TaKaRa

The Biotechnology Company™

Annual Report 2009

TAKARA BIO INC.

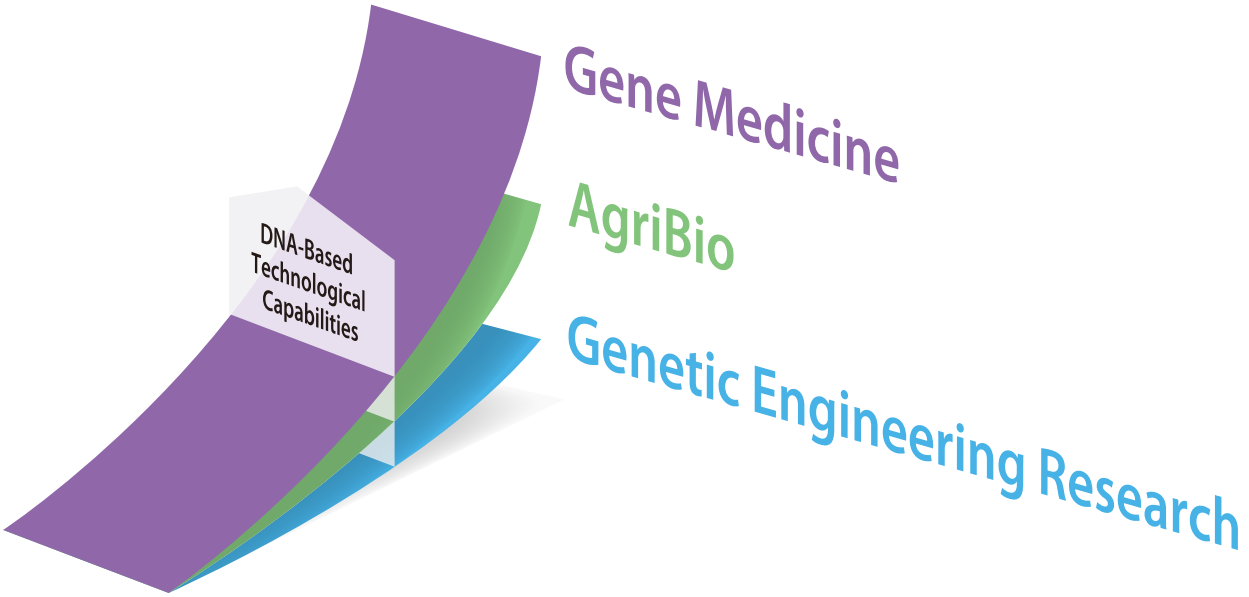
Takara Bio Inc. contributes to the health of mankind through the development of revolutionary biotechnologies such as gene therapy.

Since its beginnings as the biomedical business of Takara Shuzo Co., Ltd. (now Takara Holdings Inc.), Takara Bio has continuously expanded its gene and DNA-related businesses, which have now developed into three business segments. In 1979, the Genetic engineering research business was launched with the sale of the first domestically produced restriction enzymes. This business has now expanded to include a portfolio of genetic engineering research reagents, scientific instruments and contract research services that are essential to biotechnology researchers worldwide. In the AgriBio segment, which was the first to succeed in the large-scale production of Bunashimeji mushrooms in 1970, we promote a mushroom business that is centered on technologies for the large-scale production of mushrooms. We also offer customers such food materials as Gagome kombu (kelp) "fucoidan," agar "agaro-oligosaccharide," Ashitaba (angelica herb) "chalcone," Yam (*Dioscorea esculenta*) and mushroom "terpene," whose functionality has been proven through the use of biotechnology. In the Gene medicine segment, we are developing and commercializing cutting-edge medical technologies, such as cell and gene therapies for cancer and AIDS, based on technologies developed and accumulated through the activities of our Genetic engineering research segment.

Contents

Forward-Looking Statements

Statements in this report, other than those based on historical fact, concerning the current plans, prospects, strategies and expectations of the Company and the Group represent forecasts of future results. While such statements are based on the conclusions of management according to information that includes major risks and uncertainties as of August 2009, actual results may vary significantly from these forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as exchange rate fluctuations, changes in law and government systems, pressure from competitors' prices and product strategies, decline in selling power of the Company's existing and new products, disruptions to production, violations of our intellectual property rights, rapid advances in technology and unfavorable verdicts in major litigation.



Our business strategy: Invest the stable income generated by the Genetic engineering research and AgriBio segments into the Gene medicine segment, which holds significant growth potential, thereby expanding our future earnings.

Stable cash generating businesses

Genetic engineering research segment

This business segment manufactures and sells research reagents and scientific instruments used by biotechnology researchers around the world, as well as providing contract research services to these researchers.

Secondary income businesses

AgriBio segment

This business segment produces and sells health food products whose functionality has been proven through the use of biotechnology, and produces mushrooms based on technologies for the large-scale production of mushrooms.

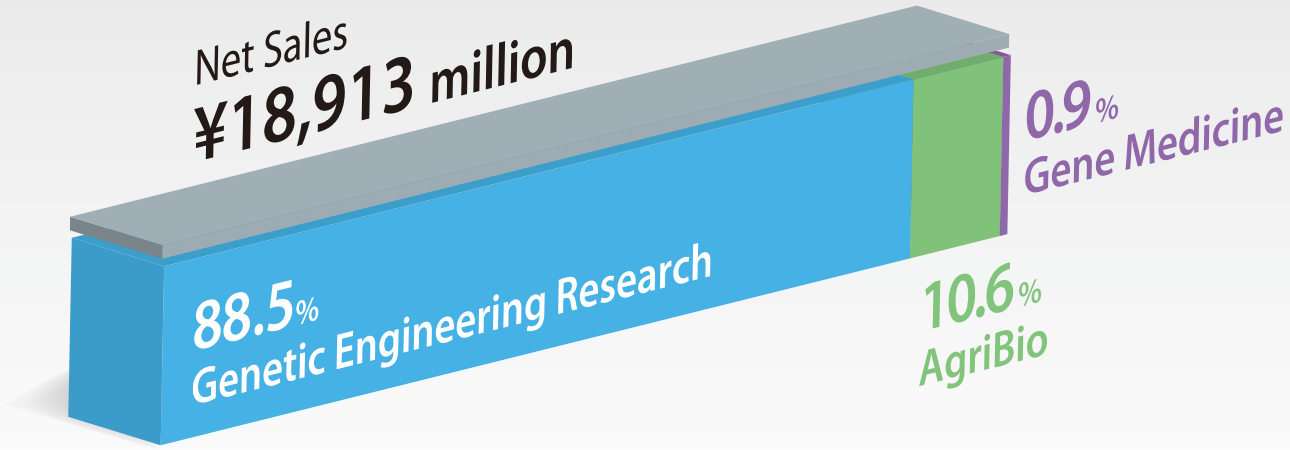
Future growth businesses

Gene medicine segment

This business segment is conducting clinical development projects as it works toward commercializing cell and gene therapies centered on a highly efficient gene transduction method and a lympho-cyte expansion-culture system, both using the RetroNectin® reagent.

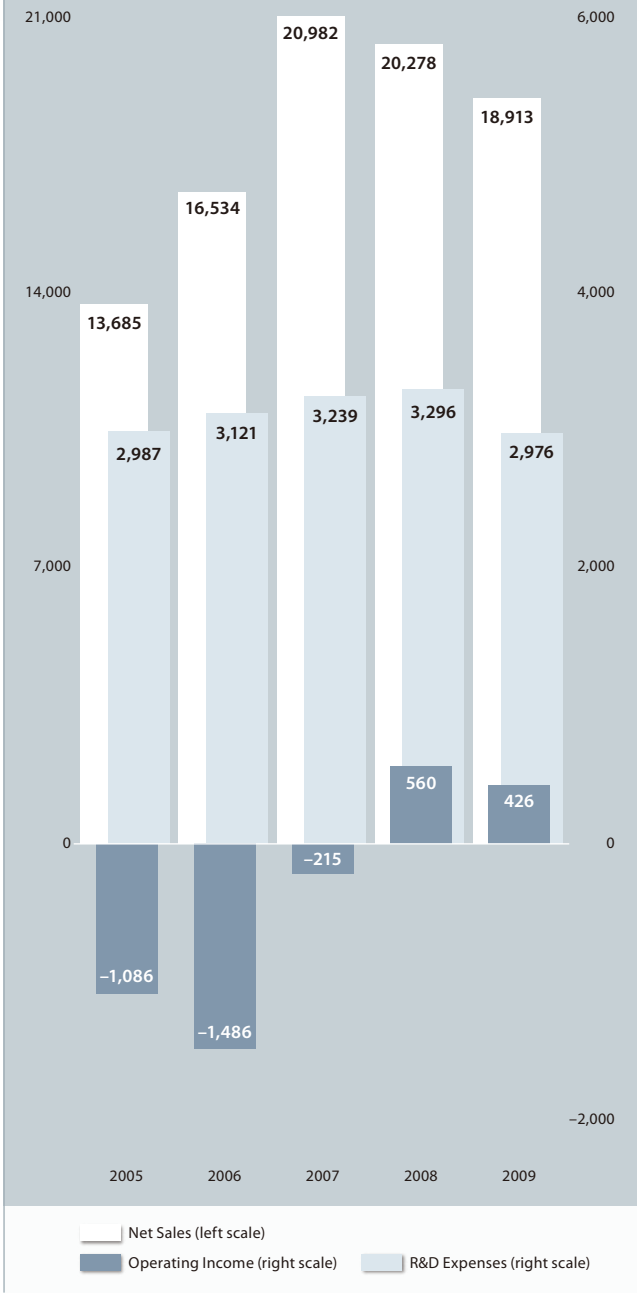
Takara Bio at a Glance

Net Sales by Business Segment



Takara Bio Inc. total

Net Sales / Operating Income / R&D Expenses (Millions of Yen)

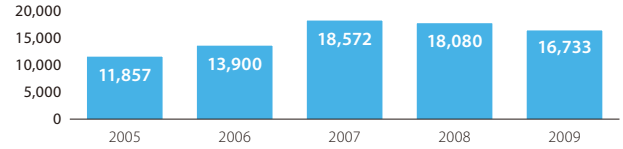


Genetic Engineering Research

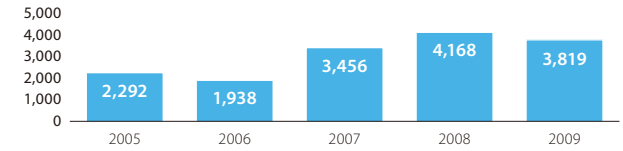
Net Sales
¥16,733 million

Operating Income
¥3,819 million

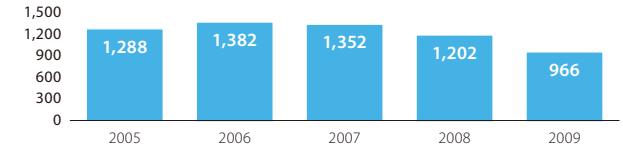
Net Sales (Millions of Yen)



Operating Income (Millions of Yen)



R&D Expenses (Millions of Yen)



Overview of Fiscal 2009

In the Genetic engineering research segment, sales of mainstay research reagents declined, partly owing to the impact of a strengthened Japanese yen. Sales of scientific instruments decreased, due to the impact of lower sales of large-scale equipment, such as mass spectrometry systems. As a result, sales in the segment declined 7.5% compared with the previous fiscal year, totaling ¥16,733 million. Although selling, general and administrative (SG&A) expenses were lower compared with the previous year, reflecting our efforts to increase effectiveness and efficiency of expenditures, operating income decreased 8.4%, to ¥3,819 million.

Business Outline

Research Reagents
PCR enzymes, Reverse transcriptase, Cloning systems, Fluorescent proteins

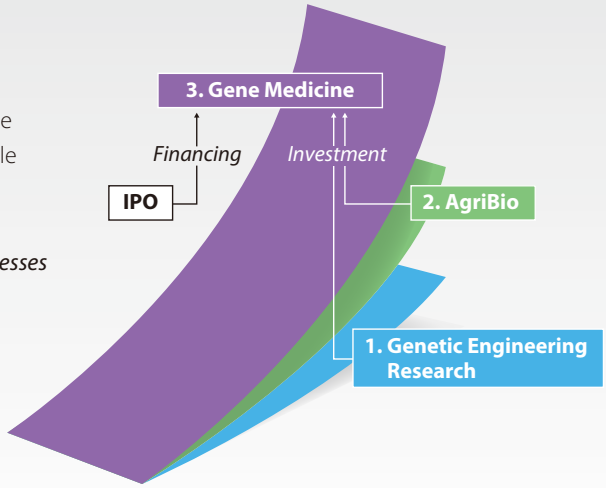
Scientific Instruments
PCR-related equipment, Mass spectrometry systems

Contract Research Services
DNA sequence analysis, Next-generation sequence analysis, Gene expression analysis

Business Strategy

Utilizing our core biotechnologies, our business is comprised of three main segments: Genetic engineering research, which forms the basis of our stable earnings; AgriBio, which we are positioning to become our second profitable business; and Gene medicine, which is our platform for growth.

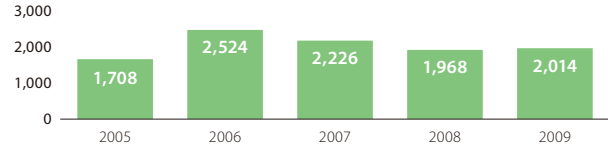
1. Genetic engineering research segment: *Stable cash generating businesses*
2. AgriBio segment: *Developing into our secondary income businesses*
3. Gene medicine segment: *Future growth businesses*



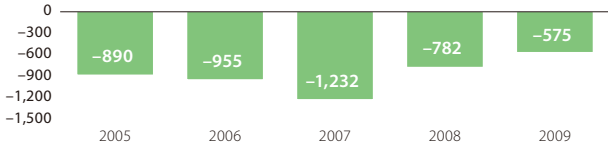
AgriBio

Net Sales
¥2,014 million
Operating Loss
¥575 million

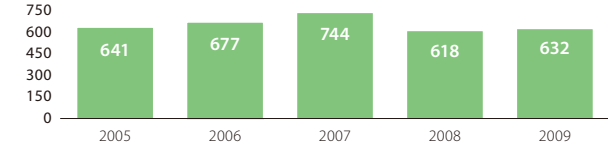
Net Sales (Millions of Yen)



Operating Loss (Millions of Yen)



R&D Expenses (Millions of Yen)



Overview of Fiscal 2009

In the AgriBio segment, although sales of health food products decreased, sales of mushroom products were robust and contributed to a 2.4% increase in sales for the segment, rising to ¥2,014 million. Despite a 4% increase in SG&A expenses, operating loss improved from ¥782 million in the previous fiscal year to ¥575 million in the year under review as a result of an improvement in the cost of sales ratio.

Business Outline

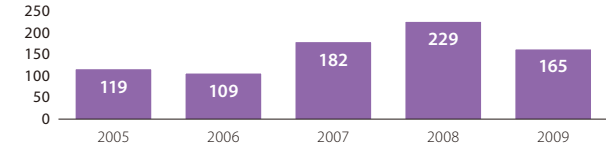
Health Food Business
- Gagome kombu "fucoidan"
- Agar "agaro-oligosaccharide"
- Ashitaba "chalcone"
- Mushroom "terpene"
- Yam (*Dioscorea esculenta*)
- Herb (*Peucedanum japonicum*)

Mushroom Business
- Bunashimeji mushrooms
- Hatakeshimeji mushrooms
- Honshimeji mushrooms

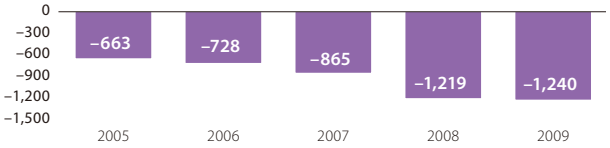
Gene Medicine

Net Sales
¥165 million
Operating Loss
¥1,240 million

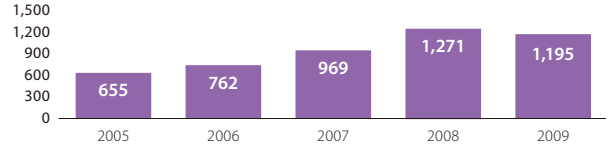
Net Sales (Millions of Yen)



Operating Loss (Millions of Yen)



R&D Expenses (Millions of Yen)



Overview of Fiscal 2009

In the Gene medicine segment, sales declined 27.7%, to ¥165 million, mainly owing to lower patent licensing revenues and decreased revenues from contract research services. Although SG&A expenses decreased, reflecting such factors as lower provisions for doubtful accounts, operating loss increased from ¥1,219 million in the previous fiscal year to ¥1,240 million.

Business Outline

Clinical Development of Gene Therapy
- HSV-TK gene therapy
- TCR gene therapy
- MazF gene therapy

Cell Therapy
- Clinical development of cancer cell immunotherapy using the RetroNectin® expansion-culture system
- Technical support services for cancer cell immunotherapy

In fiscal 2009, the year ended March 31, 2009, Takara Bio Inc. achieved a net income for the third successive fiscal period. The Company also made solid progress in Gene medicine projects, including the commencement of the first *ex vivo* gene therapy clinical trial in Japan.

Koichi Nakao
President & CEO

My name is Koichi Nakao, and I was appointed President & CEO of Takara Bio in May 2009. Since the Company's founding, it has adhered to a fundamental strategy in line with the corporate philosophy of "contributing to the health of mankind through the development of revolutionary biotechnologies such as gene therapy." This strategy calls for the earnings generated by the Genetic engineering research and AgriBio businesses to be invested in the Gene medicine business, which will be our main platform for future growth as we strive to enhance corporate value. I believe that Takara Bio's competitive advantage lies in its business portfolio—combining businesses with stable earnings capabilities with a business that has the potential to expand rapidly. I intend to exert my management efforts deliberately but with an appropriate sense of urgency. I sincerely look forward to your support in these endeavors.

August 2009
President & CEO

A Recap of Fiscal 2009

In fiscal 2009, net sales declined ¥1,364 million, or 6.7% compared with the previous fiscal year, to ¥18,913 million. This fall was mainly attributable to the impact of lower sales of research reagents and scientific instruments in the Genetic engineering research segment. In terms of profitability, cost of sales decreased ¥1,081 million, or 10.8%, to ¥8,973 million. This decrease reflected not only the fall in net sales but also an improvement in the cost of sales ratio. As a result, gross profit slipped ¥283 million, or 2.8%, to ¥9,940 million.

Selling, general and administrative (SG&A) expenses included an increase of ¥140 million in amortization of goodwill owing to a change in accounting treatment accompanying the inclusion of an overseas subsidiary in the scope of consolidation. However, research and development (R&D) expenses and provisions for doubtful accounts decreased. Also reflecting our efforts to apply expenses effectively and efficiently, SG&A expenses decreased ¥149 million, or 1.5%, to ¥9,513 million. Consequently, operating income amounted to ¥426 million, a decrease of ¥133 million compared with the previous fiscal year.

Among other income and expenses, the Company recorded a foreign exchange loss of ¥333 million compared with a foreign exchange gain of ¥44 million in the previous fiscal period. Gain on sales of investment securities and litigation expenses to solve a dispute were both lower compared with the previous fiscal year. In addition, certain deferred tax assets that had not been recognized up to the previous fiscal year were recorded in fiscal 2009, contributing to a substantial reduction in income taxes. As a result, net income amounted to ¥642 million, a decline of ¥37 million compared with the previous fiscal year.

Looking at each of our business segments separately, sales in Genetic engineering research declined 7.5%, to ¥16,733 million. The main factors contributing to this decrease were lower sales of research reagents owing to such factors as a strengthened Japanese yen, and a drop in sales of large-scale scientific instruments, such as mass spectrometry systems. Despite strenuous measures to rein in costs and use expenditures efficiently and effectively, operating income for the segment declined 8.4%, to ¥3,819 million. In Gene medicine, sales decreased 27.7%, to ¥165 million, and operating losses rose ¥20 million compared with the previous fiscal year, to ¥1,240 million. The Gene medicine segment is still in its nurturing phase, with priority being on investment in R&D. In the AgriBio segment, although health food product sales decreased, sales of mushroom products were robust. Sales for the AgiBio segment overall increased 2.4%, to ¥2,014 million. Reflecting such factors as an improvement in the cost of sales ratio, operating loss for the segment decreased ¥206 million, to ¥575 million.

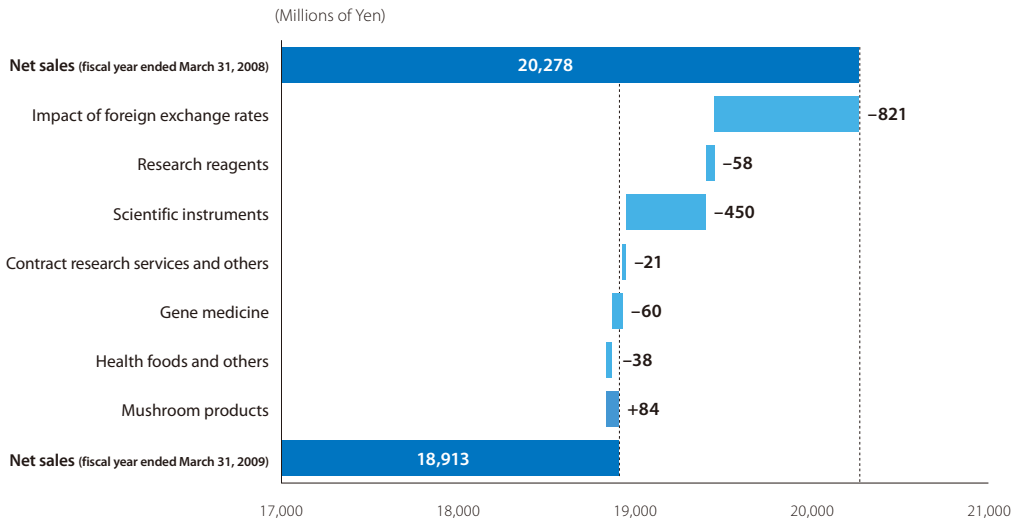
Financial Highlights

Net Sales
¥18,913 million

Operating Income
¥426 million

Net Income
¥642 million

Analysis of Changes in Consolidated Net Sales



Solid Progress in Gene Medicine Projects

In fiscal 2009, Takara Bio achieved solid progress in several of its Gene medicine clinical development projects.

In October 2008, the Company entered into a clinical trial agreement with the National Cancer Center in Japan, and subsequently commenced a Phase I clinical trials of the HSV-TK gene therapy (donor lymphocyte infusion (DLI) therapy) for treatment of patients with relapsed leukemia. This is the first *ex vivo* gene therapy clinical trial to be conducted in Japan. In addition, clinical research on HSV-TK gene therapy (haplo add-back) for hematological malignancies, which is being conducted by the National Cancer Center in Japan in cooperation with Takara Bio, is scheduled to get under way in the fall of 2009. HSV-TK gene therapy (haplo add-back) is currently in Phase III clinical trials in Italy, conducted by MolMed S.p.A.

The Company is also collaborating with the Mie University School of Medicine in the clinical development of cell and gene therapies. Clinical research on T-cell receptor (TCR) gene therapy targeting esophageal cancer is scheduled to begin after the summer of 2009.

With the cooperation of the Company, in April 2009, Kyoto Prefectural University of Medicine began conducting clinical research on cancer immunotherapy using the RetroNectin® expansion-culture system.

In China, Tianjin Cancer Institute & Hospital, Tianjin Medical University, and Sun Yat-Sen University Cancer Center, in cooperation with Takara Bio, are conducting clinical research on cancer immunotherapy using the RetroNectin® expansion-culture system.

The Company is also engaged in research and development of AIDS gene therapy using the MazF ribonuclease. At present, we are engaged in joint research with the Tsukuba Primate Research Center, National Institute of Biomedical Innovation, for animal trials of the MazF gene therapy using monkeys.

Gene medicine clinical trials are making significant progress around the world. Takara Bio aims to accelerate its clinical development in Asia for both cell and gene therapies.

Outlook for Fiscal 2010 – 2012

In May 2009, the Company announced its mid-term management plan through to the fiscal year ending March 31, 2012. Under this new plan, we have set the goals of posting continuous net profit results, and in the fiscal year ending March 31, 2012, we aim to achieve net sales of ¥20.0 billion and operating income of ¥800 million. We intend to maintain R&D expenses at the level of approximately ¥1.0 billion per year in the Genetic engineering research segment and around ¥700 million per year in the AgriBio segment. In the Gene medicine segment, we plan to increase R&D expenses each year in line with progress in clinical development projects.

Clinical Development Projects of the Takara Bio Group

Gene Therapy	Target disease	Location	Partner Institution
HSV-TK gene therapy (donor lymphocyte infusion)	Relapsed leukemia	Japan	The National Cancer Center Hospital
HSV-TK gene therapy (haplo add-back)	High-risk hematological malignancies	Japan	The National Cancer Center Hospital
TCR gene therapy	Esophageal cancer	Japan	Mie University School of Medicine
MazF gene therapy	AIDS	Japan	The Tsukuba Primate Research Center, National Institute of Biomedical Innovation

Cell Therapy	Target disease	Location	Partner Institution
Cancer immunity reconstruction therapy	Multiple myeloma, head and neck cancers, esophageal cancer, ovarian cancer	Japan	Mie University School of Medicine
Cancer immunotherapy	Digestive cancer, lung cancer	Japan	Kyoto Prefectural University of Medicine
Cancer immunotherapy	Renal cancer	China	Cancer Institute and Hospital, Chinese Academy of Medical Science
Cancer immunotherapy	Refractory cancer	China	Tianjin Cancer Institute & Hospital, Tianjin Medical University
Cancer immunotherapy	Hepatocellular cancer	China	Sun Yat-Sen University Cancer Center

In the Genetic engineering research segment, we are working to expand sales by focusing our efforts on accelerating the development of new products and services in the field of real-time PCR (polymerase chain reaction) technology and cell engineering, including induced pluripotent stem cells (iPS cells). In addition, we anticipate that by the fiscal year ending March 31, 2012, the cumulative benefits of the transfer of production of Clontech Laboratories products to China will amount to ¥1.0 billion.

In the AgriBio segment, we forecast annual increases in sales of 5%. This is based on such factors as new research data for use in the marketing of health food ingredients and reinforcement of in-house sales capabilities for Hatakeshimeji and Honshimeji mushrooms.

In the Gene medicine segment, as we move closer to the goal of commercializing cell and gene therapies, we aim to accelerate clinical development through such strategies as reinforcing our networks with medical groups.

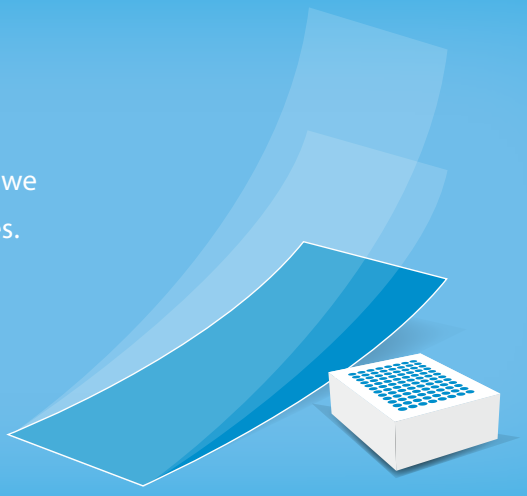
In June 2009, to further clarify accountability and authority, and expedite the development of each of its businesses, the Company adopted an integrated structure for its business units encompassing R&D, manufacturing and marketing. Hence, I will execute the measures and strategies outlined above together with the presidents of each business unit. We will steadily carry out these measures based on expeditious and autonomous decision making. We look forward to the ongoing understanding of our shareholders as we meet these challenges.

Numerical Targets of the Takara Bio Group

(Millions of Yen)	Fiscal 2010 (estimate)	Fiscal 2011 (plan)	Fiscal 2012 (plan)
Net Sales	18,370	19,096	20,000
Operating Income	465	636	869
Net Income	360	457	573
R&D Expenses	3,441	3,674	4,106

Genetic Engineering Research

The Genetic engineering research business started in 1979, when we began sales of the first domestically produced restriction enzymes. Since then, we have expanded the business to a global scale by developing new genetic engineering technologies and through the acquisition of Clontech Laboratories, Inc. of the United States to reinforce sales in Europe and the United States.



Research reagents

Real-time PCR system

Takara Biotechnology (Dalian) Co., Ltd.

Research Reagents and Scientific Instruments

R&D in biotechnology at academic institutions, such as universities, and at private enterprises, such as pharmaceutical companies, is proceeding in a variety of areas, including functional analysis of genes and unraveling of biological phenomena and mechanisms of disease at molecular level in living organisms. The role of our Genetic engineering research segment is to support biotechnology research activities worldwide.

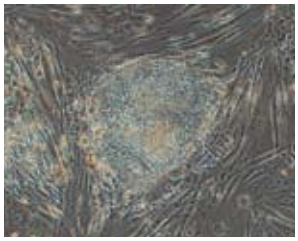
The general flow of biotechnology research starts with the extraction and amplification of genes from biological samples, proceeds to the sequencing and functional analysis of those genes and then moves on to the expression of the proteins and then functional analysis in cells. As there is only a small amount of genetic material in a living organism, it is necessary to extract and amplify the genes. The PCR (polymerase chain reaction) method is a widely used method of gene amplification. In 1988, Takara Bio became the first company in Japan to introduce a gene amplification system using the PCR method, and in 1993 we obtained a license for the PCR method and began producing and marketing PCR-related products. We continue to develop and globally supply products that meet market needs, such as PCR enzymes that provide high fidelity along with superior elongation and reliability as well as reverse transcriptases that provide superior elongation for cloning and gene expression analysis.

In September 2005, we acquired Clontech Laboratories, Inc. Takara Bio's strength lies in the field of genetic engineering, including enzymes for genetic engineering and PCR-related technologies. In contrast, Clontech Laboratories is strong in the field of molecular biology, including systems for the functional analysis of genes using fluorescent proteins. Merging Clontech Laboratories products with our existing products has greatly expanded and enhanced our lineup of research reagents.

In 1993, Takara Bio established Takara Biotechnology (Dalian) Co., Ltd., in China, as a manufacturing base for its research reagents. By manufacturing Takara Bio research reagents in China, the Group has built up a high level of price competitiveness. Our acquisition of Clontech Laboratories enabled us to expand and enhance our product lineup, so as to grow sales. In addition, by transferring the production of Clontech Laboratories products from the United States to China, we anticipate the generation of further earnings synergies.

The Company and Clontech Laboratories are also cooperating and apportioning roles in the area of new product development. We aim to expand sales in the future by focusing our efforts on the development of new products and services in the field of genetic engineering, including real-time PCR technology—a market possessing strong growth potential—and in the field of cell engineering, including induced pluripotent stem cells (iPS cells) and fluorescent proteins.

The products developed by the Company and Clontech Laboratories are manufactured by Takara Biotechnology (Dalian) and marketed not only in Japan but worldwide through our network of Group companies in Europe, the United States, China and South Korea. Based on this strategy, we aim to build a strong position in the global marketplace.



Induced pluripotent stem cells (iPS cells)

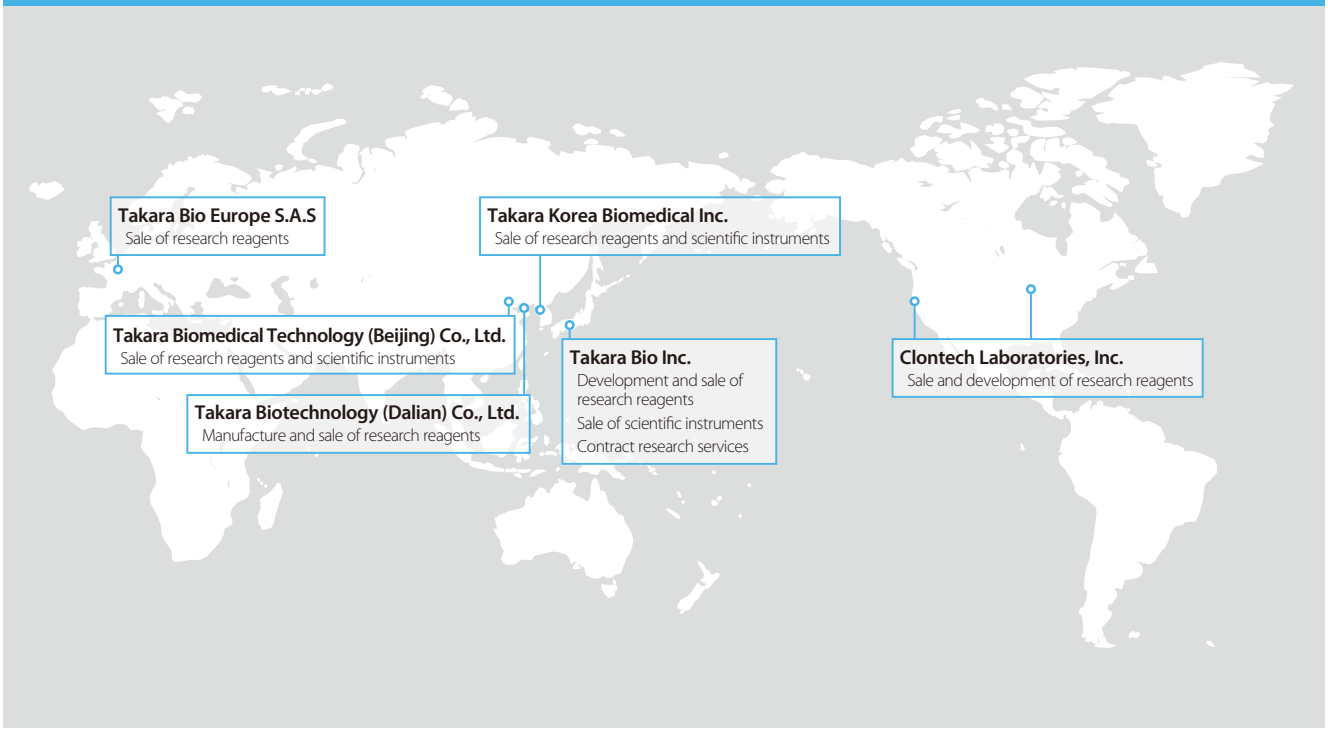
Contract Research Services

Takara Bio operates a contract research services business in which it conducts analysis and performs research for academia and companies on a contracted basis. We began providing genome analysis services in 1994, and since opening Asia's largest genome analysis center in 2000, we have received several major genome analysis contracts. The Dragon Genomics Center—the core of our contract research services business—offers comprehensive research services, handling not only genome sequencing analysis but also sequence analysis using next-generation sequencing systems, gene expression analysis using DNA chips, small RNA analysis and protein expression. The Company will respond quickly to rapid technical innovation in biotechnology research, and by utilizing next-generation sequencing and bioinformatics technology, will be offering new services.

Xfect™ Stem (Transfection Reagents)

Next-generation sequencer

Global Business Operations in Genetic Engineering Research



http://catalog.takara-bio.co.jp/en/

For detailed information about our products and services, please access the URL above.

AgriBio

In the AgriBio segment, Takara Bio offers health food products to customers by finding the functional components of traditional Asian foodstuffs through the use of biotechnology. We are also developing business operations using our large-scale cultivation technologies to grow mushrooms.

Health Food Business

Takara Bio has been researching the bioactive properties of Gagome kombu (kelp) "fucoidan," agar "agaro-oligosaccharide," Ashitaba (angelica herb) "chalcone," mushroom "terpene," yam (*Dioscorea esculenta*) and herb (*Peucedanum japonicum*), and has been developing and producing health food products containing these active ingredients. These products are marketed through Takara Healthcare Inc. (a wholly owned subsidiary of Takara Holdings Inc.)

Fucoidan Supplement 50

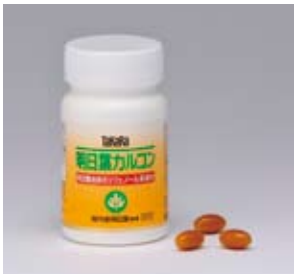
1. Gagome Kombu (Kelp) "Fucoidan"

Fucoidan is a polysaccharide with a thick consistency that is found mainly in various species of brown kelp, including kombu. Takara Bio was first in identifying three chemical structures in fucoidan found in Gagome kombu, a type of kelp in the Kjellmaniella family, and the Company named these F-fucoidan, U-fucoidan and G-fucoidan. It is known that fucoidan enables seaweed to self-repair when it becomes damaged. Fucoidan also provides a barrier against harmful bacteria and protects against dryness. Takara Bio has focused on the functionality of Gagome kombu "fucoidan" and is continuing its research and development.

Tengusa

2. Agar "Agaro-oligosaccharide"

Agar, which is made from tengusa and other types of kelp, is known as the "king of dietary fibers" and is a popular traditional Japanese food. Takara Bio has found that the agaro-oligosaccharides, which are obtained by heating agar in acid, have bioactive properties including antiinflammatory and detoxifying effects. Human intervention study has confirmed the ameliorative effects of agaro-oligosaccharides on knee-joint pain.



Ashitaba Chalcone

3. Ashitaba (Angelica Herb) "Chalcone"

Ashitaba is indigenous to Japan and grows wild on the Pacific coast, mainly in the Izu Islands. Ashitaba is known for its strong vitality as indicated by the saying, "If Ashitaba leaves are picked today, new leaves will be in place by tomorrow." Ashitaba is rich in vitamins, minerals and dietary fiber. Takara Bio offers Ashitaba grown in domestic farms with quality soil conditions. We also operate Ashitaba juice bars, known as "Ashita-Bar™," in Tokyo. Takara Bio has focused on chalcone, a polyphenol peculiar to Ashitaba, and is pursuing research and development in this area.

4. Mushroom "Terpene"

Through a number of research projects on the tumor-inhibiting properties of mushrooms, Takara Bio has discovered that polyterpene, a compound found in Bunashimeji mushrooms, can inhibit tumor growth. Takara Bio has already registered a substance patent for this polyterpene.

5. Yam (Dioscorea esculenta)

Dioscorea esculenta is a type of yam that is cultivated in Okinawa. This dense, sweet yam is very tasty but is grown in extremely small amounts because it is vulnerable to cold and difficult to cultivate. This "phantom yam" is not widely known even among local inhabitants. Takara Bio has discovered Yamsgenin™, a substance which is found in the *Dioscorea esculenta* yam but not found in ordinary yams.

Kugaimo (Yam)

6. Herb (Peucedanum japonicum)

Peucedanum japonicum is a perennial plant in the Apiaceae (Umbelliferae) family that grows naturally along the coast, mainly from southern Kyushu to Okinawa. In Japanese, it is called "botanbofu." In Okinawa, it is called "chomei-so" (long-life herb) or "sakuna." The leaves are eaten as a condiment or cooked tempura-style. Takara Bio has been studying the properties of this herb and has found that the coumarin compound has a preventive effect against hardening of the arteries. At ifia JAPAN 2009 (14th International Food Ingredients & Additives Exhibition and Conference)/HFE JAPAN 2009 (7th Health Food Exposition & Conference), Takara Bio received a new-product award for *Peucedanum japonicum*.

Herb (Peucedanum Japonicum)

Mushroom Business

Takara Bio was the first company to succeed in the large-scale production technology of Bunashimeji mushrooms, which are now widely available at most supermarkets. In 1973, we licensed our large-scale production technology to JA ZEN-NOH (National Federation of Agricultural Cooperative Associations) Nagano, and succeeded in the commercialization of this mushroom.

We have licensed the technology for the large-scale production of Bunashimeji mushrooms to JA ZEN-NOH Nagano and Yukiguni Maitake Co,. Ltd., and are also engaged in the production and marketing of Hatakeshimeji and Honshimeji mushrooms. Hatakeshimeji mushrooms are produced by Mizuho Nourin Co., Ltd., a joint venture company with Kyotanba-cho and the Kyotanba Forestry Association, both of which are in Kyoto Prefecture. Mizuho Nourin is expected to produce approximately 1,300 tons of mushrooms in fiscal 2010. We produce Honshimeji mushrooms in Yokkaichi, Mie Prefecture, and expect to produce approximately 107 tons in fiscal 2010.

Takara Bio is working to reduce costs through the introduction of new technology at Mizuho Nourin for the production of Hatakeshimeji mushrooms. The Company also aims to expand sales by reinforcing its sales force for Hatakeshimeji and Honshimeji mushrooms. As for R&D in the mushroom business, the Company is developing new production technology for the growth of other high-value-added mushrooms utilizing information from such sources as the sequencing of the Matsutake genome.

Hatakeshimeji mushrooms

Large-Scale Production of Honshimeji Mushrooms

Takara Bio has succeeded in the large-scale production of Honshimeji mushrooms. Of the same family as the Matsutake mushroom, the Honshimeji is considered extremely difficult to mass produce.

The Honshimeji is known for its exquisite taste—as the saying goes, "Matsutake for aroma, Shimeji for taste." We have been mass producing Honshimeji mushrooms since 2004 at our facility in Yokkaichi, Mie Prefecture. Through the introduction of new technology, the Company plans to further enhance the quality of this product and expand production volume.

Gene Medicine

Takara Bio's basic strategy for the Gene medicine segment is to develop and commercialize core technologies that are essential to gene medicine (cell and gene therapies), by applying the technologies developed in the Genetic engineering research segment.

RetroNectin®

Experiments using RetroNectin® reagent

Gene Therapy
Gene therapy's purpose is to cure disease by administering genes or cells that contain a gene to a patient so as to correct a genetic birth defect, or cure disease (e.g., cancer or AIDS). There are two types of gene therapy: *ex vivo* and *in vivo*. In *ex vivo* gene therapy, cells are taken from patients, transduced with a target gene and infused back into the same patients. In contrast, *in vivo* gene therapy involves the direct administration of therapeutic genes into patients.

Core Technology for Gene Medicine

One of Takara Bio's core technologies for gene medicine is an efficient retroviral transduction method—the RetroNectin® method—that was developed in collaboration with Indiana University in the United States. Takara Bio holds exclusive rights for worldwide applications of this powerful technology, which is used in *ex vivo* gene therapy to enable efficient transduction of genes into hematopoietic stem cells and other blood cells. Before the advent of the RetroNectin® method, this process was considered difficult. Hematopoietic stem cells give rise to various blood cells such as red blood cells and white blood cells.

A second core technology is a lymphocyte expansion-culture system (culture for proliferating lymphocytes) that uses the RetroNectin® reagent. The lymphocyte expansion-culture system can be used both in cell and gene therapies. In the RetroNectin® expansion-culture system, human lymphocytes are expanded in culture in the presence of the RetroNectin® reagent in combination with interleukin-2 and anti-CD3 monoclonal antibodies. Cell populations including a high proportion of naive T cells that have a significant *in vivo* presence and strong antigen recognition are acquired.

Licensing the RetroNectin® Method

Our RetroNectin® method is used by various public medical institutions conducting clinical research in gene therapy as well as by several privately funded clinical trials, and is becoming the standard for *ex vivo* gene therapy. As of the end of July 2009, the RetroNectin® method was being used by public medical institutions, mainly in the United States, for over 40 clinical gene therapy studies. In addition, the RetroNectin® method is licensed out to four overseas private corporations. We plan to actively out-license the method worldwide.

Clinical Development of Gene Therapies

Not only are we licensing out the RetroNectin® method, but we also plan to commercialize gene therapies and are proceeding with clinical trials on the following gene therapies in Japan.

1. HSV-TK Gene Therapy

MolMed S.p.A, of Milan, Italy, which has in-licensed the RetroNectin® method from Takara Bio, is now conducting a Phase III clinical trial of HSV-TK gene therapy for leukemia in Italy. Takara Bio has exclusive rights to this treatment technology in most Asian countries.

1) Clinical trial (donor lymphocyte infusion method)

On October 1, 2008, Takara Bio entered into a clinical trial agreement with the National Cancer Center Hospital in Japan, and subsequently commenced a clinical trials of HSV-TK gene therapy

(donor lymphocyte infusion (DLI) method) for treatment of patients with relapsed leukemia at the National Cancer Center Hospital. This is the first *ex vivo* gene therapy clinical trial to be launched in Japan. These trials involve donor lymphocyte infusions for recurrent leukemia patients following hematopoietic stem cell transplants. Donor lymphocyte infusion has been shown to be highly effective for patients with many types of leukemia, but graft versus host disease (GVHD) can be a side effect with serious complications. When HSV-TK genes are transduced into donor lymphocyte cells, ganciclovir can be used so as to kill any donor lymphocyte cells that are a source of GVHD.

Retrovirus vector used for gene therapy

Center for Cell and Gene Therapy

2) Clinical research (haplo add-back)

The National Cancer Center Hospital, in cooperation with Takara Bio, submitted a gene therapy clinical research protocol to the Japanese Ministry of Health, Labour, and Welfare (MHLW) in preparation for commencement of clinical research on another type of HSV-TK gene therapy, known as haplo add-back therapy. In May 2009, the National Cancer Center Hospital received notification of approval for clinical research from the MHLW. The hospital is scheduled to begin clinical research in the fall of 2009. HSV-TK gene therapy (haplo add-back) is a therapy for patients with high-risk hematological malignancies in which patients are infused with donor lymphocytes transduced with HSV-TK genes after hematopoietic stem cell transplantation from partially compatible (haplo-identical) family donors. This same technology is currently undergoing Phase III clinical trials by MolMed in Italy.

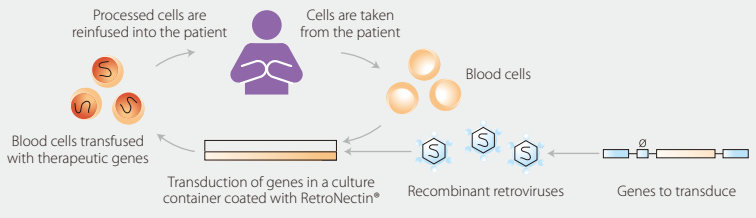
2. TCR Gene Therapy

Mie University School of Medicine, in collaboration with Takara Bio, has submitted a gene therapy clinical research protocol to the Japanese Ministry of Health, Labour, and Welfare (MHLW) in preparation for clinical research on T-cell receptor (TCR) gene therapy targeting esophageal cancer. In July 2009, the Mie University School of Medicine received notification of approval for clinical research from the MHLW. The university plans to commence clinical research after the summer of 2009.
T cell receptor (TCR) gene therapy targeting esophageal cancer involves the transduction of TCR genes that are capable of recognizing cancer antigens into patient's own lymphocytes, and then reinfusing them into the patient. These gene-transduced lymphocytes specifically recognize cancer cells and attack them, thereby eliminating the cancer cells. The TCR gene therapy approach has been found promising, and TCR clinical trials targeting melanoma and other cancers using our RetroNectin® method are currently being conducted at the National Cancer Institute in the United States. The results of these clinical trials were reported in the journal *Science* in 2006 and the journal *Blood* in 2009.

3. MazF Gene Therapy

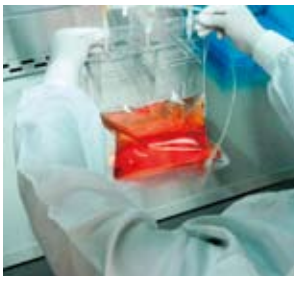
The Company is engaged in research and development of AIDS gene therapy using the MazF ribonuclease. In T cells infected with HIV, HIV replication is triggered by HIV-derived trans-activator of transcription (tat) proteins. Our strategy is to eliminate HIV by preventing the reproduction of HIV using MazF expression vectors that express MazF in an HIV Tat protein-dependent manner. We are currently engaged in joint research with the Tsukuba Primate Research Center, the National Institute of Biomedical Innovation involving for animal experiments of the MazF gene therapy on monkeys.

Gene Therapy Protocol Using the RetroNectin® Method



Cell Therapy
Cell therapy entails treatment of patients with living cells. In a broad sense, blood transfusions and bone marrow transplantation are both cell therapies. In a narrower definition of the term, however, cell therapy consists of processes such as the separation of specific cells, their storage, and their amplification and processing in culture

Cell processing room



Cell processing in the biological safety cabinet

Cell Therapy

In the field of cell therapy, the Company is involved in the clinical development of cancer immunotherapy using the RetroNectin® expansion-culture system, as well as providing technical support services for other cancer cell immunotherapies.

1. Cancer Immunotherapy using RetroNectin® Expansion-Culture System

Mie University Hospital in collaboration with Takara Bio has been conducting clinical research on cancer immunity reconstruction therapy using the RetroNectin® expansion-culture system for refractory cancers since March 2008. The therapy is a cancer treatment method that uses a combination of highly cytotoxic anti-cancer drugs and autologous lymphocytes expanded by the RetroNectin® expansion-culture system. In this therapy, the patient's antigen-presenting cells consume cancer cells destroyed by the anti-cancer drugs and then display cancer antigens on their surface. Then, lymphocytes that are expanded using the RetroNectin® expansion-culture system are transplanted back into the patient. The lymphocytes easily differentiate cancer-specific cytotoxic T cells in the presence of the antigen-presenting cells, and subsequently destroy the cancer cells. Separately, Kyoto Prefectural University of Medicine, in cooperation with Takara Bio, has been conducting clinical research on cancer immunotherapy targeting digestive cancer and lung cancer using the RetroNectin® expansion-culture system since April 2009.

In China, the Tianjin Cancer Institute & Hospital, Tianjin Medical University, and Sun Yat-Sen University Cancer Center, with the cooperation of Takara Bio, are also conducting clinical research on cancer cell immunotherapy using the RetroNectin® expansion-culture system.

2. Technical Support Services for Cancer Cell Immunotherapy

Activated lymphocyte therapy, a type of cancer cell immunotherapy that has extremely few side effects, is expanding gradually as a fourth category of cancer therapy to complement surgical therapy, chemotherapy and radiation therapy. Since October 2008, the Company has been providing technical support, on a fee basis, for activated lymphocyte therapy to the Iseikai Hyakumanben Clinic in Kyoto. This technical support includes cell processing, such as the culture and activation of lymphocytes necessary for the therapy.

Business Domain of Takara Bio's Gene Medicine

License

Worldwide licensing of the RetroNectin® method
Worldwide licensing of the RetroNectin® expansion-culture system

Clinical Development

Gene Therapy

Clinical development of HSV-TK gene therapies for leukemia in Japan
Clinical development of TCR gene therapies for esophageal cancer in Japan
Development of MazF gene therapies for AIDS

Cell Therapy

Clinical development of cancer cell immunotherapies in Japan
Clinical development of cancer cell immunotherapies in China

The Company began sales of *Campylobacter (cdt gene) PCR Detection and Typing Kit* (May 2008)

The Company has begun sales of a reagent that enables the specific and rapid detection and identification of three *Campylobacter* species, one of the main causes of bacterial food poisoning. The species identified by this reagent are *C. jejuni*, *C. coli* and *C. fetus*. Takara Bio has received an exclusive worldwide manufacturing and marketing license for this product from Fuso Pharmaceutical Industries, Ltd. and Osaka Prefecture University.

The incidence of food poisoning caused by *Campylobacter* has been increasing in recent years, and *Campylobacter* species have attracted considerable attention as a major cause of food poisoning. The symptoms caused in humans by the *Campylobacter* bacteria vary depending on the particular species of bacteria. For this reason, it is extremely important to not only detect the bacteria's presence but also accurately identify the species of *Campylobacter*. Using conventional methods, it takes approximately one week to conclusively identify a species of *Campylobacter*.

This kit is the first reagent for the rapid detection and identification of *C. jejuni*, *C. coli* and *C. fetus* using PCR. The kit makes it possible to detect and identify these three species within 2–3 days.

Campylobacter (cdt gene) PCR Detection and Typing Kit

Discovery that orally administered agaro-oligosaccharides inhibit atopic dermatitis (September 2008)

In an experiment using an animal model for atopic dermatitis, Takara Bio has found that the agaro-oligosaccharides, which are obtained by heating agar in acid, have properties that help to inhibit atopic dermatitis. These research results were presented on September 28, 2008, at the 58th Annual Conference of the Japanese Society of Constitutional Medicine.

The experiment involved free-feeding an agaro-oligosaccharide aqueous solution to an animal model for atopic dermatitis for four weeks. The oral administration of agaro-oligosaccharides was found to inhibit (1) the increase of the atopic dermatitis score accompanying the onset and progression of atopic dermatitis; and (2) the increase in skin moisture loss due to stratum corneum damage. Furthermore, in the fourth week, the serum IgE antibody concentration—an allergy marker—was found to have been lowered approximately 55% by the oral administration of agaro-oligosaccharides. In addition, using real-time PCR to analyze inflammation-related gene expression in skin following the end of the ingestion period, the researchers found that the increase in cyclooxygenase-2 (COX-2) gene expression, which is strongly linked to inflammation, was reduced by approximately 60%. These findings show that ingestion of agaro-oligosaccharides helps to inhibit atopic dermatitis.

Iseikai Hyakumanben Clinic in Kyoto commences cancer cell immunotherapy based on technical support from Takara Bio (October 2008)

Through technical support from Takara Bio, the Iseikai Hyakumanben Clinic in Kyoto, commenced activated lymphocyte therapy—a type of cancer cell immunotherapy—in October 2008.

Currently, cancer therapies generally use a combination of surgery, radiation therapy and chemotherapy. However, such treatments often lead to a significant deterioration in quality of life (QOL) for cancer patients. Cancer cell immunotherapy, which has few side effects, is increasingly being adopted around the world as part of a strategy to solve such QOL issues. In this cancer cell immunotherapy, lymphocytes are taken from the patient, activated *ex vivo* and—after the number of activated cells has been increased—returned to the patient's body so that they can attack cancer cells. The most basic method of this therapy involves the use of interleukin-2 and anti-CD3 monoclonal antibodies to activate the patient's lymphocytes, which are increased before being returned to the patient's body. Takara Bio is providing the clinic with know-how, including expansion-culture technology, for efficiently and safely increasing the number of lymphocyte cells.

Cultured activated lymphocyte

HSV-TK gene therapy clinical trials for relapsed leukemia got under way (October 2008)

On October 1, 2008, the Company entered a clinical trial agreement with the National Cancer Center Hospital in Japan to start clinical trials of HSV-TK gene therapy for the treatment of patients with relapsed leukemia. The Phase I clinical trials subsequently got under way at the National Cancer Center Hospital. This trial is the first industrial clinical trial for *ex vivo* gene therapy in Japan.

The objectives of this trial are to study (1) the safety of donor lymphocyte infusion (DLI) therapy using gene-transduced lymphocytes; (2) the kinetics of gene-transduced lymphocytes in the peripheral blood; and (3) the control of graft-versus-host disease (GVHD) by the administration of ganciclovir in case of severe GVHD occurrence. This trial is an open-label trial, and the planned number of trial subjects is nine. It is expected that this trial will help build a platform for cell and gene therapies in Japan.

Presentation of research results related to HIV gene therapy using ribonuclease (October 2008)

At Bio Japan 2008, on October 17, the Company announced the results of joint research conducted with Assistant Professor Mika Okamoto and Professor Masanori Baba of Kagoshima University Graduate School of Medical and Dental Sciences, Center for Chronic Viral Diseases. This research showed that endoribonuclease MazF rendered CD4T lymphocytes resistant to an HIV clinical isolate that is resistant to multiple anti-HIV drugs.

It is thought that HIV does not immediately replicate after infection but replication is triggered by reaction with HIV-derived trans-activator of transcription (Tat) proteins expressed in the early stages of infection. In this research, human CD4-positive T-cells were retrovirally transduced with the MazF endoribonuclease gene under the control of the HIV-1 LTR so that the MazF gene is expressed only in HIV-1 infected cells. These cells were then infected with three types of HIV-1 clinical isolate, which had each exhibited drug resistance to multiple anti-HIV drugs. The transduced cells strongly suppressed replication of each of the HIV-1 clinical isolates. The Company plans to pursue further research and development of this method, which has significant potential as a new gene therapy for treating HIV.

Presentation of research findings on the antitumor mechanism of orally administered *Gagome kombu* (kelp) fucoidan (October 2008)

Previously, the Company had shown through animal experiments that the oral administration of *Gagome kombu* fucoidan enhanced the activation of natural killer (NK) cells. Recently, however, the Company has found that immune system activation mediated by a certain type of tissue in the small intestine—called Peyer's patch—plays a part in the antitumor effects exhibited by *Gagome kombu* fucoidan. The Company presented these results on October 29, 2008, at the 67th Annual Meeting of the Japanese Cancer Association.

In an experiment using Peyer's patch cells prepared from the small intestine of mice, the Company confirmed that *Gagome kombu* fucoidan enhances interferon-γ (IFNγ) production from Peyer's patch cells. IFNγ has been reported as having a role in the activation of NK cells. These research results suggest a mechanism whereby fucoidan acts on immune cells in the intestine through its action on Peyer's patch cells when *Gagome kombu* fucoidan is administered orally. This stimulates the body's entire immune system, including the activation of NK cells, thereby producing an antitumor effect.

Fucoidan, the sticky constituent in Gagome kombu

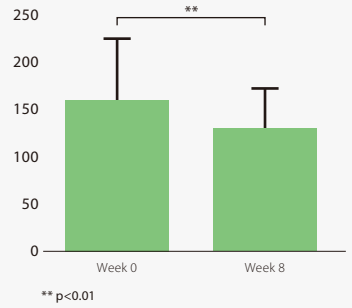
Anti-metabolic syndrome effects of ashitaba (angelica herb) chalcone confirmed in a human interventional study (November 2008)

In a human interventional study, the Company has confirmed anti-metabolic syndrome effects of ashitaba chalcone, a type of polyphenol abundant in ashitaba. The Company presented these results at the 13th Annual Meeting of the Japanese Society for Food Factors on November 17, 2008.

In this study, nine adults, including subjects confirmed to have metabolic syndrome, as well as subjects exhibiting some metabolic syndrome risk factors, received ashitaba juice for eight weeks. The subjects were then assessed for anti-metabolic syndrome effects. The Company confirmed reductions in bodyweight, body mass index (BMI), body-fat ratio and the area of abdominal fat. Furthermore, some subjects exhibited reductions in blood-glucose level, hemoglobin A1c (reduced by 0.2–0.5%; this marker is also used in the diagnosis of diabetes) and LDL cholesterol. There was also an upward trend in the blood concentration level of adiponectin, a hormone reported to have anti-metabolic syndrome effects, compared with levels seen prior to the trial.

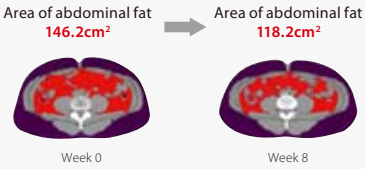
Anti-Metabolic Syndrome Effects of *Ashitaba* (angelica herb) Chalcone

Area of abdominal fat (cm^2)



** p<0.01

CT scan images before and after the trial
(representative case)

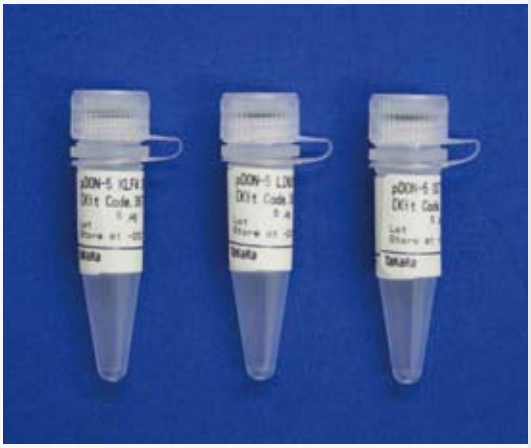


Takara Bio launches sales of the Human iPS Cell Generation™ Vector Set (March 2009)

The Company has launched sales of the Human iPS Cell Generation™ Vector Set, a research reagent useful for the efficient production of human iPS cells. This product contains plasmids—for the generation of retroviral vectors—that express genes to enable efficient human iPS cell generation.

Using existing methods, even when genes are delivered into human cells, the ratio of successful iPS cell generation is extremely low. Until now, this low success rate has posed a serious impediment to research. Takara Bio discovered that by using the RetroNectin® method to deliver genes, human iPS cells can be generated 10–30 times more efficiently compared with conventional methods. Using retroviral vectors produced with the Human iPS Cell Generation™ Vector Set, together with the separately sold RetroNectin® to transduce genes into target cells, the efficient generation of iPS cells is thus made possible. In addition, Takara Bio simultaneously began offering a contract service for the production of retroviral vectors using the Human iPS Cell Generation™ Vector Set.

The Company has licensed from iPS Academia Japan, Inc., the worldwide use of patents covering iPS cell production for research purposes. iPS Academia Japan holds patents relating to iPS cell generation technology invented by Professor Shinya Yamanaka of Kyoto University.



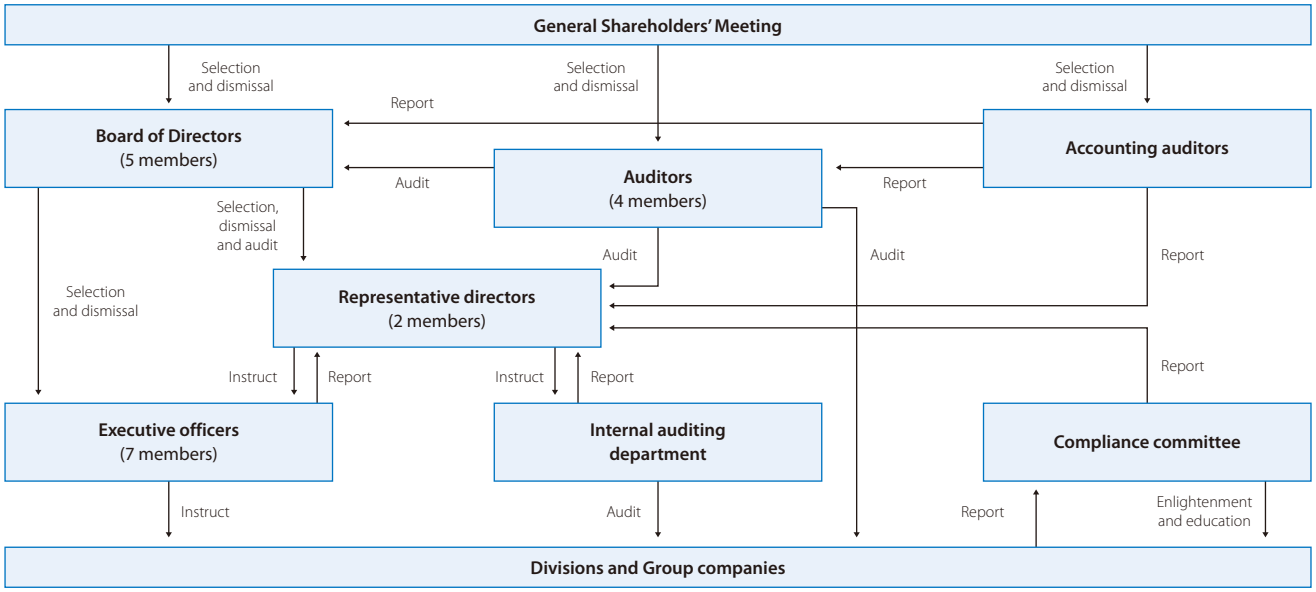
Human iPS Cell Generation™ Vector Set

Corporate Governance System

As an R&D-oriented organization, Takara Bio is dedicated to the development of biotechnology-related products and technologies. In an industry dependent on constant technical innovation, our management policy is to conduct R&D aggressively, while improving our profitability and returning the profits to our shareholders. To achieve this, we are striving to expedite our decision making and to improve our business efficiency.

The Board of Directors consists of five members who meet whenever necessary in addition to the regular monthly Board meetings. The Board makes decisions on important issues concerning the management of the Company and its management policies as well as overseeing execution of the Company's business. The Company has adopted an auditing system, and three of our four auditors are external to the Company.

Our parent company is Takara Holdings Inc., which owns 70.9% of voting rights as of the end of March 2009. Takara Holdings' policy in managing its Group companies is to seek to maximize the corporate value of the whole Group while enabling each and every member corporation of the Group to maintain its uniqueness and independence. Since our business of biotechnology requires highly advanced expertise and quick decision making, we are especially unique and independent in the Group. While we report the decisions made at our Board meetings and other issues to the parent company, no prior approval is required in order to execute our decisions.



Board of Directors

(As of June 23, 2009)

Koichi Nakao
President & CEO

Hisashi Ohmiya
Chairman

Mutsumi Kimura
Executive Vice President

Kiyozo Asada, Ph.D.
Senior Managing Director

Kazutoh Takesako, Ph.D.
Senior Managing Director

Susumu Sano, Ph.D.
Auditor (Standing Auditor)

Tsutomu Nomura
Auditor (External Auditor)

Hideo Tomomura
Auditor (External Auditor)

Tomio Kamada
Auditor (External Auditor)

Kazuki Yamamoto
Senior Executive Officer

Makoto Moriguchi
Senior Executive Officer

Yoh Hamaoka, Ph.D.
Senior Executive Officer

Hiroyuki Mukai, Ph.D.
Executive Officer

Masahide Tamaki
Executive Officer

Hiroaki Miyazawa
Executive Officer

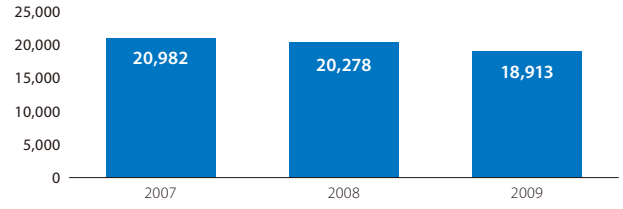
Tsuyoshi Miyamura
Executive Officer

Three-Year Financial Summary

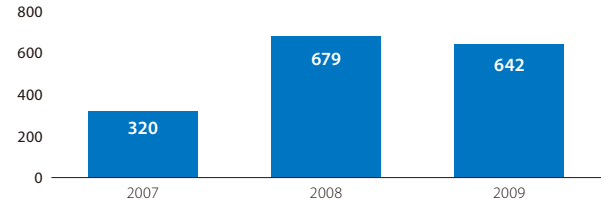
(Millions of Yen)	2007	2008	**2009**
For the Years ended March 31:			
Net sales (sales to customers)	¥20,982	¥20,278	**¥18,913**
Genetic engineering research	18,572	18,080	**16,733**
Gene medicine	182	229	**165**
AgriBio	2,226	1,968	**2,014**
Cost of sales	11,160	10,055	**8,973**
Selling, general and administrative expenses	10,037	9,663	**9,513**
Operating income (loss)	(215)	560	**426**
Income before income taxes and minority interests	375	671	**99**
Net income	320	679	**642**
Depreciation	1,608	1,429	**1,346**
Capital expenditures	952	1,505	**1,059**
R&D expenses	3,239	3,296	**2,976**
As of March 31:			
Total assets	¥45,539	¥45,289	**¥43,117**
Total equity	38,613	39,108	**37,149**
Per Share of Common Stock (yen)**:**			
Basic net income	¥ 1,142.96	¥ 2,412.91	**¥ 2,278.57**
Equity	136,644.85	138,373.58	**131,732.45**
Ratios (%)**:**			
Return on assets (ROA)	0.7%	1.5%	**1.5%**
Return on equity (ROE)	0.8	1.8	**1.7**
Equity ratio	84.4	86.1	**86.2**

Note: Figures have been rounded down to the nearest million yen.

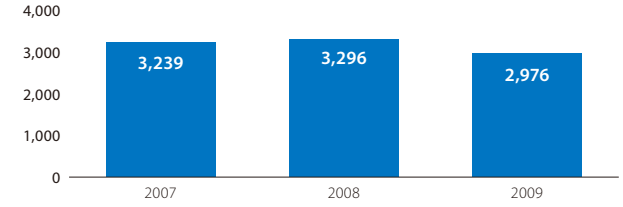
Net Sales (Millions of Yen)



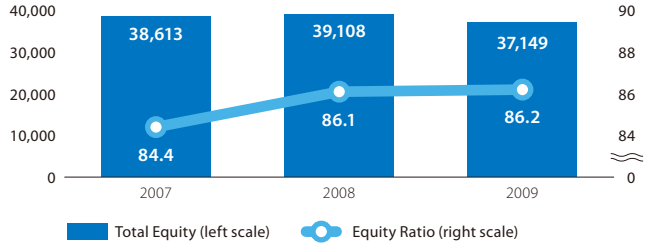
Net Income (Millions of Yen)



R&D Expenses (Millions of Yen)



Total Equity (Millions of Yen) **/ Equity Ratio** (%)



Net Sales

The Takara Bio Group comprises Takara Bio Inc. and nine consolidated subsidiaries. Capitalizing on biotechnology developed over many years, the Group has concentrated its management resources on three segments: Genetic engineering research, AgriBio and Gene medicine. In the fiscal year under review, ended March 31, 2009, net sales decreased 6.7% year on year, to ¥18,913 million, due to lower overseas sales resulting from yen appreciation and a decline in revenues from research reagents and scientific instruments in the Genetic engineering research segment.

Income Statement Analysis

Cost of sales was down 10.8% year on year, to ¥8,973 million, reflecting lower net sales and improvement in cost of sales as a percentage of net sales. Gross profit declined 2.8% year on year, to ¥9,940 million. Selling, general and administrative (SG&A) expenses decreased 1.5% year on year, to ¥9,513 million, because efforts to further improve effectiveness and efficiency in relation to expenses offset a ¥140 million year-on-year increase in amortization of goodwill stemming from a change in accounting treatment at overseas subsidiaries. As a result of the above, operating income was down ¥133 million year on year, to ¥426 million. Other expenses was ¥326 million, due to a ¥333 million foreign exchange loss resulting from yen appreciation. Income before income taxes and minority interests was ¥99 million. Due to the recognition of deferred tax assets from the fiscal year, which the Company did not recognize until the fiscal year, income taxes decreased significantly. Net income was ¥642 million.

Segment Information

Analysis by Business Segment

Genetic Engineering Research

Given the ever-widening scope of biotechnology R&D, the Group has positioned as its core business the Genetic engineering research segment, which mainly markets products and contract research services supporting such R&D.

Looking at sales by product category, for the fiscal year, revenues from mainstay research reagents decreased partly because of yen appreciation. Revenues from scientific instruments declined due to lower revenues from mass spectrometry systems and other large equipment. Further, revenues from contract research services were down slightly. As a result, the segment recorded year-on-year decreases of 7.5% in net sales, to ¥16,733 million, and 4.7% in gross profit, to ¥9,548 million. Although efforts to further improve effectiveness and efficiency in relation to expenses led to a 2.0% year-on-year decrease in SG&A expenses, to ¥5,729 million, operating income declined 8.4% year on year, to ¥3,819 million.

AgriBio

In the AgriBio segment, the Group uses leading-edge biotechnology to develop, produce and market health food products based on traditional Japanese food. Moreover, the segment has established clear scientific evidence for the bioactive properties of those products. The concept that food is the primary source of health guides those efforts. Business development centers on products related to Gagome kombu (kelp) "fucoidan," agar "agaro-oligosaccharide", ashitaba (angelica herb) "chalcone" and mushroom "terpene" derivatives.

In the fiscal year, the segment posted a 2.4% year-on-year increase in net sales, to ¥2,014 million, thanks to higher revenues from mushroom products, counteracting lower revenues from the "Nomu Kanten" agar health drink. Because of an improvement in cost of sales as a percentage of net sales, the gross profit rose a sharp 275.3% year-on-year, to ¥329 million. Although higher R&D expenses led to a 4.0% year-on-year increase in SG&A expenses, to ¥904 million, operating loss was ¥575 million, an improvement compared with operating loss of ¥782 million in the previous fiscal year.

Gene Medicine

Recently, the cell and gene therapy field has seen rapid advances in cell biology. As a result, lead times from basic research to clinical application are shortening, thereby accelerating progress toward practical applications for regenerative medicine. In response, the Gene medicine segment is focusing on early commercializing cell and gene therapies. The segment has been promoting the clinical development of cancer and AIDS gene therapies in Asia based on the Group's original technologies, such as the RetroNectin® method, a highly efficient gene transduction system; the highly efficient RetroNectin® lymphocyte expansion-culture system; and the endoribonuclease MazF.

In the fiscal year, the segment recorded a 27.7% year-on-year decrease in net sales, to ¥165 million, due to lower revenues from patent licensing related to gene medicine and contract research services for clinical research. Gross profit declined 44.1% year on year, to ¥66 million. Despite a 2.4% year-on-year decrease in SG&A expenses, to ¥1,306 million, due to lower provision for allowance for doubtful accounts, the segment recognized operating loss of ¥1,240 million, compared with operating loss of ¥1,219 million in the previous fiscal year.

Analysis by Region

Japan

Net sales declined 2.7% year on year, to ¥13,887 million, reflecting lower revenues from scientific instruments. However, operating income rose 9.9% year on year, to ¥1,630 million.

Asia

Thanks to favorable revenues from Takara Biotechnology (Dalian) Co., Ltd., net sales grew 8.3% year on year, to ¥3,007 million, and operating income was up 22.7% year on year, to ¥639 million.

North America

Due to lower revenues from Clontech Laboratories, Inc., net sales declined 17.3% year on year, to ¥4,845 million, and operating loss was ¥328 million, compared with operating income of ¥149 million in the previous fiscal year.

Europe

Buoyed by higher revenues from Takara Bio Europe S.A.S., net sales rose 2.0% year on year, to ¥1,816 million, and operating income was up 11.0% year on year, to ¥180 million.

Financial Position

Total assets at the end of the fiscal year stood at ¥43,117 million, down ¥2,171 million from the previous fiscal year-end. Total current assets amounted to ¥25,676 million, up ¥258 million from the previous fiscal year-end. That increase was mainly attributable to increases of ¥3,817 million in time deposits, ¥459 million in marketable securities and ¥354 million in deferred tax assets, which offset declines of ¥3,753 million in cash and cash equivalents, and ¥725 million in notes and accounts receivable.

Property, plant and equipment at the end of the fiscal year was ¥11,754 million, down ¥601 million from the previous fiscal year-end. That decline was primarily due to an increase of ¥1,059 million from the acquisition of property, plant and equipment and a ¥1,409 million decline from depreciation, amortization, sales and disposals.

Investments and other assets amounted to ¥5,686 million, down ¥1,829 million from the previous fiscal year-end. That decline mainly reflected decreases of ¥855 million in goodwill, ¥551 million in customer contracts and related relationships, and ¥732 million in other assets, which offset increases of ¥316 million in deferred tax assets and ¥232 million in long-term prepaid expenses.

Total current liabilities at the end of the fiscal year amounted to ¥3,789 million, up ¥148 million from the previous fiscal year-end. That increase resulted from a ¥281 million increase in notes and accounts payable, which cancelled the effect of decreases of ¥84 million in accrued expenses and ¥64 million in other current liabilities.

Total long-term liabilities at the end of the fiscal year stood at ¥2,178 million, a reduction of ¥361 million from the previous fiscal year-end. That decline reflected decreases of ¥168 million in deferred tax liabilities and ¥334 million in other long-term liabilities, which offset increases of ¥71 million in liability for retirement benefits and ¥70 million in long-term debt.

As a result, total liabilities at the end of the fiscal year amounted to ¥5,968 million, down ¥212 million from the previous fiscal year-end.

Total equity at the end of the fiscal year amounted to ¥37,149 million, down ¥1,958 million from the previous fiscal year-end. That decline principally resulted from decreases of ¥179 million in unrealized gain on available-for-sale securities, ¥2,033 million in foreign currency translation adjustments and ¥110 million in minority interests, which counteracted an increase of ¥329 million in retained earnings, due to net income and the application of the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18). Total equity as a percentage of total assets edged up 0.1 percentage point, to 86.2%. The Group's financial position remains sound.

Cash Flows

Net cash provided by operating activities was ¥2,265 million, up ¥247 million year on year. This stemmed from income before income taxes and minority interests of ¥99 million; depreciation and amortization of ¥2,075 million, including depreciation of other assets; decrease in trade receivables of ¥500 million; and increase in trade payables of ¥402 million, which absorbed an increase in inventories of ¥383 million and income taxes paid of ¥369 million.

Net cash used in investing activities was ¥5,511 million, compared with net cash provided by investing activities of ¥678 million for the previous fiscal year. This was attributable to payments for time deposits of ¥4,469 million, purchase of property, plant and equipment and purchases of other property of ¥1,053 million, and purchases of marketable securities of ¥886 million, which offset proceeds from time deposits of ¥459 million and proceeds from sales of marketable securities of ¥364 million.

Net cash used in financing activities was ¥168 million, compared with net cash provided by investing activities of ¥45 million for the previous fiscal year. This resulted from purchase of treasury stock of consolidated subsidiaries of ¥151 million and repayment of long-term debt of ¥70 million, counteracting proceeds from issuance of common stock of ¥35 million.

Business Risks

The following are the major potential risks to which the Group may be exposed in business and other activities. In addition, conditions that may not become risks, from the standpoint of the positive disclosure of information significant to investor decisions, are also described below. Upon identifying the possibility of such risks, the Group will make the utmost effort to avoid them and will take countermeasures against them. There is, however, no guarantee that we can avoid all of the risk occurrences. Please note that the following descriptions do not cover all of the risk factors concerning the Group.

Unless specifically noted otherwise, this section refers to the end of fiscal 2008, and any information related to future occurrences are based on the Group's assessments as of the end of fiscal 2008.

In addition, the text contains explanations of terminology when appropriate. Such explanations are for investors to use as reference to understand the information in this section. As such, they are a work of Takara Bio based on the Company's judgment and understanding.

1. Trends in performance and financial position since establishment

The trends in the performance and financial position since the establishment of Takara Bio are as presented below.

(Millions of Yen)	1st fiscal year (ended March 31, 2003) Consolidated management indicators	2nd fiscal year (ended March 31, 2004) Consolidated management indicators	3rd fiscal year (ended March 31, 2005) Consolidated management indicators	4th fiscal year (ended March 31, 2006) Consolidated management indicators	5th fiscal year (ended March 31, 2007) Consolidated management indicators	6th fiscal year (ended March 31, 2008) Consolidated management indicators	7th fiscal year (ended March 31, 2009) Consolidated management indicators
Net sales	¥14,376	¥13,592	¥13,685	¥16,534	¥20,982	¥20,278	¥18,913
Net income (loss)	(1,140)	62	(1,282)	(1,058)	320	679	642
Net assets	21,615	25,718	31,941	37,306	38,613	39,108	37,149
Total assets	30,062	31,649	37,427	44,443	45,539	45,289	43,117

Notes: 1. Net sales do not include consumption tax, etc.
2. Consolidated balance sheets for the 1st and 2nd fiscal years have been audited by Deloitte Touche Tohmatsu, in compliance with the provisions of Article 193-2 of the Securities and Exchange Law, based on the Security Listing Regulations of Tokyo Stock Exchange, Inc.
3. From the 5th fiscal year, the Takara Bio Group has adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan (ASBJ) Statement No. 5) and the Implementation Guideline for Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Implementation Guideline No. 8).

Takara Bio Group maintains its competitive edge in the Genetic engineering research field, all the while promoting research and development (R&D) to establish a competitive result in the Gene medicine and AgriBio fields. The Group conducts a large amount of investment in R&D in comparison to net sales. In the 1st to 7th fiscal years, the ratio of R&D expenses to net sales was 21.9%, 20.2%, 21.8%, 18.9%, 15.4%, 16.3% and 15.7% respectively.

Under these circumstances, in the 5th fiscal year, the Takara Bio Group reported consolidated net income for the second time since the 2nd fiscal year. Looking ahead, the Takara Bio Group intends to invest efficiently in R&D in order to record net income, and it may promote even more aggressive R&D depending on the progress of the Group's R&D, advances in biotechnology and the status of competitors.

In addition, the comparatively large net loss recorded in the 1st fiscal year's results was due to the ¥1,560 million loss on write-down of investment securities in biotechnology venture companies with which the Group had technology alliances. Again in the 4th fiscal year, the 5th fiscal year and the 6th fiscal year, the Group recorded a similar appraisal loss of ¥667 million, ¥115 million and ¥8 million on investment securities, respectively.

The balance of investment securities at the end of the fiscal year under review was ¥164 million. The amount stated is after appraisal loss and on a consolidated base. There is no balance of investments in stocks of affiliate companies. Looking ahead, it is possible that the Group's shareholdings in its business partners that are based on tie-in agreements with venture companies will increase, and appraisal losses may also arise in the future depending on the number of stocks owned by the Group, the financial position of the companies in which the Group invests and the trends in the market price of shareholdings.

2. Research and development

A diverse range of industries are biotechnology-related. A list could include the medical field, which includes cell and gene therapy, the research supporting field, which has a direct target market among research institutions and universities that are seeking to promote basic research and to develop new drugs, the environment and energy field, which includes bioremediation and biomass, the bioinformatics field and the food field, which includes agriculture and functional food.

Under these circumstances, the Group conducts extensive R&D, which the Group considers to be vital to maintaining its competitive edge. In fact, the Group's R&D expenses for the current consolidated fiscal year were ¥2,976 million, or 15.7% of sales, which is extremely high. At the same time, there is no guarantee that R&D will proceed as planned, and, as clinical development in the Group's Gene medicine segment requires a particularly long period, there is no guarantee that R&D will yield adequate results in a timely manner. Therefore, a delay in R&D could affect the Group's business strategy and performance. In addition, there is no guarantee that the R&D currently under way will produce the anticipated results. As a result, the Group could fail to meet its revenue projections.

3. Dependence on manufacturing

Calculated on a sales price base for the current consolidated fiscal year, Takara Biotechnology (Dalian), a Chinese subsidiary, accounted for 21.3% of manufacturing in the Genetic engineering research segment, which represented 88.5% of the Group's net sales for the current consolidated fiscal year. Further, production for Group subsidiary Clontech Laboratories is being transferred to Takara Biotechnology (Dalian), and the Group acknowledges the increasingly high level of dependence on that segment. At the same time, the consolidation of production bases enables the Group to manufacture products that are highly cost-competitive, and the diversification of manufacturing centers is also considered to be inexpedient on the Group's production scale. As a result, changes in earnings trends at a subsidiary or an interruption to its business activities for any reason could adversely affect the Group's business strategy and performance.

4. Accounting for royalties relating to in-licensed technology

Not only does Takara Bio use its own proprietary technologies, it also acquires licenses of technologies developed by others. When the Group acquires a license, in some cases it makes an initial payment combined with certain milestone payments. The Group accounts for such payment by booking the specified sum under assets at the time when the payment is established and amortizing it according to the specified amortization period. Consequently, the amount corresponding to the license acquisition of technology is booked under assets on the Company's balance sheet. At the same time, the timing of the actual cash payment and the amortization of the payment as an expense are different, so disparities may arise between the amount accounted for as an expense and the amount recorded in cash flows.

5. Long-term prepaid expenses

Due to the nature of the Group's business activities, to execute license agreements relating to patents owned by others is positioned as a key strategy. In such license agreements, in some cases the Group makes an initial payment and certain milestone payments. These expenditures are booked to assets as long-term prepaid expenses at the time of the expenditure and are treated systematically as expenses in each fiscal year based on the term of the agreement. In addition, the Group reviews the asset component of technologies it uses under license in each settlement period, taking into account use of the technology within the Group and obsolescence due to advances in biotechnology. When the asset component of a technology is in doubt, the Group treats the relevant long-term prepaid expense as a one-off expense. Consequently, long-term prepaid expenses may increase in the future depending on the conclusion of license agreements and the subsequent milestone payments. A high level of expenses may arise depending on the status of use of technologies within the Group and advances in biotechnology. This could affect the Group's performance.

6. Competition

The Group holds a unique position in the industry with a firm, stable revenue base, a solid presence in the Asian market and an extensive, proprietary technological lineup. Nevertheless, the Group is in competition with a number of other companies in the same industry, not only in Japan, but also overseas.

In the Genetic engineering research segment, the license agreement related to Polymerase Chain Reaction Method (hereinafter "PCR Method") is non-exclusive, and a large number of companies hold such licenses. As a result, competition is becoming increasingly severe. In addition, new technologies are emerging that could be alternatives to the LA PCR Method and the ICAN method, for which Takara Bio holds the patent rights and which it has positioned as its core technologies. Furthermore, entry into the manufacturing and sale of scientific instruments is relatively easy as it does not require licensing and approval, unlike medical instruments, and Takara Bio has a large number of competitors.

In the Gene medicine segment, a variety of gene transduction methods and effective vectors have been developed, and the applications of gene therapy are expanding from congenital genetic disorders, infectious diseases and various types of cancer to non-fatal chronic illnesses. Also, cell therapy is not only used to cure the diseases themselves, but also to improve patients' quality of life (QOL). Thus, a potentially enormous market has opened up, which has resulted in many enterprises investing in the R&D of cell and gene therapies, including European and U.S. venture businesses.

In the AgriBio segment, the health food industry is booming and many businesses, not just food manufacturers but many pharmaceutical companies as well, are entering this rapidly growing market. Legal regulations impose restrictions on the descriptions of efficacies and effects, and the use of experimental data for differentiation in sales promotion is prohibited. As a result, it is easy to enter this market, further intensifying the competition.

Therefore, the Group strives for the start up of new business projects and the early commercialization of projects in their R&D stage. However, if a competitor commercializes a similar product or technology before the Group, or commercializes a technology that is better than the Group's technology, the Group could fail to meet its earnings plans.

7. Parent company of Takara Bio

As of March 31, 2009, Takara Holdings Inc. (listed on the First Section, Tokyo Stock Exchange and Osaka Stock Exchange) is the parent company of Takara Bio, owning 70.9% of the voting rights in the Company. The relationship between Takara Bio and Takara Holdings is as follows.

(1) Position of Takara Bio in the Takara Holdings Group (Takara Holdings and its associated companies)

The extraordinary general meeting of shareholders of Takara Shuzo Co., Ltd. (now Takara Holdings), held on February 15, 2002, approved the proposal to spin off the operations of the company's alcoholic beverage and food business, and the biomedical business with the aim of making the most of the special characteristics of each respective business as well as creating an operating environment for increasing growth potential and competitiveness in both. On this basis, Takara Shuzo and Takara Bio were established on April 1, 2002, through a corporate split, and each company becoming a fully owned subsidiary of Takara Holdings. Takara Holdings decreased the ownership of voting shares in Takara Bio to 70.9% through third-party allotment of new shares by private and public offering.

The Takara Holdings Group consists of Takara Holdings, which is a pure holding company, and 40 affiliated companies (34 subsidiaries and 6 associated companies). Within the Group, Takara Bio is positioned as a subsidiary specializing in the biotechnology business, and it promotes the biotechnology business along with its 9 affiliated companies (subsidiaries).

(2) The food business of the Takara Holdings Group

Takara Healthcare Inc., which specializes in marketing and sales of health foods of the Takara Holdings' Group companies, was founded on September 7, 2006, as a 100%-owned subsidiary of Takara Holdings. Following the establishment of Takara Healthcare, Takara Bio appointed Takara Healthcare as its sales agent for the Company's health foods. The Group's health foods are now sold to customers through Takara Healthcare. The amount of transactions with Takara Healthcare in fiscal 2009 was ¥367 million.

(3) Management of Group companies by Takara Holdings

Takara Holdings has established and operates the Takara Holdings Group Company Management Rules from the stand point of consolidated business management. However, its objective is to maintain the independence and autonomy of Takara Holdings' Group companies while seeking to maximize the corporate value of the entire Takara Holdings Group. The rules are also applicable to Takara Bio, and Takara Bio reports on the decisions made at the meetings of its Board of Directors to Takara Holdings. However, Takara Bio is not required to gain prior approval from Takara Holdings for the resolutions of its Board of Directors, and runs its operations independently. In addition, Takara Holdings has established a variety of meetings within the Takara Holdings Group, and the ones that relate to Takara Bio are as follows.

Name of meeting	Participants	Role	Frequency of meetings
Group Strategy Meeting	Takara Holdings' directors, President & CEO and Executive Vice President of Takara Bio, President of Takara Shuzo	Confirmation of matters related to entire Group	In principle, once every two months
Biotechnology Business Report Meeting	Takara Holdings' directors, Takara Bio's directors and officers	Reporting on the status of Takara Bio's activities, etc.	In principle, once a month

These meetings above are for the purpose of reporting between Takara Holdings' Group companies and do not currently obstruct the autonomy and independence of Takara Bio.

In addition, the following officers serve concurrently at Takara Bio and Takara Holdings as of June 26, 2009.

Name	Position at Takara Bio	Position at Takara Holdings
Hisashi Ohmiya	Chairman	President
Koichi Nakao	President & CEO	Director
Hideo Tomomura	Corporate Auditor	Corporate Auditor
Tomio Kamada	Corporate Auditor	Standing Auditor

Hisashi Ohmiya was appointed as a chairman of the board of directors of the Company based on its assessment that his experience and knowledge in the management of the Biomedical Group as a director of Takara Shuzo before the establishment of the Company would be of use to the Company. Similarly, Hideo Tomomura was appointed as corporate auditor of the Company, as it was decided it would benefit from the knowledge and experience he gained in senior positions in the Group, including as the Head of the General Affairs, Personnel, and Labor Division at Takara Shuzo and Takara Holdings and as a corporate officer at Takara Shuzo. Tomio Kamada was appointed as corporate auditor of the Company based on his valuable experience and knowledge, gained in the Accounting Division of Takara Shuzo and through his concurrent appointments as standing auditor at Takara Holdings and corporate auditor at Takara Shuzo. Moreover, Koichi Nakao was appointed as director of Takara Holdings from the standpoint of consolidated business management within the holding-company structure of Takara Holdings. These decisions were not made with the objective of giving Takara Holdings control over the Company.

The Company accepted three employees (two employees; as of based on the Group's assessments as of the end of fiscal 2008) of temporary transfer from Takara Shuzo, a subsidiary of Takara Holdings. The Company asked Takara Shuzo for this temporary transfer for the purpose of adopting know-how of General Affairs and Accounting Division. Among employees of temporary transfer, there are nobody in an important position of the Company such as administrative post.

However, a change in the Group management strategy of Takara Holdings, although not currently envisaged, could affect the business and performance of Takara Bio.

(4) Transactions with the Takara Holdings Group

1) Real estate lease transactions related to sales and manufacturing sites

Takara Bio was established as a spin-off company of Takara Shuzo (Now Takara Holdings) on April 1, 2002. As a result, the majority of Takara Shuzo's former real estate, including plants, sales offices and company housing, was newly transferred to both Takara Shuzo and the Company. Whereas the alcoholic beverage and food business, and the biomedical business had previously been developed on one site, real estate lease transactions have occurred with Takara Shuzo and the Company since these transfers. The real estate lease transactions relating to the lease of manufacturing and sales sites by the Company are as follows. In the event of difficulties in the renewal of these transactions, the performance of the Company could be affected with regard to revenue until the Company is able to secure an alternative site and relocation expenses.

Property	Use	Lessor	Amount of transaction (Year ended March 31, 2009, millions of yen)	Transaction terms, etc.
Takara Shuzo Kusu Factory site (Yokkaichi-shi, Mie Prefecture)	Takara Bio, Kusu Factory	Takara Shuzo	8	Site area: 7,728.32m^2 Land category classification: Residential Type of agreement: Ordinary fixed-term leasing rights Basis for computation of rental fees: Market price of land, etc.
6F, Takara Meiji Yasuda Building (Chuo-ku, Tokyo)	Takara Bio, East Japan Sales Department	Takara Shuzo	11	Area: 113.55m^2 Type of agreement: Lease agreement Basis for computation of rental fees: Market price of land, buildings, etc.

Notes: 1. The above amounts do not include consumption tax, etc.
2. Terms of agreement and method of determining terms of agreement are decided by consultation based on appraisal by real estate appraiser.

2) Transactions related to use of trademark rights

The trademarks used by Takara Bio were purchased from Takara Holdings. Apart from these trademarks, Takara Holdings owns and controls some trademarks used by the Company. The Company has concluded trademark licensing agreements with Takara Holdings with regard to these trademarks and makes a fixed monthly payment per trademark, country and category based on the number of licenses. As of March 31, 2009, the Company had licenses for the use of 96 registered and 47 unregistered trademarks in Japan and overseas. In the event that the Company is unable to obtain licenses for the use of trademarks from Takara Holdings for any reason, it might affect the Company's performance.

Company name (Address)	Details of transaction	Amount of transaction (Year ended March 31, 2009, millions of yen)	Terms of transaction, etc.
Takara Holdings Inc. (Shimogyo-ku, Kyoto)	License for use of trademarks	11	Type of agreement: License agreement for use of trademarks (concluded March 29, 2004) Basis for computation of license fees: Costs for application and registration of trademark rights, with inclusion of future maintenance and management expenses Monthly license fee per trademark, country and category: ¥8,500 for registered trademarks, ¥1,700 for unregistered trademarks (neither includes consumption tax)

3) Other

Takara Bio engages in the following agreement-based transactions with the Takara Holdings Group companies (excludes Takara Bio Group companies).

Company name (Address)	Details of transaction	Amount of transaction (Year ended March 31, 2009, millions of yen)	Terms of transaction, etc.
Takara Shuzo Co., Ltd. (Fushimi-ku, Kyoto)	Lease of company housing	1	Type of agreement: Lease agreement Basis for computation of rental fees: Market price of land, building, etc.
	Temporary transfer of employees to Takara Bio	24	Type of agreement: Employment secondment agreement
Takara Network System Co., Ltd. (Shimogyo-ku, Kyoto)	Contracting of computer-related services and lease of equipment	248	Type of agreement: Basic agreement concerning contracting of services and lease of equipment Details of services: Account-related system operation support; client-server system operation support; lease of PCs; purchasing of consumables, etc.

Notes: 1. The above amounts do not include consumption tax, etc.
2. Apart from this, Takara Bio conducts business through order placement and acceptance of orders for the production of printed material with the Takara Holdings Group companies on a per order basis.

8. Financing

The demand for funds, including R&D expenditure, capital expenditure, loans and investment, working funds, etc., is expected to rise due to the start up of new businesses and the expansion in business size. Thus, the procurement of funds through a paid-in capital increase or other measures will be possible in the future. However, if financing does not proceed according to plan, it could affect the development of the Group's business.

9. Key operational agreements

An outline of the agreements considered crucial to Takara Bio's operations is described in "Section 5: Key Operational Agreements" of the separate Japanese financial statements report. If these agreements end due to the expiry of the agreement term, cancellation or some other reason, or if revisions to the agreements are disadvantageous to the Company, it could affect the business strategy and performance of the Company.

10. Organizational structure of the Takara Bio Group

(1) Dependence on a certain group of personnel

Koichi Nakao, the president & CEO, plays an important role as the chief executive officer in formulating management strategy and promoting R&D and business development. In order to reduce the dependence of the Group on the president & CEO and to provide him with assistance, the following officers play an important part in promoting the respective operations. Mutsumi Kimura (Executive Vice President) is responsible for business execution as a whole. Kiyozo Asada (Senior Managing Director) is responsible for the Genetic engineering research business, and Kazutoh Takesako (Senior Managing Director) is responsible for the Gene medicine business. (These titles and responsibilities are as of June 26, 2009.)

In order to build a management structure that is not overly dependent on these directors, the Group has strengthened its management organization by introducing an executive officer system, for example. However, the Group is likely to remain highly dependent on these directors for the time being. In these circumstances, if for any reason there were difficulties concerning the running of the Company's operations by these directors, it could affect the Group's business strategy and performance.

(2) Securing human resources

The Group is based on R&D, and technological innovation is steadily advancing in the biotechnology industry. Therefore, to maintain its competitive edge, the Group considers it essential to secure outstanding human resources with specialist knowledge and skills for R&D. In addition, a small number of personnel within the Group have experience in clinical development, and the Group is committed to securing these human resources and to in-house training. Nevertheless, the Group cannot rule out the possibility that it may not be able to secure human resources according to plan or that its personnel may leave the Company. In this event, the Group's business strategy and performance could be affected.

11. Intellectual property rights

In the biotechnology industry, in which the success of business depends highly on the success of R&D, the Group regards securing intellectual property rights, including patents, as the critical factor, and the Group protects technologies developed in-house with patent rights to prevent competitors from imitating them. The Group will continue to place the highest priority on applications for patents in R&D activities. However, not all of the applications are registered, and when a registered patent is made invalid for any reason, or expires, the Group's business strategies and performance may be affected.

In addition, the Group is aware that, in the biotechnology industry in which competition over R&D is continually growing, its patented technologies may be overridden at any time by a competitor's development that is better than its own. When a competitor achieves such R&D, it could affect the Group's business strategy and performance.

Moreover, the Group intends to acquire promising patent rights held by others, or acquire licenses for the patent rights, in the future expansion of its business. However, these strategies may incur huge expenses. In addition, there is a possibility that the Group may not be able to acquire licenses for necessary patent rights held by others, and this could affect its business strategy and performance.

As of March 31, 2009, the Company had 1,372 registered patents and patent applications in Japan and other countries. One of these was still under the name of Takara Shuzo as a result of the circumstances in which the Company was established as a spin-off company of Takara Shuzo (now Takara Holdings) on April 1, 2002. The right of this patent has been transferred to the Company, and the formalities to convert the patent holders' names to the Company are progressing steadily.

12. Product liability risks

All of the products that the Group handles are exposed to risks of compensation for product liabilities. If any defect is found during manufacturing, selling or clinical trial processes, or any health impairment is caused by a drug, medical device, food or research reagent, the Group may be subject to product liability claims, and this could affect the promotion of the Group's operations and its performance.

In addition, due to the nature of drugs and medical devices, it is usual practice to conduct a voluntary recall when any problem arises with them in view of the physical effects and damage, and any such recall may require time and entail huge expense.

Clinical research of gene therapy for a serious genetic disease called Severe Combined Immune Deficiency (SCID) carried out at Hospital Necker-Enfants Malades in France in 2000 is an example in which the therapeutic efficacy of gene therapy using the RetroNectin® method developed by the Company was confirmed. The patients with this disease have severe defects in their immune system, forcing them to live in transparent germ-free capsules separated from the outside world in order to prevent infections, and many die around the age of ten. The disease is caused by an abnormality of a gene called gamma-C. Therefore, the gamma-C gene was transferred into the hematopoietic stem cells of patients using the RetroNectin® method. Improvement in the immune system was reported in all of the ten or more cases. However, between 2002 and 2007, four of the patients undergoing post-treatment observation were found to have developed leukemia as a side effect. Further, it was reported in December 2007 that one of ten patients undergoing the same treatment in U.K. developed leukemia. Nevertheless, retrovirus vectors have been used in a large number of patients (exceeding several hundred) in other diseases, and the incidence of leukemia as a side effect and other safety issues have not been reported. Additionally, the Company and Hospital Necker-Enfants Malades research scientists have concluded that RetroNectin® is not the direct cause of the side effects. Gene therapy is a new and cutting-edge treatment, so it is important to promote development while carefully scrutinizing the results of clinical research. In addition, R&D may not proceed as planned in such cases, for instance, when it is necessary to obtain the informed consent of patients again after the occurrence of unexpected events, such as side effects; this could affect the Group's promotion of operations and its business performance. Furthermore, the negative image produced by these kinds of side effects could have an adverse impact on the reliability of the Group's clinical trials, and could affect the promotion of the Group's operations and its performance.

13. Legal regulations

(1) Genetic engineering research segment

R&D in the Genetic engineering research segment is regulated by relevant legislation, such as the Law Concerning the Prevention of Radiation Hazards due to Radioisotopes, etc., and the Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms; and the Group is committed to observe these laws and regulations. In addition, in the production and sale of research reagents, the Company is required to follow relevant legislation, such as the Poisonous and Deleterious Substance Control Law. However, research reagents are not drugs as defined by the Pharmaceutical Affairs Law, and therefore are not regulated by that law. Nevertheless, if these regulations are tightened or new regulations are introduced following the expansion of biotechnology industry, it could affect the Group's business.

(2) Gene medicine segment

The relevant laws and regulations such as the Pharmaceutical Affairs Law and Law Concerning the Conservation and Sustainable Use of Biological Diversity through Regulations on the Use of Living Modified Organisms regulate commercialization of the cell and gene therapies that the Company is aiming to accomplish, and the Group intends to comply with such laws and regulations. The relevant laws and regulations, such as the Pharmaceutical Affairs Law, are targeted at securing the quality, effectiveness and safety of drugs, quasi-drugs, cosmetics and medical devices, and the trading of these products require approval or permission from the relevant authorities. At present, it is uncertain whether or not the Group will be able to obtain permission or approval based on the Pharmaceutical Affairs Law for each individual project in which it is carrying out R&D in the Gene medicine segment.

In addition, it is possible that the requirement for approval under the Pharmaceutical Affairs Law and the Medical Practitioners Law will extend to new treatments such as adaptive cell immunotherapy. Such a tightening of the regulations, or the introduction of new regulations, could affect the Company's business strategy.

(3) AgriBio segment

In its health food business, the Group maintains business facilities, manages tools, containers and packages, and controls production processes and sales activities in accordance with the provisions of the Food Sanitation Law. The Group observes the Food Sanitation Law and takes extra care to manage food hygiene. Food hygiene matters are an unavoidable issue for a company that handles food, and the Group is committed to strengthening its system for the management of food hygiene in the future. However, if any problem should arise related to this issue, the business performance of the Group could be affected.

Beginning in October 2006, Takara Bio has been marketing and selling all its health foods through Takara Healthcare, a 100%-owned subsidiary of Takara Holdings. In selling health foods and functional food materials in bulk, the Company and Takara Healthcare are making every effort to comply with the sales methods based on the Specified Commercial Transaction Law, the Pharmaceutical Affairs Law, the Health Promotion Law and the Law for Preventing Unjustifiable Extra or Unexpected Benefit and Misleading Representation. The Group must also handle labeling and advertising in compliance with all the relevant laws. However, due to the nature of health foods in general, the Group cannot completely rule out a possibility of violating a provision on mandatory labeling requirements. If any violation occurs, the reliability of the Group could deteriorate, which may adversely affect the Group's business performance.

14. Risks of lawsuits, etc.

Yoshiharu Omura (hereinafter "Mr. Omura") of Hamamatsu Kenkoudo filed a suit against the Company at the Hamamatsu Branch, Shizuoka District Court, on October 23, 2008. Mr. Omura claims that the Company's actions in selling the health food "*Kanten Origotou*" from September 2004 constituted unfair competition, as specified in Article 2-1 of the Unfair Competition Prevention Law. Mr. Omura's suit claims compensation amounting to ¥55.4 million for damages he has suffered as a result of the Company's actions, plus interest. The Company has responded by asserting that the "*Kanten Origotou*" sold by Hamamatsu Kenkoudo does not satisfy the requirements such as common-recognition requirement necessary to establish that unfair competition has occurred. With regard to the Company's registered trademark for "*Kanten Origoto*," a composite trademark that includes a unique design, Mr. Omura had filed a claim with the Japan Patent Office requesting that the Company's trademark registration be annulled, based on Hamamatsu Kenkoudo's sales of "*Kanten Origoto*." However, on February 10, 2009, the Patent Office released its decision declining the aforementioned request by Mr. Omura. The Patent Office's decision stated that the markings of Hamamatsu Kenkoudo's product, "*Kanten Origoto*," could not be recognized as fulfilling the function of an identifying label of a particular business as its source. The Japan Patent Office's judgment also stated that the markings of Hamamatsu Kenkoudo's product are not widely recognized by trade participants or consumers (does not satisfy common-recognition requirements). The Company believes that this Japan Patent Office's decision vindicates the Company's assertion with regard to Mr. Omura's suit against the Company that the claims have no valid basis. The Company believes that its position with regard to this suit is favorable. However, in the event that the Company were to lose this lawsuit, there is the possibility that the Company would be required to pay the damages amount indicated above. If such a result were to occur, it may affect the Group's business activities relating to this product and have impacts on the Group's business strategy and performance.

GE Healthcare (hereinafter "GE") filed a suit against the Company's subsidiary, Clontech Laboratories, Inc. (hereinafter "Clontech"), in the State of California Superior Court—County of Santa Clara, in the United States on May 22, 2009, local time. Clontech and Life Technologies, Inc. (formerly Invitrogen Corporation), of the United States, reached a settlement in May 2007 of their patent litigation relating to reverse transcriptase (RT) products. Life Technologies also filed a suit against GE in March 2008 claiming infringement of patents by certain GE products. These claims related to patents involved in the litigation between Life Technologies and Clontech as well as other patents. Subsequently, Life Technologies and GE reached a settlement of this litigation. The GE products at the center of this litigation contained Clontech's RT. Based on this fact and in line with the settlement reached between GE and Life Technologies, GE has litigated against Clontech based on the assertion that Clontech has liability to indemnify GE for the settlement losses incurred by GE in its settlement with Life Technologies. In response, Clontech is defending the suit by asserting that the indemnification conditions stipulated in its supply contract with GE do not apply to losses incurred by GE in its settlement with Life Technologies.The Company believes that Clontech's position with regard to this suit is favorable. However, in the event that Clontech were to lose this lawsuit, Clontech may be required to pay compensation for losses to GE. If such a result were to occur, it may affect the Group's business activities relating to these products and have impacts on the Group's business strategy and performance.

As of June 26, 2009, there were no ongoing lawsuits with third parties relating to the Company's business, other than the case described above. However, the Group carries out wide-ranging R&D activities and business expansion. Therefore, there is no guarantee that the same kind of lawsuit as that described above will not arise again in the future. The Group is striving to enhance its internal control and strengthen the compliance system as it carries out business activities. However, in spite of all these efforts, there still remains a possibility of lawsuits being brought against the Group. The very fact that a lawsuit is brought against the Group and/or the results of such a lawsuit may seriously affect the Group's business performance.

Medca Japan Laboratory Co., Ltd. (hereinafter "Medca"), filed a lawsuit against the Company at the Tokyo District Court on August 17, 2006, seeking restitution through termination of an agreement between the Company and Medca relating to exclusive sales rights. However, on November 5, 2008, a settlement was reached between the Company and Medca. Owing to this settlement, the Company posted extraordinary expenses amounting to ¥128 million as settlement expenses, etc., in the fiscal year ended March 31, 2009.

In addition, if the Group's business partners or licensors are involved in disputes, the Group may no longer be able to sell the relevant products or may become involved in lawsuits. In such cases, the resolution of the problem could take a long time and may incur huge expenses, and the Group's business strategy and performance could be affected depending on the circumstances.

15. Dividend policy

As the consistent implementation of R&D activities in each business segment will continue to be important well into the future, the Group has a basic policy for the time being of endeavoring to enhance the retained earnings required to perform these activities. On the other hand, the Company recognizes the return of profits to shareholders as an important management issue, and it is considering the distribution of profits taking into account the business performance and financial position. The Company will make effective use of internal reserves in investment in R&D and capital expenditures at each Group company, in consideration of strengthening its financial structure and future expansion.

16. Application of funds

The business environment that surrounds the Group in the biotechnology industry is undergoing intense change, and the operating environment for the Group could be affected significantly by factors such as new technological innovation and new entrants into the industry. Therefore, there is no guarantee that the investment of the funds financed by public offering, etc., in capital expenditure and R&D currently being planned will produce the anticipated results. Consequently, the Group may fail to meet its revenue projections.

17. Stock option system

The Company operates a stock option system. The extraordinary general meeting of shareholders on September 19, 2003, approved a resolution on the grant of stock options based on the provisions in Articles 280-20, 280-21 and 280-27 of the Commercial Code of Japan. The Company believes that this system is effective in providing the Company's executives and employees with an incentive to improve business performance. However, when the stock options are exercised, there is a possibility that the value per share of the Company's stock will be diluted. Moreover, the Company is discussing to continue similar incentive plans in the future in order to secure highly talented human resources. Consequently, when new stock options are granted and exercised in the future, there is a possibility that the value per share of the Company's stock will be diluted.

18. Intangible fixed assets related to Clontech

Observing the U.S. Financial Accounting Standards Board's Standard Statement No. 142, Goodwill and Other Intangible Assets, the Company did not amortize the trademark rights obtained by Clontech Laboratories, a subsidiary of the Company. Looking ahead, the Company intends to determine whether any impairment loss is incurred once every year, as well as whenever an event takes place that suggests the possibility of an impairment loss. As of June 26, 2009, the Company has not incurred any impairment losses. However, if the Company determines that an impairment loss has been incurred, such an incurrence could adversely affect the Group's business performance. With regard to goodwill recognized by Clontech Laboratories, from the fiscal year ended March 31, 2009, the Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, May 17, 2006). Consequently, the Company is amortizing this goodwill amount using the straight-line method over a 20-year period.

Consolidated Balance Sheets

Takara Bio Inc. and Subsidiaries
March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2009	2008	2009
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 11,715**	¥ 15,469	**$ 119,540**
Marketable securities (Note 3)	**459**		**4,683**
Time deposits	**4,312**	495	**44,000**
Notes and accounts receivable:			
Trade	**4,814**	5,657	**49,122**
Associated companies		2	
Other	**179**	121	**1,826**
Allowance for doubtful accounts	**(46)**	(108)	**(469)**
Inventories (Note 4)	**3,287**	3,176	**33,540**
Deferred tax assets (Note 12)	**663**	308	**6,765**
Prepaid expenses and other current assets	**289**	294	**2,948**
Total current assets	**25,676**	25,417	**262,000**
PROPERTY, PLANT AND EQUIPMENT (Note 6)**:**			
Land	**4,613**	4,633	**47,071**
Buildings and structures	**8,149**	7,704	**83,153**
Machinery, equipment and vehicles	**6,936**	7,073	**70,775**
Tools, furniture and fixtures	**4,751**	4,863	**48,479**
Lease assets	**100**		**1,020**
Construction in progress	**40**	569	**408**
Total	**24,593**	24,844	**250,948**
Accumulated depreciation	**(12,838)**	(12,488)	**(131,000)**
Net property, plant and equipment	**11,754**	12,356	**119,938**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**164**	297	**1,673**
Investments in an associated company		106	
Goodwill (Note 5)	**1,950**	2,805	**19,897**
Long-term prepaid expenses	**1,448**	1,215	**14,775**
Customer contracts and related relationships	**710**	1,261	**7,244**
Deferred tax assets (Note 12)	**317**		**3,234**
Other assets	**1,095**	1,828	**11,173**
Total investments and other assets	**5,686**	7,515	**58,020**
TOTAL	**¥ 43,117**	¥ 45,289	**$ 439,969**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2009	2008	Thousands of U.S. Dollars (Note 1) 2009
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 6)	**¥ 82**	¥ 44	**$ 836**
Notes and accounts payable:			
Trade	**1,432**	1,221	**14,612**
Construction and other	**1,166**	1,096	**11,897**
Accrued income taxes	**146**	167	**1,489**
Accrued expenses	**684**	768	**6,979**
Other current liabilities	**276**	341	**2,816**
Total current liabilities	**3,789**	3,641	**38,663**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**571**	501	**5,826**
Liability for retirement benefits (Note 7)	**993**	922	**10,132**
Deferred tax liabilities (Note 12)	**356**	524	**3,632**
Other long-term liabilities	**256**	591	**2,612**
Total long-term liabilities	**2,178**	2,539	**22,224**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)			
EQUITY (Note 8)**:**			
Common stock, authorized, 1,000,000 shares; issued, 282,009 shares in 2009 and 281,829 shares in 2008	**9,040**	9,022	**92,244**
Capital surplus	**26,967**	26,949	**275,173**
Retained earnings	**2,364**	2,035	**24,122**
Unrealized gain on available-for-sale securities	**109**	289	**1,112**
Foreign currency translation adjustments	**(1,332)**	700	**(13,591)**
Total	**37,149**	38,997	**379,071**
Minority interests		110	
Total equity	**37,149**	39,108	**379,071**
TOTAL	**¥43,117**	¥45,289	**$439,969**

Consolidated Statements of Income

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
NET SALES (Note 17)	**¥18,913**	¥20,278	**$192,989**
COST OF SALES (Notes 7, 13 and 17)	**8,973**	10,055	**91,561**
Gross profit	**9,940**	10,223	**101,428**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 11, 13 and 17)	**9,513**	9,663	**97,071**
Operating income	**426**	560	**4,346**
OTHER INCOME (EXPENSES):			
Interest income	**190**	156	**1,938**
Foreign exchange gain		44	
Transportation expenses reimbursed from third parties	**56**	68	**571**
Gain resulting from change in ownership in a subsidiary		191	
Gain on sales of investments in an associated company	**7**	930	**71**
Reversal of allowance for doubtful accounts	**14**	38	**142**
Interest expense	**(11)**	(6)	**(112)**
Loss on sales and disposals of property, plant and equipment	**(62)**	(143)	**(632)**
Equity in losses of associated companies	**(19)**	(35)	**(193)**
Loss on valuation of inventories	**(64)**		**(653)**
Foreign exchange loss	**(333)**		**(3,397)**
Litigation expenses	**(128)**	(1,172)	**(1,306)**
Other, net	**23**	40	**234**
Other (expenses) income, net	**(326)**	111	**(3,326)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**99**	671	**1,010**
INCOME TAXES (Note 12)**:**			
Current	**310**	394	**3,163**
Refundable		(148)	
Deferred	**(856)**	(263)	**(8,734)**
Total income taxes	**(545)**	(17)	**(5,561)**
MINORITY INTERESTS IN NET INCOME	**3**	9	**30**
NET INCOME	**¥ 642**	¥ 679	**$ 6,551**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.q and 15)**:**			
Basic net income	**¥2,278.57**	¥2,412.91	**$23.25**
Diluted net income	**2,273.96**	2,392.25	**23.20**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2009 and 2008

	Thousands	Millions of Yen								
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2007	281	¥8,976	¥26,904	¥1,358		¥ 1,211	¥ (3)	¥38,447	¥ 165	¥ 38,613
Net income				679				679		679
Exercise of stock options (Notes 8 and 9)	1	45	45					90		90
Disposal of treasury stock				(1)			3	1		1
Net change in the year					¥ 289	(510)		(221)	(54)	(276)
BALANCE, MARCH 31, 2008	282	9,022	26,949	2,035	289	700	Nil	38,997	110	39,108
Adjustment of retained earnings due to an adoption of PITF No.18 (Note 2. b)				**(313)**				**(313)**		**(313)**
Net income				**642**				**642**		**642**
Exercise of stock options (Notes 8 and 9)	**0**	**18**	**18**					**36**		**36**
Net change in the year					**(179)**	**(2,033)**		**(2,213)**	**(110)**	**(2,323)**
BALANCE, MARCH 31, 2009	**282**	**¥9,040**	**¥26,967**	**¥2,364**	**¥ 109**	**¥(1,332)**	**¥ Nil**	**¥37,149**	**¥ Nil**	**¥37,149**

	Thousands of U.S. Dollars (Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2008	$92,061	$274,989	$20,765	$ 2,948	$ 7,142	$ Nil	$397,928	$1,122	$399,061
Adjustment of retained earnings due to an adoption of PITF No.18 (Note 2. b)			**(3,193)**				**(3,193)**		**(3,193)**
Net income			**6,551**				**6,551**		**6,551**
Exercise of stock options (Notes 8 and 9)	**183**	**183**					**367**		**367**
Net change in the year				**(1,826)**	**(20,744)**		**(22,581)**	**(1,122)**	**(23,704)**
BALANCE, MARCH 31, 2009	**$92,244**	**$275,173**	**$24,122**	**$ 1,112**	**$(13,591)**	**$ Nil**	**$379,071**	**$ Nil**	**$379,071**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 99**	¥ 671	**$ 1,010**
Adjustments for:			
Income taxes paid	**(369)**	(223)	**(3,765)**
Depreciation and amortization	**2,075**	2,166	**21,173**
Provision for retirement benefits	**67**	33	**683**
Reversal of allowance for doubtful accounts	**(44)**	(164)	**(448)**
Increase (decrease) in allowance for bonuses to employees	**18**	(12)	**183**
Loss on sales and disposals of property, plant and equipment	**62**	143	**632**
Gain on sales of investments in an associated company		(930)	
Gain resulting from change in ownership in a subsidiary		(191)	
Equity in losses of associated companies	**19**	35	**193**
Changes in assets and liabilities:			
Decrease in trade receivables	**500**	98	**5,102**
(Increase) decrease in inventories	**(383)**	260	**(3,908)**
(Decrease) increase in trade payables	**402**	(359)	**4,102**
Other, net	**(181)**	491	**(1,846)**
Total adjustments	**2,166**	1,346	**22,102**
Net cash provided by operating activities	**2,265**	2,018	**23,112**
INVESTING ACTIVITIES:			
Payments for time deposits	**(4,469)**	(643)	**(45,602)**
Proceeds from sales of property, plant and equipment		717	
Proceeds from sales of marketable securities	**364**		**3,714**
Proceeds from sales of investments in associated companies	**75**	2,328	**765**
Purchases of property, plant and equipment	**(874)**	(1,555)	**(8,918)**
Proceeds from time deposits	**459**	216	**4,683**
Purchases of investments in subsidiaries and associated companies	**(23)**	(105)	**(234)**
Purchases of other property	**(179)**	(278)	**(1,826)**
Purchases of marketable securities	**(886)**		**(9,040)**
Other, net	**23**	(2)	**234**
Net cash (used in) provided by investing activities	**(5,511)**	678	**(56,234)**
FINANCING ACTIVITIES:			
Repayments of long-term debt	**(70)**	(44)	**(714)**
Proceeds from issuance of common stock	**35**	88	**357**
Proceeds from sale and leaseback transaction	**18**		**183**
Proceeds from sales of treasury stock		1	
Purchase of treasury stock of consolidated subsidiaries	**(151)**		**(1,540)**
Net cash (used in) provided by financing activities	**(168)**	45	**(1,714)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(339)**	(28)	**(3,459)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,753)**	2,713	**(38,295)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**15,469**	12,755	**157,846**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥11,715**	¥15,469	**$119,540**

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2009 and 2008

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2008 consolidated financial statements to conform to the classifications used in 2009.

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 less than a million yen are rounded down to the nearest million yen, except for per share data and stock option exercise price and stock price in Note 9. 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 ¥98 to $1, the approximate rate of exchange at March 31, 2009. U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data and stock option exercise price and stock price in Note 9. 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, 2009 include the accounts of the Company and all nine (ten in 2008) subsidiaries (together, the "Group"). Takara Bio Cancer Immunotherapy Inc. was under liquidation proceedings at March 31, 2009. Because distribution of residual property was completed on March 12, 2009, Takara Bio Cancer Immunotherapy Inc. was removed from the scope of consolidation; however, the results of its operation were included in the consolidated statement of income for the year ended March 31, 2009.

Under the control or influence concept, those companies in which the Group, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in an associated company, Pulmuone-Takara Agri Co., Ltd., was accounted for by the equity method for the year ended March 31, 2008. The Company sold all of its shares of Pulmuone-Takara Agri Co., Ltd. during the year ended March 31, 2009. Pulmuone-Takara Agri Co., Ltd. was accounted for by the equity method while it was an associated company.

The difference of the cost of acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill and amortized on a straight-line basis principally over a period of five years. Goodwill recorded by Clontech Laboratories, Inc., the Company's consolidated subsidiary, is amortized on a straight-line basis over a period of 20 years in accordance with Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," issued by the Accounting Standards Board of Japan (the "ASBJ") as decribed in Note 2.b.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting

policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. The effect of this change was to decrease operating income by ¥125 million ($1,275 thousand) and income before income taxes and minority interests by ¥125 million ($1,275 thousand). In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied, and the effect was to decrease the beginning balance of retained earnings by ¥313 million ($3,193 thousand).

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

d. Marketable and Investment Securities—The Group's investment securities consist of marketable and non-marketable available-for-sale securities. 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. Non-marketable 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.

e. Inventories—Prior to April 1, 2008, inventories were stated principally at cost, determined by the average method. In July 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories," which was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

The Company applied the new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to increase operating income by ¥10 million ($102 thousand) and to decrease income before income taxes and minority interests by ¥53 million ($540 thousand).

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets, except that the straight-line method is applied to property, plant and equipment located in Dragon Genomics Center. Subsidiaries compute depreciation principally by the straight-line method. The range of useful lives is principally from 3 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.

g. Goodwill—Clontech Laboratories, Inc., the Company's consolidated subsidiary located in the United States of America, records goodwill according to Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets." Goodwill is tested for impairment at least annually. (See Note 2. a.)

h. 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 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. No impairment loss was recognized in 2009 and 2008.

i. Retirement and Pension Plans—The employees' retirement benefits programs of the Company and certain subsidiaries consist of an unfunded lump-sum severance payment plan and a non-contributory trusteed pension plan as described in Note 7.

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

j. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

k. Research and Development Costs—Research and development costs are charged to income as incurred.

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

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

The Company and domestic subsidiaries applied the revised accounting standard effective April 1, 2008. Lease assets related to finance lease transactions without title transfer are depreciated on a straight-line basis over the leased periods as their useful lives and with no residual value. In addition, the Company accounted for leases which existed at March 31, 2008 ("the transition date") and do not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change to income before income taxes and minority interests was immaterial.

All other leases are accounted for as operating leases.

m. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n. Foreign Currency Transaction—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

o. 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 less those attributable to minority interests were shown as "Foreign currency translation adjustments" in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

p. Derivative Financial Instruments—The Group uses derivative financial instruments, such as foreign currency forward contracts, as a means of hedging exposure to foreign currency risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income, and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in collection of exported finished products and merchandise and payments of royalties. Receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

q. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

r. New Accounting Pronouncements

Business Combinations—On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No.21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to all business combinations to be accounted for by the purchase method.

(2) The current accounting standard requires research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired by a business combination is capitalized as an intangible asset.

(3) The current accounting standard requires a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

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

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

On December 26, 2008, the ASBJ issued ASBJ Statement No.16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included.

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

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No.21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash

flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current:			
Certificate of deposits	**¥459**		**$4,683**
Non-current:			
Marketable equity securities	**¥162**	¥289	**$1,653**
Non-marketable equity securities	**2**	8	**20**
Total	**¥164**	¥297	**$1,673**

The carrying amounts and aggregate fair values of investment securities at March 31, 2009 and 2008 were as follows:

	Millions of Yen		
March 31, 2009	Cost	Unrealized Gains	Fair Value
Securities classified as:			
Available-for-sale—			
Equity securities		¥162	¥162
March 31, 2008			
Securities classified as:			
Available-for-sale—			
Equity securities		¥289	¥289

	Thousands of U.S. Dollars		
March 31, 2009	Cost	Unrealized Gains	Fair Value
Securities classified as:			
Available-for-sale—			
Equity securities		**$1,653**	**$1,653**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Available-for-sale—			
Certificate of deposits	**¥459**		**$4,683**
Equity securities	**2**	¥8	**20**
Total	**¥461**	¥8	**$4,704**

4. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Finished products and merchandise	**¥2,255**	¥1,999	**$23,010**
Work in process	**274**	518	**2,795**
Raw materials and supplies	**757**	658	**7,724**
Total	**¥3,287**	¥3,176	**$33,540**

5. GOODWILL

Goodwill at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Goodwill on purchase of a specific business, etc.	**¥1,822**	¥2,743	**$18,591**
Consolidation goodwill	**127**	62	**1,295**
Total	**¥1,950**	¥2,805	**$19,897**

6. LONG-TERM DEBT

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Loans principally from banks, due serially to January 2022 with interest rates ranging from 0% to 1.75% in 2009 and 2008:			
Collateralized	**¥249**	¥266	**$2,540**
Unsecured	**251**	279	**2,561**
Obligation under finance leases	**152**		**1,551**
Total	**654**	546	**6,673**
Less current portion	**82**	44	**836**
Long-term debt, less current portion	**¥571**	¥501	**$5,826**

Annual maturities of long-term debt as of March 31, 2009 for the next five years and thereafter were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 82	$ 836
2011	90	918
2012	81	826
2013	61	622
2014	65	663
2015 and thereafter	272	2,775
Total	¥654	$6,673

At March 31, 2009, buildings and structures of ¥436 million ($4,448 thousand) and land of ¥250 million ($2,551 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥249 million ($2,540 thousand).

7. RETIREMENT AND PENSION PLANS

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

Under most circumstances, employees terminating their employment are entitled to certain lump-sum severance payments based on their rate of pay at the time of termination, length of service and certain other factors. In most circumstances, if the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, employees are entitled to greater payments than in the case of voluntary termination.

In addition, the Company has non-contributory trusteed pension plans covering all employees. Under the plans, employees terminating their employment are, in most circumstances, entitled to pension payments based on their rates of pay at the time of termination and length of service.

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	**¥1,446**	¥1,228	**$14,755**
Fair value of plan assets	**(349)**	(373)	**(3,561)**
Unrecognized actuarial loss	**(157)**	28	**(1,602)**
Prepaid pension cost	**54**	38	**551**
Net liability	**¥ 993**	¥ 922	**$10,132**

The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	**¥126**	¥130	**$1,285**
Interest cost	**19**	19	**193**
Expected return on plan assets	**(11)**	(12)	**(112)**
Recognized actuarial loss	**1**	11	**10**
Net periodic benefit costs	**¥136**	¥149	**$1,387**

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Discount rate	**1.6%**	1.6%
Expected rate of return on plan assets	**3.0%**	3.0%
Recognition period of actuarial gain/loss	**10 years**	10 years

8. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

For the year ended March 31, 2008, the Company issued 452 shares of common stock upon exercise of 46 stock options at the price of ¥200,000 per share. The amount of ¥45 million was credited to common stock and the remaining amount of ¥45 million was credited to additional paid-in capital.

For the year ended March 31, 2009, the Company issued 180 shares of common stock upon exercise of 18 stock options at the price of ¥200,000 ($2,040.00) per share. The amount of ¥18 million ($183 thousand) was credited to common stock and the remaining amount of ¥18 million ($183 thousand) was credited to additional paid-in capital.

9. STOCK OPTIONS

The stock options outstanding at March 31, 2009 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
The First Stock Option	8 directors 273 employees	8,500 shares	2003.9.19	¥200,000 ($2,040.00)	From September 20, 2005 to September 20, 2013
The Second Stock Option	8 directors 3 corporate auditors 120 employees	3,220 shares	2003.9.19	¥200,000 ($2,040.00)	From April 1, 2004 to September 20, 2013
The Third Stock Option	3 directors 28 employees	500 shares	2004.5.17	¥200,000 ($2,040.00)	From September 20, 2005 to September 20, 2013
The Fourth Stock Option	9 directors 3 corporate auditors 8 employees	780 shares	2004.5.17	¥200,000 ($2,040.00)	From April 1, 2004 to September 20, 2013

The stock option activity is as follows:

	Shares			
	The First Stock Option	The Second Stock Option	The Third Stock Option	The Fourth Stock Option
For the year ended March 31, 2008				
Non-vested				
March 31, 2007—Outstanding				
Granted				
Canceled				
Vested				
March 31, 2008—Outstanding				
Vested				
March 31, 2007—Outstanding	4,490	1,540	150	420
Vested				
Exercised	(340)	(70)	(20)	(30)
Canceled	(20)	(10)		
March 31, 2008—Outstanding	4,130	1,460	130	390
For the year ended March 31, 2009				
Non-vested				
March 31, 2008—Outstanding				
Granted				
Canceled				
Vested				
March 31, 2009—Outstanding				
Vested				
March 31, 2007—Outstanding	**4,130**	**1,460**	**130**	**390**
Vested				
Exercised	**(170)**		**(10)**	
Canceled	**(10)**	**(20**)		
March 31, 2009—Outstanding	**3,950**	**1,440**	**120**	**390**
Exercise price	**¥200,000** **($2,040.00)**	**¥200,000** **($2,040.00)**	**¥200,000** **($2,040.00)**	**¥200,000** **($2,040.00)**
Average stock price at exercise	**¥258,920** **($2,642.04)**		**¥268,000** **($2,734.69)**	

10. RELATED PARTY TRANSACTIONS

In connection with the stock option plans as described in Note 9, the Company issued to its directors and corporate auditors 60 shares (220 shares to its directors and corporate auditors in 2008) of common stock upon exercise of 6 (22 in 2008) stock options at the price of ¥200,000 ($2,040.00) per share. The total transaction amounts for the years ended March 31, 2009 and 2008 were ¥12 million ($122 thousand) and ¥44 million, respectively.

The Company applied ASBJ Statement No.11 "Accounting Standard for Related Party Disclosures" and its implementation Guidance—ASBJ Guidance No. 13 "Guidance on Accounting Standard for Related Party Disclosures" effective April 1, 2008.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,976 million ($30,367 thousand) and ¥3,296 million for the years ended March 31, 2009 and 2008, respectively.

12. 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 40% for the years ended March 31, 2009 and 2008. Overseas 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, 2009 and 2008, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current deferred tax assets:			
Inventories	**¥285**	¥ 328	**$2,908**
Accrued bonuses	**140**	96	**1,428**
Unrealized profit on sales of inventories	**159**	22	**1,622**
Other	**130**	175	**1,326**
Less valuation allowance	**(39)**	(271)	**(397)**
Total	**¥677**	¥ 350	**$6,908**
Current deferred tax liabilities	**¥ 14**	¥ 41	**$ 142**
Net current deferred tax assets	**¥663**	¥ 308	**$6,765**

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Non-current deferred tax assets:			
Retirement benefits	**¥ 396**	¥ 368	**$ 4,040**
Investment securities		15	
Depreciation	**241**	226	**2,459**
Foreign tax carryforwards	**559**		**5,704**
Foreign source tax		133	
Tax loss carryforwards	**115**	80	**1,173**
Other	**92**	220	**938**
Less valuation allowance	**(731)**	(690)	**(7,459)**
Total	**¥ 674**	¥ 354	**$ 6,877**
Non-current deferred tax liabilities:			
Goodwill	**¥ 571**	¥ 878	**$ 5,826**
Other	**141**		**1,438**
Total	**¥ 713**	¥ 878	**$ 3,234**
Net non-current deferred tax assets	**¥ 317**	¥ Nil	**$ 3,632**
Net non-current deferred tax liabilities	**¥ 356**	¥ 524	**$ 3,632**

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, 2009 and 2008 was as follows:

	2009	2008
Normal effective statutory tax rate in Japan	**40.0%**	40.0%
Expenses not deductible for income tax purposes	**8.4**	1.1
Decrease in valuation allowance	**(695.6)**	(100.9)
Per capita rate of local tax	**15.5**	2.8
Tax rate difference of subsidiaries	**(143.0)**	4.9
Elimination in consolidation	**108.8**	50.1
Amortization of goodwill	**60.1**	
Undistributed profit of foreign subsidiary	**72.2**	
Other, net	**(14.1)**	(0.6)
Actual effective tax rate	**(547.7)%**	(2.6)%

At March 31, 2009, certain subsidiaries have tax loss carryforwards aggregating approximately ¥286 million ($2,918 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010		
2011	¥ 1	$ 10
2012		
2013		
2014	64	653
2015	22	224
2016	197	2,010
Total	¥286	$2,918

13. LEASES

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

Total rental expense for the years ended March 31, 2009 and 2008 was ¥275 million ($2,806 thousand) and ¥314 million, respectively, including ¥12 million ($122 thousand) and ¥28 million of lease payments under finance leases, respectively.

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

	Millions of Yen		
	2009		
	Machinery and Vehicles	Furniture and Fixtures	Total
Acquisition cost	**¥24**	**¥45**	**¥70**
Accumulated depreciation	**8**	**40**	**48**
Net leased property	**¥16**	**¥ 5**	**¥21**

	Millions of Yen		
	2008		
	Machinery and Vehicles	Furniture and Fixtures	Total
Acquisition cost	¥30	¥199	¥230
Accumulated depreciation	9	106	115
Net leased property	¥20	¥ 93	¥114

	Thousands of U.S. Dollars		
	2009		
	Machinery and Vehicles	Furniture and Fixtures	Total
Acquisition cost	**$244**	**$459**	**$714**
Accumulated depreciation	**81**	**408**	**489**
Net leased property	**$163**	**$ 51**	**$214**

Obligations under finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	**¥ 8**	¥ 87	**$ 81**
Due after one year	**12**	27	**122**
Total	**¥21**	¥114	**$214**

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

Depreciation expense was ¥12 million ($122 thousand) and ¥28 million for the years ended March 31, 2009 and 2008, respectively.

14. DERIVATIVES

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

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged 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, purpose, credit limit amount, evaluation of the counterparties and reporting procedures.

Foreign currency forward contracts, which qualify for hedge accounting are excluded from the disclosure of market value information.

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2009 and 2008 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2009:				
Basic EPS				
Net income available to common shareholders	**¥642**	**281**	**2,278.57**	**$23.25**
Effect of Dilutive Securities				
Warrants		**0**		
Diluted EPS				
Net income for computation	**¥642**	**282**	**2,273.96**	**$23.20**
For the year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders	¥679	281	¥2,412.91	
Effect of Dilutive Securities				
Warrants		2		
Diluted EPS				
Net income for computation	¥679	284	¥2,392.25	

16. SUBSEQUENT EVENTS

From March 23, 2009, the Company had been going through a tax investigation by the Osaka Regional Tax Bureau. Based on the subject of the investigation and other information, the Company estimated additional income taxes at that time and recorded accrued income taxes as of March 31, 2009. After due consultation with the Osaka Regional Tax Bureau, the Company filed a revised corporate tax return on May 25, 2009. As a result, gain on reversal of accrued income taxes of ¥60 million ($612 thousand) will be recorded for the first quarter ending June 30, 2009.

17. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2009 and 2008 is as follows:

(1) Industry Segments

a. Sales and Operating Income

Millions of Yen

	2009				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations/ Corporate	Consolidated
Sales to customers	**¥16,733**	**¥ 165**	**¥2,014**		**¥18,913**
Intersegment sales	**4**		**0**	**¥ (4)**	
Total sales	**16,737**	**165**	**2,015**	**(4)**	**18,913**
Operating expenses	**12,918**	**1,406**	**2,590**	**1,571**	**18,487**
Operating income (loss)	**¥ 3,819**	**¥(1,240)**	**¥ (575)**	**¥(1,576)**	**¥ 426**

Millions of Yen

	2008				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations/ Corporate	Consolidated
Sales to customers	¥18,080	¥ 229	¥1,968		¥20,278
Intersegment sales				¥ (0)	
Total sales	18,080	229	1,968	(0)	20,278
Operating expenses	13,912	1,449	2,750	1,606	19,718
Operating income (loss)	¥ 4,168	¥(1,219)	¥ (782)	¥(1,607)	¥ 560

Thousands of U.S. Dollars

	2009				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations/ Corporate	Consolidated
Sales to customers	**$170,744**	**$ 1,683**	**$20,551**		**$192,989**
Intersegment sales	**40**			**$ (40)**	
Total sales	**170,785**	**1,683**	**20,561**	**(40)**	**192,989**
Operating expenses	**131,816**	**14,346**	**26,428**	**$ 16,030**	**188,642**
Operating income (loss)	**$ 38,969**	**$(12,653)**	**$ (5,867)**	**$(16,081)**	**$ 4,346**

b. Assets, Depreciation and Capital Expenditures

Millions of Yen

	2009				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations/ Corporate	Consolidated
Assets	**¥20,776**	**¥1,975**	**¥5,611**	**¥14,754**	**¥43,117**
Depreciation	**765**	**110**	**381**	**88**	**1,346**
Capital expenditures	**678**	**171**	**172**	**37**	**1,059**

Millions of Yen

	2008				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations/ Corporate	Consolidated
Assets	¥24,190	¥1,672	¥6,038	¥13,388	¥45,289
Depreciation	827	118	440	42	1,429
Capital expenditures	1,173	19	144	167	1,505

Thousands of U.S. Dollars

	2009				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations/ Corporate	Consolidated
Assets	**$212,000**	**$20,153**	**$57,255**	**$150,551**	**$439,969**
Depreciation	**7,806**	**1,122**	**3,887**	**897**	**13,734**
Capital expenditures	**6,918**	**1,744**	**1,755**	**377**	**10,806**

Notes:

1. The Company operates in the following industries:
   The industry of Genetic Engineering Research consists of the businesses of research reagents (for genetic engineering research, protein engineering research, cell biology research and glycobiology research), research instruments and service business.
   The industry of Gene Medicine consists of the businesses of medical devices, gene therapy related products and service business.
   The industry of AgriBio consists of the businesses of mushrooms, technical training of mushroom cultivation, ashitaba (a unique celery-like vegetable of the Angelica family), agar, health food and cosmetics.
2. Eliminations/Corporate includes unallocated operating expenses of ¥1,576 million ($16,081 thousand) and ¥1,607 million for the years ended March 31, 2009 and 2008, respectively, consisting principally of fundamental research and development expenses and administrative expenses incurred by the administrative and accounting departments of the Company.
3. Eliminations/Corporate includes corporate assets of ¥14,754 million ($150,551 thousand) and ¥13,388 million for the years ended March 31, 2009 and 2008, respectively, consisting principally of assets attributed to fundamental research and development, surplus funds held by the Company and assets attributed to the Company's administration departments.
4. As discussed in Note 2.b., effective April 1, 2008, the Group applied PITF No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The effect of this change was to decrease operating income of "Genetic Engineering Research" by ¥125 million ($1,275 thousand) for the year ended March 31, 2009.
5. As discussed in Note 2.e., effective April 1, 2008, the Company applied ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories." The effect of this change was to decrease operating income of "Genetic Engineering Research" by ¥7 million ($71 thousand), and increase operating income of "AgriBio" by ¥18 million ($183 thousand) for the year ended March 31, 2009.

(2) Geographical Segments

Millions of Yen

	2009					
	Japan	Asia	North America	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**¥11,797**	**¥1,774**	**¥3,526**	**¥1,816**		**¥18,913**
Intersegment sales	**2,090**	**1,233**	**1,319**		**¥ (4,643)**	
Total sales	**13,887**	**3,007**	**4,845**	**1,816**	**(4,643)**	**18,913**
Operating expenses	**12,257**	**2,368**	**5,174**	**1,635**	**(2,949)**	**18,487**
Operating income (loss)	**¥ 1,630**	**¥ 639**	**¥ (328)**	**¥ 180**	**¥ (1,694)**	**¥ 426**
Assets	**¥16,901**	**¥5,057**	**¥6,523**	**¥ 893**	**¥13,742**	**¥43,117**

Millions of Yen

	2008					
	Japan	Asia	North America	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥12,596	¥1,715	¥4,186	¥ 1,779		¥20,278
Intersegment sales	1,680	1,060	1,670		¥ (4,412)	
Total sales	14,277	2,776	5,857	1,779	(4,412)	20,278
Operating expenses	12,794	2,255	5,708	1,617	(2,656)	19,718
Operating income	¥ 1,483	¥ 520	¥ 149	¥ 162	¥ (1,755)	¥ 560
Assets	¥17,658	¥5,422	¥8,972	¥ 1,072	¥12,163	¥45,289

Thousands of U.S. Dollars

	2009					
	Japan	Asia	North America	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**$120,377**	**$18,102**	**$35,979**	**$18,530**		**$192,989**
Intersegment sales	**21,326**	**12,581**	**13,459**		**$ (47,377)**	
Total sales	**141,704**	**30,683**	**49,438**	**18,530**	**(47,377)**	**192,989**
Operating expenses	**125,071**	**24,163**	**52,795**	**16,683**	**(30,091)**	**188,642**
Operating income (loss)	**$ 16,632**	**$ 6,520**	**$ (3,346)**	**$ 1,836**	**$ (17,285)**	**$ 4,346**
Assets	**$172,459**	**$51,602**	**$66,561**	**$ 9,112**	**$140,224**	**$439,969**

Notes:

1. The countries belonging to those other than Japan are as follows:
   Asia..... China and South Korea
   North America ..... United States of America
   Europe ..... France
2. Eliminations/Corporate includes unallocated operating expenses of ¥1,576 million ($16,081thousand) and ¥1,607 million for the years ended March 31, 2009 and 2008, respectively, consisting principally of fundamental research and development expenses and administrative expenses incurred by the administrative and accounting departments of the Company.
3. Eliminations/Corporate includes corporate assets of ¥14,754 million ($150,551 thousand) and ¥13,388 million for the years ended March 31, 2009 and 2008, respectively, consisting principally of assets attributed to fundamental research and development, surplus funds held by the Company and assets attributed to the Company's administrative departments.
4. As discussed in Note 2.b., effective April 1, 2008, the Group applied PITF No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The effect of this change was to decrease operating income of "North America" and "Europe" by ¥124 million ($1,265 thousand) and ¥1 million ($10 thousand), respectively.
5. As discussed in Note 2.e., effective April 1, 2008, the Group applied ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories." The effect of this change was to increase operating income of "Japan" by ¥10 million ($102 thousand) for the year ended March 31, 2009.

(3) Sales to Foreign Customers

	Millions of Yen				
	Asia	North America	Europe	Other	Total
2009	**¥2,126**	**¥3,707**	**¥1,850**	**¥20**	**¥7,705**
2008	¥2,084	¥4,550	¥1,819	¥28	¥8,483

	Thousands of U.S. Dollars				
	Asia	North America	Europe	Other	Total
2009	**$21,693**	**$37,826**	**$18,877**	**$204**	**$78,622**

Note:
The countries belonging to the classifications above are as follows:

Asia	China, South Korea, Taiwan, etc.
North America	United States of America and Canada
Europe	France, Germany, United Kingdom, etc.
Other	Countries in Oceania, Africa and South America

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Takara Bio Inc.:

We have audited the accompanying consolidated balance sheets of Takara Bio Inc. (the "Company") and subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Takara Bio Inc. and subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.e. and Note 2.b., effective April 1, 2008, the consolidated financial statements have been prepared in accordance with the new accounting standards for measurement of inventories and Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" issued by Accounting Standards Board of Japan, respectively.

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

Deloitte Touche Tohmatsu

June 11, 2009

Member of
Deloitte Touche Tohmatsu

Investor Information

Corporate Data (As of March 31, 2009)

Trade Name	Takara Bio Inc.
Head Office	Seta 3-4-1, Otsu, Shiga 520-2193, Japan Telephone: +81-77-543-7212
Established	April 1, 2002
Issued Capital	¥9,040 million
Number of Employees of Takara Bio Group	1,029
URL	http://www.takara-bio.com

Main Offices

	Location
Head Office	Seta 3-4-1, Otsu, Shiga 520-2193, Japan
Kusatsu Office	Noji-cho 2257, Kusatsu, Shiga 525-0055, Japan
Dragon Genomics Center	Sakura-cho 7870-15, Yokkaichi, Mie 512-1211, Japan
Sales Department	Nihonbashi 2-15-10, Chuo-ku, Tokyo 103-8232, Japan
Kusu Factory	Minamigomizuka 1350-2, Kusu-cho, Yokkaichi, Mie 510-0104, Japan
Manufacturing Department	Karijuku 695-4, Osaki-cho, Soh-gun, Kagoshima 899-7305, Japan

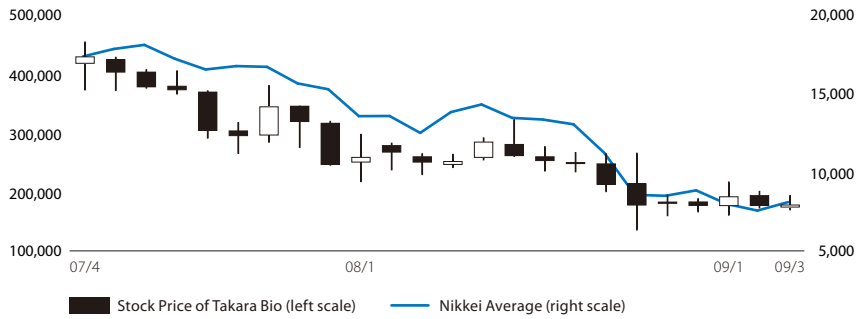
Consolidated Subsidiaries

Name	Location	Issued Capital and Subscription	Line of Business
Takara Biotechnology (Dalian) Co., Ltd.	Dalian, People's Republic of China	¥2,350 million	Genetic engineering research
Takara Korea Biomedical Inc.	Seoul, Korea	W3,860 million	Genetic engineering research
Takara Bio USA Holdings Inc.	Mountain View, U.S.A.	US$70,857 thousand	Genetic engineering research
Clontech Laboratories, Inc.	Mountain View, U.S.A.	US$83 thousand	Genetic engineering research
Takara Bio Europe S.A.S.	Saint-Germain-en-Laye, France	EUR600 thousand	Genetic engineering research
Takara Biomedical Technology (Beijing) Co., Ltd.	Beijing, People's Republic of China	¥800 million	Gene medicine
Mizuho Nourin Co., Ltd.	Kyotanba-cho, Funai-gun, Kyoto, Japan	¥10 million	AgriBio
Takara Bio Farming Center Inc.	Osaki-cho, Soh-gun, Kagoshima, Japan	¥3 million	AgriBio
KINOKO CENTER KIN INC.	Okinawa, Japan	¥5 million	AgriBio

Investor Information (As of March 31, 2009)

Common Stock		
Authorized Shares	1,000,000 shares	
Issued and Outstanding	282,009 shares	
Number of Shareholders	18,229	
Major Shareholder	Takara Holdings Inc. (70.9% equity owned)	
Stock Listing	Tokyo Stock Exchange Mothers (securities code number: 4974)	
Annual Meeting of Shareholders	Every June	
Record Date	• Record date for shareholders entitled to vote	March 31
	• Record date for shareholders entitled to receive payment of dividends	March 31
	• Record date for shareholders entitled to receive payment of interim dividends	September 30
	• Other record date (if necessary)	A date posted in advance
Transfer Agent and Registrar	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo, Japan	
Transfer Agent Office	Mizuho Trust & Banking Co., Ltd., Osaka Branch, Stock Agency Transfer Department, 11-16, Sonezaki 2-chome, Kita-ku, Osaka, Japan	
Inquiries to Transfer Agent and Registrar	Mizuho Trust & Banking Co., Ltd., Stock Agency Transfer Department, 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-8507, Japan, Telephone: 0120-288-324 (toll free, within Japan only)	

Stock Price Range (Yen)



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