Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2020 and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Takara Holdings Inc.:

Opinion

We have audited the consolidated financial statements of Takara Holdings Inc. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 26, 2020

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2020

ASSETS	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 44,541	¥ 48,580	$ 408,633
Time deposits (Note 16)	5,558	9,350	50,990
Marketable securities (Notes 5 and 16)	4,518	7,574	41,449
Notes and accounts receivable (Notes 8 and 16):			
Trade	61,017	59,780	559,788
Other	1,541	704	14,137
Allowance for doubtful accounts	(307)	(315)	(2,816)
Inventories (Notes 6, 8, and 9)	48,976	46,035	449,321
Prepaid expenses and other current assets	2,973	3,301	27,275
Total current assets	168,820	175,011	1,548,807
PROPERTY, PLANT, AND EQUIPMENT (Notes 7 and 21):			
Land	18,337	18,559	168,229
Buildings and structures	59,337	52,808	544,376
Machinery, equipment, and vehicles	86,331	80,774	792,027
Tools, furniture and fixtures	16,956	15,706	155,559
Right-of-use assets	4,306		39,504
Lease assets	1,833	1,025	16,816
Construction in progress	1,531	6,105	14,045
Total	188,634	174,979	1,730,587
Accumulated depreciation	(118,799)	(114,402)	(1,089,899)
Net property, plant, and equipment	69,835	60,576	640,688
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 16)	20,086	24,590	184,275
Investments in and advances to unconsolidated subsidiaries and associated companies	1,634	1,552	14,990
Goodwill (Note 21)	11,750	12,400	107,798
Deferred tax assets (Note 13)	1,807	1,648	16,577
Other assets (Note 10)	9,947	11,325	91,256
Total investments and other assets	45,226	51,517	414,917
TOTAL	¥ 283,882	¥ 287,106	$ 2,604,422

LIABILITIES AND EQUITY	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 16)	¥ 4,725	¥ 4,797	$ 43,348
Current portion of long-term debt (Notes 8 and 16)	5,751	5,303	52,761
Notes and accounts payable (Note 16):			
Trade	16,393	16,257	150,394
Construction and other	4,475	4,337	41,055
Liquor taxes payable (Notes 9 and 16)	7,690	10,224	70,550
Income taxes payable (Note 16)	1,886	1,879	17,302
Accrued expenses	8,050	8,432	73,853
Accrued sales promotion expenses	2,094	1,921	19,211
Other current liabilities	4,399	4,668	40,357
Total current liabilities	55,466	57,822	508,862
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 16)	25,449	30,416	233,477
Lease obligations (Notes 8 and 16)	3,538	357	32,458
Liability for retirement benefits (Note 10)	9,065	8,757	83,165
Deposits	5,363	5,337	49,201
Deferred tax liabilities (Note 12)	1,578	2,907	14,477
Other	2,092	1,713	19,192
Total long-term liabilities	47,086	49,489	431,981
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 8 and 17)			
EQUITY (Notes 11 and 18):			
Common stock, authorized, 870,000,000 shares; issued, 199,699,743 shares in 2020 and 201,699,743 shares in 2019	13,226	13,226	121,339
Capital surplus	2,454	2,417	22,513
Retained earnings	128,564	124,788	1,179,486
Treasury stock, at cost, 1,995,163 shares in 2020 and 2,069,706 shares in 2019	(1,682)	(1,368)	(15,431)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	7,125	9,814	65,366
Deferred gain (loss) on derivatives under hedge accounting (Note 17)	84	114	770
Foreign currency translation adjustments	(1,102)	(196)	(10,110)
Defined retirement benefit plans	(908)	(599)	(8,330)
Total	147,762	148,197	1,355,614
Noncontrolling interests	33,566	31,597	307,944
Total equity	181,329	179,795	1,663,568
TOTAL	¥ 283,882	¥ 287,106	$ 2,604,422

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2020

	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
NET SALES (Note 21)	¥ 281,191	¥ 277,443	$ 2,579,733
COST OF SALES (Notes 9, 10, and 21)	172,574	168,694	1,583,247
Gross profit	108,617	108,749	996,486
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10, 12, and 21)	92,781	90,945	851,201
Operating income	15,836	17,804	145,284
OTHER INCOME (EXPENSES):			
Interest and dividend income	911	800	8,357
Gain on sales of investment securities	1,130	21	10,366
Gain on transfer of business		291	
Interest expense	(403)	(387)	(3,697)
Foreign exchange loss	(255)	(122)	(2,339)
Loss on disposals of property, plant, and equipment	(319)	(318)	(2,926)
Impairment loss (Notes 7 and 21)	(880)	(696)	(8,073)
Loss on valuation of investment securities (Note 5)	(260)	(32)	(2,385)
Provision for environmental measures	(415)		(3,807)
Other, net	299	297	2,743
Other income (expenses), net	(192)	(145)	(1,761)
INCOME BEFORE INCOME TAXES	15,643	17,658	143,513
INCOME TAXES (Note 13):			
Current	5,077	5,443	46,577
Deferred	(125)	(132)	(1,146)
Total income taxes	4,952	5,310	45,431
NET INCOME	10,691	12,347	98,082
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,710	1,936	15,688
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 8,980	¥ 10,411	$ 82,385
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.*s* and 19):			
Basic net income	¥45.11	¥52.15	$0.41
Cash dividends applicable to the year	20.00	18.00	0.18

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥10,691	¥12,347	$ 98,082
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Unrealized loss on available-for-sale securities	(2,689)	(1,705)	(24,669)
Deferred (loss) gain on derivatives under hedge accounting	(30)	228	(275)
Foreign currency translation adjustments	(1,160)	(3,646)	(10,642)
Defined retirement benefit plans	(343)	25	(3,146)
Total other comprehensive loss	(4,223)	(5,098)	(38,743)
COMPREHENSIVE INCOME	¥ 6,467	¥ 7,249	$ 59,330
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥5,046	¥6,083	$46,293
Noncontrolling interests	1,421	1,166	13,036

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries
Consolidated Statement of Changes in Equity
Year Ended March 31, 2020

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) 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, 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
Cumulative effects of changes in accounting policies				75						75	48	123
Restated balance		13,226	2,417	124,863	(1,368)	9,814	114	(196)	(599)	148,272	31,645	179,918
Net income attributable to owners of the parent				8,980						8,980		8,980
Cash dividends, ¥18.0 per share				(3,593)						(3,593)		(3,593)
Purchase of treasury shares	(1,925)				(2,000)					(2,000)		(2,000)
Retirement of treasury shares			(1,686)		1,686							
Purchase of shares of consolidated subsidiary			36							36		36
Transfer to capital surplus from retained earnings			1,686	(1,686)								
Net change in the year						(2,689)	(30)	(905)	(308)	(3,934)	1,921	(2,013)
BALANCE, MARCH 31, 2020	197,704	¥13,226	¥ 2,454	¥128,564	¥(1,682)	¥ 7,125	¥ 84	¥(1,102)	¥(908)	¥147,762	¥33,566	¥181,329

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) 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, 2019	$121,339	$ 22,174	$1,144,844	$(12,550)	$ 90,036	$1,045	$ (1,798)	$(5,495)	$1,359,605	$289,880	$1,649,495
Cumulative effects of changes in accounting policies			688						688	440	1,128
Restated balance			1,145,532	(12,550)	90,036	1,045	(1,798)	(5,495)	1,360,293	290,321	1,650,623
Net income attributable to owners of the parent			82,385						82,385		82,385
Cash dividends, $0.16 per share			(32,963)						(32,963)		(32,963)
Purchase of treasury shares				(18,348)					(18,348)		(18,348)
Retirement of treasury shares		(15,467)		15,467							
Purchase of shares of consolidated subsidiary		330							330		330
Transfer to capital surplus from retained earnings		15,467	(15,467)								
Net change in the year					(24,669)	(275)	(8,302)	(2,825)	(36,091)	17,623	(18,467)
BALANCE, MARCH 31, 2020	$121,339	$ 22,513	$1,179,486	$(15,431)	$ 65,366	$ 770	$(10,110)	$(8,330)	$1,355,614	$307,944	$1,663,568

See notes to consolidated financial statements.

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 15,643	¥ 17,658	$ 143,513
Adjustments for:			
Income taxes paid	(4,955)	(6,586)	(45,458)
Depreciation and amortization	8,874	7,827	81,412
Impairment loss	880	696	8,073
Loss on sales and retirement of non-current assets	268	27	2,458
Loss on valuation of investment securities	260	32	2,385
Gain on transfer of business		(291)	
Net gain on sales of investment securities	(1,128)	(21)	(10,348)
Changes in assets and liabilities:			
Increase in trade receivables	(1,291)	(2,900)	(11,844)
Increase in inventories	(3,159)	(5,060)	(28,981)
Decrease (increase) in interest and dividends receivable	6	(17)	55
(Decrease) increase in trade payables	(340)	324	(3,119)
(Decrease) increase in liquor taxes payable	(2,534)	946	(23,247)
(Decrease) increase in accrued consumption taxes	(994)	244	(9,119)
(Decrease) increase in other current liabilities	(595)	868	(5,458)
Decrease in interest payable	(1)	(8)	(9)
Increase (decrease) in provision for environmental measures	408	(2)	3,743
Other, net	402	(230)	3,688
Total adjustments	(3,898)	(4,149)	(35,761)
Net cash provided by operating activities	11,744	13,508	107,743
INVESTING ACTIVITIES:			
Net increase (decrease) in time deposits	3,779	(463)	34,669
Purchases of marketable securities and investment securities	(8,566)	(11,577)	(78,587)
Proceeds from sales and redemption of marketable securities	11,507	12,528	105,568
Purchases of property, plant, and equipment	(12,121)	(10,671)	(111,201)
Proceeds from sales of investment securities	1,636	33	15,009
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 14)	350		3,211
Purchases of shares of subsidiaries resulting in change in scope of consolidation (Note 14)		(53)	
Proceeds from transfer of businesses (Note 14)		1,067	
Other, net	(277)	(77)	(2,541)
Net cash used in investing activities	(3,690)	(9,213)	(33,853)

(Continued)

Takara Holdings Inc. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
FINANCING ACTIVITIES:			
Repayment of long-term loans payable	¥ (5,160)	¥ (304)	$ (47,339)
Purchase of treasury stock	(2,000)	(0)	(18,348)
Cash dividends paid	(3,589)	(3,191)	(32,926)
Repayments of lease obligations	(641)	(219)	(5,880)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(203)	
Other, net	(262)	(323)	(2,403)
Net cash used in financing activities	(11,653)	(4,243)	(106,908)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(439)	(812)	(4,027)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,039)	(760)	(37,055)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	48,580	49,341	445,688
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 44,541	¥ 48,580	$ 408,633

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 ("IFRS").

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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 19. 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 ¥109 to $1, the approximate rate of exchange at March 31, 2020. 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 19. 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, 2020 include the accounts of the Company and its 59 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 subsidiary would not have a material effect on the accompanying consolidated financial statements.

An investment in an associated company in 2020 and 2019 is accounted for by the equity method.

Investments in the unconsolidated subsidiary 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–"FASB ASC") 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; (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; and (e) recoding a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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; (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; and (e) recoding a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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.

Takara Shuzo International Co., Ltd. ("Takara Shuzo International"), which is a wholly owned subsidiary of the Company, acquired 51% of the shares issued and outstanding of Tokyo Mutual Trading Co., Ltd. ("Tokyo Mutual Trading"). As a result, Tokyo Mutual Trading became a consolidated subsidiary during the year ended March 31, 2020.

The acquisition was accounted for by the purchase method of accounting (see Note 4).

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 10.

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.

Lease assets related to finance lease transactions with title transfer are depreciated on a depreciation method identical to the one for the own asset.

Right-of-use assets are depreciated with on a straight-line basis.

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.

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.

For the transition to the group tax sharing system, which has been established by the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020), and the items under the non-consolidated taxation system that have been reviewed in conjunction with the transition to the group tax sharing system, the provisions of paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 of February 16, 2018) are not applied, as permitted by paragraph 3 of the "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39 of March 31, 2020). As a result, the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax laws before the amendment.

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

1) Accounting Standard for Revenue Recognition

On March 31, 2020, 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," and ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments." The core principle of the standard and guidances 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.

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

2) Accounting Standard for Fair Value Measurement

On July 4, 2020, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement" and revised ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories" and ASBJ Statement No. 10, "Accounting Standard for Financial Instruments." On March 31, 2021, the ASBJ revised ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments."

Based on the situation that the International Accounting Standards Board ("IASB") and FASB have made detailed guidance with almost the same contents about fair value measurement (IFRS 13 in IASB, Topic 820 in FASB), ASBJ took efforts to ensure that Japanese standards are consistent with international accounting standards, and issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement," about its guidance and disclosure regarding the fair value of financial instruments.

From the perspective of improving the comparability of financial statements between companies in different countries by using a uniformed calculation method, ASBJ's basic policy for developing accounting standards for fair value measurement is to incorporate the basic principles of IFRS 13, and add alternative treatment for individual items to the extent that does not lose the comparability of financial statements considering the practices that have been conducted in Japan so far.

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

3) Accounting Standard for Disclosure of Accounting Estimates

On March 31, 2020, the ASBJ issued ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates."

The ASBJ issued Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates" in regards of the disclosure of the sources of estimation uncertainty which is required in International Accounting Standards ("IAS") 1, Presentation of Financial Statements paragraph 125 issued in 2003, there are requests to consider disclosure of note under Japanese standards as information that is highly useful to users of financial statements.

ASBJ's basic policy for developing accounting standards for Disclosure of Accounting Estimates is that each company shall determine the specific disclosure content in light of their disclosure purpose by showing their principle and the purpose of disclosure, rather than expanding the individual note, and should refer to the provisions set on IAS 1 paragraph 125.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2020.

4) Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

On March 31, 2020, the ASBJ revised ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" in response to a proposal to enhance note information on accounting principles and procedures adopted in cases where the provisions of relevant accounting standards are not clear.

The Company expects to apply the accounting standard for annual periods beginning on or after April 1, 2020.

(2) Foreign subsidiaries

The FASB issued Accounting Standards Update ("ASU") No. 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 accounting principles generally accepted in U.S. ("U.S. GAAP") will adopt ASU No. 2016-02 for annual periods beginning on April 1, 2022.

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

u. Additional Information

- Impact of the novel coronavirus ("COVID-19")

Though there is no unified opinion presented by public institutions regarding the future spread and contraction of COVID-19, based on the declaration to lift the state of emergency and the trend of restarting economic activities, we assume that impact of COVID-19 toward the Company will continue until around July 2020.

Upon performing the impairment test of the goodwill and assessing the recoverability of deferred tax assets in the consolidated financial statements, we used management's estimate and judgments about the future business plan. Such future business plan was developed taking the effects of COVID-19 into consideration based on the assumptions described above. We concluded that there is no need to recognize impairment of goodwill and additional valuation allowance for the recoverability of deferred tax assets.

3. CHANGES IN ACCOUNTING POLICIES

(1) Apply the ASU No. 2014-09, "Revenue from Contracts with Customers"

From the beginning of the fiscal year, the Company applied ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU No. 2014-09") at foreign subsidiaries that apply U.S. GAAP. In applying ASU No. 2014-09, the Company adopted a method of recognizing the cumulative effect of adopting this standard on the effective date of adoption, which is permitted to be a transitional measure.

Revenue is recognized at the amount that reflects the consideration to be received in exchange for the promised goods or services when they are transferred to the customer.

The effect of this change on the consolidated financial statements is insignificant.

(2) Apply the IFRS 16, "Leases"

From the beginning of the fiscal year, the Company applied IFRS 16, "Leases" ("IFRS 16") at foreign subsidiaries that apply IFRS. In applying IFRS 16, the Company adopted a method of recognizing the cumulative effect of adopting this standard on the effective date of adoption, which is permitted to be a transitional measure.

Consequently, the lessee generally recognizes rights of use and lease obligations on the effective date for all leases.

The effect of this change on the consolidated financial statements is insignificant.

4. BUSINESS COMBINATIONS

Acquisition of Shares of Tokyo Mutual Trading Co., Ltd.

Takara Shuzo International resolved at its Board of Directors' meeting held on March 26, 2020 to acquire 51% of the shares issued and outstanding of Tokyo Mutual Trading, a company primarily engaged in export and sales of food products, etc. to the United States, and made it a consolidated subsidiary of the Company.

1. Outline of the business combination

(1) Name and business outline of the acquired entity

Entity name:	Tokyo Mutual Trading Co., Ltd.
Business description:	Export, import and sale of foods, alcoholic beverages, miscellaneous goods, etc.

(2) Main purpose of business combination

While Takara Shuzo International is actively building up and expanding our wholesale network for Japanese foods around the world, this acquisition will further strengthen the relationship with our suppliers and will enhance our product development function and our supply to the United States. It will further expand our business and enhance its corporate value.

(3) Date of the business combination

March 30, 2020

(4) Legal form of the business combination

Acquisition of shares by cash consideration

(5) Entity name after combination

No change in the entity name

(6) Acquisition of the ownership ratio of its voting rights

51%

(7) Basis for determining the acquiring company

It is based on the fact that Takara Shuzo International acquired 51% of voting rights by means of share acquisition in consideration for cash.

2. The term which is included into the consolidated financial statements of the Group

The operations of the acquired company from January 1, 2020 to March 31, 2020, were included in the consolidated statement of income for the year ended March 31, 2020.

3. Acquisition cost of the acquired company and related details of each class of consideration for acquisition

	Millions of Yen	Thousands of U.S. Dollars
	2020	2020
Consideration for acquisition – Cash	¥1,326	$12,165
Total	¥1,326	$12,165

4. Expenses related to acquisition

Mainly advisory fees: ¥86 million ($788 thousand)

5. Goodwill

Goodwill recorded in connection with the acquisition: ¥403 million ($3,697 thousand)

It will be amortized on a straight-line basis over 10 years.

6. The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2020	2020
Current assets	¥2,100	$19,266
Fixed assets	523	4,798
Total assets acquired	¥2,624	$24,073
Current liabilities	¥641	$5,880
Non-current liabilities	174	1,596
Total liabilities assumed	¥816	$7,486

7. If this business combination had been completed as of April 1, 2019, the beginning of the current fiscal year, the unaudited approximate amount of impact on condensed pro forma consolidated financial statement of income for the year ended March 31, 2020, and its calculation method are as follows.

   (1) Approximate amount of impact on consolidated financial statement of income

	Millions of Yen	Thousands of U.S. Dollars
	2020	2020
Net sales	¥1,158	$10,623
Operating income	196	1,798

   (2) Calculation method of approximate amount

   Assuming that this business combination had been completed as of April 1, 2019, the beginning of the current fiscal year, the differences between sales and profit/loss information calculated by adjusting for elimination of internal transactions, sales, profit and loss information in our consolidated income statement are calculated as the approximate amount of impact. Assuming that goodwill recognized at the time of business combination occurred on the beginning of the current consolidated fiscal year, we adjusted the amount of amortization.

   This note has not been audited.

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2020 and 2019, consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current:			
Debt securities	¥2,262	¥5,324	$20,752
Other	2,256	2,250	20,697
Total	¥4,518	¥7,574	$41,449
Non-current:			
Investment equity securities	¥20,086	¥24,590	$184,275
Total	¥20,086	¥24,590	$184,275

The costs and aggregate fair values of marketable and investment securities at March 31, 2020 and 2019, are as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Available-for-sale:				
Equity securities	¥8,215	¥10,316	¥116	¥18,414
Debt securities	262		0	262
Others	2,256			2,256
Held-to-maturity	2,000			2,000

March 31, 2019	Millions of Yen Cost	Unrealized Gains	Unrealized Losses	Fair Value
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

March 31, 2020	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$75,366	$94,642	$1,064	$168,935
Debt securities	2,403		0	2,403
Others	20,697			20,697
Held-to-maturity	18,348	94,642		18,348

The information for available-for-sale securities which were sold during the years ended March 31, 2020 and 2019, is as follows:

March 31, 2020	Millions of Yen Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥1,639	¥1,130	¥2
Total	¥1,639	¥1,130	¥2

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

March 31, 2020	Thousands of U.S. Dollars Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$15,036	$10,366	$18
Total	$15,036	$10,366	$18

Investments in equity instruments that do not have a quoted market price in an active market (for which the totals included in the consolidated balance sheets at March 31, 2020 and 2019, are ¥1,671 million ($15,330 thousand) and ¥1,691 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, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Marketable equity securities	¥242	¥32	$2,220
Non-marketable equity securities	17		155

6. INVENTORIES

Inventories at March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Finished products and merchandise	¥33,846	¥32,229	$310,513
Semifinished products	8,448	8,370	77,504
Work in process	1,801	1,341	16,522
Raw materials and supplies	4,879	4,093	44,761
Total	¥48,976	¥46,035	$449,321

7. 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, 2020 and 2019.

Year Ended March 31, 2020

		Impairment Loss Millions of Yen					
Location	Description	Buildings and Structures	Machinery, Equipment, and Vehicles	Others	Land	Intangible Assets	Total
Takara Bio Inc.							
Yokkaichi-shi, Mie	Idle property	¥272	¥ 0	¥1	¥387	¥0	¥662
Kusatsu-shi, Shiga	Idle property	186	28	3			218
	Total	¥458	¥28	¥5	¥387	¥0	¥880

		Impairment Loss Thousands of U.S. Dollars					
Location	Description	Buildings and Structures	Machinery, Equipment, and Vehicles	Others	Land	Intangible Assets	Total
Takara Bio Inc.							
Yokkaichi-shi, Mie	Idle property	$2,495	$ 0	$ 9	$3,550	$0	$6,073
Kusatsu-shi, Shiga	Idle property	1,706	256	27			2,000
	Total	$4,201	$256	$45	$3,550	$0	$8,073

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

(1) Reason for recognizing impairment loss

In the fiscal year ended March 31, 2020, Takara Bio Inc. ("Bio") recognized an impairment loss on idle assets that were not likely to be used in the future as of March 31, 2020.

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 the mushroom business to Yukiguni Maitake Co., Ltd., to the recoverable amount as they were likely to occur loss on transfer.

(2) Method of calculating recoverable amount

In the fiscal year ended March 31, 2020, regarding the idle property (Yokkaichi), the recoverable amount of the idle property was measured at net selling price, which was based on the appraisal value of the real estate. As for the idle property (Kusatsu), recoverable amounts were measured based on value in use, which was considered to be zero because future cash flows are not expected.

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

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

Short-term bank loans consisted principally of term loans with a weighted average interest of 0.686% and 0.794% at March 31, 2020 and 2019, respectively.

The Company entered into the commitment line contract with a financial institution for flexibility of financing. The amounts of unused loan commitments were ¥10,000 million at both March 31, 2020 and 2019.

Long-term debt at the beginning of the year at April 1, 2019 and the ending of the year at March 31, 2020 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loan principally from banks, due within one year, with a weighted average interest rate 3.826%:			
Collateralized	¥ 44	¥ 44	$ 403
Unsecured	17	5,118	155
Loan principally from banks, due after one year and serially to 2026, with a weighted average interest rate 0.730%:			
Collateralized	110	157	1,009
Unsecured	5,337	5,258	48,963
1.561% unsecured bonds, due May 2020	5,000	5,000	45,871
1.162% unsecured bonds, due April 2022	5,000	5,000	45,871
0.100% unsecured bonds, due April 2022	5,000	5,000	45,871
0.220% unsecured bonds, due April 2024	5,000	5,000	45,871
0.315% unsecured bonds, due April 2027	5,000	5,000	45,871
Lease obligations	4,227	497	38,779
Total	34,738	36,076	318,697
Less current portion	5,751	5,303	52,761
Long-term debt, less current portion	¥ 28,987	¥ 30,773	$ 265,935

Annual maturities of long-term debt as of March 31, 2020, for the next five years and thereafter are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending March 31		
2021	¥ 5,751	$ 52,761
2022	625	5,733
2023	10,716	98,311
2024	435	3,990
2025	10,451	95,880
2026 and thereafter	6,757	61,990
Total	¥34,738	$318,697

At March 31, 2020, notes and accounts receivable of ¥2,000 million ($18,348 thousand) and inventories of ¥3,247 million ($29,788 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥155 million ($1,422 thousand).

9. 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.

10. 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 the defined benefit obligation for the years ended March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥14,759	¥14,858	$135,403
Current service cost	845	831	7,752
Interest cost	115	114	1,055
Actuarial loss	343	2	3,146
Benefit paid	(842)	(984)	(7,724)
Past service cost		26	
Increase from inclusion of subsidiaries in consolidation	90		825
Others	19	(89)	174
Balance at end of year	¥15,330	¥14,759	$140,642

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥6,878	¥7,027	$63,100
Expected return on plan assets	125	136	1,146
Actuarial loss	(100)	(84)	(917)
Contribution from the employer	312	294	2,862
Benefits paid	(318)	(414)	(2,917)
Others	20	(81)	183
Balance at end of year	¥6,917	¥6,878	$63,458

(3) The reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2020 and 2019, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Defined benefit obligation	¥ 6,419	¥ 6,170	$ 58,889
Plan assets	(6,917)	(6,878)	(63,458)
Total	(498)	(707)	(4,568)
Unfunded defined benefit obligation	8,911	8,588	81,752
Net liability arising from defined benefit obligation	¥ 8,413	¥ 7,880	$ 77,183

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥9,065	¥8,757	$83,165
Prepaid benefit cost	(651)	(877)	(5,972)
Net liability arising from defined benefit obligation	¥8,413	¥7,880	$77,183

Prepaid benefit cost is included in other assets.

(4) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 844	¥ 830	$ 7,743
Interest cost	115	114	1,055
Expected return on plan assets	(125)	(136)	(1,146)
Recognized actuarial losses	234	285	2,146
Amortization of prior service cost	(282)	(282)	(2,587)
Net periodic benefit costs	¥ 787	¥ 810	$ 7,220

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost	¥(282)	¥(328)	$(2,587)
Actuarial (loss) gain	(211)	225	(1,935)
Total	¥(493)	¥(103)	$(4,522)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 263	¥ 546	$ 2,412
Unrecognized actuarial gain	(1,747)	(1,536)	(16,027)
Total	¥(1,483)	¥ (989)	$(13,605)

(7) Plan assets as of March 31, 2020 and 2019

a. Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
Debt investments	49%	52%
General account of insurance company	26	26
Equity investments	12	13
Cash and cash in bank	1	0
Others	12	9
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, 2020 and 2019, are set forth as follows:

	2020	2019
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 amount of contribution required for the defined contribution plan paid by the subsidiaries was ¥322 million ($2,954 thousand) and ¥294 million for the years ended March 31, 2020 and 2019, respectively.

11. 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.

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥4,259 million ($39,073 thousand) and ¥4,708 million for the years ended March 31, 2020 and 2019, respectively.

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2020 and 2019. 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, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Inventories	¥ 329	¥ 289	$ 3,018
Accrued bonuses	675	694	6,192
Accrued sales promotion expenses	649	595	5,954
Enterprise tax payable	181	133	1,660
Tax loss carryforwards	1,098	1,245	10,073
Unrealized profit on sale of inventories	507	425	4,651
Retirement benefits	2,140	2,129	19,633
Marketable and investment securities	419	440	3,844
Depreciation	347	340	3,183
Impairment losses	452	370	4,146
Defined retirement benefit plans	440	289	4,036
Other	1,501	1,356	13,770
Subtotal	8,744	8,309	80,220
Less valuation allowance for tax loss carryforwards	(631)	(477)	(5,788)
Less valuation allowance for temporary differences	(1,092)	(1,039)	(10,018)
Total valuation allowance	(1,723)	(1,516)	(15,807)
Total	¥ 7,020	¥ 6,793	$ 64,403
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥(3,070)	¥(4,200)	$(28,165)
Deferred gain on fixed assets	(532)	(516)	(4,880)
Deferred gain on fixed assets inherited by a corporate division	(194)	(204)	(1,779)
Basis difference of acquired intangible assets	(1,116)	(1,335)	(10,238)
Basis difference of acquired land	(371)	(376)	(3,403)
Retained earnings of foreign subsidiaries	(624)	(518)	(5,724)
Other	(880)	(900)	(8,073)
Total	¥(6,791)	¥(8,052)	$(62,302)
Net deferred tax assets (liabilities)	¥ 229	¥(1,258)	$ 2,100

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

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, 2020 and 2019, is as follows:

	2020	2019
Normal effective statutory tax rate in Japan	31.0%	31.0%
Expenses not deductible for income tax purposes	1.4	1.2
Change in valuation allowance	1.5	(1.9)
Withholding taxes in foreign countries	0.9	0.7
Amortization of goodwill	1.4	1.3
Undistributed earnings of foreign consolidated subsidiaries	0.7	0.6
Effect of tax rate difference of consolidated subsidiaries	(3.2)	(2.6)
Tax credit for R&D expenses	(2.5)	(0.9)
Other, net	0.5	0.7
Actual effective tax rate	31.7%	30.1%

The Company and certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥1,098 million ($10,073 thousand) and ¥1,245 million as of March 31, 2020 and 2019, respectively, 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, 2020	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		¥ 0	¥1,096	¥1,098
Less valuation allowances for tax loss carryforwards			(1)		(0)	(629)	(631)
Net deferred tax assets relating to tax loss carryforwards						467	467

	Thousands of U.S. Dollars						
March 31, 2020	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		$ 0	$10,055	$10,073
Less valuation allowances for tax loss carryforwards			(9)		(0)	(5,770)	(5,788)
Net deferred tax assets relating to tax loss carryforwards						4,284	4,284

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.

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
	Millions of Yen						
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

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.

14. 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, 2019

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
	2019
Current assets	¥ 61
Fixed assets	4
Goodwill	27
Current liabilities	(2)
Cash paid for shares	90
Cash and cash equivalents	(37)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	¥ 53

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

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
	2019
Current assets	¥1,454
Fixed assets	374
Current liabilities	(613)
Long-term liabilities	(2)
Valuation difference on available-for-sale securities	(1)
Noncontrolling interests	(27)
Gain on transfer of business	291
Selling price of shares	1,475
Cash and cash equivalents	(407)
Proceeds from transfer of business	¥1,067

The breakdown of assets and liabilities of newly consolidated subsidiary as the result of the acquisition of shares for the year ended March 31, 2020.

Tokyo Mutual Trading Co., Ltd.

Takara Shuzo International, which is a wholly owned subsidiary of the Company, acquired shares of Tokyo Mutual Trading. As a result, Tokyo Mutual Trading became a consolidated subsidiary during the year ended March 31, 2020.

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

	Millions of Yen	Thousands of U.S. Dollars
	2020	2020
Current assets	¥ 2,100	$ 19,266
Fixed assets	523	4,798
Goodwill	403	3,697
Current liabilities	(641)	(5,880)
Long-term liabilities	(174)	(1,596)
Noncontrolling interests	(886)	(8,128)
Cash paid for shares	1,326	12,165
Cash and cash equivalents	(1,676)	(15,376)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	¥ 350	$ 3,211

15. OPERATING LEASES

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

Total rental expenses for the years ended March 31, 2020 and 2019, were ¥3,268 million ($29,981 thousand) and ¥3,481 million, respectively.

Obligations under operating leases as of March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥ 1,629	¥ 1,510	$ 14,944
Due after one year	19,044	11,829	174,715
Total	¥ 20,673	¥ 13,339	$ 189,660

16. 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 banking facilities, 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 17, the amounts do not reflect the market risks related to derivative transactions.

Concentration of Credit Risk

As of March 31, 2020, 17% of total receivables are from one major customer.

Fair Value of Financial Instruments

	Millions of Yen		
March 31, 2020	Carrying Value	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 44,541	¥ 44,541	
Time deposits	5,558	5,558	
Notes and accounts receivable			
(Trade and associated companies)	60,724	60,724	
Marketable securities and investment securities	22,933	22,933	
Total	¥ 133,757	¥ 133,757	
Notes and accounts payable	¥ 20,869	¥ 20,869	
Short-term bank loans	4,725	4,725	
Current portion of long-term debt	5,751	5,767	¥ 15
Liquor taxes payable	7,690	7,690	
Income taxes payable	1,886	1,886	
Long-term debt	25,448	25,722	273
Lease obligations	3,538	3,538	
Total	¥ 69,910	¥ 70,200	¥ 289
Derivatives	¥ 118	¥ 118	

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, 2020	Thousands of U.S. Dollars Carrying Value	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 408,633	$ 408,633	
Time deposits	50,990	50,990	
Notes and accounts receivable (Trade and associated companies)	557,100	557,100	
Marketable securities and investment securities	210,394	210,394	
Total	$ 1,227,128	$ 1,227,128	
Notes and accounts payable	$ 191,458	$ 191,458	
Short-term bank loans	43,348	43,348	
Current portion of long-term debt	52,761	52,908	$ 137
Liquor taxes payable	70,550	70,550	
Income taxes payable	17,302	17,302	
Long-term debt	233,467	235,981	2,504
Lease obligations	32,458	32,458	
Total	$ 641,376	$ 644,036	$ 2,651
Derivatives	$ 1,082	$ 1,082	

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. The allowance for doubtful accounts has been deducted from the total amount of notes and accounts receivable by ¥293 million ($2,688 thousand) and ¥311 million in 2020 and 2019, 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 5.

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 17.

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, 2020 and 2019 are ¥3,305 million ($30,321 thousand) and ¥3,244 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

March 31, 2020	Millions of Yen Due in One Year or Less	Millions of Yen Due after One Year through Five Years	Thousands of U.S. Dollars Due in One Year or Less	Thousands of U.S. Dollars Due after One Year through Five Years
Cash and cash equivalents	¥ 44,541	¥	$ 408,633	$
Notes and accounts receivable				
(Trade and associated companies)	60,724		557,100	
Held-to-maturity securities:				
(1) Others	2,000		18,348	
Available-for-sale securities with contractual maturities:				
(1) Government bonds and municipal bonds	262		2,403	
(2) Others	2,256		20,697	
Total	¥ 109,784	¥	$ 1,007,192	$

March 31, 2019	Millions of Yen Due in One Year or Less	Millions of Yen Due after One Year through Five Years
Cash and cash equivalents	¥ 48,580	¥
Notes and accounts receivable		
(Trade and associated companies)	59,468	
Held-to-maturity securities:		
(1) Corporate bonds	3,000	
(2) Others	2,000	
Available-for-sale securities with contractual maturities:		
(1) Government bonds and municipal bonds	331	
(2) Others	2,250	
Total	¥ 115,630	¥

17. 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, 2020	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value	 Unrealized Gain/Loss
Foreign currency forward contracts:				
Buying U.S. dollar	¥ 328	¥	¥ (0)	¥ (0)
Buying GB pound	0		0	0
Buying Chinese yuan	156		(4)	(4)
Buying Japanese yen	246		(5)	(5)
Buying Euro	61		(0)	(0)
Selling Euro	156		1	1
Selling Chinese yuan	278		5	5
Non-deliverable forward contracts:				
Selling Korean won	29		0	0
Total	¥1,257	¥	¥ (4)	¥ (4)

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, 2020	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	$ 3,009	$	$ (0)	$ (0)
Buying GB pound	0		0	0
Buying Chinese yuan	1,431		(36)	(36)
Buying Japanese yen	2,256		(45)	(45)
Buying Euro	559		(0)	(0)
Selling Euro	1,431		9	9
Selling Chinese yuan	2,550		45	45
Non-deliverable forward contracts:				
Selling Korean won	266		0	0
Total	$11,532	$	$(36)	$(36)

Derivative Transactions to Which Hedge Accounting Is Applied

a. Foreign exchange derivatives

March 31, 2020	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	¥3,485	¥2,022	¥128
Selling put option U.S. dollar	Accounts payable	3,485	2,022	(5)
Foreign currency forward contracts:				
Buying U.S. dollar	Accounts payable	883		15
Total		¥7,856	¥4,045	¥137

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, 2020	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	$31,972	$18,550	$1,174
Selling put option U.S. dollar	Accounts payable	31,972	18,550	(45)
Foreign currency forward contracts:				
Buying U.S. dollar	Accounts payable	8,100		137
Total		$72,073	$37,110	$1,256

18. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income for the years ended March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gain or loss on available-for-sale securities:			
Loss arising during the year	¥(2,926)	¥(2,522)	$(26,844)
Reclassification adjustments to profit or loss	(890)	8	(8,165)
Amount before income tax effect	(3,817)	(2,513)	(35,018)
Income tax effect	1,127	808	10,339
Total	¥(2,689)	¥(1,705)	$(24,669)
Deferred gain or loss on derivatives under hedge accounting:			
(Loss) gain arising during the year	¥ (43)	¥ 337	$ (394)
Amount before income tax effect	(43)	337	(394)
Income tax effect	13	(108)	119
Total	¥ (30)	¥ 228	$ (275)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(1,160)	¥(3,646)	$(10,642)
Total	¥(1,160)	¥(3,646)	$(10,642)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (446)	¥ (106)	$ (4,091)
Reclassification adjustments to profit or loss	(47)	3	(431)
Amount before income tax effect	(493)	(103)	(4,522)
Income tax effect	150	128	1,376
Total	¥ (343)	¥ 25	$ (3,146)
Total other comprehensive loss	¥(4,223)	¥(5,098)	$(38,743)

19. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2020 and 2019, is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted-Average Shares	EPS	
For the year ended March 31, 2020:				
Basic EPS				
Net income available to common shareholders	¥ 8,980	199,062	¥45.11	$ 0.41
For the year ended March 31, 2019:				
Basic EPS				
Net income available to common shareholders	¥10,411	199,630	¥52.15	

Diluted net income per share for both the years ended March 31, 2020 and 2019 is not disclosed because there were no dilutive shares during these two fiscal years.

20. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2020 was approved at the Company's shareholders' meeting held on Jun 26, 2020.

	Millions of Yen	Thousands of U.S. Dollars
	2020	2020
Year-end cash dividends, ¥20 ($0.18) per share	¥3,954	$ 36,275

Significant Facility Investment

On May 11, 2020 (U.S. Local time) Takara Bio USA, Inc. ("TBUSA"), a consolidated subsidiary of Bio, which is in-turn a consolidated subsidiary of the Company, acquired land and buildings according to a decision of facility investment made at the meeting of board of directors of Bio held on January 23, 2020.

1. Reason for facility investment

   TBUSA will utilize this as a new facility. Also, TBUSA plans to relocate upon termination of the current lease agreement which is set to be in August 2021.

2. Outline of facility investment

(1) Location	San Jose City, California, USA
(2) Purpose	Land, buildings and interior construction as a new facility
(3) Investment amount	Approximately 76 million U.S. dollars

3. Installation schedule for equipment

May 2020	Land and buildings obtained
2021	Planned completion of interior construction
2021	Planned relocation

4. Significance of impact of the facility on sales and production activities

   The impact of the facility is minimal on the consolidated performance for the year ending March 31, 2021.

Execution of Significant Agreement

Bio entered into an agreement with Tasly Biopharmaceuticals Co., Ltd. (Headquarters: Shanghai, China; hereafter, "Tasly") for exclusive development, manufacturing and commercialization of oncolytic virus C-REV (Abbreviated to canerpaturev) in China as of May 11, 2020.

Under the agreement, Bio will transfer C-REV manufacturing technologies to Tasly in addition to providing developmental data. Meanwhile, Tasly will conduct the clinical development in China (including Hong Kong and Macao, excluding Taiwan) with the aim of launching C-REV as a new anti-cancer drug in China.

Bio will receive upfront, annual and milestone payments from Tasly depending on the achievement of certain developments as stipulated in the agreement. Following launch, Bio will also receive milestone payments upon the achievement of target sales, as well as running royalty on net sales.

21. 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						
	2020						
	Reportable Segment						
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Total	Other	Reconciliation	Consolidated
Sales:							
Sales to external customers	¥152,496	¥82,456	¥34,563	¥269,516	¥11,670	¥ 5	¥281,191
Intersegment sales or transfers	644	309	1	955	20,131	(21,087)	
Total	153,141	82,765	34,565	270,472	31,801	(21,082)	281,191
Segment profit	4,175	3,532	6,274	13,982	2,018	(164)	15,836
Segment assets	93,083	75,183	75,009	243,276	19,577	21,028	283,882
Other:							
Depreciation	2,736	1,434	2,921	7,093	216	317	7,626
Amortization of goodwill		350	496	847			847
Investment in equity method affiliate						1,608	1,608
Increase in property, plant, and equipment and intangible assets	5,520	2,696	5,365	13,582	219	393	14,195

	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

	Thousands of U.S. Dollars						
	2020						
	Reportable Segment						
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Total	Other	Reconciliation	Consolidated
Sales:							
Sales to external customers	$ 1,399,045	$ 756,477	$ 317,091	$ 2,472,623	$ 107,064	$ 45	$ 2,579,733
Intersegment sales or transfers	5,908	2,834	9	8,761	184,688	(193,458)	
Total	1,404,963	759,311	317,110	2,481,394	291,752	(193,412)	2,579,733
Segment profit	38,302	32,403	57,559	128,275	18,513	(1,504)	145,284
Segment assets	853,972	689,752	688,155	2,231,889	179,605	192,917	2,604,422
Other:							
Depreciation	25,100	13,155	26,798	65,073	1,981	2,908	69,963
Amortization of goodwill		3,211	4,550	7,770			7,770
Investment in equity method affiliate						14,752	14,752
Increase in property, plant, and equipment and intangible assets	50,642	24,733	49,220	124,605	2,009	3,605	130,229

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 ¥57 million ($522 thousand) and ¥(99) million, and income of the Company not allocated to operating segments of ¥(222) million ($(2,036) thousand) and ¥(194) million as of March 31, 2020 and 2019, respectively.

   (3) Segment assets include assets of the Company not allocated to operating segments of ¥51,819 million ($475,403 thousand) and ¥59,694 million, and other adjustment (principally eliminations of intersegment transactions) of ¥(30,791) million ($(282,486) thousand) and ¥(23,629) million as of March 31, 2020 and 2019, 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) In the fiscal year ended March 31, 2019, increase in property, plant, and equipment and intangible assets comprises investments of the Company.

   In the fiscal year ended March 31, 2020, increase in property, plant, and equipment and intangible assets comprises investments of the Company not allocated to business segments of ¥493 million ($4,522 thousand) and intersegments elimination of ¥(99) million ($(908) thousand).

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				
	2020				
	Domestic and Overseas Alcoholic Beverages	Japanese Food Wholesale Business in Overseas Markets	Bio	Other	Total
Sales to external customers	¥161,713	¥73,235	¥34,563	¥11,678	¥281,191

	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

	Thousands of U.S. Dollars				
	2020				
	Domestic and Overseas Alcoholic Beverages	Japanese Food Wholesale Business in Overseas Markets	Bio	Other	Total
Sales to external customers	$1,483,605	$671,880	$317,091	$107,137	$2,579,733

(5) Information about geographical areas

(a) Sales

Millions of Yen			
2020			
Japan	USA	Other	Total
¥179,059	¥52,491	¥49,640	¥281,191

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

Thousands of U.S. Dollars			
2020			
Japan	USA	Other	Total
$1,642,743	$481,568	$455,412	$2,579,733

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

(b) Property, plant, and equipment

Millions of Yen			
2020			
Japan	USA	Other	Total
¥53,600	¥8,879	¥7,356	¥69,835

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

Thousands of U.S. Dollars			
2020			
Japan	USA	Other	Total
$491,743	$81,458	$67,486	$640,688

(6) Information about major customers

Name of Customers	2020 Millions of Yen Sales	2020 Related Segment Name
KOKUBU GROUP CORP.	¥34,502	Takara Shuzo

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

Name of Customers	2020 Thousands of U.S. Dollars Sales	2020 Related Segment Name
KOKUBU GROUP CORP.	$316,532	Takara Shuzo

(7) Information about impairment losses

	Millions of Yen					
	2020					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Impairment losses of assets	¥	¥	¥880	¥	¥	¥880

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

	Thousands of U.S. Dollars					
	2020					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Impairment losses of assets	$	$	$8,073	$	$	$8,073

(8) Information about amortization of goodwill

	Millions of Yen					
	2020					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥ 350	¥ 496	¥	¥	¥ 847
Goodwill at March 31, 2020		4,743	7,006			11,750

	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

	Thousands of U.S. Dollars					
	2020					
	Takara Shuzo	Takara Shuzo International Group	Takara Bio Group	Other	Elimination/ Corporate	Total
Amortization of goodwill	$	$ 3,211	$ 4,550	$	$	$ 7,770
Goodwill at March 31, 2020		43,513	64,275			107,798

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