Takara Bio 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 and Shareholders of Takara Bio Inc.:

Opinion

We have audited the consolidated financial statements of Takara Bio Inc. and its 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 24, 2020

Takara Bio 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 14)	¥ 14,462	¥ 9,464	$ 132,678
Marketable securities (Notes 4 and 14)	2,000	2,000	18,348
Time deposits (Note 14)	3,803	7,569	34,889
Notes and accounts receivable:			
Trade (Note 14)	9,102	8,604	83,504
Other	786	195	7,211
Allowance for doubtful accounts (Note 14)	(56)	(41)	(513)
Inventories (Note 5)	7,595	6,736	69,678
Prepaid expenses and other current assets (Note 3)	692	745	6,348
Total current assets	38,387	35,275	352,174
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	5,724	6,213	52,513
Buildings and structures	16,478	11,775	151,174
Machinery, equipment and vehicles	6,705	5,510	61,513
Tools, furniture and fixtures	7,912	6,890	72,587
Lease assets (Note 13)	772	15	7,082
Other (Note 3)	863		7,917
Construction in progress	85	4,784	779
Total property, plant and equipment	38,542	35,190	353,596
Accumulated depreciation	(14,328)	(13,785)	(131,449)
Net property, plant and equipment	24,213	21,404	222,137
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)		2	
Goodwill	7,006	7,598	64,275
Technology assets	3,095	3,858	28,394
Trademarks	597	605	5,477
Asset for retirement benefits (Note 8)	40	91	366
Deferred tax assets (Note 12)	779	839	7,146
Other assets (Note 3)	888	1,364	8,146
Total investments and other assets	12,409	14,360	113,844
TOTAL	¥ 75,009	¥ 71,040	$ 688,155

LIABILITIES AND EQUITY	Millions of Yen 2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 3, 7, and 14)	¥ 134		$ 1,229
Notes and accounts payable (Note 14):			
Trade	1,027	¥ 1,536	9,422
Construction and other	2,324	2,044	21,321
Accrued income taxes (Notes 12 and 14)	683	391	6,266
Accrued expenses	1,780	1,351	16,330
Other current liabilities (Note 15)	297	693	2,724
Total current liabilities	6,248	6,017	57,321
LONG-TERM LIABILITIES:			
Long-term debt (Notes 3, 7, and 14)	986		9,045
Liability for retirement benefits (Note 8)	783	667	7,183
Other long-term liabilities	400	260	3,669
Total long-term liabilities	2,169	927	19,899
COMMITMENTS (Notes 13 and 15)			
EQUITY (Note 9):			
Common stock, authorized, 400,000,000 shares; issued, 120,415,600 shares in 2020 and 2019	14,965	14,965	137,293
Capital surplus	32,893	32,893	301,770
Retained earnings (Note 3)	18,501	15,401	169,733
Accumulated other comprehensive income:			
Foreign currency translation adjustments	436	964	4,000
Defined retirement benefit plans (Note 8)	(300)	(215)	(2,752)
Total	66,496	64,009	610,055
Noncontrolling interests	95	85	871
Total equity	66,591	64,095	610,926
TOTAL	¥75,009	¥71,040	$ 688,155

See notes to consolidated financial statements.

Takara Bio Inc. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES	¥34,565	¥35,841	$317,110
COST OF SALES (Notes 8 and 13)	13,459	15,155	123,477
Gross profit	21,105	20,685	193,623
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 11, and 13)	14,830	15,221	136,055
Operating income	6,274	5,463	57,559
OTHER INCOME (EXPENSES):			
Interest income	141	89	1,293
Foreign exchange loss	(160)	(29)	(1,467)
Interest expense	(7)		(64)
Loss on sales and disposals of property, plant and equipment	(31)	(98)	(284)
Impairment loss (Note 6)	(880)	(696)	(8,073)
Gain on sale of businesses		90	
Casualty insurance income		54	
Loss on disaster		(131)	
Compensation payment		(60)	
Other, net	97	140	889
Other expenses, net	(841)	(640)	(7,715)
INCOME BEFORE INCOME TAXES	5,433	4,823	49,844
INCOME TAXES (Note 12):			
Current	1,544	1,453	14,165
Deferred	57	(303)	522
Total income taxes	1,601	1,149	14,688
NET INCOME	3,831	3,673	35,146
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	11	15	100
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 3,819	¥ 3,657	$ 35,036

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.s and 17):			
Basic net income	¥31.72	¥30.38	$0.29
Cash dividends applicable to the year	8.00	7.00	0.07

See notes to consolidated financial statements.

Takara Bio 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	¥3,831	¥ 3,673	$35,146
OTHER COMPREHENSIVE LOSS (Note 16):			
Foreign currency translation adjustments	(530)	(1,088)	(4,862)
Defined retirement benefit plans	(85)	119	(779)
Total other comprehensive loss	(615)	(968)	(5,642)
COMPREHENSIVE INCOME	¥3,216	¥ 2,705	$29,504
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥3,206	¥2,699	$29,412
Noncontrolling interests	9	5	82

See notes to consolidated financial statements.

Takara Bio 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	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2018	120,415	¥14,965	¥32,893	¥12,285	¥ 2,042	¥(334)	¥61,852	¥106	¥61,959
Net income attributable to owners of the parent				3,657			3,657		3,657
Cash dividends, ¥4.5 per share				(541)			(541)		(541)
Net change in the year					(1,078)	119	(958)	(21)	(979)
BALANCE, MARCH 31, 2019	120,415	14,965	32,893	15,401	964	(215)	64,009	85	64,095
Cumulative effects of changes in accounting policies (Note 3)				123			123		123
Restated balance	120,415	14,965	32,893	15,524	964	(215)	64,133	85	64,218
Net income attributable to owners of the parent				3,819			3,819		3,819
Cash dividends, ¥7.00 per share				(842)			(842)		(842)
Net change in the year					(527)	(85)	(613)	9	(603)
BALANCE, MARCH 31, 2020	120,415	¥14,965	¥32,893	¥18,501	¥ 436	¥(300)	¥66,496	¥ 95	¥66,591

	Thousands of U.S. Dollars (Note 1)							
				Accumulated Other Comprehensive Income				
	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2019	$137,293	$301,770	$141,293	$ 8,844	$(1,972)	$587,238	$779	$588,027
Cumulative effects of changes in accounting policies (Note 3)			1,128			1,128		1,128
Restated balance	137,293	301,770	142,422	8,844	(1,972)	588,376	779	589,155
Net income attributable to owners of the parent			35,036			35,036		35,036
Cash dividends, $0.06 per share			(7,724)			(7,724)		(7,724)
Net change in the year				(4,834)	(779)	(5,623)	82	(5,532)
BALANCE, MARCH 31, 2020	$137,293	$301,770	$169,733	$ 4,000	$(2,752)	$610,055	$871	$610,926

See notes to consolidated financial statements.

Takara Bio 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	¥ 5,433	¥ 4,823	$ 49,844
Adjustments for:			
Income taxes paid	(1,247)	(1,213)	(11,440)
Depreciation and amortization	3,418	3,193	31,357
Loss on sales and disposals of property, plant and equipment	31	98	284
Impairment loss (Note 6)	880	696	8,073
Loss on disaster		131	
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(579)	(974)	(5,311)
Increase in inventories	(974)	(1,536)	(8,935)
Decrease in trade notes and accounts payable	(468)	(199)	(4,293)
Increase in liability for retirement benefits	116	8	1,064
Other, net	(269)	755	(2,467)
Total adjustments	906	959	8,311
Net cash provided by operating activities	6,339	5,783	58,155
INVESTING ACTIVITIES:			
Increase in time deposits	(6,785)	(14,667)	(62,247)
Decrease in time deposits	10,515	14,395	96,467
Proceeds from sales of property, plant and equipment	110	7	1,009
Payments to acquire marketable securities	(4,000)	(4,000)	(36,697)
Proceeds from sales of marketable securities	4,000	4,000	36,697
Purchases of property, plant and equipment and intangible assets	(3,983)	(5,977)	(36,541)
Proceeds from sales of businesses		764	
Increase in long-term prepaid expenses	(69)	(105)	(633)
Other, net	(0)	5	(0)
Net cash used in investing activities	(212)	(5,576)	(1,944)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(104)		(954)
Cash dividends paid	(841)	(541)	(7,715)
Net cash used in financing activities	(946)	(541)	(8,678)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(182)	(252)	(1,669)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,998	(587)	45,853
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,464	10,051	86,825
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 14,462	¥ 9,464	$ 132,678
NONCASH INVESTING AND FINANCING ACTIVITIES			
Assets in finance lease transactions	¥736		$6,752
Liabilities in finance lease transactions	810		7,431

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 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 Bio 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. 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. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*** – The consolidated financial statements as of March 31, 2020, include the accounts of the Company and its 8 (8 in 2019) 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.

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. ***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.

d. ***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, all of which mature or become due within three months of the date of acquisition.

e. ***Marketable and Investment Securities*** – The Group's marketable and investment securities consist of held-to-maturity debt securities and available-for-sale securities. Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities are reported at amortized cost; and (2) marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined by the moving-average method. Nonmarketable available-for-sale securities are stated at cost, determined by the moving-average method.

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

f. ***Inventories*** – Inventories are stated principally at the lower of cost, determined by the weighted-average method, or net selling value (see Note 5).

g. ***Property, Plant and Equipment*** – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its subsidiaries is computed principally by the straight-line method. The range of useful lives is principally from 6 to 60 years for buildings and structures, from 4 to 10 years for machinery, equipment and vehicles, and from 2 to 20 years for tools, furniture and fixtures.

h. ***Goodwill*** – The excess of the cost of an acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is recorded as goodwill and amortized on a straight-line basis over a certain period, not exceeding 20 years.

Takara Bio USA, Inc., the Company's consolidated subsidiary, records goodwill according to FASB ASC 350, "Intangibles – Goodwill and Other." Under ASC 350, goodwill is tested locally for impairment at least annually. Additionally the goodwill is amortized on a straight-line basis over a period of 20 years in the Group's consolidated financial statements in accordance with ASBJ PITF No. 18, which was subsequently revised in February 2010, March 2015 and March 2017 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions issued by ASBJ as described in Note 2.b.

i. ***Long-Lived Assets*** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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. ***Retirement and Pension Plans*** – The employees' retirement benefits programs of the Company and certain subsidiaries consist of an unfunded lump-sum severance payment plan, a defined benefit pension plan and a defined contribution pension plan as described in Note 8.

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

k. ***Allowance for Doubtful Accounts*** – 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.

l. ***Asset Retirement Obligations*** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

m. ***Research and Development Costs*** – Research and development costs are charged to income as incurred.

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

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 income tax rates to the temporary differences.

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 consolidated 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. Differences arising from such translation 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 and Hedging Activities*** – The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Foreign currency forward contracts and non-deliverable forwards are utilized by the Group to reduce foreign currency exchange rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments 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.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in collection of certain receivables and payments of certain purchases and royalties. Payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

s. ***Per Share Information*** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

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

t. New Accounting Pronouncements

(1) The Company

On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," 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) Foreign Subsidiaries

The FASB issued Accounting Standards Update ("ASU") 2016-02, Leases. This accounting standard requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position.

Foreign consolidated subsidiaries will apply the standard for the annual periods beginning on or after April 1, 2022. The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

(3) Disclosure and Notes

On March 31, 2020, the ASBJ developed and published the Accounting Standard for the Disclosure of Accounting Estimates ("Accounting Standards") in response to a request that disclosures related to "sources of estimation uncertainty" should be considered to apply to Japanese GAAP since the disclosure as notes is highly useful for users of financial statements. The "sources of estimation uncertainty" is required to be disclosed in accordance with paragraph 125 of International Accounting Standards (IAS) No. 1, "Presentation of Financial Statements" ("IAS 1"), which was issued in 2003 by the International Accounting Standards Board (IASB).

The basic policy for this accounting standard developed by ASBJ is to clarify the principle (i.e., the purpose of disclosure) and to determine the specific contents of the disclosure, rather than to expand individual notes. This accounting standard is developed by a reference to the provisions of IAS No. 1, Paragraph 125.

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

(4) Accounting Policy Disclosures, Accounting Changes and Error Corrections

On March 31, 2020, the ASBJ made revisions and published the Accounting Standards for Accounting Policy Disclosures, Accounting Changes and Error Corrections in response to a proposal to enhance disclosures as notes related to 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.

u. Additional Information – No public authorities have provided a unified view of the future spread of the COVID-19 and the timing of its convergence. However, given the cancellation of the state of emergency in Japan and the resumption of economic activities, the Company assumes that the impact of the COVID-19 will be reduced moderately, but will continue during the first half of the fiscal 2020. The Company estimated and assessed recoverability of goodwill and deferred tax assets recorded in the consolidated financial statements based on the future business plan, taking into account its assumption of the impact of the COVID-19. As a result, the Company has not identified any indicators of goodwill impairment and determined that no additional valuation allowance was necessary for deferred tax assets.

3. CHANGES IN ACCOUNTING POLICIES

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

From the beginning of the current fiscal year, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU No. 2014-09"), to foreign subsidiaries of which financial statements are prepared according to Accounting Principles Generally Accepted in U.S. In applying ASU No. 2014-09, the Company used the modified retrospective method of adoption on the effective date. Revenue from contracts with customers is recognized when, or as, control of promised goods or services transfers to customers in an amount that reflects the consideration to which the companies expects to be entitled in exchange for transferring these goods or services. The cumulative effects on retained earnings at the beginning of the fiscal year increased by ¥123 million ($1,128 thousand).

The effect of this change on the consolidated profit and loss for the current fiscal year is considered to be immaterial.

(2) Application of IFRS 16, "Leases"

From the beginning of the current fiscal year, the Company adopted International Financial Reporting Standards ("IFRS") 16, "Leases" ("IFRS 16"), to foreign subsidiaries of which financial statements are prepared according to IFRS. In applying IFRS 16, the Company used the modified retrospective method of adoption on the effective date. Rights of use and lease obligations for most leases were recognized on the effective date. Land use rights, which were previously included in "Long-term prepaid expenses" under investments and other assets, are currently included in "Other" of "PROPERTY, PLANT AND EQUIPMENT."

As a result, "Other" in property, plant and equipment increased by ¥772 million ($7,082 thousand), "Current portion of long-term debt" in current liabilities increased by ¥88 million ($807 thousand), and "Long-term debt" in long-term liabilities increased by ¥221 million ($2,027 thousand), while "Prepaid expenses and other current assets" in current assets decreased by ¥2 million ($18 thousand) and "Other assets" in "Investments and other assets" decreased by ¥460 million ($4,220 thousand).

The effect of this change on the consolidated profit and loss for the current fiscal year is considered to be immaterial.

4. MARKETABLE AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current:			
Trust beneficiary rights	¥2,000	¥2,000	$18,348
Non-current:			
Nonmarketable equity securities		¥ 2	

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

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Held-to-maturity	¥2,000			¥2,000
March 31, 2019				
Securities classified as:				
Held-to-maturity	¥2,000			¥2,000

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as:				
Held-to-maturity	$18,348			$18,348

5. INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Finished products and merchandise	¥4,511	¥4,523	$41,385
Work in process	1,208	706	11,082
Raw materials and supplies	1,874	1,506	17,192
Total	¥7,595	¥6,736	$69,678

6. LONG-LIVED ASSETS

Impairment Loss

The impairment losses of long-lived assets for the years ended March 31, 2020 and 2019, were as follows:

March 31, 2020

		Millions of Yen					
		Asset Type and Impairment Loss					
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Land	Other Assets	Total
Idle property (Land, buildings and others)	Yokkaichi City, Mie Pref.	¥272	¥ 0	¥1	¥387	¥0	¥662
Idle property (Buildings and facilities)	Kusatsu City, Shiga Pref.	186	28	3			218
Total		¥458	¥28	¥5	¥387	¥0	¥880

March 31, 2019

		Millions of Yen					
		Asset Type and Impairment Loss					
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Land	Other Assets	Total
Idle property (Buildings and facilities)	Osaki Town, Kagoshima Pref.	¥ 28	¥ 12	¥0			¥ 41
Property to be transferred (Land, buildings and others)	Kyotamba Town, Kyoto Pref.	262	183	1	¥200	¥5	655
Total		¥291	¥196	¥1	¥200	¥5	¥696

March 31, 2020

		Thousands of U.S. Dollars					
		Asset Type and Impairment Loss					
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Land	Other Assets	Total
Idle property (Land, buildings and others)	Yokkaichi City, Mie Pref.	$2,495	$ 0	$ 9	$3,550	$0	$6,073
Idle property (Buildings and facilities)	Kusatsu City, Shiga Pref.	1,706	256	27			2,000
Total		$4,201	$256	$45	$3,550	$0	$8,073

(1) Reason for recognizing impairment loss

In the fiscal year ended March 31, 2020, the Company 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, the Company 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, the Company recognized an impairment loss on properties to be transferred upon transfer of 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, as for the idle property (Yokkaichi), the recoverable amount of idle property was measured at net selling price, which was based on the appraisal value of real estate. As for the idle property (Kusatsu), the recoverable amount was measured based on value in use, which was considered zero because future cash flows were not expected.

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

7. CURRENT PORTION OF LONG-TERM DEBT AND LONG-TERM DEBT

Long-term debt at March 31, 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Obligation under leases	¥1,120		$10,275
Less current portion	134		1,229
Long-term debt, less current portion	¥ 986		$ 9,045

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

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 134	$ 1,229
2022	109	1,000
2023	79	724
2024	74	678
2025	71	651
2026 and thereafter	651	5,972
Total	¥1,120	$10,275

8. RETIREMENT AND PENSION PLANS

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

The Company and the subsidiaries have unfunded lump-sum severance payment plans, defined benefit pension plans, and defined contribution pension plans. Under the lump-sum payment plans, employees terminating their employment are entitled to certain lump-sum severance payments based on their rate of pay at the time of termination, length of service, and certain other factors. Under the defined benefit corporate pension plans, employees terminating their employment are entitled to certain lump-sum severance payments or pension payments based on their length of service and certain other factors. In most circumstances, if the termination is caused by retirement at the mandatory retirement age, employees are entitled to greater payments than in other cases.

Some subsidiaries apply the simplified method to calculate liabilities for retirement benefits and retirement benefit costs.

(1) The changes in defined benefit obligations for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥1,336	¥1,297	$12,256
Current service cost	115	112	1,055
Interest cost	4	4	36
Actuarial losses	121	7	1,110
Benefits paid	(59)	(80)	(541)
Others	(3)	(4)	(27)
Balance at end of year	¥1,515	¥1,336	$13,899

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥761	¥733	$6,981
Expected return on plan assets	13	14	119
Actuarial losses	(35)	(8)	(321)
Contributions from the employer	66	67	605
Benefits paid	(30)	(40)	(275)
Others	(2)	(4)	(18)
Balance at end of year	¥773	¥761	$7,091

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligations	¥ 733	¥ 669	$ 6,724
Plan assets	(773)	(761)	(7,091)
Total	(40)	(91)	(366)
Unfunded defined benefit obligations	782	666	7,174
Net liability arising from defined benefit obligations	¥ 742	¥ 575	$ 6,807

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥783	¥667	$7,183
Asset for retirement benefits	(40)	(91)	(366)
Net liability arising from defined benefit obligations	¥742	¥575	$6,807

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥115	¥112	$1,055
Interest cost	4	4	36
Expected return on plan assets	(13)	(14)	(119)
Recognized actuarial losses	61	70	559
Amortization of prior service cost	(26)	(26)	(238)
Net periodic benefit costs	¥141	¥146	$1,293

(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, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost	¥ (26)	¥(26)	$ (238)
Actuarial losses	(95)	54	(871)
Total	¥(122)	¥ 27	$(1,119)

(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, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 26	¥ 53	$ 238
Unrecognized actuarial gains	(456)	(360)	(4,183)
Total	¥(429)	¥(307)	$(3,935)

(7) Plan assets

a. Components of plan assets

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

	2020	2019
Debt investments	56%	54%
General account of insurance company	28	28
Equity investments	11	14
Cash and cash equivalents	2	2
Others	3	2
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, were set forth as follows:

	2020	2019
Discount rate:		
Defined benefit	0.377%	0.377%
Lump-sum pension distribution	0.382%	0.382%
Expected rate of return on plan assets	2.000%	2.000%
Average rate of increase in salary	4.200%	4.200%

(9) Contributions paid to the defined contribution pension plan were ¥140 million ($1,284 thousand) and ¥128 million for the years ended March 31, 2020 and 2019, respectively.

9. EQUITY

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

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. 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 (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the 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 of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. RELATED PARTY DISCLOSURES

The Company is majority-owned by Takara Holdings Inc., which is listed on the first section of the Tokyo Stock Exchange.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥3,869 million ($35,495 thousand) and ¥4,337 million for the years ended March 31, 2020 and 2019, respectively.

12. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.0% for the years ended March 31, 2020 and 2019. Foreign subsidiaries are subject to income taxes of the countries where they operate.

The tax effects of 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:			
Tax loss carryforwards	¥ 666	¥ 944	$ 6,110
Inventories	159	116	1,458
Impairment loss	359	277	3,293
Unrealized profit on sales of inventories	376	343	3,449
Reconciliation related to retirement benefits	128	92	1,174
Accrued bonuses	129	138	1,183
Retirement benefits	165	155	1,513
Depreciation	23	38	211
Expenses incurred upon acquisition	195	200	1,788
Research and development costs	137	168	1,256
Tax credit for research and development costs	84	91	770
Other	290	258	2,660
Total of tax loss carryforwards and temporary differences	2,717	2,825	24,926
Less valuation allowance for tax loss carryforwards	(199)	(176)	(1,825)
Less valuation allowance for temporary differences	(404)	(332)	(3,706)
Total valuation allowance	(603)	(508)	(5,532)
Deferred tax assets	¥2,113	¥2,316	$19,385
Deferred tax liabilities:			
Intangible assets	¥ 915	¥1,123	$ 8,394
Undistributed profit of foreign subsidiaries	268	211	2,458
Other	150	142	1,376
Deferred tax liabilities	¥1,334	¥1,477	$12,238
Net deferred tax assets	¥ 779	¥ 839	$ 7,146

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2020 and 2019, were 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						¥ 666	¥ 666
Less valuation allowances for tax loss carryforwards						(199)	(199)
Net deferred tax assets relating to tax loss carryforwards						466	466

	Millions of Yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards						¥ 944	¥ 944
Less valuation allowances for tax loss carryforwards						(176)	(176)
Net deferred tax assets relating to tax loss carryforwards						768	768

	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						$ 6,110	$ 6,110
Less valuation allowances for tax loss carryforwards						(1,825)	(1,825)
Net deferred tax assets relating to tax loss carryforwards						4,275	4,275

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 it is recoverable considering the prospects for future taxable income, and does not recognize valuation allowances.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2020 is omitted since the difference between the normal effective statutory tax rate and the actual effective tax rate is less than 5% of the normal effective statutory tax rate.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2019 is as follows:

	2019
Normal effective statutory tax rate in Japan	30.0%
Expenses not deductible for income tax purposes	0.6
Per capita rate of local tax	0.2
Tax credit for research and development costs	(2.8)
Valuation allowance	(8.5)
Tax rate difference of subsidiaries	(2.2)
Elimination of unrealized profit on sales of inventories	0.4
Amortization of goodwill	3.1
Foreign withholding tax	2.5
Uncertainty in income taxes	(0.4)
Other, net	0.9
Actual effective tax rate	23.8%

13. LEASES

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2020 and 2019, were ¥471 million ($4,321 thousand) and ¥502 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2020, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥331	$3,036
Due after one year	263	2,412
Total	¥595	$5,458

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to hedge foreign currency exchange rate risk associated with certain assets and liabilities denominated in foreign currencies.

(2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts.

Marketable and investment securities, mainly held-to-maturity securities, are exposed to the issuer's credit risk.

Payment terms of payables, such as trade notes and trade accounts, are generally within three months. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency and are hedged by foreign currency contracts as noted above.

Derivatives mainly include foreign currency forward contracts, non-deliverable forwards, and currency options which are used to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. Please see Note 15 for more details on derivatives.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables based on internal guidelines, which include the monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to held-to-maturity financial investments, the Group manages exposure to credit risk by limiting investments to high credit rated bonds in accordance with its internal guidelines.

Market risk management (foreign exchange risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by foreign currency forward contracts.

Derivative transactions are performed and managed with the approval of the prescribed authority based on the internal guidelines.

Liquidity risk management

Liquidity risk includes the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the corporate finance department.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2020	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥14,462	¥14,462	
Time deposits	3,803	3,803	
Notes and accounts receivable–trade (**)	9,057	9,057	
Marketable securities	2,000	2,000	
Total	¥29,324	¥29,324	
Notes and accounts payable–trade	¥1,027	¥1,027	
Current portion of long-term debt	134	134	
Notes and accounts payable–construction and other	2,324	2,324	
Accrued income taxes	683	683	
Long-term debt	986	986	
Total	¥5,156	¥5,156	
Derivatives (*)	¥ 4	¥ 4	

March 31, 2019	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 9,464	¥ 9,464	
Time deposits	7,569	7,569	
Notes and accounts receivable–trade (**)	8,563	8,563	
Marketable securities	2,000	2,000	
Total	¥27,597	¥27,597	
Notes and accounts payable–trade	¥1,536	¥1,536	
Current portion of long-term debt			
Notes and accounts payable–construction and other	2,044	2,044	
Accrued income taxes	391	391	
Long-term debt			
Total	¥3,971	¥3,971	
Derivatives (*)	¥ 1	¥ 1	

March 31, 2020	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 132,678	$ 132,678	
Time deposits	34,889	34,889	
Notes and accounts receivable–trade (**)	83,091	83,091	
Marketable securities	18,348	18,348	
Total	$ 269,027	$ 269,027	
Notes and accounts payable–trade	$ 9,422	$ 9,422	
Current portion of long-term debt	1,229	1,229	
Notes and accounts payable–construction and other	21,321	21,321	
Accrued income taxes	6,266	6,266	
Long-term debt	9,045	9,045	
Total	$ 47,302	$ 47,302	
Derivatives (*)	$ 36	$ 36	

Notes: * Assets and liabilities arising from derivative transactions are shown at net value with amounts in parentheses representing the net liability position.

** Allowance for doubtful accounts is netted against notes and accounts receivable–trade.

Cash and cash equivalents, time deposits, and notes and accounts receivable–trade

The carrying values of cash and cash equivalents, time deposits, and notes and accounts receivable–trade approximate fair value because of their short maturities.

Marketable securities

The fair values of marketable securities are measured at the quoted price obtained from the financial institution for certain debt instruments. The carrying values of certificates of deposit approximate fair value because of their short maturities. Fair value information for marketable and investment securities by classification is included in Note 4.

Notes and accounts payable (trade and construction and other) and accrued income taxes

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

Current portion of long-term debt and long-term debt

The fair values of current portion of long-term debt and long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

Fair value information for derivatives is included in Note 15.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Nonmarketable equity securities		¥ 2	
Total		¥ 2	

Since nonmarketable equity securities do not have a quoted market price in an active market and their fair value cannot be reliably determined, they are excluded from disclosure of fair value.

(5) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
March 31, 2020	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥14,462			
Time deposits	3,803			
Notes and accounts receivable–trade	9,057			
Marketable securities	2,000			
Total	¥29,324			

	Millions of Yen			
March 31, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 9,464			
Time deposits	7,569			
Notes and accounts receivable–trade	8,563			
Marketable securities	2,000			
Total	¥27,597			

March 31, 2020	Thousands of U.S. Dollars Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 132,678			
Time deposits	34,889			
Notes and accounts receivable–trade	83,091			
Marketable securities	18,348			
Total	$ 269,027			

15. DERIVATIVES

The Group enters into foreign currency forward contracts and non-deliverable forwards to hedge foreign currency exchange rate risk associated with certain assets and 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 assets and liabilities.

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

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

Forward exchange contracted amounts which are assigned to associated assets or liabilities and are reflected on the balance sheet at year end, are not subject to the disclosure of market value information.

Derivative Transactions to Which Hedge Accounting Is Not Applied

At March 31, 2020		Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:					
Buying	USD	¥117		¥ 2	¥ 2
	GBP	0		0	0
	AUD				
	CNY	156		(4)	(4)
Selling	EUR	156		1	1
	CNY	278		5	5
Non-deliverable forward:					
Selling	KRW	29		0	0

At March 31, 2019		Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:					
Buying	USD	¥ 33		¥ 0	¥ 0
	GBP				
	AUD	0		0	0
	CNY				
Selling	EUR	125		1	1
	CNY				
Non-deliverable forward:					
Selling	KRW	10		0	0

At 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	USD	$ 1,073		$ 18	$ 18
	GBP	0		0	0
	AUD				
	CNY	1,431		(36)	(36)
Selling	EUR	1,431		9	9
	CNY	2,550		45	45
Non-deliverable forward:					
Selling	KRW	266		0	0

Derivative Transactions to Which Hedge Accounting is Applied

At March 31, 2020		Millions of Yen Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:					
Buying	USD	Payables			

At March 31, 2019		Millions of Yen Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:					
Buying	USD	Payables	¥6		¥(0)

At March 31, 2020		Thousands of U.S. Dollars Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:					
Buying	USD	Payables			

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

16. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(530)	¥(1,088)	$(4,862)
Total	¥(530)	¥(1,088)	$(4,862)
Defined retirement benefits plans:			
Adjustments arising during the year	¥(157)	¥ (16)	$(1,440)
Reclassification adjustments to profit	34	43	311
Amount before income tax effect	(122)	27	(1,119)
Income tax effect	36	92	330
Total	¥ (85)	¥ 119	$ (779)
Total other comprehensive income	¥(615)	¥ (968)	$(5,642)

17. NET INCOME PER SHARE

The basis of computation for basic net income per share ("EPS") for the years ended March 31, 2020 and 2019, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2020:				
Basic EPS				
Net income available to common shareholders	¥3,819	120,415	¥31.72	$0.29
For the year ended March 31, 2019:				
Basic EPS				
Net income available to common shareholders	¥3,657	120,415	¥30.38	

Diluted net income per share is not disclosed because no dilutive securities are outstanding for the years ended March 31, 2020 and 2019.

18. SUBSEQUENT EVENTS

(Appropriations of Retained Earnings)

On May 14, 2020, the Board of Directors of the Company resolved to propose cash dividends of ¥8.00 ($0.07) per share to shareholders of record as of March 31, 2020, or a total of ¥963 million ($8,834 thousand), for approval at the general shareholders' meeting held on June 23, 2020.

(Changes in Reportable Segments)

The Company has established business divisions according to products and services, and each business division has formulated a comprehensive strategy for the products and services it handles, including that of its subsidiaries, and has been conducting business activities. From April 2020, however, the Company has decided to dissolve the business division system with the aim of becoming a drug discovery company that creates new modalities by advancing the development of basic bio-drug discovery technologies that integrate the management resources of each business division. As a result of this organizational reform, each of the business segments of "Bioindustry" and "Gene therapy," which were previously reported segments, will be changed to a single business segment from the beginning of the next fiscal year. As a result, reportable segments become a single segment.

(Significant Facility Investment)

At the Board of Directors of the Company held on January 23, 2020, the Company has resolved a facility investment and acquired the land and buildings as of May 11 (U.S. local time) in Takara Bio USA, Inc. (TBUSA), a consolidated subsidiary company.

1. Reason for facility investment

   The land and buildings are utilized at a new facility of TBUSA. Also, TBUSA plans for relocation at the time of terminating the agreement of the current lease set 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	About 76 million U.S. dollars

3. Installation time of equipment

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

4. Impact on marketing and productivity

   No significant impact on the consolidated fiscal year ending March 31, 2021

(Execution of Significant Agreement)

The Company 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, the Company 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.

The Company will receive upfront, annual and milestone payments from Tasly depending on the achievement of certain development based on the execution of the agreement. Following launch, the Company will also receive milestone payments upon the achievement of target sales and running royalty on net sales.

19. SEGMENT INFORMATION

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

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. As such, the Group's reportable segments consist of Bioindustry and Gene Therapy segments.

The Bioindustry segment consists of the businesses for research reagents (for genetic, cellular and protein engineering reagents), scientific instruments, contracted services and compensation for gene related patents.

The Gene Therapy segment consists of the businesses for licensing fees for development and sales relating to the gene therapy products and investigational products.

The Company's functional food business and mushroom business in AgriBio segment have been transferred on January 1, 2019 and March 1, 2019, respectively.

(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."

Segment profit in the segment information below is based on operating income. Amounts of inter-segment transactions are based on the prevailing market prices.

(3) Information about sales, profit (loss), assets, and other items

	Millions of Yen				
	2020				
	Bioindustry	Gene Therapy	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥32,269	¥2,295	¥34,565		¥34,565
Intersegment sales or transfers					
Total	¥32,269	¥2,295	¥34,565		¥34,565
Segment profit	¥ 7,748	¥ 780	¥ 8,529	¥ (2,254)	¥ 6,274
Segment assets	60,997	2,170	63,168	11,841	75,009
Other:					
Depreciation	2,578	231	2,809	111	2,921
Amortization of goodwill	496		496		496
Increase in property, plant and equipment and intangible assets	5,114	73	5,187	177	5,365

	Millions of Yen					
	2019					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥31,575	¥2,443	¥1,822	¥35,841		¥35,841
Intersegment sales or transfers			5	5	¥ (5)	
Total	¥31,575	¥2,443	¥1,827	¥35,846	¥ (5)	¥35,841
Segment profit (loss)	¥ 7,100	¥ 506	¥ (29)	¥ 7,578	¥ (2,114)	¥ 5,463
Segment assets	57,514	3,212		60,727	10,313	71,040
Other:						
Depreciation	2,262	229	73	2,566	125	2,691
Amortization of goodwill	502			502		502
Increase in property, plant and equipment and intangible assets	4,880	1,035	23	5,939	62	6,002

	Thousands of U.S. Dollars				
	2020				
	Bioindustry	Gene Therapy	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$ 296,045	$ 21,055	$ 317,110		$ 317,110
Intersegment sales or transfers					
Total	$ 296,045	$ 21,055	$ 317,110		$ 317,110
Segment profit	$ 71,082	$ 7,155	$ 78,247	$ (20,678)	$ 57,559
Segment assets	559,605	19,908	579,522	108,633	688,155
Other:					
Depreciation	23,651	2,119	25,770	1,018	26,798
Amortization of goodwill	4,550		4,550		4,550
Increase in property, plant and equipment and intangible assets	46,917	669	47,587	1,623	49,220

Note:

1. Reconciliations of segment profit include unallocated operating expenses of ¥(2,254) million ($(20,678) thousand) and ¥(2,114) million for the years ended March 31, 2020 and 2019, respectively, consisting principally of fundamental research and development expenses and administrative expenses.

(4) Information about products and services is as follows:

	Millions of Yen		
	2020		
	Bioindustry	Gene Therapy	Total
Sales to external customers	¥32,269	¥2,295	¥34,565

	Millions of Yen			
	2019			
	Bioindustry	Gene Therapy	AgriBio	Total
Sales to external customers	¥31,575	¥2,443	¥1,822	¥35,841

	Thousands of U.S. Dollars		
	2020		
	Bioindustry	Gene Therapy	Total
Sales to external customers	$296,045	$21,055	$317,110

(5) Information about geographical areas is as follows:

(a) Sales

Millions of Yen						
2020						
Japan	USA	China	Other Asia	Europe	Other	Total
¥14,804	¥8,011	¥6,391	¥1,877	¥3,207	¥271	¥34,565

Millions of Yen						
2019						
Japan	USA	China	Other Asia	Europe	Other	Total
¥16,101	¥7,945	¥6,227	¥1,994	¥3,328	¥244	¥35,841

Thousands of U.S. Dollars						
2020						
Japan	USA	China	Other Asia	Europe	Other	Total
$135,816	$73,495	$58,633	$17,220	$29,422	$2,486	$317,110

(b) Property, plant and equipment

Millions of Yen					
2020					
Japan	USA	China	Other Asia	Europe	Total
¥21,116	¥250	¥2,276	¥205	¥363	¥24,213

Millions of Yen					
2019					
Japan	USA	China	Other Asia	Europe	Total
¥19,016	¥285	¥1,828	¥204	¥69	¥21,404

Thousands of U.S. Dollars					
2020					
Japan	USA	China	Other Asia	Europe	Total
$193,724	$2,293	$20,880	$1,880	$3,330	$222,137

(6) Information about impairment losses

	Millions of Yen			
	2020			
	Bioindustry	Gene Therapy	Reconciliations	Consolidated
Impairment loss	¥518		¥361	¥880

	Millions of Yen				
	2019				
	Bioindustry	Gene Therapy	AgriBio	Reconciliations	Consolidated
Impairment loss			¥696		¥696

	Thousands of U.S. Dollars			
	2020			
	Bioindustry	Gene Therapy	Reconciliations	Consolidated
Impairment loss	$4,752		$3,311	$8,073

Note: The amount of "Reconciliations" is impairment loss of corporate assets which does not belong to the reportable segments.

(7) Information about amortization of goodwill and goodwill at March 31, 2020 and 2019, is as follows.

	Millions of Yen				
	2020				
	Bioindustry	Gene Therapy	Total	Reconciliations	Consolidated
Amortization of goodwill	¥ 496		¥ 496		¥ 496
Goodwill at March 31, 2020	7,006		7,006		7,006

	Millions of Yen					
	2019					
	Bioindustry	Gene Therapy	AgriBio	Total	Reconciliations	Consolidated
Amortization of goodwill	¥ 502			¥ 502		¥ 502
Goodwill at March 31, 2019	7,598			7,598		7,598

	Thousands of U.S. Dollars				
	2020				
	Bioindustry	Gene Therapy	Total	Reconciliations	Consolidated
Amortization of goodwill	$ 4,550		$ 4,550		$ 4,550
Goodwill at March 31, 2020	64,275		64,275		64,275

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