TaKaRa

Consolidated
Financial Information

Annual Report 2010

Year ended March 31, 2010

TAKARA HOLDINGS INC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal 2010, ended March 31, 2010, the Japanese economy remained affected by the aftermath of the financial crisis that commenced two years earlier. However, buoyant economic activity overseas prompted an increase in exports, which encouraged a slight rebound in Japan. Meanwhile, corporate capital investment remained lackluster and personal consumption failed to rebound, owing to ongoing employment and income uncertainties.

Faced with these conditions, the Takara Group formulated the Seventh Medium-Term Management Plan, which builds on the progress to create a strong foundation for enhancing corporate value. As well as focusing on such changes in the domestic market as a declining, aging population and a low birthrate, the Group aggressively worked to develop new business domains that will form the platform for its next phase of growth as it strives to realize further improvements in corporate value. In an economy still dealing with the aftereffects of the "Lehman shock" two years ago, the Group calmly gauged the situation and steadily implemented management measures to maximize the strengths of the Takara Group.

NET SALES

With consumer spending down and a growing preference for low-priced products, in fiscal 2010 net sales fell 1.2% compared with the previous fiscal year, to ¥190,525 million.

An analysis of sales by business segment is as follows.

Alcoholic Beverages and Seasonings

In the Group's core Alcoholic Beverages and Seasonings segment, competition further intensified owing to such factors as a declining drinking population, diversifying consumer tastes and realignment in distribution channels triggered by deregulation in recent years. In the second half of the fiscal year under review, as well as weakened consumer confidence and a notable shift in demand toward low-priced products, the economic recession exerted a major influence on the restaurant and bar trade. These conditions continued to make it extremely difficult to achieve profit stability.

Within such an operating environment, the Takara Group focused on further strengthening its quality assurance systems, reflecting the Group's primary commitment to providing customers with safe, high-quality products. The Group also worked to bolster its marketing efforts through its offering of an extensive product lineup and distinctive, high-quality products based on reliable technological capabilities.

Consequently, sales were brisk for high-end brands, such as *Ikkomon* 100% sweet-potato-based shochu. Sales of *Gokujo Takara Shochu* and *Takara Shochu High Ball* were also firm, as they matched consumer demand for low-priced products. Conversely, sales of *honkaku* shochu *Yokaichi* and premium wines declined, and overseas subsidiaries' sales fell due to the effects of yen appreciation. As a result, sales to non-Group customers by the Alcoholic Beverages and Seasonings segment fell 1.0% year on year, to ¥157,755 million. The breakdown of segment sales to non-Group customers is as follows. (Percentages indicate change compared with fiscal 2009)

- Shochu
  ¥76,214 million (decreased 0.7%)
- Sake
  ¥21,222 million (decreased 5.9%)
- Light-alcohol refreshers
  ¥21,284 million (increased 3.5%)
- Other liquors
  ¥9,733 million (decreased 11.5%)
- *Hon Mirin*
  ¥15,027 million (decreased 4.2%)
- Other seasonings
  ¥6,555 million (increased 11.9%)
- Raw alcohol
  ¥6,224 million (increased 14.3%)
- Other
  ¥1,492 million (increased 0.4%)

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 its management resources in the three business sectors of Genetic engineering research, Gene medicine and AgriBio.

In Genetic engineering research, sales of mainstay research reagents declined, partly owing to the impact of yen appreciation. Sales of scientific instruments, however, increased. In Gene medicine, sales increased for technical support services related to cancer immunotherapy. In AgriBio, sales of mushroom products expanded.

Overall, Biomedical segment sales to non-Group customers totaled ¥18,900 million, up 2.7% year on year.

The breakdown of segment sales to non-Group customers is as follows.

(Percentages indicate change compared with fiscal 2009)

- Genetic engineering research
  ¥16,683 million (increased 0.6%)
  - Research reagents
    ¥11,162 million (decreased 6.2%)
  - Scientific instruments
    ¥2,756 million (increased 35.3%)
  - Contract research services and other
    ¥2,764 million (increased 4.5%)
- Gene medicine
  ¥392 million (increased 136.4%)
- AgriBio
  ¥1,823 million (increased 10.8%)

Transportation

Operating conditions remained harsh, owing to increasingly severe price competition and rising crude oil prices. Under these circumstances, as the general logistics agent for Takara Shuzo Co., Ltd., Takara Butsuryu System Co., Ltd. strove to reduce costs by boosting efficiency while focusing on the highest standards of safety, quality and environmental protection. Takara Butsuryu System also pursued growth in sales to non-Group customers through new logistics business developments targeting mail order and sales promotion.

As a result, in fiscal 2010 sales in the Transportation segment to non-Group customers decreased 6.4% compared with the previous fiscal year, to ¥8,218 million.

Other

The Other segment mainly comprises health foods, printing and real estate leasing operations. In fiscal 2010, sales in the Other segment to non-Group customers decreased 9.2% compared with the previous fiscal year, to ¥5,650 million.

GROSS PROFIT, SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES AND OPERATING INCOME

Compared with the previous fiscal year, raw material prices were stable. This factor, coupled with ongoing cost-cutting efforts, reduced the cost of sales ratio, and gross profit rose 1.1%, to ¥74,719 million.

In response to difficult ongoing economic conditions, the Group made a thorough effort to curtail SG&A expenses. Sales promotion expenses rose, however, as the Group faced increasingly severe price competition, as did R&D expenses. As a result, SG&A expenses were 1.6% higher than in the previous fiscal year, at ¥66,146 million, and operating income fell 3.1%, to ¥8,572 million.

Results by business segment are as follows.

Alcoholic Beverages and Seasonings

In the Alcoholic Beverages and Seasonings segment, the operating environment remained harsh. In addition to such factors as a consumer shift toward low-priced products, intense competition from breweries and other market participants and a declining drinking population in Japan, the economic slowdown became pronounced following global financial shocks from September 2008, beginning with the bankruptcy of Lehman Brothers.

The Takara Group offers a broad lineup of differentiated products, ranging from mass-market to high-value-added items. During the fiscal year under review, our sales efforts emphasized specific product characteristics, but these endeavors failed to overcome weakening consumer confidence and a growing preference for low-priced products, causing segment sales to fall. Working to offset lower sales and a deteriorating product mix, the Group implemented thorough cost-cutting measures which, combined with stable raw material prices, helped reduce the cost of sales ratio. Cost reductions and the concentrated and effective application of sales promotion expenses to counter increasingly severe sales competition had some effect, but SG&A expenses rose. Consequently, segment operating income declined to ¥8,232 million.

Biomedical

In the Biomedical segment, the effects of ongoing yen appreciation reduced sales of research reagents, but sales of scientific instruments rose, prompting an increase in segment sales. Also helped by lower SG&A expenses, operating income for the Biomedical segment grew to ¥564 million.

In addition to improving profitability in the Biomedical segment by expanding the scope of our existing business model, we are targeting a dramatic increase in revenues by aggressively investing in R&D for new fields in this

segment, including gene medicine and AgriBio. With this in mind, we have decided to accelerate the pace of our R&D spending.

Transportation

In the Transportation segment, severe price competition was accompanied by the economic recession, causing sales and gross profit in this segment to decline. Furthermore, SG&A expenses increased. As a result, operating income in the Transportation segment declined to ¥384 million.

Other

Operating income in the Other segment was ¥162 million.

OTHER INCOME (EXPENSES) AND NET INCOME

In other income and expenses, interest and dividend income fell, but rather than the foreign exchange losses recorded in the previous fiscal year as a result of steep yen appreciation, during the fiscal year under review the Group posted foreign currency exchange gains. These contributed to a 0.3% increase in ordinary income, to ¥8,727 million.

Among extraordinary income and losses, the Group posted a gain on sales of investment securities, but a loss on disposals of property, plant and equipment. The net result contributed to a 0.2% increase in income before income taxes and minority interests in net income of consolidated subsidiaries, to ¥8,208 million.

However, net income was down 17.1%, to ¥4,677 million, due to the absence of the deferred tax assets posted in the previous fiscal year, which contributed to a substantial decline in income taxes.

CASH FLOWS

Net cash provided by operating activities was ¥10,452 million, which is ¥1,498 million higher than in the previous fiscal year, reflecting ¥8,208 million in income before income taxes and minority interests in net income of consolidated subsidiaries, depreciation and amortization of ¥5,652 million and income taxes paid of ¥4,228 million.

Net cash used in investing activities was ¥7,350 million, approximately the same as for the previous fiscal year. Uses of cash included ¥3,046 million for purchases of property, plant and equipment and intangible assets, and the investment of ¥6,293 million in surplus cash in time deposits (the net of payments and receipts). Sources of cash included ¥2,477 million from proceeds from sales and redemption of securities and purchases of marketable securities (the net of payments and receipts).

Net cash used in financing activities totaled ¥3,219 million. The Group used ¥1,379 million for purchases of treasury stock, and ¥1,819 million for cash dividends paid. Net cash used in these activities was ¥6,074 million lower than during the previous fiscal year, which corresponded with the redemption of corporate bond issue.

As a result of these factors, cash and cash equivalents after translation adjustments amounted to ¥33,624 million as of March 31, 2010, down ¥42 million from the previous fiscal year.

FINANCIAL POSITION

As of March 31, 2010, total current assets were ¥120,745 million, up ¥4,016 million from the previous fiscal year-end. The main reason for the increase was the conversion to cash of marketable securities in which the Group had invested surplus funds, causing cash and deposits to rise ¥5,903 million.

In property, plant and equipment and investments, the balance of property, plant and equipment and intangible assets fell ¥1,611 million, as new investment fell below depreciation and amortization levels. Investment securities increased ¥2,643 million, benefiting from a slight recovery in stock prices, which plummeted following the so-called "Lehman shock." As a result, the combined total of property, plant and equipment and investments and other assets amounted to ¥74,750 million at fiscal year-end, nearly unchanged from the previous fiscal year.

Total current liabilities rose ¥9,504 million, to ¥51,663 million, as ¥5,000 million in bonds payable became current, as did ¥5,000 million in long-term loans payable that originated through a syndicated loan. Total long-term liabilities declined ¥8,691 million, to ¥34,625 million, reflecting the above-mentioned transfers from long-term to current liabilities and a ¥1,026 million increase in deferred tax liabilities stemming from a valuation different on marketable securities.

Total equity as of March 31, 2010, was ¥109,206 million, ¥3,889 million higher than the previous fiscal year-end. In this category, the Group recorded an increase of ¥2,866 million in retained earnings and an increase of

¥1,667 million in unrealized gain on available-for-sale securities. Partly offsetting this rise was a ¥1,438 million decrease in treasury stock.

MEDIUM-TO-LONG-TERM BUSINESS STRATEGIES

The Takara Group's Seventh Medium-Term Management Plan commenced in April 2008 and runs for the three years through March 2011.

The plan defines our responses to increasing customer concerns about food safety and health, to developments in environmental problems and to rapidly rising raw material costs. In addition, it calls for us to accelerate our development of growth businesses and to realize advances in innovative gene and cell therapies through leveraging our cutting-edge biotechnologies.

The plan also acknowledges the uniqueness and independence of all Group companies and demands that each maximizes its performance. Furthermore, it targets increased corporate value for each company in the Group via the pursuit of Group synergies. An outline of the Seventh Medium-Term Management Plan is as follows.

Basic Policies

The plan's basic policy is to increase corporate value by successively and stably growing core businesses and accelerating the development of growth businesses through investment in growth areas, and to return profits to shareholders.

Three-Year Plans for Core Businesses

In the Alcoholic Beverages and Seasonings segment, we will continue to stably create profits, supported by a strong cash flow. At the same time, we will clarify both the course we will take to develop growth businesses and the sources of future cash flow.

In the Biomedical segment, we are accelerating measures to bring gene medicines to market and to strengthen the profit foundation that supports these efforts. In this way, we are targeting increased future cash flows.

The Takara Group also plans to establish its growing health foods business as a central pillar of future earnings, and is focusing its energies into fortifying its business foundations.

Financial Strategy

Our fundamental strategy is to strengthen the foundations of our growth businesses through positive investment until the time in the future when they start to realize substantial gains. In addition, we will invest in existing businesses and positively return profits to shareholders.

Based on this fundamental strategy, our specific business strategies for each Group company are as follows.

Takara Shuzo Group

Despite challenging market conditions, the group will maintain and improve profitability in its domestic alcoholic beverages business, while also taking on the challenge of entering domestic and international growth markets.

- In its domestic alcoholic beverages business, the group possesses several powerful brands and a solid profit foundation. It will continue with initiatives to cut costs and improve productivity.
- In overseas business, the group is building a global business strategy centered on its two core business categories of sake and seasonings.
- The group is targeting a dramatic step forward as a manufacturer of seasonings for the food-processing industry by always taking the viewpoint of the customer in its product development and business activities.

Takara Bio Group

The group is aiming to expand and stabilize Genetic engineering research, to improve profitability in AgriBio and to aggressively push forward with R&D in Gene medicine.

1. Genetic engineering research

- The group will increase efficiency and leverage synergies between Takara Bio and Clontech Laboratories, Inc.
- The group will strengthen its price competitiveness by transferring production of Clontech Laboratories' products to Takara Biotechnology (Dalian) Co., Ltd., and reconstructing its global logistics systems and sales and marketing network.

2. Gene medicine

- The group will develop gene therapies, such as through its clinical trials for an *ex vivo* gene therapy for leukemia, conducted in conjunction with the National Cancer Center of Japan.
- The group will develop cell therapies, including through its clinical trials of carcinoma cell immunotherapy using the RetroNectin® expansion-culture system to treat renal cancer, in partnership with the Cancer Institute and Hospital (CIH), Chinese Academy of Medical Science.

3. AgriBio

- The group will cooperate with Takara Healthcare Inc. to increase sales of health foods that utilize physiologically functional substances, such as Gagome kombu (kelp) "fucoidan," agar "agaro-oligosaccharide," Ashitaba (angelica herb) "chalcone" and mushroom "terpene."
- The group will develop new health foods that apply a range of physiologically functional substances, such as those derived from the yam (*Dioscorea esculenta*), which has energizing properties, and from the herb (*Peucedanum japonicum*), which helps to prevent arteriosclerosis.

Takara Healthcare Inc.

Takara Healthcare's strategic priority is to utilize Takara Bio technologies for products it can use to capture mail-order and on-line customers.

- The company will implement forward investment, including to maintain its advertising campaign and expand its sales channels.
- The company will increase its lineup of products in its Gagome kombu (kelp) "fucoidan" series.
- The company will capture new and repeat mail-order and on-line customers.

ANALYSIS OF CAPITAL RESOURCES AND LIQUIDITY

In fiscal 2010, cash and cash equivalents at fiscal year-end remained essentially unchanged from the previous fiscal year, at ¥33,624 million. Factors affecting the Takara Group's liquidity situation saw net cash provided by operating activities increase ¥1,498 million, to ¥10,452 million, while net cash used in investing activities remained at approximately the same level as during the previous fiscal year, at ¥7,350 million. Also, reflecting payments for the acquisition of treasury stock and cash dividends as shareholders return, net cash used in financing activities came to ¥3,219 million.

In contrast, considering the investment in time deposits—essentially, the short-term investment of surplus funds—the Group's liquidity situation for cash and cash equivalents actually increased year on year.

The Group plans to use funds on hand and internal reserves to meet its current capital investment requirements and finance returns to shareholders as well as planned investments in growth businesses. However, to fund the redemption of corporate bonds and the repayment of syndicated loans that come due in fiscal 2011, the Group issued ¥10,000 million in straight bonds in May 2010. Based on current plans, including the abovementioned items, the Group possesses sufficient liquidity.

Capital investment in the Alcoholic Beverages and Seasonings segment in the next fiscal year is expected to be less than depreciation. The Group used internal funds for the April 2010 acquisition of shares in FOODEX SAS, of France, but there is a possibility that funds may need to be raised through the issue of bonds in the event that capital in excess of internal funds is required, such as for further merger and acquisition (M&A) activity. The Group's outstanding bonds have affirmed A ratings from Rating and Investment Information, Inc. (R&I) and Japan Credit Rating Agency, Ltd. (JCR). In addition, the Group has established commitment lines totaling ¥10,000 million to finance its dynamic working capital requirements.

The Group intends to finance short-term R&D and capital investment in the Biomedical segment through internal funds. However, it may be necessary to raise funds from other sources to finance the launch of new businesses and to expand the scope of existing businesses.

BUSINESS RISKS

The following are major potential risks to which the Takara Group (the Group and its affiliated companies) are exposed to in its business and other activities. In addition, conditions that may not become a 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 its best efforts to avoid such an occurrence or take countermeasures against such an occurrence. Please note that the following descriptions do not cover all of the risk factors concerning investment decisions.

Descriptions related to the possible occurrence of events in the future are based on the Group's judgments as of June 29, 2010, the date on which it filed its official company accounts.

(1) Risks Concerning the Alcoholic Beverages and Seasonings Business and its Business Environment

<1> Risks concerning dependence on particular markets and products

More than 90% of sales of the Group's Alcoholic Beverages and Seasonings segment are generated within

Japan, and its market is highly vulnerable to changes in the tastes of consumers. The Group therefore strives to develop both original products that meet the ever-changing tastes of consumers and unique products that differentiate the Group from competitors. However, changes in consumer trends have been accelerating recently. For this reason, if the Group fails to offer attractive products that satisfy the tastes of consumers and reflect market trends, business growth and profitability will suffer and may adversely affect the Group's business performance and financial position.

Furthermore, in Japan both a low birthrate and a rapidly aging population are said to have already pushed the population into a declining trend. If this population decrease results in a decline in liquor demand, the Group's business may be adversely affected.

<2> Risks concerning market competition

The recent deregulation in alcoholic beverages retail licensing has drastically changed the liquor distribution structure and prompted competing companies to reduce prices and pursue new product strategies, which has intensified competition in the marketplace. In such a competitive business environment, the Group is striving to address the challenges by developing and cultivating high-value-added products, strengthening its brand power, carrying out sales activities that reflect the changes in distribution channels and cutting costs. However, if competition increases to a level that cannot be countered by these measures and strategies, the Group's business performance and financial position may be adversely affected.

<3> Risks concerning dependence on particular plants for manufacturing

Most of the Group's alcoholic beverage products are manufactured at the Fushimi Plant (Fushimi Ward, Kyoto City) and the Matsudo Plant (Matsudo City, Chiba Prefecture), both operated by Takara Shuzo. Furthermore, the Group is expanding the production lines at these two plants. Therefore, in the event of a major earthquake or any other occurrence that prevents operations in either 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 indirectly affected by the climatic and economic conditions of supplier countries and regions. Ethanol for shochu and other products come mainly from South America and Asia, 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 market for the raw material. Recently, the purchase price of ethanol has been increasing, and any hike in the procurement cost of raw materials will cause an increase in our production cost. If this increase cannot be added to the sales price due to, for example, market conditions, this 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 under the Liquor Tax Law that governs licenses for the manufacturing and/or selling of alcoholic beverages and liquor taxes in Japan. In accordance with the Liquor Tax Law, the Group has obtained, in addition to the license as a seller, the license for manufacturing each type of product and for operating each manufacturing plant from the relevant taxation offices. In future business operations, the Group will continue to be regulated by the Liquor Tax Law, and consequently any change to the liquor tax rates may affect selling prices and sales trends.

<6> Risks concerning social attitudes toward drinking

It has been said that drinking alcoholic beverages in moderation generally relieves weariness, increases 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, characteristics of which are not 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 within society, the Group's production and sales activities may be further regulated or otherwise affected, and the future growth, business performance and financial position of the Group's alcoholic beverages business may deteriorate.

(2) Risks Concerning the Biomedical Business and its Business Environment

<1> Risks concerning R&D activities

In the biomedical business, the Group has been conducting a wide range of R&D activities in fields covering a broad range of biotechnology-related industries. The Group considers these R&D activities extremely important in order to keep the Group's competitive edge. The Group therefore aggressively invests in R&D. However, there is no guarantee that the R&D 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 R&D activities will bear fruit in a timely manner. A delay in R&D activities may adversely affect the business plans, business performance and financial position of the Group's biomedical business. Furthermore, there is no guarantee that the R&D 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*. However, the PCR license granted to the Group is not an exclusive license, with many other companies similarly granted a PCR license, thereby intensifying competition. Moreover, unlike medical equipment, since neither permission nor approval is required for the manufacture and sale of scientific instruments, entry into the market is relatively easy; therefore, there are many competing companies in the market.

In Gene medicine, 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. Moreover, today, cell therapy is used to improve the quality of life (QOL) of patients and not just as a cure for a disease. Thus, a potentially enormous market has opened up, which has resulted in many enterprises investing in gene therapy and cell therapy R&D, centering on Western startup businesses.

In AgriBio, 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 only on the descriptions of efficacies and effects as well as also prohibiting the use of experimental data in sales promotions to differentiate product offerings. As a result, this market is easy for companies to enter, which is consequently intensifying competition.

Under these market conditions, the Group strives to start new business projects and commercialize projects in their R&D phase as quickly as possible. However, if a competitor successfully commercializes a similar product or technology before the Group does, or if a competitor commercializes a superior technology, the business plans, business performance and financial position of the Group may be adversely affected.

* PCR method: Polymerase Chain Reaction method (gene amplification using the Polymerase Chain Reaction)

<3> Risks concerning dependence in manufacturing

Currently, the Group's biomedical business depends mostly on Takara Biotechnology (Dalian), a Chinese subsidiary of the Takara Group, for manufacturing products related to the Genetic engineering research sector. The manufacture of products previously handled at Clontech Laboratories is being transferred to this subsidiary, and the Group's reliance on this company is expected to grow. Therefore, in the event of a deterioration in security, a major earthquake or any other occurrence that prevents operations in the region where this subsidiary is located, the whole Group could lose most of its capacity to manufacture the products concerned, which may adversely affect the Group's business performance and financial position.

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

R&D activities in Genetic engineering research 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 intends 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. Research reagents are not drugs as defined by the Pharmaceutical Affairs Law, and consequently are not regulated by that law. However, if these regulations are tightened or new regulations are enforced following the expansion of gene-related industries, the Group's business may be adversely affected.

The relevant laws and regulations such as the Pharmaceutical Affairs Law regulate the commercialization of gene and cell therapies, and the Group intends to comply with such laws and regulations. These laws and regulations are concerned with 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 the relevant authorities. At present, there is no guarantee that the Group will be granted necessary permission or approval based on the Pharmaceutical Affairs Law for each project for which it is carrying out R&D activities.

In addition, new therapies such as activated immunotherapy may require approval or may become regulated by the Pharmaceutical Affairs Law or Medical Practitioners Law in the future. In the event that these laws are tightened or a new regulation is introduced, the Group's business strategy may be adversely affected.

<5> Risks concerning intellectual property rights

In the biomedical business, where the success of business depends solely on the success of R&D activities, the Group regards securing intellectual property rights, including patents, as extremely important, and it protects technologies developed in-house with patents to prevent competitors from imitating them. The Group will continue placing the highest priority on applying for patents in its R&D activities. All 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 a serious impact.

In addition, the Group is always mindful that, in bio-related industries with continuous cutthroat competition in R&D, its technology that is guarded with a patent right may be superseded at any time by a competitor. The Group is also willing to acquire or buy licenses for promising patent rights held by third parties, but this strategy may be prohibitively expensive or alternatively 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 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 rate of return on pension assets. If the actual results are different from the preconditions or the preconditions have changed, the effects are accumulated and regularly recognized in the future, and generally affect expenses recognized and liabilities booked in future periods. If the yield on the investment in pension assets management worsens, it may adversely affect the Group's business performance and financial position.

<4> Risks concerning overseas operations

The Group's operations include the manufacture and sale of products in North America, Europe and China as well as other regions of Asia. If any of these countries or regions experiences a drastic change in the condition of their economies, politics and/or 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 an occurrence could seriously affect the Group's

business plans and performance.

<5> Risks concerning fluctuations in exchange rates

Local currency-denominated items, including sales, expenses, and asset and liability accounts, are translated into Japanese yen for the purpose of the preparation of the consolidated financial statements. These items may be affected by the exchange rate at translation.

The Group enters into foreign currency forward contracts and exchange rate 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 Group's business performance and financial position.

<6> Risks concerning product liability

All of the products developed and manufactured by the Group are exposed to the risk of product liability compensation. If any defect is found during the 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 claim. Despite possessing product liability insurance, 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 product liability compensation not only causes a huge financial cost but also affects the Group's reputation, business performance and financial position.

<7> Risks concerning legal regulations

The Group is developing businesses in various countries and regions subject to local governmental regulations, such as those granting permission to begin business operations or undertake investment, 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, transportation, and environmental and recycling issues. If the Group is unable to observe any of the legislative regulations, its activities may be restricted and an increase in costs may occur.

Also, as a corporation involved in the manufacture and sale of food products, the Group maintains business facilities, manages equipment, containers and packages, as well as controls production processes and sales activities in accordance with the provisions of the Food Sanitation Law. The Group observes the Food Sanitation Law and takes 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 makes its best efforts to observe the provisions of the Pharmaceutical Affairs Law in regard to expressing and advertising efficacies and effects and providing 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 over 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 takes 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 related measures. However, the risk remains that some unexpected incidents could lead to the loss, leakage or falsification of personal and/or 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 strives 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 within 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.

TAKEOVER DEFENSE GUIDELINES: POLICIES ON RESPONSE TO LARGE-SCALE PURCHASES OF THE COMPANY'S SHARES

The following represents an English translation of the original Japanese version of the Policies on Response to Large-Scale Purchases of the Company's Shares, and is provided for the convenience of readers.

Based on the resolution made at the Board of Directors' meeting held on May 15, 2006, the Company introduced "Policies on Response to Large-Scale Purchases of the Company's Shares (takeover defense guidelines)," and at the Board of Directors' meeting held on June 29, 2006, the resolution was adopted to keep these guidelines in place.

However, in the belief that reflecting more of the opinions of shareholders is the best way to maximize the joint benefit of shareholders, the Board of Directors' meeting held on May 15, 2007, resolved to change the takeover defense guidelines to contain that the introduction of these guidelines shall be consulted with shareholders at a general shareholders' meeting and approved by resolution of the shareholders.

The introduction of these takeover defense guidelines was approved at the 96th Annual General Shareholders' Meeting, held on June 28, 2007. At that point, it was decided that these guidelines were be to effective until the conclusion of the 99th Annual General Shareholders' Meeting, during which shareholders were to be asked whether or not they would once again approve the takeover defense guidelines.

In accordance with this, the Board of Directors' meeting held on May 11, 2010, made a resolution that defined which policies contained within the takeover defense guidelines would be changed and which would be continued. This resolution was approved at the 99th Annual General Shareholders' Meeting, held on June 29, 2010.

1. Initiatives to Maintain and Increase the Joint Benefit of Shareholders

(1) Basic policies regarding the state of person(s) controlling the decision making over the financial and business policies of the Company (hereinafter, "basic policies")

As a publicly traded company, the Company believes that in principle the buying and selling of the Company's shares should be left to the free judgment of shareholders and investors, and that the decision as to whether or not shareholders sell shares to those seeking to control the management of the Company through the purchase of the Company's shares is, in the end, at the discretion of those who hold shares of the Company.

Furthermore, even in the event that a certain group of shareholders gains control of the management of the Company, this action itself may not necessarily cause an immediate loss in the corporate value and, by extension, harm the joint benefit of the Company's shareholders (hereinafter, the corporate value and the joint benefit of the Company's shareholders are simply referred to as "the joint benefit of shareholders"). On the contrary, it may even contribute to the maximization of the joint benefit of shareholders. In such an event, the Company will not oppose the efforts of a certain group of shareholders to acquire control of the management of the Company.

The Company and its group (hereinafter, "the Group"), in line with its corporate philosophy of contributing to the creation of a vital society and a healthy lifestyle through fermentation technology and biotechnology in a way that achieves harmony with nature, is committed to contributing to society by seeking out new potential in the culinary, lifestyle culture and life science fields, and by continuing to create new value. This commitment is underpinned by further developing our fermentation technologies of traditional Japanese sake brewing and our cutting-edge biotechnologies.

In order to further increase corporate value, in 2002 the Takara Shuzo Group, focused on the alcoholic beverages and foods business (currently the alcoholic beverages and seasonings business), and the Takara Bio Group, focused on the biomedical business, were restructured to form a holding company. In 2006, the Takara Group undertook a reorganization of its operations in order to maximize synergies between Takara Shuzo's functional foods business and Takara Bio's health foods business, and established

Takara Healthcare Inc. as a wholly owned subsidiary. Through these efforts, the Company has been striving to raise the corporate value of the Group, while allowing each business group to maintain its uniqueness and independence, as a holding company by pursuing maximum business performance through providing management coordination and administration for the entire Group.

Under these circumstances, in the management of the Group, the Company must possess the highest levels of specialized knowledge and extensive experience required by its different business models of the alcoholic beverages and seasonings business, the biomedical business and the health foods business, which form the pillars of the Group's business operations. Furthermore, we believe that it is imperative for the Group to build trusting relationships with all of its domestic and overseas stakeholders. Since it is these elements that are the foundation of this Group's corporate value, we believe that management members, who control the decision making over the financial and business policies of the Company, must fully understand these relationships if they are to increase corporate value in the future and, by extension, to secure and increase the joint benefit of shareholders.

Furthermore, among those seeking to gain control of the management of the Company through a large-scale purchase of the Company's shares, there are those who seek to acquire the Company's shares just to abuse the system, such as a set of individuals who, despite having no real interest in the management of the Company, seek to drive up the price of the Company's shares with the intention of forcing those connected with the Company to buy them back at an inflated price (commonly referred to as a "green mailer"). There are also cases of those who would clearly cause a loss in the joint benefit of shareholders, such as the cases of "two-tiered takeovers" in which an individual does not submit an offer for all of the Company's shares during the first stage of purchase, but then seeks to coerce shareholders into selling their shares by way of setting the second-stage purchase terms that are disadvantageous or unclear. We believe that it is self-evident that it would be inappropriate for such individuals to take control of the decision making over the financial and business policies of the Company.

We believe that the state of persons controlling the decision making over the financial and business policies of the Company should be as stated above. We also believe that predetermined policies should be put in place in preparation of the emergence of a party that is unsuited to control the decision making over the financial and business policies of the Company.

(2) The Company's present initiatives to raise the joint benefit of shareholders for many years to come in line with our basic policies

In order to realize our basic policies, the Group is working to achieve steady improvement of corporate value based on the principles of creating stable earnings in the alcoholic beverages and seasonings business; developing the health foods business into a future growth business; and greatly advancing the biomedical business, particularly in the Gene medicine segment.

Principle strategies for each business area are outlined below.

- Alcoholic beverages and seasonings business (Takara Shuzo Group):
  - Maintain and improve the profitability of the domestic alcoholic beverages business in order to develop it into a business that creates stable earnings and reinforces the Group's solid cash flows. At the same time, while developing a stable operating base for the seasonings business for food processing and overseas operations, aim to drive growth in the medium term, and develop them into growth businesses.
- Biomedical business (Takara Bio Group):
  - Further enhance the biomedical business' earnings base by expanding and stabilizing Genetic engineering research operations and by fostering the AgriBio segment as a second source of steady income. At the same time, aim to maximize future cash flows by aggressively engaging in R&D activities related to the Gene medicine segment, and accelerating efforts to establish the commercialization of Gene medicine.
- Health foods business (Takara Healthcare Inc.):
  - Engage in a strategy geared toward capturing customers through mail-order sales of products that make use of Takara Bio's technologies. Further develop its operating base in order to develop the health foods business into a growth business that will support the Group as a profit pillar.

In addition, the Group believes it is possible to continuously enhance corporate value over the long term by fulfilling its social responsibilities as a corporation and by

earning the trust of the Group's various stakeholders. Recognizing this, the Group has identified the strengthening of corporate governance as a key management task and has developed the following systems in order to achieve this goal.

In more practical terms, as of May 11, 2010, the Company has a Board of Directors comprised of nine directors (including one external director as defined by Article 2-15 of the Company Law) and has adopted an auditing system. Three of the Company's five auditors are external auditors as defined by Article 2-16 of the Company Law. The Company's auditors audit the legality of decision making and business execution of the Board of Directors, through their participation in important meetings such as the Board of Directors' meetings and examination of key documents. Furthermore, in order to ensure the ability to respond quickly to changes in the management environment and clarify the management responsibility of directors, the term of directors is set at one year. Additionally, as of May 11, 2010, the Company has assigned three independent Board members—as stipulated by the Securities Listing Regulations and Related Rules of the Tokyo Stock Exchange—consisting of one external director and two external auditors.

In this manner, the Group conducts its daily business activities in line with the basic policies to maximize the joint benefit of shareholders over the long term.

2. Objectives of Introducing and Continuing the Plan

The Company, as described in section (1) of 1 above, has established the basic policies to maintain and raise the joint benefit of shareholders. In order to prevent those who are not suited to these basic policies from taking control of decision making over the financial and business policies of the Company, and to secure and improve the joint benefit of shareholders, we believe it would be beneficial to establish policies (hereinafter, "the Plan") to be implemented in response to any large-scale purchase of the Company's share certificates without prior approval from the Board of Directors (for an overview of the Plan, please refer to Reference 1 on page 16).

In the event of a purchase of shares that would involve a transfer of a certain degree of management without the prior approval of the Board of Directors, we believe that ensuring that shareholders receive necessary and sufficient information and have a certain period of time for consideration before making their decision as to whether or not to sell their shares in response to the purchase will contribute to securing and improving the joint benefit of shareholders.

In addition, when defense measures are implemented in response to the purchase offer of a specified shareholder group (see section 3-2 on page 13 for details), in order to exclude as much as possible any arbitrary decisions by the Board of Directors, the decision as to whether or not to implement defense measures, except in cases where the large-scale purchaser (see section 3-1 on page 13 for a definition) fails to abide by the large-scale purchase rules (see section 3-2 on page 13 for a definition), shall be left to shareholders, and a general shareholders' meeting shall be held at which shareholders shall be consulted with a measure related to the decision on the matters concerning the allocation of stock acquisition rights. We believe that reflecting opinions of shareholders on the decision as to whether defense measures should be implemented will contribute to securing and improving the joint benefit of shareholders to the maximum extent possible.

In accordance with this belief, the content of the Plan was decided at the Board of Directors' meeting held on May 15, 2007, and was approved at the 96th Annual General Shareholders' Meeting, held on June 28, 2007. The Plan was introduced thereafter.

In the period from the introduction of the Plan until the current day (May 11, 2010), regardless of whether or not they may be seeking to control the management of the Company, there has been no indication as to the existence of anyone who has purchased or seeks to purchase the Company's shares on a large scale to whom the Plan may be applicable. However, we cannot rule out the possibility that such a person or party may appear in the future.

Accordingly, the Plan has been continued in order to protect the joint benefit of shareholders from the purchase that would damage this joint benefit, and to ensure that shareholders are able to decide whether or not to sell their shares in response to a purchase that may incur the transfer of the control of management, based on necessary and sufficient information and a certain period of time for consideration, and whether or not to implement these defense measures against the purchase.

3. Overview of the Plan

3-1. Requirements for application of the Plan

(1) The Plan shall be applied to a large-scale purchase by a large-scale purchaser

A: Large-scale purchase

– A large-scale purchase is defined as a purchase offer of the Company's share certificates where a specified shareholder group[1] seeks to acquire a 20 percent-or-higher ratio of voting rights[2] through a purchase of the Company's share certificates[3], or where such a purchase will have the effect of giving the specified shareholder group a 20 percent-or-higher ratio of shareholder voting rights (excluding such cases where the Board of Directors has indicated its agreement for the purchase).

B: Large-scale purchaser

– Those making a large-scale purchase.

(2) When making a large-scale purchase, a large-scale purchaser must strictly abide by the large-scale purchase rules

Notes: 1. "Specified shareholder group" shall be defined as: (1) any holder, as defined in the Financial Instruments and Exchange Law (Law No. 25 of April 13, 1948, including all amendments thereafter, hereinafter the same), Article 27-23, Paragraph 1, including those considered to be a holder as defined in Paragraph 3 of the same article and others included based on the judgment of the Board of Directors, or any joint holder, as defined in the Financial Instruments and Exchange Law, Article 27-23, Paragraph 5, including those considered to be a joint holder as defined in Paragraph 6 of the same article and others included based on the judgment of the Board of Directors, of the Company's share certificates (as defined in the Financial Instruments and Exchange Law, Article 27- 23, Paragraph 1), or (2) any person who purchases, as defined in the Financial Instruments and Exchange Law, Article 27-2, Paragraph 1, and including all exchanges taking place in a stock exchange, the Company's share certificates, as defined in the Financial Instruments and Exchange Law, Article 27-2, Paragraph 1, or such a person's specially related person, as defined in the Financial Instruments and Exchange Law, Article 27-2, Paragraph 7 and others included based on the judgment of the Board of Directors. This definition shall apply to all subsequent references.

2. "Ratio of voting rights" shall be defined as: (1) in cases where the specified shareholder group corresponds to Note 1 (1) above, it is the ratio of the number of the Company's share certificates held by a holder, as defined in the Financial Instruments and Exchange Law, Article 27-23, Paragraph 4. In such cases, the number of share certificates held by any joint holders, as defined in the same paragraph, will also be taken into consideration for calculation, or (2) in cases where the specified shareholder group corresponds to Note 1 (2) above, it is the total of the ratio of the number of the Company's share certificates held by the one purchasing the Company's shares and the ratio held by any specially related persons, as defined in the Financial Instruments and Exchange Law, Article 27-2, Paragraph 8. This definition shall apply to all subsequent references.

3. "Share certificates" shall be either a share as defined in the Financial Instruments and Exchange Law, Article 27-23, Paragraph 1, or a share as defined in Article 27-2, Paragraph 1, of the same law. This definition shall apply to all subsequent references.

3-2. Details of the large-scale purchase rules

(1) Large-scale purchase rule 1

The large-scale purchaser must provide the Board of Directors with sufficient information regarding the large-scale purchase in advance.

A: Information that must be submitted by the large-scale purchaser to the Board of Directors

• Statement of Intent

– Documentation designated by the Company, providing the name and address of the large-scale purchaser, its governing law of establishment, the name of a representative, contact information in Japan, an overview of the large-scale purchase by the large-scale purchaser (hereinafter referred to as "purchase proposal") and a statement of intent to comply with the large-scale purchase rules

• Necessary Information

– Information that is required to be submitted by the large-scale purchaser, based on a necessary information list provided to the large-scale purchaser by the Board of Directors within five business days of receiving the statement of intent (Information requested based on a necessary information list is limited to that information that is necessary in order for shareholders to make judgments and the Board of Directors to form opinions)

B: Judgment regarding whether submitted information is sufficient

– After receiving the information submitted by the large-scale purchaser, the Board of Directors will determine whether or not the information is sufficient to allow shareholders to make judgments and the Board of Directors to form opinions based on the consultations and advice of impartial external experts such as lawyers, certified public accountants and investment banks (referred to collectively as "external experts" hereinafter). If the information submitted is judged to be insufficient then a subsequent request for information will be sent to the large-scale purchaser. The date on which information that has been judged sufficient is received is marked as the start date of the evaluation period by the Board of Directors (as defined in (2)-A below, "start date of the evaluation period" hereinafter). On this date, the Board of Directors will begin to evaluate the purchase proposal. The start date of the evaluation period is to be within 30

business days after the date on which the large-scale purchaser first submitted information in accordance with the necessary information list (hereinafter, "the initial information submission date"). Even in the event that sufficient information has not yet been received, the evaluation period is to start immediately after 30 business days have passed since the initial information submission date. Even if 30 business days have not yet passed, the evaluation period is to start immediately after sufficient information has been received.

(2) Large-scale purchase rule 2

(a) All large-scale purchasers shall wait until the end of the evaluation of the purchase proposal by a Board of Directors' meeting, which shall be held no later than 30 business days from the start of the evaluation period, before starting their large-scale purchase.

(b) If, as a result of the evaluation by the Board of Directors' meeting held no later than 30 business days from the start of the evaluation period, the Board of Directors judges that it is necessary and reasonable to implement these defense measures and that the resolution of shareholders must be sought to implement these defense measures, and when a resolution of such judgment is made by the Board of Directors and publicly disclosed (the date of such disclosure is hereinafter referred to as the "end of the evaluation period"), the large-scale purchaser who made such a purchase proposal shall not begin its large-scale purchase until the end of the general shareholders' meeting, which shall be held within 60 business days of the end of the evaluation period to discuss decision of matters concerning allocation of free stock acquisition rights (hereinafter referred to as "General Shareholders' Meeting to Confirm Shareholders' Intentions." Note that if, due to some administrative procedures, the General Shareholders' Meeting to Confirm Shareholders' Intentions cannot be held within 60 business days of the end of the evaluation period, preparations will proceed on schedule, and this meeting shall be held at the earliest rational business date that is administratively feasible).

A: Evaluation period by the Board of Directors

– An evaluation period shall begin on the date of receipt of the information that is judged to be sufficient from the large-scale purchaser, and within 30 business days of this start date of the evaluation period. The Board of Directors shall, in consultation with the opinions of external experts, evaluate and review the purchase proposal, shall make a resolution on whether or not the implementation of defense measures is necessary and reasonable and shall publicly disclose the results of the resolution.

B: In the event that the purchase proposal is changed

– If, after the start date of the evaluation period, any significant changes are made to the purchase proposal by the large-scale purchaser, the Board of Directors shall request the submission of necessary information concerning the changed purchase proposal (hereinafter, "changed purchase proposal"). A new evaluation period shall commence on the date on which such necessary information has been sufficiently received. Moreover, the start date of the evaluation period for the changed purchase proposal shall be within 30 business days from the date on which the large-scale purchaser first submitted information in regard to the changed purchase proposal.

(3) Response to the large-scale purchaser

A: When the large-scale purchase rules are complied with

• When the Board of Directors judges that it is not necessary or reasonable to implement defense measures

– The large-scale purchaser may begin their large-scale purchase on the day after the public disclosure of the results of the resolution taken at the Board of Directors' meeting.

• When the Board of Directors judges that it is necessary and reasonable to implement defense measures

– In order for shareholders to make a judgment on whether or not to implement the defense measures against the large-scale purchaser, in principle the General Shareholders' Meeting to Confirm Shareholders' Intentions shall be held within 60 business days of the end of the evaluation period.

– If the matters concerning the allocation of free stock acquisition rights are approved at the General Shareholders' Meeting to Confirm Shareholders' Intentions, the defense measures shall be implemented in accordance with the Plan; while if such matters are

rejected, the defense measures based on the Plan shall not be implemented.

B: When the large-scale purchaser fails to comply with the large-scale purchase rules

– Defense measures will be implemented as soon as it becomes clear that the large-scale purchase rules are obviously being violated.

C: Content of the defense measures

– Defense measures shall be allocation of free stock acquisition rights with exercise conditions and an acquisition clause that will limit the exercise of subscription rights by a certain person or party.

4. Effects on Shareholders and Investors

(1) Effect of the Plan on shareholders and investors when introduced

There will be no effect on the rights of shareholders and investors when the Plan is introduced.

(2) Effect on shareholders and investors when the General Shareholders' Meeting to Confirm Shareholders' Intentions is held

In order to finalize the shareholders who are eligible to exercise voting rights in the General Shareholders' Meeting to Confirm Shareholders' Intentions, a specified date shall be announced as the reference date. It shall be necessary for shareholders to be recorded on the list of final shareholders as of the specified date.

(3) Effect on shareholders and investors when the defense measures are implemented

Since stock acquisition rights shall be allocated based on the number of shares held by shareholders recorded in the list of final shareholders on the reference date, if shareholders who are allocated such acquisition rights do not exercise them within the preset period, the proportion of voting rights and economic value may decrease due to other shareholders exercising their stock acquisition rights. (Note that when the Company's common stocks are issued as a result of acquisition based on the acquisition clause, there will be no proportional loss of voting rights). Nevertheless, if by such reasons as the large-scale purchaser withdrawing their large-scale purchase, the Company acquires the free stock acquisition rights by the day before the start date of the period to exercise these stock acquisition rights, there may be more than a little change in the value of the Company's stocks.

(4) Necessary procedures for shareholders when the defense measures are implemented

Shareholders do not need to make an application. Since all shareholders recorded on the list of final shareholders on the reference date of allocation will automatically become holders of stock acquisition rights on the date that the allocation of free stock acquisition rights takes effect. Common stocks are issued as a result of acquisition effect. It is therefore necessary that shareholders be recorded on the list of final shareholders on the reference date of allocation.

(5) Necessary procedures to acquire stock acquisition rights from the Company

The Company may, on a date specified by the Board of Directors, require shareholders to submit evidence in writing that they are not part of the large-scale purchase before they can acquire stock acquisition rights.

5. Rationalization of the Plan

(1) Takeover defense guidelines are in compliance with standards and guidelines

The takeover defense guidelines are in compliance with the three principles (the principle of protecting and enhancing corporate value and the joint benefit of shareholders as a whole, the principle of prior disclosure and the will of shareholders and the principle of ensuring the necessity and reasonableness) outlined in the Guidelines Regarding Takeover Defense for the Purpose of Protection and Enhancement of Corporate Value and Shareholders' Common Interests released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005. Additionally, the takeover defense guidelines adhere to the content described in the "Report on appropriate takeover defense guidelines based on recent changes in business environments" released by the Corporate Value Research Forum on June 30, 2008. Furthermore, the takeover defense guidelines are in compliance with laws and regulations, such as those described in the Financial Instruments and Exchange Act, the Company Law, as well as the regulations of other financial exchange institutes.

(2) The Plan was introduced in order to protect and enhance the joint benefit of shareholders

The Plan was introduced in order to protect and enhance the joint benefit of shareholders. It includes provisions to ensure that shareholders are supplied with sufficient

information, and provides an appropriate evaluation period during which the decision to accept or reject a purchase proposal, or whether or not to implement defense measures, can be made.

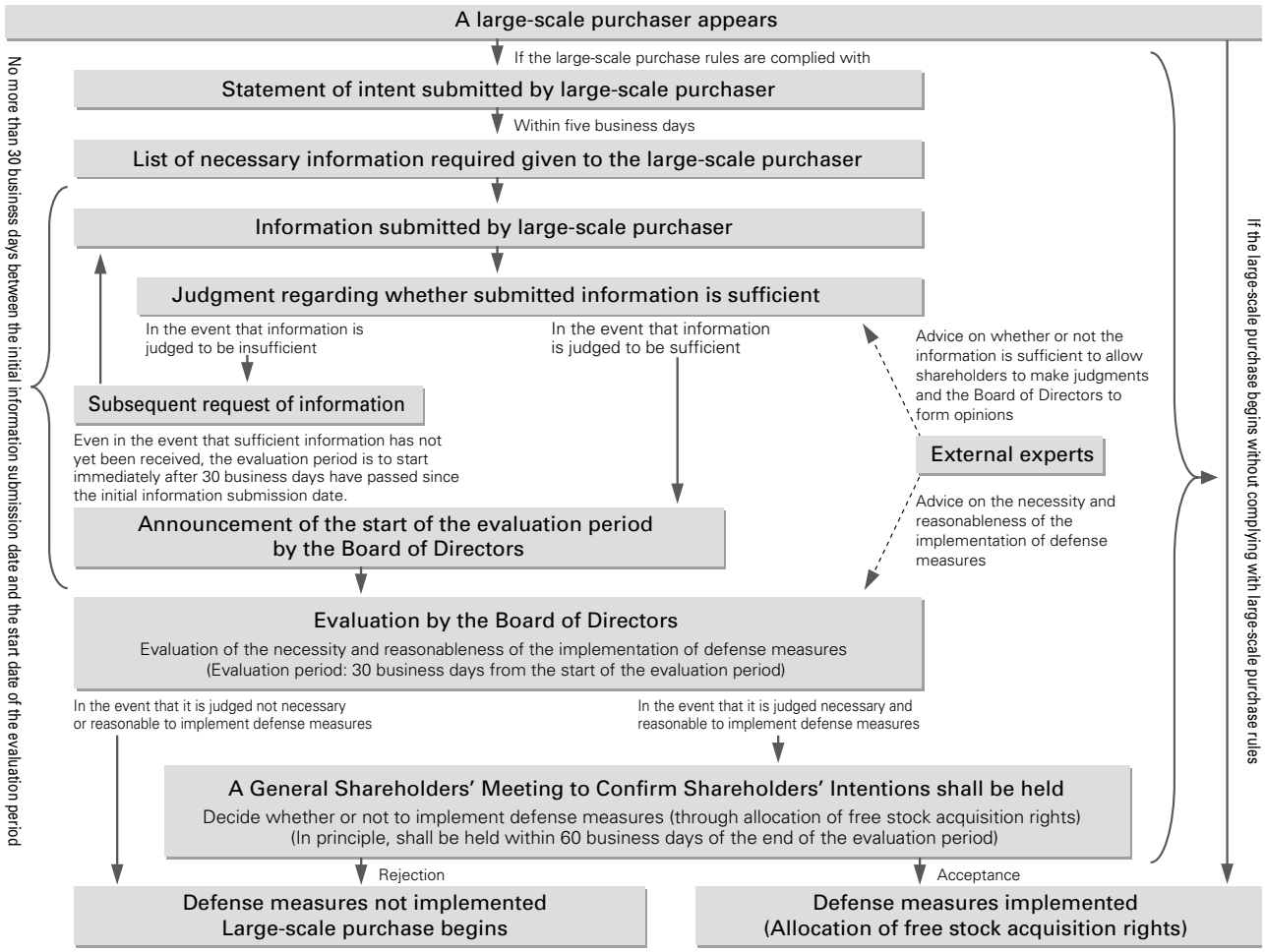
(3) The Plan reflects the will of shareholders

A revision to the articles of incorporation regarding the institution allocating free stock acquisition rights was approved at the 96th Annual General Shareholders' Meeting, held on June 28, 2007. A provision entrusting the decision-making authority regarding the allocation of free stock acquisition rights to the Board of Directors was also approved at this point. Accordingly, the Plan was introduced thereafter as a reflection of the will of shareholders. The continuation of the Plan also reflected the will of shareholders due to the fact that the above-mentioned provision was also approved at the 99th Annual General Shareholders' Meeting, held on June 29, 2010. Furthermore, in accordance with the Plan, in the

(Reference 1) Conceptual Overview of the Plan

Large-scale purchase rules

1. The large-scale purchaser must provide the Board of Directors with sufficient information regarding the large-scale purchase in advance.
2. (a) All large-scale purchasers shall wait until the end of the evaluation of the purchase proposal by a Board of Directors' meeting, which shall be held no later than 30 business days from the start of the evaluation period, before starting their large-scale purchase.
   (b) In the event that a General Shareholders' Meeting to Confirm Shareholders' Intentions is held, the large-scale purchaser shall not begin its large-scale purchase until the end of the General Shareholders' Meeting to Confirm Shareholders' Intentions.



event that a large-scale purchaser appears, the decision to implement defense measures shall be based on the will of shareholders, which is to be confirmed at the General Shareholders' Meeting to Confirm Shareholders' Intentions. Through these provisions, the Plan is thoroughly equipped to reflect the will of shareholders.

(4) The Plan does not contain dead hand or slow hand provisions

The Plan can be abolished even in the event that the majority of directors on the Board of Directors change, and therefore does not contain a dead hand provision (a provision that prevents the abolishment of takeover defense measures regardless of majority changes in the Board of Directors). Also, as the term of directors is one year, the Plan does not contain a slow hand provision (a provision in which the ability to stop the activation of takeover defense measures is limited by the inability to change the majority of members of the Board in one instance).

(Reference 2) Overview of Stock Acquisition Rights

1) Intended recipients of stock acquisition rights

Those who are recorded in the list of shareholders as of the date that the Board of Directors or a general shareholders' meeting decides to allocate stock acquisition rights (hereinafter, "allocation reference date") shall be allocated one stock acquisition right per share that they hold.

2) Total number of stock acquisition rights

The upper limit shall be the total number of outstanding shares issued as of the allocation reference date, less the treasury stocks as of the same date.

3) Date that the allocation of stock acquisition rights becomes effective

The date that the allocation of stock acquisition rights becomes effective shall be set by the Board of Directors or at a general shareholders' meeting in a separate decision.

4) Type and number of shares for the purpose of stock acquisition rights

The type of shares for the purpose of stock acquisition rights shall be common stock of the Company, and each stock acquisition right entitles the holder to subscribe to one common stock. Note that should the Company's shares be split including free share distribution, or consolidated, stock acquisition rights shall be adjusted by using the method decided by the Board of Directors or at a general shareholders' meeting for the allocation of free stock acquisition rights.

5) Amount of assets to be contributed for the exercise of stock acquisition rights

The amount of assets to be contributed for the exercise of stock acquisition rights shall be the amount of one Japanese yen or greater per common stock of the Company granted in exchange for the exercise of stock acquisition rights, whose payable amount shall be decided by the Board of Directors or at a general shareholders' meeting, multiplied by the number of shares issued for the purpose of stock acquisition rights.

6) Conditions of the exercise of stock acquisition rights

The large-scale purchaser, specified shareholder group or any person who acquires stock acquisition rights from the large-scale purchaser or specified shareholder group without obtaining the approval of the Board of Directors (hereinafter, "the large-scale purchaser"), may not exercise these stock acquisition rights.

7) Acquisition of stock acquisition rights by transfer

The approval of the Board of Directors shall be required for acquisition of stock acquisition rights by transfer.

8) Period for the exercise of stock acquisition rights

This period shall be decided by the Board of Directors or at a general shareholders' meeting.

9) Conditions for acquiring stock acquisition rights

Conditions for acquiring stock acquisition rights shall be determined by the Board of Directors or at a general shareholders' meeting. However, a clause may be added allowing the Company to acquire all of the free stock acquisition rights (acquisition clause) on or after a date specified in a separate decision by the Board of Directors or at a general shareholders' meeting. In addition, a clause may be added allowing the Company to acquire stock acquisition rights in exchange for the Company's common stock under and subject to certain causes (acquisition clause). Such acquisition clauses may include a clause that the stock acquisition rights may not be acquired from a large-scale purchaser, etc.

10) Issuance of stock acquisition rights certificates

Stock acquisition rights certificates shall not be issued.

11) Others

All other necessary details shall be determined by the Board of Directors or at a general shareholders' meeting when the decision to allocate free stock acquisition rights is taken.

CONSOLIDATED BALANCE SHEETS

Takara Holdings Inc. and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
ASSETS			
CURRENT ASSETS (Note 16):			
Cash and cash equivalents	¥ 33,624	¥ 33,666	$ 361,548
Time deposits	11,624	5,298	124,989
Marketable securities (Note 3)	535	2,981	5,752
Notes and accounts receivable:			
Trade	45,601	46,084	490,333
Unconsolidated subsidiary and associated companies	182	225	1,956
Other	1,325	1,083	14,247
Allowance for doubtful accounts	(65)	(91)	(698)
Inventories (Notes 4 and 7)	24,252	23,734	260,774
Deferred tax assets (Note 13)	2,589	2,621	27,838
Prepaid expenses and other current assets	1,074	1,123	11,548
Total current assets	120,745	116,728	1,298,333
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 6):			
Land	13,387	13,511	143,946
Buildings and structures	41,933	41,379	450,892
Machinery, equipment and vehicles	75,328	74,792	809,978
Tools, furniture and fixtures	10,483	10,712	112,720
Lease assets	813	590	8,741
Construction in progress	230	477	2,473
Total	142,177	141,463	1,528,784
Accumulated depreciation	(99,236)	(97,418)	(1,067,053)
Net property, plant and equipment	42,941	44,045	461,731
INVESTMENTS AND OTHER ASSETS (Note 16):			
Investment securities (Note 3)	18,247	15,460	196,204
Investments in and advances to unconsolidated subsidiary and associated companies	2,825	2,969	30,376
Goodwill	1,913	2,011	20,569
Deferred tax assets (Note 13)	3,117	2,945	33,516
Other assets	5,704	6,630	61,333
Total investments and other assets	31,809	30,018	342,032
TOTAL	¥195,495	¥190,792	$ 2,102,096

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
LIABILITIES AND EQUITY			
CURRENT LIABILITIES (Note 16):			
Short-term bank loans (Note 6)	¥ 5,071	¥ 4,893	$ 54,526
Current portion of long-term debt (Note 6)	10,267	307	110,354
Notes and accounts payable:			
Trade	13,913	14,376	149,602
Unconsolidated subsidiary and associated companies	26	24	279
Construction and other	2,194	2,339	23,591
Liquor taxes payable (Note 7)	7,939	7,902	85,365
Accrued income taxes	1,945	2,285	20,913
Accrued expenses	5,894	5,566	63,376
Allowance for accrued sales promotion expenses	1,461	1,444	15,709
Other current liabilities (Note 13)	2,953	3,018	31,752
Total current liabilities	51,663	42,158	555,516
LONG-TERM LIABILITIES (Note 16):			
Long-term debt (Note 6)	16,089	26,042	173,000
Liability for retirement benefits (Note 8)	9,445	9,093	101,559
Deposits	6,391	6,408	68,720
Deferred tax liabilities (Note 13)	2,028	1,002	21,806
Other	670	770	7,204
Total long-term liabilities	34,625	43,317	372,311
CONTINGENT LIABILITIES (Note 15)			
EQUITY (Notes 9 and 18):			
Common stock, authorized, 870,000,000 shares; issued, 217,699,743 shares	13,226	13,226	142,215
Capital surplus	3,198	3,198	34,387
Retained earnings	83,785	80,918	900,913
Unrealized gain on available-for-sale securities	4,007	2,340	43,086
Deferred gain (loss) on derivatives under hedge accounting (Note 17)	18	(19)	193
Foreign currency translation adjustments	(2,918)	(3,358)	(31,376)
Treasury stock, at cost—7,519,781 shares in 2010 and 4,874,064 shares in 2009	(4,650)	(3,212)	(50,000)
Total	96,666	93,093	1,039,419
Minority interests	12,540	12,222	134,838
Total equity	109,206	105,316	1,174,258
TOTAL	¥195,495	¥190,792	$2,102,096

CONSOLIDATED STATEMENTS OF INCOME

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET SALES (Notes 11 and 20)	¥190,525	¥192,790	$2,048,655
COST OF SALES (Notes 7, 8, 11, 14 and 20)	115,805	118,849	1,245,215
Gross profit	74,719	73,941	803,430
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 12, 14 and 20)	66,146	65,090	711,247
Operating income	8,572	8,851	92,172
OTHER INCOME (EXPENSES):			
Interest and dividend income	486	771	5,225
Subsidy income	125	19	1,344
Gain on sales of property, plant and equipment		700	
Gain on sales of investment securities (Note 3)	105	16	1,129
Interest expense	(577)	(606)	(6,204)
Foreign exchange losses		(438)	
Loss on disposals of property, plant and equipment	(300)	(208)	(3,225)
Impairment loss (Note 5)	(127)	(229)	(1,365)
Loss on write-down of investment securities	(81)	(524)	(870)
Litigation expenses		(128)	
Other, net	5	(28)	53
Other expenses, net	(364)	(657)	(3,913)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	8,208	8,193	88,258
INCOME TAXES (Note 13):			
Current	3,589	4,075	38,591
Deferred	(272)	(1,774)	(2,924)
Total income taxes	3,317	2,301	35,666
MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	214	252	2,301
NET INCOME	¥ 4,677	¥ 5,639	$ 50,290

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.r and 18):			
Basic net income	¥22.20	¥26.32	$0.23
Diluted net income	22.20	26.31	0.23
Cash dividends applicable to the year	8.50	8.50	0.09

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Thousands	Millions of Yen									
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2008	216,386	¥13,226	¥3,204	¥77,342	¥6,679	¥(46)	¥ 575	¥(1,011)	¥99,969	¥13,303	¥113,273
Adjustment of retained earnings due to the adoption of PITF No. 18 (Note 2.b)				(222)					(222)		(222)
Net income				5,639					5,639		5,639
Cash dividends, ¥8.5 per share				(1,840)					(1,840)		(1,840)
Net increase of treasury stock	(3,561)		(5)					(2,200)	(2,206)		(2,206)
Net change in the year					(4,339)	27	(3,933)		(8,246)	(1,081)	(9,327)
BALANCE, MARCH 31, 2009	212,825	¥13,226	¥3,198	¥80,918	¥2,340	¥(19)	¥(3,358)	¥(3,212)	¥93,093	¥12,222	¥105,316
Net income				4,677					4,677		4,677
Cash dividends, ¥8.5 per share				(1,810)					(1,810)		(1,810)
Net increase of treasury stock	(2,646)		(0)					(1,438)	(1,438)		(1,438)
Net change in the year					1,667	37	439		2,144	317	2,461
BALANCE, MARCH 31, 2010	210,179	¥13,226	¥3,198	¥83,785	¥4,007	¥ 18	¥(2,918)	¥(4,650)	¥96,666	¥12,540	¥109,206

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2009	$142,215	$34,387	$870,086	$25,161	$(204)	$(36,107)	$(34,537)	$1,001,000	$131,419	$1,132,430
Net income			50,290					50,290		50,290
Cash dividends, $0.09 per share			(19,462)					(19,462)		(19,462)
Net increase of treasury stock		(0)					(15,462)	(15,462)		(15,462)
Net change in the year				17,924	397	4,720		23,053	3,408	26,462
BALANCE, MARCH 31, 2010	$142,215	$34,387	$900,913	$43,086	$ 193	$(31,376)	$(50,000)	$1,039,419	$134,838	$1,174,258

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING ACTIVITIES:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥ 8,208	¥ 8,193	$ 88,258
Adjustments for:			
Income taxes paid	(4,228)	(4,278)	(45,462)
Depreciation and amortization	5,652	5,992	60,774
Provision for retirement benefits	345	230	3,709
Reversal of allowance for doubtful accounts	(39)	(44)	(419)
Provision for (reversal of) allowance for accrued sales promotion expenses	17	(21)	182
Net loss (gain) on sales and disposals of property, plant and equipment	291	(491)	3,129
Loss on write-down of investment securities	81	524	870
Gain on sales of investment securities	(105)	(16)	(1,129)
Equity in earnings (losses) of associated companies	50	(7)	537
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	597	(98)	6,419
Increase in inventories	(229)	(756)	(2,462)
Decrease in interest and dividend receivable	20	16	215
Decrease in other current assets	10	29	107
(Decrease) increase in trade payables	(502)	582	(5,397)
Increase in liquor taxes payable	37	119	397
(Decrease) increase in consumption taxes payable	(15)	122	(161)
Other, net	262	(1,141)	2,817
Total adjustments	2,244	760	24,129
Net cash provided by operating activities	10,452	8,954	112,387
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	27	1,989	290
Proceeds from sales and redemption of securities	2,567	883	27,602
Proceeds from sales of investment securities	112	25	1,204
Proceeds from sales of investments in subsidiaries and associated companies		75	
Purchases of marketable securities		(3,300)	
Purchases of property, plant and equipment	(3,046)	(2,566)	(32,752)
Purchases of investment securities	(100)	(214)	(1,075)
Increase in time deposits, net	(6,293)	(4,086)	(67,666)
Purchases of investments in subsidiaries and associated companies		(23)	
Other, net	(617)	(549)	(6,634)
Net cash used in investing activities	(7,350)	(7,769)	(79,032)
FINANCING ACTIVITIES:			
Repayments of long-term loans	(169)	(64)	(1,817)
Redemption of bonds		(5,000)	
Proceeds from issuance of stock to minority shareholders	39	35	419
Purchases of treasury stock	(1,379)	(2,226)	(14,827)
Cash dividends paid	(1,819)	(1,849)	(19,559)
Other, net	109	(188)	1,172
Net cash used in financing activities	(3,219)	(9,294)	(34,612)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	75	(574)	806
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42)	(8,684)	(451)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,666	42,350	343,530
CASH AND CASH EQUIVALENTS, END OF YEAR	¥33,624	¥33,666	$361,548

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

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 Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), 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 2009 financial statements to conform to the classifications used in 2010.

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 and the amounts in Note 10. 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 ¥93 to U.S. $1, the approximate rate of exchange at March 31, 2010. U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollar, except for per share data and the amounts and stock prices in Note 10. 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, 2010 include the accounts of the Company and its 32 significant (33 in 2009) subsidiaries (together, the "Group"). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements. 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 three (three in 2009) 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 recorded as goodwill and amortized on a pro rata basis over a certain period not exceeding 20 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. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

c. 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, commercial paper and trust beneficiary rights, all of which mature or become due within three months of the date of acquisition.

d. 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 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.

e. Inventories—Inventories are stated principally at the lower of cost, determined by the average method, or net selling value.

f. 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.

g. Long-lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances 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.

h. Goodwill—The Company, its domestic subsidiaries and an overseas subsidiary amortize goodwill on a pro rata basis. Accounting of impairment of long-lived assets also applies to goodwill.

The Company's consolidated subsidiary in the U.S. records goodwill according to Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets." The U.S. subsidiary records goodwill as excess of the purchase price over the fair value of the enterprise, which is tested for impairment at least annually at the reporting unit level.

i. 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.

j. 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.

k. Allowance for Accrued Sales Promotion Expenses—An allowance for accrued sales promotion expenses is stated at amounts considered to be appropriate based on the purchased quantities of finished products by retail stores, identified by Takara Shuzo Co., Ltd., a consolidated subsidiary, multiplied by the past year actual unit cost of the relevant product.

l. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee should be recognized as investments in leases.

The Group applied the revised accounting standard effective April 1, 2008. Lease assets related to finance lease transactions without title transfer are depreciated on a straight-line basis over the leased periods as their useful lives and with no residual value. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change to income before income taxes and minority interests was immaterial.

All other leases are accounted for as operating leases.

m. Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued at the year-end to which bonuses are attributable.

n. 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.

o. 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.

p. 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 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 equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

q. Derivative Financial Instruments—The Group uses derivative financial instruments, such as foreign currency forward contracts, foreign currency options 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 purchase transactions and payments of royalties. Payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Foreign currency options are utilized to hedge foreign currency exposures in the procurement of raw materials from overseas suppliers. These options, which qualify for hedge accounting, are measured at fair value at the balance sheet date and the unrealized gains or losses are deferred until maturity as an other liability or asset. Foreign currency swaps are utilized to hedge market risk from the changes in foreign exchange rates associated with advances to subsidiaries denominated in foreign currencies

r. 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 reflects the potential dilution that could occur if securities were exercised into common stock. Diluted net income per share of common stock assumes full exercise of outstanding stock options.

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.

s. New Accounting Pronouncements

Business Combinations—In December, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired by a business combination is capitalized as an intangible asset.
(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of its foreign associated companies which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In December, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations—In March 2008 the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections— In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies
When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.
(2) Changes in Presentations
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.
(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
(4) Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures— In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Current:			
Government and corporate bonds	**¥ 535**	¥ 2,522	**$ 5,752**
Other		459	
Total	**¥ 535**	¥ 2,981	**$ 5,752**
Non-current:			
Investment equity securities	**¥18,166**	¥15,379	**$195,333**
Government and corporate bonds	**80**	80	**860**
Total	**¥18,247**	¥15,460	**$196,204**

The costs and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	**¥10,690**	**¥7,548**	**¥929**	**¥17,309**
Debt securities	**555**	**11**		**567**

	Millions of Yen			
March 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	¥10,753	¥5,435	¥1,591	¥14,597
Debt securities	518	10		529

	Thousands of U.S. Dollars			
March 31, 2010	Cost	Unrealized Gains	Unrealized Lossess	Fair Value
Securities classified as—				
Available-for-sale:				
Equity securities	**$114,946**	**$81,161**	**$9,989**	**$186,118**
Debt securities	**5,967**	**118**		**6,096**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2009 were as follows. Similar information for 2010 is disclosed in Note 16.

	Carrying Amount
March 31, 2009	Millions of Yen
Available-for-sale:	
Equity securities	¥ 781
Debt securities	80
Other	459
Held-to-maturity	1,993
Total	¥3,314

Proceeds from sales of available-for-sale securities for the year ended March 31, 2009 were ¥143 million. Gross realized gains on these sales, computed on the moving average cost basis, were ¥17 million for the year ended March 31, 2009.

The information of available-for-sale securities which were sold during the year ended March 31, 2010 was as follows:

	Millions of Yen		
March 31, 2010	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥112	¥105	
Debt securities	12		
Total	¥124	¥105	Nil

	Thousands of U.S. Dollars		
March 31, 2010	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$1,204	$1,129	
Debt securities	129		
Total	$1,333	$1,129	Nil

The impairment losses on available-for-sale equity securities for the years ended March 31, 2010 and 2009 were ¥70 million ($752 thousand) and ¥521 million, respectively.

4. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Finished products and merchandise	¥12,888	¥12,202	$138,580
Semi-finished products	7,646	7,692	82,215
Work in process	876	1,060	9,419
Raw materials and supplies	2,841	2,778	30,548
Total	¥24,252	¥23,734	$260,774

5. LONG-LIVED ASSETS

The Group reviewed their long-lived assets for impairment and, as a result, recognized an impairment loss for the following long-lived assets for the year ended March 31, 2010.

			Millions of Yen	Thousands of U.S. Dollars
Location	Description	Classification	Impairment Loss	
Yakushima-cho, Kumage-gun, Kagoshima	Idle property	Land	¥122	$1,311
Hofu-shi, Yamaguchi	Idle property	Land	4	43
Total			¥127	$1,365

The Group recognized an impairment loss for land in Yakushima-cho, Kumage-gun, Kagoshima. The land was purchased by the Group's Biomedical segment to grow Ashitaba (a unique celery-like vegetable of the angelica herb family), but only a portion of the land was utilized and the rest of the property remained unused. As there were no plans for utilization of such idle property, the land was written down to the recoverable amount for the year ended March 31, 2010. The recoverable amount of that asset group was measured at its net selling price determined by quotation from a real-estate appraiser.

The Group recognized an impairment loss for land in Hofu-shi, Yamaguchi because utilization in the future was uncertain and its market value declined. The recoverable amount was measured at its estimated net selling price.

The Group reviewed long-lived assets for impairment and, as a result, recognized an impairment loss for the following long-lived assets for the year ended March 31, 2009.

			Millions of Yen	Thousands of U.S. Dollars
Location	Description	Classification	Impairment Loss	
Inawashiro-machi, Yama-gun, Fukushima	Idle property	Land	¥ 5	$ 51
Shimogyo-ku, Kyoto	Art	Furniture and fixtures	223	2,275
Total			¥229	$2,336

The Group recognized an impairment loss for land in Fukushima because utilization in the future was uncertain and its market value declined. The recoverable amount was measured at its estimated net selling price.

The Group recognized an impairment loss for art (included in furniture and fixtures) due to a price decline in the recent art market, and absence of a plan or schedule for usage. The recoverable amounts were measured at prices determined by appraisals from third-party art experts and others.

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

Short-term bank loans consisted principally of notes to banks with interest at annual rates ranging from 0.857% to 18.250% and from 1.010% to 5.000% at March 31, 2010 and 2009, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Loans principally from banks, due serially to January 2022 with interest rates ranging from 0% to 2.3% (0% to 2.3% in 2009):			
Collateralized	¥ 232	¥ 249	$ 2,494
Unsecured	5,416	5,468	58,236
2.21% unsecured bonds, due July 2010	5,000	5,000	53,763
0.89% unsecured bonds, due May 2013	5,000	5,000	53,763
1.40% unsecured bonds, due September 2012	5,000	5,000	53,763
1.96% unsecured bonds, due September 2017	5,000	5,000	53,763
Obligation under finance leases	704	631	7,569
Total	26,353	26,349	283,365
Less current portion	10,263	307	110,354
Long-term debt, less current portion	¥16,089	¥26,042	$173,000

Annual maturities of long-term debt as of March 31, 2010 for the next five years and thereafter were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥10,263	$110,354
2012	253	2,720
2013	5,225	56,182
2014	5,199	55,903
2015	181	1,946
2016 and thereafter	5,230	56,236
Total	¥26,353	$283,365

At March 31, 2010, building and structures of ¥414 million ($4,451 thousand) and land of ¥250 million ($2,688 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥232 million ($2,494 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 the bonded area. Liquor taxes are included in cost of sales and inventories. Liquor taxes payable are to be paid by the end of the second month following delivery or after being taken outside the bonded area.

8. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees.

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.

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. Certain domestic subsidiaries have contributory funded pension plans of the integrated establishment type.

In addition, as a result of an increase in the significance of amounts, certain information related to multi-employer plans for which contribution amounts are accounted for as a net periodic benefit at April 1, 2009 is disclosed as follows:

(1) Financial status of entire multi-employer plans

	Millions of Yen
	As of March 31, 2010
Amount of plan assets	¥16,849
Amount of benefit obligation in pension financial calculation	23,437
Net balance	¥ (6,587)

(2) Percentage of the Group's contribution in the entire multi-employer plans

As of March 31, 2010	5.1%

(3) Supplementary explanation

The amounts disclosed in (1) above are derived by aggregating multiple multi-employer plans, and the primary factors contributing to a net underfunded balance comprise the total of unamortized prior service costs in pension financial calculation of ¥1,848 million and current deficit of ¥4,739 million. The Company will ratably amortize prior service costs (benefits) over the remaining periods as of March 31, 2010 (from 4 years to 12 years and 9 months).

In addition, the percentage figure disclosed in (2) above, does not represent the actual obligation attributable to the Group.

The above information related to multi-employer plans is based upon the pension financial calculation as of March 31, 2009, the most recent available date.

The liability for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Projected benefit obligation	**¥13,816**	¥13,258	**$148,559**
Fair value of plan assets	**(4,161)**	(3,600)	**(44,741)**
Unrecognized actuarial gain	**(370)**	(721)	**(3,978)**
Prepaid pension cost	**161**	157	**1,731**
Net liability	**¥ 9,445**	¥ 9,093	**$101,559**

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Service cost	**¥ 806**	¥ 806	**$ 8,021**
Interest cost	**221**	228	**2,376**
Expected return on plan assets	**(109)**	(138)	**(1,172)**
Recognized actuarial loss	**86**	29	**924**
Net periodic benefit costs	**¥1,005**	¥ 925	**$10,161**

Assumptions used for the years ended March 31, 2010 and 2009 were set forth as follows:

	2010	2009
Discount rate	**mainly 1.6%**	mainly 1.6%
Expected rate of return on plan assets	**mainly 3.0%**	mainly 3.0%
Recognition period of actuarial gain/loss	**mainly 13 years**	mainly 13 years

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding of Takara Bio Inc., the Company's consolidated subsidiary, as of March 31, 2010 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
The First Stock Option	8 directors of subsidiary 273 employees of subsidiary	8,500 shares	2003.9.19	¥ 200,000 $(2,150.53)	From September 20, 2005 to September 20, 2013
The Second Stock Option	8 directors of subsidiary 3 corporate auditors of subsidiary 120 employees of subsidiary	3,220 shares	2003.9.19	¥ 200,000 $(2,150.53)	From April 1, 2004 to September 20, 2013
The Third Stock Option	3 directors of subsidiary 28 employees of subsidiary	500 shares	2004.5.17	¥ 200,000 $(2,150.53)	From September 20, 2005 to September 20, 2013
The Fourth Stock Option	9 directors of subsidiary 3 corporate auditors of subsidiary 8 employees of subsidiary	780 shares	2004.5.17	¥ 200,000 $(2,150.53)	From April 1, 2004 to September 20, 2013

The stock option activity was as follows:

	Shares			
	The First Stock Option	The Second Stock Option	The Third Stock Option	The Fourth Stock Option
For the year ended March 31, 2010:				
Vested				
March 31, 2009—Outstanding	**3,950**	**1,440**	**120**	**390**
Vested				
Excercised	**(120)**		**(10)**	
Canceled				
March 31, 2010—Outstanding	**3,830**	**1,440**	**110**	**390**
Exercise price	**¥ 200,000** **$(2,150.53)**	**¥ 200,000** **$(2,150.53)**	**¥ 200,000** **$(2,150.53)**	**¥ 200,000** **$(2,150.53)**
Average stock price at exercise	**¥ 223,350** **$(2,401.61)**		**¥ 248,700** **$(2,674.19)**	

	Shares			
	The First Stock Option	The Second Stock Option	The Third Stock Option	The Fourth Stock Option
For the year ended March 31, 2009				
Vested				
March 31, 2008—Outstanding	4,130	1,460	130	390
Vested				
Exercised	(170)		(10)	
Canceled	(10)	(20)		
March 31, 2009—Outstanding	3,950	1,440	120	390
Exercise price	¥200,000	¥200,000	¥200,000	¥200,000
Average stock price at exercise	¥258,920		¥268,000	

11. RELATED PARTY TRANSACTIONS

Net sales and purchases representing transactions of the Group with an unconsolidated subsidiary and associated companies for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Net sales	**¥859**	¥978	**$9,236**
Purchases	**59**	67	**634**

In connection with the stock option plans described in Note 10, Takara Bio Inc., the Company's consolidated subsidiary, issued to its directors 60 shares of common stock upon exercise of 6 stock options at the price of ¥200,000 ($2,041.81) per share. The total transaction amount for the year ended March 31, 2010 was ¥12 million ($129 thousand).

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥3,665 million ($39,408 thousand) and ¥3,343 million for the years ended March 31, 2010 and 2009, respectively.

13. 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 41% for the years ended March 31, 2010 and 2009. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Current Deferred Tax Assets:			
Inventories	¥ 255	¥ 339	$ 2,741
Accrued bonuses	849	845	9,129
Allowance for accrued sales promotion expenses	599	592	6,440
Tax loss carryforwards	268	226	2,881
Enterprise tax payable	199	205	2,139
Unrealized profit on sales of inventories	194	247	2,086
Other	310	248	3,333
Less valuation allowance	(25)	(44)	(268)
Total	¥ 2,652	¥ 2,660	$ 28,516
Current Deferred Tax Liabilities:			
Allowance for doubtful accounts	¥ 18	¥ 18	$ 193
Other	45	20	483
Total	¥ 64	¥ 39	$ 688
Net Current Deferred Tax Assets	¥ 2,589	¥ 2,621	$ 27,838
Net Current Deferred Tax Liabilities	¥ 2		$ 21
Non-current Deferred Tax Assets:			
Retirement benefits	¥ 3,919	¥ 3,797	$ 42,139
Impairment loss	136	94	1,462
Tax loss carryforwards	2,349	1,597	25,258
Marketable and investment securities	408	379	4,387
Depreciation	564	729	6,064
Deduction of foreign corporation tax carried forward	361	559	3,881
Other	380	450	4,086
Less valuation allowance	(2,521)	(2,137)	(27,107)
Total	¥ 5,598	¥ 5,471	$ 60,193
Non-current Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥ 2,664	¥ 1,533	$ 28,645
Basis difference of acquired intangible assets	402	571	4,322
Deferred gain on fixed assets	434	490	4,666
Deferred gain on fixed assets inherited by corporate division	664	694	7,139
Other	343	238	3,688
Total	¥ 4,509	¥ 3,528	$ 48,483
Net Non-current Deferred Tax Assets	¥ 3,117	¥ 2,945	$ 33,516
Net Non-current Deferred Tax Liabilities	¥ 2,028	¥ 1,002	$ 21,806

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 was as follows:

	2010	2009
Normal effective statutory tax rate in Japan	41.0%	41.0%
Expenses not deductible for income tax purposes	5.5	5.3
Increase (decrease) in valuation allowance	6.8	(17.3)
Other—net	(12.9)	(0.9)
Actual effective tax rate	40.4%	28.1%

At March 31, 2010, certain subsidiaries have tax loss carryforwards aggregating approximately ¥4,856 million ($52,215 thousand) which are available to be offset against taxable income of such subsidiaries. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 167	$ 1,795
2015	551	5,924
2016	3,702	39,806
2017	434	4,666
Total	¥4,856	$52,215

14. LEASES

Lessee

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

Total rental expense for the years ended March 31, 2010 and 2009 were ¥2,129 million ($22,892 thousand) and ¥2,247 million, respectively, including ¥379 million ($4,075 thousand) and ¥441 million of lease payments under finance leases, respectively.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions.

As discussed in Note 2.l, the Company and its domestic subsidiaries account for leases which existed at March 31, 2008 ("the transition date") and which do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense, on an "as if capitalized" basis for the years ended March 31, 2010 and 2009 was as follows:

	Millions of Yen				
	2010				
	Buildings and Structures	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	¥77	¥550	¥1,042	¥138	¥1,807
Accumulated depreciation	32	338	616	79	1,060
Net leased property	¥45	¥212	¥ 425	¥ 58	¥ 741

	Millions of Yen				
	2009				
	Buildings and Structures	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	¥77	¥624	¥1,222	¥141	¥2,065
Accumulated depreciation	21	304	537	54	917
Net leased property	¥56	¥319	¥ 684	¥ 86	¥1,147

	Thousands of U.S. Dollars				
	2010				
	Buildings and Structures	Machinery and Vehicles	Furniture and Fixtures	Other	Total
Acquisition cost	$827	$5,913	$11,204	$1,483	$19,430
Accumulated depreciation	344	3,634	6,623	849	11,462
Net leased property	$483	$2,279	$ 4,569	$ 623	$ 7,967

Obligations under finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥355	¥ 391	$3,817
Due after one year	408	788	4,387
Total	¥763	¥1,180	$8,204

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

Depreciation expense computed by the straight-line method was ¥379 million ($4,075 thousand) and ¥441 million for the years ended March 31, 2010 and 2009, respectively.

Obligations under operating leases as of March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥ 564	¥ 393	$ 6,064
Due after one year	4,139	3,030	44,505
Total	¥4,704	¥3,423	$50,580

Lessor

The amounts of lease receipts under finance leases were ¥25 million ($268 thousand) and ¥34 million for the years ended March 31, 2010 and 2009, respectively.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if sold" information is disclosed in the note to the financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions.

As discussed in Note 2.l, one domestic subsidiary accounts for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, lessor's receivables under finance leases and depreciation expense, on an "as if sold" basis for the years ended March 31, 2010 and 2009 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Machinery, Vehicles and Other		Machinery, Vehicles and Other
	2010	2009	2010
Acquisition cost	¥88	¥122	$946
Accumulated depreciation	62	74	666
Net leased property	¥25	¥ 48	$268

Lessor's receivables under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥28	¥35	$301
Due after one year	20	48	215
Total	¥48	¥84	$516

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

Depreciation expense was ¥22 million ($236 thousand) and ¥31 million for the years ended March 31, 2010 and 2009, respectively.

15. CONTINGENT LIABILITIES

At March 31, 2010, the Group was contingently liable for ¥241 million ($2,591 thousand) of loans guaranteed.

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

The Group invests in low risk financial assets, if it holds cash surpluses. The Group uses financial instruments, mainly bank loans and bonds, based on its capital financing plan. Derivatives are used, not for speculative or trading purposes, but to avoid risks as described below.

Nature and extent of risks arising from financial instruments and risk management for financial instruments

Credit risk and market risk

Although receivables such as notes and trade accounts are exposed to customer credit risk, the Group manages due dates and account balances for every customer to indentify doubtful receivables early and to mitigate default risk.

Although marketable securities, mainly certificates of deposit and held-to-maturity securities are exposed to the credit risks of the bond issuers, the credit risk is kept extremely low by limiting funding to short maturities and high credit rating bonds. Although investment securities, mainly stock, are exposed to the risk of market price fluctuations, the Group reviews the fair values quarterly if investment securities have market prices, and manages the financial condition of issuers regularly if they do not have market prices.

Payment terms of payables, such as notes and trade accounts, are less than 3 months. Although payables in foreign currencies such as raw materials and merchandise are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using currency options and foreign currency forward contracts.

Bank loans and bonds are utilized for financing of business transactions and capital investments. Payment terms of bank loans and bonds are a maximum of 12 years and 7 and a half years after the balance sheet date, respectively.

Derivative transactions entered into by the Group have been made in accordance with internal policies of the Finance Department, which regulates the authorization, purpose, credit limit amount, evaluation of the counterparties and reporting procedures. Derivative transactions mainly include foreign currency forward contracts, foreign currency options and foreign currency swaps for the purpose of hedging against the market risk of fluctuation in foreign currency exchange rates of transactions in foreign currencies. Although derivative transactions are exposed to the market risk of fluctuation in foreign currency exchange rates, these transactions are made only for the purpose of mitigating the risks of assets, liabilities and transactions that become a hedged item. As the Group established a limit on contract amounts, the Group also believes that the effect of market risks to its business administration is not significant. As the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds, the Group recognizes that the exposure to credit risk is extremely low.

Information regarding the valuation method of hedged items and hedging instruments related to hedge accounting, hedge policies and hedge effectiveness is included in Note 2.q.

Liquidity risk management

In the Group, the Finance Department develops and updates a plan of cash management pursuant to reporting by each department, and manages its liquidity risk by maintaining adequate volumes of liquid assets. In addition, consolidated subsidiaries also manage their liquidity risks in the same manner.

Supplementary explanation about matters related to fair values of financial instruments

Fair values of financial instruments are based on market price in active markets or other rational valuation techniques if market price does not exist. Fair values of financial instruments fluctuate as a result of adopting different preconditions because the calculation of fair values include fluctuation factors. With respect to the contract amounts related to derivative transactions in Note 16, the amounts do not reflect market risks related to derivative transactions.

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. See Note 17 for more details about fair value for derivatives.

• Fair value of financial instruments

March 31, 2010	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 31,500	¥ 31,500	
Notes and accounts receivable	45,718	45,718	
Marketable securities and investment securities	31,625	31,625	
Total	¥108,843	¥108,843	
Notes and accounts payable	¥ 13,972	¥ 13,972	
Short-term bank loans	10,140	10,142	¥ 2
Current portion of long-term bonds	5,000	5,028	28
Liquor taxes payable	7,939	7,939	
Accrued income taxes	1,945	1,945	
Bonds	15,000	15,436	436
Long-term bank loans	579	564	(15)
Total	¥ 54,577	¥ 55,030	¥452

March 31, 2010	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 338,709	$ 338,709	
Notes and accounts receivable	491,591	491,591	
Marketable securities and investment securities	340,053	340,053	
Total	$1,170,354	$1,170,354	
Notes and accounts payable	$ 150,236	$ 150,236	
Short-term bank loans	109,032	109,053	$ 21
Current portion of long-term bonds	53,763	54,064	301
Liquor taxes payable	85,365	85,365	
Accrued income taxes	20,913	20,913	
Bonds	161,290	165,978	4,688
Long-term bank loans	6,225	6,064	(161)
Total	$ 586,849	$ 591,720	$4,860

The carrying amounts or account titles do not necessarily correspond with those in the consolidated balance sheet due to the purpose of fair value information.

Cash and cash equivalents
The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Notes and accounts receivable
The carrying values of notes and accounts receivable approximate fair value because of their short maturities.

Marketable securities and investment securities
Marketable securities are mainly certificates of deposit or held-to-maturity securities. The carrying values of marketable securities and investment securities approximate fair value due to their short maturities. Investment securities are mainly stock and are measured at the market price. Moreover, information regarding the classification of securities is included in Note 3.

Notes and accounts payable
The carrying values of notes and accounts payable approximate fair value because of their short maturities.

Liquor taxes payable
The carrying values of liquor taxes payable approximate fair value because of their short maturities.

Accrued income taxes
The carrying values of accrued income taxes approximate fair value because of their short maturities.

Short-term bank loans
The carrying values of short-term bank loans approximate fair value because of their short maturities. Moreover, the fair values of the current portion of long-term bank loans are determined by discounting the cash flows related to the total of principal and interest at a reasonably estimated rate according to the remaining period.

Current portion of long-term bonds and bonds
The fair values of such instruments are determined by discounting the cash flows related to the total of principal and interest at the rate in which the remaining period to maturity and credit risk are reflected.

Long-term bank loans
The fair values of long-term bank loans are determined by discounting the cash flows related to the total of principal and interest at a reasonably estimated rate according to the remaining period.

Derivatives
The information of the fair value for derivatives is included in Note 17.
Investments in equity instruments that do not have a quoted market price in an active market and securities without contractual maturities (the total included in the consolidated balance sheet is ¥3,731 million) do not have fair values because their fair value cannot be reliably determined. Moreover, deposits from customers do not have fair values because their fair value cannot be reliably determined.

• Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2010	Due in One Year or Less	Due after One Year through Five Years	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥31,500		$338,709	
Notes and accounts receivable	45,718		491,591	
Marketable and investment securities				
Held-to-maturity securities:				
(1) Commercial paper	1,998		21,483	
(2) Others	1,998		21,485	
Available-for-sale securities with contractual maturities:				
(1) Government bond and municipal bond	523		5,623	
(2) Corporate bond		¥32		$344
(3) Others	9,750		104,838	
Total	¥91,490	¥32	$983,763	$344

17. DERIVATIVES

The Group enters into foreign currency forward contracts, foreign currency options and foreign 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, purpose, credit limit amount, evaluation of the counterparties and reporting procedures.

Derivative transactions to which hedge accounting is not applied at March 31, 2010

Not applicable.

Derivative transactions to which hedge accounting is applied at March 31, 2010

		Millions of Yen		
At March 31, 2010	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency options:				
Buying call option U.S.$	Payables	¥ 2,780	¥ 1,853	¥28
Buying put option U.S.$	Payables	¥ 2,304	¥ 1,536	¥ 7
Foreign currency swaps:				
U.S.$, £	Advances	¥ 464	¥ 116	¥ (0)
Foreign currency forward contracts:				
U.S.$	Payable	¥ 214		¥ (3)

		Thousands of U.S. Dollars		
At March 31, 2010	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency options:				
Buying call option U.S.$	Payables	$29,892	$19,924	$301
Buying put option U.S.$	Payables	$24,774	$16,516	$ 75
Foreign currency swaps:				
U.S.$, £	Advances	$ 4,989	$ 1,247	$ (0)
Foreign currency forward contracts:				
U.S.$	Payable	$ 2,301		$ (32)

18. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	¥4,677	210,642	¥22.20	$0.23
Effect of dilutive securities				
Stock Option				
Diluted EPS				
Net income for computation	¥4,676	210,642	¥22.20	$0.23
For the year ended March 31, 2009:				
Basic EPS				
Net income available to common shareholders	¥5,639	214,316	¥26.32	
Effect of dilutive securities				
Stock Option				
Diluted EPS				
Net income for computation	¥5,638	214,316	¥26.31	

19. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

On May 11, 2010, the Board of Directors of the Company resolved to propose a cash dividend of ¥8.5 ($0.09) per share to shareholders of record as of March 31, 2010, or a total of ¥1,789 million ($19,236 thousand), for approval at the general shareholders' meeting to be held on June 29, 2010.

Appropriations of retained earnings as of March 31, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥8.5 ($0.09) per share	¥1,789	$19,236

Issuance of Unsecured Bonds

On May 26, 2010, the Company issued ¥5,000 million ($53,763 thousand) of 10th unsecured bonds, at the issue price of 100% of the face value of the bonds. The bonds bear interest at the rate of 0.587% per annum for the period from May 26, 2010 to May 26, 2012.

On May 26, 2010, the Company issued ¥5,000 million ($53,763 thousand) of 11th unsecured bonds, at the issue price of 100% of the face value of the bonds. The bonds bear interest at the rate of 1.561% per annum for the period from May 26, 2010 to May 26, 2020.

20. SEGMENT INFORMATION

Information about industry segments and geographical segments of the Company and consolidated subsidiaries for the years ended March 31, 2010 and 2009 was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen					
	2010					
	Alcoholic Beverages and Seasonings	Biomedical	Transportation	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥157,755	¥18,900	¥ 8,218	¥ 5,650		¥190,525
Intersegment sales	622	425	8,083	5,693	¥(14,825)	
Total sales	158,378	19,325	16,302	11,343	(14,825)	190,525
Operating expenses	150,146	18,761	15,917	11,181	(14,055)	181,952
Operating income	¥ 8,232	¥ 564	¥ 384	¥ 162	¥ (770)	¥ 8,572

	Millions of Yen					
	2009					
	Alcoholic Beverages and Seasonings	Biomedical	Transportation	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥159,386	¥18,402	¥ 8,779	¥ 6,222		¥192,790
Intersegment sales	736	511	8,224	5,664	¥(15,137)	
Total sales	160,123	18,913	17,004	11,886	(15,137)	192,790
Operating expenses	151,641	18,476	16,521	11,768	(14,468)	183,939
Operating income	¥ 8,481	¥ 437	¥ 482	¥ 117	¥ (668)	¥ 8,851

	Thousands of U.S. Dollars					
	2010					
	Alcoholic Beverages and Seasonings	Biomedical	Transportation	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$1,696,290	$203,225	$ 88,365	$ 60,752		$2,048,655
Intersegment sales	6,688	4,569	86,913	61,215	$(159,408)	
Total sales	1,702,989	207,795	175,290	121,967	(159,408)	2,048,655
Operating expenses	1,614,473	201,731	171,150	120,225	(151,129)	1,956,473
Operating income	$ 88,516	$ 6,064	$ 4,129	$ 1,741	$ (8,279)	$ 92,172

b. Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen					
	2010					
	Alcoholic Beverages and Seasonings	Biomedical	Transportation	Other	Eliminations/ Corporate	Consolidated
Assets	¥111,087	¥43,651	¥6,244	¥10,671	¥23,841	¥195,495
Depreciation	3,155	1,230	304	129	19	4,839
Impairment loss		122			4	127
Capital expenditures	1,976	1,069	453	136	9	3,645

	Millions of Yen					
	2009					
	Alcoholic Beverages and Seasonings	Biomedical	Transportation	Other	Eliminations/ Corporate	Consolidated
Assets	¥109,859	¥43,117	¥6,073	¥11,621	¥20,120	¥190,792
Depreciation	3,299	1,346	289	121	18	5,074
Impairment loss	22				207	229
Capital expenditures	1,941	1,059	438	140	36	3,616

	Thousands of U.S. Dollars					
	2010					
	Alcoholic Beverages and Seasonings	Biomedical	Transportation	Other	Eliminations/ Corporate	Consolidated
Assets	$1,194,483	$469,365	$67,139	$114,741	$256,354	$2,102,096
Depreciation	33,924	13,225	3,268	1,387	204	52,032
Impairment loss		1,311			43	1,365
Capital expenditures	21,247	11,494	4,870	1,462	96	39,193

Notes: 1. Eliminations/Corporate include unallocated operating expenses of ¥970 million ($10,430 thousand) and ¥868 million for the years ended March 31, 2010 and 2009, respectively, consisting principally of expenses incurred by the Company, which is the holding company.
2. Eliminations/Corporate include corporate assets of ¥33,264 million ($357,677 thousand) and ¥30,150 million for the years ended March 31, 2010 and 2009, respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to the Company's administration headquarters.

(2) Geographical Segments

	Millions of Yen			
	2010			
	Japan	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥178,790	¥11,734		¥190,525
Intersegment sales	2,170	2,390	¥ (4,561)	
Total sales	180,961	14,124	(4,561)	190,525
Operating expenses	172,374	13,260	(3,681)	181,952
Operating income	¥ 8,587	¥ 864	¥ (879)	¥ 8,572
Assets	¥148,963	¥21,513	¥25,018	¥195,495

	Millions of Yen			
	2009			
	Japan	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥179,940	¥12,850		¥192,790
Intersegment sales	2,285	2,730	¥ (5,016)	
Total sales	182,226	15,580	(5,016)	192,790
Operating expenses	173,405	14,674	(4,140)	183,939
Operating income	¥ 8,821	¥ 905	¥ (875)	¥ 8,851
Assets	¥148,334	¥21,169	¥21,287	¥190,792

	Thousands of U.S. Dollars			
	2010			
	Japan	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$1,922,473	$126,172		$2,048,655
Intersegment sales	23,333	25,698	$ (49,043)	
Total sales	1,945,817	151,870	(49,043)	2,048,655
Operating expenses	1,853,483	142,580	(39,580)	1,956,473
Operating income	$ 92,333	$ 9,290	$ (9,451)	$ 92,172
Assets	$1,601,752	$231,322	$269,010	$2,102,096

Notes: 1. The countries belonging to the classification of those other than Japan is as follows.
Other: United States of America, United Kingdom, China, South Korea, France and Singapore
2. Eliminations/Corporate include unallocated operating expenses of ¥970 million ($10,430 thousand) and ¥868 million for the years ended March 31, 2010 and 2009, respectively, consisting principally of expenses incurred by the Company, which is the holding company.
3. Eliminations/Corporate include corporate assets of ¥33,264 million ($357,677 thousand) and ¥30,150 million for the years ended March 31, 2010 and 2009, respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to the Company's administration headquarters.

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INDEPENDENT AUDITORS' REPORT

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, 2010 and 2009, and the related consolidated statements of income, changes in 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, 2010 and 2009, 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.

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 LLC

June 14, 2010

Member of
Deloitte Touche Tohmatsu

SIX-YEAR FINANCIAL SUMMARY

Takara Holdings Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen						Thousands of U.S. Dollars
	2010	2009	2008	2007	2006	2005	**2010**
For the Years Ended March 31:							
Sales to customers	**¥190,525**	¥192,790	¥191,878	¥198,535	¥196,119	¥195,359	**$2,048,655**
Alcoholic Beverages and Seasonings segment	**157,755**	159,386	156,780	167,665	—	—	**1,696,290**
Biomedical segment	**18,900**	18,402	19,793	20,574	—	—	**203,225**
Transportation segment	**8,218**	8,779	8,762	5,977	—	—	**88,365**
Other segment	**5,650**	6,222	6,540	4,318	—	—	**60,752**
(Former) Alcoholic Beverages and Foods segment	—	—	—	173,642	176,107	178,068	—
(Former) Biomedical segment	—	—	—	20,574	16,490	13,671	—
(Former) Other segment	—	—	—	4,318	3,520	3,618	—
Cost of sales	**115,805**	118,849	117,864	122,325	120,132	119,114	**1,245,215**
Gross profit	**74,719**	73,941	74,014	76,210	75,986	76,244	**803,430**
SG&A expenses	**66,146**	65,090	65,507	68,550	70,062	68,841	**711,247**
Operating income	**8,572**	8,851	8,506	7,660	5,924	7,402	**92,172**
Income before income taxes and minority interests in net income of consolidated subsidiaries	**8,208**	8,193	8,321	7,660	7,876	6,813	**88,258**
Net income	**4,677**	5,639	4,658	4,208	5,320	2,614	**50,290**
Depreciation and amortization	**5,652**	5,992	6,384	6,692	6,755	6,393	**60,774**
Capital expenditures	**3,645**	3,616	3,852	3,617	5,633	6,511	**39,193**
R&D expenses	**3,665**	3,343	3,643	3,593	3,574	3,353	**39,408**
As of March 31:							
Total assets	**¥195,495**	¥190,792	¥207,843	¥213,393	¥212,466	¥190,773	**$2,102,096**
Interest-bearing debt	**39,162**	39,092	43,717	39,083	39,330	40,347	**421,096**
Total equity	**109,206**	105,316	113,273	115,570	—	—	**1,174,258**
Total shareholders' equity	**96,666**	93,093	99,969	102,507	101,839	89,478	**1,039,419**
Per Share of Common Stock (Yen and U.S. Dollars):							
Basic net income	**¥22.20**	¥26.32	¥21.53	¥19.44	¥24.39	¥11.74	**$0.23**
Cash dividends	**8.50**	8.50	8.50	7.50	9.00	7.50	**0.09**
Ratios (%):							
Return on assets (ROA)	**2.4%**	2.8%	2.2%	2.0%	2.6%	1.4%	—
Return on equity (ROE)	**4.9**	5.8	4.6	4.1	5.6	2.9	—
Equity ratio	**49.4**	48.8	48.1	48	47.9	46.9	—

Notes: 1. Japanese yen figures are rounded down to the nearest million yen. Per share data information is rounded to the nearest yen, and ratios to the first decimal place.
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 ¥93 to U.S.$1, the approximate rate of exchange at March 31, 2010.
3. Effective April 1, 2007, the Group changed its industry segmentation from Alcoholic Beverages and Foods, Biomedical and Other to Alcoholic Beverages and Seasonings, Biomedical, Transportation and Other, because the sales amount of the transporation business, which was previously included in the Alcoholic Beverages and Foods segment, has increased. The accounts of Nagasaki Transport Co., Ltd. (currently, CHOU UN Co., Ltd.), which was newly consolidated from fiscal 2007, were included for the 12-month period for fiscal 2008. In addition, effective April 1, 2007, the Group changed the name of the Alcoholic Beverages and Foods segment to the Alcoholic Beverages and Seasonings segment due to withdrawal from the non-alcoholic beverages business.
4. Effective fiscal 2007, the Company applied the Accounting Standard for Presentation of Net Assets in the Balance Sheet and the Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet. As a result, starting from fiscal 2007 the sum of Total shareholders' equity and Minority interests is listed as Total equity.
5. The amount listed in Total shareholders' equity at March 31, 2007 is calculated by subtracting Minority interests and Stock acquisition rights from Total equity. Please note that the balance sheets of fiscal 2006 and before list Total shareholders' equity.

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