

Annual Report 2009



Mercian Corporation



Mercian



Contents

FIVE-YEAR SUMMARY	1
TO OUR STAKEHOLDERS	2
CONSOLIDATED FINANCIAL STATEMENTS	6
Consolidated Balance Sheets	6
Consolidated Statements of Operations	8
Consolidated Statements of Changes in Equity	9
Consolidated Statements of Cash Flows.....	10
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	12
INDEPENDENT AUDITORS' REPORT	29
DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS	30
CORPORATE DATA.....	31
INVESTOR INFORMATION.....	32

Note Regarding Revision of Financial Statements

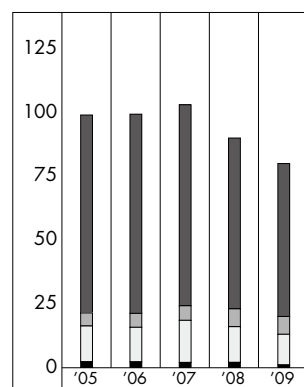
In 2010, an internal investigation conducted by Mercian revealed major deficiencies in internal controls pertaining to Companywide management processes, financial accounts settlement and reporting processes, and business processes in the Fish Feedstuffs Division. As a consequence of this investigation, Mercian was obliged to revise its consolidated financial statements for fiscal 2009 and the preceding four fiscal years and to have the revised statements audited anew by its independent auditor, Deloitte Touche Tohmatsu.

FIVE-YEAR SUMMARY

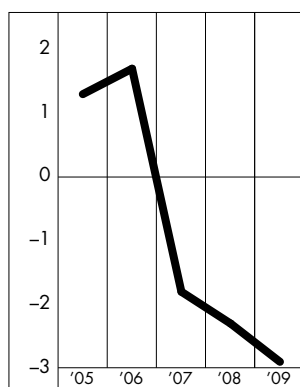
	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	2009	2008	2007	2006	2005	2009
For the years ended December 31						
Net sales	¥80,506	¥90,831	¥103,058	¥99,355	¥99,027	\$874,399
Operating income (loss)	(1,579)	(1,302)	689	1,250	2,587	(17,149)
Income (loss) before income taxes and minority interests ...	(1,721)	(2,119)	723	3,142	2,292	(18,692)
Net income (loss)	(2,117)	(1,871)	(1,598)	1,658	1,199	(22,993)
Payment for purchases of property, plant and equipment	2,967	2,788	3,194	6,608	4,089	32,221
Depreciation and amortization	3,715	3,407	3,077	2,761	2,727	40,347
Per share of common stock						
(Yen and U.S. dollars):						
Net income (loss)	¥ (15.91)	¥ (14.06)	¥ (12.00)	¥ 12.44	¥ 12.44	\$ (0.17)
Cash dividends applicable to the year	5.00	5.00	5.00	5.00	5.00	0.05
Total equity	292.04	313.33	343.93	361.54	355.25	3.17
As of December 31						
Total equity	¥39,238	¥42,071	¥ 46,124	¥48,475	¥47,382	\$426,175
Total assets	70,719	78,132	87,084	95,011	87,739	768,100

Note: U.S. dollar amounts are translated from yen at the rate of ¥92.07=\$1, the approximate rate on the Tokyo Foreign Exchange Market at December 31, 2009.

Net Sales
(Billions of Yen)



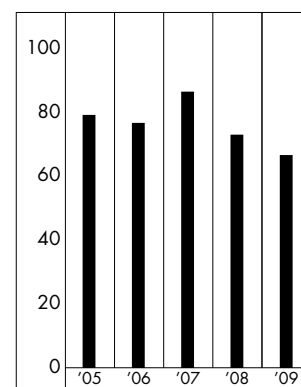
Return on Assets (ROA)
(%)



Return on Equity (ROE)
(%)



Net Sales per Employee
(Millions of Yen)



- Alcoholic Drinks
- Pharmaceuticals and Chemicals
- Feedstuffs
- Others

Cautionary Remark Regarding Forward-Looking Statements

Statements made in this document with respect to Mercian's plans, strategies, expectations or projections about the future, and other statements except for historical statements are forward-looking statements.

These forward-looking statements are subject to uncertainties that could cause actual results to differ materially from such statements. These uncertainties include, but are not limited to, general economic conditions, demand for and price of Mercian's products, Mercian's ability to continue to develop and market advanced products, and currency exchange rates.

Mercian disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.





downward trend in sales in other businesses, notably the Alcoholic Drinks and Feedstuffs segments, and the worsening impact of rising prices for raw materials used in fish feed.

Mercian's net loss also worsened, to ¥2,117 million, from ¥1,871 million in fiscal 2009. This was due to the application of a new accounting standard for inventories, as a result of which the difference between inventories at the beginning and the end of the fiscal year (¥795 million) was accounted for as a loss on write-down of inventories and included in extraordinary losses.

Results by Segment

Alcoholic Drinks

In the wine business, we reinforced efforts to strengthen our brand with the goal of securing the number one market position in Japan. At the same time, we sought to bolster earnings by working with Kirin Brewery Company, Limited, and Kirin Merchandising Co., Ltd., to promote a sales approach designed to deliver maximum value. In the domestic wines category, sales of our mainstay *Oishii-Sankaboshizai-Mutenka*, which has

In fiscal 2009, ended December 31, 2009, consumers stepped up efforts to pare expenditures as a persistently sluggish economic environment was fueled by an awareness of the need to protect living standards. In our core Alcoholic Drinks segment, the market for products for consumption at home was firm, supported by a growing preference for eating at home rather than dining out. In the market for commercial-use products, however, a shift toward lower-priced items hampered results, particularly for intermediate and high-end offerings. Against

this background, consolidated net sales for the period slipped 11.4% from fiscal 2008, to ¥80,507 million, primarily as a result of declines in sales of imported wines, processing liquors, subcontracted products and feedstuffs.

Despite the positive impact of a value-based sales approach and efforts to optimize inventory and reduce sales, general and administrative costs in the wine business, and of increased sales in the Pharmaceuticals and Chemicals segment, the operating loss swelled to ¥1,579 million, from ¥1,303 million. This reflected a persistent



no sulfites added, *Bon Rouge* and the *Bistro* series were brisk, while among imported wines sales were particularly robust for daily wines, including the *Frontera* series, from Chile—which saw a double-digit increase—and the *Franzia* series, from California. Promotional efforts during the period included the on-premises Spring Rosé Campaign, aimed at restaurants and other such establishments, which was held from March through April. In July, we staged Mercian Grand Tasting events in Tokyo and Osaka. These events, which attracted some of the largest crowds ever seen at a wine tasting in Japan, sought to expose participants to a variety of showcased wines and to stimulate

demand. In October, we launched WINESUKI (“Wine Enthusiast”), a website featuring a wide range of wine-related information and an online wine store, with the aim of expanding the customer base of our wine business. While such efforts contributed to higher sales volumes for both domestic and imported daily wines, overall wine sales were down from fiscal 2008, as intermediate and high-end offerings struggled and the overall market shifted toward lower-priced products.

In the processing liquors business, conditions in the restaurant industry remained sluggish as consumers increasingly opted to eat at home rather than dine

out, hampering sales of principal products, including mirin (sweet cooking sake), fermented seasonings and processing wines. Despite brisk sales of alcohol-based disinfectants—bolstered by rising demand for sanitary applications and the launch of *A-Quick Pro*, a new product effective against norovirus—overall sales of processing liquors fell.

In the alcohol business, sales for industrial applications were robust, led by products for use in alcohol-based disinfectants. Nevertheless, category sales decreased, owing to slack sales of alcoholic materials for prepackaged low-alcohol beverages, among others.

Sales were also down for *shochu* (a distilled Japanese alcoholic beverage) and domestic whiskies. These products are manufactured under contract for Kirin Brewery.

Reflecting these and other factors, total sales in the Alcoholic Drinks segment declined 11.5%, to ¥59,626 million. Operating income amounted to ¥183 million, compared with an operating loss of ¥5 million in the previous fiscal year, thanks to an improvement in the profit structure of our wine business.

Pharmaceuticals and Chemicals

Total sales in the Pharmaceuticals and Chemicals segment were ¥7,427 million, an increase of 6.9% from the previous fiscal year. Operating income, at ¥773 million, was up ¥148 million. These results were due primarily to robust sales of clinical-use antibiotics throughout the period and contributions from sales of newly introduced pharmaceutical intermediates.

Feedstuffs

Effective from September 2009, we merged our livestock business with that of subsidiary Mercian Feed Corporation. This measure reinforced quality assurance and our ability to supply high-quality products, thereby enabling us to establish a more competitive operating foundation.

Livestock feed sales fell, owing to declines in compound dairy cattle feed prices, which are linked to grain prices. Sales of value-added vitamin and mineral supplements for livestock were firm.

Sales of fish feed were also down, despite brisk results for live bait. This result was attributable to falling sales of value-added *Soft EP* pellets and declining sales

to companies engaged in aquaculture, both of which reflected a shift in the market toward lower-priced offerings.

Total sales in the Feedstuffs segment amounted to ¥12,010 million, a decline of 18.9%. The segment's operating loss also worsened, swelling by ¥589 million to ¥2,458 million.

Others

Total sales in the Others segment fell 13.5%, to ¥1,444 million. The segment's operating loss widened by ¥22 million, to ¥77 million.

Progress of Management Reforms

In July 2007, Mercian became a member of the Kirin Group (Kirin Holdings Company, Limited, and its various operating companies), a move aimed at overcoming changes in our operating environment and ensuring future growth.

As president of Mercian—a responsibility I took on in 2009—my primary objective has been to reinforce our corporate structure, thereby heeding our commitment to achieving the qualitative goals we have set for each of our businesses. Accordingly, we have

focused on three tasks: improving process management, stimulating horizontal and vertical communication and promoting management that mirrors the perspectives of our customers. To these ends, we have implemented a broad range of measures designed to fortify our operating foundation, including revamping our management structure, introducing the Mercian Action Plan (MAP) goal management tool and enhancing corporate social responsibility (CSR) initiatives.

We have also stepped up the implementation of strategies to improve efficiency. These include conducting total cost reduction (TCR) activities, establishing constructive business relationships with suppliers and customers in the wine and processing liquors businesses, and minimizing costs by trimming inventories and product lineups. With the aim of maximizing synergies with the Kirin Group, which we recognize as essential to long-term growth, we have pressed ahead with efforts to strengthen our ties with Kirin Brewery and Kirin Merchandising. As a consequence, we have seen a significant improvement in market coverage and exposure in our

core wine business. The steady execution of these and other management reforms is crucial to the competitiveness and profitability of our wine business—both of which are attendant upon our ability to consistently create new value.

The creation of balanced portfolios for the other businesses of the Mercian Group is another important strategic focus. In our Pharmaceuticals and Chemicals segment, and in our livestock feed and alcohol businesses, for example, efforts to ensure the optimal allocation of management resources are steadily enabling us to offer new value in key markets, secure distinctive competitive positions and differentiate our products. In fiscal 2009, sales and operating income results surpassed targets in all three of these businesses.

Our ultimate goal is to secure the top market position in Japan for our wines. In our other businesses, to enhance value, build a solid, stable earnings base and ensure competitiveness, we must establish an unassailable presence as a corporate organization and deliver ongoing corporate value to our shareholders and other stakeholders.

From this perspective, it is easy to see that our journey has only just begun. Our efforts to date have revealed that to improve the effectiveness of our strategies, it is imperative that we transform unfamiliar management processes into a high-precision management system. At the same time, we must enhance the skills of all front-line employees—it is they who are responsible for building on the foundation we have laid to secure the Mercian Group's future—and ensure a robust corporate structure.

Taking the Initiative: Our New Medium-Term Management Plan

Fiscal 2010 is year one of the medium-term (fiscal 2010–fiscal 2012) management plan that constitutes the second stage of Kirin Group Vision 2015 (KV2015), the Kirin Group's long-term management vision, which will run through fiscal 2015. A roadmap designed to facilitate qualitative expansion that will support a dramatic improvement in profitability, this new plan emphasizes the delivery of new value in the areas of food and health. The Mercian Group

has been assigned a key role in this plan, the fulfillment of which demands that we accelerate the transformation of our business model.

In the current fiscal year, measures aimed at eventually creating a new profit structure have begun to yield positive results. These include steps taken in our mainstay wine business, such as modifying our product lineup, streamlining inventories and revising systems governing transactions. As a consequence, in the first half of fiscal 2010 we returned to profitability at the net income level. This followed 11 consecutive years of first-half losses—our last profitable first half was in fiscal 1998, a year in which Japan experienced a major red wine boom.

In closing, I thank our stakeholders for their support to date. I look forward to your understanding in the years ahead.

September 2010



Hiroshi Ueki

President and CEO

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Balance Sheets**

December 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 8,586	¥ 5,177	\$ 93,260
Short-term investments—time deposits	35	33	373
Marketable securities (Note 3)	8	47	88
Receivables (Note 11):			
Trade notes	659	770	7,159
Trade accounts	18,528	21,501	201,235
Unconsolidated subsidiaries and associated companies	541	613	5,877
Other	1,482	1,545	16,100
Allowance for doubtful accounts	(414)	(206)	(4,496)
Inventories (Note 4)	14,116	19,257	153,317
Deferred tax assets (Note 9)	89	118	972
Prepaid expenses and other current assets	799	845	8,677
Total current assets	<u>44,429</u>	<u>49,700</u>	<u>482,562</u>
Property, plant and equipment:			
Land	1,508	1,662	16,376
Buildings and structures	19,755	20,205	214,562
Machinery and equipment	35,856	37,920	389,445
Other property	2,632	2,560	28,588
Construction in progress	410	119	4,445
Total	<u>60,161</u>	<u>62,466</u>	<u>653,416</u>
Accumulated depreciation	<u>(41,110)</u>	<u>(42,276)</u>	<u>(446,503)</u>
Net property, plant and equipment	<u>19,051</u>	<u>20,190</u>	<u>206,913</u>
Investments and other assets:			
Investment securities (Note 3)	1,663	2,107	18,067
Investments in and advances to unconsolidated subsidiaries and associated companies	2,338	1,931	25,396
Intangible assets	1,256	1,724	13,644
Long-term prepaid pension expenses (Note 7)	951	1,307	10,325
Deferred tax assets (Note 9)	25	32	271
Other assets	2,961	2,189	32,156
Allowance for doubtful accounts	<u>(2,021)</u>	<u>(1,048)</u>	<u>(21,948)</u>
Total investments and other assets	<u>7,173</u>	<u>8,242</u>	<u>77,911</u>
Total	<u>¥ 70,653</u>	<u>¥ 78,132</u>	<u>\$ 767,386</u>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Note 6)	¥ 7,348	¥ 5,343	\$ 79,809
Current portion of long-term debt (Note 6).....	2,034	4,049	22,089
Payables:			
Trade notes	30	35	329
Trade accounts	5,493	6,984	59,662
Unconsolidated subsidiaries and associated companies	29	50	315
Other	6,393	7,312	69,434
Income taxes payable	277	148	3,009
Accrued expenses	925	1,183	10,054
Accrued bonuses to employees	378	375	4,107
Guarantee deposits received	2,221	2,330	24,120
Other current liabilities.....	800	760	8,686
Total current liabilities	<u>25,928</u>	<u>28,569</u>	<u>281,614</u>
Long-term liabilities:			
Long-term debt (Note 6).....	3,027	5,058	32,879
Liabilities for employees' retirement benefits (Note 7).....	155	149	1,682
Deferred tax liabilities (Note 9)	2,127	2,159	23,104
Other	178	126	1,930
Total long-term liabilities.....	<u>5,487</u>	<u>7,492</u>	<u>59,595</u>
Contingent liabilities (Note 14)			
Equity (Note 8):			
Common stock—authorized, 488,419,000 shares; issued, 133,689,303 shares in 2009 and 2008	20,973	20,973	227,793
Capital surplus.....	16,831	16,832	182,804
Retained earnings.....	2,110	4,894	22,917
Unrealized (loss) gain on available-for-sale securities	(104)	87	(1,126)
Deferred gain (loss) on derivatives under hedge accounting.....	32	(4)	350
Foreign currency translation adjustments	(813)	(911)	(8,831)
Treasury stock—at cost, 584,555 shares in 2009 and 529,963 shares in 2008.....	(157)	(148)	(1,707)
Total	<u>38,872</u>	<u>41,723</u>	<u>422,200</u>
Minority interests	366	348	3,977
Total equity	<u>39,238</u>	<u>42,071</u>	<u>426,177</u>
Total	<u>¥70,653</u>	<u>¥78,132</u>	<u>\$767,386</u>

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Statements of Operations**

Years ended December 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
Net Sales	¥80,507	¥90,832	\$874,410
Cost of sales	60,287	69,196	654,793
Gross profit	20,220	21,636	219,617
Selling, general and administrative expenses	21,799	22,939	236,769
Operating loss	(1,579)	(1,303)	(17,152)
Other income (expenses):			
Interest and dividend income	63	79	680
Interest expense	(240)	(265)	(2,601)
Gain on sales of property, plant and equipment	1,341	158	14,569
Loss on disposals of property, plant and equipment	(350)	(153)	(3,805)
Gain on sales of marketable and investment securities	251	8	2,727
Loss on write-down of marketable and investment securities	(26)	(11)	(284)
Foreign exchange loss	(3)	(194)	(37)
Equity in earnings of unconsolidated subsidiaries and associated companies	370	221	4,024
Loss from the prior-period adjustment	(226)		(2,458)
Loss on write-down of inventories	(1,151)		(12,496)
Impairment loss (Note 5)		(734)	
Other—net	(171)	75	(1,857)
Other expenses—net	(142)	(816)	(1,538)
Loss before income taxes and minority interests	(1,721)	(2,119)	(18,690)
Income taxes (Note 9):			
Current	327	200	3,550
Refunded		(155)	
Deferred	53	(327)	572
Total income taxes	380	(282)	4,122
Minority interests in net income	17	35	191
Net loss	¥ (2,118)	¥ (1,872)	\$ (23,003)
	Yen		U.S. Dollars
Per share of common stock (Notes 2, p and 15):			
Net loss	¥ (15.91)	¥ (14.06)	\$ (0.17)
Cash dividends applicable to the year	5.00	5.00	0.05

See notes to consolidated financial statements.



Consolidated Statements of Changes in Equity

Years ended December 31, 2009 and 2008

	Thousands		Millions of Yen								
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized (Loss) Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, January 1, 2008	133,689	¥20,973	¥16,835	¥7,432	¥ 591	¥ 7	¥ 114	¥(143)	¥45,809	¥315	¥46,124
Loss on disposal of treasury stock			(3)					10	7		7
Net loss				(1,872)					(1,872)		(1,872)
Cash dividends, ¥5.00 per share			(666)					(666)		(666)	
Purchase of treasury stock								(15)	(15)		(15)
Net change in the year					(504)	(11)	(1,025)		(1,540)	33	(1,507)
Balance, December 31, 2008	133,689	20,973	16,832	4,894	87	(4)	(911)	(148)	41,723	348	42,071
Loss on disposal of treasury stock			(1)					2	1		1
Net loss				(2,118)					(2,118)		(2,118)
Cash dividends, ¥5.00 per share				(666)					(666)		(666)
Purchase of treasury stock								(11)	(11)		(11)
Net change in the year					(191)	36	98		(57)	18	(39)
Balance, December 31, 2009	133,689	¥20,973	¥16,831	¥2,110	¥(104)	¥32	¥ (813)	¥(157)	¥38,872	¥366	¥39,238

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized (Loss) Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, December 31, 2008	\$227,793	\$182,813	\$53,155	\$ 944	\$ (39)	\$ (9,891)	\$ (1,610)	\$453,165	\$3,784	\$456,949
Loss on disposal of treasury stock		(9)					26	17		17
Net loss			(23,003)					(23,003)		(23,003)
Cash dividends, \$0.05 per share			(7,235)					(7,235)		(7,235)
Purchase of treasury stock							(123)	(123)		(123)
Net change in the year				(2,070)	389	1,060		(621)	193	(428)
Balance, December 31, 2009	\$227,793	\$182,804	\$22,917	\$ (1,126)	\$350	\$ (8,831)	\$ (1,707)	\$422,200	\$3,977	\$426,177

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Statements of Cash Flows**

Years ended December 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
Operating activities:			
Loss before income taxes and minority interests.....	¥(1,721)	¥(2,119)	\$ (18,690)
Adjustments for:			
Income taxes—paid.....	(112)	(180)	(1,214)
Depreciation.....	3,715	3,407	40,347
Loss on disposals of property, plant and equipment.....	350	153	3,805
Gain on sales of property, plant and equipment.....	(1,341)	(158)	(14,569)
Provision for doubtful accounts.....	1,181	853	12,824
Interest and dividend income.....	(63)	(79)	(680)
Interest expense.....	240	265	2,601
Gain on sales of marketable and investment securities.....	(251)	(8)	(2,727)
Loss on write-down of marketable and investment securities.....	26	11	284
Impairment loss.....		734	
Foreign exchange (gain) loss.....	(6)	34	(64)
Equity in earnings of unconsolidated subsidiaries and associated companies.....	(370)	(221)	(4,024)
Changes in assets and liabilities—net:			
Decrease in trade notes and accounts receivable.....	3,063	3,101	33,271
Decrease in inventories.....	5,205	1,771	56,532
Decrease in trade notes and accounts payable.....	(1,518)	(1,538)	(16,492)
Increase (decrease) in liability for retirement benefits.....	5	(16)	58
Decrease in long-term prepaid pension expenses.....	357	218	3,876
Increase in accrued bonuses to employees.....	3	134	37
Decrease in retirement allowances for directors, corporate auditors and executive officers.....		(170)	
Other—net.....	(1,244)	(3,407)	(13,504)
Total adjustments.....	9,240	4,904	100,361
Net cash provided by operating activities.....	7,519	2,785	81,671
Investing activities:			
Increase in time deposits—net.....	(1)	(1)	(14)
Proceeds from sales of marketable securities.....	116	112	1,262
Purchases of marketable securities.....	(75)	(134)	(811)
Proceeds from sales of property, plant and equipment.....	1,566	143	17,007
Purchases of property, plant and equipment.....	(2,967)	(2,788)	(32,221)
Purchases of intangible assets.....	(204)	(277)	(2,219)
Proceeds from sales of investment securities.....	450	7	4,882
Purchases of investment securities.....	(12)	(4)	(128)
Proceeds from collections on loans.....	118	116	1,283
Payment for loans.....	(106)	(203)	(1,146)
Proceeds from interest and dividend income.....	79	157	854
Other—net.....	(104)	216	(1,133)
Net cash used in investing activities.....	(1,140)	(2,656)	(12,384)
FORWARD.....	¥ 6,379	¥ 129	\$ 69,287

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

	Millions of Yen		Thousands of
	2009	2008	U.S. Dollars (Note 1)
FORWARD.....	¥ 6,379	¥ 129	\$ 69,287
Financing activities:			
Increase (decrease) in short-term borrowings—net.....	1,997	(52)	21,695
Proceeds from long-term debt.....		4	
Repayments of long-term debt.....	(4,049)	(52)	(43,982)
Purchases of treasury stock.....	(11)	(15)	(123)
Proceeds from sales of treasury stock.....	1	7	17
Cash dividends paid.....	(666)	(666)	(7,235)
Interest paid.....	(240)	(267)	(2,609)
Other—net.....	(11)		(123)
Net cash used in financing activities.....	(2,979)	(1,041)	(32,360)
Foreign currency translation adjustments on cash and cash equivalents.....	9	(40)	104
Net increase (decrease) in cash and cash equivalents.....	3,409	(952)	37,031
Cash and cash equivalents, beginning of year.....	5,177	6,129	56,229
Cash and cash equivalents, end of year.....	¥ 8,586	¥ 5,177	\$ 93,260

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

Note 1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("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 2008 consolidated financial statements to conform to the classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Mercian Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥92.07 to \$1, the approximate rate of exchange at December 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Restatement of Consolidated Financial Statements

In May 2010, the Company discovered that an inappropriate transaction had been conducted in the Department of Fish Feedstuffs and established an internal investigation committee and a third party investigation committee.

As a result of the investigation by the internal investigation committee, it found that intentional fraud accounting and inappropriate transactions such as fictitious sales and manufacture had occurred, and circular transactions combined with them had been conducted.

The Company allocated the accumulated total loss on the inappropriate transactions to the respective fiscal years. As a result, the consolidated financial statements and related notes for the year ended December 31, 2008 have been restated.

The summary of the effects of such restatement is as follows:

	Millions of Yen		
	2008 After Restatement	2008 Before Restatement	Variance
Net sales.....	¥90,832	¥92,743	¥(1,911)
Operating income (loss).....	(1,303)	671	(1,974)
Net income (loss).....	(1,872)	163	(2,035)
Total assets.....	78,132	82,228	(4,096)
Total equity.....	42,071	46,600	(4,529)

Note 2 Summary of Significant Accounting Policies

a. Consolidation—The consolidated financial statements as of December 31, 2009 include the accounts of the Company and its 12 significant subsidiaries (together, the "Companies"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

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

Investments in 2 associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies 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.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over the appropriate period based on the actual condition of the subsidiary.

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

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

—In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective January 1, 2009. The effect of this change was immaterial.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, mutual funds investing in bonds and discount bank debentures that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

d. Inventories—Prior to January 1, 2009, inventories were stated at cost, determined by the average method. In July 2006, the ASBJ issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories.” This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this new accounting standard for measurement of inventories effective January 1, 2009. The effect of this change was to increase gross profit by ¥344 million (\$3,734 thousand), to decrease operating loss by ¥448 million (\$4,869 thousand), and to increase loss before income taxes and minority interests by ¥702 million (\$7,627 thousand).

e. Marketable and Investment Securities—Marketable and investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- f. Property, Plant and Equipment**—Property, plant and equipment are stated at cost, less gains deferred on the sale and replacement of certain assets. Depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the assets, while the straight-line method is applied to the buildings acquired after April 1, 1998 and lease assets. The range of useful lives is from 10 to 45 years for buildings and structures and from 4 to 10 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.
- g. Long-Lived Assets**—The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- h. Software**—Software development costs for internal use are deferred at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (5 years).
- i. Retirement and Pension Plans**—The Company has a cash-balance type of defined benefit pension plan for all of its employees.
Effective January 1, 2001, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.
The transitional obligation of ¥3,249 million (\$31,181 thousand) as of January 1, 2001, is being amortized over 15 years and the annual amortization is presented as cost of sales and selling, general and administrative expenses in the consolidated statements of operations.
- j. Research and Development Costs**—Research and development costs are charged to income as incurred.
- k. Leases**—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.
Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.
The Company applied the revised accounting standard effective January 1, 2009. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change was immaterial. All other leases are accounted for as operating leases.
- l. Income Taxes**—Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Deferred income taxes are measured by applying currently enacted tax laws to the temporary differences.

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

n. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

o. Derivatives and Hedging Activities—The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange risks and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

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

The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Forward contracts applied for forecasted (or committed) transactions are measured at the fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

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

Diluted net income is not disclosed because of the Company’s net loss position for the years ended December 31, 2009 and 2008.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

r. New Accounting Pronouncements

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

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

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

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

—The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

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

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

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

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Note 3 **Marketable and Investment Securities**

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current—Trust fund investments and other	¥ 8	¥ 47	\$ 88
Total	¥ 8	¥ 47	\$ 88
<hr/>			
	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Non-current:			
Marketable equity securities	¥ 608	¥1,031	\$ 6,604
Non-marketable securities	1,038	1,028	11,272
Trust fund investments and other.....	17	48	191
Total	¥1,663	¥2,107	\$18,067

The fair value information of the securities classified as available-for-sale at December 31, 2009 and 2008 was as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2009				
Securities classified as available-for-sale:				
Equity securities.....	¥ 397	¥ 284	¥ 73	¥ 608
Trust fund investments and other.....	24	1		25
<hr/>				
December 31, 2008				
Securities classified as available-for-sale:				
Equity securities.....	¥ 566	¥ 528	¥ 63	¥1,031
Trust fund investments and other.....	62	1		63
<hr/>				
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2009				
Securities classified as available-for-sale:				
Equity securities.....	\$4,310	\$3,082	\$788	\$6,604
Trust fund investments and other.....	259	20		279

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Available-for-sale:			
Equity securities.....	¥1,038	¥1,028	\$11,272
Trust fund investments and other.....		32	
Total	¥1,038	¥1,060	\$11,272

Proceeds from sales of available-for-sale securities for the years ended December 31, 2009 and 2008 were ¥566 million (\$6,144 thousand) and ¥119 million, respectively. Gross realized gains on these sales for the years ended December 31, 2009 and 2008, were ¥278 million (\$3,015 thousand) and ¥8 million, respectively. Gross realized losses on these sales were ¥27 million (\$293 thousand) for the year ended December 31, 2009.

Note 4 Inventories

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
	Merchandise	¥ 5,353	¥ 4,624
Finished products	3,010	6,980	32,688
Semi-finished products.....	2,347	4,098	25,491
Work in process	417	884	4,529
Raw materials and supplies.....	2,989	2,671	32,465
Total	¥14,116	¥19,257	\$153,317

Note 5 Long-Lived Assets

Impairment loss as of December 31, 2008 consisted of the following:

Location	Application	Category	Millions of Yen
Yatsushiro City, Kumamoto	Production of fish feedstuffs	Building, etc.	¥65
Sakaiminato City, Tottori	Production of fish feedstuffs	Machinery and equipment, etc.	3
Uwajima City, Ehime	Production of fish feedstuffs	Machinery and equipment, etc.	2
Ishinomaki City, Miyagi	Production of fish feedstuffs	Machinery and equipment, etc.	1
Total			¥73

The assets of the Company are considered to constitute a group by each business or factory. The Company recognized an impairment loss by reducing the carrying amount to a recoverable amount because the Department of Fish Feedstuffs related to the assets is expected to be in an operating loss position continuously. The recoverable amount of the asset group is measured by the net selling price at disposition.

Note 6 Short-Term Borrowings and Long-Term Debt

Short-term borrowings at December 31, 2009 and 2008 consisted of notes to banks and bank overdrafts. The weighted average annual interest rates for the short-term borrowings as of December 31, 2009 and 2008 were 1.16% and 1.94%, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Loans from banks and other financial institutions, due serially to 2018 with interest rates ranging from 1.23% to 3.8% (2009) and from 0.94% to 3.8% (2008)—Unsecured	¥ 5,061	¥ 9,107	\$ 54,968
Total	5,061	9,107	54,968
Less current portion	(2,034)	(4,049)	(22,089)
Long-term debt, less current portion	¥ 3,027	¥ 5,058	\$ 32,879

Annual maturities of long-term debt as of December 31, 2009 were as follows:

Year ending December 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥2,034	\$22,089
2011	3,016	32,759
2012	7	77
2013	1	4
2014 and thereafter	3	39
Total	¥5,061	\$54,968

Note 7 Retirement and Pension Plans

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

Under most circumstances, employees terminating their employment are entitled to certain severance payments based on their rates of pay at the time of termination, length of service and certain other factors. If the termination is involuntary, caused by retirement at the normal retirement age, or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

The Company introduced the cash-balance type of defined benefit pension plan in 2004.

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥(11,312)	¥(11,419)	\$(122,861)
Fair value of plan assets	9,622	9,778	104,508
Unrecognized prior service cost	(1,184)	(1,463)	(12,863)
Unrecognized actuarial loss	2,370	2,746	25,743
Unrecognized transitional obligation	1,300	1,516	14,116
Long-term prepaid pension expenses	(951)	(1,307)	(10,325)
Net liability	¥ (155)	¥ (149)	\$ (1,682)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of net periodic retirement benefit costs for the years ended December 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥ 346	¥ 333	\$ 3,754
Interest cost	225	222	2,448
Expected return on plan assets	(293)	(317)	(3,186)
Amortization of prior service cost	(279)	(279)	(3,027)
Recognized actuarial loss	490	386	5,319
Amortization of transitional obligation	216	217	2,353
Net periodic retirement benefit costs	¥ 705	¥ 562	\$ 7,661

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

	2009	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	3.0%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	15 years	15 years

Note 8 Equity

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

Note 9 **Income Taxes**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended December 31, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at December 31, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets—Current:			
Accrued bonuses to employees	¥ 154	¥ 153	\$ 1,672
Loss on write-down of inventories	509	612	5,534
Accrued business tax	38	29	414
Accounts payable	119	57	1,295
Foreign tax credit		58	
Allowance for doubtful receivables	162	75	1,756
Other	114	103	1,234
Less valuation allowance	(1,007)	(969)	(10,933)
Total deferred tax assets—Current	¥ 89	¥ 118	\$ 972
Deferred tax assets—Non-current:			
Tax loss carryforwards	¥ 556	¥ 365	\$ 6,040
Allowance for doubtful accounts	816	538	8,861
Impairment loss	710	867	7,713
Pension and severance costs	59	55	638
Loss on write-down of golf club memberships	18	15	194
Loss on write-down of investment securities	242	30	2,628
Unrealized loss on available-for-sale securities	41		447
Other	44	55	478
Less valuation allowance	(2,452)	(1,772)	(26,630)
Total deferred tax assets—Non-current	34	153	369
Deferred tax liabilities—Non-current	(9)	(121)	(98)
Net deferred tax assets—Non-current	¥ 25	¥ 32	\$ 271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax liabilities—Current:			
Deferred gain on derivatives under hedge accounting	¥ (22)		\$ (241)
Other	(3)	¥ (1)	(31)
Total deferred tax liabilities—Current	¥ (25)	¥ (1)	\$ (272)
Deferred tax liabilities—Non-current:			
Deferred capital gains on fixed assets	¥(1,615)	¥(1,426)	\$ (17,544)
Long-term prepaid pension expenses	(387)	(532)	(4,202)
Unrealized gain on available-for-sale securities		(54)	
Other	(134)	(268)	(1,456)
Total deferred tax liabilities—Non-current	(2,136)	(2,280)	(23,202)
Deferred tax assets—Non-current	9	121	98
Net deferred tax liabilities—Non-current	¥(2,127)	¥(2,159)	\$ (23,104)

A reconciliation of the difference between the normal effective statutory tax rate and the actual effective income tax rate for the years ended March 31, 2009 and 2008 is not presented, since a net loss is reported in the consolidated statements of operations.

At December 31, 2009, certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,366 million (\$14,841 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending December 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 148	\$ 1,607
2012	240	2,601
2013	103	1,125
2014	57	624
2015 and thereafter	818	8,884
Total	¥1,366	\$14,841

Note 10 Research and Development Costs

Research and development costs charged to income were ¥785 million (\$8,525 thousand) and ¥843 million for the years ended December 31, 2009 and 2008, respectively.

Note 11 Related Party Transactions

Transactions with related parties for the years ended December 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Kirin Brewery Company, Limited, fellow subsidiary:			
Sales	¥11,672	¥14,208	\$126,777
Receivables.....	2,548	2,550	27,680

Note 12 Leases

The Companies lease certain machinery, computer equipment, office space and other assets.

Total rental expenses, primarily for lease agreements for office space which are cancelable at the option of the Company or upon expiration, for the years ended December 31, 2009 and 2008 were ¥1,021 million (\$11,084 thousand) and ¥1,000 million, respectively, including ¥205 million (\$2,221 thousand) and ¥206 million of lease payments under finance leases, respectively.

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

	Millions of Yen			
	2009			
	Machinery	Intangible Assets	Other Assets	Total
Acquisition cost.....	¥ 79	¥ 9	¥ 770	¥ 858
Accumulated depreciation.....	49	4	570	623
Net leased property	¥ 30	¥ 5	¥ 200	¥ 235

	Millions of Yen			
	2008			
	Machinery	Intangible Assets	Other Assets	Total
Acquisition cost.....	¥138	¥ 9	¥ 897	¥1,044
Accumulated depreciation.....	87	2	522	611
Net leased property	¥ 51	¥ 7	¥ 375	¥ 433

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Thousands of U.S. Dollars			
	2009			
	Machinery	Intangible Assets	Other Assets	Total
Acquisition cost.....	\$861	\$104	\$8,358	\$9,323
Accumulated depreciation.....	539	45	6,182	6,766
Net leased property	<u>\$322</u>	<u>\$59</u>	<u>\$2,176</u>	<u>\$2,557</u>

Obligations under finance leases which included the imputed interest expense portion of December 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥135	¥213	\$1,467
Due after one year	100	220	1,090
Total	<u>¥235</u>	<u>¥433</u>	<u>\$2,557</u>

Depreciation expense under finance leases of December 31, 2009 and 2008 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Depreciation expense	¥205	¥206	\$2,221

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, is computed by the straight-line method.

The minimum rental commitments under noncancelable operating leases at December 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥25	¥25	\$272
Due after one year	33	32	362
Total	<u>¥58</u>	<u>¥57</u>	<u>\$634</u>

Note 13 Derivatives

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies. The Companies also enter into interest rate swap agreements to manage interest rate exposures on certain liabilities.

It is the Companies' policy to use derivatives only for the purpose of reducing market risks associated with liabilities. The Companies do not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates and interest rates. Because the counterparties to those derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

The use of derivatives is approved by the General Manager of Administration. The execution of derivatives is controlled by the Financial Department.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

Foreign currency forward contracts and interest rate swaps which qualified for hedge accounting for the years ended December 31, 2009 and 2008 are excluded from the disclosure of market value information.

	Millions of Yen		
	2008		
	Contract Amount	Fair Value	Unrealized Loss
Interest rate swaps—Receive floating/pay floating.....	¥ 2,000	¥ 2	¥ (2)
Total	¥ 2,000	¥ 2	¥ (2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 Contingent Liabilities

At December 31, 2009, the Companies had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans and items of a similar nature	¥146	\$1,591

Note 15 Net Loss per Share

Basic net loss per share ("EPS") for the years ended December 31, 2009 and 2008 was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
<u>Year ended December 31, 2009</u>	<u>Net Loss</u>	<u>Weighted- Average Shares</u>	<u>EPS</u>	
Basic EPS—Net loss available to common shareholders	¥(2,118)	133,126	¥(15.91)	\$(0.17)
<u>Year ended December 31, 2008</u>				
Basic EPS—Net loss available to common shareholders	¥(1,872)	133,179	¥(14.06)	

Note 16 Subsequent Event

The following appropriations of retained earnings at December 31, 2009 were approved at the Company's shareholders' meeting held on March 24, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5.00 (\$0.05) per share	¥666	\$7,231

Note 17 Segment Information

Information about operations in different industry segments, geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended December 31, 2009 and 2008 was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen					
	2009					
	Alcoholic Drinks	Pharmaceuticals and Chemicals	Feedstuffs	Others	Eliminations/Corporate	Consolidated
Sales to customers	¥59,626	¥7,427	¥12,010	¥1,444		¥80,507
Intersegment sales	1			490	¥(491)	
Total sales	59,627	7,427	12,010	1,934	(491)	80,507
Operating expenses	59,444	6,654	14,468	2,011	¥(491)	82,086
Operating income (loss)...	¥ 183	¥ 773	¥ (2,458)	¥ (77)		¥ (1,579)

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen					
	2009					
	Alcoholic Drinks	Pharmaceuticals and Chemicals	Feedstuffs	Others	Eliminations/Corporate	Consolidated
Total assets	¥43,756	¥8,075	¥4,281	¥897	¥13,644	¥70,653
Depreciation	2,298	500	272	62	583	3,715
Capital expenditures	1,526	744	207	87	95	2,659

a. Sales and Operating Income

	Thousands of U.S. Dollars					
	2009					
	Alcoholic Drinks	Pharmaceuticals and Chemicals	Feedstuffs	Others	Eliminations/Corporate	Consolidated
Sales to customers	\$647,622	\$80,668	\$130,437	\$15,683		\$874,410
Intersegment sales	10			5,324	\$(5,334)	
Total sales	647,632	80,668	130,437	21,007	(5,334)	874,410
Operating expenses	645,642	72,270	157,142	21,842	\$(5,334)	891,562
Operating income (loss)...	\$ 1,990	\$ 8,398	\$(26,705)	\$ (835)		\$(17,152)

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars					
	2009					
	Alcoholic Drinks	Pharmaceuticals and Chemicals	Feedstuffs	Others	Eliminations/Corporate	Consolidated
Total assets	\$475,248	\$87,707	\$46,500	\$9,740	\$148,191	\$767,386
Depreciation	24,964	5,429	2,951	675	6,328	40,347
Capital expenditures	16,573	8,077	2,254	944	1,027	28,875

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**a. Sales and Operating Income**

	Millions of Yen					Consolidated
	2008					
	Alcoholic Drinks	Pharmaceuticals and Chemicals	Feedstuffs	Others	Eliminations/Corporate	
Sales to customers	¥67,411	¥6,948	¥14,803	¥1,670		¥90,832
Intersegment sales	3			569	¥(572)	
Total sales	67,414	6,948	14,803	2,239	(572)	90,832
Operating expenses	67,419	6,323	16,673	2,294	(574)	92,135
Operating income (loss)...	¥ (5)	¥ 625	¥(1,870)	¥ (55)	¥ 2	¥(1,303)

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen					Consolidated
	2008					
	Alcoholic Drinks	Pharmaceuticals and Chemicals	Feedstuffs	Others	Eliminations/Corporate	
Total assets	¥49,614	¥7,537	¥7,580	¥1,870	¥11,531	¥78,132
Depreciation	2,015	447	295	55	595	3,407
Impairment loss			734			734
Capital expenditures	2,571	352	166	51	316	3,456

Notes: 1. The Companies are primarily engaged in the manufacture and sale of products and services in four major segments, grouped on the basis of similarities in nature. The four segments, namely, alcoholic drinks, pharmaceuticals and chemicals, feedstuffs and others consist of the following main products:

Alcoholic drinks: Wines, brewing alcohol, synthetic sake, shochu, mirin, condiments, spirits and low-alcohol drinks

Pharmaceuticals and chemicals: Antibiotics, agricultural chemicals, veterinary antibiotics and solvents

Feedstuffs: Feed mixture, treacly feeds, fish feeds and fish cultures

Others: Real estate, disinfection and facility sterilization services, museum administration and cargo service

2. Corporate assets of ¥13,637 million (\$148,116 thousand) and ¥11,506 million at December 31, 2009 and 2008, respectively, comprised mainly buildings and structures, investment securities, and the assets of the departments of management.

3. As discussed in Note 2.d, effective January 1, 2009, the Company applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." The effect of this change was to increase operating income of Alcoholic drinks by ¥413 million (\$4,485 thousand), operating income of Pharmaceuticals and chemicals by ¥27 million (\$292 thousand), and to decrease operating loss of Feedstuffs by ¥8 million (\$92 thousand) for the year ended December 31, 2009.

(2) Geographical Segments

Sales and total assets of the Company and its domestic subsidiaries for the years ended December 31, 2009 and 2008 were more than 90% of the consolidated sales and total assets of the respective years. Accordingly, geographical segments are not required to be disclosed.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended December 31, 2009 and 2008 were less than 10% of consolidated sales of the respective years. Accordingly, sales to foreign customers are not required to be disclosed.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mercian Corporation.

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

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

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

As discussed in Note 1 to the consolidated financial statements, the accompanying consolidated financial statements and related notes for the year ended December 31, 2008 have been restated to correct a misstatement.

As discussed in Note 2.d to the consolidated financial statements, the Company applied the new accounting standard for measurement of inventories effective January 1, 2009.

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

Deloitte Touche Tohmatsu LLC
August 12, 2010

DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

Directors

President and Chief Executive Officer

Hiroshi Ueki

Directors

Hiroshi Tsunekawa

Masumi Nakamura

Hiroki Takanashi

Osamu Wada

Koichi Matsuzawa*¹

Corporate Auditors

Koki Kiyoshima

Hitoshi Oshima*²

Naaki Momotake*²

Notes: *¹ Outside Director

*² Outside Corporate Auditor

Executive Officers

Hiroshi Ueki

President and Chief Executive Officer

Hiroshi Tsunekawa

*Corporate Senior Vice President,
Pharmaceuticals & Chemicals Div.,
Pharmaceuticals & Chemicals Quality Assurance
& Pharmacovigilance Dept.*

Hiroki Takanashi

*Corporate Senior Vice President,
General Manager, Production Division*

Osamu Wada

*Corporate Senior Vice President,
General Manager, Wine Business Sales & Marketing
Division*

Kenji Moriguchi

*Corporate Senior Vice President,
General Manager, Shuto-ken Regional Sales & Marketing
Head Office*

Kenji Hariu

*Executive Officer,
General Manager of Fujisawa Plant*

Masumi Nakamura

*Executive Officer,
Corporate Strategy Dept., Finance Dept.,
Livestock Feedstuffs Div., Fish Feedstuffs Div.,
Feedstuffs Quality Control Dept., Personnel & Legal Dept.*

Ryoichi Miyata

*Executive Officer,
General Manager of Yatsushiro Plant*

Tetsuro Okubo

*Executive Officer,
General Manager, Group Business Development Div.*

Koichi Komamura

*Executive Officer,
General Manager, Supply Chain Management Division*

Takao Kawasaki

*Executive Officer,
President, Daiichi Alcohol Company, Limited*

CORPORATE DATA

Head Office

Mercian Corporation
1-5-8, Kyobashi, Chuo-ku, Tokyo 104-8305, Japan
Tel: +81 3 3231 3910
Fax: +81 3 3231 8539

Date of Establishment

December 4, 1934

DOMESTIC NETWORK

Shuto-ken Regional Sales & Marketing Head Office

Tokyo

Chubu-ken Regional Sales & Marketing Head Office

Nagoya

Kinki-ken Regional Sales & Marketing Head Office

Osaka

National Off-Premise Sales & Marketing Division

Tokyo

Plants

Tomakomai, Karuizawa (Distillery), Chateau Mercian (Winery),
Fujisawa, Iwata, Uwajima, Yatsushiro

Research Facilities

Product Development Research Laboratory
Bioresource Laboratory

OVERSEAS NETWORK

Branch Office

Europe Office (France)

Subsidiaries

Markham Vineyards (U.S.A.)
Château Reysson (France)

Affiliate

China Shaoxing Yellow Wine Group Co. (PRC)

PARENT COMPANY

Kirin Holdings Company, Ltd. ^(Note)
2-10-1, Shinkawa, Chuo-ku, Tokyo 104-8288, Japan
Tel: +81 3 5540 3411

CONSOLIDATED SUBSIDIARIES

Mercian Feed Corporation
38-5, Masago-cho, Tomakomai,
Hokkaido 059-1373, Japan
Tel: +81 144 56 2102

Mercian Cleantec Corporation

4-9-1, Jonan, Fujisawa,
Kanagawa 251-0057, Japan
Tel: +81 466 35 6329

Markham Vineyards

2812 St. Helena Hwy. North,
St. Helena, CA 94574, U.S.A.
Tel: +1 707 963 5292

Château Reysson

35 rue de Bordeaux,
33290 Parempuyre, France
Tel: +33 5 5635 5300

Mercian Karuizawa Museum of Art

1799-1, Maseguchi, Oaza, Miyota-cho,
Kitasaku-gun, Nagano 389-0207, Japan
Tel: +81 267 32 0288

Mertech Service Co., Ltd.

4-31, Tateuma-machi, Yatsushiro,
Kumamoto 866-0045, Japan
Tel: +81 965 33 8338

MERCOM CORPORATION

Gyaban Bldg. 3F
1-9-12, Irifune, Chuo-ku, Tokyo 104-0042, Japan
Tel: +81 3 3551 7773

Sanraku Finechem Incorporated

4980, Kaisei-cho, Shunan,
Yamaguchi 746-0006, Japan
Tel: +81 834 63 4845

Nippon Liquor Ltd.

2-14-5, Mita, Minato-ku, Tokyo 108-0073, Japan
Tel: +81 3 3453 2207

Nanki Kushimoto Fisheries Corporation

135-2, Sue, Kushimoto-cho, Nishimuro-gun,
Wakayama 649-3632, Japan
Tel: +81 735 65 0156

Mercian Chemical Corporation

1-7-9, Horidome-cho, Nihonbashi, Chuo-ku,
Tokyo 103-0012, Japan
Tel: +81 3 5614 5381

Daiichi Alcohol Co., Ltd. (Joint Venture)

4-13-4, Hatchobori, Chuo-ku, Tokyo 104-0032, Japan
Tel: +81 3 6734 9690

EQUITY AFFILIATES

Japan Synthetic Alcohol Co., Ltd.

7-1-16, Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: +81 3 5410 8031

Shenzhen Main Luck Pharmaceuticals Inc. (PRC)

Bagua Road 4, Futian District,
Shenzhen 518029, China
Tel: +86 755 2587 8776

Note: As part of a strategic business alliance between Mercian and Kirin Brewery Co., Ltd., in fiscal 2007 Kirin Brewery acquired the majority of Mercian's issued and outstanding common stock.

(As of July 1, 2010)

INVESTOR INFORMATION

Paid-in Capital

¥20,972,930,087 (As of December 31, 2009)

Stock Exchange Listings

Tokyo, Osaka

Common Shares

Authorized: 488,419,000

Issued: 133,689,303 (As of December 31, 2009)

Number of Shareholders

17,603 (As of December 31, 2009)

Number of Employees

1,210 (As of December 31, 2009)

Independent Public Auditors

Deloitte Touche Tohmatsu

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan

Further Information

Mercian Corporation

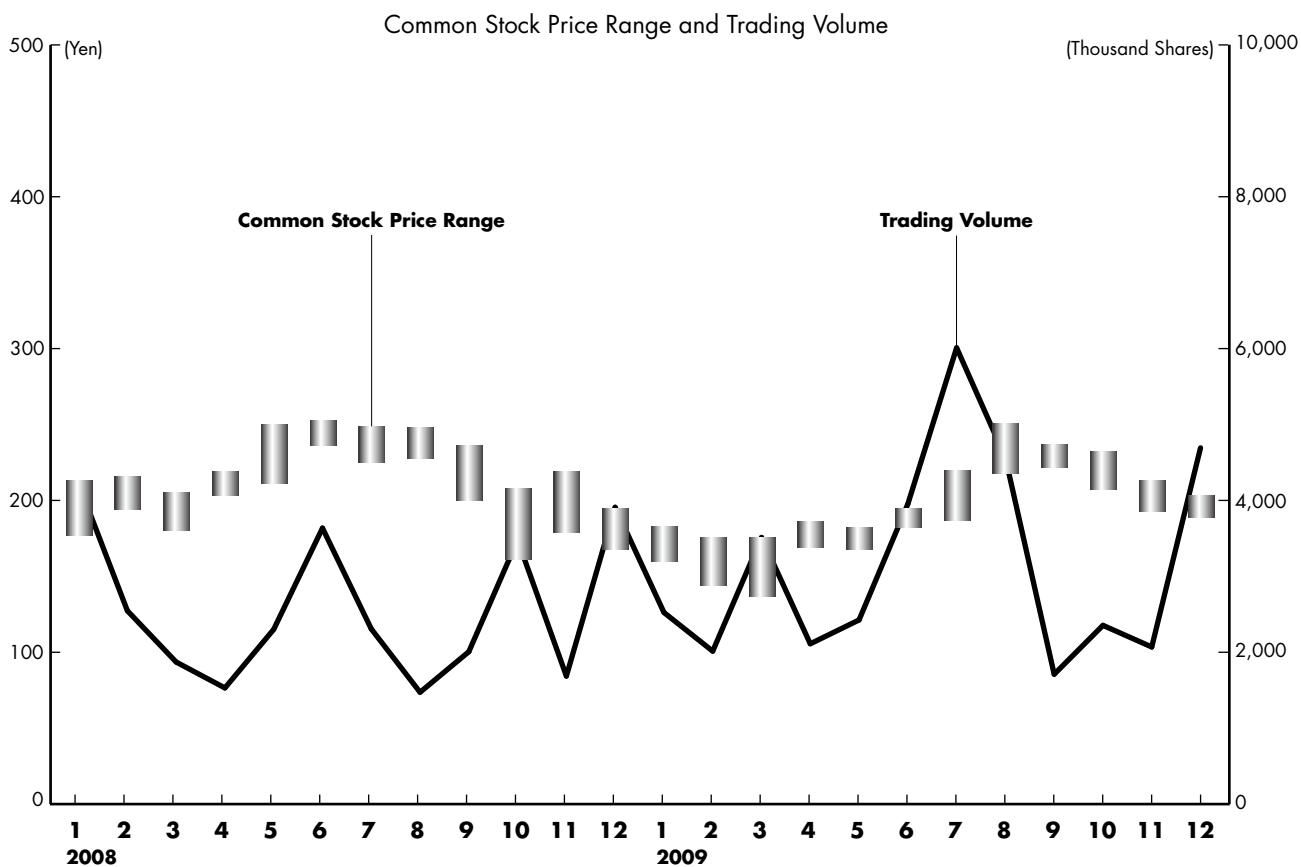
Communication & Investor Relations Section

CSR Management & Corporate Communication Dept.

1-5-8, Kyobashi, Chuo-ku, Tokyo 104-8305, Japan

Tel: +81 3 3231 3910

Fax: +81 3 3231 8539



Mercian Corporation

1-5-8, Kyobashi, Chuo-ku, Tokyo 104-8305, Japan

www.mercian.co.jp