Nitta Gelatin Inc.

Annual Report 2011

for the year ended March 31, 2011

Corporate Profile

As the name suggests, Nitta Gelatin Inc. is a company that mainly produces and sells gelatin. We are the largest gelatin specialist company in Asia, ranked fourth in global market share and boasting the top market share in Japan. For over 90 years we have utilized our expertise processing gelatin to provide a wide array of gelatin and gelatin-related products globally; including edible gelatin for a wide variety of food application, gelatin for hard and soft capsules, collagen peptide for dietary supplements, collagen for cosmetics, and collagen casings, food ingredients, adhesives and other products made from such materials.

Our quest for a stable supply of safe, high-quality raw materials led us as early as 1975 to expand overseas with the production in India of ossein, the raw material for gelatin, from bovine bones, followed by the establishment of production and sales bases in the U.S. and Canada.

In recent years, we have set up laboratories to explore applications within Japan and overseas, aiming to not only sell gelatin and collagen peptide as raw materials, but also to propose their application in and use as end-use products to our manufacturing customers. In so doing, we have enhanced our capabilities to develop and sell products answering to customers' needs around the world.

Furthermore, our forward-looking research and development has given rise to ultra-pure gelatin. As a biomaterial for hydrogels soaked in pharmacological agents for application in the clinical research of the induction of human tissue regeneration, these gelatins have contributed significantly to the advancement of regenerative medicine.

Ever the innovator, Nitta Gelatin will continue to strive to live up to its corporate responsibilities as a global company.

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The earnings forecasts in this Annual Report are forward-looking statements

The earnings forecasts in this Annual Report are forward-looking statements made on the basis of information available at the time forecasts are made and other certain assumptions deemed reasonable. Therefore, actual earnings may differ from forecast figures as a result of changes in business performance and other factors.

Message From the President

For many people, gelatin is probably a familiar word that they associate with dessert jellies. Gelatinous desserts made with agar, a gelatin-like substance processed from red seaweed, such as *yokan* (bean paste jelly) and *anmitsu* (agar jelly in molasses), have a long history in Japan, particularly in Kyoto. By contrast, western-style dessert jellies made with gelatin date back to the beginning of the 20th century in Japan when edible gelatin was first introduced to the country from the West.

The application of gelatin is not only limited to the culinary area, but spreads to a broad array of fields encompassing photosensitive material for photographic film and paper primarily, hard and soft capsules for pharmaceutical and dietary supplements and many other daily essentials. The demand for gelatin increased following improvement and enrichment of cultures and living standards. In response to this increase, Nitta Gelatin and various other gelatin manufacturers from around the world grew in scale to dominate the industry. But then the advent and spread of digital photography triggered a steep decline in the need for photographic gelatin, resulting in substantial structural changes in the market. Ever since then, gelatin manufacturers have had to globalize and develop gelatin applications, with the aim of securing new markets, refocusing on the food and pharmaceutical fields. Only the companies that have been successful at this task have survived today to compete globally.

The demand for gelatin, moreover, has correlated with population trends and the improvement of living standards. Going forward, the material and cultural improvement of living standards, and with it the westernization and diversification of diets, is expected to shift increasingly to Asia in tandem with the region’s economic rise. Along with that, the main front for business competition in the gelatin market is seen as moving to Asia.

Meanwhile in Japan, R&D activities to find novel applications for gelatin have focused on collagen peptide (hydrolyzed gelatin; frequently called “collagen” in Japan) and underpinned the rapid spread of its use in dietary supplements, cosmetics and foods. The market for collagen peptide was initially driven by vigorous advertising aimed at building an attractive image for the product. But as the evidence of its functional performance is directly felt by consumers and re-endorsed by academic research, we expect collagen peptide to gain market acceptance internationally as a gelatin-related product originating from Japan.

Collagen casings, another collagen-related product, have displaced natural sausage casings made traditionally from animal intestines as the global demand for meat consumption expands. We expect a further expansion in the market for collagen casings, as these casings are uniform in quality and can be supplied in great abundance.

We have long endeavored to internationalize as Japan’s largest, as well as Asia’s leading gelatin manufacturer. At present, our production volume of gelatin ranks fourth in the world, with overseas sales accounting for roughly 30% of total sales. Furthermore, the fact that the main front for business competition in gelatin is increasingly shifting to our home market in Asia presents a great window of opportunity from our perspective. Our mission therefore is to compete successfully on the international market as Asia’s largest and only global gelatin specialist company. We thank all our shareholders and investors for their continued support and for their understanding of Nitta Gelatin’s spirit of taking on new challenges.

November 2011

Norimichi Soga

Representative Director and President

Nitta Gelatin at a Glance
—The Market at Large and Nitta Gelatin's Uniqueness—
Fiscal year ended March 31, 2011

Collagen Materials Business

Net sales ¥17,882 million
(64% of Group net sales)

Segment profit ¥1,773 million*
(9.9% operating margin)

*Income before elimination of undistributed operating expenses

Gelatin
- For food
- For hard and soft capsules
- For photographic films and papers

Peptide
- For dietary supplements
- For protein drinks and foods
- For cosmetics

Life Science
- Testing reagent for laboratory research
- Biomaterial
- Collagen for cosmetics

Casing
- Casings for sausage industry

Formula Solution Business

Net sales ¥10,040 million
(36% of Group net sales)

Segment profit ¥934 million*
(9.3% operating margin)

*Income before elimination of undistributed operating expenses

Materials
- Gelling agents
- Stabilizers for meat products
- Stabilizers and quality enhancers for heat-and-serve meals
- Consumer products for mail-order sales

Adhesives
- Hot-melt adhesives
- Animal glues
- High-performance polymer

The market at large	**Nitta Gelatin's uniqueness**
Owing to the Japanese population aging and having fewer children, and to changes in people's diet, food market needs have diversified and demand for gelatin in Japan for use mainly in convenience store delicatessen items, frozen foods and food provided during medical and nursing care has increased, in contrast to stagnant demand for the conventional use of gelatin in desserts and confectionery. On the whole, steady growth in demand is expected for gelatin in Japan. Overseas, we expect our proposals for novel food applications of edible gelatin to give rise to new demand, even though the markets for gelatin in the leading industrial countries have become saturated. Demand for edible and capsule-use gelatin for both pharmaceutical and dietary supplements is expected to increase in India, China and Southeast Asia as living standards rise as a result of economic growth.	Nitta has a strong reputation for its quality assurance capabilities and manufacturing technology nurtured in the course of development of photographic gelatin. We also have a long track record in marketing gelatin to global capsule manufacturers. Furthermore, in the food market, our proprietarily-developed granulated gelatin "GELATIN 21" and other similar products are complemented by our ability to develop and propose food recipes that our customers find indispensable in developing food-related products.
A large and burgeoning market for foods appealing nutrient function claims has emerged in both breadth and scope as a result of increasing health consciousness, mainly because more societies have aged and increased their caloric intake. In Japan, collagen has come to be widely recognized as a staple material in skin-care cosmetics. But in part because of this cosmetics aspect, the market for collagen peptide was an image-driven one initially. In recent years, research has begun to shed light on some of the clinically efficacious properties and mechanisms of collagen peptide on biological regulation, providing evidence of its additional advantages as a product and increasing the prospects for marketing it in both Japan and overseas as a functional food material.	Our *IXOS®* series of fish collagen peptide is highly prized in the health food market as an exceptionally flavorless, odorless and colorless product. Our *COLLAPEP® JB* and *COLLAPEP® PU* porcine collagen peptides have been confirmed to have arthritic and dermatological benefits and came about from our proprietary research into the functional characteristics of collagen peptide.
Collagen is broadly utilized for cosmetics since its image for cosmetic advantage is well-accepted. Collagen for tissue culture used in clinical research is an indispensable material to the advancement of medical science. Amid the heightened research activity in regenerative medicine in recent years, demand for gelatin and collagen has developed robustly as a safe and physiologically compatible biomaterial for drug delivery systems (DDS) and cell scaffolds to induce self-repair and regeneration of human tissue in tissue engineering.	Our *Cellmatrix®* has been broadly accepted by many medical research institutes as a tissue culture collagen. Our *beMatrix®* series gelatin and collagen is widely used as a promising biomaterial in tissue engineering research ranging from basic studies to clinical trials.
Natural sausage casings made from animal intestines are prone to price and supply volatilities, despite the preference among some consumers for the genuine material. Natural casings also have the drawback of lacking a uniform size and length. Collagen casings, by contrast, are stable across the board in quality, price and supply. Moreover, collagen casings can also contribute to productivity gains, as they can be made to easily accommodate high-speed filling. As a consequence, collagen casings are expected to displace natural casings as demand rises for sausages.	Demand for our collagen casing in snack sausages is robust in North America and the product is expected to tap the emerging markets in Asia. Also, our technology for processing collagen is being applied to commercializing other products, including collagen powder and collagen for medical use.
While the traditional market of cup jellies is stagnating, new demand for gelling agents as stabilizers and quality enhancers for heat-and-serve meals has increased as a result of the rising popularity of ready-made dishes sold in convenience stores and delicatessens. Furthermore, dietary supplements featuring collagen-addition have become more popular reflecting consumer health consciousness.	We have a strong development capability in food applications that utilize characteristics of food ingredients effectively. We design and propose food recipes to meet the needs of our customers who are seeking new products. We also have consumer-product line-ups of collagen supplements, such as *Collagenaid®* and *HG Collagen®* for mail-order sales to consumers.
The biggest advantage of hot-melt adhesives is high-speed adhesion property, which is applied by heat and solidify when cooled. Thus hot-melt adhesives are suitable for automated manufacturing. These adhesives have also gained attention lately as an alternative to solvent-based adhesive respond to the requirement of environment-responsive packaging. The market competition in these adhesives has intensified, however, with many other companies having started making them.	Our adhesives *NITTAIT®* provide optimal solutions for many customers due to their wide range of applications, ranging from packaging to bookbinding, hygiene products, construction, woodworking, automobiles, and electrical work. Furthermore, we are developing new application as a sealant of the new high-performance polymer hardened with ultraviolet exposure.

Management's Discussion and Analysis

Business Performance Summary for the Fiscal Year Ended March 31, 2011

In the fiscal year ended March 31, 2011, the Japanese economy initially saw a gradual recovery in certain sectors, mainly supported by expanding internal demand in emerging countries primarily in Asia, as well as economic stimulus measures around the world. However, Japan's economy was ultimately unable to stage a full-fledged recovery due to a worsening export environment caused by the yen's continuing appreciation, with no improvement in sight for deflation and employment conditions. In addition, the Great East Japan Earthquake, which struck on March 11, 2011, caused severe extensive damage to the Japanese people's daily lives and industry as a whole, although the Nitta Gelatin Group did not sustain any direct damage. Given the lingering uncertainty over the economic outlook, Japan's economic prospects still present concerns.

Against this backdrop, we have adopted three basic management policies: (1) Beyond customers' expectations; (2) Globalization & Innovation; and (3) Focusing and Concentration. Guided by these policies, we have actively worked to provide products and services that satisfy customers, develop new products and cultivate new markets, and reduce operating expenses, among other initiatives, with the aim of rising above the challenging business conditions. As a result, we posted the following consolidated business results for the fiscal year ended March 31, 2011.

On the sales front, net sales were ¥27,923 million, an increase of 5.8% year on year, supported by robust demand in the food market. Meanwhile, on the earnings front, operating income was ¥1,486 million, an increase of 5.6% year on year, primarily reflecting changes in unit sales prices and in raw materials prices. Net income rose 0.4% year on year to ¥1,051 million.

Net Sales and Earnings

» Net Sales

Higher sales were posted in both the Collagen Material business and Formula Solution business, buoyed by favorable and strong growth in demand for gelatin, collagen peptide, food materials and certain other products for the food market. Consequently, consolidated net sales increased ¥1,531 million, or 5.8%, year on year to ¥27,923 million.

» Gross Profit

Consolidated gross profit rose ¥327 million, or 5.4%, year on year to ¥6,325 million mainly on the back of reduced manufacturing expenses and higher net sales.

» Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥247 million, or 5.4%, year on year to ¥4,838 million. The main factor behind this increase was higher provisions to the allowance for retirement benefits.

» Operating Income

As a result of the foregoing, operating income rose ¥79 million, or 5.6%, year on year to ¥1,486 million.

» Net Income

We booked a gain on termination of retirement benefits of ¥140 million as an extraordinary gain, and a loss of ¥20 million on loss on retirement of fixed assets, impairment losses of ¥15 million, and other items as extraordinary losses.

As a result of the foregoing, net income increased ¥4 million, or 0.4%, year on year to ¥1,051 million.

Segment Performance

» Collagen Material Business

In the gelatin field, demand for edible gelatin in the Japanese market was favorable and held firm, mainly for gummy candy and other confectionery, convenience store deli items, and household gelatin powders. Meanwhile, overall sales of gelatin capsules, which are the main pharmaceutical gelatin application, remained mostly the same as in the previous fiscal year, as increased demand for use in health foods offset a drop in sales to the pharmaceutical sector due to falling prices. Sales of photographic gelatin increased year on year due to robust demand for use in both photographic film and paper, but a continuous decline in these sales is projected over the long term. In the North American market, sales of edible gelatin topped the previous year as a result of generally favorable prices. On the other hand, pharmaceutical gelatin sales declined sharply from the previous year on account of lackluster demand for capsules. Elsewhere, pharmaceutical gelatin sales held firm in Asia, underpinned by increased demand for pharmaceuticals and health foods.

Collagen peptide sales increased year on year, as a result of strong sales for use in protein drinks, health supplements and other nutritional supplements in both the Japanese and Asian markets.

Collagen casing sales grew steadily atop increased sales for use in snack sausages, reflecting favorable prices in the U.S. Collagen casing exports also increased year on year, to Europe in particular, to bolster an a increase in sales year on year in both the U.S. and Europe.

As a result of the foregoing, net sales in the Collagen Material business rose 6.2% year on year to ¥17,882 million. Segment profit was up 11.7% year on year at ¥1,773 million.

» Formula Solution Business

Overall food material sales increased steadily year on year, driven by brisk sales of food ingredients such as mix for deli items and stabilizers for yoghurt beverages, as well as stabilizers for ham. This was despite decreased sales of edible gelling agents, reflecting falling prices. In the adhesives field, hot melt type adhesives for packaging materials sold well among food as well as beverage companies. For bookbinding applications, hot melt type adhesives also grew steadily, but sales of animal glue adhesives declined year on year. Overall, adhesive sales remained mostly on par with the previous fiscal year.

As a result of the foregoing, net sales in the Formula Solution business increased 5.0% year on year to ¥10,040 million. However, segment profit decreased 4.2% year on year to ¥934 million.

Research and Development

Our business slogan is "Beyond the Expectation" (exceeding customers' expectations).

Accordingly, our basic R&D policy is to quickly and efficiently develop products and services that are a half step or a whole step ahead of customer expectations in order to enhance the Company's brand value and contribute to sustained business expansion and growth.

We have organized a product-development structure that is as close to customers as possible in an effort to energize R&D activities and identify shifts in market and customer needs with a constantly positive mindset. In other words, we have stationed sales, development and production personnel across the R&D organization to ensure that requests from the customer, markets and others are directly conveyed to technology, service, product development and production technology development units, so that timely responses are made.

While the internal research personnel are focused on product development and customer service, we also actively conduct joint research with and commission research to external research institutes, universities and other entities, for the purpose of promoting basic research into food ingredients, obtaining new fundamental technologies and meeting other priorities.

Since 2007, we have held TPM (Technology, Product, Market) Presentations under the guidance of an external consultants, in an initiative to promote and encourage R&D activities. These presentations are based on the "TPM cycle" approach of obtaining Market recognition through Product development driven by Technology. Group R&D Information Meetings have been held since 2010, to share information about R&D within our Group by introducing examples of development projects, as well as new technologies and products.

The following is a breakdown of R&D activities by division in each business during the fiscal year ended March 31, 2011. Total R&D expenses were ¥895 million.

» Collagen Material Business

Gelatin
- Improve and upgrade production technology for raw material and gelatin processes.
- Develop new gelatin.
- Enhance gelatin applications.

Peptide
- Develop collagen peptide production technology.
- Research functional characteristics of collagen peptide.

Casing
- Improve and upgrade collagen casing production technology.
- Develop new markets and products.

Life Science
- Research and Development of collagen for biomaterials and cell cultures.
- Research and Development of gelatin and collagen for advanced medical care.

R&D expenses in the Collagen Material business were ¥558 million.

» Formula Solution Business

Food Material
- Develop applications utilizing application laboratories.
- Develop novel products.
- Plan and develop consumer products.

Adhesives
- Environmentally friendly hot-melt adhesive.
- UVFG* high-performance polymer.

* Ultra-Violet ray Form-in-place Gasket

R&D expenses in the Formula Solution business were ¥337 million.

Cash Flows

Net cash provided by operating activities was ¥1,570 million, ¥832 million higher than in the previous fiscal year. The main contributing factors were income before income taxes and minority interests of ¥1,494 million, depreciation and amortization of ¥898 million, and a decrease in inventories of ¥357 million. These inflows were partly offset by an increase in trade notes and accounts receivable of ¥509 million and income taxes paid of ¥490 million.

Net cash used in investing activities was ¥1,094 million, ¥507 million less than in the previous fiscal year. The main uses of cash were the purchase of property, plant and equipment of ¥946 million, and the purchase of stocks of affiliates of ¥149 million.

Net cash used in financing activities was ¥363 million, ¥151 million less than in the previous fiscal year. This mainly reflected the repayment of ¥1,874 million in long-term debt and the payment of ¥516 million for the purchase of treasury stock, despite proceeds of ¥1,950 million from an increase in long-term debt.

As a result, cash and cash equivalents were ¥1,538 million as of March 31, 2011, an increase of ¥71 million from a year earlier.

Capital Investment

We executed capital investment of ¥1,132 million to address intensifying sales competition and the diversification of market needs.

In the Collagen Material business, we executed total capital investment of ¥933 million, including ¥407 million at the Osaka Plant to enhance quality, reduce costs and upgrade existing facilities in addition to installing new manufacturing equipment for pharmaceutical gelatin. For similar purposes, we made capital investment of ¥279 million at Nitta Gelatin USA, Inc., ¥111 million at Hikone Gelatin Inc., and ¥102 million at Nitta Casings Inc., as well as other capital investment of ¥32 million.

In the Formula Solution business, we executed total capital investment of ¥99 million, comprising ¥98 million at the Osaka Plant for the purpose of upgrading existing manufacturing facilities and R&D facilities, as well as other capital investment of ¥1 million.

In addition to the above, we made capital investment of ¥12 million primarily for the purpose of enhancing the IT environment in administrative divisions.

Financial Position

Total assets were ¥21,466 million as of March 31, 2011, a decrease of ¥340 million from the previous fiscal year-end.

» Current Assets

Current assets were ¥12,868 million as of March 31, 2011, down ¥59 million from March 31, 2010. This was mainly attributable to a decrease in inventories of ¥487 million, partially offset by an increase in notes and accounts receivable—trade of ¥380 million.

» Fixed Assets

Fixed assets were ¥8,597 million as of March 31, 2011, a decrease of ¥280 million from a year earlier. The decrease mainly reflected a decline of ¥172 million in property, plant and equipment as well as a decrease of ¥101 million in investment securities, due to the impact of falling share prices.

» Current Liabilities

Current liabilities were ¥8,765 million as of March 31, 2011, an increase of ¥190 million from the previous fiscal year-end. This increase mainly reflected an increase of ¥200 million in the current portion of bonds due within one year.

» Noncurrent Liabilities

Noncurrent liabilities were ¥6,516 million as of March 31, 2011, a decrease of ¥724 million from the previous fiscal year-end. This mainly reflected a decrease of ¥260 million in bonds and a decline of ¥566 million in the provision allowance for retirement benefits.

» Net Assets

Net assets stood at ¥6,185 million as of March 31, 2011, an increase of ¥195 million from the previous fiscal year-end. This increase was mainly attributable to an increase of ¥1,497 million in retained earnings, despite a decrease of ¥1,304 million in accumulated other comprehensive income.

Basic Profit Distribution Policy and Dividends

Our basic policy on profit distribution is to continuously pay steady dividends, while securing the internal reserves needed to develop future businesses and strengthen its operating structure.

Furthermore, our basic policy is to pay dividends twice every fiscal year, with interim and year-end dividends determined by the Board of Directors and the Annual General Meeting of Shareholders, respectively.

In regard to dividends for the fiscal year ended March 31, 2011, in accordance with the aforementioned policies, management has decided to pay an annual dividend per common share of ¥7.50, including an interim dividend of ¥3.75. In addition, management has decided to pay dividends on class A preferred stock according to the terms of issuance.

In regard to funds set aside as internal reserves, we intends to effectively invest these funds in enhancing cost competitiveness even more than before, bolstering its technology and product development structure in response to market needs, as well as implementing global strategies. These investments will help us to address anticipated changes in the business environment going forward.

Business Risks

This section provides information about the principal business risks concerning the Nitta Gelatin Group's operations and related matters that may have a material impact on the decisions of investors. Matters that do not necessarily constitute such risks, but are considered to have a material impact on the investment decisions of investors are also disclosed below from the standpoint of actively disclosing information to investors. Recognizing the possibility for such risks to occur, we endeavor to prevent the occurrence of such risks and to respond properly in the event that such risks occur.

This section includes forward-looking statements determined based on information available to us as of the date of issue of this report.

(1) Product Development

Guided by our motto of quickly and efficiently providing products and services that address shifting market conditions and customer needs, we actively conduct R&D and capital investment. However, there is no guarantee that we can successfully develop new products. In addition, even if a new product is successfully developed, it may not match customer needs and thus fail to gain their acceptance.

In regard to products for medical applications, customers using our products require an extensive lead time to develop and launch medical products. During this period, the customer may suspend product development or face protracted development delays, among other contingencies, mainly on account of shifting market conditions, changes in operating performance, or delays in obtaining approval from regulatory authorities.

In the event that we face delays or are unable to recover R&D expenses and capital investment as a result, our operating results and financial position may be negatively impacted.

(2) Overseas Markets

Ever since the establishment of our first overseas sales subsidiary in the U.S. in July 1979, we have been actively working to expand sales in overseas markets. In the fiscal year ended March 31, 2011, sales in overseas markets accounted for 29.5% of our net sales. In the North American market, our primary region for business development so far, our sales expansion may be negatively impacted by competition arising between our products and low-priced products centered on bovine hide gelatin of South America.

In addition, in the future strategic Chinese, Indian and Southeast Asian markets, our sales expansion may be negatively impacted by even greater competition than in North America between our products and low-priced products.

The Group is working to enhance its competitiveness, mainly by reducing costs, improving quality, developing unique new products, and conducting production in optimal locations. However, if these measures prove ineffective, sales growth could stagnate. This could have a negative impact on our operating results and financial position.

(3) Exchange Rate Movements

When selling products to overseas customers either directly or through a subsidiary, we export products on a U.S. dollar-denominated basis. On the procurement front, we purchase raw materials for gelatin, such as bovine bones and ossein, primarily using U.S. dollars. We also import pig skin gelatin from overseas on a Canadian dollar-denominated basis. For this reason, we hedge our foreign exchange risk by concluding foreign exchange forward contracts with financial institutions with respect to U.S. dollar-denominated exports, as well as U.S. dollar- and Canadian dollar-denominated imports. Through these measures, we reduce our exposure to foreign exchange risk related to operating transactions. However, in the event of unforeseeable foreign exchange rate movements, our operating results and financial position could be negatively impacted.

Furthermore, gains and losses arising from foreign currency-denominated transactions as well as the translation into Japanese yen of foreign currency-denominated receivables and payables as well as the translation into Japanese yen of the accounts of the financial statements of overseas consolidated subsidiaries prepared in foreign currencies, are subject to foreign exchange rate movements. This could have a negative impact on our operating results and financial position.

(4) Price Fluctuations for Primary Raw Materials

Raw material costs accounted for 55.8% of our cost of manufacturing in the year ended March 31, 2011. Raw material prices fluctuate for a variety of reasons. In the Collagen Material business, primary raw materials such as bovine bones and hide, pig skin and fish scales are all byproducts of the livestock and fishery industries. The raw material price may fluctuate depending on changes in meat consumption reflecting global economic conditions, as well as changes in supply-demand dynamics driven by regulations governing food processing and distribution in response to various animal epidemic and other factors. In the Formula Solution business, prices of natural polysaccharides, the primary raw material in the food material divisions may fluctuate due to changes in the climate of growing regions and other factors. Prices of petroleum resins, the key raw material for adhesives, may fluctuate due to changes in commodity prices and supply-demand dynamics for heavy oil and naphtha.

Meanwhile, it is difficult to transfer the impact of price fluctuations for these key raw materials to the selling price of our products. Accordingly, fluctuations in raw materials prices could have a negative impact on our operating results and financial position.

(5) Animal Diseases

Our primary products, including gelatin, collagen peptide, collagen casing and collagen, are made from animal byproducts derived from livestock and fishery production, such as bovine bones and hides, pig skins, and fish scales. Accordingly, these materials are subject to the risk of animal diseases.

We therefore procure these materials only after confirming that they are free from any animal infectious diseases, while working to diversify the sourcing region of raw materials in order to ensure their safety.

Despite these efforts, in the event that an extensive outbreak of animal disease occurs in a region from which we procure raw materials, the supply of bones and skins may decline or stop due to a suspension or stoppage of meat production. This may also cause us to switch to an alternative raw material source. These and other related factors may have a negative impact on the stable procurement of raw materials.

In addition, our product sales may be affected by the outbreak of an animal disease in countries in which raw materials are produced or products are manufactured. Specifically, product sales may stagnate due to import restrictions and other measures imposed on animal products made from raw materials originating from or products manufactured in these countries.

As a result of the foregoing, the Group may be impacted by higher raw material procurement costs, reduced revenue due to lower product sales, higher inventories and so forth. This could negatively affect our operating results and financial position.

(6) Laws and Regulations

In the course of executing business activities, the Group's business is subject to domestic laws and regulations, including the Food Sanitation Law, the Japanese Agricultural Standard and the Pharmaceutical Affairs Law, as well as directives issued by the competent authorities. In the event that these laws and regulations are amended or abolished, or if new laws and regulations are established, we may incur additional costs and other outlays to address these developments, or face restrictions in terms of the scope of our business activities.

Furthermore, the Group is subject to various laws and regulations in overseas countries where it conducts business. Our operating results and financial position could be negatively impacted by changes to these laws and regulations and our status of legal compliance.

In regard to the environment, gelatin production requires large amounts of water in the whole process. For this reason, our plants are supplied with and release large amounts of water, and are subject to the laws and regulations of each country and region in regard to wastewater volume and water quality. Efforts are made at each plant to recycle and reuse water and to upgrade production processes so as to reduce the volume of water supplied and released and to maintain water quality. In the event of a major amendment to national or regional laws and regulations, we may incur costs associated with addressing such new legislative changes.

The foregoing impacts could negatively affect our operating results and financial position.

(7) Religious Rules

Gelatin is an animal-derived product that is widely used in food, pharmaceutical capsules and other items. However, due to religious injunctions, some people may be forbidden to consume these items, depending on the animal species and the manufacturing methods. Examples of such religious rules include the Halāl (Islam) and Kosher (Judaism). Followers of these religions are forbidden from consuming pig-derived products. In order to sell proper gelatin to business customers who manufacture products for these consumers, we produce gelatin by procuring raw materials derived from permissible animal species and by using appropriate manufacturing methods in line with religious rules. To make certain that our products conform to religious rules, we obtain certification through audits by certifying entities of each religion. In this context, we strictly manage raw materials and manufacturing processes.

However, in the event that our certification is revoked as a result of a breach of a religious rule due to a management deficiency, we will lose sales opportunities, which could have a negative impact on our operating results and financial position.

(8) Natural Disasters, Accidents, Terrorism, War and Other Contingencies

Natural disasters such as earthquakes, storms and floods; accidents; problems with local communities; regional terrorism; wars and other contingencies may occur at our business locations. These events could disrupt the procurement of raw materials and the production and sale of products, which could have a negative impact on our operating results and financial position. Our business locations include our main offices and major outsourcing partners (including those in Osaka, Shiga and Tochigi prefectures, Japan; Province of Ontario, Canada; State of North Carolina, U.S.A.; State of Kerala, India and Guangdong Province, China); regions from which primary raw materials are procured (including India, Canada, U.S.A., New Zealand, Thailand and China); and primary regions where products are sold (including Japan, North America, India, China and various other Asian countries).

The Great East Japan Earthquake, which struck on March 11, 2011, caused slight damage to equipment, fixtures and other assets at the Company's Tokyo Branch. However, there was no material adverse impact on our operating results and financial position.

(9) Product Quality

We endeavor to put quality first in order to earn our customers' trust. To this end, we develop products focused on customer needs, and manufacture products under an internationally-accepted quality assurance system. One particular focus lies in ensuring traceability from raw materials to finished products, in an effort to market safe products.

We have enrolled in product liability insurance policies, among other safeguards. However, in the event that a customer suffers damages as a result of defects in our products, there is no guarantee that our liability for damages will be covered within the compensation limits of these insurance policies.

Accordingly, in the event of a serious quality problem, the ensuing claims for damages, loss of public trust in the Group and other factors could negatively impact our operating results and financial position.

(10) Alternative Products

Due to concerns over animal diseases, there is a growing trend to switch the raw materials used in certain pharmaceuticals, cosmetics and food from animal- to plant-derived materials. In the capsule market, one of our core markets for gelatin, this trend has given impetus to the development of plant-derived (starch and cellulose derivatives) capsule products. Certain pharmaceutical and health food manufacturers have adopted these capsules as an alternative to gelatin capsules. We believe that the popularization of plant-derived capsules has been limited only to certain segments of the market.

Nevertheless, a new outbreak of animal disease, among other factors, could prompt the authorities to impose new regulations on gelatin capsules, and lead to a change in consumer sentiment. In this event, the rapid popularization of plant-derived capsules could reduce demand for gelatin capsules, and have a negative impact on our operating results and financial position.

(11) Interest-Rate Fluctuations

We primarily borrow funds from financial institutions to finance capital investments. The percentage of interest-bearing liabilities relative to total assets was 34.1% (including lease obligations) in the fiscal year ended March 31, 2011.

We endeavor to reduce borrowings and other interest-bearing liabilities. However, in the event of an increase in market interest rates going forward, our operating results and financial position could be negatively impacted.

(12) Taxation

In Japan, a 17% tariff is levied on imported gelatin except for photographic use. Going forward, the selling price of these imports may decrease as a result of the reduction or abolition of this tariff. A price difference may arise between imports such as South American bovine hide gelatin and Indian bovine bone gelatin, and bovine bone gelatin produced at the Company's Osaka Plant. In such an event, our operating results and financial position could be negatively affected.

Moreover, the Group conducts production and sales activities on a global scale, and materials, semi-finished goods and other items are mutually supplied within the Group. At the time of issuance of this report, there was no evidence of the application of transfer pricing taxation to our transactions. Going forward, however, in the event that these transactions become subject to transfer pricing taxation and we are obligated to pay a large amount of taxes, our operating results and financial position could be negatively affected.

(13) Information Security

We have established an information system that enables us to obtain and analyze necessary information in real time in various processes, including purchasing, production, sales and management. We put particular emphasis on the strict management of access rights to the system for the purpose of ensuring stable system operation and preventing any leaks of sales data, including client data and personal information stored on the system. These efforts notwithstanding, in the event of a software malfunction, unauthorized external access, or difficulty in maintaining the stable operation of the information system, our business activities could be disrupted. In the event that sales or client data is leaked outside our Group, we could face consequences such as claims for damages from customers, and a loss of public trust in our Group. As a result, our operating results and financial position could be negatively affected.

(14) Infringement of Intellectual Property Rights

We protect our intellectual property rights through such means as obtaining patents on proprietary technology and other innovations we have developed. Efforts are also made in the product development process to prevent any infringement of rights held by third parties, including intellectual property rights. These efforts notwithstanding, we cannot completely rule out the possibility of becoming subject to allegations and claims by third parties concerning the ownership or infringement of intellectual property and other rights. In the event that we are subject to claims for damages or cease-and-desist orders as a result, our operating results and financial position could be negatively affected.

(15) Legal Disputes and Litigation

In the course of our business activities, we endeavor to enhance our internal control system and strengthen compliance, encompassing legal compliance and observance of social norms, while reducing our exposure to various forms of risk. At the same time, the Group receives advice from lawyers and other experts as necessary. These efforts notwithstanding, the Group may be subject to lawsuits in the course of business activities, irrespective of whether or not there is a breach of laws or regulations. In such an event, our operating results and financial position could be negatively affected.

Financial Section

Contents

Consolidated Financial Highlights

Nitta Gelatin Inc. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	68th term From April 1, 2006 to March 31, 2007	69th term From April 1, 2007 to March 31, 2008	70th term From April 1, 2008 to March 31, 2009	71st term From April 1, 2009 to March 31, 2010	**72nd term From April 1, 2010 to March 31, 2011**	**72nd term From April 1, 2010 to March 31, 2011**
Financial data:						
Net sales	¥–	¥–	¥–	¥26,392	**¥27,923**	**$335,814**
Net income	–	–	–	1,047	**1,051**	**12,639**
Comprehensive income	–	–	–	–	**863**	**10,378**
Net assets	–	–	–	5,990	**6,185**	**74,383**
Total liabilities and net assets	–	–	–	21,806	**21,466**	**258,159**
Cash flows:						
Net cash provided by operating activities	–	–	–	738	**1,570**	**18,881**
Net cash used in investing activities	–	–	–	(587)	**(1,094)**	**(13,156)**
Net cash used in financing activities	–	–	–	(212)	**(363)**	**(4,365)**
Cash and cash equivalents at end of period	–	–	–	1,467	**1,538**	**18,496**
Per share information (yen, U.S. Dollar):						
Net assets per share (BPS)	–	–	–	781.00	**899.02**	**10.81**
Net income per share (EPS)	–	–	–	153.00	**160.39**	**1.92**
Other:						
Equity ratio (%)	–	–	–	27.2	**28.5**	
Return on equity (ROE) (%)	–	–	–	20.1	**17.4**	

Notes: 1. The U.S. dollar amounts are translated from Japanese yen at the rate of ¥83.15 = U.S. $1, the prevailing exchange rate at March 31, 2011.
2. The Company prepares the consolidated financial statements from the year ended March 31, 2010.
3. The consolidated financial statements for the years ended March 31, 2011 and 2010 are audited by Ernst & Young ShinNihon LLC in accordance with Article 193-2 (1) of the Financial Instruments and Exchange Act of Japan based on Rule 204-6 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.
4. The Company conducted a two-for-one stock split on April 1, 2011.

Consolidated Balance Sheets

As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Assets			
Current assets:			
Cash and deposits (Notes 9 and 18)	**¥ 1,558**	¥ 1,487	**$ 18,737**
Notes and accounts receivable (Note 9)	**5,621**	5,241	**67,600**
Inventories (Note 3)	**5,370**	5,857	**64,582**
Deferred tax assets (Note 6)	**161**	152	**1,936**
Other	**167**	221	**2,008**
Allowance for doubtful accounts	**(11)**	(31)	**(132)**
Total current assets	**12,868**	12,927	**154,756**
Property, plant and equipment:			
Buildings and structures (Note 13)	**6,552**	6,734	**78,797**
Machinery, equipment and vehicles (Note 8)	**7,492**	7,760	**90,102**
Land	**762**	776	**9,164**
Lease assets	**477**	246	**5,736**
Construction in progress	**312**	32	**3,752**
Other	**1,228**	1,150	**14,768**
Accumulated depreciation	**(11,287)**	(10,990)	**(135,742)**
Property, plant and equipment, net	**5,537**	5,709	**66,590**
Intangible assets (Note 13)	**20**	23	**240**
Investments and other assets:			
Investment securities (Notes 4 and 9)	**2,082**	2,183	**25,039**
Long-term loans receivable (Note 9)	**21**	26	**252**
Deferred tax assets (Note 6)	**441**	400	**5,303**
Other	**494**	534	**5,941**
Total investments and other assets	**3,040**	3,145	**36,560**
Total assets	**¥ 21,466**	¥ 21,806	**$ 258,159**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 9)	**¥ 3,537**	¥ 3,552	**$ 42,537**
Short-term loans payable (Note 5)	**1,047**	1,038	**12,591**
Current portion of long-term debt (Notes 5 and 9)	**1,695**	1,673	**20,384**
Current portion of bonds (Notes 5 and 9)	**260**	60	**3,126**
Lease obligations (Note 5)	**90**	46	**1,082**
Other payable (Note 9)	**1,251**	1,150	**15,045**
Income taxes payable	**183**	254	**2,200**
Provision for bonuses	**209**	201	**2,513**
Other	**490**	596	**5,892**
Total current liabilities	**8,765**	8,575	**105,411**
Noncurrent liabilities:			
Bonds (Note 5)	**530**	790	**6,374**
Long-term debt (Notes 5 and 9)	**3,386**	3,375	**40,721**
Lease obligations (Note 5)	**303**	171	**3,644**
Provision for retirement benefits (Note 7)	**2,162**	2,728	**26,001**
Provision for directors' retirement benefits	**32**	30	**384**
Other	**102**	145	**1,226**
Total noncurrent liabilities	**6,516**	7,240	**78,364**
Total liabilities	**15,281**	15,816	**183,776**
Commitments and contingent liabilities (Note 11)			
Net assets (Notes 15 and 16)			
Capital stock:	**875**	875	**10,523**
Authorized — 22,000,000 shares in 2011 and 2010			
Issued and outstanding — 7,366,937 shares in 2011 and 8,366,937 shares in 2010			
Capital surplus	**677**	677	**8,141**
Retained earnings	**6,090**	4,593	**73,241**
Treasury stock — 109,503 shares in 2011 and 109,406 shares in 2010	**(82)**	(82)	**(986)**
Total shareholders' equity	**7,560**	6,063	**90,920**
Total accumulated other comprehensive income (Note 19)	**(1,435)**	(131)	**(17,257)**
Minority interests	**59**	58	**709**
Total net assets	**6,185**	5,990	**74,383**
Total liabilities and net assets	**¥ 21,466**	¥ 21,806	**$ 258,159**

See notes to consolidated financial statements.

Consolidated Statements of Income

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Net sales	**¥27,923**	¥26,392	**$335,814**
Cost of sales (Note 3)	**21,597**	20,393	**259,735**
Gross profit	**6,325**	5,998	**76,067**
Selling, general and administrative expenses (Note 12)	**4,838**	4,591	**58,184**
Operating income	**1,486**	1,407	**17,871**
Other income (expenses):			
Interest and dividends income	**14**	12	**168**
Interest expenses	**(180)**	(192)	**(2,164)**
Equity in earnings of affiliates	**129**	394	**1,551**
Commission fee	**(44)**	(47)	**(529)**
Rent income	**27**	28	**324**
Foreign exchange losses	**(89)**	(23)	**(1,070)**
Loss on retirement of noncurrent assets	**(20)**	(43)	**(240)**
Gain on abolishment of retirement benefit plan	**140**	–	**1,683**
Impairment loss (Note 13)	**(15)**	(11)	**(180)**
Other, net	**45**	40	**541**
	8	156	**96**
Income before income taxes and minority interests	**1,494**	1,564	**17,967**
Income taxes (Note 6)**:**			
Current	**432**	502	**5,195**
Deferred	**3**	13	**36**
Total income taxes	**436**	516	**5,243**
Income before minority interests	**1,058**	–	**12,723**
Minority interests in income	**6**	0	**72**
Net income (Note 17)	**¥ 1,051**	¥ 1,047	**$ 12,639**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Income before minority interests	¥1,058	$12,723
Other comprehensive income (Note 19)		
Valuation difference on available-for-sale securities	(57)	(685)
Deferred gains or losses on hedges	(16)	(192)
Foreign currency translation adjustment	(458)	(5,508)
Adjustment for pension liability of overseas subsidiaries	442	5,315
Share of other comprehensive income of associates accounted for using equity method	(105)	(1,262)
Total other comprehensive income	(195)	(2,345)
Comprehensive income	¥ 863	$10,378
Comprehensive income attributable to (Note 19):		
Owners of the parent	¥ 856	$10,294
Minority interests	6	72

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended March 31, 2011 and 2010

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at March 31, 2009	¥875	¥677	¥3,575	¥ (82)	¥5,045
Dividends from surplus			(107)		(107)
Net income			1,047		1,047
Purchase of treasury stock				(0)	(0)
Effect of application of US GAAP by overseas subsidiaries			78		78
Net changes of items other than shareholders' equity					–
Balance at March 31, 2010	875	677	4,593	(82)	6,063
Effect of changes in accounting policies applied to overseas subsidiaries			**(22)**		**(22)**
Reclassification of the amount to adjustment for pension liability of overseas subsidiaries			**1,108**		**1,108**
Dividends from surplus			**(123)**		**(123)**
Net income			**1,051**		**1,051**
Purchase of treasury stock				**(516)**	**(516)**
Retirement of treasury stock			**(516)**	**516**	**–**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2011	**¥875**	**¥677**	**¥6,090**	**¥ (82)**	**¥7,560**

	Millions of yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustment at overseas subsidiaries	Total	Minority interests	Total net assets
Balance at March 31, 2009	¥308	¥(22)	¥ (820)	¥ –	¥ (534)	¥64	¥4,575
Dividends from surplus							(107)
Net income							1,047
Purchase of treasury stock							(0)
Effect of application of US GAAP by overseas subsidiaries							78
Net changes of items other than shareholders' equity	156	38	206		402	(5)	396
Balance at March 31, 2010	465	16	(613)	–	(131)	58	5,990
Effect of changes in accounting policies applied to overseas subsidiaries							**(22)**
Reclassification of the amount to adjustment for pension liability of overseas subsidiaries				**(1,108)**	**(1,108)**		**–**
Dividends from surplus							**(123)**
Net income							**1,051**
Purchase of treasury stock							**(516)**
Retirement of treasury stock							**–**
Net changes of items other than shareholders' equity	**(56)**	**(14)**	**(566)**	**442**	**(195)**	**0**	**(194)**
Balance at March 31, 2011	**¥408**	**¥ 2**	**¥(1,180)**	**¥ (665)**	**¥(1,435)**	**¥59**	**¥6,185**

See notes to consolidated financial statements.

	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at March 31, 2010	$10,523	$8,141	$55,237	$ (986)	$72,916
Effect of changes in accounting policies applied to overseas subsidiaries			**(264)**		**(264)**
Reclassification of the amount to adjustment for pension liability of overseas subsidiaries			**13,325**		**13,325**
Dividends from surplus			**(1,479)**		**(1,479)**
Net income			**12,639**		**12,639**
Purchase of treasury stock				**(6,205)**	**(6,205)**
Retirement of treasury stock			**(6,205)**	**6,205**	**–**
Net changes of items other than shareholders' equity					**–**
Balance at March 31, 2011	**$10,523**	**$8,141**	**$73,241**	**$ (986)**	**$90,920**

	Thousands of U.S. dollars						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustment at overseas subsidiaries	Total	Minority interests	Total net assets
Balance at March 31, 2010	$5,592	$ 192	$ (7,372)	$ –	$ (1,575)	$697	$72,038
Effect of changes in accounting policies applied to overseas subsidiaries							**(264)**
Reclassification of the amount to adjustment for pension liability of overseas subsidiaries				**(13,325)**	**(13,325)**		**–**
Dividends from surplus							**(1,479)**
Net income							**12,639**
Purchase of treasury stock							**(6,205)**
Retirement of treasury stock							**–**
Net changes of items other than shareholders' equity	**(673)**	**(168)**	**(6,806)**	**5,315**	**(2,345)**	**0**	**(2,333)**
Balance at March 31, 2011	**$4,906**	**$ 24**	**$(14,191)**	**$ (7,997)**	**$(17,257)**	**$709**	**$74,383**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Operating activities:			
Income before income taxes and minority interests	**¥ 1,494**	¥ 1,564	**$ 17,967**
Depreciation and amortization	**898**	818	**10,799**
Impairment loss	**15**	11	**180**
Amortization of goodwill	**–**	3	**–**
Decrease in provision for retirement benefits	**(200)**	(591)	**(2,405)**
Increase in provision for directors' retirement benefits	**1**	1	**12**
Increase in provision for bonuses	**9**	16	**108**
(Decrease) increase in allowance for doubtful accounts	**(18)**	19	**(216)**
Interest and dividends income	**(14)**	(12)	**(168)**
Interest expenses	**180**	192	**2,164**
Foreign exchange losses (gains)	**46**	(41)	**553**
Equity in earnings of affiliates	**(129)**	(394)	**(1,551)**
Loss on retirement of noncurrent assets	**20**	43	**240**
Gain on sales of investment securities	**–**	(32)	**–**
(Increase) decrease in notes and accounts receivable	**(509)**	90	**(6,121)**
Decrease (increase) in inventories	**357**	(281)	**4,293**
Increase in notes and accounts payable	**98**	193	**1,178**
Increase (decrease) in accrued consumption taxes	**25**	(41)	**300**
Other, net	**(185)**	(244)	**(2,224)**
Subtotal	**2,091**	1,316	**25,147**
Interest and dividends received	**152**	137	**1,828**
Interest paid	**(183)**	(194)	**(2,200)**
Income taxes paid	**(490)**	(521)	**(5,892)**
Net cash provided by operating activities	**1,570**	738	**18,881**
Investing activities:			
Payments into time deposits	**(20)**	(20)	**(240)**
Proceeds from withdrawal of time deposits	**20**	20	**240**
Purchase of property, plant and equipment	**(946)**	(603)	**(11,377)**
Purchase of intangible assets	**(1)**	(6)	**(12)**
Proceeds from sales of property, plant and equipment	**0**	9	**0**
Purchase of investment securities	**(4)**	(4)	**(48)**
Proceeds from sales of investment securities	**–**	32	**–**
Purchase of stocks of affiliates	**(149)**	–	**(1,791)**
Proceeds from cancellation of insurance funds	**20**	–	**240**
Purchase of insurance funds	**(11)**	(11)	**(132)**
Payments of loans receivable	**(0)**	(1)	**(0)**
Collection of loans receivable	**5**	6	**60**
Other, net	**(7)**	(9)	**(84)**
Net cash used in investing activities	**¥(1,094)**	¥ (587)	**$(13,156)**

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Financing activities:			
Net increase (decrease) in short-term loans payable	**¥ 102**	¥ (8)	**$ 1,226**
Proceeds from long-term debt	**1,950**	2,320	**23,451**
Repayment of long-term debt	**(1,874)**	(2,076)	**(22,537)**
Redemption of bonds	**(60)**	(460)	**(721)**
Proceeds from sale and leaseback transaction	**233**	158	**2,802**
Repayments of lease obligations	**(69)**	(33)	**(829)**
Purchase of treasury stock	**(516)**	(0)	**(6,205)**
Cash dividends paid	**(123)**	(107)	**(1,479)**
Cash dividends paid to minority shareholders	**(5)**	(5)	**(60)**
Net cash used in financing activities	**(363)**	(212)	**(4,365)**
Effect of exchange rate change on cash and cash equivalents	**(41)**	3	**(493)**
Net increase (decrease) in cash and cash equivalents	**70**	(58)	**841**
Cash and cash equivalents at beginning of the fiscal year	**1,467**	1,526	**17,642**
Cash and cash equivalents at end of the fiscal year (Note 18)	**¥ 1,538**	¥ 1,467	**$ 18,496**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nitta Gelatin Inc. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Nitta Gelatin Inc. (the "Company") and consolidated subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to 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 2010 financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥83.15 = U.S.$1, the approximate rate of exchange at March 31, 2011, and were then rounded down. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollar do not necessarily agree with the sums of the individual amounts. This translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience of readers outside Japan. Such translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at that or any other rate.

2. Significant Accounting Policies

(1) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements as of March 31, 2011 and 2010 include the accounts of the Company and its 10 significant subsidiaries.

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

For the year ended March 31, 2011, three affiliates (two affiliates in 2010) are accounted for using the equity method. Investments in a remaining unconsolidated subsidiary and two affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Investments in companies accounted for using the equity method whose fiscal year-ends were not identical to those of the Company are accounted for on the basis of the companies' respective fiscal year-end.

(2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as foreign currency translation adjustments and minority interests in accompanying consolidated financial statements.

(3) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which are readily convertible into cash and are exposed to insignificant risk of changes in value.

(4) Investment securities

In general, securities are classified into three categories: trading, held-to-maturity or available-for-sale securities. Securities held by the Group are all classified as available-for-sale securities. Available-for-sale securities with a determinable market value are stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Cost of securities sold is determined by the moving average method. Available-for-sale securities without a determinable market value are stated at cost determined by the moving average method.

(5) Inventories

Finished goods are mainly stated at gross average cost. Merchandise, semi-finished goods, work in process, raw materials and supplies are mainly stated at cost determined by the moving average method. Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value.

(6) Property, plant and equipment and depreciation (excluding lease assets)

Depreciation of property, plant and equipment held by the Company and domestic consolidated subsidiaries is computed by the declining-balance method, except for buildings on which depreciation is computed by the straight-line method. Depreciation of property, plant and equipment held by overseas consolidated subsidiaries is computed mainly by the straight-line method.

The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures:	7 to 50 years
Machinery, equipment and vehicles:	4 to 10 years

(7) Intangible assets and amortization (excluding lease assets)

Intangible fixed assets are amortized by the straight-line method. Costs of computer software for internal use are amortized by the straight-line method over a period of five years.

(8) Leases

Lease assets are depreciated by the straight-line method over the lease period with no residual value.

In addition, the Group accounted for lease transactions that had been in existence at March 31, 2008 and do not transfer ownership of the leased assets to the lessee as operating lease transactions.

(9) Allowance for doubtful accounts

The Company and domestic consolidated subsidiaries provide the allowance for doubtful accounts mainly to cover a loss from uncollectible receivables at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

At overseas consolidated subsidiaries, the allowance for doubtful accounts is provided mainly at an amount estimated for specific doubtful receivables.

(10) Provision for bonuses

The Company and consolidated subsidiaries record provision for bonuses at an amount estimated to cover the bonus payments for services rendered by employees during each fiscal year.

(11) Provision for retirement benefits

The Company and certain consolidated subsidiaries record provision for retirement benefits at an amount estimated to cover the future payments of retirement benefits for employees based on the retirement benefit obligation and the fair value of the pension plan assets as of each balance sheet date.

Actuarial gain and loss are mainly amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period (10 years) which is within and shorter than the average remaining years of service of the employees.

Prior service benefits and cost are mainly recognized as income or expense by the straight-line method over a period (10 years) which is within and shorter than the average remaining years of service of the employees.

(12) Provision for directors' retirement benefits

Domestic consolidated subsidiaries record provision for directors' retirement benefits at an amount estimated to cover the payments of directors' retirement benefits as of each balance sheet date based on the internal guidelines.

(13) Hedge accounting

Deferral hedge accounting is adopted for hedge transactions. For interest rate swaps that meet certain criteria, the short-cut method is applied.

The following summarizes hedging derivative instruments used by the Group and items hedged:

2011

Hedging instruments	Hedged items
Foreign exchange forward contracts	Payables denominated in foreign currencies in connection with imports of raw materials and forecasted transactions denominated in foreign currencies
Interest rate swaps	Loans and debt

2010

Hedging instruments	Hedged items
Foreign exchange forward contracts/currency swaps	Receivables and payables denominated in foreign currencies in connection with export of products and imports of raw materials and forecasted transactions denominated in foreign currencies
Interest rate swaps	Loans and debt

As a policy, the Group utilizes derivative transactions for the purpose of hedging their exposure to market fluctuation in connection with hedged items in accordance with internal management rules which define the authorization policies and transaction limits. The Group assesses the effectiveness of hedging transactions from the start of the transaction to the point at which effectiveness is assessed by comparing the cumulative changes in the fair value or the cash flows of the hedged item with those of the hedging instrument. For interest rate swaps for which the short-cut methods are applied, however, the assessment of effectiveness is not performed.

(14) Income taxes

Income taxes are computed based on income taxable income of each consolidated subsidiary.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enacted dates.

(15) New accounting standards

Effective the year ended March 31, 2011, the Group has applied the "Accounting Standard for Equity Method of Accounting for Investments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 16, March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force ("PITF") No. 24, March 10, 2008). There was no impact from the application of these standards for the year ended March 31, 2011.

Effective the year ended March 31, 2011, the Group has applied the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008). Upon the application of these standards, the operating income and income before income taxes and minority interests were decreased but the amounts were insignificant. Additionally, the disclosure was omitted due to immateriality.

Effective the year ended March 31, 2011, the Group has applied the "Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 5, March 24, 2009) based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008). As a result, "Income before minority interests" was presented on the consolidated financial statements for the year ended March 31, 2011.

Effective the year ended March 31, 2011, the Group has applied the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010). Accordingly, the consolidated statement of comprehensive income has been presented. Information with respect to comprehensive income for the year ended March 31, 2010 is disclosed in Note 19. "Comprehensive Income." Accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in net assets. The amount of adjustment for pension liability of overseas subsidiaries included in accumulated other comprehensive income as of March 31, 2011 indicates the amount of unrecognized actuarial gain or loss in connection with retirement benefit at consolidated subsidiaries in the U.S. which was included in retained earnings as of March 31, 2010. The amount of adjustment for pension liability of overseas subsidiaries as of March 31, 2010 was ¥1,108 million (debit balance).

Effective the year ended March 31, 2011, the Group has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), the "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, December 26, 2008), the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 26, 2008), the "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, December 26, 2008) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

3. Inventories

The balances of inventories as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Finished goods and merchandise	**¥3,500**	¥3,893	**$42,092**
Work in process	**611**	805	**7,348**
Raw materials and supplies	**1,258**	1,157	**15,129**
Inventories, total	**¥5,370**	¥5,857	**$64,582**

In connection with profitability declines in inventories, the Group recorded a reversal of inventory write-down of ¥149 million ($1,791 thousand) as an adjustment to cost of sales for the year ended March 31, 2011, and an inventory write-down of ¥89 million as part of cost of sales for the year ended March 31, 2010.

4. Investment Securities

Information of available-for-securities as of March 31, 2011 and 2010 was as follows:

	Millions of yen					
	2011			2010		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥847**	**¥146**	**¥700**	¥944	¥153	¥791
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**39**	**54**	**(15)**	34	43	(9)
Total	**¥886**	**¥201**	**¥685**	¥978	¥196	¥782

	Thousands of U.S. dollars		
	2011		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	**$10,186**	**$1,755**	**$8,418**
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	**469**	**649**	**(180)**
Total	**$10,655**	**$2,417**	**$8,238**

Unlisted equity securities of ¥18 million ($216 thousand) as of March 31, 2011 and 2010 were not included in the above tables as there were no market prices available and it is extremely difficult to determine their fair value.

5. Short-term Loans Payable, Long-term Debt, Bonds and Lease Obligations

	Millions of yen			Millions of yen	Thousands of U.S. dollars
	2011			2010	2011
	Amount	Weighted average interest rate (%)	Last due on	Amount	Amount
Current portion of long-term debt	**¥ 1,695**	**2.099**	**–**	¥ 1,673	**$20,384**
Long-term debt excluding current portion	**3,386**	**2.068**	**2012 to 2016**	3,375	**40,721**
Lease obligations	**393**	**–**	**2011 to 2016**	217	**4,726**
No. 14 unsecured corporate bonds	**390**	**1.55**	**Aug. 2012**	450	**4,690**
No. 15 unsecured corporate bonds	**200**	**1.58**	**Aug. 2011**	200	**2,405**
No. 16 unsecured corporate bonds	**200**	**1.82**	**Aug. 2013**	200	**2,405**
	6,265			6,116	**75,345**
Less: Current portion	**(2,046)**			(1,779)	**(24,606)**
	¥ 4,219			¥ 4,336	**$50,739**

The weighted-average interest rate of short-term loans payable at March 31, 2011 was 2.604%. Average interest rate on lease obligations is not provided because the balance of lease obligations includes interest equivalent that is contained in the total lease payments.

The maturities of bonds, long-term debt and lease obligations outstanding after March 31, 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ending March 31,	Bonds	Long-term debt	Lease obligations	Bonds	Long-term debt	Lease obligations
2012	¥260	¥1,695	¥ 90	$3,126	$20,384	$1,082
2013	330	1,446	94	3,968	17,390	1,130
2014	200	1,164	88	2,405	13,998	1,058
2015	–	600	60	–	7,215	721
2016	–	174	59	–	2,092	709
Total	¥790	¥5,081	¥393	$9,500	$61,106	$4,726

The following assets were pledged as collateral as of March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Time deposits	**¥ 20**	¥ 20	**$ 240**
Buildings and structures	**1,233**	1,231	**14,828**
Machinery and vehicles	**163**	131	**1,960**
Land	**191**	191	**2,297**
Investment securities	**307**	316	**3,692**
Total	**¥1,915**	¥1,890	**$23,030**
Assets pledged as factory foundation mortgage included in the above assets:			
Buildings and structures	**¥1,233**	¥1,231	**$14,828**
Machinery and vehicles	**163**	131	**1,960**
Land	**191**	191	**2,297**
Total	**¥1,588**	¥1,554	**$19,098**

The obligations collateralized by the above assets as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Long-term debt	**¥4,272**	¥4,108	**$51,377**
Other liabilities	**51**	39	**613**
Total	**¥4,323**	¥4,148	**$51,990**
Factory foundation mortgage included in the above liabilities:			
Long-term debt	**¥3,868**	¥3,874	**$46,518**
Total	**¥3,868**	¥3,874	**$46,518**

For the purpose of obtaining working funds effectively, the Company and one consolidated subsidiary have entered into overdraft agreements and loan commitment agreements amounting to ¥4,950 million ($59,530 thousand) in total with five banks at March 31, 2011 and 2010. There was no borrowing outstanding under these agreements as of March 31, 2011 and 2010.

6. Income Taxes

Income taxes applicable to the Company and domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants taxes. The statutory tax rate applicable to the Company was approximately 40.69% for the years ended March 31, 2011 and 2010. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2011 and 2010 differ from the statutory tax rate for the following reasons:

	2011	2010
Statutory tax rate	**40.69%**	40.69%
Adjustments for:		
Expenses not deductible for income tax purposes	**0.70**	1.11
Dividend income and other non-taxable income	**(0.37)**	(0.28)
Inhabitants taxes—per capita levy	**0.51**	0.44
Tax credit for research and development, etc.	**(2.74)**	(2.45)
Adjustments to deferred tax assets due to change in tax rates	**(0.11)**	1.58
Unrecognized tax benefits of net operating losses of subsidiaries	**(4.66)**	(2.17)
Difference in tax rates of subsidiaries	**(0.26)**	(0.14)
Equity in earnings of affiliates	**(3.53)**	(10.25)
Other	**(1.04)**	4.49
Effective tax rates	**29.19%**	33.02%

The significant components of deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Loss on valuation of inventories	**¥ 51**	¥ 77	**$ 613**
Provision for bonuses	**109**	105	**1,310**
Accrued enterprise tax	**18**	21	**216**
Loss on valuation of golf club membership	**11**	11	**132**
Loss on valuation of investment securities	**281**	281	**3,379**
Provision for retirement benefits	**810**	1,423	**9,741**
Provision for directors' retirement benefits	**38**	53	**457**
Interest expenses	**111**	72	**1,334**
Impairment loss	**37**	29	**444**
Net loss carried forward	**793**	898	**9,536**
Other	**55**	53	**661**
Subtotal	**2,317**	3,027	**27,865**
Valuation allowance	**(1,159)**	(1,791)	**(13,938)**
Total deferred tax assets	**1,157**	1,235	**13,914**
Deferred tax liabilities:			
Depreciation	**(248)**	(327)	**(2,982)**
Valuation difference on available-for-sale securities	**(277)**	(316)	**(3,331)**
Provision for retirement benefits	**(34)**	(25)	**(408)**
Other	**–**	(12)	**–**
Total deferred tax liabilities	**(560)**	(683)	**(6,734)**
Net deferred tax assets	**¥ 597**	¥ 552	**$ 7,179**

7. Retirement Benefit Plans

The Company and certain consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans and defined-benefit corporate pension plans. Certain overseas subsidiaries have post-retirement health benefit plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2011 and 2010 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Retirement benefit obligation	**¥(6,647)**	¥(7,171)	**$(79,939)**
Plan assets at fair value	**4,483**	4,532	**53,914**
Unfunded retirement benefit obligation	**(2,163)**	(2,639)	**(26,013)**
Unrecognized actuarial gain or loss	**383**	368	**4,606**
Unrecognized prior service benefits and cost	**(109)**	(122)	**(1,310)**
Net position on consolidated balance sheets	**(1,889)**	(2,392)	**(22,717)**
Prepaid pension cost	**273**	335	**3,283**
Provision for retirement benefits	**¥(2,162)**	¥(2,728)	**$(26,001)**

Note: Certain consolidated subsidiaries apply simplified method in calculating retirement benefit obligation.

The components of retirement benefits expenses for the years ended March 31, 2011 and 2010 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Service cost	**¥ 203**	¥ 236	**$ 2,441**
Interest cost	**217**	267	**2,609**
Expected return (loss) on plan assets	**(165)**	(134)	**(1,984)**
Amortization of actuarial gain or loss	**79**	232	**950**
Amortization of prior service benefits and cost	**13**	(465)	**156**
	¥ 348	¥ 136	**$ 4,185**

Note: Retirement benefit expenses of consolidated subsidiaries which apply simplified method are included in "Service cost."

Both discount rates and expected rates of return on plan assets used in accounting for the above calculation as of March 31, 2011 and 2010 were mainly 2.10%.

During the fiscal year of 2011, one consolidated subsidiary terminated its post-retirement health benefit plan. Accordingly, the Group recognized gain on abolishment of retirement benefit plan of ¥140 million ($1,683 thousand) for the year ended March 31, 2011.

8. Leases

(1) Finance Leases (Lessee)

The Company leases certain machinery and vehicles as a lessee in connection with collagen material business. Of finance leases that do not transfer ownership of the leased property to the lessee, leases that had been in existence at March 31, 2008 are accounted for as operating lease transactions.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2011 and 2010, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen					
	2011			2010		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery, equipment and vehicles	**¥940**	**¥638**	**¥302**	¥1,361	¥878	¥483
Other tangible fixed assets	**7**	**5**	**1**	43	36	7
Other intangible assets	**13**	**12**	**1**	13	9	4
Total	**¥960**	**¥655**	**¥304**	¥1,419	¥924	¥494

	Thousands of U.S. dollars		
	2011		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery, equipment and vehicles	**$11,304**	**$7,672**	**$3,631**
Other tangible fixed assets	**84**	**60**	**12**
Other intangible assets	**156**	**144**	**12**
Total	**$11,545**	**$7,877**	**$3,656**

Future minimum lease payments subsequent to March 31, 2011 for finance leases accounted for as operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥176	$2,116
2013 and thereafter	163	1,960
Total	¥340	$4,088

Lease payments relating to finance leases accounted for as operating leases and the pro forma depreciation expenses and interest expenses relating to assets leased under finance leases accounted for as operating leases for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Lease payments	**¥189**	¥294	**$2,273**
Depreciation expenses	**162**	250	**1,948**
Interest expenses	**18**	33	**216**

The pro forma depreciation expenses are computed by the straight-line method over the lease term with no residual value and the pro forma interest expenses are computed by the interest method. There were no impairment losses allocated to lease assets for the years ended March 31, 2011 and 2010.

(2) Operating Leases

Future minimum lease payments subsequent to March 31, 2011 for non-cancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
2012	**¥164**	¥ 199	**$ 1,972**
2013 and thereafter	**680**	942	**8,177**
Total	**¥845**	¥1,142	**$10,162**

9. Financial Instruments

(1) Overview

(a) Policy for financial instruments

In consideration of plans for capital investment, the Group raises funds mainly through bank borrowings. The Group manages temporary cash surpluses through highly liquid financial assets and raises short-term capital through bank borrowings. The Group uses derivatives for the purpose of reducing the after-mentioned risks and does not enter into derivatives for speculative purposes.

(b) Types of financial instruments and related risk

Trade receivables such as notes and accounts receivable are exposed to credit risk in relation to customers. Although receivables denominated in foreign currencies, arising from overseas sales, are exposed to foreign currency exchange risk, the balances of receivables are always less than payables denominated in the same foreign currencies.

Investment securities, which are exposed to market price fluctuation risk, are composed of common stocks of companies with which the Company has business relationships. The Company also provides long-term loans to companies with which the Company has business relationship.

Substantially all trade payables such as notes and accounts payable have payment due dates within five months. Although payables denominated in foreign currencies are exposed to foreign currency exchange risk, forward foreign exchange contracts are arranged to reduce the risk on the payables after netting with receivables in the same currencies.

Long-term debt, bonds and lease obligation under finance leases are taken out principally for the purpose of making capital investments and their repayment dates extend up to five years from the balance sheet date. Although some long-term debt is exposed to interest rate fluctuation risk, interest rate swaps are arranged to mitigate the risk.

Regarding derivatives, the Company enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from receivables and payables denominated in foreign currencies and interest rate swap transactions to reduce fluctuation risk deriving from interest payable of long-term debt.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy and assessment of the effectiveness of hedging activities is disclosed in Note 2. “Significant Accounting Policies (13) Hedge accounting.”

(c) Risk management for financial instruments

Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal management rules of the Company for managing credit risk arising from receivables and long-term loans, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Company is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties. Similar management control procedures are performed at consolidated subsidiaries in accordance with the Company's internal management rules.

The Company believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Company identifies the foreign currency exchange risk for each currency on a monthly basis and generally enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the interest rate risk for interest payments of long-term debt, the Company may also enter into interest rate swap transactions.

For investment securities, the Company periodically reviews the fair values of such financial instruments and the financial position of the issuers (companies with which the Company has a business relationship). In addition, the Company continuously evaluates whether securities should be maintained taking into account their fair values and relationships with the issuers.

Derivative transactions are conducted and managed by the responsible division based on the appropriate approval in accordance with the internal management rules which define the authorization policies and transaction limits.

Consolidated subsidiaries do not enter into derivative transactions.

Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligation on scheduled due dates)

Based on reports from each division, the responsible division of the Company prepares and updates its cash flow plans on a timely basis, and at the same time, maintains liquid funds. In this way, the Company monitors and manages liquidity risk. Consolidated subsidiaries also monitor and manage their liquidity risk in a similar manner.

(d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 10. "Derivative Transactions" are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2011 and 2010, estimated fair value and difference are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2011		
	Carrying value	Fair value	Difference
Cash and deposits	¥1,558	¥1,558	¥ –
Notes and accounts receivable	5,621	5,621	–
Investment securities	886	886	–
Total assets	¥8,066	¥8,066	¥ –
Notes and accounts payable	¥3,537	¥3,537	¥ –
Other payable	1,251	1,251	–
Long-term debt	5,081	5,103	21
Total liabilities	¥9,870	¥9,891	¥21
Derivative transactions (*)	¥ (0)	¥ (0)	¥ –

	Millions of yen		
	2010		
	Carrying value	Fair value	Difference
Cash and deposits	¥1,487	¥1,487	¥ –
Notes and accounts receivable	5,241	5,241	–
Investment securities	978	978	–
Total assets	¥7,707	¥7,707	¥ –
Notes and accounts payable	¥3,552	¥3,552	¥ –
Other payable	1,150	1,150	–
Long-term debt	5,048	5,044	(4)
Total liabilities	¥9,751	¥9,747	¥(4)
Derivative transactions (*)	¥ 27	¥ 27	¥ –

	Thousands of U.S. dollars		
	2011		
	Carrying value	Fair value	Difference
Cash and deposits	**$ 18,737**	**$ 18,737**	**$ –**
Notes and accounts receivable	**67,600**	**67,600**	**–**
Investment securities	**10,655**	**10,655**	**–**
Total assets	**$ 97,005**	**$ 97,005**	**$ –**
Notes and accounts payable	**$ 42,537**	**$ 42,537**	**$ –**
Other payable	**15,045**	**15,045**	**–**
Long-term debt	**61,106**	**61,371**	**252**
Total liabilities	**$118,701**	**$118,953**	**$252**
Derivative transactions (*)	**$ (0)**	**$ (0)**	**$ –**

(*) The value of assets and liabilities arising from derivatives is shown at net value, with amounts in parentheses representing net liability positions.

Note: 1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets:

Cash and deposits and Notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Investment securities

The fair value of equity securities is based on quoted market prices. The information on securities classified by holding purpose is disclosed in Note 4. "Investment Securities."

Liabilities:

Notes and accounts payable and Other payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term debt

The fair value of long-term debt is based upon the present value of the total of principle and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Derivative transactions:

The information on derivative transactions is disclosed in Note 10. "Derivative Transactions."

Note: 2. Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Carrying value:			
Unlisted equity securities	**¥18**	¥18	**$216**

Because no quoted market price is available and it is extremely difficult to determine the fair value, these financial instruments are not included in the above investment securities.

(3) As of March 31, 2011 and 2010, monetary receivables with maturities were deposits of ¥1,555 million ($18,701 thousand) and ¥1,483 million and notes and accounts receivables of ¥5,621 million ($67,600 thousand) and ¥5,241 million, respectively. These receivables were all due for redemption within one year.

10. Derivative Transactions

Derivative transactions held by the Group as of March 31, 2011 and 2010 are all ones for which hedge accounting is applied and their fair value information is stated as follows. Fair value is measured based on quotes and prices provided by counterparty financial institutions.

Currency related:

	Millions of yen					
	2011			2010		
	Notional amount			Notional amount		
	Contract amount	Maturing after one year	Fair value	Contract amount	Maturing after one year	Fair value
Deferred hedge accounting						
Forward foreign exchange contracts						
Buy: USD and CAD	**¥698**	**¥–**	**¥13**	¥682	¥–	¥50

	Thousands of U.S. dollars		
	2011		
	Notional amount		
	Contract amount	Maturing after one year	Fair value
Deferred hedge accounting			
Forward foreign exchange contracts			
Buy: USD and CAD	**$8,394**	**$–**	**$156**

Interest related:

	Millions of yen					
	2011			2010		
	Notional amount			Notional amount		
	Contract amount	Maturing after one year	Fair value	Contract amount	Maturing after one year	Fair value
Deferred hedge accounting						
Interest rate swaps						
Receive/floating and pay/fixed	**¥1,500**	**¥ 450**	**¥(13)**	¥1,500	¥ 750	¥(22)
Short-cut method						
Interest rate swaps						
Receive/floating and pay/fixed	**3,350**	**1,025**	(*)	3,950	1,245	(*)

	Thousands of U.S. dollars		
	2011		
	Notional amount		
	Contract amount	Maturing after one year	Fair value
Deferred hedge accounting			
Interest rate swaps			
Receive/floating and pay/fixed	**$18,039**	**$ 5,411**	**$(156)**
Short-cut method			
Interest rate swaps			
Receive/floating and pay/fixed	**40,288**	**12,327**	(*)

(*) Interest rate swaps under short-cut method are accounted for together with long-term debt designated as a hedged item, and therefore, their fair value is included in the fair value of long-term debt.

11. Commitments and Contingent Liabilities

As of March 31, 2011 and 2010, the Group was contingently liable for the assignment of receivable with recourse in the amount of ¥496 million ($5,965 thousand) and ¥382 million, respectively.

12. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Packing and freightage expenses	**¥ 757**	¥ 758	**$ 9,104**
Salaries	**1,155**	1,132	**13,890**
Bonuses	**220**	236	**2,645**
Provision for bonuses	**77**	70	**926**
Provision for retirement benefits	**91**	(195)	**1,094**
Provision for directors' retirement benefits	**0**	1	**0**
Provision of allowance for doubtful accounts	**0**	23	**0**
Welfare expenses	**237**	250	**2,850**
Depreciation	**75**	78	**901**
Traveling and transportation expenses	**228**	214	**2,742**
Research and development expenses	**739**	692	**8,887**

For the years ended March 31, 2011 and 2010, research and development expenses included in general and administrative expenses and production cost were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
General and administrative expenses	**¥739**	¥692	**$ 8,887**
Production cost	**156**	125	**1,876**
Total	**¥895**	¥818	**$10,763**

13. Impairment Loss

The Group has recognized impairment losses on the following assets groups for the years ended March 31, 2011 and 2010:

2011

Location	Use	Category	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Shiki-gun, Nara	**Formula solution business**	**Building**	**¥15**	**$180**

2010

Location	Use	Category	Amount (Millions of yen)
Ontario, Canada	Collagen material business	Trademark, etc.	¥11

The Group determined asset group based on the categories used for their managerial accounting.

The Group recognized impairment losses for above assets group on the ground that their abilities to generate cash inflows significantly declined for the years ended March 31, 2011 and 2010. The recoverable amount of each asset is measured according to net selling value. For the year ended March 31, 2010, the recoverable amount of the trademark right was measured to be zero due to its negative future cash flows.

14. Information on Related Party Transactions

For the years ended March 31, 2011 and 2010, significant affiliates accounted for using the equity method and the condensed financial information prepared by combining the financial statements of these significant affiliates were as follows:

Significant affiliates:

2011	2010
Nitta Gelatin India Ltd.	Nitta Gelatin India Ltd.
Bostik-Nitta Co., Ltd.	Bostik-Nitta Co., Ltd.
Guangdong Baiwei Bio Material Co., Ltd (China)	

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Total current assets	**¥2,712**	¥2,339	**$32,615**
Total non-current assets	**1,910**	1,613	**22,970**
Total current liabilities	**1,266**	664	**15,225**
Total non-current liabilities	**188**	139	**2,260**
Total net assets	**3,168**	3,150	**38,099**
Net sales	**6,407**	5,748	**77,053**
Income before income taxes	**431**	1,119	**5,183**
Net income	**216**	802	**2,597**

15. Net Assets

Changes in total numbers of shares of capital stock authorized and capital stock issued and outstanding for the years ended March 31, 2011 and 2010 were as follows:

As of March 31,	2009	Increase (decrease)	2010	Increase (decrease)	**2011**
Authorized:					
Common stock	20,000,000	–	20,000,000	–	**20,000,000**
Type A preferred stock	2,000,000	–	2,000,000	–	**2,000,000**
Total	22,000,000	–	22,000,000	–	**22,000,000**
Issued and outstanding:					
Common stock	6,366,937	–	6,366,937	–	**6,366,937**
Type A preferred stock	2,000,000	–	2,000,000	(1,000,000)	**1,000,000**
Total	8,366,937	–	8,366,937	(1,000,000)	**7,366,937**
Treasury stock:					
Common stock	109,398	8	109,406	97	**109,503**

Type A preferred stock was subscribed by UDS Corporate Mezzanine Limited Partnership at ¥500 per share (total issue price: ¥1,000 million) on January 28, 2009. The annual dividend ratio was 9%.

For the year ended March 31, 2011, the total number of shares of Type A preferred stock issued decreased by 1,000,000 shares due to the purchase and retirement of shares by the Company. For the years ended March 31, 2011 and 2010, the number of shares of treasury stock increased by 97 shares and 8 shares, respectively, due to the acquisition of fractional stocks.

On May 23, 2011, the Company purchased and retired all outstanding shares of Type A preferred stock. Additionally, a stock split was conducted on April 1, 2011. More detailed information is disclosed in Note 21. “Subsequent Events.”

16. Information Related to Consolidated Statements of Changes in Net Assets

(1) Dividends paid to shareholders

2011

Resolution	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 28, 2010 Annual General Meeting of Shareholders	**Common stock**	**¥23**	**$276**	**¥ 3.75**	**$0.04**	**March 31, 2010**	**June 29, 2010**
	Type A preferred stock	**44**	**529**	**22.44**	**0.26**		
November 5, 2010 Board of Directors	**Common stock**	**23**	**276**	**3.75**	**0.04**	**September 30, 2010**	**December 10, 2010**
	Type A preferred stock	**31**	**372**	**22.56**	**0.27**		

2010

Resolution	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 29, 2009 Annual General Meeting of Shareholders	Common stock	¥23	¥ 3.75	March 31, 2009	June 30, 2009
	Type A preferred stock	15	7.77		
October 21, 2009 Board of Directors	Common stock	23	3.75	September 30, 2009	December 10, 2009
	Type A preferred stock	45	22.56		

(2) Dividends with a record date during the year ended March 31, 2011 but an effective date subsequent to March 31, 2011

Resolution	Type of share	Amount (Millions of yen)	Total (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 28, 2011 Annual General Meeting of Shareholders	Common stock	¥23	$276	Retained earnings	¥3.75	$0.04	March 31, 2011	June 29, 2011

17. Amounts Per Share

Net assets per share is computed based on net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year-end.

Net income per share is computed based on the net income attributable to shareholders of common stock and weighted average number of shares of common stock outstanding, which are 6,257,523 shares and 6,257,536 shares for the years ended March 31, 2011 and 2010.

	Yen		U.S. dollars
	2011	2010	**2011**
Net assets per share	**¥899.02**	¥781.00	**$10.81**
Net income per share	**160.39**	153.00	**1.92**

Diluted net income per share is not disclosed due to the absence of shares with dilution effect for the years ended March 31, 2011 and 2010.

18. Cash Flow Information

A reconciliation of cash and cash equivalents in consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets as of March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Cash and deposits	**¥1,558**	¥1,487	**$18,737**
Time deposits with maturity in excess of three months	**(20)**	(20)	**(240)**
Cash and cash equivalents	**¥1,538**	¥1,467	**$18,496**

19. Comprehensive Income

Comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
Comprehensive income attributable to:	
Owners of the parent	¥1,528
Minority interests	0
Comprehensive income	¥1,528

Other comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
Other comprehensive income:	
Valuation difference on available-for-sale securities	¥156
Deferred gains or losses on hedges	38
Foreign currency translation adjustment	145
Adjustment for pension liability of overseas subsidiaries	78
Share of other comprehensive income of associates accounted for using equity method	61
Other comprehensive income	¥481

20. Segment Information

Effective the year ended March 31, 2011, the Group has applied the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, March 27, 2009) and the “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, March 21, 2008).

For the years ended March 31, 2011 and 2010

(1) Overview of reportable segment

The Group defines reportable segments as a component of the Group for which separate financial information is available and whose operating results are regularly evaluated by the Board of Directors to make decisions about how resources are allocated among the Group and assess its performance.

The Group develops and implements comprehensive domestic and overseas strategies for its products and services based on the business segments by products and services.

Thus, the Group consists of two segments by products and services based on business activities as follows:

- Collagen material business—produces gelatin, collagen peptide, collagen casings and others.
- Formula solution business—produces various materials for foods, adhesives and others.

(2) Basis of measurement for the amounts of net sales, profit, assets and other items by reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2. “Significant Accounting Policies.” Segment profit is measured on a basis of operating income. Inter-segment sales and transfers are accounted for based on actual market prices.

(3) Information about net sales, profit, assets and other items by reportable segment is as follows:

	Millions of yen				
	2011				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales					
Sales to third parties	¥17,882	¥10,040	¥27,923	¥ –	¥27,923
Inter-segment sales and transfers	1,180	–	1,180	(1,180)	–
Total	19,063	10,040	29,104	(1,180)	27,923
Segment profit	1,773	934	2,708	(1,222)	1,486
Segment assets	15,399	4,350	19,750	1,716	21,466
Other items					
Depreciation and amortization	778	87	866	32	898
Impairment loss	–	15	15	–	15
Increase in property, plant and equipment and intangible assets	935	100	1,036	12	1,049

	Millions of yen				
	2010				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales					
Sales to third parties	¥16,831	¥9,560	¥26,392	¥ –	¥26,392
Inter-segment sales and transfers	1,110	–	1,110	(1,110)	–
Total	17,942	9,560	27,502	(1,110)	26,392
Segment profit	1,587	975	2,563	(1,155)	1,407
Segment assets	15,985	4,014	19,999	1,807	21,806
Other items					
Depreciation and amortization	721	64	786	31	818
Impairment loss	11	–	11	–	11
Increase in property, plant and equipment and intangible assets	504	99	603	19	623

	Thousands of U.S. dollars				
	2011				
	Collagen material business	Formula solution business	Total	Reconciliation (Note 1)	Amounts on consolidated financial statements (Note 2)
Net sales					
Sales to third parties	$215,057	$120,745	$335,814	$ –	$335,814
Inter-segment sales and transfers	14,191	–	14,191	(14,191)	–
Total	229,260	120,745	350,018	(14,191)	335,814
Segment profit	21,322	11,232	32,567	(14,696)	17,871
Segment assets	185,195	52,315	237,522	20,637	258,159
Other items					
Depreciation and amortization	9,356	1,046	10,414	384	10,799
Impairment loss	–	180	180	–	180
Increase in property, plant and equipment and intangible assets	11,244	1,202	12,459	144	12,615

Note: 1. "Reconciliation" mainly includes the following:

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars 2011
Segment profit:			
Inter-segment elimination	**¥ 7**	¥ 39	**$ 84**
Corporate expense (*)	**(1,229)**	(1,195)	**(14,780)**
Total	**¥(1,222)**	¥(1,155)	**$(14,696)**

(*) "Corporate expense" presents mainly general and administrative expenses that are not allocated to reportable segments.

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars 2011
Segment assets:			
Inter-segment elimination	**¥ (432)**	¥ (395)	**$ (5,195)**
Corporate assets (*)	**2,148**	2,202	**25,832**
	¥1,716	¥1,807	**$20,637**

(*) "Corporate expense" presents mainly general and administrative expenses that are not allocated to reportable segments.

Note: 2. Segment profit is reconciled to operating income on the consolidated statements of income.

Note: 3. Related information for the year ended March 31, 2011

(a) Information by geographical area

Net sales:

Millions of yen				
Japan	Asia	North America	Other	Total
¥19,686	**¥1,201**	**¥6,569**	**¥465**	**¥27,923**

Thousands of U.S. dollars				
Japan	Asia	North America	Other	Total
$236,752	**$14,443**	**$79,001**	**$5,592**	**$335,814**

Property, plant and equipment:

Millions of yen		
Japan	North America	Total
¥2,688	**¥2,849**	**¥5,537**

Thousands of U.S. dollars		
Japan	North America	Total
$32,327	**$34,263**	**$66,590**

(b) Information by products and services has been omitted as it is consistent with information by the reportable segments. Information by major customers has also been omitted since there was no single external customer accounting for 10% or more of the consolidated sales for the year ended March 31, 2011.

For the year ended March 31, 2010

(1) Business segments

Based on the line of products and the similarity of markets, the Group's business segments were determined as follows:

- Collagen material business—gelatin, collagen peptide, collagen casings, reagent for research and medical material
- Formula solution business—edible gelling agents and stabilizers, functional foods, cosmetic products and adhesives

Information about the business segments of the Group was as follows:

	Millions of yen				
	Collagen material business	Formula solution business	Total	Eliminations and corporate	Consolidated
Net sales and operating income					
Net sales					
Sales to third parties	¥16,831	¥9,560	¥26,392	¥ –	¥26,392
Inter-segment sales and transfers	1,110	–	1,110	(1,110)	–
Total	17,942	9,560	27,502	(1,110)	26,392
Operating expenses	16,354	8,584	24,939	45	24,984
Operating income	1,587	975	2,563	(1,155)	1,407
Total assets	15,985	4,014	19,999	1,807	21,806
Depreciation and amortization	721	64	786	31	818
Impairment loss	11	–	11	–	11
Capital expenditures	504	99	603	19	623

Note: Of *Operating expenses*, the amount of unallocatable operating expenses included in *Eliminations and corporate* was ¥1,195 million. In addition, of *Total assets*, the amount of corporate assets included in *Eliminations and corporate* was ¥2,202 million for the year ended March 31, 2010. These amounts primarily consisted of expenses or assets in connection with the administrative division of the Company and Nitta Gelatin Holding, Inc.

(2) Geographical segments

The information about geographical segments of the Group for the year ended March 31, 2010 was as follows:

	Millions of yen				
	Japan	North America	Total	Eliminations and corporate	Consolidated
Net sales and operating income					
Net sales					
Sales to third parties	¥19,529	¥6,862	¥26,392	¥ –	¥26,392
Inter-segment sales and transfers	1,100	1,882	2,983	(2,983)	–
Total	20,630	8,745	29,375	(2,983)	26,392
Operating expenses	18,201	8,524	26,726	(1,741)	24,984
Operating income	2,428	220	2,649	(1,241)	1,407
Total assets	13,840	6,923	20,764	1,042	21,806

Note: Of *Operating expenses*, the amount of unallocatable operating expenses included in *Eliminations and corporate* was ¥1,195 million. In addition, of *Total assets*, the amount of corporate assets included in *Eliminations and corporate* was ¥2,202 million for the year ended March 31, 2010. These amounts primarily consisted of expenses or assets in connection with the administrative division of the Company and Nitta Gelatin Holding, Inc.
"*North America*" includes the United States of America and Canada.

(3) Overseas sales

Overseas sales of the Group for the year ended March 31, 2010 were as follows:

	Millions of yen		
	North America	Other area	Total
Overseas sales	¥6,471	¥1,404	¥ 7,876
Consolidated net sales			¥26,392
Overseas sales as a percentage of consolidated net sales	24.5%	5.3%	29.8%

The principal countries or areas included in each region were as follows:

North America: the United States of America and Canada

Other area: Vietnam, China, Thailand, Indonesia

21. Subsequent Events

(1) Type A preferred Stock—purchase and retirement

At the Board of Directors' meeting held on April 27, 2011, the Company resolved to purchase and retire all outstanding 1,000,000 shares of Type A preferred stock of the Company.

Type A preferred stock was originally subscribed by UDS Corporate Mezzanine Limited Partnership for 2,000,000 shares (total issue price: ¥1,000 million) on January 28, 2009. After twice of purchasing and retiring of Type A preferred stock during the fiscal year of 2011, the Company has purchased all remaining outstanding shares at ¥527.9801026 per share (total purchase price ¥527,980,102) on May 23, 2011 based on Article 12–9 of the Company's Articles of Incorporation (the Provision for Acquisition of Cash Consideration) and Article 5 of the Preferred Stock Subscription Agreement with UDS Corporate Mezzanine Limited Partnership.

In addition, the purchased shares of Type A preferred stock were retired on the same date based on Article 178 of the Companies Act.

(2) Stock Split

At the Board of Directors' meeting held on February 15, 2011, the Company resolved to conduct a stock split on April 1, 2011, which was a two-for-one split of common stocks held by shareholders recorded on the final list of shareholders as of the record date of March 31, 2011.

As a result of this stock split, the Company's common stock increased by 6,366,937 shares, the capital stock issued and outstanding increased to 12,733,874 shares and the capital stock authorized increased to 20,000,000 shares.

If the stock split had been performed on April 1, 2010, the amounts per share information for the year ended March 31, 2011 would have been as follows:

Net assets per share ¥449.51

Net income per share ¥80.19

(3) Establishment of a new subsidiary

At the Board of Directors' meeting held on March 15, 2011, the Company resolved to establish a subsidiary in Shanghai, China, for the purpose of setting up a sales depot for the Company's products in Chinese market. The following is an overview of the new subsidiary.

Trade name:	Shanghai Nitta Gelatin Co., Ltd.
Established on:	September, 2011 (planned)
Amount of capital:	U.S. $608 thousand
Investment ratio:	The Company – 67%
Amount invested:	U.S. $407 thousand by the Company
Business description:	Sales of gelatin, collagen, peptide and food ingredients

(Supplementary Note)

As stated in Note 1. "Basis of Presenting Consolidated Financial Statements," the Company, by its own judgment, has prepared the accompanying consolidated financial statements by making reclassification and rearrangements to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. These financial statements are not audited by independent auditors.

The Group's consolidated financial statements for the years ended March 31, 2011 and 2010, which were included in the Annual Securities Report, have been prepared in units of thousands of yen and audited by Ernst & Young ShinNihon LLC in accordance with Article 193-2 (1) of the Financial Instruments and Exchange Act of Japan.

Corporate Information

Company Outline

Company Name:	Nitta Gelatin Inc.
Headquarters:	4-26, Sakuragawa 4-chome, Naniwa-ku, Osaka (P.C. 556-0022), Japan
Establishment:	January: 1918
Incorporation:	February: 1945
Capital:	¥875 million
Net Sales:	Consolidated: ¥27,923 million Non-consolidated: ¥20,532 million (Year ended March 31, 2011)
Employees:	Consolidated: 574 Non-consolidated: 255 (As of March 31, 2011)
Main Business:	Production and sales of edible gelatin, pharmaceutical gelatin and photographic gelatin. Production and sales of collagen peptide. Production and sales of collagen casing. Production and sales of collagen for cosmetics, biomaterials and biochemical products. Production and sales of edible gelling agents, stabilizers and other food materials. Production and sales of adhesives and sealants for packaging, bookbinding, building materials, hygiene products and automobiles.
Operating facilities:	4 locations in Japan
Affiliates:	Nitta Gelatin NA Inc. (U.S.A.), Nitta Gelatin Canada, Inc. (Canada), Nitta Gelatin USA, Inc. (U.S.A.), Nitta Casings Inc. (U.S.A.), Nitta Casings (CANADA) Inc. (Canada), Nitta Gelatin Holding, Inc. (U.S.A.), Shanghai Nitta Gelatin Co., Ltd. (China), Aibis Inc., Alma Corporation, Nitta Biolab Inc., Hikone Gelatin Inc., Bostik-Nitta Co., Ltd., Nitta Gelatin India Ltd. (India), Guangdong Baiwei Bio Material Co., Ltd (China), Shinju Service Co., Ltd., Bamni Proteins Ltd. (India), Reva Proteins Ltd. (India)

Board of Directors and Executive Officers (As of June 28, 2011)

Representative Director and President	**Norimichi Soga**
Director and Senior Managing Executive Officer	**Tadao Kawamura**
Director and Managing Executive Officer	**Tsuneo Sasaki**
Director and Executive Officers	**Masahiro Morimura** **Takeo Yamaki** **Hiroshi Nitta**
Director	**Mayumi Ishihara**
Standing Statutory Auditor	**Shinzo Tatematsu**
Statutory Auditors	**Yoshihiro Sakatani** **Nobumasa Fujimitsu**
Senior Executive Officers	**Raymond Merz** **Toshikazu Nishio**
Executive Officers	**Yasuyuki Nakai** **Hidenori Takemiya** **Koichi Ogata** **Yuji Yamamoto**