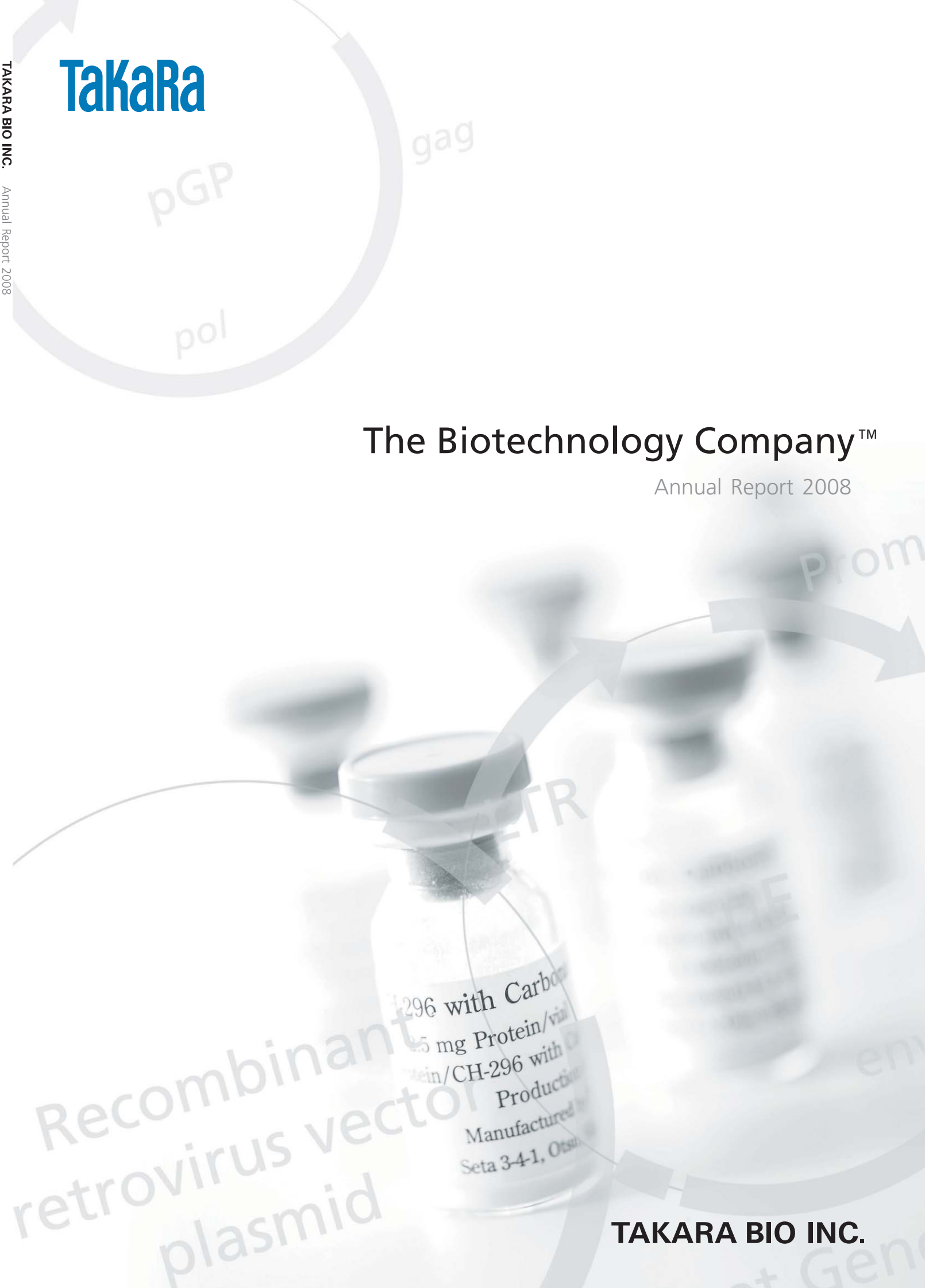
TAKARA BIO INC. Annual Report 2008

TaKaRa

The Biotechnology Company™

Annual Report 2008



TAKARA BIO INC.

Takara Bio Inc. contributes to the health of mankind by making revolutionary biomedical technology, such as gene therapy, a reality.

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 cultivation of Bunashimeji mushrooms in 1970, we promote a mushroom business that is centered on technologies for the large-scale cultivation of mushrooms. We also offer customers such food materials as kombu (kelp) "fucoidan," agar (vegetable gelatin) "agaoligo," Ashitaba (angelica herb) "chalcone" and mushroom "terpene," whose functionality has been proven through the use of biotechnology. In the Gene medicine segment, we are striving to develop and commercialize cutting-edge medical technologies, such as gene and cell 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 2008, 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 in order to develop gene medicine technologies, thereby expanding our future earnings.

Future growth businesses

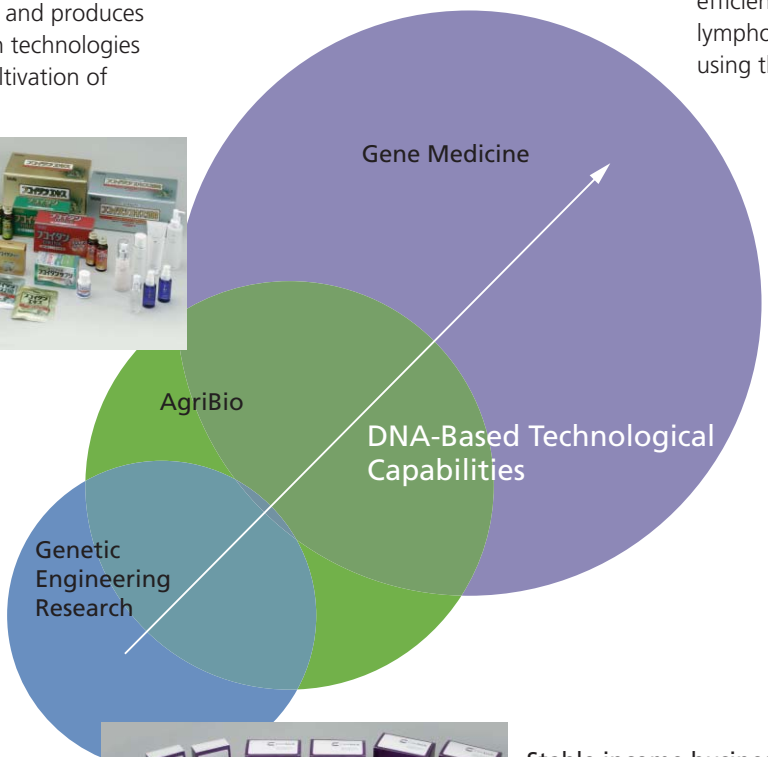
Gene medicine segment

This business segment is commercializing cell and gene therapies centered on a highly efficient gene transduction method and a lymphocyte expansion-culture system, both using the RetroNectin® reagent.

Secondary income businesses

AgriBio segment

This business segment produces and sells health food products that make use of biotechnology and produces mushrooms based on technologies for the large-scale cultivation of mushrooms.



Stable income businesses

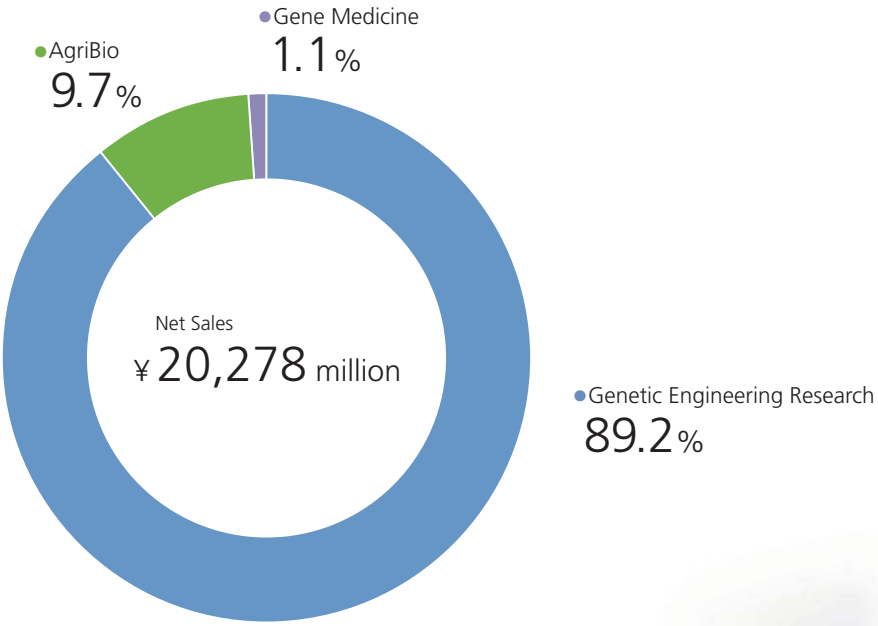
Genetic engineering research segment

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.

Takara Bio at a Glance

Net Sales by Segment for Fiscal 2008

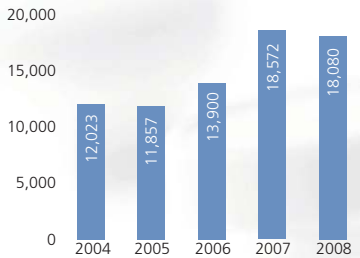
Year ended March 31



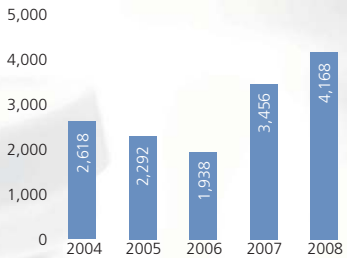
Genetic Engineering Research

Years ended March 31

Net Sales (Millions of yen)



Operating Income (Millions of yen)



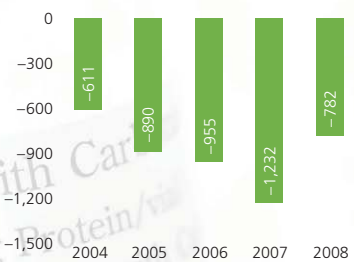
R&D Expenses (Millions of yen)

AgriBio

Years ended March 31

Net Sales (Millions of yen)

Operating Loss (Millions of yen)

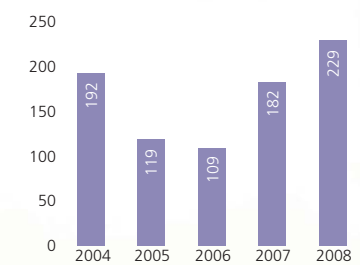


R&D Expenses (Millions of yen)

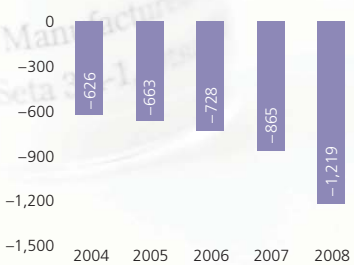
Gene Medicine

Years ended March 31

Net Sales (Millions of yen)



Operating Loss (Millions of yen)



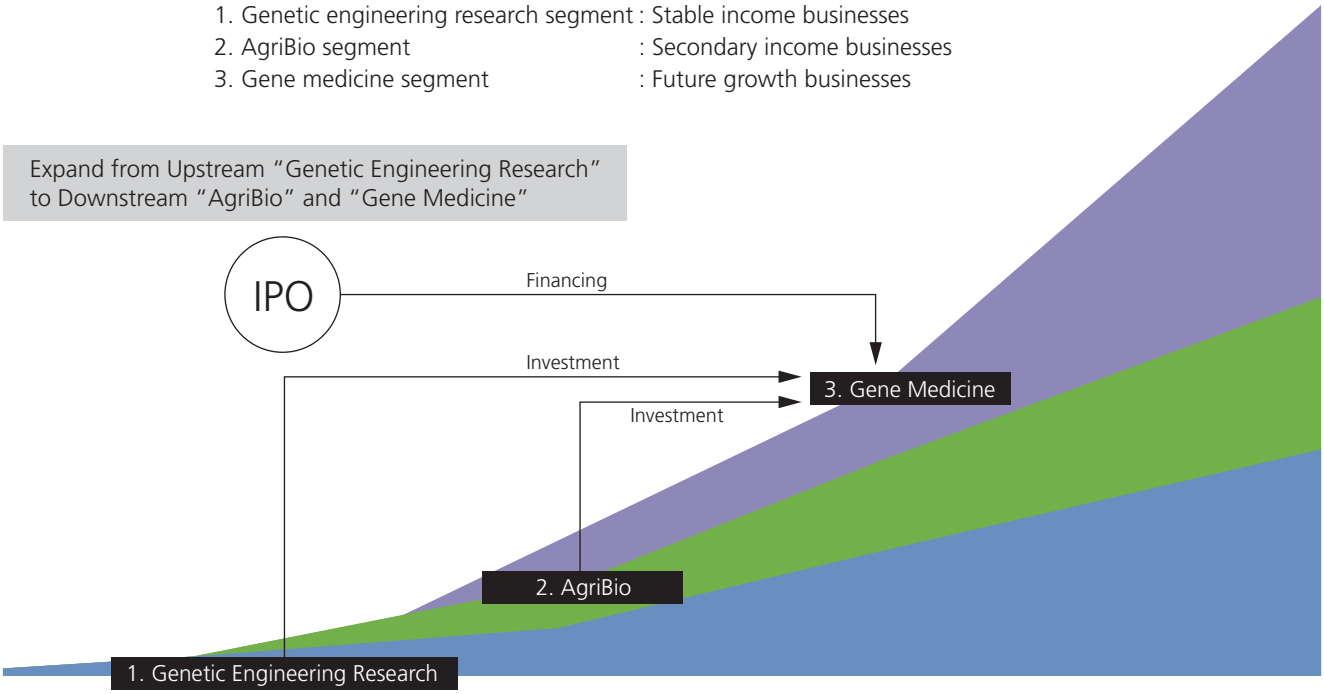
R&D Expenses (Millions of yen)

Business Strategy

By investing the stable income generated by the Genetic engineering research and AgriBio segments into the Gene medicine segment, we intend to perfect gene medicine technologies and expand our future earnings.

1. Genetic engineering research segment : Stable income businesses
2. AgriBio segment : Secondary income businesses
3. Gene medicine segment : Future growth businesses

Expand from Upstream "Genetic Engineering Research" to Downstream "AgriBio" and "Gene Medicine"



Overview of Fiscal 2008

In the Genetic engineering research segment, sales of research reagents, which are the segment's core products, and contract research services were about level with the previous year, while sales of scientific instruments, such as mass spectrometers declined. As a result, the segment's net sales declined 2.6%, to ¥18,080 million. In addition to a contribution from reduced costs, the Company pursued effectiveness and efficiency in spending. As a result, operating income was up 20.6%, to ¥4,168 million.

Business Outline

Research Reagents
PCR enzymes, reverse transcriptase, cloning systems, fluorescent proteins

Scientific Instruments
PCR-related equipment, mass spectrometers

Contract Research Services
DNA sequence analysis, next-generation sequence analysis, gene expression analysis

Overview of Fiscal 2008

In the AgriBio segment, sales of mushroom-related products increased, but sales of health foods, such as agar drinks, declined. Consequently, the segment's net sales were down 11.6%, to ¥1,968 million. However, the Company achieved a substantial decline in SG&A expenses by outsourcing sales and marketing functions to two partner companies. As a result, operating loss improved from ¥1,232 million in the previous year to ¥782 million in the year under review.

Business Outline

Health Food Business
Kombu "fucoidan"
Agar "agaoligo"
Ashitaba "chalcone"
Mushroom "terpene"
Yam (*Dioscorea esculenta*)
Herb (*Peucedanum japonicum*)

Mushroom Business
Bunashimeji mushrooms
Hatakeshimeji mushrooms
Honshimeji mushrooms

Overview of Fiscal 2008

In the Gene medicine segment, patent licensing revenues and sales of GMP-grade RetroNectin® increased. Consequently, the segment's net sales rose 25.7%, to ¥229 million. However, SG&A expenses, principally R&D expenses, rose substantially, and the operating loss was ¥1,219 million, compared with ¥865 million in the previous year.

Business Outline

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

Clinical Development of Cell Therapy
Cancer immunotherapy using RetroNectin® expansion-culture system

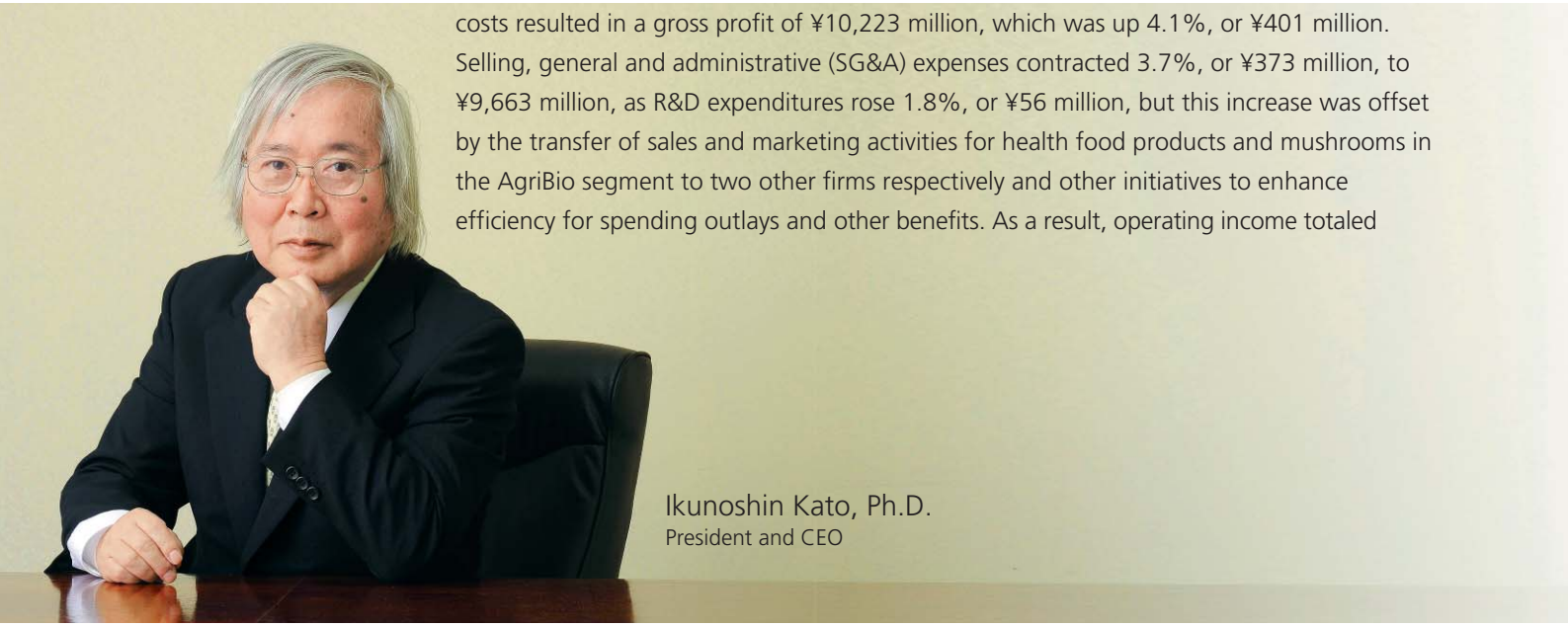
In fiscal 2008, the year ended March 31, 2008, Takara Bio Inc. recorded operating income for the first time since its founding. The Company attained its goal of creating a business foundation that can generate consistent profits while absorbing research and development costs in the Gene medicine segment.

Financial Highlights

Net Sales	¥20,278 million
Operating Income	¥560 million
Net Income	¥679 million

Fiscal 2008 in Perspective

In fiscal 2008, net sales declined 3.4% year on year, or ¥703 million, to ¥20,278 million, as falling sales of scientific instruments in the Genetic engineering research segment weighed on results. However, cost of sales fell 9.9%, or ¥1,105 million, to ¥10,055 million. Falling costs resulted in a gross profit of ¥10,223 million, which was up 4.1%, or ¥401 million. Selling, general and administrative (SG&A) expenses contracted 3.7%, or ¥373 million, to ¥9,663 million, as R&D expenditures rose 1.8%, or ¥56 million, but this increase was offset by the transfer of sales and marketing activities for health food products and mushrooms in the AgriBio segment to two other firms respectively and other initiatives to enhance efficiency for spending outlays and other benefits. As a result, operating income totaled



Ikunoshin Kato, Ph.D.
President and CEO

¥560 million, compared with an operating loss of ¥215 million in the previous year. This marked the first time that the Company has registered operating income since its founding. Other expenses included ¥1,172 million in litigation expenses to resolve a dispute between a consolidated subsidiary Clontech Laboratories, Inc. (hereinafter "Clontech"), and another party, but other income included ¥930 million from gain on sales of investments in an associated company and ¥191 million from gain resulting from change in ownership in a subsidiary. Consequently, net income amounted to ¥679 million, up ¥359 million from the previous year.

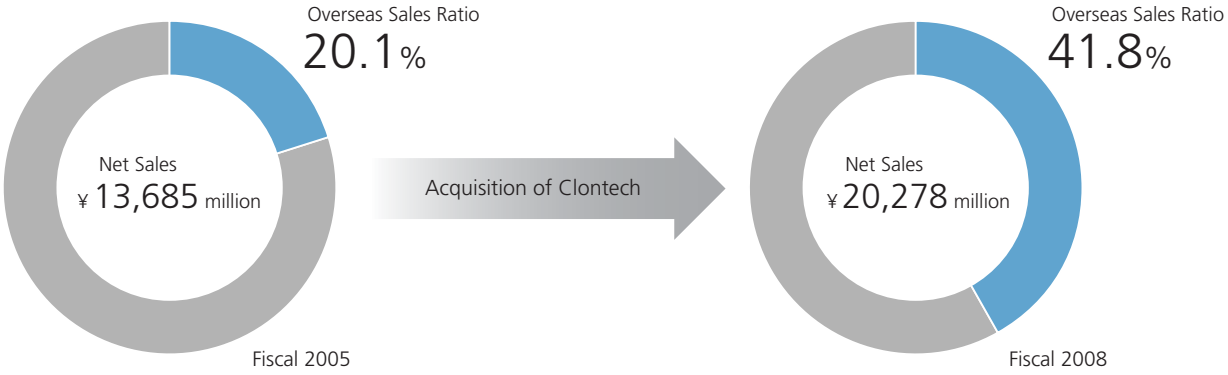
Looking at the individual business segments, in the Genetic engineering research segment, sales of mass spectrometers fell, causing segment sales to contract 2.6%, to ¥18,080 million. However, operating income in the segment rose 20.6%, to ¥4,168 million, underpinned by cost reductions and efforts to enhance efficiency in spending outlays. In the AgriBio segment, sales contracted 11.6%, to ¥1,968 million, as rising sales of mushroom-related products were negated by declining sales of health food products. The sales and marketing of health food products and mushrooms was transferred to another company, depressing SG&A expenditures and narrowing losses in the segment by ¥450 million from the previous year, to ¥782 million. In the Gene medicine segment, sales increased 25.7%, to ¥229 million, and operating losses amounted to ¥1,219 million, up ¥354 million from the previous year. The Genetic engineering research segment is still in its nurturing phase, with the priority being on R&D investment.

First Operating Income Achieved, Consistent Profits Attainable

The Genetic engineering research segment strengthened its product lineup substantially through the acquisition of Clontech in September 2005. Before the acquisition, overseas sales comprised 20.1% of total Company sales in fiscal 2005, but the overseas portion of the sales mix increased to 41.8% in fiscal 2008. The Company has significantly increased sales in European and U.S. markets thanks to Clontech product offerings.

Takara Biotechnology (Dalian) Co., Ltd., has constructed a third factory building and subsequently increased its production capacity by approximately 50% to enable the transfer of production of Clontech's products. The Chinese company has started manufacturing a series of products in the Clontech lineup. We estimate that production costs will be approximately ¥1.0 billion lower in fiscal 2010 than they were before the transfer.

After the acquisition of Clontech, the overseas sales ratio expanded substantially.



In the AgriBio segment, the Company forged an alliance for the sales and marketing of the Group's Hatakeshimeji and Honshimeji mushrooms with Yukiguni Maitake Co., Ltd., in September 2006, and transferred the sales and marketing of health food products to Takara Healthcare Inc. in October 2006. These moves have enabled the Company to specialize in R&D and production while effectively utilizing its two partners' sales networks and other assets. As a result, sales costs declined ¥460 million in fiscal 2008 from the previous year. Moreover, improvement of efficiency in the production of Hatakeshimeji and Honshimeji mushrooms raised profits in the fiscal year.

The Company is redoubling its initiatives to develop and increase sales of health food products with such unique ingredients as kombu (kelp) "fucoidan," agar (vegetable gelatin) "agaoligo," Ashitaba (angelica herb) "chalcone" and mushroom "terpene" as well as health food products using "togedokoro" (yam), "botanbofu" (herb) and other functional ingredients. Also, in the mushroom business we aim to increase the scope of operations and improve production efficiency through further sales and marketing alliances for Hatakeshimeji and Honshimeji mushrooms and other products.

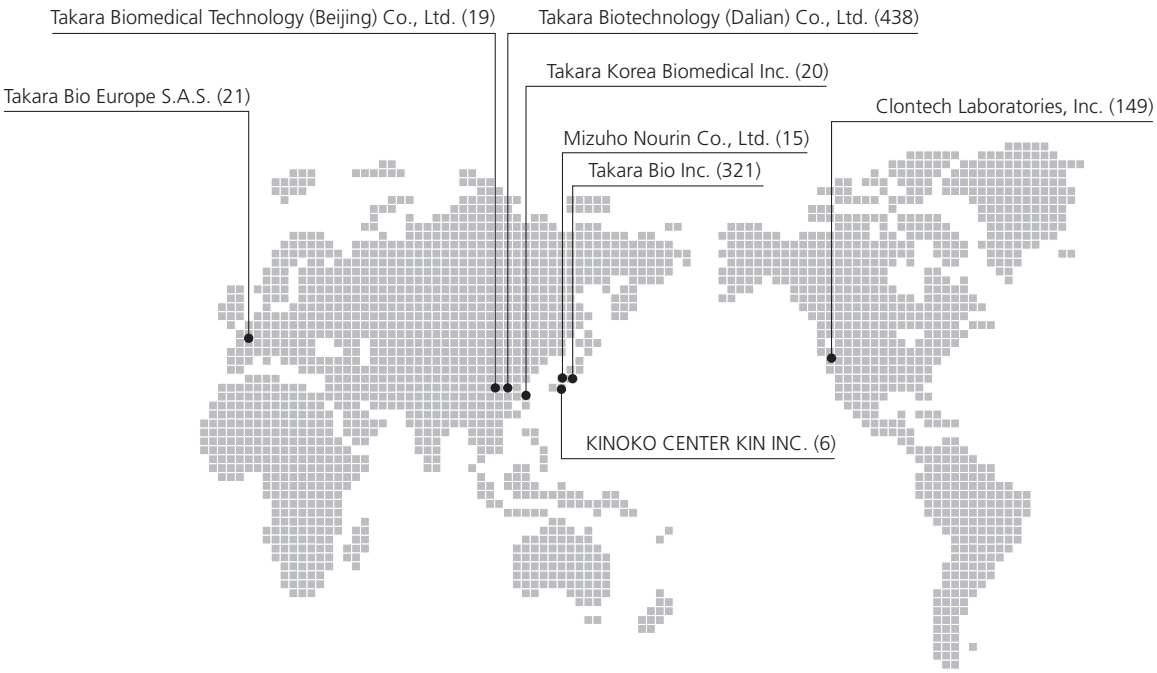
Steady Expansion for the Gene Medicine Project

In fiscal 2008, Takara Bio made steady progress in promoting the Gene Medicine Project.

The Company is developing HSV-TK gene therapy for recurrent leukemia in Japan in conjunction with the National Cancer Center. The Company received notification from the Ministry of Health, Labour and Welfare in October 2007 that the HSV-TK gene therapy drug was confirmed in compliance with the guidelines on gene therapy drugs. We submitted Investigational New Drug Application for HSV-TK gene therapy to the Pharmaceuticals and Medical Devices Agency on June 30, 2008, and plan to start Phase I clinical trials at the National Cancer Center Hospital in fiscal 2009.

The Company is also collaborating with the Mie University School of Medicine in the clinical development of cell and gene therapy. Clinical research on cancer immunity

Takara Bio Group



Note: Figures in parentheses are the number of employees at March 31, 2008.

Numerical Targets of the Takara Bio Group

(Millions of yen)	Fiscal 2009 (estimate)	Fiscal 2010 (plan)	Fiscal 2011 (plan)
Net sales	¥20,300	¥21,330	¥22,490
Operating income	100	670	950
Net income	250	370	540
R&D expenses	3,906	4,500	5,000

reconstruction therapy using the RetroNectin® expansion-culture system began in March 2008. In addition, clinical research on T-cell receptor (TCR) gene therapy targeting esophageal cancer is scheduled to begin in fiscal 2010.

Overseas, clinical research on cancer cell immunotherapy using the RetroNectin® expansion-culture system in collaboration with the Tianjin Cancer Institute & Hospital, Tianjin Medical University, China, started in January 2008. Clinical trials on renal cancer cell immunotherapy are scheduled to start in fiscal 2009 in cooperation with the Cancer Institute and Hospital, Chinese Academy of Medical Sciences.

The Company's strategy for AIDS gene therapy is based on a unique mechanism that stops the HIV replication by degrading the HIV genome in the HIV-infected T cells through control of MazF ribonuclease expression by HIV-Tat proteins. The method has been shown to be effective *in vitro*, and animal experiments using monkeys are now under way in collaboration with the Chinese Center for Disease Control and Prevention and Tsukuba Primate Research Center, National Institute of Biomedical Innovation.

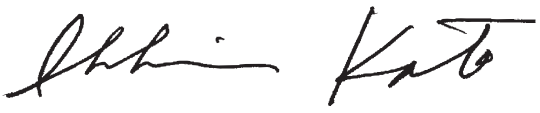
The RetroNectin® method was licensed out to VIRxSYS Corporation of the United States, and the company is conducting Phase II clinical trials for AIDS gene therapy in the United States. Also, Phase III clinical trials of HSV-TK gene therapy for acute leukemia are under way in Italy by MolMed S.p.A., a licensee of the RetroNectin® method, and these therapies are nearing commercialization. Now that gene medicine is advancing to the clinical stage worldwide, the Company expects clinical development of cell and gene therapy will also accelerate in Asia.

The Company released a new medium-term business plan in May 2008. The plan targets steady growth in the Genetic engineering research segment through synergies in R&D, production and sales with Clontech. We also aim to improve profits in the AgriBio segment through sales and distribution alliances and to actively conduct clinical development in Gene medicine. The quantitative goals set for fiscal 2011 include Group consolidated sales of ¥22.4 billion and operating income of ¥950 million, with R&D expenditures for clinical development being absorbed.

As outlined here, the Group is steadily forging business strategies for its three business segments. The Gene medicine segment, which will provide a foundation for the Company's future growth, will bring in unsteady but ultimately huge revenues. We will consistently maintain research and development activities in this segment. We ask for the understanding and support of all our shareholders.

August 2008

President and CEO

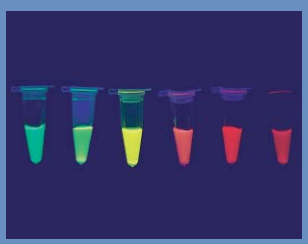


Genetic Engineering Research

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 by bringing new genetic engineering technologies to other Asian countries and reinforcing sales in Europe and the United States.


Research reagents


Real-time PCR system


Clontech fluorescent proteins

Research Reagents and Scientific Instruments

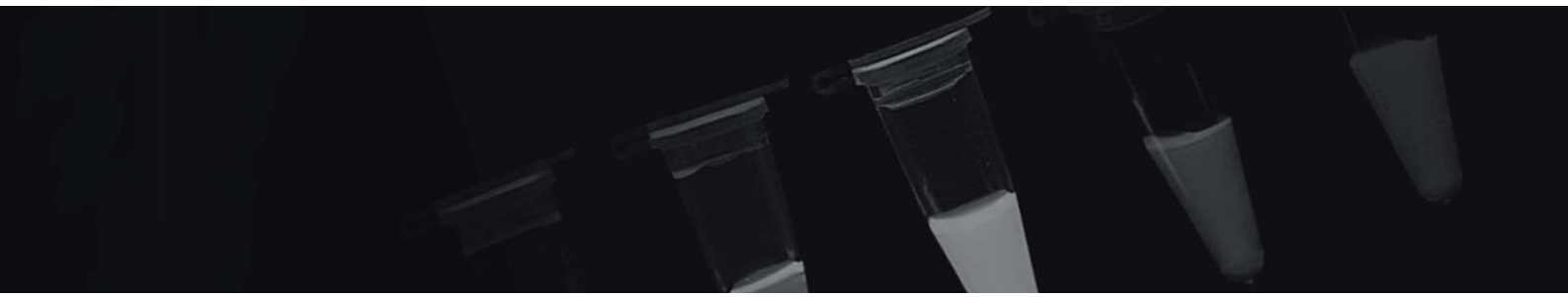
R&D in biotechnology at public institutions, such as national universities, and at private enterprises, such as pharmaceutical companies, is proceeding in a variety of areas, including the functional analysis of genes and the unraveling of biological phenomena and the mechanisms of disease at the molecular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

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 (generation) 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 U.S. company's gene amplification system that uses the PCR method, and in 1993 we obtained a license for the PCR method and began producing and marketing PCR reagents. We continue to develop 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.

Furthermore, in 2000 we developed our own technology for gene amplification, the ICAN (Isothermal and Chimeric primer-initiated Amplification of Nucleic acids) method. While the PCR method requires cyclical changes in reaction temperature, the ICAN method is a highly efficient isothermal gene-amplification method in which genes can be amplified at a constant temperature. The ICAN method makes it possible to amplify genes in a short amount of time without the need for complex equipment, and therefore makes it possible to detect genes of bacterial pathogens easily at medical sites or in the field.

In September 2005, we acquired Clontech, a U.S. company. Takara Bio is strong in the field of genetic engineering, including enzymes for genetic engineering and PCR-related technologies, while Clontech is strong in the field of molecular biology, including systems for the functional analysis of genes using fluorescent proteins. Adding Clontech products to our existing products has greatly expanded and enhanced our lineup of research reagents. By introducing and selling products from other European and U.S. manufacturers, we aim to broaden our business domain to cover all areas of biotechnology, thereby building a solid position in the biotechnology research support industry.

We aim to expand our sales in the future by focusing our efforts on developing new products and new services in the field of genetic engineering, including real-time PCR technology—a market that is expected to grow—and in the field of cellular engineering, including 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—is offering comprehensive research services, handling not only genome sequencing analysis but also high-speed sequence analysis using next-generation technology, gene expression analysis using DNA chips, small RNA analysis and protein expression.

Dragon Genomics Center

Overseas Operations

In 1993, we established Takara Biotechnology (Dalian) Co., Ltd., in China as a manufacturing base for research reagents. Manufacturing research reagents in China is a source of competitive strength. We have continued to expand globally, establishing Takara Bio Europe S.A.S. in France and Takara Korea Biomedical Inc. in Korea as sales bases for research reagents in 1995.

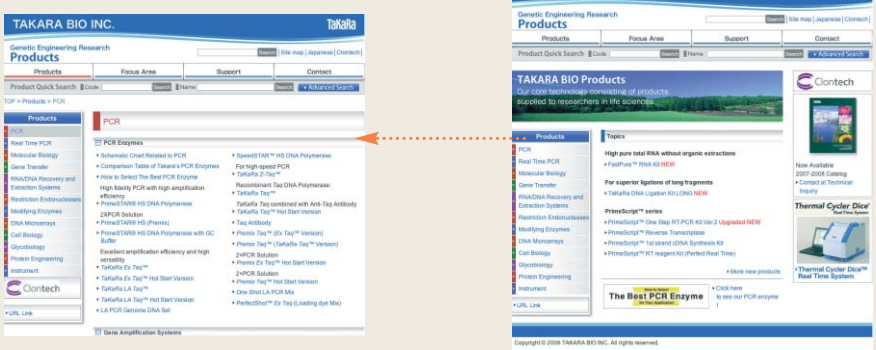
Acquiring Clontech in 2005 expanded and enhanced our product lineup and lifted overseas sales to 41.8% of total Group sales. We are also working to become even more cost-competitive and boost earnings by having Clontech's products that were made in the United States produced at Takara Biotechnology (Dalian) instead and by creating a global distribution framework.

Takara Bio is aiming to increase sales overseas, especially in European and U.S. markets, as it works to build a solid position in the global market.

Takara Biotechnology (Dalian) Co., Ltd.

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.


Gagome kombu


Tengusa


Ashitaba

Health Food Business

Takara Bio has been researching the bioactive properties of kombu (kelp) "fucoidan," agar (vegetable gelatin) "agaoligo," Ashitaba (angelica herb) "chalcone," mushroom "polyterpene," herb (*Peucedanum japonicum*) and yam (*Dioscorea esculenta*), 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.)

1. Kombu (Kelp) "Fucoidan"

Fucoidan is a polysaccharide with a slimy consistency that is found mainly in various species of brown kelp, including kombu. Takara Bio was first in indentifying three chemical structures in the dietary fiber 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. Subsequently, it was discovered that the fucoidan in Gagome kombu can induce the production of interleukin-12 and interferon-gamma, which are both believed to be effective in the treatment of cancer. Fucoidan also stimulates the natural killer cells that play a role in attacking cancer cells. It has also been discovered that the fucoidan in Gagome kombu has the effect of inhibiting the formation of blood clots.

2. Agar (Vegetable Gelatin) "Agaoligo"

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 oligosaccharides, "Agaologo," which are obtained by heating agar in acid, have bioactive properties including antiinflammatory and detoxifying effects.

3. Ashitaba (Angelica Herb) "Chalcone"

Ashitaba is indigenous to Japan and grows wild on the Pacific coast, mainly on 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 run Ashitaba juice bars, known as "Ashita-Bar™," in Tokyo. Takara Bio has discovered that a polyphenol peculiar to Ashitaba, chalcone, has antidiabetic effects.

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 an extremely small amount is grown because it is vulnerable to cold and it is difficult to cultivate. This "phantom yam" is not widely known even among

local inhabitants. Takara Bio has discovered that Yamsgenin™, a substance found in the yam that is not found in ordinary yams, has antifatigue effects.

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 in hardening of the arteries.

Yam (*Dioscorea esculenta*)

Herb (*Peucedanum japonicum*)

Hatakeshimeji mushrooms

Mushroom Business

Takara Bio was the first company to succeed in the large-scale cultivation of Bunashimeji mushrooms, which are now widely available at most supermarkets. In 1973, we licensed our large-scale cultivation method to JA ZEN-NOH (National Federation of Agricultural Co-operative Associations) Nagano, and succeeded in the commercialization of this mushroom. We have licensed the technology for the large-scale cultivation of Bunashimeji mushrooms to JA ZEN-NOH Nagano and Yukiguni Maitake Co,. Ltd., and are also involved 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 2009. We produce Honshimeji mushrooms in Yokkaichi, Mie Prefecture, and expect to produce approximately 38 tons in fiscal 2009.

We have a business alliance with Yukiguni Maitake, and this company has been marketing Hatakeshimeji and Honshimeji mushrooms since September 2006.

As for R&D in the mushroom-related business, the Company is developing a new cultivation method for the growth of other high-value-added mushrooms utilizing information from the sequencing of the Matsutake genome.

Large-Scale Cultivation of Honshimeji Mushrooms

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

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 (gene and cell therapies), by applying the technologies developed in the Genetic engineering research segment.

Research

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 that uses the RetroNectin® reagent. The lymphocyte expansion-culture system can be used both in gene and cell 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 groups 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 trials in gene therapy as well as in several privately funded clinical trials, and is rapidly becoming the standard for *ex vivo* gene therapy. As of the end of August 2008, the RetroNectin® method was being used by 38 public medical institutions, mainly in the United States, and is licensed out to 4 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 Italy, which has in-licensed the RetroNectin® method from Takara Bio, is now conducting Phase III clinical trials of HSV-TK therapy for leukemia in Italy. Takara Bio has exclusive rights to this treatment technology in most of Asia.

1) Clinical trials (donor lymphocyte infusion method)

Takara Bio and the National Cancer Center in Japan are preparing to begin clinical trials on HSV-TK therapy for patients with relapsing leukemia (TBI-0301). TBI-0301 are used in donor lymphocyte infusions for recurrent leukemia patients following rebuilt hematopoietic stem cells transplants. Donor lymphocyte infusion is 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 donor lymphocyte cells that are a source of GVHD. The Company has applied for the confirmation of conformity with the guidelines on gene therapy drugs in order to start clinical trials on TBI-0301, and received notification from the Ministry of Health, Labour and Welfare in October 2007 that TBI-0301 was confirmed in compliance with the guidelines. The Company now plans to begin clinical trials in fiscal 2009.

2) Clinical research (haplo add-back)

The National Cancer Center, in cooperation with Takara Bio, is preparing to begin clinical research on another type of HSV-TK therapy known as haplo add-back therapy. HSV-TK gene therapy (haplo add-back) is a therapy for patients with high-risk hematological malignancies that infuses donor lymphocytes transduced with HSV-TK genes after hematopoietic stem cells transplantation from partially compatible (haplo-identical) family donors. It is currently undergoing Phase III clinical trials by MolMed in Italy. The National Cancer Center in Japan is preparing clinical research and aims to begin the clinical research in fiscal 2010.

2. TCR Gene Therapy

Takara Bio is collaborating with the Mie University School of Medicine in the clinical development of T cell receptor (TCR) gene therapy targeting esophageal cancer. This treatment involves the transduction of TCR genes that are capable of identifying cancer antigens into patient's 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 so promising that TCR clinical trials targeting melanoma using our RetroNectin® method are currently being conducted at the National Cancer Institute in the United States. The results of this clinical research were reported in the journal *Science* in 2006. The Mie University School of Medicine is collaborating with Takara Bio to prepare for clinical research in TCR gene therapies, and plans to start the clinical research in fiscal 2010.

3. MazF Gene Therapy

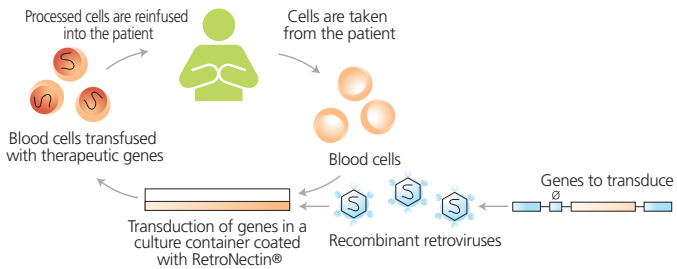
The Company is engaged in research and development of AIDS gene therapy using the MazF ribonuclease. In the T cells infected with HIV, the HIV replication is triggered by HIV-derived Tat proteins. Our strategy is to eliminate HIV by preventing the reproduction of HIV by using the MazF expression vectors that expresses MazF in HIV Tat proteins dependent manner. We are currently engaged in joint research with the Chinese Center for Disease Control and Prevention and the Tsukuba Primate Research Center, the National Institute of Biomedical Innovation, for animal experiments of the MazF gene therapy on monkeys.

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 a disease (e.g., cancer or AIDS). There are two types of gene therapies: *ex vivo* and *in vivo*. In *ex vivo* gene therapy, cells are taken from the patient, transduced with a target gene and transplanted back into the patient. In contrast, *in vivo* gene therapy involves the direct administration of therapeutic genes into the patient.

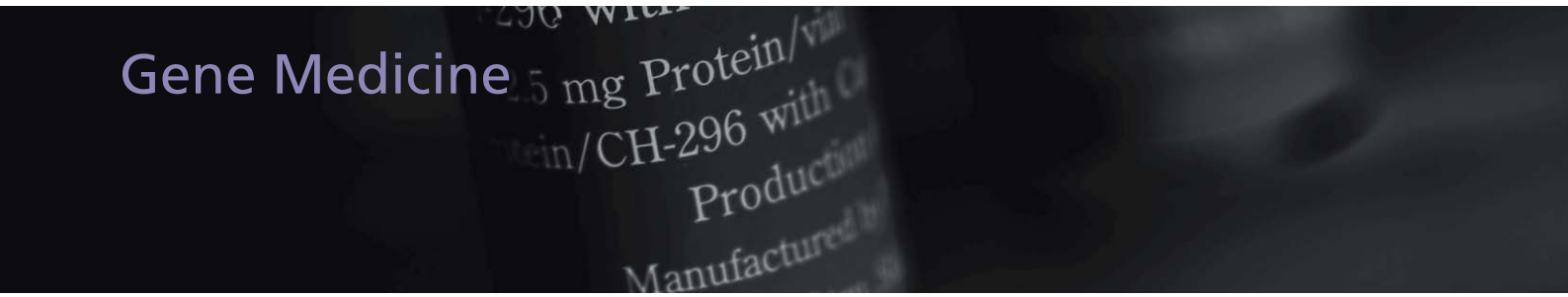
RetroNectin®


Cell processing room at the National Cancer Center

Gene Therapy Protocol Using the RetroNectin® Method



Gene Medicine



Cell Therapy

Cell Therapy
Cell therapy entails treatment by injecting 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 also includes processes such as the separation of specific cells, their storage, and their amplification and processing in culture.


Experiments using RetroNectin® reagent


Cell processing room at the Mie University School of Medicine

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 support for other cancer immunotherapies.

1. Cancer Immunotherapy using RetroNectin® Expansion-Culture System

Takara Bio is progressing with the clinical development of adoptive immunotherapy in partnership with the Cancer Institute and Hospital (CIH), Chinese Academy of Medical Sciences. In December 2005, Takara Biomedical Technology (Beijing) Co., Ltd., one of the Company's subsidiaries, and the CIH applied to the Beijing Drug Administration for permission to begin clinical trials of a cancer immunotherapy using the RetroNectin® expansion-culture system to treat renal cancer. This application is currently being reviewed. Also, the Tianjin Cancer Institute & Hospital, Tianjin Medical University is conducting clinical research on cancer cell immunotherapy using the RetroNectin® expansion-culture system.

In Japan, Mie University Hospital in collaboration with Takara Bio began clinical research on cancer immunity reconstruction therapy using the RetroNectin® expansion-culture system for refractory cancers in 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 antigens-representing cells, and subsequently destroy the cancer cells. Also, in May 2008 we established an endowed chair at Kyoto Prefectural University of Medicine to jointly conduct clinical development on cell immunotherapy using the RetroNectin® expansion-culture system.

In Korea, the Company has entered into a license agreement with Green Cross Corp. that grants the Korean company an exclusive license for clinical development of cancer immunotherapy using the RetroNectin® expansion-culture system in that country. Green Cross is preparing to begin clinical trials.

2. Support Services for Cell Immunotherapy

Activated lymphocyte therapy, which has extremely few side effects, is expanding gradually as a fourth category of therapies to complement surgical therapy, chemotherapy and radiation therapy. The Company provides technical support for medical institutions in activated lymphocyte therapy as cancer cell immunotherapy.

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 China • Clinical development of cancer cell immunotherapies in Japan

Food Safety Analysis Center of Takara Bio acquired the international standard ISO/IEC17025 accreditation in the field of testing for agricultural chemical residue in food using the simultaneous analysis method (July 2007)

In July 2007, the Japan Accreditation Board for Conformity Assessment granted the Food Safety Analysis Center of Takara Bio ISO/IEC17025 accreditation. This is an international standard accreditation for centers that test for agricultural chemical residue in food using the simultaneous analysis method. ISO/IEC17025 is an international standard that covers not only quality management systems but also technical areas, such as testing methods, technical capabilities of personnel, facilities and equipment. Today, there is a pressing need for precision management of testing for agricultural chemical residues, and the Food Safety Analysis Center of Takara Bio is offering contract services that meet those needs.

Mass spectrometer (GC/MS/MS)

Discovered that a herb in the *Apiaceae* family prevents early lesion formation in arteriosclerosis

The herb (*Peucedanum japonicum*) is a plant in the *Apiaceae* family that grows in coastal areas from western Honshu to Okinawa. In Okinawa, it is known as "chomei-so" (long-life herb) and its leaves are eaten as a condiment or cooked tempura-style.

In early arteriosclerotic lesions, macrophages in the blood vessel wall take up oxidized low density lipoprotein (LDL), and cholesterol esters accumulate in the cytoplasm. As a result, the thickness of the blood vessel wall increases, blood vessels narrow and blood clots form.

When modified LDL was added to a mouse-derived macrophage cell line, cholesterol esters accumulated in the cytoplasm. By adding the ethanol extracts of the herb in this experiment, the extracts reduced the amount of cholesterol esters accumulated in the cytoplasm. Furthermore, a coumarin compound was isolated from the extracts as a major active substance, and inhibited the activity of ACAT, the enzyme that promotes the accumulation of cholesterol esters.

The Company presented these results at the 54th Annual Meeting of the Japanese Society for Food Science and Technology, which was held in Fukuoka from September 6, 2007.

Herb (*Peucedanum japonicum*)

Launch of new PCR enzymes with both extremely high accuracy and superior extensions (September 2007)

PrimeSTAR® GXL DNA Polymerase

PCR enzymes are one of the most important tools in the field of genetic engineering research. On September 5, 2007, we launched PrimeSTAR® GXL DNA Polymerase, a new PCR enzyme product in Japan. Through the use of genetic engineering to improve the previous PrimeSTAR® HS DNA Polymerase and the adoption of original extension factors, this product maintains extremely high accuracy while also offering superior extension lenghths previously not available in high-fidelity PCR enzymes. This makes it possible to accurately amplify targets longer than 30 kb. Moreover, it also makes possible the high-fidelity amplification of GC-rich target DNA, which is typically difficult to amplify with PCR enzymes.

Gene therapy for leukemia confirmed as being in conformity with guidelines for gene therapy drugs

Takara Bio submitted an application to the Pharmaceuticals and Medical Devices Agency to start clinical trials in Japan of gene therapy for leukemia using the HSV-TK suicide gene. On October 11, 2007, the Company received notification from the Ministry of Health, Labour and Welfare confirming conformity to the guidelines on gene therapy drugs. HSV-TK gene therapy will be used in donor lymphocyte infusion (DLI) to treat recurrent leukemia after allogeneic hematopoietic stem cell transplantation. Although DLI therapy has been shown to be highly effective against a variety of types of leukemia, graft versus host disease (GVHD), a side effect, is known to be a critical problem. HSV-TK gene therapy is however expected to be effective against GVHD. The clinical trials of HSV-TK gene therapy will be conducted at the National Cancer Center Hospital and are planned to start in fiscal 2009.

Discovery of antitumor effect of orally administered Gagome-kombu fucoidan through activation of natural killer cells (October 2007)

The Company has confirmed important results from its research on Gagome-kombu fucoidan. In these studies, mice in which Sarcoma-180 cancer cells had been subcutaneously transplanted were treated by oral administration of Gagome-kombu fucoidan (mean molecular weight: about 200,000) for five weeks. The results showed that tumor growth in mice that received Gagome-kombu fucoidan was about one-third that of the control group. In other experiments, in which mice were additionally administered a monoclonal antibody that is specifically cytotoxic to natural killer cells, the natural killer cell activity was surppressed and the antitumor effect of Gagome-kombu fucoidan was not seen at all. Moreover, when the immune cells of healthy mice were cultured in the presence of Gagome-kombu fucoidan for three days, the natural killer cell activity was enhanced. These results suggest that when Gagome-kombu fucoidan is orally administered to S-180-bearing mice, natural killer cell activity is enhanced, leading to the antitumor effect. The Company presented these results at the 66th Annual Meeting of the Japanese Cancer Association, which was held in Yokohama on October 3, 2007.

Gagome kombu

Takara Bio to enter into research collaboallation with Dr. Rosenberg's group initiating pre-clinical studies of gene therapy using the RetroNectin® expansion-culture system (January 2008)

On January 9, 2008, Takara Bio entered into a Materials Cooperative Research and Development Agreement (M-CRADA) with the National Cancer Institute (NCI) in the United States under which Dr. Steven A. Rosenberg's group at NCI conducts pre-clinical studies utilizing Takara Bio's proprietary RetroNectin® expansion-culture system to analyze its utility for gene therapy.

Dr. Rosenberg is known for his pioneering work in the field of cancer immunotherapy, and his team recently obtained good results demonstrating sustained regression of malignant melanoma in patients treated with TCR gene therapy, which was published in the journal *Science* in 2006.

Under the M-CRADA, RetroNectin® is provided to NCI by Takara Bio for Dr. Rosenberg's pre-clinical studies to determine its effect on *ex vivo* culture of gene modified human T cells.

MolMed S.p.A., a strategic partner of Takara Bio in gene therapy, obtained regulatory approval to start Phase III clinical trials in Italy (January 2008)

On January 17, 2008, Takara Bio's strategic partner in gene therapy, MolMed S.p.A., obtained regulatory approval from the AIFA, the Italian National Health Authority, to start Phase III clinical trials in Italy of HSV-TK gene therapy for high-risk acute leukemia. In the Phase III trials, MolMed will assess the special characteristics of cells transfused with therapeutic genes with the objective of preventing chronic GVHD (graft versus host disease) and increasing the survival rate.

Under the mutual license agreements between the parties, Takara Bio acquired an exclusive right to commercialize HSV-TK gene therapy for hematological malignancies in Asian countries, while MolMed is granted the right to use Takara Bio's proprietary RetroNectin® technology non-exclusively in the United States and Europe.

Currently, hematopoietic stem cell transplantation (HSCT) is thought to be an effective treatment for hematological malignancies such as leukemia, lymphoma and myeloma, but in the event that a HLA identical donor is not found, patients cannot benefit from HSCT. However, the HSV-TK gene therapy allows patients to safely receive HSCT from a family donor, whose HLA type is partially identical (haplo-identical) to the patient such as their parents or children (haplo-HSCT). So, nearly all patients will be able to receive HSV-TK gene therapy. This therapy entails TK add-back, whereby donor lymphocytes to which the HSV-TK suicide gene has been transduced are transfused after HSCT. This therapy enables control of the main complication associated with haplo-HSCT, i.e. GVHD—a systemic immune reaction mediated by donor lymphocytes against the patient's organs and tissues. If GVHD occurs, the patient receives a drug (ganciclovir) that leads to the selective elimination of the donor's lymphocytes carrying the HSV-TK gene, thus abrogating GVHD. MolMed's Phase I/II trials of the HSV-TK gene therapy conducted in Europe for high-risk hematological malignancies yielded promising results, showing that the TK add-back enables sustained reconstitution of the patient's immune system after haplo-HSCT, as well as its safety and efficacy. In particular, the results show an unprecedented improvement in the survival of patients when compared to conventional treatments.

In 2008, MolMed also plans to initiate a Phase I/II clinical trial of HSV-TK gene therapy at the MD Anderson Cancer Center, University of Texas, in the United States.

Commenced worldwide sales of a new protein regulation system that enables the accurate control of the level and duration of a specific protein of interest in a cell (January 2008)

ProteoTuner™ System

Clontech, a Takara Bio subsidiary, has obtained a license for a protein regulation technology that is based on work by Dr. Thomas Wandless' group at Stanford University. The system uses a special low-molecular-weight compound to control the proteasomal degradation of the protein of interest in a cell. With the launch of this system, Clontech has been the first in the world to commercialize a protein regulation system (ProteoTuner™ System) that makes it possible to quickly and directly regulate the level of the protein of interest in a cell. The product range was launched worldwide on February 20, 2008.

This technique regulates the degradation of the target protein of interest through use of a mutant protein that promotes protein destabilization when expressed as a tag fused to the protein of interest. This destabilization function of the tag can be specifically inhibited by a small molecule (stabilizing ligand). By changing the concentration of this low-molecular-weight compound, the balance of intracellular protein stabilization / destablization can be regulated, so in addition to the duration of expression of the intracellular protein, its level can be quickly, accurately and reversibly controlled.

Dr. Hiroshi Shiku's group at Mie University started clinical research of "cancer immune reconstruction therapy" using the RetroNectin® expansion-culture system for refractory cancers (March 2008)

In the fields of cancer cell immunotherapy and TCR gene therapy, Takara Bio is conducting joint research with Dr. Hiroshi Shiku's group at the Mie University School of Medicine. On March 3, 2008, the group began clinical research of cancer immune reconstruction therapy, which combines chemotherapy and cell immunotherapy, for refractory cancers, such as ovarian, head and neck, esophageal and myeloma. In this approach, autologous lymphocytes, expanded using the RetroNectin® expansion-culture system, and cancer antigen peptide (MAGE-A4) are administered to the patient following chemotherapy. This clinical research is intended to evaluate the safety of lymphocyte infusion following expansion using the RetroNectin® expansion-culture system and to verify the antitumor immune response. Nine cases are planned.

Cancer cell immunotherapy using injections of activated lymphocytes following chemotherapy is being used around the world. It is thought that the antigen-presenting cells show cancer antigens on their surface derived from cancer cells destroyed by the chemotherapy, and that cytotoxic T cells in the lymph nodes, etc., will be easily induced by the antigen-presenting cells. In this study, the lymphocytes, expanded through the use of the RetroNectin® expansion-culture system, contain many naive T cells, so it is expected that the effect will be enhanced.

Start of clinical research of cancer immunotherapy using the RetroNectin® expansion-culture system at Tianjin Medical University, Tianjin Cancer Institute & Hospital, in China (April 2008)

Takara Bio and Tianjin Medical University, Tianjin Cancer Institute & Hospital, have started clinical research in cancer immunotherapy using the RetroNectin® expansion-culture system from January 2008. With five patients enrolled in this clinical research (including two renal cancer, one lung cancer, one liver cancer and one thyroid cancer), no severe adverse events have been observed. In the patient with lung cancer, who received two cycles of lymphocyte infusion, the size of the tumor, as measured by CT scan, had shrunk to about 50% of its size prior to this treatment. In addition to these five patients, another 15 patients will be enrolled in the study, and the clinical research of cancer cell immunotherapy using the RetroNectin® expansion-culture system will be continued with a total of 20 patients.

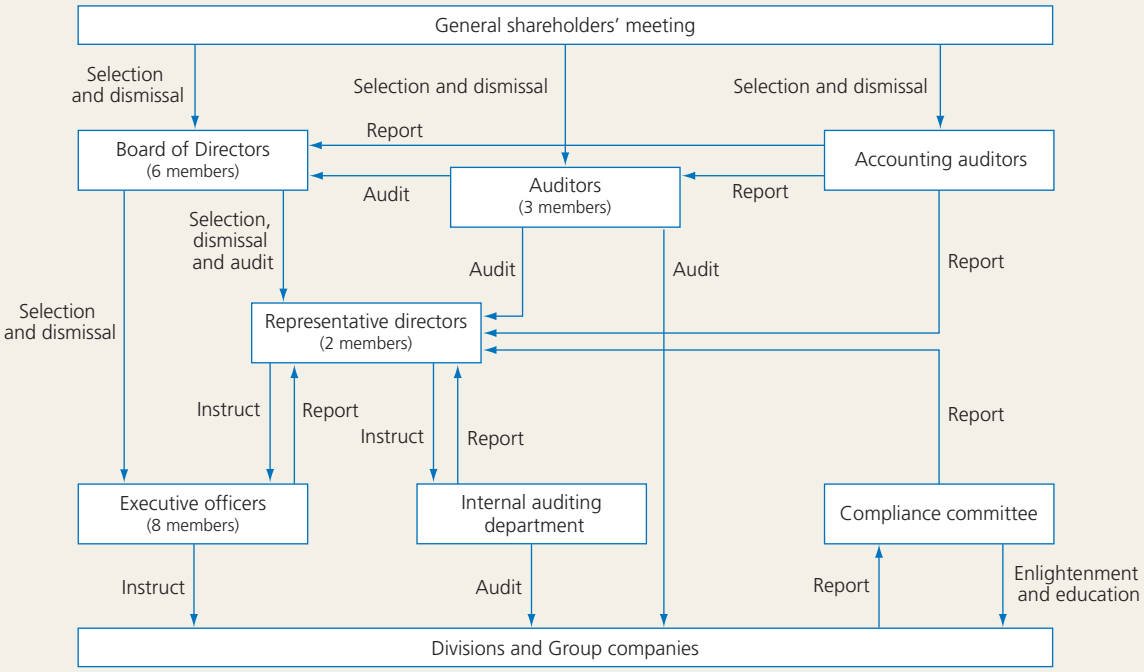

Tianjin Medical University

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.

Our Board of Directors consists of six 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. One of our directors, Masayori Inouye, is also a professor at the University of Medicine and Dentistry of New Jersey. The Company has adopted an auditing system, and two of our three auditors are external to the Company.

Our parent company is Takara Holdings Inc., which owns 71.0% of voting rights as of the end of March 2008. 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 24, 2008)

Ikunoshin Kato, Ph.D.
President and CEO

Hisashi Ohmiya
Chairman

Koichi Nakao
Executive Vice President
and COO

Mutsumi Kimura
Senior Managing Director
and CFO

Kiyozo Asada, Ph.D.
Senior Managing Director
and CIPO*

Masayori Inouye, Ph.D.
Director

*CIPO: Chief Intellectual Property Officer

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

Tsutomu Nomura
Auditor (External Auditor)

Hideo Tomomura
Auditor (External Auditor)

Kazuki Yamamoto
Senior Executive Officer

Fumitsugu Hino, Ph.D.
Senior Executive Officer

Kazutoh Takesako, Ph.D.
Senior Executive Officer

Makoto Moriguchi
Executive Officer

Hiroyuki Mukai
Executive Officer

Yoh Hamaoka, Ph.D.
Executive Officer

Masahide Tamaki
Executive Officer

Hiroaki Miyazawa
Executive Officer

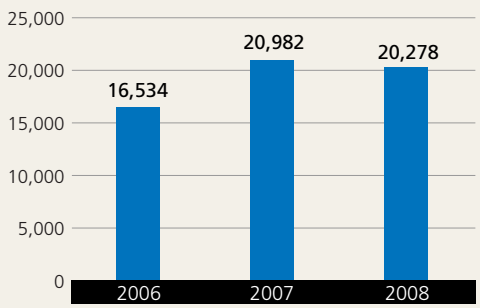
Three-Year Financial Summary

Years Ended March 31

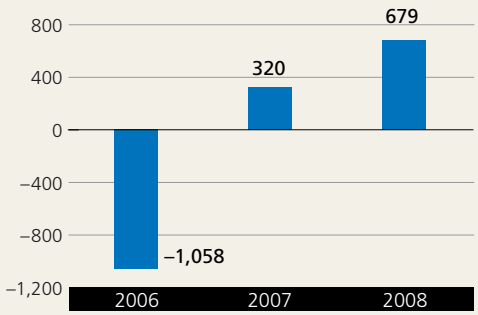
(Millions of yen)	2006	2007	2008
For the Years ended March 31:			
Net sales (sales to customers)	¥16,534	¥20,982	**¥20,278**
Genetic engineering research	13,900	18,572	**18,080**
Gene medicine	109	182	**229**
AgriBio	2,524	2,226	**1,968**
Cost of sales	9,375	11,160	**10,055**
Selling, general and administrative expenses	8,645	10,037	**9,663**
Operating income (loss)	(1,486)	(215)	**560**
Income (loss) before income taxes and minority interests	(1,252)	375	**671**
Net income (loss)	(1,058)	320	**679**
Depreciation	1,477	1,608	**1,429**
Capital expenditures	1,264	952	**1,505**
R&D expenses	3,121	3,239	**3,296**
As of March 31:			
Total assets	¥44,443	¥45,539	**¥45,289**
Total equity	37,306	38,613	**39,108**
Per Share of Common Stock (yen):			
Basic net income (loss)	¥ (3,975.17)	¥ 1,142.96	**¥ 2,412.91**
Equity	133,714.56	136,644.85	**138,373.58**
Ratios (%):			
Return on assets (ROA)	(2.6) %	0.7 %	**1.5 %**
Return on equity (ROE)	(3.1)	0.8	**1.8**
Equity ratio	83.9	84.4	**86.1**

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

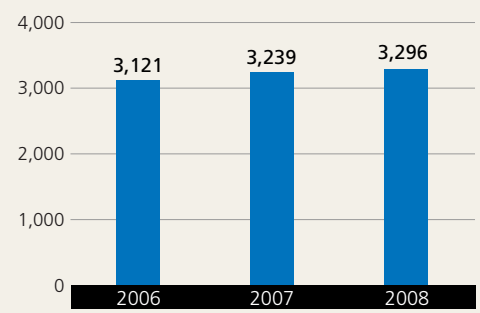
Net Sales (Millions of yen)



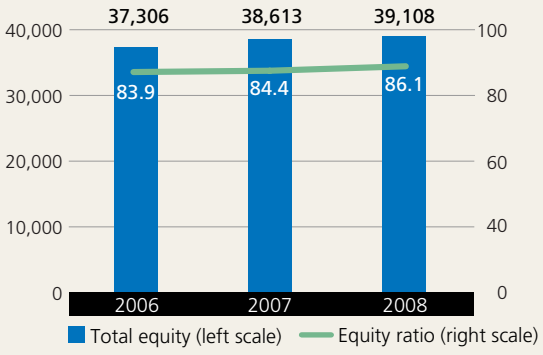
Net Income (Loss) (Millions of yen)



R&D Expenses (Millions of yen)



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



Net Sales

The Takara Bio Group (hereinafter "the Group") is composed of Takara Bio Inc., 10 consolidated subsidiaries and an equity-method affiliate. The Group is promoting its business by utilizing the biotechnology that has been accumulated and developed over many years and by harnessing its business resources in the three segments of Genetic engineering research, AgriBio and Gene medicine. In the year ended March 31, 2008 (hereinafter "fiscal 2008"), these initiatives yielded net sales of ¥20,278 million, down 3.4% from the previous fiscal year, as sales of scientific instruments declined in the Genetic engineering research segment.

Income Statement Analysis

Cost of sales declined 9.9% year on year, to ¥10,055 million, because of sales decline and cost reduction. Gross profit increased 4.1%, to ¥10,223 million, yielding a gross margin of 50.4%. Selling, general and administrative (SG&A) expenses decreased 3.7%, to ¥9,663 million, reflecting the transfer of sales and marketing activities from the AgriBio segment to other companies, initiatives to spend outlays efficiently and other benefits. R&D expenditures increased 1.8%, to ¥3,296 million.

As a result, operating income rose ¥775 million, to ¥560 million, and the Company registered operating income for the first time.

Other expenses included ¥1,172 million in litigation expenses to resolve a dispute that had involved a consolidated subsidiary Clontech with other parties. However, other income included ¥930 million from the gain on sale of investments in an associated company and ¥191 million from gain resulting from change in ownership in a subsidiary. This resulted in other income, net, amounting to ¥111 million.

These developments resulted in income before income taxes and minority interests of ¥671 million. Income taxes, including a refund of ¥148 million, amounted to ¥17 million surplus, and net income was ¥679 million in the fiscal year.

Segment Information

Analysis by Business Segment

Genetic Engineering Research

With R&D in the biotechnology field covering an increasingly broader domain, the Group has positioned the Genetic engineering research segment as its core business for the development of products and contract services supporting this research.

During the fiscal year, sales of research reagents—the segment's core product—were largely flat, but sales of scientific instruments declined as sales of mass spectrometers fell. Revenues from contract research services were largely unchanged from the previous year. As a result, sales in this segment decreased 2.6%, to ¥18,080 million, while gross profit increased 5.6%, to ¥10,016 million, on the back of cost-cutting and other benefits. SG&A expenses decreased 3.1%, to ¥5,847 million, thanks to initiatives to efficiently utilize spending outlays. These factors resulted in a 20.6% increase in operating income, to ¥4,168 million.

AgriBio

In the AgriBio segment, the Group develops, produces and markets health food products containing bioactive properties of traditional Japanese foodstuffs, which are proven scientifically by using cutting-edge biotechnology under the concept that food itself is ultimately the primary source of medicine. Business development centers on kombu (kelp) "fucoidan," agar (vegetable gelatin) "agaoligo," Ashitaba (angelica herb) "chalcone" and mushroom "terpene" derivatives.

In fiscal 2008, sales declined 11.6% year on year, to ¥1,968 million, as sales of mushroom products increased, but sales of "Nomu Kanten" vegetable gelatin sold in beverage form as a health drink and other product sales declined. Gross profit contracted 60.1%, to ¥87 million. SG&A expenses fell 40.1%, to ¥869 million, because sales and marketing activities were transferred to other companies. As a result, operating loss in the segment came to ¥782 million, down from ¥1,232 million a year earlier.

Gene Medicine

In the Gene medicine segment, differences between basic research and clinical applications have been narrowing in light of rapid advances in cell biology recently. The Group's focus is on commercializing gene and cell therapies in the circumstances of rapidly developing practical applications in regenerative medicine. We have 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 effective RetroNectin® lymphocyte expansion-culture system; and the endoribonuclease MazF.

In fiscal 2008, sales in the Gene medicine segment increased 25.7% year on year, to ¥229 million, as revenues from out licensing and from growth in sales of GMP-grade RetroNectin® reagent. Gross profit climbed more modestly, by 6.4%, to ¥118 million. SG&A expenses, principally research and development costs, jumped 37.0%, to ¥1,338 million, prompting operating losses of ¥1,219 million, compared with operating losses of ¥865 million in fiscal 2007.

Analysis by Geographical Segment

Japan

In Japan, the Group's net sales fell 3.8% year on year, to ¥14,277 million, as sales of scientific instruments and health food contracted. Operating income rose 40.5%, to ¥1,483 million.

Asia

In Asia, Takara Biotechnology (Dalian) Co., Ltd., registered favorable results, with sales increasing 14.8% year on year, to ¥2,776 million, and operating income jumping 141.0%, to ¥520 million.

North America

In North America, Clontech's sales decreased, but rising sales by other companies within the Group lifted sales 0.4% year on year, to ¥5,857 million. Operating income declined 12.0%, to ¥149 million.

Europe

In Europe, Takara Bio Europe S.A.S. posted rising sales, and sales in the region increased 28.9%, to ¥1,779 million. Operating income soared 150.6%, to ¥162 million.

Financial Position

Total assets at the end of fiscal 2008 stood at ¥45,289 million, down ¥250 million from the previous fiscal year-end. Total current assets increased ¥1,716 million, to ¥25,417 million. Growth was mainly due to an increase in cash and cash equivalents of ¥2,713 million, which offset declines in notes and accounts receivable of ¥1,022 million and inventories of ¥316 million.

Property, plant and equipment declined ¥60 million year on year, to ¥12,356 million. This mainly reflected an increase of ¥1,505 million from the acquisition of property, plant and equipment and a ¥1,574 million decline from depreciation, amortization, sales and disposal. Investments and other assets declined ¥1,906 million year on year, to ¥7,515 million. This mainly reflected a ¥1,462 million decline from sales of investments in an associated company and a ¥412 million drop in depreciation from long-term prepaid expenses.

Total current liabilities decreased ¥728 million year on year, to ¥3,641 million. This was due principally to a ¥478 million contraction in notes and accounts payable, a decrease in accrued expenses of ¥127 million and a fall in other current liabilities of ¥144 million. Long-term liabilities declined ¥17 million, to ¥2,539 million, as long-term debt fell ¥44 million, deferred tax liabilities decreased ¥358 million and other long-term liabilities increased ¥352 million.

As a result, total liabilities declined ¥745 million, to ¥6,180 million, in the fiscal year.

Equity stood at ¥39,108 million at the end of the fiscal year, up ¥495 million from the previous year-end. The increase was due principally to an increase in common stock and capital surplus totaling ¥90 million from the issuance of new shares, growth in retained earnings of ¥677 million stemming from net income and other revenues, an increase in unrealized gain on available-for-sale securities totaling ¥289 million and a decrease in foreign currency translation adjustments totaling ¥510 million. The equity ratio to total assets increased 1.7 percentage points, to 86.1%, and the Group's financial standing remains sound.

Cash Flows

Net cash provided by operating activities in fiscal 2008 declined ¥1,109 million from a year earlier, to ¥2,018 million, mainly due to a reduction (versus an increase in the prior year) in trade payables. The Company posted a ¥930 million gain on sales of investments in an associated company, a ¥191 million gain resulting from change in ownership in a subsidiary and a ¥359 million decline in trade payables, while also recording income before income taxes and minority interests of ¥671 million. Total depreciation and amortization, including depreciation of other assets, was ¥2,157 million. In addition, there was a ¥260 million decline in inventory assets.

Net cash provided by investment activities increased ¥1,110 million from a year earlier, to ¥678 million. The Company recorded outlays of ¥1,833 million for the acquisition of fixed assets including the acquisition of tangible and intangible fixed assets and other depreciable assets, such as the expansion of facilities at Takara Biotechnology (Dalian) and outlays of ¥643 million for term deposits, while it recorded proceeds of ¥2,328 million from the sale of investments in associated companies and proceeds of ¥717 million from the sale of tangible and intangible fixed assets.

Net cash provided by financing activities decreased ¥344 million from a year earlier, to ¥45 million, mainly due to a sharp decrease in proceeds from issuance of common stock in association with the exercise of stock options. The Company recorded outlays of ¥44 million for repayments of long-term debt, but also recorded proceeds of ¥88 million from the issuance of common stock.

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 of this document 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
Net sales	¥14,376	¥13,592	¥13,685	¥16,534	¥20,982	¥20,278
Net income (loss)	(1,140)	62	(1,282)	(1,058)	320	679
Net assets	21,615	25,718	31,941	37,306	38,613	39,108
Total assets	30,062	31,649	37,427	44,443	45,539	45,289

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 to establish a competitive result in the Gene medicine and AgriBio fields. The Group conducts a large amount of investment in research and development in comparison to net sales. In the 1st to 6th fiscal years, the ratio of R&D expenses to net sales was 21.9%, 20.2%, 21.8%, 18.9%, 15.4% and 16.3% 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 research and development in order to record net income, and it may promote even more aggressive research and development 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 ¥404 million. The amount stated is after appraisal loss and on a consolidated base. Of this amount, the Group invested ¥106 million on 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. Seasonal variations in the results of operations

Universities and public research institutions account for the majority of customers in the Genetic engineering research segment, which is the primary business of the Group; and the Group's sales tend to be concentrated in the second half of the fiscal year due to such factors as the period for budget-making decisions on orders to Takara Bio. In particular, the delivery dates for the Group's contract research services have a tendency to be concentrated at the end of the fiscal year.

The Takara Bio Group is endeavoring to spread out the timing of sales by expanding the net sales of the AgriBio segment as early as possible since it has comparatively little seasonal fluctuation, but the Group's performance may be affected by seasonal variations.

(Millions of yen)	2nd fiscal year (ended March 31, 2004)		3rd fiscal year (ended March 31, 2005)		4th fiscal year (ended March 31, 2006)		5th fiscal year (ended March 31, 2007)		6th fiscal year (ended March 31, 2008)	
	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
Net sales	¥6,253	¥7,338	¥6,373	¥7,312	¥6,465	¥10,068	¥9,807	¥11,174	¥9,403	¥10,875

Note: Half-year figures for the 2nd fiscal year have not been audited by Deloitte Touche Tohmatsu.

3. Research and development

A diverse range of industries are biotechnology-related. A list could include the medical treatment segment, which includes gene and cell therapy, the research supporting segment, which has a direct target market among research institutions and universities that are seeking to promote fundamental research and to develop new drugs, the environment and energy segment, which includes bioremediation and biomass, the information segment, which is known as bioinformatics, and the food segment, which includes AgriBio.

Under these circumstances, the Group conducts extensive research and development, 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 ¥3,296 million, or 16.3% of sales, which is extremely high. At the same time, there is no guarantee that research and development 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 research and development will yield adequate results in a timely manner. Therefore, a delay in research and development could affect the Group's business strategy and performance. In addition, there is no guarantee that the research and development currently under way will produce the anticipated results. As a result, the Group could fail to meet its revenue projections.

4. Dependence on manufacturing

Calculated on a sales price base for the current consolidated fiscal year, Takara Biotechnology (Dalian), a Chinese subsidiary, accounted for 18.6% of manufacturing in the Genetic engineering research segment, which represented 89.2% of the Group's net sales for the current consolidated fiscal year. Further, production for Group subsidiary Clontech 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.

5. 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 other companies. 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.

6. 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.

7. 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 research and development of gene and cell 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 research and development 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.

8. Parent company of Takara Bio

As of March 31, 2008, Takara Holdings Inc. (listed on the First Section, Tokyo Stock Exchange and Osaka Stock Exchange) is the parent company of Takara Bio, owning 71.0% 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 physical split, each company becoming a fully owned subsidiary of Takara Holdings. As a result of the third-party capital increase by private placement, the publicly subscribed capital increase and other measures implemented since the establishment of the Company, the parent company's ownership of voting rights in Takara Bio fell to 71.0%.

The Takara Holdings Group consists of Takara Holdings, which is a pure holding company, and 42 affiliated companies (35 subsidiaries and 7 associated companies). Within the Group, Takara Bio is positioned as a subsidiary specializing in biotechnology-related business, and it promotes the biotechnology-related business along with its 11 affiliated companies (10 subsidiaries and 1 associated company).

(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 2008 was ¥480 million.

(3) Management of Group companies by Takara Holdings

Takara Holdings has established and operated the Takara Holdings Group Company Management Regulations from the standpoint 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 regulations are also applicable to Takara Bio, and Takara Bio reports on the decisions made at the meetings of its Board of Directors. However, Takara Bio is not required to gain prior approval for the resolutions of its Board of Directors, and runs its operations independently. In addition, Takara Holdings has established a variety of meeting structures 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 and CEO of Takara Bio, President and CEO 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

The meeting structures above are for the purpose of reporting between Takara Holdings' Group companies and do not currently obstruct the autonomy and independence of Takara Bio at present.

In addition, the following officers serve concurrently at Takara Bio and Takara Holdings as of June 27, 2008.

Name	Position at Takara Bio	Position at Takara Holdings
Hisashi Ohmiya	Chairman	President
Ikunoshin Kato	President and CEO	Director
Hideo Tomomura	Corporate Auditor	Corporate Auditor

Takara Bio appointed Hisashi Ohmiya 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 by the Company, as it 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. Moreover, Ikunoshin Kato was appointed 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.

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 by a corporate spin-off through the physical split of Takara Shuzo 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 Holdings and Takara Shuzo since the establishment of the Company. 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, 2008, millions of yen)	Transaction terms, etc.
Land owned by Takara Holdings (Nishigo-mura, Nishi Shirakawa-gun, Fukushima Prefecture)	Takara Bio, Nishigo office	Takara Holdings	5	Site area: 50,000m^2 Land category classification: Residential Type of agreement: Ordinary fixed-term leasing rights Basis for computation of rental fees: Acquisition price of lessor, etc.
Takara Shuzo Kusu Plant site (Yokkaichi-shi, Mie Prefecture)	Takara Bio, Kusu office	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.
3. The Company's office was closed at the end of December, 2007, and the real estate lease contract was terminated on January 24, 2008.

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, 2008, the Company had licenses for the use of 95 registered and 45 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, 2008, millions of yen)	Terms of transaction, etc.
Takara Holdings Inc. (Shimogyo-ku, Kyoto)	License for use of trademarks	10	Type of agreement: Licensing 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, 2008, millions of yen)	Terms of transaction, etc.
Takara Shuzo Co., Ltd. (Fushimi-ku, Kyoto)	Lease of company housing	0	Type of agreement: Lease agreement Basis for computation of rental fees: Market price of land, building, etc.
	Temporary transfer of employees to Takara Bio	23	Type of agreement: Employment secondment agreement
Takara Network System Co., Ltd. (Shimogyo-ku, Kyoto)	Contracting of computer-related services and lease of equipment	468	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.

9. Fund-raising

The demand for funds, including research and development 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 fund-raising does not proceed according to plan, it could affect the development of the Group's business.

10. 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.

11. Organizational structure of the Takara Bio Group

(1) Dependence on a certain group of personnel

Ikunoshin Kato, the president and CEO, plays an important role as the chief executive officer in formulating management strategy and promoting research and development and business development. In order to reduce the reliance of the Group on the president and CEO and to provide him with assistance, the following officers play an important part in promoting the respective operations. Koichi Nakao (Executive Vice President and COO) is responsible for business execution as a whole. Kiyozo Asada (Senior Managing Director and CIPO) and Masayori Inouye (Director) are responsible for research and development. Mutsumi Kimura (Senior Managing Director and CFO) is responsible for management. (These titles and responsibilities are as of June 27, 2008.)

In order to build a management structure that is not overly dependent on these directors, the Group is seeking to strengthen 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 research and development, 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 research and development. 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.

12. Intellectual property rights

In biotechnology-related industries, in which the success of business depends solely on the success of research and development, 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 research and development 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 biotechnology-related industries in which competition over research and development 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 research and development, 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 held by others, 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, 2008, the Company had 1,461 registered patents and patent applications in Japan and other countries. Three of these were still under the name of Takara Shuzo as a result of the circumstances in which the Company was established in a corporate spin-off through the physical split of Takara Shuzo (now Takara Holdings) on April 1, 2002. The rights in relation to these patents have been transferred to the Company, and the formalities to convert the patent holders' names to the Company are progressing steadily.

13. 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 or medical device, or food or research reagent, the Group may be subject to product liability, 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 expenses.

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 combined with a retrovirus vector 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 progress 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 England 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 determined 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, research

and development 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.

14. Legal regulations

(1) Genetic engineering research segment

Promotion of research and development in genetic engineering 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 gene-related industries, 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 gene and cell 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 requires 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 research and development 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.

In addition, to engage in the gene diagnosis business, the Group has to register as a sanitary inspection institute under the Clinical Laboratory Technicians and Health Laboratory Technicians Law and observe related laws and regulations.

(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.

15. Risks of lawsuits, etc.

Takara Bio and Medca Japan Laboratory Co., Ltd. (hereinafter "Medca"), executed an agreement in 2000 under which the Company granted to Medca the exclusive sales rights in Japan of ICAN diagnostic reagents (hereinafter "ICAN Products") developed and manufactured by the Company. Medca filed a lawsuit against the Company at the Tokyo District Court on August 17, 2006, claiming that the Company failed to perform its obligation to develop and manufacture the ICAN Products, and that it has become impossible for Medca to sell ICAN Products exclusively. Medca, by claiming the termination of the agreement, is seeking the repayment of the consideration of ¥525 million it has already paid to the Company as well as the payment of interest for such consideration. Responding to this, the Company is arguing that it has never failed to perform the agreement, since it has already received manufacturing approval for the ICAN Products on January 11, 2007. Furthermore, even assuming that it becomes impossible to develop the ICAN Products, the Company is arguing that it has no obligation to repay such consideration. Although the Company believes that it has a strong defense against the lawsuit, should the Company lose the lawsuit, the Company might be forced to repay such consideration and pay interest on it. This may adversely affect the development of the ICAN business as well as Takara Bio Group's business strategies and performance.

As of June 27, 2008, 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 research and development 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 lawsuit may seriously affect the Group's business performance.

Dr. Shigekazu Nakatsugawa, a former lecturer at Nagoya University, filed a lawsuit against the Company on October 18, 2006, at the Nagoya District Court, claiming that the Company failed to perform its obligation under a service agreement for analysis of gene expression. Dr. Nakatsugawa was seeking a payment of ¥223,641,727 and interest on it. A settlement was reached on December 27, 2007. As a result of the settlement, no cost burden was borne by the Company.

In order to prevent the Group from being sued concerning intellectual property rights, the Group has been conducting patent investigations through patent offices, etc., and the Group is not aware that any of its products are in conflict with the patent rights of others. However, it is difficult for a R&D-based company such as the Takara Bio Group to completely avoid the occurrence of such issues involving the infringement of intellectual property rights. When such problems with the infringement of intellectual property rights do arise, the Group could be subject to demands for compensation for damages, sales injunctions and payment of royalties. As a result of this, the expansion of the relevant business and the Group's business strategy and performance could be affected.

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.

16. Dividend policy

As the consistent implementation of research and development 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. Although a profit was recorded during the period of fiscal 2008, the Company has a net loss carried forward on a corporation tax calculated basis, and therefore, the Company considers it essential that it first works to eliminate the net loss carried forward.

The Company will make effective use of internal reserves in investment in research and development and capital expenditures at each Group company, in consideration of strengthening its financial structure and future expansion.

17. 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 research and development currently being planned will produce the anticipated results. Consequently, the Group may fail to meet its revenue projections.

18. 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.

19. 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 goodwill and trademark rights obtained by Clontech, 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 27, 2008, 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.

Consolidated Balance Sheets

Takara Bio Inc. and Subsidiaries
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2008	2007	2008
CURRENT ASSETS:			
Cash and cash equivalents	¥ 15,469	¥ 12,755	$ 154,690
Time deposits	495	89	4,950
Notes and accounts receivable:			
Trade	5,657	5,716	56,570
Associated companies	2	85	20
Other	121	967	1,210
Allowance for doubtful accounts	(108)	(73)	(1,080)
Inventories (Note 4)	3,176	3,493	31,760
Deferred tax assets (Note 12)	308	387	3,080
Prepaid expenses and other current assets	294	278	2,940
Total current assets	25,417	23,700	254,170
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	4,633	4,529	46,330
Buildings and structures	7,704	7,447	77,040
Machinery, equipment and vehicles	7,073	7,219	70,730
Tools, furniture and fixtures	4,863	5,857	48,630
Construction in progress	569	104	5,690
Total	24,844	25,157	248,440
Accumulated depreciation	(12,488)	(12,741)	(124,880)
Net property, plant and equipment	12,356	12,416	123,560
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	297	16	2,970
Investments in and advances to associated companies	106	1,599	1,060
Goodwill (Note 5)	2,805	2,879	28,050
Long-term prepaid expenses	1,215	1,628	12,150
Customer contracts and related relationships	1,261	1,436	12,610
Other assets	1,828	2,064	18,280
Allowance for doubtful accounts		(202)	
Total investments and other assets	7,515	9,422	75,150
TOTAL	¥ 45,289	¥ 45,539	$ 452,890

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2008	2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 6)	**¥ 44**	¥ 44	**$ 440**
Notes and accounts payable:			
Trade	**1,221**	1,574	**12,210**
Associated companies		13	
Construction and other	**1,096**	1,207	**10,960**
Accrued income taxes	**167**	145	**1,670**
Accrued expenses	**768**	896	**7,680**
Other current liabilities	**341**	485	**3,410**
Total current liabilities	**3,641**	4,369	**36,410**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**501**	546	**5,010**
Liability for retirement benefits (Note 7)	**922**	889	**9,220**
Deferred tax liabilities (Note 12)	**524**	882	**5,240**
Other long-term liabilities	**591**	238	**5,910**
Total long-term liabilities	**2,539**	2,556	**25,390**
EQUITY (Note 8)**:**			
Common stock, authorized, 1,000,000 shares; issued, 281,829 shares in 2008 and 281,377.87 shares in 2007	**9,022**	8,976	**90,220**
Capital surplus	**26,949**	26,904	**269,490**
Retained earnings	**2,035**	1,358	**20,350**
Unrealized gain on available-for-sale securities	**289**		**2,890**
Foreign currency translation adjustments	**700**	1,211	**7,000**
Treasury stock – at cost, 8.87 shares in 2007		(3)	
Total	**38,997**	38,447	**389,970**
Minority interests	**110**	165	**1,100**
Total equity	**39,108**	38,613	**391,080**
TOTAL	**¥45,289**	¥45,539	**$452,890**

Consolidated Statements of Income

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET SALES (Note 16)	¥20,278	¥20,982	$202,780
COST OF SALES (Notes 7, 13 and 16)	10,055	11,160	100,550
Gross profit	10,223	9,821	102,230
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 11, 13 and 16)	9,663	10,037	96,630
Operating income (loss)	560	(215)	5,600
OTHER INCOME (EXPENSES):			
Interest and dividend income	156	76	1,560
Foreign exchange gain	44	65	440
Transportation expenses reimbursed from third parties	68	58	680
Gain resulting from change in ownership in a subsidiary	191	79	1,910
Gain on sales of property, plant and equipment	2	82	20
Gain on sales of investments in an associated company	930	389	9,300
Reduction of prior year expenses by revising contract		80	
Interest expense	(6)	(5)	(60)
Loss on sales and disposals of property, plant and equipment	(143)	(37)	(1,430)
Equity in losses of associated companies	(35)	(98)	(350)
Loss on write-down of investment securities	(8)	(115)	(80)
Provision for allowance for doubtful accounts		(196)	
Litigation expenses	(1,172)		(11,720)
Restructuring expense	(76)		(760)
Other, net	161	211	1,610
Other income, net	111	591	1,110
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	671	375	6,710
INCOME TAXES (Note 12):			
Current	394	403	3,940
Refund	(148)		(1,480)
Deferred	(263)	(311)	(2,630)
Total income taxes	(17)	91	(170)
MINORITY INTERESTS IN NET INCOME (LOSS)	9	(36)	90
NET INCOME	¥ 679	¥ 320	$ 6,790

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.q and 15):			
Basic net income	¥2,412.91	¥1,142.96	$24.12
Diluted net income	2,392.25	1,125.52	23.92

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2008 and 2007

	Thousands	Millions of Yen								
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2006	279	¥8,739	¥28,289	¥(583)		¥ 864	¥ (3)	¥37,306		¥37,306
Reclassified balance as of March 31, 2006 (Note 2.i)									¥245	245
Net income				320				320		320
Exercise of stock options (Notes 8 and 9)	2	237	237					474		474
Transfer of additional paid-in capital (Note 8)			(1,621)	1,621						
Net change in the year						347		347	(79)	267
BALANCE, MARCH 31, 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

	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, 2007	$89,760	$269,040	$13,580		$12,110	$(30)	$384,470	$1,650	$386,130
Net income			6,790				6,790		6,790
Exercise of stock options (Notes 8 and 9)	450	450					900		900
Disposal of treasury stock			(10)			30	10		10
Net change in the year				$2,890	(5,100)		(2,210)	(540)	(2,760)
BALANCE, MARCH 31, 2008	$90,220	$269,490	$20,350	$2,890	$ 7,000	$ Nil	$389,970	$1,100	$391,080

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 671	¥ 375	$ 6,710
Adjustments for:			
Income taxes paid	(223)	(375)	(2,230)
Depreciation and amortization	2,157	2,412	21,570
Provision for (reversal of) retirement benefits	33	(124)	330
(Reversal of) provision for allowance for doubtful accounts	(164)	230	(1,640)
Loss on sales and disposals of property, plant and equipment	143	37	1,430
Loss on write-down of investment securities	8	115	80
Gain on sales of investments in an associated company	(930)	(389)	(9,300)
Gain resulting from change in ownership in a subsidiary	(191)	(79)	(1,910)
Equity in losses of associated companies	35	98	350
Changes in assets and liabilities: net effects of inclusion of subsidiaries in consolidation			
Decrease (increase) in trade receivables	98	(198)	980
Decrease in inventories	260	439	2,600
(Decrease) increase in trade payables	(359)	346	(3,590)
Other, net	479	239	4,790
Total adjustments	1,346	2,752	13,460
Net cash provided by operating activities	2,018	3,128	20,180
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	717	251	7,170
Proceeds from sales of short-term investments		232	
Proceeds from sales of investments in associated companies	2,328	554	23,280
Purchases of property, plant and equipment	(1,555)	(889)	(15,550)
Purchases of investments in subsidiaries and associated companies	(105)	(13)	(1,050)
Purchases of other property	(278)	(281)	(2,780)
Purchases of short-term investments		(232)	
Other, net	(428)	(53)	(4,280)
Net cash provided by (used in) investing activities	678	(432)	6,780
FINANCING ACTIVITIES:			
Repayments of long-term debt	(44)	(44)	(44)
Proceeds from issuance of common stock	88	468	880
Proceeds from issuance of shares to minority shareholders		5	
Proceeds from sales of treasury stock	1		10
Cash dividends paid to minority shareholders		(39)	
Net cash provided by financing activities	45	390	450
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(28)	95	(280)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,713	3,181	27,130
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,755	9,573	127,550
CASH AND CASH EQUIVALENTS, END OF YEAR	¥15,469	¥12,755	$154,690

See notes to consolidated financial statements.

Note to the Consolidated Financial Statements

Takara Bio Inc. and Subsidiaries
Years Ended March 31, 2008 and 2007

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 Law (formerly, the Japanese Securities and Exchange Law) 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 2007 consolidated financial statements to conform to the classifications used in 2008.

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. 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 ¥100 to $1, the approximate rate of exchange at March 31, 2008. U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2008 include the accounts of the Company and all ten subsidiaries (together, the "Group"). On January 26, 2007, the Company established Kinoko Center Kin Inc. together with two unrelated parties, which engages in manufacturing Bunashimeji mushrooms, and consolidated the accounts of Kinoko Center Kin Inc. for the year ended March 31, 2007. Takara Bio Cancer Immunotherapy Inc. (formerly Mizumachi-Takara Bio Inc.) has become a wholly owned subsidiary of the Company, and was newly consolidated for the year ended March 31, 2008. On December 31, 2007, Takara Bio USA, Inc. (formerly Takara Mirus Bio, Inc.), which had been consolidated for the year ended March 31, 2007, was merged with Clontech Laboratories, Inc., a wholly owned subsidiary of the Company.

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.

Investments in one (three in 2007) associated company are accounted for by the equity method. Mizumachi-Takara Bio Inc. has become a wholly owned subsidiary of the Company, and the Company sold all of its shares of ViroMed Co., Ltd. during the year ended March 31, 2008. Mizumachi-Takara Bio Inc. and ViroMed Co., Ltd. were accounted for by the equity method while they were associated companies.

The difference of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill and amortized over a period of five years.

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. 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, trust fund investments, commercial paper, trust beneficiary rights and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

c. Investment Securities—All of the Group's investment securities are classified and accounted for as available-for-sale securities and 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, investment securities are reduced to net realizable value by a charge to income.

d. Inventories—Inventories are stated principally at cost, determined by the average method.

e. 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 the 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 3 to 12 years for machinery, equipment and vehicles and from 2 to 20 years for tools, furniture and fixtures.

f. 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 not amortized, but is tested for impairment at least annually.

g. 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 2008 and 2007.

h. 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.

The Company decided to terminate its retirement benefits plan to directors, corporate auditors and executive officers as of the closure of the Company's shareholders' meeting held on June 23, 2006. Retirement benefits based on the terminated plan shall be paid on each director, corporate auditor or executive officer's retirement date according to their service period up to the termination date of the plan. The outstanding balance of liability for retirement benefits to directors, corporate auditors and executive officers as of March 31, 2008 and 2007 is included in other long-term liabilities.

i. Presentation of Equity—On December 9, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case maybe, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April, 1, 2006 in the consolidated statement of changes in equity.

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—Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements. All 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.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in payments of royalties. 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

Measurement of Inventories—Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is 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 standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 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.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligation in the balance sheet.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 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". The new standard 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) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

PITF No. 18 is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Non-current:			
Marketable equity securities	¥289		$2,890
Non-marketable equity securities	8	¥16	80
Total	¥297	¥16	$2,970

The carrying amounts and aggregate fair values of investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		
March 31, 2008	Cost	Unrealized Gains	Fair Value
Securities classified as:			
Available-for-sale—			
Equity securities	¥0	¥289	¥289

	Millions of U.S. Dollars		
March 31, 2008	Cost	Unrealized Gains	Fair Value
Securities classified as:			
Available-for-sale—			
Equity securities	¥0	$2,890	$2,890

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale—			
Equity securities	**¥8**	¥16	**$80**

4. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Finished products and merchandise	**¥1,852**	¥2,141	**$18,520**
Semi-finished products	**146**	112	**1,460**
Work in process	**518**	741	**5,180**
Raw materials and supplies	**658**	498	**6,580**
Total	**¥3,176**	¥3,493	**$31,760**

5. GOODWILL

Goodwill at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Goodwill on purchase of a specific business, etc.	**¥2,743**	¥2,863	**$27,430**
Consolidation goodwill	**62**	16	**620**
Total	**¥2,805**	¥2,879	**$28,050**

6. LONG-TERM DEBT

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans principally from banks, due serially to January 2022 with interest rates ranging from 0% to 1.75% in 2008 and 2007:			
Collateralized	**¥266**	¥283	**$2,660**
Unsecured	**279**	307	**2,790**
Total	**546**	590	**5,460**
Less current portion	**44**	44	**440**
Long-term debt, less current portion	**¥501**	¥546	**$5,010**

Annual maturities of long-term debt as of March 31, 2008 for the next five years and thereafter were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 44	$ 440
2010	45	450
2011	45	450
2012	45	450
2013	46	460
2014 and thereafter	318	3,180
Total	¥546	$5,460

At March 31, 2008, buildings and structures of ¥458 million ($4,580 thousand) and land of ¥250 million ($2,500 thousand) were pledged as collateral for long-term debt (including current portion of long-term debt) of ¥266 million ($2,660 thousand).

7. RETIREMENT AND PENSION PLANS

The Company and its certain 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 and certain domestic subsidiaries have 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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥1,228	¥1,230	$12,280
Fair value of plan assets	(373)	(414)	(3,730)
Unrecognized actuarial loss	28	47	280
Prepaid pension cost	38	26	380
Net liability	¥ 922	¥ 889	$ 9,220

The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥130	¥125	$1,300
Interest cost	19	18	190
Expected return on plan assets	(12)	(12)	(120)
Recognized actuarial loss	11		110
Net periodic benefit costs	¥149	¥131	$1,490

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
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 Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, 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 Corporate Law 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 Corporate Law 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 Corporate Law 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law 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 Corporate Law 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 specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law 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.

At the general shareholders' meeting held on June 23, 2006, the shareholders approved a transfer of additional paid-in capital (a component of capital surplus) in the amount of ¥1,621 million to accumulated deficit in order to improve the financial stability of the Company.

For the year ended March 31, 2007, the Company issued 2,370 shares of common stock upon exercise of 237 stock options at the price of ¥200,000 per share. The amount of ¥237 million was credited to common stock and the remaining amount of ¥237 million was credited to additional paid-in capital.

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 ($2,000.00) per share. The amount of ¥45 million ($450 thousand) was credited to common stock and the remaining amount of ¥45 million ($450 thousand) was credited to additional paid-in capital.

9. STOCK OPTION

The stock options outstanding as March 31, 2008 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 ($2,000.00)	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 ($2,000.00)	From April 1, 2004 to September 20, 2013
The Third Stock Option	3 directors 28 employees	500 shares	2004.5.17	¥200,000 ($2,000.00)	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 ($2,000.00)	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, 2007				
Non-vested				
March 31, 2006—Outstanding				
Granted				
Canceled				
Vested				
March 31, 2007—Outstanding				
Vested				
March 31, 2006—Outstanding	6,300	1,790	290	620
Vested				
Exercised	(1,780)	(250)	(140)	(200)
Canceled	(30)			
March 31, 2007—Outstanding	4,490	1,540	150	420
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**
Exercise price	**¥200,000**	**¥200,000**	**¥200,000**	**¥200,000**
	($2,000.00)	**($2,000.00)**	**($2,000.00)**	**($2,000.00)**
Average stock price at exercise	**¥332,625**	**¥412,333**	**¥325,000**	**¥414,500**
	($3,326.25)	**($4,123.33)**	**($3,250.00)**	**($4,145.00)**

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 220 shares (720 shares in 2007) of common stock upon exercise of 22 (72 in 2007) stock options at the price of ¥200,000 ($2,000.00) per share. The total transaction amounts for the years ended March 31, 2008 and 2007 were ¥44 million ($440 thousand) and ¥144 million, respectively.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥3,296 million ($32,960 thousand) and ¥3,239 million for the years ended March 31, 2008 and 2007, 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, 2008 and 2007. 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, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current deferred tax assets:			
Inventories	¥ 328	¥ 484	$ 3,280
Accrued bonuses	96	94	960
Unrealized profit on sales of inventories	22	83	220
Other	175	80	1,750
Less valuation allowance	(271)	(343)	(2,710)
Total	¥ 350	¥ 398	$ 3,500
Current deferred tax liabilities	¥ 41	¥ 10	$ 410
Net current deferred tax assets	¥ 308	¥ 387	$ 3,080
Non-current deferred tax assets:			
Retirement benefits	¥ 368	¥ 351	$ 3,680
Investment securities	15	14	150
Depreciation	226	192	2,260
Allowance for doubtful accounts		80	
Foreign source tax	133		1,330
Tax loss carryforwards	80	1,000	800
Other	220	156	2,200
Less valuation allowance	(690)	(1,285)	(6,900)
Total	¥ 354	¥ 511	$ 3,540
Non-current deferred tax liabilities:			
Deferred gain on fixed assets		¥ 312	
Goodwill	¥ 878	1,081	$ 8,780
Total	¥ 878	¥ 1,393	$ 8,780
Net non-current deferred tax liabilities	¥ 524	¥ 882	$ 5,240

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, 2008 and 2007 was as follows:

	2008	2007
Normal effective statutory tax rate in Japan	40.0%	40.0%
Expenses not deductible for income tax purposes	1.1	1.8
Valuation allowance	(100.9)	(22.2)
Per capita rate of local tax	2.8	4.8
Tax rate difference of subsidiaries	4.9	(28.9)
Elimination in consolidation	50.1	37.9
Gain resulting from change in ownership in a subsidiary	(9.6)	(8.1)
Other—net	9.0	(0.8)
Actual effective tax rate	(2.6)%	24.5%

At March 31, 2008, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥205 million ($2,050 thousand) which are available to be offset against taxable income. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 1	$ 10
2013	58	580
2014	64	640
2015	80	800
Total	¥205	$2,050

13. LEASES

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

Total rental expense for the years ended March 31, 2008 and 2007 was ¥314 million ($3,140 thousand) and ¥366 million, respectively, including ¥28 million ($280 thousand) and ¥88 million of lease payments under finance leases, respectively.

The Company and domestic subsidiaries' pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense for finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

	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**

	Millions of Yen		
			2007
	Machinery and Vehicles	Furniture and Fixtures	Total
Acquisition cost	¥30	¥199	¥230
Accumulated depreciation	5	81	86
Net leased property	¥25	¥117	¥143

	Thousands of U.S. Dollars		
			2008
	Machinery and Vehicles	Furniture and Fixtures	Total
Acquisition cost	**$300**	**$1,990**	**$2,300**
Accumulated depreciation	**90**	**1,060**	**1,150**
Net leased property	**$200**	**$ 930**	**$1,140**

Obligations under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	**¥ 87**	¥ 28	**$ 870**
Due after one year	**27**	114	**270**
Total	**¥114**	¥143	**$1,140**

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

Depreciation expense was ¥28 million ($280 thousand) and ¥88 million for the years ended March 31, 2008 and 2007, respectively.

14. DERIVATIVES

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

All derivative transactions entered into are 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 liabilities.

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

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

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, 2008 and 2007 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, 2008:				
Basic EPS				
Net income available to common shareholders	**¥679**	**281**	**¥2,412.91**	**$24.12**
Effect of Dilutive Securities				
Warrants		**2**		
Diluted EPS				
Net income for computation	**¥679**	**284**	**¥2,392.25**	**$23.92**
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	¥320	280	¥1,142.96	
Effect of Dilutive Securities				
Warrants		4		
Diluted EPS				
Net income for computation	¥320	284	¥1,125.52	

16. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2008 and 2007 is as follows:

(1) Industry Segments

a. Sales and Operating Income

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**

Millions of Yen

	2007				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations / Corporate	Consolidated
Sales to customers	¥18,572	¥ 182	¥ 2,226		¥20,982
Intersegment sales			1	¥ (1)	
Total sales	18,572	182	2,228	(1)	20,982
Operating expenses	15,115	1,047	3,461	1,572	21,197
Operating income (loss)	¥ 3,456	¥ (865)	¥(1,232)	¥(1,574)	¥ (215)

Thousands of U.S. Dollars

	2008				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations / Corporate	Consolidated
Sales to customers	**$180,800**	**$ 2,290**	**$19,680**		**$202,780**
Intersegment sales				**$ (0)**	
Total sales	**180,800**	**2,290**	**19,680**	**(0)**	**202,780**
Operating expenses	**139,120**	**14,490**	**27,500**	**16,060**	**197,180**
Operating income (loss)	**$ 41,680**	**$(12,190)**	**$ (7,820)**	**$(16,070)**	**$ 5,600**

b. Assets, Depreciation and Capital Expenditures

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**

Millions of Yen

	2007				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations / Corporate	Consolidated
Assets	¥25,346	¥3,350	¥6,470	¥10,371	¥45,539
Depreciation	955	135	486	30	1,608
Capital expenditures	323	130	380	118	952

Thousands of U.S. Dollars

	2008				
	Genetic Engineering Research	Gene Medicine	AgriBio	Eliminations / Corporate	Consolidated
Assets	**$241,900**	**$16,720**	**$60,380**	**$133,880**	**$452,890**
Depreciation	**8,270**	**1,180**	**4,400**	**420**	**14,290**
Capital expenditures	**11,730**	**190**	**1,440**	**1,670**	**15,050**

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 ¥1,607 million ($16,070 thousand) and ¥1,574 million for the years ended March 31, 2008 and 2007, respectively, consisting principally of fundamental reasearch and development expenses and administrative expenses incurred by the administrative and accounting departments of the Company.
3. Eliminations / Corporate includes corporate assets of ¥13,388 million ($133,880 thousand) and ¥10,390 million for the years ended March 31, 2008 and 2007, 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.

(2) Geographical Segments

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

Millions of Yen

	2007					
	Japan	Asia	North America	Europe	Eliminations / Corporate	Consolidated
Sales to customers	¥13,537	¥1,477	¥ 4,587	¥ 1,380		¥20,982
Intersegment sales	1,305	940	1,244		¥(3,490)	
Total sales	14,842	2,417	5,832	1,380	(3,490)	20,982
Operating expenses	13,787	2,201	5,662	1,315	(1,768)	21,197
Operating income (loss)	¥ 1,055	¥ 216	¥ 169	¥ 64	¥(1,721)	¥ (215)
Assets	¥20,177	¥5,021	¥10,072	¥ 933	¥ 9,333	¥45,539

Thousands of U.S. Dollars

	2008					
	Japan	Asia	North America	Europe	Eliminations / Corporate	Consolidated
Sales to customers	$125,960	$17,150	$41,860	$ 17,790		$202,780
Intersegment sales	16,800	10,600	16,700		$(44,120)	
Total sales	142,770	27,760	58,570	17,790	(44,120)	202,780
Operating expenses	127,940	22,550	57,080	16,170	(26,560)	197,180
Operating income	$ 14,830	$ 5,200	$ 1,490	$1,620	$ (17,550)	$ 5,600
Assets	$176,580	$54,220	$89,720	$ 10,720	$121,630	$452,890

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 ¥1,607 million ($16,070 thousand) and ¥1,574 million for the years ended March 31, 2008 and 2007, 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 ¥13,388 million ($133,880 thousand) and ¥10,390 million for the years ended March 31, 2008 and 2007, 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.

(3) Sales to Foreign Customers

Millions of Yen

	Asia	North America	Europe	Other	Total
2008	**¥2,084**	**¥4,550**	**¥1,819**	**¥28**	**¥8,483**
2007	1,794	5,041	1,543	26	8,406

Thousands of U.S. Dollars

	Asia	North America	Europe	Other	Total
2008	**$20,840**	**$45,500**	**$18,190**	**$280**	**$84,830**

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.

Deloitte Touche Tohmatsu
Sumitomoseimei Kyoto Building
62, Tsukihoko-cho
Shinmachi-Higashiiru, Shijo-dori
Shimogyo-ku, Kyoto 600-8492
Japan

Tel: +81 (75) 222 0181
Fax: +81 (75) 231 2703
www.deloitte.com/jp

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, 2008 and 2007, 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, 2008 and 2007, 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.

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 24, 2008

Member of
Deloitte Touche Tohmatsu

Corporate Data (As of March 31, 2008)

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	¥9,022 million
Number of Employees	989
URL	http://www.takara-bio.com

Main Offices

	Location
Head Office	Seta 3-4-1, Otsu, Shiga 520-2193, Japan
Kusatsu Center	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
Manufacturing Department	Minamigomizuka 1350-2, Kusu-cho, Yokkaichi, Mie 510-0104, Japan
Manufacturing Department	Karijuku 695-4, Osaki-cho, Soh-gun, Kagoshima 899-7305, Japan

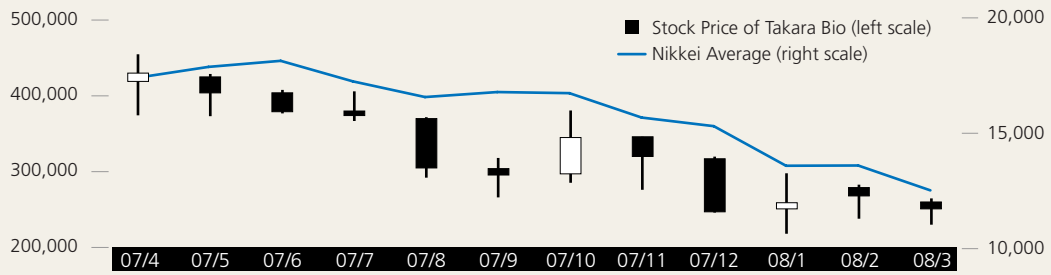
Consolidated Subsidiaries and Equity-Method Affiliates

Name	Location	Issued Capital and Subscription	Lines of Business
Takara Biotechnology (Dalian) Co., Ltd.	Dalian, People's Republic of China	¥2,350 million	Genetic engineering research
Takara Korea Biomedical Inc.	Seongnam, 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	¥700 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
Pulmuone-Takara Agri Co., Ltd.	North Chungcheong, Korea	W2,700 million	AgriBio

Investor Information (As of March 31, 2008)

Common Stock		
Authorized Shares	1,000,000 shares	
Issued and Outstanding	281,829 shares	
Number of Shareholders	18,823	
Major Shareholder	Takara Holdings Inc. (71.0% 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
Shareholders' 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	
Mediation Offices	All offices (head and branch) of Mizuho Trust & Banking Co., Ltd. (except for "Trust Office"), and Mizuho Investors Securities Co., Ltd., nationwide	
Inquires to Transfer Agent and Registrar	Mizuho Trust & Banking Co., Ltd. Stock Agency Transfer Department 17-7, Saga 1-chome, Koto-ku, Tokyo, 135-8722, Japan Telephone: 0120-288-324 (toll free)	

Stock Price Range (Yen)



Inquiries: Takara Bio Inc., Corporate Communications
Telephone: +81-77-543-7212
E-mail: bio-ir@takara-bio.co.jp

TAKARA BIO INC.

Seta 3-4-1, Otsu, Shiga 520-2193, Japan
Telephone: +81-77-543-7212

www.takara-bio.com

PRINTED WITH SOY INK™

Printed in Japan with soy ink