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Consolidated Financial Statements for the Second Quarter Ended September 30, 2021 FY2022 (April 1, 2021 - March 31, 2022) [UNAUDITED]

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 Stock exchange listings: Tokyo Stock Exchange (1st section)
 Code number: 2531
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Quarterly statement filing date (as planned): November 12, 2021

- Notes: 1. The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.
 2. Amounts are rounded down to the nearest million yen.

1. Results for the six months ended September 30, 2021 (April 1, 2021 - September 30, 2021)

(1) Consolidated Operating results

Note: Percentages indicated changes from the same period of the previous fiscal year.

	Six months ended September 30, 2021		Six months ended September 30, 2020	
	(Millions of yen)	(%)	(Millions of yen)	(%)
Net sales	141,213	-	127,784	(7.1)
Operating income (loss)	21,616	273.8	5,782	(24.1)
Ordinary income (loss)	21,884	268.4	5,940	(24.5)
Net income (loss) attributable to owners of the parent	10,050	263.9	2,761	(36.9)
Net income (loss) per share (Yen)	50.84		13.97	
Fully diluted net income per share (Yen)	-		-	
Note: Comprehensive income (loss)	21,056	765.4	2,433	(12.3)

Since the "Accounting Standard for Revenue Recognition" (Corporate Accounting Standard No. 29), etc. has been adopted from FY2022, the above results is the amount after applying the accounting standard. Therefore, the rate of increase and decrease concerning sales compared to the previous year and is not stated.

(2) Consolidated Financial position

	As of September 30, 2021	As of March 31, 2021
	(Millions of yen)	(Millions of yen)
Total assets	328,097	306,918
Net assets	205,795	191,535
Equity ratio (%)	50.7	51.1
(Reference) Equity	166,385	156,884

2. Dividends

	Dividend per share (Yen)		
	Year ended March 31, 2021	Year ending March 31, 2022	Year ending March 31, 2022 (Forecast)
First quarter end	-	-	-
Second quarter end	-	-	-
Third quarter end	-	-	-
Year end	21.00	-	29.00
Annual	21.00	-	29.00

Note: Correction of dividend forecast from the most recent dividend forecast : Yes

3. Forecast for the year ending March 31, 2022 (April 1, 2021 - March 31, 2022)

Note: Percentages indicated changes from the same period of the previous fiscal year.

	Year ending March 31, 2022	
	(Millions of yen)	(%)
Net sales	289,000	-
Operating income (loss)	33,400	54.7
Ordinary income (loss)	33,800	54.1
Net income (loss) attributable to owners of the parent	16,100	52.3
Net income per share (Yen)	81.43	

Note: Correction of financial forecast from the most recent financial forecast : Yes

Since the "Accounting Standard for Revenue Recognition" (Corporate Accounting Standard No. 29), etc. has been adopted from FY2022, the above results is the amount after applying the accounting standard. Therefore, the rate of increase and decrease concerning sales compared to the previous year and is not stated.

4. Others

- (1) Material changes in subsidiaries during this period
(Changes in specified subsidiaries that caused a change in the scope of consolidation): No
- (2) Accounting procedures specific to quarterly consolidated financial statements: No
- (3) Changes in accounting policies, accounting estimates and retrospective restatement
 - 1) Changes based on revisions of accounting standard: Yes
 - 2) Changes other than ones based on revisions of accounting standard: No
 - 3) Changes in accounting estimates: No
 - 4) Restatement: No
- (4) Number of outstanding shares (common stock)
 - 1) Number of outstanding shares at the end of each period (Treasury stocks are included):

As of September 30, 2021	199,699,743 shares
As of March 31, 2021	199,699,743 shares
 - 2) Number of treasury stocks at the end of each period:

As of September 30, 2021	1,995,490 shares
As of March 31, 2021	1,995,468 shares
 - 3) Average number of outstanding shares in each period:

Six months ended September 30, 2021	197,704,258 shares
Six months ended September 30, 2020	197,704,590 shares

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1. Qualitative Information for the Six Months Ended September 30, 2021

The Accounting Standard for Revenue Recognition, etc. have been adopted from the beginning of the three months ended June 30, 2021. As a result, net sales in the six months ended September 30, 2021 have been recorded in accordance with the standard which is different from the standard applied to net sales in the six months ended September 30, 2020. Therefore, concerning explanation on net sales, gross profit, and SG&A expenses on a consolidated basis and of the Takara Shuzo segment, which were significantly impacted by the change in the standard, the rate of increase and decrease compared to the same period of the previous fiscal year is not stated. There was no impact on income items from operating income onwards. The effect of the application of the Accounting Standard for Revenue Recognition, etc. is described in “2. Consolidated Quarterly Financial Statements and Primary Notes (4) Notes to Consolidated Financial Statements (Changes in Accounting Policies).”

(1) Consolidated Financial Results

In the six months ended September 30, 2021, driven by the favorable performance of the Takara Shuzo International Group and the Takara Bio Group, net sales were ¥141,213 million, gross profit was ¥54,340 million, and SG&A expenses were ¥32,724 million. Operating income grew 273.8% year on year to ¥21,616 million, while ordinary income rose 268.4% year on year to ¥21,884 million, increasing both sales and income, absorbing the impact of the Accounting Standard for Revenue Recognition, etc. In addition, net income attributable to owners of the parent increased 263.9% year on year to ¥10,050 million, although loss on voluntary product recall of ¥1,567 million was posted under extraordinary loss.

Results by business segment were as follows.

[Takara Shuzo]

In the six months ended September 30, 2021, even in a comparison excluding the effect of application of the Accounting Standard for Revenue Recognition, etc., sales of raw alcohol, etc. and sake decreased. In addition, sales of light-alcohol refreshers decreased due to the voluntary product recall.

As a result, net sales for Takara Shuzo were ¥57,633 million, including the effect of the application of the Accounting Standard for Revenue Recognition, etc. of ¥(13,915) million. Cost of sales was ¥43,341 million, and gross profit was ¥14,291 million. SG&A expenses were ¥12,020 million due to efforts for cost reduction in addition to the effect of the application of the Accounting Standard for Revenue Recognition, etc. of ¥(13,915) million. Operating income was up 39.6% year on year to ¥2,270 million.

[Takara Shuzo International Group]

In the six months ended September 30, 2021, net sales of the Overseas Alcoholic Beverages Business increased 53.1% year on year to ¥7,005 million, mainly due to continued growth in sales of whiskey in the U.K. and the U.S. as well as an increase in sales of sake which had decreased in the previous fiscal year, affected by the coronavirus crisis. Net sales of the Japanese Food Wholesale Business in overseas markets increased 49.1% year on year to ¥40,410 million, primarily due to the ongoing recovery in the eating and drinking establishment market from the coronavirus crisis.

As a result, net sales for the Takara Shuzo International Group increased 49.4% year on year to ¥46,734 million. Cost of sales increased 43.4% year on year to ¥31,747 million. Consequently, gross profit increased 63.9% year on year to ¥14,987 million. SG&A expenses rose 12.0% year on year to ¥10,682 million, primarily due to an increase in personnel expenses and transportation costs, and operating income amounted to ¥4,304 million, compared to operating loss of ¥396 million in the six months ended September 30, 2020.

[Takara Bio Group]

In the six months ended September 30, 2021, although sales of gene therapy decreased year on year, sales of reagents, instruments, and CDMO increased year on year. In sales of reagents in particular, in addition to PCR testing-related products for the new coronavirus, sales of general research reagents, which are continuing to recover, increased.

As a result, net sales for the Takara Bio Group increased 81.4% year on year to ¥31,551 million. Cost of sales increased 44.7% year on year to ¥8,056 million in line with the improvement in the cost of sales ratio for CDMO. Consequently, gross profit increased 98.6% year on year to ¥23,495 million. SG&A expenses were up 16.1% year on year to ¥9,389 million, primarily due to an increase in personnel expenses and R&D expenses. Operating income increased 277.5% year on year to ¥14,105 million.

[Other]

In the six months ended September 30, 2021, net sales of the Other segment increased 3.1% year on year to ¥14,624 million. Cost of sales increased 2.4% year on year to ¥12,684 million. Consequently, gross profit increased 7.9% year on year to ¥1,940 million. SG&A expenses fell 4.1% year on year to ¥910 million, primarily due to a decline in personnel expenses, and

operating income was up 21.4% year on year to ¥1,029 million.

Breakdown of sales results by product category

Segment	Equivalent Period of Previous Fiscal Year (From April 1, 2020, to September 30, 2020)	Period under Review (from April 1, 2021, to September 30, 2021)	YoY Comparison
Product category	Amount (Millions of yen)	Amount (Millions of yen)	(%)
Takara Shuzo			
Shochu	24,284	19,315	(20.5)
Sake	6,792	4,718	(30.5)
Light-alcohol refreshers	24,024	18,808	(21.7)
Other alcoholic beverages	2,684	2,529	(5.8)
<i>Hon Mirin</i>	6,288	4,258	(32.3)
Other seasonings	4,976	4,079	(18.0)
Raw alcohol, etc.	5,114	3,922	(23.3)
Total	74,164	57,633	(22.3)
Takara Shuzo International Group			
Overseas Alcoholic Beverages Business	4,574	7,005	53.1
Japanese Food Wholesales Business in overseas markets	27,099	40,410	49.1
Other	35	29	(16.9)
Elimination of intra-Group transaction on consolidation	(424)	(710)	—
Total	31,286	46,734	49.4
Takara Bio Group			
Reagents	13,336	25,966	94.7
Instruments	466	712	52.6
CDMO	3,373	4,732	40.3
Gene therapy	215	140	(35.0)
Total	17,393	31,551	81.4
Reported segment total	122,844	135,919	10.6
Other	14,186	14,624	3.1
Segment total	137,030	150,544	9.9
Sales not allocated to business segments and intersegment transactions	(9,246)	(9,331)	—
Total	127,784	141,213	10.5

Notes: 1. Amounts include alcohol tax.

2. From the three months ended June 30, 2021, the names of the product categories of Takara Bio Group have been changed from “Research reagents,” “Scientific instruments” and “Contract services” to “Reagents,” “Instruments” and “CDMO.”

(Reference) [Before applying the Accounting Standard for Revenue Recognition]**Breakdown of sales results by product category**

Segment	Equivalent Period of Previous Fiscal Year (From April 1, 2020, to September 30, 2020)	Period under Review (from April 1, 2021, to September 30, 2021)	YoY Comparison
Product category	Amount (Millions of yen)	Amount (Millions of yen)	(%)
Takara Shuzo			
Shochu	24,284	24,173	(0.5)
Sake	6,792	6,066	(10.7)
Light-alcohol refreshers	24,024	23,115	(3.8)
Other alcoholic beverages	2,684	2,828	5.4
<i>Hon Mirin</i>	6,288	6,344	0.9
Other seasonings	4,976	5,093	2.4
Raw alcohol, etc.	5,114	3,928	(23.2)
Total	74,164	71,549	(3.5)
Takara Shuzo International Group			
Overseas Alcoholic Beverages Business	4,574	7,019	53.4
Japanese Food Wholesales Business in overseas markets	27,099	40,410	49.1
Other	35	29	(16.9)
Elimination of intra-Group transaction on consolidation	(424)	(710)	—
Total	31,286	46,748	49.4
Takara Bio Group			
Reagents	13,336	25,966	94.7
Instruments	466	712	52.6
CDMO	3,373	4,732	40.3
Gene therapy	215	140	(35.0)
Total	17,393	31,551	81.4
Reported segment total	122,844	149,849	22.0
Other	14,186	14,624	3.1
Segment total	137,030	164,474	20.0
Sales not allocated to business segments and intersegment transactions	(9,246)	(9,331)	—
Total	127,784	155,143	21.4

Note: For convenience of comparison, net sales for the six months ended September 30, 2021 are the amounts to which the Accounting Standard for Revenue Recognition, etc. are not applied.

(2) Consolidated Financial Position

As of September 30, 2021, current assets were ¥197,879 million, an increase of ¥14,771 million compared with that at the end of the previous fiscal year. This was primarily due to an increase in cash and deposits of ¥5,012 million, an increase in inventories of ¥4,147 million, and an increase in notes and accounts receivable-trade of ¥3,744 million. Noncurrent assets were ¥130,218 million, an increase of ¥6,408 million compared with that at the end of the previous fiscal year. This was primarily due to an increase of ¥5,487 million in property, plant and equipment resulting from interior finishing work of Takara Bio USA, Inc.'s new office buildings, Takara Bio Inc.'s acquisition of manufacturing facilities, etc.

As a result, total assets were ¥328,097 million, an increase of ¥21,179 million compared with that at the end of the previous fiscal year.

As of September 30, 2021, current liabilities were ¥73,636 million, an increase of ¥17,367 million compared with that at the end of the previous fiscal year. This was primarily due to an increase of ¥8,890 million in other under current liabilities as a result of the recording of refund liabilities of ¥5,690 million following the application of the Accounting Standard of Revenue

Recognition, etc., as well as due to an increase in current portion of bonds of ¥10,000 million. Noncurrent liabilities were ¥48,665 million, a decrease of ¥10,447 million compared with that at the end of the previous fiscal year, primarily due to the transfer of bonds to current liabilities.

As a result, total liabilities were ¥122,302 million, an increase of ¥6,919 million compared with that at the end of the previous fiscal year.

As of September 30, 2021, total net assets were ¥205,795 million, an increase of ¥14,260 million compared with that at the end of the previous fiscal year. This was primarily due to an increase in foreign currency translation adjustment of ¥4,974 million reflecting a weak yen, and due to an increase in noncontrolling interests of ¥4,759 million resulting from strong performance of the Takara Bio Group.

As a result, the equity ratio totaled 50.7%, compared with 51.1% at the end of the previous fiscal year.

In the six months ended September 30, 2021, net cash provided by operating activities increased ¥5,716 million year on year to ¥11,798 million primarily due to income before income taxes of ¥20,400 million, depreciation and amortization of ¥4,061 million, an increase in notes and accounts receivable-trade of ¥2,850 million, an increase in inventories of ¥2,472 million, and ¥6,365 million in income taxes paid.

Net cash used in investing activities resulted in expenditure of ¥12,066 million, an increase in expenditure of ¥8,963 million compared to the same period of the previous fiscal year primarily due to payments into time deposits of ¥10,757 million, proceeds from withdrawal of time deposits of ¥2,119 million, purchase of property, plant and equipment and intangible assets of ¥6,827 million, and subsidies received of ¥3,349 million.

Net cash used in financing activities resulted in expenditure of ¥5,620 million, compared with net cash provided by financing activities of ¥1,202 million in the same period of the previous fiscal year primarily due to cash dividends paid of ¥4,144 million.

As a result, cash and cash equivalents as of September 30, 2021, including effect of exchange rate change on cash and cash equivalents, stood at ¥58,775 million, down ¥4,085 million from the previous fiscal year-end.

(3) Qualitative Information Regarding Consolidated Forecasts

The Company has revised the full-year consolidated results forecasts published on August 3, 2021 in consideration of recent performance trends.

For the fiscal year ending March 31, 2022, overall consolidated net sales are expected to exceed the previous forecast (announced on August 3, 2021) and reach a record high, with higher net sales for the Takara Shuzo International Group and the Takara Bio Group, although net sales for Takara Shuzo are projected to be lower than the forecast.

In terms of profit, operating income, ordinary income, and net income attributable to owners of the parent are expected to exceed the previous forecast and are projected to be an all-time high, with higher gross profit due to the increase in net sales and a decrease in the cost of sales ratio, despite an increase in SG&A expenses.

For further details of the revision to the consolidated business result forecast, please refer to “Revision of Consolidated Business Results Forecast and Dividend Forecast (Dividend Increase) for the Fiscal Year Ending March 31, 2022,” announced today (November 9, 2021). Also, for the details of forecasts for each business segment, please refer to pages 14/22-17/22 in “Supplement for the Consolidated Financial Statements.”

(Full-Year Consolidated Results Forecasts for the fiscal year ending March 31, 2022)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
Previous forecast (A) (Published August 3, 2021)	(Millions of yen) 275,000	(Millions of yen) 28,600	(Millions of yen) 29,000	(Millions of yen) 13,400	(Yen) 67.78
Revised forecast (B)	289,000	33,400	33,800	16,100	81.43
Difference (B – A)	14,000	4,800	4,800	2,700	—
Difference (%)	5.1	16.8	16.6	20.1	—
Reference: Business results for previous fiscal year (Ended March 31, 2021)	278,443	21,595	21,929	10,574	53.48

2. Consolidated Quarterly Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of Mar. 31, 2021	As of Sept. 30, 2021
Assets		
Current assets		
Cash and deposits	66,238	71,250
Notes and accounts receivable-trade	61,954	65,699
Securities	1,145	980
Merchandise and finished goods	41,115	44,268
Work in process	1,924	2,318
Raw materials and supplies	6,084	6,685
Other	5,161	7,154
Allowance for doubtful accounts	(516)	(478)
Total current assets	183,108	197,879
Noncurrent assets		
Property, plant and equipment	74,740	80,228
Intangible assets		
Goodwill	10,142	10,299
Other	5,746	5,645
Total intangible assets	15,889	15,945
Investments and other assets		
Investment securities	27,924	28,425
Other	5,324	5,683
Allowance for doubtful accounts	(69)	(64)
Total investments and other assets	33,180	34,045
Total noncurrent assets	123,810	130,218
Total assets	306,918	328,097

(Millions of Yen)

	As of Mar. 31, 2021	As of Sept. 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable-trade	16,481	17,919
Short-term loans payable	5,166	5,035
Current portion of bonds	—	10,000
Accrued alcohol tax	6,890	6,440
Accrued expenses	6,455	4,275
Income taxes payable	4,021	4,971
Provision	4,914	3,762
Other	12,340	21,231
Total current liabilities	56,269	73,636
Noncurrent liabilities		
Bonds payable	20,000	10,000
Long-term loans payable	15,465	15,262
Lease obligations	3,122	3,216
Net defined benefit liability	9,274	9,256
Long-term deposits received	5,136	5,091
Other	6,114	5,840
Total noncurrent liabilities	59,113	48,665
Total liabilities	115,383	122,302
Net assets		
Shareholders' equity		
Capital stock	13,226	13,226
Capital surplus	2,292	2,348
Retained earnings	135,184	139,215
Treasury stock	(1,682)	(1,682)
Total shareholders' equity	149,020	153,107
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,370	11,726
Deferred gains or losses on hedges	193	203
Foreign currency translation adjustment	(2,840)	2,133
Remeasurements of defined benefit plans	(859)	(786)
Total accumulated other comprehensive income	7,863	13,277
Noncontrolling interests	34,650	39,410
Total net assets	191,535	205,795
Total liabilities and net assets	306,918	328,097

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**(Consolidated Statements of Income)****(For the Six Months Ended September 30, 2021 and 2020)**

(Millions of Yen)

	FY2021 (Apr. 1, 2020 – Sept. 30, 2020)	FY2022 (Apr. 1, 2021 – Sept. 30, 2021)
Net sales	127,784	141,213
Cost of sales	76,361	86,872
Gross profit	51,422	54,340
Selling, general and administrative expenses	45,639	32,724
Operating income	5,782	21,616
Nonoperating income		
Dividends income	283	311
Other	348	357
Total nonoperating income	632	669
Nonoperating expenses		
Interest expenses	176	160
Other	298	239
Total nonoperating expenses	474	400
Ordinary income	5,940	21,884
Extraordinary income		
National subsidies	—	1,188
Other	3	180
Total extraordinary income	3	1,368
Extraordinary loss		
Loss on tax purpose reduction entry of non-current assets	—	1,188
Loss on voluntary product recall	—	1,567
Loss on liquidation of business	464	—
Other	152	97
Total extraordinary losses	617	2,853
Income before income taxes	5,326	20,400
Income taxes-current	2,087	6,396
Income taxes-deferred	(189)	(354)
Total income taxes	1,898	6,041
Net income	3,428	14,358
Net income attributable to the noncontrolling interest	666	4,308
Net income attributable to owners of the parent	2,761	10,050

(Consolidated Statements of Comprehensive Income)
(For the Six Months Ended September 30, 2021 and 2020)

(Millions of Yen)

	FY2021 (Apr. 1, 2020 – Sept. 30, 2020)	FY2022 (Apr. 1, 2021 – Sept. 30, 2021)
Net income	3,428	14,358
Other comprehensive income		
Valuation difference on available-for-sale securities	1,345	355
Deferred gains or losses on hedges	(40)	10
Foreign currency translation adjustment	(2,316)	6,249
Remeasurements of defined benefit plans	16	81
Total other comprehensive income	(995)	6,697
Comprehensive income	2,433	21,056
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	2,248	15,464
Comprehensive income attributable to noncontrolling interest	184	5,591

(3) Consolidated Statements of Cash Flows

(Millions of Yen)

	FY2021 (Apr. 1, 2020 – Sept. 30, 2020)	FY2022 (Apr. 1, 2021 – Sept. 30, 2021)
Net cash provided by (used in) operating activities		
Income before income taxes	5,326	20,400
Depreciation and amortization	3,997	4,061
Loss on liquidation of business	464	–
Amortization of goodwill	432	432
Increase (decrease) in provision	(133)	(1,169)
Interest and dividends income	(370)	(381)
Interest expenses	176	160
Decrease (increase) in notes and accounts receivable-trade	2,168	(2,850)
Decrease (increase) in inventories	(3,041)	(2,472)
Increase (decrease) in notes and accounts payable-trade	(1,721)	1,008
Increase (decrease) in accrued consumption taxes	801	(1,316)
Other, net	189	(628)
Subtotal	8,290	17,244
Interest and dividends income received	393	411
Interest expenses paid	(196)	(162)
Income taxes paid	(2,406)	(6,365)
Subsidies received	–	671
Net cash provided by (used in) operating activities	6,081	11,798
Net cash provided by (used in) investing activities		
Payments into time deposits	(2,042)	(10,757)
Proceeds from withdrawal of time deposits	3,507	2,119
Proceeds from sales and redemption of securities	4,457	–
Purchase of property, plant and equipment and intangible assets	(8,821)	(6,827)
Subsidies received	–	3,349
Other, net	(203)	49
Net cash provided by (used in) investing activities	(3,102)	(12,066)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term borrowings	806	(330)
Proceeds from long-term borrowings	10,098	–
Redemption of bonds	(5,000)	–
Proceeds from issuance of commercial papers	5,000	–
Redemption of commercial papers	(5,000)	–
Cash dividends paid	(3,947)	(4,144)
Dividends paid to noncontrolling interests	(388)	(753)
Repayments of lease obligations	(333)	(348)
Other, net	(32)	(43)
Net cash provided by (used in) financing activities	1,202	(5,620)
Effect of exchange rate change on cash and cash equivalents	(471)	1,802
Net increase (decrease) in cash and cash equivalents	3,709	(4,085)
Cash and cash equivalents at beginning of period	44,541	62,860
Cash and cash equivalents at end of period	48,250	58,775

(4) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

No items to report.

(Notes on Material Changes in Shareholders' Equity)

No items to report.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the "Accounting Standard for Revenue Recognition"), etc. from the beginning of the three months ended June 30, 2021 and recognized revenue when control of promised goods or services is transferred to customers in an amount that is expected to be received in exchange for those goods or services. As a result, consideration paid to customers, which was previously treated as SG&A expenses, is deducted from net sales. In addition, an amount that is expected to be paid to customers after the balance sheet date, which was previously presented as part of "accrued expenses" and part of "provision" under "current liabilities," is included in "other" under "current liabilities" as refund liabilities.

With regard to the application of the Accounting Standard for Revenue Recognition, etc., in accordance with the transitional treatment stipulated in the provisions of paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the three months ended June 30, 2021 was added to or deducted from retained earnings at the beginning of the three months ended June 30, 2021, and a new accounting policy was applied from the beginning balance of the three months ended June 30, 2021.

As a result, in the six months ended September 30, 2021, net sales and SG&A expenses each decreased by ¥13,929 million. There was no impact on operating income, ordinary income, or income before income taxes. In addition, retained earnings at the beginning of the fiscal year ending March 31, 2022 decreased by ¥1,867 million, and refund liabilities included in "other" under current liabilities as of September 30, 2021 were ¥5,690 million.

In accordance with the transitional treatment stipulated in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information on breakdown of revenue from contracts with customers for the six months ended September 30, 2020 is not stated.

(Application of Accounting Standard for Fair Value Measurement)

The Company adopted the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Fair Value Measurement"), etc. from the beginning of the three months ended June 30, 2021, and decided to apply new accounting policies prescribed in the Accounting Standard for Fair Value Measurement in the future, in accordance with the transitional treatment as stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). The application of these standards does not affect the consolidated quarterly financial statements for the six months ended September 30, 2021.

(Segment Information)

I. Equivalent Period of Previous Fiscal Year (From April 1, 2020 to September 30, 2020)

1. Net sales and Income (Loss) by Reported Segment

(Millions of yen)

	Reported Segment				Other (Note: 1)	Total	Adjustment (Note: 2)	Amount recognized in consolidated quarterly statements of income (Note: 3)
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Subtotal				
Net sales								
External customers	73,901	31,151	17,393	122,446	5,337	127,783	0	127,784
Intersegment	263	134	0	398	8,848	9,246	(9,246)	-
Total	74,164	31,286	17,393	122,844	14,186	137,030	(9,246)	127,784
Segment income (loss)	1,626	(396)	3,736	4,966	847	5,814	(31)	5,782

Notes: 1. Other includes business segments that are not part of reported segments, such as the real estate rental business and the transportation business.

2. Details of adjustment amounts are as follows.

(1) Net sales to external customers are income from business contracting recorded at the Company.

(2) Segment income (loss) comprises intersegment eliminations of ¥29 million and loss of the Company not allocated to business segments of ¥60 million.

3. Segment income (loss) has been adjusted to the operating income of consolidated quarterly statements of income.

2. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc. by Reportable Segment

The Company posted a ¥365 million impairment loss in line with the liquidation of the next-generation sequencing library manufacturing equipment-related business, in the “Takara Bio Group” segment. This impairment loss is posted as “loss on liquidation of business” under extraordinary loss, together with related loss.

II. Period under Review (From April 1, 2021, to September 30, 2021)

1. Net sales and Income (Loss) by Reported Segment

(Millions of yen)

	Reported Segment				Other (Note: 1)	Total	Adjustment (Note: 2)	Amount recognized in consolidated quarterly statements of income (Note: 3)
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Subtotal				
Net sales								
External customers	57,202	46,564	31,551	135,318	5,895	141,213	-	141,213
Intersegment	431	170	0	601	8,729	9,331	(9,331)	-
Total	57,633	46,734	31,551	135,919	14,624	150,544	(9,331)	141,213
Segment income	2,270	4,304	14,105	20,680	1,029	21,709	(93)	21,616

Notes: 1. Other includes business segments that are not part of reported segments, such as the real estate rental business and the transportation business.

2. The adjustment to segment income of ¥(93) million comprises intersegment eliminations of ¥2 million and loss of the Company not allocated to business segments of ¥96 million.

3. Segment income has been adjusted to the operating income of consolidated quarterly statements of income.

2. Changes in Reported Segment, etc.

As described in “(Changes in Accounting Policies)”, the Company adopted the “Accounting Standard for Revenue Recognition,” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the three months ended June 30, 2021, and changed the accounting method for revenue recognition. Accordingly, the measurement method of income or loss by business segment has also been changed.

As a result of these changes, compared with the amounts calculated by the conventional accounting method, net sales of Takara Shuzo in the six months ended September 30, 2021 decreased by ¥13,915 million, while net sales of the Takara Shuzo International Group decreased by ¥13 million.

3. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc. by Reportable Segment

No items to report.

(Revenue Recognition)

Information on breakdown of revenue from contracts with customers

Period under Review (From April 1, 2021, to September 30, 2021)

(Millions of yen)

	Reported Segment				Other (Note)	Total
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Subtotal		
Alcoholic Beverages Business	57,202	6,155	-	63,358	2,029	65,387
Japanese Food Wholesales Business in overseas markets	-	40,408	-	40,408	-	40,408
Bio	-	-	31,551	31,551	-	31,551
Other	-	-	-	-	3,562	3,562
Revenue earned from contracts with customers	57,202	46,564	31,551	135,318	5,592	140,910
Other revenue	-	-	-	-	302	302
Net sales to external customers	57,202	46,564	31,551	135,318	5,895	141,213

Note: “Other” includes business segments that are not part of reported segments, such as the import and sale of wine, the real estate rental business, and the transportation business.

(Significant Subsequent Events)

(Termination of significant contract)

At a meeting of the Board of Directors held on November 9, 2021, Takara Bio Inc. (“Takara Bio”), a consolidated subsidiary of the Company, resolved to terminate agreements on co-development and exclusive marketing of HF10* and CD19CAR (the “Agreements”) with Otsuka Pharmaceutical Co., Ltd. (“Otsuka”), and, with the consent of both companies, terminated the Agreements as of November 9, 2021.

(1) Reasons for the termination

1) Oncolytic Virus, HF10*

Based on the results of a Phase I clinical trial for pancreatic cancer, Takara Bio and Otsuka examined the development plan for pancreatic cancer and other types of cancer, and decided to terminate the agreement by considering the time required for future development and other factors.

2) CD19 CAR gene therapy product

Because of the prolonged Phase I/II trial for adult acute lymphoblastic leukemia and the developing status of other related investigational products, we decided to terminate the agreement.

(2) Name of the other party in the Agreements

Otsuka Pharmaceutical Co., Ltd.

(3) Date of termination of the Agreements

November 9, 2021

(4) Details of the Agreements

1) Oncolytic Virus, HF10*

Takara Bio and Otsuka co-develop the gene therapy product by using HF10 hereinafter the product in Japan. Takara Bio grant Otsuka exclusive rights to market the product for all indications in Japan, and receive an upfront payment, milestone payments based on the progress of development and lump-sum payment based on the achievement of net sales targets. In addition, Takara Bio retain the rights to manufacture the product for clinical trials and the further commercialization and supply Otsuka on a chargeable basis.

2) CD19 CAR gene therapy

Takara Bio and Otsuka co-develop the CD19 CAR gene therapy product in Japan. Takara Bio grants Otsuka exclusive rights to market the product for all indications in Japan and the first refusal right for nine Asian countries outside Japan. Takara Bio receive an upfront payment, milestone payments based on the progress of development. In addition, Takara Bio retain the rights to manufacture the product for clinical trials and the further commercialization and supply Otsuka on a chargeable basis.

(5) Significant impact of the termination of the Agreements on operating activities, etc.

The technical, intellectual property and other rights of the Oncolytic Virus and the CD19 CAR gene therapy product licensed to Otsuka under the agreements are returned to Takara Bio with the termination. The milestone payments, lump-sum payments and the sales revenues on the further commercial supply will not occur.

* Generic name at the time of agreement, canerpaturev (abbreviation C-REV)