Takara Bio Inc. and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2021, and Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Shijokarasuma FT Square
20 Naginataboko-cho
Karasuma-higashiiru, Shijo-dori
Shimogyo-ku, Kyoto 600-8008
Japan

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Takara Bio Inc. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment Note 2 u. "Significant Accounting Estimates"	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
In the consolidated balance sheet as of March 31, 2021, the Group recorded ¥6,149 million in goodwill, which comprises 6.9% of total assets. Goodwill was recorded when Takara Bio USA, Inc., a consolidated subsidiary of the Group located in the United States, acquired all shares of Clontech Laboratories, Inc., Rubicon Genomics, Inc. and WaferGen Bio-systems, Inc. The Group determined the reporting unit where the goodwill was allocated to as Takara Bio USA, Inc., and performed the goodwill impairment testing. The fair value of the reporting unit was determined primarily based on the discounted future cash flows. The estimate of the future cash flows involves management's significant assumptions such as future growth rates. Since such assumptions are affected by market growth and synergies between the Group's existing technologies and other acquired technologies, uncertainty exists in these estimates. Based on the fact that the results of the goodwill impairment assessment could have a significant impact on the consolidated financial statements and also involves high uncertainty due to management's significant assumptions related to the future, we have determined the goodwill impairment assessment as a key audit matter.	Our audit procedures related to the Group's goodwill impairment assessment included the following, among others: • We evaluated the design and tested the operating effectiveness of the internal controls over management's process to assess the reasonableness of the future growth rates, which are significant assumptions used by management to estimate the fair value. • We evaluated the accuracy of management's estimate of future cash flows by comparing the business plan, which is the basis of the estimated future cash flows, with the next fiscal year's forecast and the medium-term management plan 2023, both of which were approved by management, and also by comparing management's historical forecast for previous fiscal years to corresponding actual results. • We inquired of management of the business synergies and market growth rates, which impact the achievement of the future business plans. Based on our understanding of the business strategy, we evaluated the reasonableness of the business plans by: 1. Conducting a trend analysis based on past performance 2. Comparing the business plans with market forecasts and available external data • We conducted a sensitivity analysis that considers the external environment and rate of deviation between forecast and actual results in previous fiscal years, to take into consideration the uncertainty related to the future.

Revenue recognition (contract services)	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
In the consolidated statement of income for the fiscal year ended March 31, 2021, the Group recorded ¥46,086 million in net sales, which includes revenue from contract services such as services for supporting genetic analysis and testing and services for developing regenerative medicine products, amounting to ¥8,901 million. This revenue comprises 19.3% of net sales. The Group provides various contract services to customers and the nature of those transactions differs by contract. In particular, for the transactions that have unique conditions with customers or that require customer acceptance from customers, the Group needs to assess carefully when the performance obligation is satisfied. Given that judgment is involved in determining the timing of revenue recognition for such contract services, we have determined that revenue recognition for contract services is a key audit matter.	Our audit procedures related to the Group's judgment on the timing of revenue recognition for contract services included the following, among others: • We evaluated the design and tested the operating effectiveness of the internal controls over management's process to assess the appropriateness of the revenue recognition timing. • Based on our understanding of the nature of the contract services, we inspected the contracts or other supporting evidence and assessed the appropriateness of the revenue recognition timing. • We compared the accounting records with the respective customer acceptance and other documents supporting the timing of the customer's acceptance and assessed whether the related revenue was recognized in the appropriate period. • For high-value contract services, we examined the payment status from customers and also sent confirmation letters to those customers with outstanding account receivable balances in order to assess the appropriateness of the revenue recognition timing.

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

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

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

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

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

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

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

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

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Deloitte Touche Tohmatsu LLC

June 25, 2021

Takara Bio Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2021

ASSETS	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 23,308	¥ 14,462	$ 209,981
Marketable securities (Notes 3 and 14)		2,000	
Time deposits (Note 14)	2,684	3,803	24,180
Notes and accounts receivable:			
Trade (Note 14)	12,626	9,102	113,747
Other	438	786	3,945
Allowance for doubtful accounts (Note 14)	(41)	(56)	(369)
Inventories (Note 4)	9,184	7,595	82,738
Prepaid expenses and other current assets	913	692	8,225
Total current assets	49,115	38,387	442,477
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 11):			
Land	8,143	5,724	73,360
Buildings and structures	15,670	16,478	141,171
Machinery, equipment and vehicles	7,058	6,705	63,585
Tools, furniture and fixtures	7,673	7,912	69,126
Lease assets (Note 13)	771	772	6,945
Other	1,025	863	9,234
Construction in progress	3,756	85	33,837
Total property, plant and equipment	44,098	38,542	397,279
Accumulated depreciation	(14,331)	(14,328)	(129,108)
Net property, plant and equipment	29,766	24,213	268,162
INVESTMENTS AND OTHER ASSETS:			
Goodwill	6,149	7,006	55,396
Technology assets	1,953	3,095	17,594
Trademarks	563	597	5,072
Asset for retirement benefits (Note 7)	114	40	1,027
Deferred tax assets (Note 12)	1,075	779	9,684
Other assets	1,012	888	9,117
Total investments and other assets	10,868	12,409	97,909
TOTAL	¥ 89,750	¥ 75,009	$ 808,558

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 6 and 14)	¥ 138	¥ 134	$ 1,243
Notes and accounts payable (Note 14):			
Trade	2,077	1,027	18,711
Construction and other	2,911	2,324	26,225
Accrued income taxes (Notes 12 and 14)	3,146	683	28,342
Accrued expenses	2,223	1,780	20,027
Other current liabilities (Note 15)	2,693	297	24,261
Total current liabilities	13,191	6,248	118,837
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 14)	1,003	986	9,036
Liability for retirement benefits (Note 7)	800	783	7,207
Other long-term liabilities	452	400	4,072
Total long-term liabilities	2,256	2,169	20,324
COMMITMENTS (Notes 13 and 15)			
EQUITY (Notes 8 and 18):			
Common stock, authorized, 400,000,000 shares; issued, 120,415,600 shares in 2021 and 2020	14,965	14,965	134,819
Capital surplus	32,893	32,893	296,333
Retained earnings	27,085	18,501	244,009
Accumulated other comprehensive income (loss):			
Foreign currency translation adjustments	(529)	436	(4,765)
Defined retirement benefit plans (Note 7)	(234)	(300)	(2,108)
Total	74,181	66,496	668,297
Noncontrolling interests	120	95	1,081
Total equity	74,302	66,591	669,387
TOTAL	¥89,750	¥75,009	$ 808,558

See notes to consolidated financial statements.

Takara Bio Inc. and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET SALES	¥46,086	¥34,565	$415,189
COST OF SALES (Notes 7 and 13)	14,214	13,459	128,054
Gross profit	31,872	21,105	287,135
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 10, and 13)	17,919	14,830	161,432
Operating income	13,952	6,274	125,693
OTHER INCOME (EXPENSES):			
Interest income	113	141	1,018
Foreign exchange gain (loss)	2	(160)	18
Rental income from real estate	128	113	1,153
National subsidies (Note 11)	517		4,657
Interest expense	(24)	(7)	(216)
Rental expenses on real estate	(54)	(38)	(486)
Expenses of inactive non-current assets	(18)	(12)	(162)
Loss on sales and disposals of property, plant and equipment	(97)	(31)	(873)
Impairment loss (Note 5)		(880)	
Loss on liquidation of business (Note 5)	(458)		(4,126)
Loss on tax purpose reduction entry of non-current assets (Note 11)	(517)		(4,657)
Other, net	10	35	90
Other expenses, net	(400)	(841)	(3,603)
INCOME BEFORE INCOME TAXES	13,552	5,433	122,090
INCOME TAXES (Note 12):			
Current	4,297	1,544	38,711
Deferred	(326)	57	(2,936)
Total income taxes	3,971	1,601	35,774
NET INCOME	9,581	3,831	86,315
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	34	11	306
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 9,547	¥ 3,819	$ 86,009

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.s and 17):			
Basic net income	¥79.29	¥31.72	$0.71
Cash dividends applicable to the year	16.00	8.00	0.14

See notes to consolidated financial statements.

Takara Bio Inc. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥9,581	¥3,831	$ 86,315
OTHER COMPREHENSIVE LOSS (Note 16):			
Foreign currency translation adjustments	(974)	(530)	(8,774)
Defined retirement benefit plans	66	(85)	594
Total other comprehensive loss	(907)	(615)	(8,171)
COMPREHENSIVE INCOME	¥8,674	¥3,216	$ 78,144
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥8,648	¥3,206	$77,909
Noncontrolling interests	25	9	225

See notes to consolidated financial statements.

Takara Bio Inc. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2021

	Thousands	Millions of Yen							
					Accumulated Other Comprehensive Income (Loss)				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2019	120,415	¥14,965	¥32,893	¥15,401	¥ 964	¥(215)	¥64,009	¥ 85	¥64,095
Cumulative effects of changes in accounting policies				123			123		123
Restated balance	120,415	14,965	32,893	15,524	964	(215)	64,133	85	64,218
Net income attributable to owners of the parent				3,819			3,819		3,819
Cash dividends, ¥7.00 per share				(842)			(842)		(842)
Net change in the year					(527)	(85)	(613)	9	(603)
BALANCE, MARCH 31, 2020	120,415	14,965	32,893	18,501	436	(300)	66,496	95	66,591
Net income attributable to owners of the parent				9,547			9,547		9,547
Cash dividends, ¥8.00 per share				(963)			(963)		(963)
Net change in the year					(965)	66	(898)	25	(873)
BALANCE, MARCH 31, 2021	120,415	¥14,965	¥32,893	¥27,085	¥(529)	¥(234)	¥74,181	¥120	¥74,302

	Thousands of U.S. Dollars (Note 1)							
				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Capital Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2020	$ 134,819	$ 296,333	$ 166,675	$ 3,927	$(2,702)	$ 599,063	$ 855	$ 599,918
Net income attributable to owners of the parent			86,009			86,009		86,009
Cash dividends, $0.07 per share			(8,675)			(8,675)		(8,675)
Net change in the year				(8,693)	594	(8,090)	225	(7,864)
BALANCE, MARCH 31, 2021	$ 134,819	$ 296,333	$ 244,009	$(4,765)	$(2,108)	$ 668,297	$ 1,081	$ 669,387

See notes to consolidated financial statements.

Takara Bio Inc. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥ 13,552	¥ 5,433	$ 122,090
Adjustments for:			
Income taxes paid	(1,854)	(1,247)	(16,702)
Depreciation and amortization	3,706	3,418	33,387
Loss on sales and disposals of property, plant and equipment	97	31	873
Impairment loss (Note 5)		880	
Loss on liquidation of business (Note 5)	458		4,126
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(3,559)	(579)	(32,063)
Increase in inventories	(1,767)	(974)	(15,918)
Decrease in trade notes and accounts payable	1,016	(468)	9,153
Increase in liability for retirement benefits	16	116	144
Subsidies received	181		1,630
Other, net	2,093	(269)	18,855
Total adjustments	390	906	3,513
Net cash provided by operating activities	13,943	6,339	125,612
INVESTING ACTIVITIES:			
Increase in time deposits	(2,613)	(6,785)	(23,540)
Decrease in time deposits	3,766	10,515	33,927
Proceeds from sales of property, plant and equipment	14	110	126
Payments to acquire marketable securities		(4,000)	
Proceeds from sales of marketable securities	2,000	4,000	18,018
Purchases of property, plant and equipment and intangible assets	(8,687)	(3,983)	(78,261)
Subsidies received	1,900		17,117
Increase in long-term prepaid expenses	(158)	(69)	(1,423)
Other, net	(0)	(0)	(0)
Net cash used in investing activities	(3,778)	(212)	(34,036)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(140)	(104)	(1,261)
Cash dividends paid	(962)	(841)	(8,666)
Net cash used in financing activities	(1,103)	(946)	(9,936)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(215)	(182)	(1,936)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,845	4,998	79,684
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,462	9,464	130,288
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 23,308	¥ 14,462	$ 209,981
NONCASH INVESTING AND FINANCING ACTIVITIES			
Assets in finance lease transactions	¥684	¥736	$6,162
Liabilities in finance lease transactions	765	810	6,891

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Takara Bio Inc. (the "Company") is incorporated and operates. Japanese yen figures of less than a million yen are rounded down to the nearest million yen, except for per share data. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥111 to $1, the approximate rate of exchange at March 31, 2021. U.S. dollar figures of less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*** – The consolidated financial statements as of March 31, 2021, include the accounts of the Company and its 8 (8 in 2020) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

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

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recoding a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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

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

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

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

f. Inventories – Inventories are stated principally at the lower of cost, determined by the weighted-average method, or net selling value (see Note 4).

g. Property, Plant and Equipment – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its subsidiaries is computed principally by the straight-line method. The range of useful lives is principally from 6 to 60 years for buildings and structures, from 4 to 10 years for machinery, equipment and vehicles, and from 2 to 15 years for tools, furniture and fixtures. Under certain conditions such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section.

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

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

i. ***Long-Lived Assets*** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. ***Retirement and Pension Plans*** – The employees' retirement benefits programs of the Company and certain subsidiaries consist of an unfunded lump-sum severance payment plan, a defined benefit pension plan and a defined contribution pension plan as described in Note 7.

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

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

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

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

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

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

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

q. Foreign Currency Financial Statements – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

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

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

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

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

Diluted net income per share is not presented as there are not any dilutive securities outstanding.

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

t. New Accounting Pronouncements

(1) The Company

On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments." On March 26, 2021, the ASBJ also issued ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and the effects of applying the accounting standard and guidance is not considered to have material impact on the consolidated financial statements.

(2) Foreign Subsidiaries

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

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

u. Significant Accounting Estimates

Goodwill

The Group records goodwill at Takara Bio USA, Inc., which was recorded when Takara Bio USA, Inc., acquired all of the shares of Clontech Laboratories, Inc., Rubicon Genomics, Inc. and WaferGen Bio-systems, Inc., respectively.

(1) Amounts recorded in the consolidated financial statements for the current fiscal year

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Goodwill	¥6,149	$55,396

(2) Information on the content of significant accounting estimates for identified items

The Group determined the reporting unit where the goodwill was allocated to as Takara Bio USA, Inc., and performs procedures to assess goodwill impairment. The recoverable amount of the reporting unit is based on its fair value. The fair value is determined primarily based on the discounted present value of estimated future cash flows, which utilize assumptions such as future growth rates to estimate such cash flows.

As the recoverable amount sufficiently exceeds the carrying amount at the end of the fiscal year, the Group considers that it is unlikely that a material impairment loss will occur even if there is a reasonable range of changes in future growth rates and other factors used in the calculation of the recoverable amount.

v. Additional Information – Based on information available at the time of preparation of the consolidated financial statements for the fiscal year under review, the impact of the COVID-19 on the Group is assumed to continue for a certain period of FY2022 (the year ending March 31, 2022), although it varies by region. Although the Group makes estimates and judgments regarding the impairment of goodwill and the recoverability of deferred tax assets at the end of the fiscal year under review based on the assumptions noted above, no indicators of impairment have been identified for goodwill, and the Group has determined that no additional valuation allowance is required for the recoverability of deferred tax assets.

Due to the high degree of uncertainty involved in the impact of the COVID-19 pandemic, any change in the above assumptions could affect the Group's financial condition and results of operations.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Current:			
Trust beneficiary rights	¥	¥2,000	$

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

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

4. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products and merchandise	¥4,966	¥4,511	$ 44,738
Work in process	1,316	1,208	11,855
Raw materials and supplies	2,901	1,874	26,135
Total	¥9,184	¥7,595	$ 82,738

5. LONG-LIVED ASSETS

Impairment Loss

The impairment losses of long-lived assets for the years ended March 31, 2021 and 2020, were as follows:

March 31, 2021

		Millions of Yen					
		Asset Type and Impairment Loss					
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Land	Other Assets	Total
Property to be disposed	Takara Bio USA, Inc. Mountain View, California, USA etc	¥	¥3	¥3	¥	¥353	¥360
Total		¥	¥3	¥3	¥	¥353	¥360

March 31, 2020

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

March 31, 2021

		Thousands of U.S. Dollars					
		Asset Type and Impairment Loss					
Utilization	Location	Building and Structures	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Land	Other Assets	Total
Property to be disposed	Takara Bio USA, Inc. Mountain View, California, USA etc	$	$27	$27	$	$3,180	$3,243
Total		$	$27	$27	$	$3,180	$3,243

(1) Reason for recognizing impairment loss

In the fiscal year ended March 31, 2021, the Group recognized an impairment loss on properties to be disposed upon liquidation of the next-generation sequence library-production equipment-related business to the recoverable amount, and recorded those reduced amount including in "Loss on liquidation of business," not in "Impairment loss."

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

(2) Method of calculating recoverable amount

In the fiscal year ended March 31, 2021, the recoverable amount of property to be disposed was measured at value in use, which was as based on the future cash flow.

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

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

Long-term debt at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Obligation under leases	¥1,142	¥1,120	$ 10,288
Less current portion	138	134	1,243
Long-term debt, less current portion	¥1,003	¥ 986	$ 9,036

Annual maturities of long-term debt as of March 31, 2021, for the next five years and thereafter were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 138	$ 1,243
2023	128	1,153
2024	120	1,081
2025	94	846
2026	73	657
2027 and thereafter	586	5,279
Total	¥1,142	$ 10,288

7. RETIREMENT AND PENSION PLANS

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

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

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

(1) The changes in defined benefit obligations for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥1,515	¥1,336	$ 13,648
Current service cost	130	115	1,171
Interest cost	5	4	45
Actuarial losses	11	121	99
Benefits paid	(108)	(59)	(972)
Others	1	(3)	9
Balance at end of year	¥1,554	¥1,515	$ 14,000

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥773	¥761	$6,963
Expected return on plan assets	13	13	117
Actuarial losses	58	(35)	522
Contributions from the employer	72	66	648
Benefits paid	(50)	(30)	(450)
Others	1	(2)	9
Balance at end of year	¥868	¥773	$7,819

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligations	¥ 755	¥ 733	$ 6,801
Plan assets	(868)	(773)	(7,819)
Total	(113)	(40)	(1,018)
Unfunded defined benefit obligations	799	782	7,198
Net liability arising from defined benefit obligations	¥ 685	¥ 742	$ 6,171

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits	¥ 800	¥783	$ 7,207
Asset for retirement benefits	(114)	(40)	(1,027)
Net liability arising from defined benefit obligations	¥ 685	¥742	$ 6,171

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥130	¥115	$1,171
Interest cost	5	4	45
Expected return on plan assets	(13)	(13)	(117)
Recognized actuarial losses	74	61	666
Amortization of prior service cost	(26)	(26)	(234)
Net periodic benefit costs	¥169	¥141	$1,522

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Prior service cost	¥ (26)	¥ (26)	$ (234)
Actuarial losses	121	(95)	1,090
Total	¥ 94	¥(122)	$ 846

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized prior service cost		¥ 26	
Unrecognized actuarial gains	¥(334)	(456)	$(3,009)
Total	¥(334)	¥(429)	$(3,009)

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Debt investments	55%	56%
General account of insurance company	27	28
Equity investments	15	11
Cash and cash equivalents	2	2
Others	1	3
Total	100%	100%

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

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

(8) Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	2021	2020
Discount rate:		
Defined benefit	0.377%	0.377%
Lump-sum pension distribution	0.382%	0.382%
Expected rate of return on plan assets	2.000%	2.000%
Average rate of increase in salary	3.600%	4.200%

(9) Contributions paid to the defined contribution pension plan were ¥145 million ($1,306 thousand) and ¥140 million for the years ended March 31, 2021 and 2020, respectively.

8. EQUITY

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

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

9. RELATED PARTY DISCLOSURES

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

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,545 million ($49,954 thousand) and ¥3,869 million for the years ended March 31, 2021 and 2020, respectively.

11. NATIONAL SUBSIDIES AND LOSS ON TAX PURPOSE REDUCTION ENTRY OF NON-CURRENT ASSETS

The amount of subsidies received is included in other income as "National subsidies," and the amount of tax purpose reduction entry of non-current assets related to such subsidies is included in other expenses as "Loss on tax purpose reduction entry of non-current assets."

The tax purpose reduction entry amount directly deducted from non-current assets acquired through subsidies were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Building and structures	¥144	¥	$1,297
Machinery, equipment and vehicles	295		2,657
Tools, furniture and fixtures	77		693
Total	¥517	¥	$4,657

12. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.0% for the years ended March 31, 2021 and 2020. Foreign subsidiaries are subject to income taxes of the countries where they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Tax loss carryforwards	¥ 539	¥ 666	$ 4,855
Inventories	260	159	2,342
Impairment loss	213	359	1,918
Unrealized profit on sales of inventories	687	376	6,189
Reconciliation related to retirement benefits	100	128	900
Accrued bonuses	156	129	1,405
Retirement benefits	172	165	1,549
Depreciation	34	23	306
Expenses incurred upon acquisition	186	195	1,675
Research and development costs	109	137	981
Tax credit for research and development costs	56	84	504
Other	456	290	4,108
Total of tax loss carryforwards and temporary differences	2,972	2,717	26,774
Less valuation allowance for tax loss carryforwards	(205)	(199)	(1,846)
Less valuation allowance for temporary differences	(458)	(404)	(4,126)
Total valuation allowance	(664)	(603)	(5,981)
Deferred tax assets	¥2,307	¥2,113	$20,783
Deferred tax liabilities:			
Intangible assets	¥ 624	¥ 915	$ 5,621
Undistributed profit of foreign subsidiaries	441	268	3,972
Other	167	150	1,504
Deferred tax liabilities	¥1,232	¥1,334	$11,099
Net deferred tax assets	¥1,075	¥ 779	$ 9,684

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2021 and 2020, were as follows:

	Millions of Yen						
March 31, 2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards						¥ 539	¥ 539
Less valuation allowances for tax loss carryforwards						(205)	(205)
Net deferred tax assets relating to tax loss carryforwards						333	333

	Millions of Yen						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards						¥ 666	¥ 666
Less valuation allowances for tax loss carryforwards						(199)	(199)
Net deferred tax assets relating to tax loss carryforwards						466	466

	Thousands of U.S. Dollars						
March 31, 2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards						$ 4,855	$ 4,855
Less valuation allowances for tax loss carryforwards						(1,846)	(1,846)
Net deferred tax assets relating to tax loss carryforwards						3,000	3,000

Net deferred tax assets relating to tax loss carryforwards mainly consist of tax carryforwards arising from acquisitions of subsidiaries in the United States in 2017. The Company determined that it is recoverable considering the prospects for future taxable income, and does not recognize valuation allowances.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2021 and 2020 is omitted since the difference between the normal effective statutory tax rate and the actual effective tax rate is less than 5% of the normal effective statutory tax rate.

13. LEASES

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2021 and 2020, were ¥649 million ($5,846 thousand) and ¥471 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥217	$1,954
Due after one year	30	270
Total	¥248	$2,234

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

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

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

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

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

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

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

(3) Risk management for financial instruments

Credit risk management

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

Market risk management (foreign exchange risk)

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

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

Liquidity risk management

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

(4) Fair values of financial instruments

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

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥23,308	¥23,308	¥
Time deposits	2,684	2,684	
Notes and accounts receivable–trade (**)	12,585	12,585	
Marketable securities			
Total	¥38,579	¥38,579	¥
Notes and accounts payable–trade	¥2,077	¥2,077	
Current portion of long-term debt	138	138	¥ (0)
Notes and accounts payable–construction and other	2,911	2,911	
Accrued income taxes	3,146	3,146	
Long-term debt	1,003	997	(5)
Total	¥9,278	¥9,271	¥ (6)
Derivatives (*)	¥ (25)	¥ (25)	¥

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

March 31, 2021	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 209,981	$ 209,981	$
Time deposits	24,180	24,180	
Notes and accounts receivable–trade (**)	113,378	113,378	
Marketable securities			
Total	$ 347,558	$ 347,558	$
Notes and accounts payable–trade	$ 18,711	$ 18,711	
Current portion of long-term debt	1,243	1,243	$ (0)
Notes and accounts payable–construction and other	26,225	26,225	
Accrued income taxes	28,342	28,342	
Long-term debt	9,036	8,981	(45)
Total	$ 83,585	$ 83,522	$ (54)
Derivatives (*)	$ (225)	$ (225)	$

Notes: * Assets and liabilities arising from derivative transactions are shown at net value with amounts in parentheses representing the net liability position.
** Allowance for doubtful accounts is netted against notes and accounts receivable–trade.

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

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

Marketable securities

The fair values of marketable securities are measured at the quoted price obtained from the financial institution for certain debt instruments. The carrying values of certificates of deposit approximate fair value because of their short maturities. Fair value information for marketable and investment securities by classification is included in Note 3.

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

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

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

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of Yen			
March 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥23,308			
Time deposits	2,684			
Notes and accounts receivable–trade	12,585			
Marketable securities				
Total	¥38,579			

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

	Thousands of U.S. Dollars			
March 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 209,981			
Time deposits	24,180			
Notes and accounts receivable–trade	113,378			
Marketable securities				
Total	$ 347,558			

15. DERIVATIVES

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

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets and liabilities.

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

		Millions of Yen			
At March 31, 2021		Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:					
Buying	USD	¥ 54		¥ 1	¥ 1
	GBP				
	CNY	410		9	9
Selling	EUR	515		(3)	(3)
	CNY	1,075		(30)	(30)
Non-deliverable forward:					
Selling	KRW	89		(1)	(1)

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

At March 31, 2021		Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:					
Buying	USD	$ 486		$ 9	$ 9
	GBP				
	CNY	3,693		81	81
Selling	EUR	4,639		(27)	(27)
	CNY	9,684		(270)	(270)
Non-deliverable forward:					
Selling	KRW	801		(9)	(9)

16. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(974)	¥(530)	$(8,774)
Total	¥(974)	¥(530)	$(8,774)
Defined retirement benefits plans:			
Adjustments arising during the year	¥ 47	¥(157)	$ 423
Reclassification adjustments to profit	47	34	423
Amount before income tax effect	94	(122)	846
Income tax effect	(28)	36	(252)
Total	¥ 66	¥ (85)	$ 594
Total other comprehensive loss	¥(907)	¥(615)	$(8,171)

17. NET INCOME PER SHARE

The basis of computation for basic net income per share ("EPS") for the years ended March 31, 2021 and 2020, is as follows:

	Millions of Yen Net Income Attributable to Owners of the Parent	Thousands of Shares Weighted-Average Shares	Yen EPS	U.S. Dollars EPS
For the year ended March 31, 2021:				
Basic EPS				
Net income available to common shareholders	¥9,547	120,415	¥79.29	$ 0.71
For the year ended March 31, 2020:				
Basic EPS				
Net income available to common shareholders	¥3,819	120,415	¥31.72	

Diluted net income per share is not disclosed because no dilutive securities are outstanding for the years ended March 31, 2021 and 2020.

18. SUBSEQUENT EVENTS

(Appropriations of Retained Earnings)

On May 13, 2021, the Board of Directors of the Company resolved to propose cash dividends of ¥16.00 ($0.14) per share to shareholders of record as of March 31, 2021, or a total of ¥1,926 million ($17,351 thousand), for approval at the general shareholders' meeting held on June 24, 2021.

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Since the Group is a single segment, this information is omitted.

(Changes in Reportable Segments)

The Group operated business activities based on divisions by product and service, and each business division developed a comprehensive strategy for the products and services, including that of its subsidiaries. In April 2020, however, the Group decided to dissolve the business division system in order to achieve the transformation to a drug discovery company that creates new modalities by advancing the development of basic bio-drug discovery technologies and by integrating the management resources of each business division. As a result of this reorganization, the operating segments of "Bioindustry" and "Gene therapy," which were previously the reporting segments, combined to a single operating segment and reporting segment at the beginning of the fiscal year ended March 31, 2021, Base on the fact, no segment information for the previous fiscal year and the current fiscal year is disclosed.

(1) Information about geographical areas is as follows:

(a) Sales

Millions of Yen						
2021						
Japan	USA	China	Other Asia	Europe	Other	Total
¥20,475	¥7,862	¥8,415	¥4,917	¥3,743	¥671	¥46,086

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

Thousands of U.S. Dollars						
2021						
Japan	USA	China	Other Asia	Europe	Other	Total
$184,459	$70,828	$75,810	$44,297	$33,720	$6,045	$415,189

(b) Property, plant and equipment

Millions of Yen					
2021					
Japan	USA	China	Other Asia	Europe	Total
¥21,505	¥5,357	¥2,276	¥192	¥435	¥29,766

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

Thousands of U.S. Dollars					
2021					
Japan	USA	China	Other Asia	Europe	Total
$193,738	$48,261	$20,504	$1,729	$3,918	$268,162

* * * * * *