Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2019 and Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Takara Holdings Inc.:

We have audited the accompanying consolidated balance sheet of Takara Holdings Inc. and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

June 7, 2019

Deloitte Touche Tohmatsu LLP

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2019

ASSETS	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 48,580	¥ 49,341	$ 437,657
Time deposits (Note 14)	9,350	9,445	84,234
Marketable securities (Notes 3 and 14)	7,574	8,690	68,234
Notes and accounts receivable (Notes 6 and 14):			
Trade	59,780	57,889	538,558
Other	704	574	6,342
Allowance for doubtful accounts	(315)	(329)	(2,837)
Inventories (Notes 4, 6, and 7)	46,035	42,909	542,063
Prepaid expenses and other current assets	3,301	2,547	29,738
Total current assets	175,011	171,067	1,576,675
PROPERTY, PLANT, AND EQUIPMENT (Notes 5, 6, and 19):			
Land	18,559	18,821	167,198
Buildings and structures	52,808	53,842	475,747
Machinery, equipment, and vehicles	80,774	83,143	727,693
Tools, furniture and fixtures	15,706	15,462	141,495
Lease assets	1,025	1,050	9,234
Construction in progress	6,105	1,064	55,000
Total	174,979	173,384	1,576,387
Accumulated depreciation	(114,402)	(115,898)	(1,030,648)
Net property, plant, and equipment	60,576	57,485	545,729
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	24,590	27,091	221,531
Investments in and advances to unconsolidated subsidiaries and associated companies	1,552	1,516	13,981
Goodwill (Note 19)	12,400	13,765	111,711
Deferred tax assets (Note 11)	1,648	1,290	14,846
Other assets (Note 8)	11,325	12,064	102,027
Total investments and other assets	51,517	55,728	464,117
TOTAL	¥ 287,106	¥ 284,281	$ 2,586,540

LIABILITIES AND EQUITY	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 14)	¥ 4,797	¥ 4,919	$ 43,216
Current portion of long-term debt (Notes 6 and 14)	5,303	466	47,774
Notes and accounts payable (Note 14):			
Trade	16,257	16,512	146,459
Construction and other	4,337	4,084	39,072
Liquor taxes payable (Notes 7 and 14)	10,224	9,278	92,108
Income taxes payable (Note 14)	1,879	3,126	16,927
Accrued expenses	8,432	7,992	75,963
Accrued sales promotion expenses	1,921	1,853	17,306
Other current liabilities	4,668	4,477	42,054
Total current liabilities	57,822	52,712	520,918
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 14)	30,773	36,064	277,234
Liability for retirement benefits (Note 8)	8,757	8,759	78,891
Deposits	5,337	5,312	48,081
Deferred tax liabilities (Note 11)	2,907	3,515	26,189
Other	1,713	1,700	15,432
Total long-term liabilities	49,489	55,352	445,846
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6, 12, and 15)			
EQUITY (Notes 9 and 16):			
Common stock, authorized, 870,000,000 shares; issued, 201,699,743 shares in 2019 and 2018	13,226	13,226	119,153
Capital surplus	2,417	2,219	21,774
Retained earnings	124,788	117,571	1,124,216
Treasury stock, at cost, 2,069,706 shares in 2019 and 2,069,224 shares in 2018	(1,368)	(1,367)	(12,324)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	9,814	11,520	88,414
Deferred gain (loss) on derivatives under hedge accounting (Note 15)	114	(120)	1,027
Foreign currency translation adjustments	(196)	2,645	(1,765)
Defined retirement benefit plans	(599)	(583)	(5,396)
Total	148,197	145,111	1,335,108
Noncontrolling interests	31,597	31,106	284,657
Total equity	179,795	176,217	1,619,774
TOTAL	¥ 287,106	¥ 284,281	$ 2,586,540

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET SALES (Note 19)	¥ 277,443	¥ 268,142	$ 2,499,486
COST OF SALES (Notes 7, 8, and 19)	168,694	163,529	1,519,765
Gross profit	108,749	104,612	979,720
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 10, and 19)	90,945	88,999	819,324
Operating income	17,804	15,612	160,396
OTHER INCOME (EXPENSES):			
Interest and dividend income	800	700	7,207
Gain on sales of shares of subsidiaries and associates		3,312	
Gain on sales of property, plant, and equipment	290	15	2,612
Gain on transfer of business	291		2,621
Insurance claim income	85		765
Interest expense	(387)	(568)	(3,486)
Bond issuance cost		(112)	
Foreign exchange loss	(122)	(25)	(1,099)
Impairment loss (Notes 5 and 19)	(696)	(446)	(6,270)
Loss on disposals of property, plant, and equipment	(318)	(222)	(2,864)
Loss on disaster	(246)		(2,216)
Other, net	157	637	1,414
Other income, net	(145)	3,291	(1,306)
INCOME BEFORE INCOME TAXES	17,658	18,903	159,081
INCOME TAXES (Note 11):			
Current	5,443	6,859	49,036
Deferred	(132)	(484)	(1,189)
Total income taxes	5,310	6,374	47,837
NET INCOME	12,347	12,528	111,234
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,936	1,499	17,441
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 10,411	¥ 11,029	$ 93,792

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.*s* and 17):			
Basic net income	¥52.15	¥54.97	$0.46
Cash dividends applicable to the year	18.00	16.00	0.16

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME	¥12,347	¥12,528	$111,234
OTHER COMPREHENSIVE INCOME (LOSS) (Note 16):			
Unrealized (loss) gain on available-for-sale securities	(1,705)	1,936	(15,360)
Deferred gain (loss) on derivatives under hedge accounting	228	(115)	2,054
Foreign currency translation adjustments	(3,646)	1,262	(32,846)
Defined retirement benefit plans	25	93	225
Total other comprehensive (loss) gain	(5,098)	3,177	(45,927)
COMPREHENSIVE INCOME	¥ 7,249	¥15,706	$ 65,306
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥6,083	¥14,114	$54,801
Noncontrolling interests	1,166	1,591	10,504

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2019

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized (Loss) Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2017	201,224	¥13,226	¥ 1,650	¥119,729	¥ (9,939)	¥ 9,583	¥ 0	¥ 1,426	¥(634)	¥135,043	¥30,877	¥165,920
Net income attributable to owners of the parent				11,029						11,029		11,029
Cash dividends, ¥13.0 per share				(2,615)						(2,615)		(2,615)
Purchase of treasury shares	(1,594)				(2,001)					(2,001)		(2,001)
Disposal of treasury shares	0		0		0					0		0
Retirement of treasury shares			(10,572)		10,572							
Purchase of shares of consolidated subsidiary			570							570		570
Transfer to capital surplus from retained earnings			10,572	(10,572)								
Net change in the year						1,936	(121)	1,218	51	3,085	228	3,314
BALANCE, MARCH 31, 2018	199,631	13,226	2,219	117,571	(1,367)	11,520	(120)	2,645	(583)	145,111	31,106	176,217
Net income attributable to owners of the parent				10,411						10,411		10,411
Cash dividends, ¥16.0 per share				(3,194)						(3,194)		(3,194)
Purchase of treasury shares	(1)				(0)					(0)		(0)
Disposal of treasury shares	0		0		0					0		0
Purchase of shares of consolidated subsidiary			197							197		197
Net change in the year						(1,705)	235	(2,841)	(16)	(4,328)	491	(3,836)
BALANCE, MARCH 31, 2019	199,630	¥13,226	¥ 2,417	¥124,788	¥ (1,368)	¥ 9,814	¥ 114	¥ (196)	¥(599)	¥148,197	¥31,597	¥179,795

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized (Loss) Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2018	$119,153	$19,990	$1,059,198	$(12,315)	$103,783	$(1,081)	$ 23,828	$(5,252)	$1,307,306	$280,234	$1,587,540
Net income attributable to owners of the parent			93,792						93,792		93,792
Cash dividends, $0.14 per share			(28,774)						(28,774)		(28,774)
Purchase of treasury shares				(0)					(0)		(0)
Disposal of treasury shares		0		0					0		0
Purchase of shares of consolidated subsidiary		1,774							1,774		1,774
Net change in the year					(15,360)	2,117	(25,594)	(144)	(38,990)	4,423	(34,558)
BALANCE, MARCH 31, 2019	$119,153	$21,774	$1,124,216	$(12,324)	$ 88,414	$ 1,027	$ (1,765)	$(5,396)	$1,335,108	$284,657	$1,619,774

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes	¥ 17,658	¥ 18,903	$ 159,081
Adjustments for:			
Income taxes paid	(6,586)	(6,017)	(59,333)
Depreciation and amortization	7,827	7,702	70,513
Impairment loss	696	446	6,270
Gain on transfer of business	(291)		(2,621)
Gain on sales of shares of subsidiaries and associates		(3,312)	
Changes in assets and liabilities:			
Increase in trade receivables	(2,900)	(240)	(26,126)
Increase in inventories	(5,060)	(2,520)	(45,585)
(Increase) decrease in interest and dividends receivable	(17)	19	(153)
Increase (decrease) in trade payables	324	(10)	2,918
Increase in liquor taxes payable	946	1,685	8,522
Increase (decrease) in other current liabilities	866	(699)	7,801
(Decrease) increase in interest payable	(8)	8	(72)
Other, net	52	301	468
Total adjustments	(4,149)	(2,638)	(37,378)
Net cash provided by operating activities	13,508	16,265	121,693
INVESTING ACTIVITIES:			
Net increase in time deposits	(463)	(1,833)	(4,171)
Purchases of marketable securities and investment securities	(11,577)	(12,783)	(104,297)
Proceeds from sales and redemption of marketable securities	12,528	8,736	112,864
Purchases of property, plant, and equipment	(10,671)	(6,601)	(96,135)
Purchases of shares of subsidiaries resulting in change in scope of consolidation (Note 12)	(53)	(12,396)	(477)
Proceeds from transfer of businesses (Note 12)	1,067		9,612
Proceeds from sales of shares of subsidiary resulting in change in scope of consolidation (Note 12)		4,150	
Other, net	(43)	811	(387)
Net cash used in investing activities	(9,213)	(19,916)	(83,000)

(Continued)

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2019

	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
FINANCING ACTIVITIES:			
Repayment of long-term loans payable	¥ (304)	¥ (858)	$ (2,738)
Proceeds from issuance of bonds		14,887	
Redemption of bonds		(10,547)	
Cash dividends paid	(3,191)	(2,614)	(28,747)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(203)	(585)	(1,828)
Other, net	(543)	(5,851)	(4,891)
Net cash used in financing activities	(4,243)	(5,570)	(38,225)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(812)	(202)	(7,315)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(760)	(9,423)	(6,846)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	49,341	58,765	444,513
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 48,580	¥ 49,341	$ 437,657

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTATION OF 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 the 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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 of less than a million yen are rounded down to the nearest million yen, except for per share data and the amounts in Notes 2.*s* and 17. 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 ¥111 to $1, the approximate rate of exchange at March 31, 2019. U.S. dollar figures of less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data and the amounts in Notes 2.*s* and 17. 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 for the year ended March 31, 2019 include the accounts of the Company and its 58 consolidated subsidiaries (together, the "Group"). Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. Consolidation of remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

An investment in an associated company in 2019 and 2018 is accounted for by the equity method.

Investments in the unconsolidated subsidiaries and remaining associated company 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.

Foreign subsidiaries of the Company have a fiscal year ending December 31. The accounts of those subsidiaries are included in the Company's consolidated financial statements based on the subsidiaries' fiscal year. Necessary adjustments have been made for significant events that occurred during the period between their fiscal year ends and March 31.

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 also eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," 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. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** – ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," 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 such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America 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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

d. ***Business Combinations*** – Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

FOODEX S.A.S., which is a wholly owned subsidiary of the Company, acquired share of L.P. Uerlings Trading GmbH (Germany) ("Uerlings"). As a result, Uerlings became a consolidated subsidiary during the year ended March 31, 2019.

The acquisition was accounted for by the purchase method of accounting.

Takara Healthcare Inc., a wholly owned subsidiary of the Company, and Takara Bio Farming Center Inc., Mizuho Norin Co., Ltd. and KINOKO CENTER KIN INC., the consolidated subsidiaries of Takara Bio Inc. ("Bio"), a majority-owned subsidiary, which is listed on the first section of the Tokyo Stock Exchange, were excluded from the scope of consolidation due to the transfer of all shares owned in the Company and Bio.

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

f. Marketable and Investment Securities – Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable 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.

g. Inventories – Inventories are mainly stated at the lower of cost, determined by the average method, or net selling value.

h. 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.

i. 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.

j. Goodwill – The Company and its domestic and overseas consolidated subsidiaries amortize goodwill on a pro rata basis over a certain period not exceeding 20 years. Accounting for impairment of long-lived assets also applies to goodwill.

k. Retirement and Pension Plans – Each of the employee retirement benefit programs of the Company and certain consolidated subsidiaries consists of an unfunded lump-sum severance payment plan, a defined benefit corporate pension plan, and a defined contribution pension plan as described in Note 8.

The Company accounts for liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within accumulated other comprehensive income, after adjusting for tax effects, and are recognized in profit or loss over 10 years, no longer than the expected average remaining service period of the employees.

l. ***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.

m. ***Accrued Sales Promotion Expenses*** – Accrued sales promotion expenses are stated at amounts considered to be appropriate based on the purchased quantities of finished products by retail stores, identified by Takara Shuzo Co., Ltd. ("Takara Shuzo"), multiplied by the past year actual unit cost of the relevant products.

n. ***Leases*** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

Lease assets related to finance lease transactions without title transfer are depreciated on a straight-line basis over the leased periods, which are their useful lives, and with no residual value.

o. ***Income Taxes*** – The provision for income taxes is computed based on the pretax income included in the consolidated statement 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 rates to the temporary differences.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. As a result, deferred tax assets in current assets on the consolidated balance sheet in the fiscal year ended March 31, 2018, have decreased by ¥2,284 million and deferred tax assets in investments and other assets have decreased by ¥493 million. Additionally, deferred tax liabilities in noncurrent liabilities have decreased by ¥2,777 million. Total assets have decreased by ¥2,777 million as compared with before the change as the deferred tax assets and deferred tax liabilities of the same taxable entity are offset against each other.

Effective from the year ended March 31, 2019, the Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

p. ***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 statement of income to the extent that they are not hedged by forward exchange contracts.

q. ***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 noncontrolling interests, are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

r. ***Derivative Financial Instruments*** – The Group uses derivative financial instruments, such as foreign currency forward contracts and foreign currency options, as a means of hedging exposure to foreign currency exchange rate 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: (1) 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 consolidated statement of income, and (2) for derivatives used for hedging purposes, if such 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 payments of royalties and foreign currency import transactions. 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 another liability or asset.

s. 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.

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.

t. New Accounting Pronouncements

(1) The Company and its domestic subsidiaries

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

(2) Foreign subsidiaries

The IASB issued IFRS 16, Leases, concurrently with the introduction of ASU 2016-02 into the FASB's Accounting Standards Codification. These accounting standards require lessees to recognize a right-of-use asset and a lease liability in the statement of financial position.

Foreign consolidated subsidiaries adopting IFRS will adopt IFRS 16 for annual periods beginning on April 1, 2019. Foreign consolidated subsidiaries adopting U.S. GAAP will adopt ASU 2016-02 for annual periods beginning on April 1, 2020.

The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

u. Changes in Presentation

- Consolidated statement of cash flows

"Net increase (decrease) in short-term loans payable" and "Purchase of treasury shares," which were separately listed under "Cash flow from financing activities" in the previous fiscal year, are included in and presented as "Other, net" under "Cash flow from financing activities" from the fiscal year ended March 31, 2019 because of a decrease in materiality. Accordingly, the consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥(3,356) million presented in "Net increase (decrease) in short-term loans payable" and ¥(2,001) million presented in "Purchase of treasury shares" and ¥(493) million presented in "Other, net" under "Cash flow from financing activities" in the consolidated statements of cash flows of the previous fiscal year have been reclassified as ¥(5,851) million of "Other, net."

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2019 and 2018, consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Current:			
Debt securities	¥5,324	¥6,418	$47,963
Other	2,250	2,271	20,270
Total	¥7,574	¥8,690	$68,234
Non-current:			
Investment equity securities	¥24,590	¥27,042	$221,531
Debt securities		48	
Total	¥24,590	¥27,091	$221,531

The costs and aggregate fair values of marketable and investment securities at March 31, 2019 and 2018, are as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Available-for-sale:				
Equity securities	¥8,875	¥14,136	¥113	¥22,898
Debt securities	331		6	324
Others	2,250			2,250
Held-to-maturity	5,000			5,000

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2018				
Securities classified as:				
Available-for-sale:				
Equity securities	¥8,811	¥16,556	¥18	¥25,349
Debt securities	426	0	7	418
Others	2,271			2,271
Held-to-maturity	6,000		0	5,999

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as:				
Available-for-sale:				
Equity securities	$79,954	$127,351	$1,018	$206,288
Debt securities	2,981		54	2,918
Others	20,270			20,270
Held-to-maturity	45,045			45,045

The information for available-for-sale securities which were sold during the years ended March 31, 2019 and 2018, is as follows:

	Millions of Yen		
March 31, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥33	¥21	___
Total	¥33	¥21	___

	Millions of Yen		
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥300	¥160	¥0
Debt securities	171	0	___
Total	¥471	¥160	¥0

	Thousands of U.S. Dollars		
March 31, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$297	$189	___
Total	$297	$189	___

Investments in equity instruments that do not have a quoted market price in an active market and securities without contractual maturities (for which the totals included in the consolidated balance sheets at March 31, 2019 and 2018, are ¥1,691 million ($15,234 thousand) and ¥1,741 million, respectively) do not have fair values because their fair value cannot be reliably determined.

The impairment losses on marketable and investment securities recognized for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Marketable equity securities	¥32		$288
Non-marketable equity securities		¥0	

4. INVENTORIES

Inventories at March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Finished products and merchandise	¥32,229	¥29,799	$290,351
Semifinished products	8,370	8,180	75,405
Work in process	1,341	997	12,081
Raw materials and supplies	4,093	3,932	36,873
Total	¥46,035	¥42,909	$414,729

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment and, as a result, recognized impairment losses for the following long-lived assets for the years ended March 31, 2019 and 2018.

Year Ended March 31, 2019

		Impairment Loss Millions of Yen					
Location	Description	Buildings and Structures	Machinery, Equipment, and Vehicles	Others	Land	Intangible Assets	Total
Takara Bio Inc.							
Osaki Town, Kagoshima	Idle property	¥ 28	¥ 12	¥ 0			¥ 41
Kyotamba Town, Kyoto	Property to be transferred	262	183	1	¥200	¥5	655
	Total	¥291	¥196	¥1	¥200	¥5	¥696

		Impairment Loss Thousands of U.S. Dollars					
Location	Description	Buildings and Structures	Machinery, Equipment, and Vehicles	Others	Land	Intangible Assets	Total
Takara Bio Inc.							
Osaki Town, Kagoshima	Idle property	$ 252	$ 108	$ 0			$ 369
Kyotamba Town, Kyoto	Property to be transferred	2,360	1,648	9	$1,801	$45	5,900
	Total	$2,621	$1,765	$ 9	$1,801	$45	$6,270

Year Ended March 31, 2018

		Impairment Loss Millions of Yen				
Location	Description	Buildings and Structures	Machinery, Equipment, and Vehicles	Others	Land	Total
Takara Bio Inc.						
Yokkaichi-shi, Mie	Idle property	¥151	¥24	¥1	¥269	¥446

(1) Reason for recognizing impairment loss

In the fiscal year ended March 31, 2019, Bio recognized an impairment loss on properties not to be transferred upon transfer of functional food business to Shionogi Healthcare Co., Ltd., to the recoverable amount as they were not likely to be used in the future. Also, Bio recognized an impairment loss on properties to be transferred upon transfer of Mushroom business to Yukiguni Maitake, to the recoverable amount as they were likely to occur loss on transfer.

In the fiscal year ended March 31, 2018, Bio recognized an impairment loss on idle assets that were not likely to be used in the future as of March 31, 2018.

(2) Method of calculating recoverable amount

In the fiscal year ended March 31, 2019, the recoverable amount of idle properties were measured at value in use of zero, as no future cash flow was expected. As for properties to be transferred, the recoverable amount were measured at net selling price, which was based on planned transfer price.

In the fiscal year ended March 31, 2018, the recoverable values of the idle properties were measured at the net selling price, which was based on the appraisal value of real estate or reasonable estimation of the value of the assets.

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

Short-term bank loans consisted principally of term loans with weighted average interest at 0.794% and 0.730% at March 31, 2019 and 2018, respectively.

The Company ended into the commitment line contract with a financial institution for flexibility of financing. Unused balances of the credit based on the contract were ¥10,000 million at both March 31, 2019 and 2018.

Long-term debt at March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loan principally from banks, due within one year, with a weighted average interest rate 0.807%:			
Collateralized	¥ 44	¥ 262	$ 396
Unsecured	5,118	38	46,108
Loan principally from banks, due after one year and serially to 2026, with a weighted average interest rate 0.761%:			
Collateralized	157	216	1,414
Unsecured	5,258	10,403	47,369
1.561% unsecured bonds, due May 2020	5,000	5,000	45,045
1.162% unsecured bonds, due April 2022	5,000	5,000	45,045
0.100% unsecured bonds, due April 2022	5,000	5,000	45,045
0.220% unsecured bonds, due April 2024	5,000	5,000	45,045
0.315% unsecured bonds, due April 2027	5,000	5,000	45,045
Obligation under finance leases	497	609	4,477
Total	36,076	36,531	325,009
Less current portion	5,303	466	47,774
Long-term debt, less current portion	¥30,773	¥36,064	$277,234

Annual maturities of long-term debt as of March 31, 2019, for the next five years and thereafter are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending March 31		
2020	¥ 5,303	$ 47,774
2021	5,185	46,711
2022	135	1,216
2023	10,303	92,819
2024	5,064	45,621
2025 and thereafter	10,084	90,846
Total	¥ 36,076	$ 325,009

At March 31, 2019, notes and accounts receivable of ¥1,984 million ($17,873 thousand), inventories of ¥3,115 million ($28,063 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥202 million ($1,819 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 the cost of sales and inventories. Liquor taxes payable are to be paid by the end of the second month following the delivery or after being taken outside the bonded area.

8. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries provide lump-sum payment plans, a defined benefit corporate pension plan, and a defined contribution pension plan.

Certain consolidated subsidiaries have enrolled in the Smaller Enterprise Retirement Allowance Mutual Aid System.

Certain consolidated subsidiaries account for part of the defined benefit obligations and benefit costs for retirement lump-sum payment using the simplified method.

(1) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 14,858	¥ 14,805	$ 133,855
Current service cost	831	818	7,486
Interest cost	114	114	1,027
Actuarial loss	2	29	18
Benefit paid	(984)	(722)	(8,864)
Past service cost	26		234
Decrease by exclusion of subsidiaries from consolidation		(261)	
Others	(89)	74	(801)
Balance at end of year	¥ 14,759	¥ 14,858	$ 132,963

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥7,027	¥6,740	$63,306
Expected return on plan assets	136	139	1,225
Actuarial (loss) gain	(84)	68	(756)
Contribution from the employer	294	290	2,648
Benefits paid	(414)	(277)	(3,729)
Others	(81)	67	(729)
Balance at end of year	¥6,878	¥7,027	$61,963

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2019 and 2018, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Defined benefit obligation	¥ 6,170	¥ 6,255	$ 55,585
Plan assets	(6,878)	(7,027)	(61,963)
Total	(707)	(772)	(6,369)
Unfunded defined benefit obligation	8,588	8,603	77,369
Net liability arising from defined benefit obligation	¥ 7,880	¥ 7,830	$ 70,990

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥8,757	¥8,759	$78,891
Prepaid benefit cost	(877)	(928)	(7,900)
Net liability arising from defined benefit obligation	¥7,880	¥7,830	$70,990

Prepaid benefit cost is included in other assets.

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥ 830	¥ 817	$ 7,477
Interest cost	114	114	1,027
Expected return on plan assets	(136)	(139)	(1,225)
Recognized actuarial losses	285	336	2,567
Amortization of prior service cost	(282)	(284)	(2,540)
Net periodic benefit costs	¥ 810	¥ 844	$ 7,297

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service cost	¥(328)	¥(264)	$(2,954)
Actuarial loss	225	351	2,027
Total	¥(103)	¥ 86	$ (927)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost	¥ 546	¥ 874	$ 4,918
Unrecognized actuarial gain	(1,536)	(1,761)	(13,837)
Total	¥ (989)	¥ (886)	$ (8,909)

(7) Plan assets as of March 31, 2019 and 2018

a. *Components of plan assets*

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments	52%	53%
General account of insurance company	26	25
Equity investments	13	12
Cash and cash in bank	0	0
Others	9	10
Total	100%	100%

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2019 and 2018, are set forth as follows:

	2019	2018
Discount rate	mainly 0.7%	mainly 0.7%
Expected rate of return on plan assets	mainly 2.0%	mainly 2.0%
Expected rate of future salary increase	mainly 3.8%	mainly 3.8%

The Company uses the compensation increase index determined in accordance with the Company's human resources and wage policy as the expected rate of future salary increase.

(9) Defined contribution plan

The amounts of contribution required for the defined contribution plan paid by the Company and its subsidiaries were ¥294 million ($2,648 thousand) and ¥276 million for the years ended March 31, 2019 and 2018, respectively.

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. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year 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 does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash 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 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 within equity 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 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. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥4,708 million ($42,414 thousand) and ¥5,063 million for the years ended March 31, 2019 and 2018, respectively.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2019 and 2018. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of the significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Inventories	¥ 289	¥ 221	$ 2,603
Accrued bonuses	694	627	6,252
Accrued sales promotion expenses	595	574	5,360
Enterprise tax payable	133	210	1,198
Tax loss carryforwards	1,245	1,793	11,216
Unrealized profit on sale of inventories	425	362	3,828
Retirement benefits	2,129	2,146	19,180
Marketable and investment securities	440	437	3,963
Depreciation	340	345	3,063
Impairment losses	370	410	3,333
Defined retirement benefit plans	289	261	2,603
Other	1,356	1,423	12,216
Subtotal	8,309	8,815	74,855
Less valuation allowance for tax loss carryforwards	(477)		(4,297)
Less valuation allowance for temporary differences	(1,039)		(9,360)
Total valuation allowance	(1,516)	(2,210)	(13,657)
Total	¥ 6,793	¥ 6,604	$ 61,198
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥(4,200)	¥(5,009)	$(37,837)
Deferred gain on fixed assets	(516)	(533)	(4,648)
Deferred gain on fixed assets inherited by a corporate division	(204)	(214)	(1,837)
Basis difference of acquired intangible assets	(1,335)	(1,582)	(12,027)
Basis difference of acquired land	(376)	(383)	(3,387)
Retained earnings of foreign subsidiaries	(518)	(420)	(4,666)
Other	(900)	(686)	(8,108)
Total	¥(8,052)	¥(8,830)	$(72,540)
Net deferred tax liabilities	¥(1,258)	¥(2,225)	$(11,333)

The variation in valuation allowance is mainly due to the decrease of tax loss carryforwards and valuation allowance for impairment loss.

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, 2019 and 2018, is as follows:

	2019	2018
Normal effective statutory tax rate in Japan	31.0%	31.0%
Expenses not deductible for income tax purposes	1.2	1.7
Change in valuation allowance	(1.9)	(0.5)
Effect of tax rate change of consolidated subsidiaries	(2.6)	(1.6)
Withholding taxes in foreign countries	0.7	0.8
Amortization of goodwill	1.3	1.2
Undistributed earnings of foreign consolidated subsidiaries	0.6	0.1
Adjustment for consolidation of gain on sales of subsidiaries and affiliates' stocks		1.2
Other, net	(0.2)	(0.2)
Actual effective tax rate	30.1%	33.7%

At March 31, 2019, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥1,245 million ($11,216 thousand), which are available to be offset against taxable income of such consolidated subsidiaries. These tax loss carryforwards, if not utilized, will expire as follows:

	Millions of Yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards				¥ 1		¥1,244	¥1,245
Less valuation allowances for tax loss carryforwards				(1)		(475)	(477)
Net deferred tax assets relating to tax loss carryforwards						768	768

	Thousands of U.S. Dollars						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards				$ 9		$11,207	$11,216
Less valuation allowances for tax loss carryforwards				(9)		(4,279)	(4,297)
Net deferred tax assets relating to tax loss carryforwards						6,918	6,918

Net deferred tax assets relating to tax loss carryforwards mainly consist of tax carryforwards arising from acquisitions of subsidiaries in the United States in 2017.

The Company determined that the deferred tax assets are recoverable considering the prospects for future taxable income, and does not recognize valuation allowances.

12. SUPPLEMENTAL CASH FLOW INFORMATION

The breakdown of assets and liabilities of newly consolidated subsidiaries as the result of the acquisition of shares for the year ended March 31, 2018

(1) Rubicon Genomics, Inc. ("Rubicon")

Takara Bio USA Holdings Inc. ("TBUSH"), which is a wholly owned subsidiary of Bio, acquired all shares of Rubicon. As a result, Rubicon became a consolidated subsidiary during the year ended March 31, 2018.

The breakdown of assets and liabilities at the beginning of consolidation of Rubicon as a result of the acquisition of shares and reconciliation between cash paid for the shares of Rubicon and payment for the acquisition, net of cash and cash equivalents acquired, is as follows:

	Millions of Yen 2018
Current assets	¥ 552
Fixed assets	3,830
Goodwill	5,060
Current liabilities	(391)
Long-term liabilities	(554)
Cash paid for shares	8,496
Cash and cash equivalents	(308)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	¥8,187

(2) WaferGen Bio-systems, Inc. ("WaferGen")

TBUSH, which is a wholly owned subsidiary of Bio, acquired all shares of WaferGen. As a result, WaferGen became a consolidated subsidiary during the year ended March 31, 2018.

The breakdown of assets and liabilities at the beginning of consolidation of WaferGen as a result of the acquisition of shares and reconciliation between cash paid for the shares of WaferGen and payment for the acquisition, net of cash and cash equivalents acquired, is as follows:

	Millions of Yen 2018
Current assets	¥ 525
Non-current assets	2,630
Goodwill	2,550
Current liabilities	(928)
Non-current liabilities	(556)
Cash paid for shares	4,221
Cash and cash equivalents	(12)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	¥4,208

The breakdown of assets and liabilities of the unconsolidated subsidiary as a result of the transfer of shares for the year ended March 31, 2018

(1) TAKARA CHOU UN Co., Ltd. ("TAKARA CHOU UN")

Takara Shuzo, a consolidated subsidiary of the Company, approved the transfer of all of its shares in TAKARA CHOU UN, a wholly owned subsidiary of Takara Shuzo. As a result, TAKARA CHOU UN was excluded from consolidation during the year ended March 31, 2018.

The breakdown of assets and liabilities as a result of the transfer of the shares and reconciliation between cash paid for the transfer of shares of the unconsolidated subsidiary and payment for the transfer of shares, net of cash and cash equivalents acquired, is as follows:

	Millions of Yen
	2018
Current assets	¥ 1,885
Fixed assets	1,815
Current liabilities	(1,713)
Long-term liabilities	(521)
Valuation difference on available-for-sale securities	(2)
Expense for sales of shares	274
Gain on sales of shares	3,312
Selling price of shares	5,050
Expense for sales of shares	(274)
Cash and cash equivalents	(625)
Proceeds from sales of shares of subsidiary resulting in change in scope of consolidation	¥ 4,150

The breakdown of assets and liabilities of newly consolidated subsidiaries as the result of the acquisition of shares for the year ended March 31, 2019

(1) L.P. Uerlings Trading GmbH

FOODEX S.A.S., which is a wholly owned subsidiary of the Company, acquired shares of Uerlings. As a result, Uerlings became a consolidated subsidiary during the year ended March 31, 2019.

The breakdown of assets and liabilities at the beginning of consolidation of Uerlings as a result of the acquisition of shares and reconciliation between cash paid for the shares of Uerlings and payment for the acquisition, net of cash and cash equivalents acquired, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2019	2019
Current assets	¥ 61	$ 549
Fixed assets	4	36
Goodwill	27	243
Current liabilities	(2)	(18)
Cash paid for shares	90	810
Cash and cash equivalents	(37)	(333)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	¥ 53	$ 477

The breakdown of assets and liabilities as the result of the transfer of business for the year ended March 31, 2019

(1) Functional food business and mushroom business

The Company transferred all of its shares in Takara Healthcare Inc., a wholly owned subsidiary of the Company, to Shionogi Healthcare Co., Ltd. In addition, Bio transferred its functional foods business to Shionogi Healthcare Co., Ltd. through a simplified absorption-type company split, with Shionogi Healthcare Co., Ltd. as the successor company, and also transferred its mushroom business to Yukiguni Maitake Co., Ltd.

The breakdown of assets and liabilities decreased by the transfer of the functional food business and mushroom business and reconciliation between cash paid for the transfer of business and proceeds from the transfer of business, net of cash and cash equivalents acquired, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2019	2019
Current assets	¥1,454	$13,099
Fixed assets	374	3,369
Current liabilities	(613)	(5,522)
Long-term liabilities	(2)	(18)
Valuation difference on available-for-sale securities	(1)	(9)
Noncontrolling interests	(27)	(243)
Gain on transfer of business	291	2,621
Selling price of shares	1,475	13,288
Cash and cash equivalents	(407)	(3,666)
Proceeds from transfer of business	¥1,067	$ 9,612

13. OPERATING LEASES

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

Total rental expenses for the years ended March 31, 2019 and 2018, were ¥3,481 million ($31,360 thousand) and ¥3,475 million, respectively.

Obligations under operating leases as of March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥ 1,510	¥ 1,236	$ 13,603
Due after one year	11,829	9,374	106,567
Total	¥13,339	¥10,610	$120,171

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group Policy for Financial Instruments

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 not used for speculative or trading purposes, but to avoid the risks 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 identify doubtful receivables in the early stages 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 stocks, are exposed to the risk of market price fluctuations, the Group reviews the fair values quarterly if investment securities have market prices, and monitors 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 three 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 forward foreign currency 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 eight years after the balance sheet date.

Derivative transactions entered into by the Group have been made in accordance with the internal policies of the Finance Department, which regulates authorization, purpose, credit limit amount, evaluation of counterparties, and reporting procedures. Derivative transactions mainly include forward foreign currency contracts and currency options 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 hedged items. As the Group established a limit on contract amounts, the Group also believes that the effect of market risks on 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.*r*.

Liquidity risk management

In the Group, the Finance Department develops and updates a cash management plan 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 on matters related to fair values of financial instruments

Fair values of financial instruments are based on market prices in active markets or other rational valuation techniques if market prices do not exist. Fair values of financial instruments fluctuate as a result of adopting different preconditions because the calculation of fair values includes fluctuation factors. With respect to the contract amounts related to derivative transactions in Note 15, the amounts do not reflect market risks related to derivative transactions.

Concentration of Credit Risk

As of March 31, 2019, 18% of total receivables are from one major customer.

Fair Value of Financial Instruments

March 31, 2019	Millions of Yen Carrying Value	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 48,580	¥ 48,580	
Time deposits	9,350	9,350	
Notes and accounts receivable (Trade and associated companies)	59,468	59,468	
Marketable securities and investment securities	30,473	30,473	
Total	¥ 147,873	¥ 147,873	
Notes and accounts payable	¥ 20,594	¥ 20,594	
Short-term bank loans	4,797	4,797	
Current portion of long-term debt	5,303	5,316	¥ 13
Liquor taxes payable	10,224	10,224	
Income taxes payable	1,879	1,879	
Long-term debt	30,773	31,267	493
Total	¥ 73,572	¥ 74,079	¥ 506
Derivatives	¥ 170	¥ 170	

March 31, 2018	Millions of Yen Carrying Value	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 49,341	¥ 49,341	
Time deposits	9,445	9,445	
Notes and accounts receivable (Trade and associated companies)	57,563	57,563	
Marketable securities and investment securities	34,040	34,040	
Total	¥ 150,389	¥ 150,389	
Notes and accounts payable	¥ 20,596	¥ 20,596	
Short-term bank loans	4,919	4,919	
Current portion of long-term debt	466	474	¥ 7
Liquor taxes payable	9,278	9,278	
Income taxes payable	3,126	3,126	
Long-term debt	36,064	36,540	476
Total	¥ 74,452	¥ 74,936	¥ 484
Derivatives	¥ (187)	¥ (187)	

March 31, 2019	Thousands of U.S. Dollars Carrying Value	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 437,657	$ 437,657	
Time deposits	84,234	84,234	
Notes and accounts receivable (Trade and associated companies)	535,747	535,747	
Marketable securities and investment securities	274,531	274,531	
Total	$ 1,332,189	$ 1,332,189	
Notes and accounts payable	$ 185,531	$ 185,531	
Short-term bank loans	43,216	43,216	
Current portion of long-term debt	47,774	47,891	$ 117
Liquor taxes payable	92,108	92,108	
Income taxes payable	16,927	16,927	
Long-term debt	277,234	281,684	4,441
Total	$ 662,810	$ 667,378	$ 4,558
Derivatives	$ 1,531	$ 1,531	

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates fair value because of their short maturities.

Notes and accounts receivable (Trade and associated companies)

The carrying value of notes and accounts receivable approximates fair value because of their short maturities. Allowance for doubtful accounts is deducted from the total amount of notes and accounts receivable by ¥311 million ($2,802 thousand) and ¥326 million in 2019 and 2018, respectively.

Marketable securities and investment securities

Marketable securities are bonds, trust beneficiary rights, and certificates of deposit. The fair value of bonds is measured at the quoted price obtained from the financial institution. The carrying value of trust beneficiary rights and certificates of deposit approximates fair value due to their short maturities. Investment securities are mainly stocks and are measured at the market price. Information regarding the classification of securities is included in Note 3.

Notes and accounts payable

The carrying value of notes and accounts payable approximates fair value because of their short maturities.

Liquor taxes payable

The carrying value of liquor taxes payable approximates fair value because of their short maturities.

Income taxes payable

The carrying value of income taxes payable approximates fair value because of their short maturities.

Short-term bank loans

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

Long-term debt

Bonds payable is included in long-term debt. The fair value of the current portion of long-term bonds and bonds is 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 is reflected.

The fair value of other long-term debt is 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

Fair value information for derivatives is included in Note 15.

Investments in equity instruments that do not have a quoted market price in an active market and securities without contractual maturities (the totals included in the consolidated balance sheets at March 31, 2019 and 2018 are ¥3,244 million ($29,225 thousand) and ¥3,258 million, respectively) 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, 2019	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	¥ 48,580	¥	$ 437,657	$
Notes and accounts receivable				
(Trade and associated companies)	59,468		535,747	
Held-to-maturity securities:				
(1) Corporate bonds	3,000		27,027	
(2) Others	2,000		18,018	
Available-for-sale securities with contractual maturities:				
(1) Government bonds and municipal bonds	331		2,981	
(2) Others	2,250		20,270	
Total	¥ 115,630	¥	$ 1,041,711	$

March 31, 2018	Millions of Yen Due in One Year or Less	 Due after One Year through Five Years
Cash and cash equivalents	¥ 49,341	¥
Notes and accounts receivable		
(Trade and associated companies)	57,563	
Held-to-maturity securities:		
(1) Corporate bonds	4,000	
(2) Others	2,000	
Available-for-sale securities with contractual maturities:		
(1) Government bonds and municipal bonds	426	
(2) Others	2,271	
Total	¥115,602	¥

15. DERIVATIVES

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

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's 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 the Group's policies, which regulate the authorization, purposes, credit limit amounts, evaluation of the counterparties, and reporting procedures.

Derivative Transactions to Which Hedge Accounting Is Not Applied

March 31, 2019	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value	 Unrealized Gain/Loss
Foreign currency forward contracts:				
Buying U.S. dollar	¥ 90	¥	¥(0)	¥(0)
Buying Australian dollar	0		0	0
Buying Japanese yen	133		3	3
Selling Euro	125		1	1
Non-deliverable forward contracts:				
Selling Korean won	10		0	0
Total	¥359	¥	¥ 4	¥ 4

March 31, 2018	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Buying U.S. dollar	¥205	¥	¥(0)	¥(0)
Buying Euro	7		0	0
Buying GB pound	45		(0)	(0)
Buying Australian dollar	0		(0)	(0)
Buying Japanese yen	176		(2)	(2)
Selling Euro	131		0	0
Selling GB pound	0		0	0
Non-deliverable forward contracts:				
Selling Korean won	15		(0)	(0)
Total	¥584	¥	¥(2)	¥(2)

March 31, 2019	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Buying U.S. dollar	$ 810	$	$ (0)	$ (0)
Buying Australian dollar	0		0	0
Buying Japanese yen	1,198		27	27
Selling Euro	1,126		9	9
Non-deliverable forward contracts:				
Selling Korean won	90		0	0
Total	$3,234	$	$36	$36

Derivative Transactions to Which Hedge Accounting Is Applied

a. Foreign exchange derivatives

March 31, 2019	Millions of Yen Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency options:				
Buying call option U.S. dollar	Accounts payable	¥ 4,999	¥2,997	¥ 62
Selling put option U.S. dollar	Accounts payable	4,999	2,997	104
Foreign currency forward contracts:				
Buying U.S. dollar	Accounts payable	373		9
Total		¥10,372	¥5,995	¥175

March 31, 2018	Millions of Yen Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency options:				
Buying call option U.S. dollar	Accounts payable	¥ 7,597	¥3,562	¥(189)
Selling put option U.S. dollar	Accounts payable	7,597	3,562	22
Foreign currency forward contracts:				
Buying U.S. dollar	Accounts payable	1,746		(48)
Total		¥16,941	¥7,124	¥(215)

March 31, 2019	Thousands of U.S. Dollars Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency options:				
Buying call option U.S. dollar	Accounts payable	$45,036	$27,000	$ 558
Selling put option U.S. dollar	Accounts payable	45,036	27,000	936
Foreign currency forward contracts:				
Buying U.S. dollar	Accounts payable	3,360		81
Total		$93,441	$54,009	$1,576

16. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income for the years ended March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized gain or loss on available-for-sale securities:			
(Loss) gain arising during the year	¥(2,522)	¥3,004	$(22,720)
Reclassification adjustments to profit	8	(161)	72
Amount before income tax effect	(2,513)	2,843	(22,639)
Income tax effect	808	(907)	7,279
Total	¥(1,705)	¥1,936	$(15,360)
Deferred gain or loss on derivatives under hedge accounting:			
Gain (loss) arising during the year	¥ 337	¥ (173)	$ 3,036
Amount before income tax effect	337	(173)	3,036
Income tax effect	(108)	58	(972)
Total	¥ 228	¥ (115)	$ 2,054
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(3,646)	¥1,262	$(32,846)
Reclassification adjustments to profit			
Total	¥(3,646)	¥1,262	$(32,846)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (106)	¥ 34	$ (954)
Reclassification adjustments to profit	3	51	27
Amount before income tax effect	(103)	86	(927)
Income tax effect	128	6	1,153
Total	¥ 25	¥ 93	$ 225
Total other comprehensive (loss) income	¥(5,098)	¥3,177	$(45,927)

17. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2019 and 2018, is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted-Average Shares	EPS	
For the year ended March 31, 2019:				
Basic EPS				
Net income available to common shareholders	¥10,411	199,630	¥52.15	$0.46
For the year ended March 31, 2018:				
Basic EPS				
Net income available to common shareholders	¥11,029	200,632	¥54.97	

Diluted net income per share for both the years ended March 31, 2019 and 2018 is not disclosed because there were no dilutive shares during these two fiscal years.

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

On May 14, 2019, the Board of Directors of the Company resolved to propose cash dividends of ¥18 ($0.16) per share to shareholders of record as of March 31, 2019, or a total of ¥3,593 million ($32,369 thousand), for approval at the general shareholders' meeting to be held on June 27, 2019.

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segment of an Enterprise and Related Information" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segment of an Enterprise and Related Information," 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 for which 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.

(1) Description of Reportable Segments

Reporting segments are the segments of the Takara Group for which financial information can be obtained. The Board of Directors, the top organization for decision making on Group-management, examines such information to determine the allocation of management resources and evaluate business performance on a regular basis.

Accordingly, the Group has defined three reporting segments based on the types of goods, products, and services, while taking into consideration the scope of managerial responsibility and the capacity to evaluate business performance. These three reporting segments are Takara Shuzo, the Takara Shuzo International Group, and the Takara Bio Group.

Takara Shuzo primarily engages in the manufacture and sale of seasonings and alcoholic beverages in Japan. The Takara Shuzo International Group engages in the export of alcoholic beverages from Japan, the manufacture and sale of alcoholic beverages at overseas locations, and the Japanese food wholesale business in overseas markets. The Takara Bio Group engages in the manufacture and sale of products such as research reagents and scientific instruments, as well as contract research services and research and development of gene and cell therapies.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

The figures for the income of reporting segments are based on operating income. Intersegment income is based on prevailing market prices.

(3) Information about sales, profit, assets, and other items is as follows.

	Millions of Yen						
	2019						
	Reportable Segment						
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Total	Other	Reconciliation	Consolidated
Sales:							
Sales to external customers	¥151,805	¥77,573	¥35,432	¥264,811	¥12,627	¥ 3	¥277,443
Intersegment sales or transfers	651	261	408	1,321	20,114	(21,435)	
Total	152,457	77,834	35,841	266,132	32,742	(21,431)	277,443
Segment profit	5,948	4,532	5,463	15,944	1,954	(95)	17,804
Segment assets	92,682	68,003	71,040	231,726	19,315	36,064	287,106
Other:							
Depreciation	2,248	1,013	2,691	5,953	219	317	6,490
Amortization of goodwill		362	502	865			865
Investment in equity method affiliate						1,526	1,526
Increase in property, plant, and equipment and intangible assets	3,128	1,162	6,002	10,293	230	148	10,671

	Millions of Yen						
	2018						
	Reportable Segment						
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Total	Other	Reconciliation	Consolidated
Sales:							
Sales to external customers	¥149,426	¥70,456	¥31,617	¥251,500	¥16,633	¥ 8	¥268,142
Intersegment sales or transfers	413	261	694	1,369	19,778	(21,148)	
Total	149,839	70,717	32,312	252,870	36,412	(21,140)	268,142
Segment profit	5,569	4,393	3,555	13,518	2,318	(224)	15,612
Segment assets	95,131	68,103	68,670	231,905	19,565	32,810	284,281
Other:							
Depreciation	2,225	938	2,568	5,733	309	387	6,430
Amortization of goodwill		353	489	843			843
Investment in equity method affiliate						1,490	1,490
Increase in property, plant, and equipment and intangible assets	2,696	1,677	1,539	5,913	252	249	6,414

	Thousands of U.S. Dollars						
	2019						
	Reportable Segment						
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Total	Other	Reconciliation	Consolidated
Sales:							
Sales to external customers	$ 1,367,612	$ 698,855	$ 319,207	$ 2,385,684	$ 113,756	$ 27	$ 2,499,486
Intersegment sales or transfers	5,864	2,351	3,675	11,900	181,207	(193,108)	
Total	1,373,486	701,207	322,891	2,397,585	294,972	(193,072)	2,499,486
Segment profit	53,585	40,828	49,216	143,639	17,603	(855)	160,396
Segment assets	834,972	612,639	640,000	2,087,621	174,009	324,900	2,586,540
Other:							
Depreciation	20,252	9,126	24,243	53,630	1,972	2,855	58,468
Amortization of goodwill		3,261	4,522	7,792			7,792
Investment in equity method affiliate						13,747	13,747
Increase in property, plant, and equipment and intangible assets	28,180	10,468	54,072	92,729	2,072	1,333	96,135

Notes:

1. "Other" represents operating segments that are not included in the reportable segments, and mainly consists of real-estate lease and logistics businesses of domestic subsidiaries.

2. Details of "Reconciliation" are as follows.

   (1) Sales to external customers consist of revenue from the system consulting and maintenance business, etc., recognized by the Company.

   (2) Segment profit includes eliminations of intersegment transactions of ¥(99) million ($(891) thousand) and ¥(79) million, and income of the Company not allocated to operating segments of ¥(194) million ($(1,747) thousand) and ¥(303) million as of March 31, 2019 and 2018, respectively.

   (3) Segment assets include assets of the Company not allocated to operating segments of ¥59,694 million ($537,783 thousand) and ¥55,688 million, and other adjustment (principally eliminations of intersegment transactions) of ¥(23,629) million ($(212,873) thousand) and ¥(22,877) million as of March 31, 2019 and 2018, respectively. Assets attributed to the Company include surplus funds and long-term investment assets.

   (4) Depreciation is the amount of depreciation recognized by the Company.

   (5) Investment in equity-method affiliate is the cost of investment in an affiliate company not allocated to operating segments.

   (6) Increase in property, plant, and equipment and intangible assets comprises investments of the Company.

3. Segment profit has been reconciled with the operating income in the consolidated statement of income.

(4) Information about products and services

	Millions of Yen				
	2019				
	Domestic and Overseas Alcoholic Beverages	Japanese Food Wholesale Business in Overseas Markets	Bio	Other	Total
Sales to external customers	¥160,567	¥68,807	¥35,432	¥12,635	¥277,443

	Millions of Yen				
	2018				
	Domestic and Overseas Alcoholic Beverages	Japanese Food Wholesale Business in Overseas Markets	Bio	Other	Total
Sales to external customers	¥157,968	¥61,912	¥31,617	¥16,643	¥268,142

	Thousands of U.S. Dollars				
	2019				
	Domestic and Overseas Alcoholic Beverages	Japanese Food Wholesale Business in Overseas Markets	Bio	Other	Total
Sales to external customers	$1,446,549	$619,882	$319,207	$113,828	$2,499,486

(5) Information about geographical areas

(a) Sales

Millions of Yen			
2019			
Japan	USA	Other	Total
¥180,181	¥49,350	¥47,912	¥277,443

Millions of Yen			
2018			
Japan	USA	Other	Total
¥179,675	¥44,770	¥43,695	¥268,142

Thousands of U.S. Dollars			
2019			
Japan	USA	Other	Total
$1,623,252	$444,594	$431,639	$2,499,486

Note: Sales are classified by country or region based on the location of customers.

(b) Property, plant, and equipment

Millions of Yen			
2019			
Japan	USA	Other	Total
¥48,489	¥7,865	¥4,221	¥60,576

Millions of Yen			
2018			
Japan	USA	Other	Total
¥44,735	¥8,114	¥4,635	¥57,485

Thousands of U.S. Dollars			
2019			
Japan	USA	Other	Total
$436,837	$70,855	$38,027	$545,729

(6) Information about major customers

Name of Customers	2019 Millions of Yen Sales	Related Segment Name
KOKUBU GROUP CORP.	¥33,620	Takara Shuzo

Name of Customers	2018 Millions of Yen Sales	Related Segment Name
KOKUBU GROUP CORP.	¥34,540	Takara Shuzo

Name of Customers	2019 Thousands of U.S. Dollars Sales	Related Segment Name
KOKUBU GROUP CORP.	$302,882	Takara Shuzo

(7) Information about impairment losses

	Millions of Yen					
	2019					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Impairment losses of assets	¥	¥	¥696	¥	¥	¥696

	Millions of Yen					
	2018					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Impairment losses of assets	¥	¥	¥446	¥	¥	¥446

	Thousands of U.S. Dollars					
	2019					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Impairment losses of assets	$	$	$6,270	$	$	$6,270

(8) Information about amortization of goodwill

	Millions of Yen					
	2019					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥ 362	¥ 502	¥	¥	¥ 865
Goodwill at March 31, 2019		4,802	7,598			12,400

	Millions of Yen					
	2018					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥ 353	¥ 489	¥	¥	¥ 843
Goodwill at March 31, 2018		5,506	8,259			13,765

	Thousands of U.S. Dollars					
	2019					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Amortization of goodwill	$	$ 3,261	$ 4,522	$	$	$ 7,792
Goodwill at March 31, 2019		43,261	68,450			111,711

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