

English translation

March 6, 2015

## Annual Report

(January 1, 2014 through December 31, 2014)

### 1. Business Performance of SymBio Pharmaceuticals Limited

#### (1) Business conditions and operating results

While experiencing the last-minute rise in demand before the consumption tax increase and its reactionary effect, Japan's domestic economy has continued to recover moderately as the government's financial measures and the BOJ's monetary easing policies have effectively led to the continuous trend of a weakening yen with higher stock prices and corporate profits, improving the employment and income environment. Overseas economies also continue to experience a moderate recovery with the steady performance of the U.S. economy, although some weakness remains in China and certain emerging markets and the outlook in European countries remains unclear.

As National Health Insurance drug prices were reduced by an average of 2.65% across the industry in April, the business environment of the Japanese pharmaceutical industry remains severe, especially for innovator drug developers due to government policies to reduce medical expenditures, including generic drug promotion and changes in healthcare systems. However, in November, 2014, the Pharmaceutical Affairs Act of Japan was revised and the name changed to the "Ministerial Ordinance on Standards for Manufacturing Control and Quality Control for Medical Devices and In-Vitro Diagnostics ("PMD Act")," which newly defined "regenerative medicine products." Thus, steady progress has been made toward reorganization of the regulatory system relating to the pharmaceutical industry.

Under these circumstances, the Company made the following progress in its business operations.

#### (i) Domestic

[SyB L-0501 (the generic name: bendamustine hydrochloride, the trade name: TREAKISYM®)]

The Company markets the anticancer agent TREAKISYM® in Japan through its business partner, Eisai Co., Ltd. ("Eisai"), for the indications of refractory/relapsed low-grade non-Hodgkin's lymphoma and mantle cell lymphoma. Net sales through Eisai increased as expected, with an increase of 102% year-on-year (NHI price basis).

Aiming to maximize the product value of TREAKISYM®, the Company continues to

pursue three additional indications.

Firstly, regarding the indications of frontline low-grade non-Hodgkin's lymphoma and mantle cell lymphoma, the Company completed the Phase II clinical trial in February, 2014, and is currently preparing the application for approval. In the EU, Astellas Pharma Europe Ltd. has completed the application process for regulatory approval. Considering this approval progress in Europe, the Company plans to file the sNDA in Japan;

Secondly, regarding the indication of chronic lymphocytic leukemia, patient enrollment for the Phase II clinical trial was completed in October, 2014. TREAKISYM® was designated as an orphan drug (pharmaceutical for treatment of rare diseases) for the indication of chronic lymphocytic leukemia in June, 2012.

Lastly, regarding the additional indication of refractory/relapsed intermediate/high-grade non-Hodgkin's lymphoma, the Company's development approach is being considered.

[SyB L-1101 (intravenous formulation) and SyB C-1101 (oral formulation); generic name: rigosertib]

The domestic Phase I clinical trial of anticancer agent SyB L-1101 (intravenous formulation) for the indication of refractory/relapsed higher risk myelodysplastic syndrome (MDS), which is a hematological malignancy, is underway.

In February, 2014, Onconova Therapeutics, Inc. ("Onconova"), the U.S. Licensor, announced results from its Phase 3 ONTIME trial of IV rigosertib conducted at clinical trial sites in Europe and the U.S. Although treatment with IV rigosertib plus best supportive care (BSC) did not demonstrate a statistically significant improvement in median overall survival when compared to BSC only, post-hoc analysis demonstrated a statistically significant increase in median overall survival in the subset of patients who had progressed on or failed previous treatment with hypomethylating agents (HMAs) (i.e., had not responded to HMAs), thus demonstrating potential activity of rigosertib in these MDS patients. Onconova continues discussions with the U.S. and European regulatory agencies regarding the possibility of approval based on top-line results of the Phase III ONTIME trial. These discussions have consequently led Onconova to focus its development efforts on the unmet medical need of patients who do not respond to treatment with the current standard of care, hypomethylating agents ("Primary HMA Failure"). Onconova announced its future development plan for Primary HMA Failures. The Company will continue with its development of IV rigosertib in Japan based on Onconova's development plan in the US and Europe.

Patient enrollment for the Phase I clinical trial of SyB C-1101 (oral formulation, or "Oral rigosertib") in higher risk MDS was completed in August, 2014.

(ii) Overseas

In June, 2014, SyB L-0501 was approved by the Ministry of Food and Drug Safety (MFDS) in South Korea for the indication of refractory/relapsed low-grade non-Hodgkin's lymphoma in addition to the earlier approval of chronic lymphocytic leukemia and multiple myeloma. Eisai Korea Inc. ("Eisai Korea"), a Korean subsidiary of Eisai, promotes the product for these three indications. The Company's overseas sales continue to grow steadily as planned and have increased by 2.2 times compared to budget, in particular, because the Company received a purchase order from Eisai Korea in connection with their change of packaging facility in FY 2014, and recognized the related sales revenue originally expected in FY 2015.

(iii) Business results

As a result of the above, net sales totaled 1,955,027 thousand yen for the fiscal year ended December 31, 2014, primarily reflecting product sales of SyB L-0501 in Japan and overseas markets. Net domestic sales of TREAKISYM® showed a year-on-year increase of 12.9%. While net overseas sales increased by 3.6 times compared to the previous fiscal year mainly due to the recognition of sales from the fulfillment of early purchase orders in South Korea, milestone revenue showed a year-on-year decrease of 85.0%. In total, net sales increased by 27.6% compared to the previous fiscal year.

Selling, general and administrative expenses totaled 1,829,918 thousand yen (a year-on-year decrease of 8.4%), including research and development ("R&D") expenses of 774,103 thousand yen (a year-on-year decrease of 26.5%) primarily due to expenses associated with clinical trials for SyB L-0501, SyB L-1101 and SyB C-1101, and other selling, general and administrative expenses of 1,055,815 thousand yen (a year-on-year increase of 11.6 %).

As a result, an operating loss of 1,303,279 thousand yen was recognized for the fiscal year ended December 31, 2014 (operating loss of 1,680,528 thousand yen for the previous fiscal year). In addition, the Company recorded non-operating expenses totaling 22,288 thousand yen primarily comprising commission fees and stock issuance costs, and non-operating income totaling 215,251 thousand yen primarily due to foreign exchange gains. This resulted in an ordinary loss of 1,110,316 thousand yen (ordinary loss of 1,601,424 thousand yen for the previous fiscal year) and net loss of 1,115,877 thousand yen (net loss of 1,605,224 thousand yen for the previous fiscal year).

Segment information is omitted since the Company operates within a single segment of the pharmaceutical industry, including their development and commercialization of drugs, manufacturing, marketing and other related activities.

(2) Status of fund procurement, etc.

(i) Fund procurement

The Company passed a resolution on November 14, 2014, regarding the subscription for the 2nd unsecured bonds with convertible bond type stock acquisition rights and the 34th warrant by third-party allotment. Proceeds of 510,363 thousand yen had been paid on December 1, 2014.

With regard to the 2nd unsecured bond with convertible bond type stock acquisition rights, all stock acquisition rights have been exercised and all bonds converted to the Company's common stock in December, 2014.

(ii) Capital investment

The total amount of capital expenditures during the current fiscal year was 114,627 thousand yen, mainly consisting of furniture and fixtures, as well as the purchase of software for business use.

(3) Status of assets, profit and loss in the current fiscal year and the three preceding fiscal years

(Unit: thousands of yen, except for per-share figures)

Fiscal year Classification	FY 2011 The 7th Term	FY 2012 The 8th Term	FY 2013 The 9th Term	FY 2014 The 10th Term (current)
Net sales	1,882,521	1,955,178	1,532,054	1,955,027
Operating loss	(2,066,846)	(1,700,273)	(1,680,528)	(1,303,279)
Ordinary loss	(2,095,382)	(1,729,480)	(1,601,424)	(1,110,316)
Net loss	(2,104,513)	(1,733,320)	(1,605,224)	(1,115,877)
Net loss per share (yen)	(143.60)	(90.60)	(69.29)	(36.26)
Total assets	7,256,094	5,502,190	7,686,947	7,453,799
Net assets	6,605,564	4,899,957	7,432,996	6,963,576
Net assets per share (yen)	345.28	254.71	239.48	208.80

(4) Issues to be addressed by the Company

The Company has a commitment to improve the following issues as a priority challenge for management.

(i) Further expansion of pipeline

In order to enhance the enterprise value as a specialty pharmaceutical company, we need to expand the pipeline by continually in-licensing new drug candidates for development.

Clinical trials are underway for our drug candidates: SyB L-0501 (anti-cancer drug) and SyB L-1101 (intravenous formulation)/C-1101 (oral formulation). We continue with ongoing efforts to in-license new drug candidates in order to expand our pipeline. In addition, progress is currently being made regarding our evaluation of several new drug candidates and negotiation of license agreements.

(ii) Pursuit of life cycle management for TREAKISYM® (SyB L-0501) and rigosertib (SyB L-1101/ SyB C-1101)

In order to enhance enterprise value, it is critical to maximize returns from each drug under development by adding new indications for development after their initial introduction in the Company's pursuit of life cycle management.

TREAKISYM® has received approval for manufacturing and marketing with the

approved indications of refractory/relapsed low-grade non-Hodgkin's lymphoma and refractory/relapsed mantle cell lymphoma. For additional indications, Phase II clinical trials were completed for refractory/relapsed intermediate/high-grade non-Hodgkin's lymphoma, frontline low-grade non-Hodgkin's lymphoma, and mantle cell lymphoma. A Phase II clinical trial is underway for chronic lymphocytic leukemia.

Regarding frontline low-grade non-Hodgkin's lymphoma and mantle cell lymphoma, taking into account the possibility of approval of this indication in Europe, the Company will continue with preparations for the filing of marketing approval in Japan.

Regarding chronic lymphocytic leukemia, the Company has completed patient enrollment in its Phase II clinical trial and will prepare for the filing of marketing approval in Japan upon completion of the trial.

Progress is being made with development of intravenous and oral rigosertib formulations for the indication of myelodysplastic syndrome (MDS). No useful therapeutic agents are currently available for MDS, so it is an area with very high unmet medical needs.

The Company will continue with Phase I clinical trials in Japan and reassess the domestic development plan by contemplating Onconova's future development plan in the U.S. and Europe. Regarding the oral formulation, the Company will continue with its domestic Phase I clinical trial for the target indication of higher risk MDS. After completing this Phase I clinical trial in higher risk MDS patients, the Company plans to carry out development for the indications of higher risk MDS (in combination with azacitidine) and transfusion-dependent lower risk MDS. The Company will consider its participation in global clinical trials for such development.

The Company's future aim is to maximize the value of TREAKISYM® and rigosertib through the further expansion of indications and life-cycle management.

(iii) Expansion to other Asian regions

The Company positions China (Hong Kong), South Korea, Taiwan, and Singapore as important strategic geographic domains in addition to Japan. In these areas, high economic growth and medical need is expected, and these areas will assume increasing importance in SymBio's corporate strategy.

Among the drug candidates in its pipeline, the Company plans to develop and market SyB L-0501 in China (Hong Kong), South Korea, Taiwan, and Singapore as well as in Japan. The Company believes that significant unmet medical needs exist for SyB L-0501 in these countries. The Company is also planning to develop and market SyB L-1101/SyB C-1101 in South Korea in addition to Japan. The Company will aggressively launch clinical trials for these drugs and apply for marketing approvals in these Asian countries.

(iv) Securing people

We place the highest priority on people as the Company's management resource. We cannot make superior achievements in exploring and developing new drugs without talent. We have been continually recruiting talented people, especially after the Company's public listing; we have recruited the best and brightest people in order to strengthen the management organization. Going forward, we plan to further strengthen our human resources by providing development programs such as OJT and other training.

(v) Financial issue

It is necessary for the Company to raise funds required for business activities such as R&D expenditures as pipeline development progresses and the number of drug candidates increases. Therefore, we will make every effort to strengthen the Company's financial base by continually diversifying the method for fund procurement and reducing costs through budget control.

(5) Major business activities (As of December 31, 2014)

The Company regards underserved therapeutic areas that lack the development of new drugs, despite significant unmet medical needs, as business opportunities. We engage in the development of new drugs with main focus in the areas of oncology, hematology, and autoimmune diseases; search and evaluation, development and manufacturing to sales are the main activities of our business.

(6) Main office and employees

(i) Main office (as of December 31, 2014)

Name	Location
Main office	Minato-ku, Tokyo

(ii) Employees (as of December 31, 2014)

Classification	Number of employees <sup>1</sup>	Increase or decrease from previous fiscal year end	Average age (years)	Average # of years of service
Male	45	3 (decrease)	50.6	4.7
Female	24	—	42.9	3.8
Total or average	69	3 (decrease)	47.9	4.4

(Notes) 1. Number of employees refers to full time employees  
(8 temporary employees not included)

(7) Status of parent company and significant subsidiaries

Not applicable.

(8) Status of main lenders (as of December 31, 2014)

Not applicable.

**2. Matters related to stock (as of December 31, 2014)**

(1) Total number of authorized shares	Common stock	56,000,000 shares
(2) Total number of shares outstanding	Common stock	32,390,848 shares (excluding 75 shares of treasury stock)
(3) Number of shareholders		12,102
(4) Major shareholders (10 largest)		

Name of shareholder	Number of shares held	Shareholding ratio
Fuminori Yoshida	3,120,000	9.6%
Cephalon, Inc.	2,589,000	8.0%
JAFCO V2 Investment LP	1,843,900	5.7%
Oak Capital Corporation	1,637,366	5.1%
Eisai Co., Ltd.	833,400	2.6%
Waseda No.1 Investment LP	684,000	2.1%
Waseda Global No.1 Investment LP	500,000	1.5%
BNYM SA/NV FOR BNYM CLIENT ACCOUNT MPCJ JAPAN	423,557	1.3%
Japan Securities Finance Co., Ltd.	401,800	1.2%
Rakuten Securities, Inc.	272,200	0.8%

(Note) Calculation of issued shares (%) excludes treasury stock from number of shares outstanding.

### 3. Matters related to stock acquisition rights

(1) Stock acquisition rights held by the Company's Directors that were issued as compensation for services

(i) Stock acquisition rights granted by resolution of the Extraordinary General Meeting of Shareholders held on June 20, 2005 (1st series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 2,020
- Number of shares to be issued upon the exercise of stock acquisition rights 202,000
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 487 yen
- Period during which stock acquisition rights may be exercised From: June 21, 2007  
To: June 20, 2015
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	-	-	-
Outside Directors	700	70,000	3
Audit & Supervisory Board Members	-	-	-

(ii) Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 31, 2006 (7th series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 610
- Number of shares to be issued upon the exercise of stock acquisition rights 61,000
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 1,461 yen
- Period during which stock acquisition rights may be exercised From: July 2, 2008  
To: March 30, 2016
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	-	-	-
Outside Directors	100	10,000	1
Audit & Supervisory Board Members	-	-	-

(iii) Stock acquisition rights granted by resolution of the Extraordinary General Meeting of Shareholders held on December 1, 2006 (12th series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 230
- Number of shares to be issued upon the exercise of stock acquisition rights 23,000
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 1,461 yen
- Period during which stock acquisition rights may be exercised From: August 29, 2009  
To: August 28, 2017
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	-	-	-
Outside Directors	90	9,000	1
Audit & Supervisory Board Members	-	-	-

(iv) Stock acquisition rights granted by resolution of the Extraordinary General Meeting of Shareholders held on September 30, 2008 (16th series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 700
- Number of shares to be issued upon the exercise of stock acquisition rights 70,000
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 1,169 yen
- Period during which stock acquisition rights may be exercised From: October 1, 2010  
To: September 30, 2018
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	-	-	-
Outside Directors	60	6,000	1
Audit & Supervisory Board Members	-	-	-

(v) Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 30, 2010 (20th series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 3,445
- Number of shares to be issued upon the exercise of stock acquisition rights 344,500
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 585 yen
- Period during which stock acquisition rights may be exercised From: April 1, 2012  
To: March 31, 2020
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	1,800	180,000	1
Outside Directors	600	60,000	2
Audit & Supervisory Board Members	-	-	-

(vi) Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 30, 2010 (22nd series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 1,530
- Number of shares to be issued upon the exercise of stock acquisition rights 153,000
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 585 yen
- Period during which stock acquisition rights may be exercised From: April 1, 2012  
To: March 31, 2020
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	-	-	-
Outside Directors	200	20,000	1
Audit & Supervisory Board Members	-	-	-

(vii) Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 30, 2011 (24th series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 1,920
- Number of shares to be issued upon the exercise of stock acquisition rights 192,000
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 682 yen
- Period during which stock acquisition rights may be exercised From: March 31, 2013  
To: March 30, 2021
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	1,200	120,000	1
Outside Directors	300	30,000	2
Audit & Supervisory Board Members	-	-	-

(viii) Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 29, 2012 (26th series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 3,625
- Number of shares to be issued upon the exercise of stock acquisition rights 362,500
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 555 yen
- Period during which stock acquisition rights may be exercised From: April 18, 2014  
To: April 17, 2022
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	2,600	260,000	1
Outside Directors	625	62,500	2
Audit & Supervisory Board Members	-	-	-

(ix) Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 28, 2013 (30th series of stock acquisition rights)

(as of December 31, 2014)

- Number of stock acquisition rights 1,160
- Number of shares to be issued upon the exercise of stock acquisition rights 116,000
- Amount paid for stock acquisition rights None
- Value of property to be contributed upon the exercise of each stock acquisition right (Note) 799 yen
- Period during which stock acquisition rights may be exercised From: May 15, 2015  
To: May 14, 2023
- Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	645	64,500	1
Outside Directors	305	30,500	3
Audit & Supervisory Board Members	-	-	-

- (x) Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 27, 2014 (32nd series of stock acquisition rights)  
(as of December 31, 2014)
- Number of stock acquisition rights 2,520
  - Number of shares to be issued upon the exercise of stock acquisition rights 252,000
  - Amount paid for stock acquisition rights  
\*The person who receives the allotment of stock acquisition rights shall set off his/her claims for compensation against the Company in lieu of payment of monies for the stock acquisition rights allotted. 22,900
  - Value of property to be contributed upon the exercise of each stock acquisition right 1 yen
  - Period during which stock acquisition rights may be exercised From: April 16, 2017  
To: April 15, 2024
  - Status of possession by the Company's Directors and Audit & Supervisory Board Members

	Number of stock acquisition rights	Number of shares	Number of holders
Directors (excluding Outside Directors)	1,830	183,000	1
Outside Directors	690	69,000	4
Audit & Supervisory Board Members	-	-	-

(Note) New shares were issued through the public offering on December 4, 2013, and third-party allotment on December 25, 2013, at the paid-in amount less than the value of property to be contributed upon the exercise of each stock acquisition right. Therefore, the stated value of property to be contributed upon the exercise of each stock acquisition right is adjusted in accordance with the adjustment provision.

- (2) Stock acquisition rights distributed to the Company's employees as compensation for services during the current fiscal year

Stock acquisition rights granted by resolution of the Ordinary General Meeting of Shareholders held on March 27, 2014 (33rd series of stock acquisition rights)

- Number of stock acquisition rights 3,300
- Number of shares to be issued upon the exercise of stock acquisition rights 330,000
- Amount paid for stock acquisition rights  
\*The person who receives the allotment of stock acquisition rights shall set off his/her claims for compensation against the Company in lieu of payment of monies for the stock acquisition rights allotted. 22,900
- Value of property to be contributed upon the exercise of each stock acquisition right 1 yen
- Period during which stock acquisition rights may be exercised From: April 16, 2017  
To: April 15, 2024
- Status of allotment to the Company's employees

	Number of stock acquisition rights	Number of shares	Number of holders
Company employees	3,300 (Note)	330,000 (Note)	68

(Note) Of the stock acquisition rights mentioned above, 559 units (55,900 shares) have been forfeited due to the retirement of employees.

- (3) Other important matters concerning stock acquisition rights  
 (i) Details of stock acquisition rights attached to the 2nd unsecured bonds with convertible bond type stock acquisition rights issued on November 14, 2014, are as follows:

- Amount of convertible bond type stock acquisition rights	500,000,000 yen
- Number of stock acquisition rights	25
- Type and number of shares to be issued upon the exercise of stock acquisition rights	Common shares 1,666,666
- Issue price of each stock acquisition right	None
- Value of property to be contributed upon the exercise of each stock acquisition right	300 yen per right
- Period during which stock acquisition rights may be exercised	From: December 1, 2014 To: November 29, 2017

- (ii) Details of stock acquisition rights (34th series of stock acquisition rights) issued on November 14, 2014, are as follows:

- Number of stock acquisition rights	30,304
- Type and number of shares to be issued upon the exercise of stock acquisition rights	Common shares 3,030,400
- Amount paid for each stock acquisition right	342 yen per right
- Value of property to be contributed upon the exercise of each stock acquisition right	330 yen per share
- Period during which stock acquisition rights may be exercised	From: December 1, 2014 To: November 30, 2017

#### 4. The Company's Executives (as of December 31, 2014)

##### (1) Names of Directors and Audit & Supervisory Board Members

Company Position	Name	Responsibility / Significant Concurrent Position
Representative Director and President	Fuminori Yoshida	Chief Executive Officer
Director	Takako Ebata	
Director	Lowell Sears	Sears Capital Management Inc. Chief Executive Officer
Director	George Morstyn	G & R Morstyn Pty Ltd. Chief Executive Officer
Director	Milton Grannatt	
Director	George Vandeman	Vandeman & Company Principal
Full-time Audit & Supervisory Board Member	Koshi Ohizumi	
Audit & Supervisory Board Member	Saneaki Ichijo	
Audit & Supervisory Board Member	Chikara Shimazaki	

(Notes)1. Of the Directors, Takako Ebata, Lowell Sears, George Morstyn, Milton Grannatt and George Vandeman are Outside Directors.

2. Koshi Ohizumi, Saneaki Ichijo and Chikara Shimazaki are outside members of the Audit & Supervisory Board.
3. Chikara Shimazaki, an outside member of the Audit & Supervisory Board, is an independent officer who does not have the potential to cause a conflict of interest against general shareholders, a position that the Tokyo Securities Exchange requires the Company to appoint.
4. Full-time Audit & Supervisory Board Member Koshi Ohizumi has worked in accounting for a number of years, and possesses deep insight in finance and accounting.
5. Audit & Supervisory Board Member Saneaki Ichijo is an attorney (Partner at Anderson, Mori & Tomotsune), with expertise in corporate legal affairs.
6. Audit & Supervisory Board Member Chikara Shimazaki is a certified public accountant (Representative of the Shimazaki accounting office) with expertise in finance and accounting.
7. Changes in Directors and Audit & Supervisory Board Members during the current fiscal year are as follows:
  - Director Takashi Shimomura resigned upon expiration of his term of office at the closing of the 9th Ordinary General Meeting of Shareholders held on March 27, 2014.
  - George Vandeman was newly appointed as Director at the 9th Ordinary General Meeting of Shareholders held on March 27, 2014.
8. The Company has adopted the Corporate Officer System. Corporate Officers who do not hold a concurrent position as Director are as follows:
 

Corporate Officer	Masataka Ohta
Corporate Officer	Albert Qin

(2) Compensation of Board of Directors and Board of Auditors

Company Board	Number of Directors/Board Members Paid	Amount of Compensation (thousands of yen)
Board of Directors	7 (Outside: 5)	124,116 (Outside: 40,692)
Board of Auditors	3 (Outside: 3)	18,570 (Outside: 18,570)
Total	10 (Outside: 8)	142,686 (Outside: 59,262)

(Notes) 1. Salary in the event of a Director doubling as an employee is not included in the above compensation for Directors.

2. The maximum amount of compensation for Directors was resolved as an annual amount of 130,000 thousand yen at the Extraordinary General Meeting of Shareholders held on August 3, 2005. In addition to the aforementioned compensation, it was resolved that stock acquisition rights would be granted to a maximum amount of 80,000 thousand yen (of which, 22,000 thousand yen is granted to Outside Directors) as compensation stipulated in Article 361, Section 1 of the Companies Act at the 9th Ordinary General Meeting of Shareholders held on March 27, 2014.
3. The maximum amount of compensation for Auditors was resolved as an annual amount of 30,000 thousand yen at the Extraordinary General Meeting of Shareholders held on June 30, 2011.
4. The number of Directors/Board Members paid as stated above includes one person who resigned at the closing of the 9th Ordinary General Meeting of Shareholders held on March 27, 2014.
5. The total compensation paid includes expenses (seven (7) Directors 60,397 thousand yen) in connection with stock acquisition rights as stock options for the current fiscal year.

(3) Matters Concerning Outside Directors

(i) Director: Ms. Takako Ebata

- a. Status of concurrent position(s) of an executive at other companies, and relationship between such companies and the Company  
Not applicable.
- b. Status of concurrent position(s) of an Outside Director at other companies, and relationship between such company and the Company  
Not applicable.
- c. Relationship with certain related companies, such as the Company's main customers  
Not applicable.
- d. Status of main activities during the fiscal year reported  
Ms. Takako Ebata attended all 19 meetings of the Board of Directors held during the fiscal year (attendance rate: 100.0%).
- e. Summary of contents of liability limitation agreement  
An agreement has been executed setting forth, with respect to Company liability in the Companies Act Article 423 (1), that in the event it is with good intentions and no

gross negligence that an Outside Director performs his or her duties, the higher of the amount of 1,000,000 yen or the amount legally set forth in advance, or the maximum amount set forth in laws and ordinances, shall apply.

- f. Amount of compensation received from the parent of the Company or its subsidiaries  
Not applicable.

(ii) Director: Lowell Sears

- a. Status of concurrent positions of executives at other companies and relationship between such companies and the Company

He holds the concurrent position of Chief Executive Officer at Sears Capital Management Inc.

There is no business transaction between the above company and the Company.

- b. Status of concurrent positions of Outside Director at other companies and relationship between such companies and the Company

He holds the concurrent position of Outside Auditor at Cellerant Therapeutics, Inc. and Vital Therapies, Inc.

There is no business transaction between either of the above companies and the Company.

- c. Relationship with particular related companies, such as main customers  
Not applicable.

- d. Status of main activities during the current fiscal year

Lowell Sears attended 18 out of 19 meetings of the Board of Directors held during the fiscal year (attendance rate: 94.7%).

- e. Summary of contents of liability limitation agreement

An agreement has been executed setting forth with respect to the responsibility in Companies Act Article 423 (1) that in the event that it is with good intentions and there is no gross negligence in such Outside Director's performance of his duties, higher of the amount of 1,000,000 yen or above legally set forth in advance or the amount set forth in laws and ordinances at the maximum shall be borne.

- f. Amount of compensation received from the parent of the Company or its subsidiaries  
Not applicable.

(iii) Director: George Morstyn

- a. Status of concurrent positions of executives at other companies and relationship between such companies and the Company

He holds the concurrent position of Chief Executive Officer at G & R Morstyn Pty Ltd.

There is no business transaction between the above company and the Company.

- b. Status of concurrent positions of Outside Director at other companies and relationship between such companies and the Company  
He holds concurrent positions of Outside Director at GBS Venture Partners Pty Ltd., Proacta, Cooperative Research Centre for Cancer Therapeutics and Therapeutics Innovation. He also holds concurrent positions at The Victorian Comprehensive Cancer Centre (Deputy Chairman of the Board). There is no business transaction between the above companies/cancer centre and the Company.
  - c. Relationship with particular related companies, such as main customers  
Not applicable.
  - d. Status of main activities during the current fiscal year  
George Morstyn attended 18 out of 19 meetings of the Board of Directors held during the fiscal year (attendance rate: 94.7%).
  - e. Summary of contents of liability limitation agreement  
An agreement has been executed setting forth with respect to the responsibility in Companies Act Article 423 (1) that in the event that it is with good intentions and there is no gross negligence in such Outside Director's performance of his duties, higher of the amount of 1,000,000 yen or above legally set forth in advance or the amount set forth in laws and ordinances at the maximum shall be borne.
  - f. Amount of compensation received from the parent of the Company or its subsidiaries  
Not applicable.
- (iv) Director: Milton Grannatt
- a. Status of concurrent positions of executives at other companies and relationship between such companies and the Company  
Not applicable.
  - b. Status of concurrent positions of Outside Director at other companies and relationship between such companies and the Company  
He holds the concurrent position of Advisory Board Member at VOX Telehealth and Biohealthonomics.  
There is no business transaction between either of the above companies and the Company.
  - c. Relationship with particular related companies, such as main customers  
Not applicable.
  - d. Status of main activities during the current fiscal year  
Milton Grannatt attended all 19 meetings of the Board of Directors held during the fiscal year (attendance rate: 100.0%).

- e. Summary of contents of liability limitation agreement  
An agreement has been executed setting forth with respect to the responsibility in Companies Act Article 423 (1) that in the event that it is with good intentions and there is no gross negligence in such Outside Director's performance of his duties, higher of the amount of 1,000,000 yen or above legally set forth in advance or the amount set forth in laws and ordinances at the maximum shall be borne.
- f. Amount of compensation received from the parent of the Company or its subsidiaries  
Not applicable.

(v) Director: George Vandeman

- a. Status of concurrent positions of executives at other companies and relationship between such companies and the Company  
He holds the concurrent position of Principal at Vandeman & Company.
- b. Status of concurrent positions of Outside Director at other companies and relationship between such companies and the Company  
He holds the concurrent position of Vice Chairman of Board at Genelux Corporation and Managing Member at Restaurants Hawaii, LLC.  
There is no business transaction between either of the above companies and the Company.
- c. Relationship with particular related companies, such as main customers  
Not applicable.
- d. Status of main activities during the current fiscal year  
George Vandeman attended all 15 meetings of the Board of Directors held during the fiscal year (attendance rate: 100.0%).
- e. Summary of contents of liability limitation agreement  
An agreement has been executed setting forth with respect to the responsibility in Companies Act Article 423 (1) that in the event that it is with good intentions and there is no gross negligence in such Outside Director's performance of his duties, higher of the amount of 1,000,000 yen or above legally set forth in advance or the amount set forth in laws and ordinances at the maximum shall be borne.
- f. Amount of compensation received from the parent of the Company or its subsidiaries  
Not applicable.

(vi) Full-time Auditor Koshi Ohizumi

- a. Status of concurrent positions of executives at other companies and relationship between such companies and the Company

- Not applicable.
- b. Status of concurrent positions of Outside Director at other companies and relationship between such companies and the Company  
Not applicable.
- c. Relationship with particular related companies, such as main customers  
Not applicable.
- d. Status of main activities during the current fiscal year
- (1) Status of attendance at the Board of Directors meetings  
Koshi Ohizumi attended all 19 meetings of the Board of Directors held during the fiscal year (attendance rate: 100.0%).
- (2) Status of attendance as Auditor  
Koshi Ohizumi attended all 14 meetings of the Audit & Supervisory Board held during the fiscal year (attendance rate: 100.0%).
- e. Summary of contents of liability limitation agreement  
An agreement has been executed setting forth with respect to the responsibility in Companies Act Article 423 (1) that in the event that it is with good intentions and there is no gross negligence in such outside auditor's performance of his duties, higher of the amount of 1,000,000 yen or above legally set forth in advance or the amount set forth in laws and ordinances at the maximum shall be borne.
- f. Amount of compensation received from the parent of the Company or its subsidiaries  
Not applicable.
- (vii) Auditor : Saneaki Ichijo
- a. Status of concurrent positions of executives at other companies and relationship between such companies and the Company  
Not applicable.
- b. Status of concurrent positions of Outside Director at other companies and relationship between such companies and the Company  
He holds the concurrent position of Supervisory Director at Nomura Real Estate Office Fund, Inc.  
There is no business transaction between the above company and the Company.
- c. Relationship with particular related companies, such as main customers  
Not applicable.
- d. Status of main activities during the current fiscal year
- (1) Status of attendance at the Board of Directors meetings  
Saneaki Ichijo attended all 19 meetings of the Board of Directors held during the fiscal year (attendance rate: 100.0%).

- (2) Status of attendance at the Audit & Supervisory Board meetings
    - Saneaki Ichijo attended all 14 meetings of the Audit & Supervisory Board held during the fiscal year (attendance rate: 100.0%).
  - e. Summary of contents of liability limitation agreement
    - An agreement has been executed setting forth with respect to the responsibility in Companies Act Article 423 (1) that in the event that it is with good intentions and there is no gross negligence in such outside auditor's performance of his duties, higher of the amount of 1,000,000 yen or above legally set forth in advance or the amount set forth in laws and ordinances at the maximum shall be borne.
  - f. Amount of compensation received from the parent of the Company or its subsidiaries
    - Not applicable.
- (viii) Auditor : Chikara Shimazaki
- a. Status of concurrent positions of executives at other companies and relationship between such companies and the Company
    - Not applicable.
  - b. Status of concurrent positions of Outside Director at other companies and relationship between such companies and the Company
    - Not applicable.
  - c. Relationship with particular related companies, such as main customers
    - Not applicable.
  - d. Status of main activities during the current fiscal year
    - (1) Status of attendance at the Board of Directors meetings
      - Chikara Shimazaki attended all 19 meetings of the Board of Directors held during the fiscal year (attendance rate: 100.0%).
    - (2) Status of attendance at the Audit & Supervisory Board meetings
      - Chikara Shimazaki attended all 14 meetings of the Audit & Supervisory Board held during the fiscal year (attendance rate: 100.0%).
  - e. Summary of contents of liability limitation agreement
    - An agreement has been executed setting forth with respect to the responsibility in Companies Act Article 423 (1) that in the event that it is with good intentions and there is no gross negligence in such outside auditor's performance of his duties, higher of the amount of 1,000,000 yen or above legally set forth in advance or the amount set forth in laws and ordinances at the maximum shall be borne.
  - f. Amount of compensation received from the parent of the Company or its subsidiaries
    - Not applicable.

Each Outside Director appropriately advised and raised questions regarding resolutions and reports discussed at Board of Directors meetings based on his or her deep personal insight of business administration, and from a point of view that was independent of business operations.

Each member of the Audit & Supervisory Board appropriately advised and raised questions during meetings in fulfilling his role as management monitor for resolutions and reports introduced and discussed by the Board of Directors based on his deep personal insight of business administration from an independent and neutral standpoint; Each member also aggressively raised questions and expressed opinions regarding resolutions and reports introduced by the Audit & Supervisory Board in order to execute highly effective audits.

**5. Status of accounting auditor**

(1) Name of accounting auditor Ernst & Young ShinNihon LLC

(2) Summary of contents of liability limitation agreement  
Not applicable.

(3) Amount of compensation

	Amount paid
Amount of compensation to accounting auditor concerning the current fiscal year	15,500 thousand yen
Total amount of monetary and other property benefits to be paid by the Company	15,500 thousand yen

(Note) The amounts of compensation for audits paid in accordance with Companies Act, and the audits conducted in accordance with Financial Instruments and Exchange Act, are not distinguished in the contract agreement between the Company and the accounting auditor. It is not possible to distinguish between compensation paid for these two types of audits; therefore the total amount thereof is stated.

(4) Policies for dismissal or non-reappointment of accounting auditor

The Company shall propose a resolution regarding the dismissal or the non-reappointment of an accounting auditor at the Shareholders' Meeting, by agreement or request of the Audit & Supervisory Board, in general, if it is deemed to be difficult for an accounting auditor to execute his or her duties adequately, as well as the dismissal of an accounting auditor by the Audit & Supervisory Board in accordance with Article 340 of the Companies Act.

**6. Summary of content of resolutions concerning the establishment of a system to ensure the appropriateness of operations**

- (1) Corporate system to ensure that Directors, other officers and employees comply with laws and ordinances, as well as the Articles of Incorporation, in the process of performing their duties
- (i) The Company has its Representative Director and President to instill in all Directors, Audit & Supervisory Board members, and employees (including contract employees, temporary employees and subcontract employees) the Company's policy that any and all corporate activities should be based on the spirit of compliance of laws and the maintenance of ethics (hereinafter "Compliance") by repeatedly urging them to abide by the spirit of the Corporate Action Charter.
  - (ii) The Company promotes activities for Compliance with a compliance committee comprised of the senior manager in charge of the corporate division as Chairman, and the head or senior managers of relevant departments as members thereof to act as the center of such activities.
  - (iii) The Company makes an effort to find and cure any and all unfair acts and practices as early as possible via a compliance hot-line permanently installed outside of the Company. Employees can contact a designated compliance liaison within the Company if he/she becomes aware of any compliance-related problems for the purpose of addressing such matters.
  - (iv) The Company has its own internal audit office which acts under the direct control of the President. The audit office not only verifies the condition of maintenance and operation of internal control from the viewpoint of effectiveness and efficiency of business, reliability of various financial reports and compliance for the purpose of guaranteeing the quality of corporate management, but also does evaluations and gives necessary advice and suggestions for improvement with regard to the appropriateness and effectiveness of corporate risk management.
  - (v) The Company actively engages in community service activities and any other activities deemed to be beneficial to society as a good corporate citizen. The Company also resolutely opposes antisocial forces and organizations that threaten the order or safety of society as a whole.
- (2) Corporate system for maintenance and control of information regarding the performance of duties by Directors
- The head of Legal and General Affairs of the Company is the person responsible for general management of corporate documents to appropriately maintain and otherwise control all important documents containing information as to the performance by

Directors of their duties in addition to legally required records of proceedings of Shareholders' Meetings and Board of Directors' meetings, as provided in laws and ordinances as well as in the Company's own " Rules for the Management of Documents".

- (3) Corporate system for control of risk of loss, including in-house rules for such control  
The Company practices risk control under its basic policy and related rules for such risk control. Usually the Company's permanent risk-management committee, which is chaired by Representative Director and President, monitors the conditions of risk control, and will take appropriate measures on a company-wide basis if necessary. In the case of an emergency, the Company will temporarily set up a headquarters with its Representative Director and President acting as chairman thereof, and take necessary measures in accordance with decisions made at this temporary headquarters.
- (4) Corporate system to ensure the efficient performance of duties by Directors
- (i) Directors, other officers and employees perform their duties as provided in the procedural rules for appropriate decision-making under the "Rules for the Board of Directors" and "Rules for the Internal Approvals" and other similar regulations.
  - (ii) The Company regularly holds Executive Management Committee meetings as provided in the "Rules for the Executive Management Committee" for the purpose of contributing to sound and appropriate decision-making by the Representative Director and President.
  - (iii) The Company develops long-term business plans, and operates and expands its business in accordance with such long-term plans. The Company also predetermines numerical targets for each business year for inclusion in such long-term plans, and conducts the evaluation of business results and the control of budgets in relation to such numerical targets. The Company reports to the Board of Directors every month on the status of achieving such numerical targets.
- (5) Corporate system for an assistant to Audit & Supervisory Board Members to be appointed at the request of such Members
- (i) At present, the Company has no employee to act as an assistant to Audit & Supervisory Board Members. Audit & Supervisory Board Member, however, may request that the Representative Director and President appoint such an assistant, and if deemed to be necessary, the Representative Director and President shall appoint such an assistant.

- (ii) Any employee shall, if and when he/she is ordered by an Audit & Supervisory Board Member in the performance of audit-related tasks, not receive any instruction or direction from the Director in charge, the internal audit section or any other similar section; further instruction or direction is to be received from the Audit & Supervisory Board Member.
  
- (6) Corporate system for Directors and employees to report to corporate auditors; corporate system for other reports to corporate auditors to ensure the efficient performance of audits by corporate auditors
  - (i) Any Director or other executive officer shall, if and when he/she becomes aware of any fact which threatens to cause any significant damage or could adversely influence the Company, promptly inform the Audit & Supervisory Board Member thereof.
  - (ii) Audit & Supervisory Board Members may attend Board of Directors' meetings, Executive Management Committee meetings, and any other important meetings for the purpose of gaining a better understanding of the decision-making process and conditions of business execution.
  - (iii) The Audit & Supervisory Board provides an opportunity for all Directors and employees having significant work responsibilities to discuss on an individual basis.
  - (iv) The Audit & Supervisory Board holds meetings for the mutual exchange of views and opinions with the Representative Director and President, and independent auditors.

## Balance Sheet

(As of December 31, 2014)

(Unit: thousands of yen)

Item	Amount	Item	Amount
(Assets)		(Liabilities)	
<b>Current assets</b>	<b>7,290,088</b>	<b>Current liabilities</b>	<b>487,946</b>
Cash and deposits	5,692,075	Accounts payable-trade	305,996
Accounts receivable-trade	272,656	Lease obligations	692
Marketable securities	899,256	Accounts payable-other	142,884
Merchandise and finished goods	244,588	Income taxes payable	21,254
Supplies	379	Other	17,119
Prepaid expenses	36,690		
Advances paid	59,840	<b>Noncurrent liabilities</b>	<b>2,276</b>
Consumption taxes receivable	19,974	Lease obligations	642
Forward exchange contracts	33,235	Provision for retirement benefits	1,634
Other	31,392		
		<b>Total liabilities</b>	<b>490,223</b>
<b>Noncurrent assets</b>	<b>163,710</b>	(Net assets)	
<b>Property, plant and equipment</b>	<b>48,996</b>	<b>Shareholders' equity</b>	<b>6,764,019</b>
Buildings	21,874	<b>Common stock</b>	<b>8,330,775</b>
Tools, furniture and fixtures	47,032	<b>Capital surplus</b>	<b>8,300,775</b>
(Accumulated depreciation)	(19,911)	Legal capital surplus	8,300,775
<b>Intangible assets</b>	<b>66,073</b>	<b>Retained earnings</b>	<b>(9,867,514)</b>
Software	62,273	<b>(Accumulated deficit)</b>	<b>(9,867,514)</b>
Software in progress	2,556	Other retained earnings	(9,867,514)
Lease assets	1,243		
		Retained earnings	
<b>Investments and other assets</b>	<b>48,641</b>	(Accumulated deficit)	(9,867,514)
Long-term prepaid expenses	1,351	brought forward	
Lease and guarantee deposits	47,289	<b>Treasury stock</b>	<b>(17)</b>
		<b>Valuation and translation adjustments</b>	<b>(744)</b>
		<b>Unrealized holding gain(loss) on securities</b>	<b>(744)</b>
		<b>Stock acquisition rights</b>	<b>200,300</b>
		<b>Total net assets</b>	<b>6,963,576</b>
<b>Total assets</b>	<b>7,453,799</b>	<b>Total liabilities and net assets</b>	<b>7,453,799</b>

(Note) Amounts less than one thousand yen have been omitted.

## Statement of Operations

( From January 1, 2014  
to December 31, 2014 )

(Unit: thousands of yen)

Item	Amount	
<b>I. Net sales</b>		<b>1,955,027</b>
<b>II. Cost of goods sold</b>		<b>1,428,388</b>
<b>Gross profit</b>		<b>526,639</b>
<b>III. Selling, general and administrative expenses</b>		<b>1,829,918</b>
<b>Operating loss</b>		<b>(1,303,279)</b>
<b>IV. Non-operating income</b>		
Interest income	16,372	
Interest on securities	8,475	
Foreign exchange gains	188,922	
Dividend income from insurance	1,116	
Other	364	215,251
<b>V. Non-operating expenses</b>		
Interest expenses	67	
Commission fees	9,596	
Stock issuance costs	10,184	
Bond-issue expenses	90	
Other	2,438	22,288
<b>Ordinary loss</b>		<b>(1,110,316)</b>
<b>VI. Extraordinary income</b>		
Gains on reversal of stock acquisition rights	1,555	1,555
<b>VII. Extraordinary loss</b>		
Loss on retirement of noncurrent assets	3,317	3,317
<b>Loss before income taxes</b>		<b>(1,112,077)</b>
Income taxes – current	3,800	3,800
<b>Net loss</b>		<b>(1,115,877)</b>

(Note) Amounts less than one thousand yen have been omitted.

## Statement of Changes in Net Assets

( From January 1, 2014  
to December 31, 2014 )

(Unit: thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Treasury stock	Total shareholders' equity
		Legal capital surplus	Other retained earnings		
Balance at beginning of the year	8,058,860	8,028,860	(8,751,636)	(17)	7,336,067
Changes of items during the year					
Issuance of new shares	271,915	271,915	—	—	543,830
Net loss	—	—	(1,115,877)	—	(1,115,877)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during the year	271,915	271,915	(1,115,877)	—	(572,047)
Year-end balance	8,330,775	8,300,775	(9,867,514)	(17)	6,764,019

	Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Unrealized holding gain (loss) on securities	Total valuation and translation adjustments		
Balance at beginning of the year	167	167	96,761	7,432,996
Changes of items during the year				
Issuance of new shares	—	—	—	543,830
Net loss	—	—	—	(1,115,877)
Net changes of items other than shareholders' equity	(911)	(911)	103,539	102,627
Total changes of items during the year	(911)	(911)	103,539	(469,419)
Year-end balance	(744)	(744)	200,300	6,963,576

(Note) Amounts less than one thousand yen have been omitted.

## Notes on Financial Statements

(Significant accounting policies)

(1) Valuation basis and method for assets

Marketable securities

Available-for-sale securities

Available-for-sale securities with determinable market value	Available-for-sale securities with determinable market value are stated at fair value with any changes in unrealized holding gain or loss, net of applicable income taxes, included directly in shareholders' equity. Cost of securities sold is calculated by the moving average method.
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Available-for-sale securities without determinable market value	Available-for-sale securities without determinable market value are stated at cost determined by the moving average method.
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Derivative transactions	Derivative financial instruments are stated at fair value.
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Inventories	Inventories held for the purpose of ordinary sale are measured at lower of cost determined by the weighted average method or net selling value.
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(2) Depreciation of noncurrent assets

Property, plant and equipment (excluding lease assets)	Straight-line method The useful lives of major assets are as follows: <table border="0" style="margin-left: 20px;"> <tr> <td>Building</td> <td style="text-align: right;">3 to 18 years</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td style="text-align: right;">5 to 10 years</td> </tr> </table>	Building	3 to 18 years	Tools, furniture and fixtures	5 to 10 years
Building	3 to 18 years				
Tools, furniture and fixtures	5 to 10 years				

Intangible assets (excluding lease assets)	Straight-line method Capitalized software costs are being amortized over the period of the internal use of 5 years.
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Lease assets	Depreciation is calculated on the straight-line method over the lease term with no residual value.
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(3) Accounting for deferred assets

Stock issuance costs are expensed when incurred.

(4) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the spot exchange rate prevailing at the balance sheet date, and resulting gains or losses are credited or charged to income.

(5) Basis for reserves and provisions

Allowance for doubtful accounts	The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers experiencing financial difficulties.
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As of December 31, 2014, no allowance for doubtful accounts provided due to no historical experience of bad debt and no receivable balances deemed to be uncollectible.

Provision for retirement benefits	The provision for retirement benefits is provided at the amount of retirement benefit obligations required as of the balance sheet date.
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For calculation of the provision for retirement benefits and retirement benefit expenses, the Company adopts the simplified method, where retirement benefit obligations are estimated at the amount of retirement benefit payments required for voluntary terminations as of the balance sheet date.

(6) Accounting for consumption taxes

Transactions are recorded at amounts exclusive of consumption tax.

(Change of presentation)

“Bond-issue expenses,” which were separately presented under “non-operating expenses” for the previous fiscal year, have been included as “other” in the current fiscal year since such expenses are deemed to be insignificant in terms of amount.

(Notes on balance sheet)

Not applicable.

(Notes on income statement)

R&D expenses included in general and administrative expenses	774,103 thousand yen
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(Notes on statement of changes in net assets)

(1) Shares issued and outstanding / Treasury stock

(Unit: number of shares)

		At beginning of the year	Increase	Decrease	At year-end
Common stock	Shares issued	30,634,257	1,756,666	-	32,390,923
	Treasury stock	75	-	-	75

(2) Number of shares to be issued upon the exercise of stock acquisition rights issued at the end of the current fiscal year

Common stock 5,613,425 shares

(Note) Excludes stock acquisition rights if the commencement date of the exercise period has not yet arrived.

(Notes on deferred tax accounting)

Significant components of deferred tax assets

Deferred tax assets:	(thousands of yen)
Excess depreciation for lump-sum depreciable assets	2,339
Excess amortization for deferred assets	76,203
Research and development expenses	835,059
Accounts payable-other	8,342
Provision for retirement benefits	582
Enterprise tax payable	6,897
Asset retirement obligation	786
Share-based compensation expense	36,584
Loss carried forward	1,739,209
Subtotal	2,706,006
Valuation allowance	(2,706,006)
Total deferred tax assets	—

(Notes on properties under lease arrangements)

Not applicable.

(Notes on financial instruments)

(1) Financial instruments

(i) Policies for financial instruments

The Company procures the funds necessary in light of the pipeline development plan (primarily by third-party allotment and issuance of new stock). Temporary surplus fund is invested in financial instruments which are highly safe and liquid.

As a principle, the Company does not enter into derivative transactions for speculative trading purposes, but uses them within the scope prescribed in internal rules.

(ii) Types of financial instruments and related risks

Operating receivables such as accounts receivable-trade and advances paid in connection with joint development are exposed to credit risk of customers and joint development partners. Operating receivables denominated in foreign currencies are exposed to foreign exchange fluctuation risk.

The Company intends to invest in marketable and investment securities which have a relatively low risk of falling below initial investments. However, such securities may carry a finite risk.

Operating payables such as accounts payable-trade and accounts payable-other are mostly due within two months. Operating payables denominated in foreign currencies are exposed to foreign exchange fluctuation risk.

The Company uses derivative transactions to avoid foreign exchange fluctuation risks and enters into forward exchange contracts within the scope prescribed in internal rules based on balances of receivables and payables denominated in foreign currencies, as well as actual volume of export and import transactions denominated in foreign currencies.

Lease and guarantee deposits are mostly security deposits related to rented office space, and such refunds are subject to credit risk of the lessor.

Lease obligations are associated with finance lease transactions that intend to finance capital expenditures, and the longest maturity date of such lease terms is two years after the fiscal year-end.

(iii) Risk management for financial instruments

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

In accordance with the internal credit policies for managing credit risk arising from operating receivables, the Company's marketing department periodically monitors the credit worthiness of major customers and monitors due dates and outstanding

balances on a customer-by-customer basis. In addition, the Company is making efforts to promptly identify and mitigate the risk of bad debt from customers who are having financial difficulties.

The Company enters into derivative transactions only with financial institutions which have a sound credit profile in order to mitigate the counterparty risk.

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

The Company deposits cash primarily with financial institutions with high credit ratings.

For marketable and investment securities, the Company intends to avoid the risk of falling below initial investments by investing in securities having a satisfactory credit rating and investment period in accordance with internal investment policies.

The Company enters into forward exchange contracts in order to avoid foreign exchange fluctuation risk in connection with receivables and payables denominated in foreign currencies.

Following appropriate authorization procedures prescribed in internal rules, the Finance & Accounting Department execute and monitor derivative transactions. Monthly transaction performance is reported to the Executive Management Committee.

3. Monitoring of liquidity risk (the risk that the Company may not be able to meet its obligations on scheduled due dates)

Based on the report from each department, the responsible department of the Company prepares and updates its cash flow plans on a timely basis to ensure liquidity is maintained in managing liquidity risk.

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

The fair value of financial instruments is based on the quoted market price when available. When no quoted market price is available, fair value is reasonably estimated. Given that various assumptions and factors are reflected in the estimation of fair value, different assumptions and factors could result in a different fair value estimate.

(v) Concentration of credit risk

As of December 31, 2014, all operating receivables are from one major customer.

(2) Fair value of financial instruments

Carrying value on the balance sheet, fair value and the difference as of December 31, 2014 are as follows.

(Unit: thousands of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	5,692,075	5,692,075	—
(2) Accounts receivable-trade	272,656	272,656	—
(3) Marketable securities	899,256	899,256	—
(4) Advances paid	59,840	59,840	—
(5) Consumption taxes receivable	19,974	19,974	—
Assets, total	6,943,803	6,943,803	—
(1) Accounts payable-trade	305,996	305,996	—
(2) Lease obligations (current)	692	693	1
(3) Accounts payable-other	142,884	142,884	—
(4) Income taxes payable	21,254	21,254	—
(5) Lease obligations (non-current)	642	642	0
Liabilities, total	471,470	471,472	1
Derivative transactions, total (*)	33,235	33,235	—

(\*) The value of assets and liabilities arising from derivative transactions is shown at net value.

(Note) 1. Fair value measurement of financial instruments and other matters related to securities and derivative transactions

Assets

(1) Cash and deposits, (2) Accounts receivable-trade, (4) Advances paid and (5) Consumption taxes receivable

The carrying value is deemed to be fair value since scheduled to be settled in a short period of time.

(3) Marketable securities

The fair value of debt securities is based on the quoted price obtained from financial institutions.

Liabilities

(1) Accounts payable-trade, (3) Accounts payable-other and (4) Income taxes payable

The carrying value is deemed to be the fair value since scheduled to be settled in a short period of time.

(2) Lease obligations (current) and (5) Lease obligations (non-current)

The fair value of lease obligations is determined at present value calculated by discounting the total amounts of principle and interests at a presumable rate used for similar new lease transactions.

Derivative transactions

Forward exchange contract

The fair value of forward exchange contract is measured based on market quotes obtained from financial institutions.

(Note) 2. Financial instruments for which fair value is extremely difficult to determine

Lease and guarantee deposits (carrying value of 47,289 thousand yen) are not included in the above tables since no market quote is available and their fair value is extremely difficult to determine.

(Note) 3. The redemption schedule for monetary assets and securities with maturities

(Unit: thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	5,692,064	—	—	—
Accounts receivable-trade	272,656	—	—	—
Marketable securities				
Available-for-sale securities with maturities				
Debt securities				
Corporate bonds	500,000	—	—	—
Other	400,000	—	—	—
Advances paid	59,840	—	—	—
Total	6,924,561	—	—	—

(Note) 4. Maturities of lease obligations after fiscal year end

(Unit: thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease obligations (current)	692	—	—	—	—	—
Lease obligations (non-current)	—	642	—	—	—	—
Total	692	642	—	—	—	—

(Notes on investment and rental properties)

Not applicable.

(Notes on equity in earnings)

Not applicable.

(Notes on transactions with related parties)

Transactions with related parties

Officers and major shareholders (limited to individuals) etc. of the Company

Category	Name of corporation or individual	Business description or duties	Percentage of voting rights owned	Content of transactions	Transaction amount (thousands of yen)	Item	Remaining balance (thousands of yen)
Officer	Fuminori Yoshida	Representative Director, President and CEO of the Company	9.63% owned	Exercise of stock options	43,830 (90,000 shares)	—	—

(Note) The above pertains to stock acquisition rights granted by resolution of the Company's Extraordinary General Meeting of Shareholders held on June 20, 2005, and exercised during the current fiscal year.

(Notes on per-share information)

(1) Net assets per share	208.80 yen
(2) Net loss per share	(36.26) yen
Average number of shares outstanding during the year	30,776,721 shares

(Other notes)

The Company has overdraft and commitment line contracts with three banks in a business relationship to efficiently procure working capital. The status of the bank overdraft and loan commitments based on these contracts at the end of fiscal year is as follows:

	(Unit: thousands of yen)
Total amount of bank overdraft limit and loan commitment line	1,350,000
Balance of borrowing outstanding	-
Unused balance	1,350,000

(Significant subsequent events)

Not applicable.

## Independent Auditor's Report

February 24, 2015  
The Board of Directors  
Symbio Pharmaceuticals Limited

Ernst & Young ShinNihon LLC

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Eishi Yoshida  
Certified Public Accountant  
Designated and Engagement Partner

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Tomoaki Minamiyama  
Certified Public Accountant  
Designated and Engagement Partner

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Kazuto Shiratori  
Certified Public Accountant  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of Symbio Pharmaceuticals Limited (the "Company") applicable to the 10th fiscal year from January 1, 2014 through December 31, 2014.

*Management's Responsibility for the Financial Statements and the Related Supplementary Schedules*

Management is responsible for the preparation and fair presentation of these financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the

financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements and the related supplementary schedules based on our audit. We conducted our audit 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 and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Symbio Pharmaceuticals Limited applicable to the 10th fiscal year ended December 31, 2014 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

## **Report of Audit & Supervisory Board**

We, Audit and Supervisory Board Members, prepare this report of audit with regard to the execution of Directors' duties during the 10th Term from January 1, 2014 to December 31, 2014, as the uniformed opinion of all Audit and Supervisory Board Members after careful discussion based on the audit reports prepared by respective Audit and Supervisory Board Members, and report as follows.

### **1. Method and Contents of Audit by the Audit & Supervisory Board Member and the Audit & Supervisory Board**

The Audit & Supervisory Board formulated the audit policy and plan for the Term reported, and received the reporting from respective auditors with regard to the state of implementation and results of audits as well as received the reporting from directors and the accounting auditor with regard to the state of execution of their duties requesting additional explanations as deemed necessary.

Respective auditors, in conformity with the standards for audits by Audit & Supervisory Board Members that the Audit & Supervisory Board set forth and in accordance with the audit policy and plan for the Term, strove to collect information and improve audit environments by communicating with directors, the internal audit section, and other employees. We also attended Board of Directors' meetings and other important meetings, received the reporting from directors and employees with regard to the state of execution of their duties requesting additional explanations as deemed necessary, reviewed documents for important settlements, and researched the situation of operations and assets. Moreover, we monitored and inspected the states of the system to ensure that the execution of Directors' duties described in the business report were compliant with laws and ordinances and the Company's Article of Incorporation and other systems required to secure the appropriateness of operations as a stock company maintained based on the contents of resolution by the Board of Directors with regard to the maintenance of systems stipulated by Ordinance for Enforcement of the Companies Act Article 100 (1) and (3) (hereinafter the "Internal Control System"). Based on the method described above, we reviewed the business report and supplementary documents with regard to the Term reported.

In addition, we monitored and inspected independent position of accounting auditor and the execution of appropriate audits by the accounting auditor, as well as received the reporting from the accounting auditor with regard to the state of execution of its duties requesting additional explanation as deemed necessary. Besides, we received the notification from the accounting auditor that "the system to ensure that its duties are executed as appropriate (the

items listed by respective paragraphs of Ordinance on Accounting of Companies Article 131)” and maintained in accordance with “the standards for quality control of audits (Business Accounting Council, October 28, 2005)” requesting additional explanation as deemed necessary. Based on the method described above, we reviewed the financial report (including balance sheet, profit and loss statement, statement of changes in net assets, and notes on non-consolidated financial statements) and supplementary statements for the Term reported.

## 2. Results of audit

### (1) Results of audit of business report

- a. We admit that the business report and supplementary statements fairly present the Company’s situation in accordance with laws and ordinances and the Company’s Articles of Incorporation.
- b. Any misconduct in the execution of Directors’ duties or any material facts in violation of laws and ordinances and the Company’s Articles of Incorporation are not noticed.
- c. We admit that the contents of resolution by the Board of Directors with regard to the Internal Control System are appropriate. Also, there is no matter to be noted as for the descriptions in the business report regarding such Internal Control System and the execution of Directors’ duties.

### (2) Results of audit of financial statements and the related supplementary statements

We admit that the method for and result of audits conducted by Ernst & Young ShinNihon LLC, the accounting auditor, are appropriate.

February 27, 2015

**Audit & Supervisory Board,  
SymBio Pharmaceuticals Limited**

Koshi Ohizumi, (seal)  
Full-time Audit & Supervisory Board  
Member (Outside)

Saneaki Ichijo, (seal)  
Audit & Supervisory Board Member  
(Outside)

Chikara Shimazaki, (seal)  
Audit & Supervisory Board Member  
(Outside)

End of Report