of investments in an associated company	**213**	229	**1,990**
Other	**381**	327	**3,560**
Less valuation allowance	**(2,766)**	(971)	**(25,850)**
Total	**¥ 3,855**	¥4,023	**$ 36,028**
Non-current Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	**¥ 4,812**	¥4,382	**$ 44,971**
Deferred gain on fixed assets	**913**	445	**8,532**
Deferred gain on fixed assets inherited by corporate division	**830**	870	**7,757**
Other	**73**	262	**682**
Total	**¥ 6,630**	¥5,961	**$ 61,962**
Net non-current deferred tax assets	**¥ 1,796**	¥2,415	**$ 16,785**
Net non-current deferred tax liabilities	**¥ 4,570**	¥4,353	**$ 42,710**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 was as follows:

	2005	2004
Normal effective statutory tax rate in Japan	**41.0%**	42.0%
Expenses not deductible for income tax purposes	**6.9**	4.6
Adjustment resulting from a tax reform		(0.3)
Increase in valuation allowance	**30.0**	4.6
Gain resulting from changes in ownership in subsidiaries	**(13.9)**	(4.6)
Other—net	**(0.2)**	(1.0)
Actual effective tax rate	**63.8%**	45.3%

At March 31, 2005, certain subsidiaries have tax loss carryforwards aggregating approximately ¥735 million ($6,869 thousand) which are available to be offset against taxable income of such subsidiaries. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 2	$ 18
2010	26	242
2011	117	1,093
2012	589	5,504
Total	¥735	$6,869

13. LEASES

Lessee

The Group leases certain machinery, computer equipment and other assets.

Total rental expenses for the years ended March 31, 2005 and 2004 were ¥2,820 million ($26,355 thousand) and ¥2,935 million, respectively, including ¥749 million ($7,000 thousand) and ¥894 million of lease payments under finance leases, respectively.

The Company and domestic subsidiaries' pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense for finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen			
	2005			
	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	**¥336**	**¥2,960**	**¥535**	**¥3,832**
Accumulated depreciation	**97**	**1,949**	**373**	**2,420**
Net leased property	**¥238**	**¥1,010**	**¥162**	**¥1,411**

	Millions of Yen			
	2004			
	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	¥282	¥2,935	¥555	¥3,773
Accumulated depreciation	81	1,626	281	1,989
Net leased property	¥200	¥1,309	¥274	¥1,783

	Thousands of U.S. Dollars			
	2005			
	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	**$3,140**	**$27,663**	**$5,000**	**$35,813**
Accumulated depreciation	**906**	**18,214**	**3,485**	**22,616**
Net leased property	**$2,224**	**$ 9,439**	**$1,514**	**$13,186**

Obligations under finance leases as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥ 691**	¥ 715	**$ 6,457**
Due after one year	**720**	1,068	**6,728**
Total	**¥1,411**	¥1,783	**$13,186**

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense computed by the straight-line method was ¥749 million ($7,000 thousand) and ¥894 million for the years ended March 31, 2005 and 2004, respectively.

Obligations under operating leases as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥1**	¥2	**$ 9**
Due after one year	**4**		**37**
Total	**¥6**	¥3	**$56**

Lessor

The amounts of lease receipts under finance leases were ¥65 million ($607 thousand) and ¥63 million for the years ended March 31, 2005 and 2004, respectively.

One domestic subsidiary's information of leased property such as acquisition cost, accumulated depreciation, lessor's receivables under finance leases and depreciation expense for finance leases for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Machinery, Vehicles and Other		Machinery, Vehicles and Other
	2005	2004	**2005**
Acquisition cost	**¥246**	¥265	**$2,299**
Accumulated depreciation	**133**	133	**1,242**
Net leased property	**¥113**	¥131	**$1,056**

Lessor's receivables under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥ 49**	¥ 60	**$ 457**
Due after one year	**73**	81	**682**
Total	**¥122**	¥141	**$1,140**

The amount of lessor's receivables under finance leases includes the imputed interest income portion.

Depreciation expense was ¥60 million ($560 thousand) and ¥57 million for the years ended March 31, 2005 and 2004, respectively.

14. CONTINGENT LIABILITIES

At March 31, 2005, the Group was contingently liable for ¥405 million ($3,785 thousand) of loans guaranteed.

15. DERIVATIVES

The Group enters into foreign currency forward contracts and currency swap agreements to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies of the Finance Department which regulate the authorization, purposes, credit limit amount, evaluation of the counterparties and reporting procedures.

Foreign currency forward contracts and currency swap agreements which qualify for hedge accounting are excluded from the disclosure of market value information.

16. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2005 and 2004 is computed as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2005:				
Basic EPS				
Net income available to common shareholders	**¥2,533**	**215,763**	**¥11.74**	**$0.10**
For the year ended March 31, 2004:				
Basic EPS				
Net income available to common shareholders	¥5,596	215,813	¥25.93	

Takara Bio Inc., the Company's consolidated subsidiary, has stock options outstanding. However, diluted net income per share for the year ended March 31, 2005 is not disclosed because it is anti-dilutive. Diluted net income per share for the year ended March 31, 2004 is not disclosed because no dilutive securities are outstanding.

17. SUBSEQUENT EVENTS

a. At the general shareholders' meeting held on June 29, 2005, the Company's shareholders approved the following:

Appropriations of retained earnings as of March 31, 2005:

	Millions of yen	Thousands of U.S. Dollars
Cash dividends, ¥7.5 ($0.07) per share	¥1,627	$15,205
Bonuses to directors and corporate auditors	25	233

b. On April 25, 2005, Takara Shuzo Co., Ltd., the Company's consolidated subsidiary, entered into a contract for sale of its property to utilize idle land resulting from rebuilding its factory.

Counterparty	Kyoto-shi Tochi Kaihatsu Kosha
Purpose of transferred land	Office building of Fushimi-ku Local Government
Classification of transferred asset	Land (Located in Fushimi-ku, Kyoto, a portion of Fushimi Factory)
Purpose before transfer	Factory site
Date of transfer	May 12, 2005
Transfer price	¥1,423 million ($13,299 thousand)

18. SEGMENT INFORMATION

Operations in Different Industries

Information about operations in different industry segments of the Company and consolidated subsidiaries for the years ended March 31, 2005 and 2004 was as follows:

a. Sales and Operating Income

	Millions of Yen				
	2005				
	Alcoholic Beverages and Foods	Biomedical	Other	Eliminations/ Corporate	Consolidated
Sales to customers	**¥178,068**	**¥13,671**	**¥ 3,618**		**¥195,359**
Intersegment sales	**208**	**13**	**7,272**	**¥(7,494)**	
Total sales	**178,277**	**13,685**	**10,890**	**(7,494)**	**195,359**
Operating expenses	**169,632**	**14,762**	**10,256**	**(6,694)**	**187,956**
Operating income (loss)	**¥ 8,644**	**¥(1,076)**	**¥ 634**	**¥ (799)**	**¥ 7,402**

	Millions of Yen				
	2004				
	Alcoholic Beverages and Foods	Biomedical	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥179,675	¥13,560	¥ 3,661		¥196,897
Intersegment sales	119	31	7,491	¥(7,643)	
Total sales	179,794	13,592	11,153	(7,643)	196,897
Operating expenses	169,708	13,832	10,842	(6,845)	187,537
Operating income (loss)	¥ 10,086	¥ (239)	¥ 310	¥ (797)	¥ 9,360

	Thousands of U.S. Dollars				
	2005				
	Alcoholic Beverages and Foods	Biomedical	Other	Eliminations/ Corporate	Consolidated
Sales to customers	**$1,664,186**	**$127,766**	**$ 33,813**		**$1,825,785**
Intersegment sales	**1,943**	**121**	**67,962**	**$(70,037)**	
Total sales	**1,666,140**	**127,897**	**101,775**	**(70,037)**	**1,825,785**
Operating expenses	**1,585,345**	**137,962**	**95,850**	**(62,560)**	**1,756,598**
Operating income (loss)	**$ 80,785**	**$ (10,056)**	**$ 5,925**	**$ (7,467)**	**$ 69,177**

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen				
	2005				
	Alcoholic Beverages and Foods	Biomedical	Other	Eliminations/ Corporate	Consolidated
Assets	**¥115,428**	**¥37,427**	**¥7,351**	**¥30,566**	**¥190,773**
Depreciation	**4,127**	**1,304**	**137**	**58**	**5,628**
Impairment loss				**3,469**	**3,469**
Capital expenditures	**4,378**	**2,086**	**44**	**1**	**6,511**

	Millions of Yen				
	2004				
	Alcoholic Beverages and Foods	Biomedical	Other	Eliminations/ Corporate	Consolidated
Assets	¥121,320	¥31,649	¥7,429	¥29,017	¥189,416
Depreciation	4,035	1,271	164	93	5,565
Capital expenditures	3,961	1,230	36	15	5,243

	Thousands of U.S. Dollars				
	2005				
	Alcoholic Beverages and Foods	Biomedical	Other	Eliminations/ Corporate	Consolidated
Assets	**$1,078,766**	**$349,785**	**$68,700**	**$285,663**	**$1,782,925**
Depreciation	**38,570**	**12,186**	**1,280**	**542**	**52,598**
Impairment loss				**32,420**	**32,420**
Capital expenditures	**40,915**	**19,495**	**411**	**9**	**60,850**

Notes: 1. Eliminations/Corporate include unallocated operating expenses of ¥925 million ($8,644 thousand) and ¥964 million for the years ended March 31, 2005 and 2004, respectively, consisting principally of expenses incurred by the Company which is the holding company.
2. Eliminations/Corporate include corporate assets of ¥34,404 million ($321,532 thousand) and ¥32,945 million for the years ended March 31, 2005 and 2004, respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to the Company's administration headquarters.

Independent Auditors' Report

Deloitte.

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To the Board of Directors and Shareholders of

Takara Holdings Inc.:

We have audited the accompanying consolidated balance sheets of Takara Holdings Inc. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Takara Holdings Inc. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

As discussed in Note 17 to the consolidated financial statements, Takara Shuzo Co., Ltd., the Company's consolidated subsidiary, sold a portion of land used for Fushimi Factory in May 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu

Six-Year Financial Summary

Takara Holdings Inc. and Consolidated Subsidiaries

	Millions of Yen						Thousands of U.S. Dollars
	2005	2004	2003	2002	2001	2000	**2005**
For the years ended March 31:							
Sales to customers	**¥195,359**	¥196,897	¥187,394	¥183,638	¥184,886	¥192,318	**$1,825,785**
Alcoholic beverages and foods segment	**178,068**	179,675	167,188	164,792	—	—	**1,664,186**
Alcoholic beverages and seasonings segment	**—**	—	—	—	155,661	157,436	**—**
Beverages segment	**—**	—	—	—	11,472	19,079	**—**
Biomedical segment	**13,671**	13,560	14,338	14,312	—	—	**127,766**
Biomedical segment	**—**	—	—	—	11,469	10,096	**—**
Other segment	**3,618**	3,661	5,867	4,533	—	—	**33,813**
Printing segment	**—**	—	—	—	—	—	**—**
Other segment	**—**	—	—	—	6,283	5,705	**—**
Cost of sales	**119,114**	119,023	114,617	112,482	111,381	114,935	**1,113,214**
Gross profit	**76,244**	77,874	72,776	71,155	73,504	77,382	**712,560**
SG&A expenses	**68,841**	68,514	64,169	62,460	61,918	65,440	**643,373**
Operating income	**7,402**	9,360	8,606	8,695	11,585	11,941	**69,177**
Income before income taxes and minority interests	**6,813**	10,453	6,232	7,173	9,852	10,166	**63,672**
Net income	**2,614**	5,668	2,185	3,481	5,092	5,065	**24,429**
Depreciation and amortization	**6,393**	6,427	6,627	6,443	5,628	6,323	**59,747**
Capital expenditures	**6,511**	5,243	7,269	10,065	13,337	5,270	**60,850**
R&D expenses	**3,353**	3,127	3,591	3,699	3,093	3,091	**31,336**
As of March 31:							
Total assets	**¥190,773**	¥189,416	¥175,830	¥179,702	¥191,844	¥152,557	**$1,782,925**
Interest-bearing debt	**40,347**	41,560	38,854	28,331	31,865	22,329	**377,074**
Shareholders' equity	**89,478**	88,006	79,888	83,714	84,742	73,983	**836,242**
Per share of common stock (Yen and U.S. Dollars):							
Net income	**¥11.74**	¥25.93	¥9.76	¥16.05	¥23.47	¥23.58	**$0.10**
Cash dividends	**7.50**	7.50	7.50	7.50	7.50	7.50	**0.07**
Ratios (%):							
Return on assets (ROA)	**1.4**	3.1	1.2	1.9	3.0	3.3	
Return on equity (ROE)	**2.9**	6.8	2.7	4.1	6.4	7.2	
Equity ratio	**46.9**	46.5	45.4	46.6	44.2	48.5	

Notes 1. From 2001, Japanese yen figures less than a million yen have been rounded down to the nearest million yen. Statistics for 2000 have been rounded up or down to the nearest million yen.

2. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005.

3. On April 1, 2002, some of the Takara Group's business operations were restructured into separate companies. To provide appropriate disclosure of segment information reflecting this change in the Group's management structure, it was necessary to modify the segmentation used up until the year ended March 2002. The Alcoholic Beverages and Seasonings Segment and the Beverages Segment were merged to create the Alcoholic Beverages and Foods Segment. In addition, physical distribution and materials procurement operations relating to alcoholic beverages and foods businesses were shifted from the Other Business Segment to the Alcoholic Beverages and Foods Segment. Segment information for the year ended March 2002 has been recalculated on the basis of specific criteria to reflect this new segmentation.

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