

March 8, 2013

Annual Report

(January 1, 2012 through December 31, 2012)

1. Particulars regarding the status of SymBio Pharmaceuticals Limited

(1) Course of operations and operating results

During the fiscal year under review, the Japanese economy was on a weak note due to the impact of the prolonged appreciation of the yen, the slowdown in overseas economies triggered by the European sovereign debt issue, and the worsened Japan-China relationship, although the reconstruction demand from the Great East Japan Earthquake and other factors continued to bolster the economy. More recently, signs of brightness started to emerge as the change of governmental administration that took place in December 2012 spurred the depreciation of the yen and caused stock prices to pick up. Nevertheless, the outlook remains opaque.

The pharmaceutical industry continued to face a severe business environment, especially for manufacturers of new drugs, because of the NHI (National Health Insurance) drug price revision (implemented in April 2012) and the political measures to reduce medical expenses including promotion of use of generic drugs.

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

1) Domestic

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

Since December 2010, the Company has been selling an anticancer drug SyB L-0501 in Japan through the business partner Eisai Co., Ltd. (Eisai) for the indications of refractory/relapsed indolent non-Hodgkin's lymphoma (NHL) and mantle cell lymphoma (MCL).

The Company has been engaged in development for four indications with TREAKISYM®.

For the Phase II clinical trials (collaborative trial in Japan and South Korea) of refractory/relapsed aggressive non-Hodgkin's lymphoma, the Company completed analysis and evaluation of the clinical trial data. However, based on the results of a pre-application meeting with the Pharmaceuticals and Medical Devices Agency, we decided to suspend the application for approval of the product we had planned to make in the fiscal year under review.

The Phase II clinical trials were conducted at 25 facilities in total in Japan and South Korea for the indication of pre-treated refractory/relapsed aggressive non-Hodgkin's lymphoma, with the aim of confirming the efficacy and safety of SyB L-0501 when co-administered with rituximab. Sixty-three patients were enrolled for the trials, and 59 cases were subject to analysis. The trials showed high efficacy, resulting in a response rate of 62.7%, of which the complete remission rate was high at 37.3%. Moreover, the median value of the progression free survival (PFS) period reached 200 days, indicating the possibility of improved prognosis for patients suffering from refractory/relapsed non-Hodgkin's lymphoma. The side effects were clinically manageable, and the drug proved to be applicable for the elderly.

Furthermore, detailed results of the trials were presented at the American Society of Clinical Oncology (ASCO), held in Chicago in June 2012, by Dr. Michinori Ogura of Japanese Red Cross Nagoya Daini Hospital.

In addition, an outline of the results of the trials was presented by Dr. Kensei Tobinai of National Cancer Center Hospital at the 74th Annual Meeting of the Japanese Society of Hematology held in Kyoto in October 2012.

The Company will decide on the future development policy of the drug against this indication through discussions with Eisai, our business partner.

For the Phase II clinical trials for the indications of untreated indolent non-Hodgkin's lymphoma and mantle cell lymphoma, we continued the enrollment of patients with the number of enrolled patients reaching one patient remaining to the targeted number 67 as of the end of December 2012.

As for the Phase II clinical trials for the indication of refractory/relapsed multiple myeloma, the number of enrolled patients increased to 17, with the target number of patients being 44.

Moreover, we made preparations during the fiscal year for domestic Phase II clinical trials for the indication of chronic lymphocytic leukemia, and our notification of the clinical trial plan was accepted by the authority in December 2012. Furthermore, TREAKISYM® was designated as an orphan drug (pharmaceutical for rare disease treatment) for the indication of chronic lymphocytic leukemia in June 2012.

[SyB L-1101 (the intravenous form)/SyB C-1101 (the oral form) (the generic name: rigosertib)]

With regard to SyB L-1101, an anticancer drug, our notification of clinical trial plan for domestic Phase I clinical trials for the indication of refractory/relapsed myelodysplastic syndrome (MDS), a type of blood tumor, was accepted in March 2012. Subsequently, we conducted the first patient enrollment in June 2012 and started the domestic Phase I clinical trials.

As for SyB C-1101, the oral form, our notification of clinical trial plan for domestic Phase I

clinical trials for the indication of untreated myelodysplastic syndrome (MDS) was accepted in December 2012.

Furthermore, Onconova Therapeutics, Inc. (United States), the licensor of the drugs, announced a business tie-up with Baxter International Inc. (United States) for the European market in September 2012.

The conclusion of this business tie-up should accelerate development and commercialization of rigosertib for the Western market, and allows expectations for a heightened possibility of receiving approval as early as possible in Japan and South Korea, where we have the development and commercialization rights, through the utilization of their clinical trial data obtained abroad.

[SyB D-0701]

In October 2012, we completed the enrollment of patients for Phase II clinical trial of SyB D-0701 (a transdermal antiemetic patch) for the indication of radiotherapy-induced nausea and vomiting.

2) Overseas

Sales of SyB L-0501 started in Taiwan in February 2012 through InnoPharmax Inc. (Taiwan), our business partner. The drug also sold largely as planned in Singapore and South Korea, where we sell the product through Eisai, as we do in Japan.

3) Business results

As a result of the aforementioned developments, net sales totaled 1,955,178 thousand yen (a year-on-year increase of 3.9%) for the fiscal year ended December 31, 2012, reflecting the sales of SyB L-0501 in Japan and Asian countries.

Selling, general and administrative expenses totaled 2,293,253 thousand yen (a year-on-year decrease of 15.8%), including research and development (“R&D”) expenses of 1,438,125 thousand yen (a year-on-year decrease of 26.1%) for the accrual of expenses associated with the clinical trials for multiple indications for SyB L-0501, clinical trials for SyB D-0701 and clinical trials for SyB L-1101, among other things, as well as other selling, general and administrative expenses of 855,128 thousand yen (a year-on-year increase of 9.6%).

As a result, we posted operating loss of 1,700,273 thousand yen for the fiscal year ended (in contrast to operating loss of 2,066,846 thousand yen for the previous fiscal year). In addition, recording of totaling 36,516 thousand yen as non-operating expenses, primarily comprising foreign exchange losses and bond-issue expenses, and other factors led to ordinary loss of 1,729,480 thousand yen (ordinary loss of 2,095,382 thousand yen for the previous fiscal year) and net loss of 1,733,320 thousand yen (net loss of 2,104,513 thousand yen for the previous

fiscal year).

Furthermore, segment information is omitted since the Company operates a single segment of pharmaceutical business including research and development of pharmaceutical drugs as well as manufacturing, marketing and other related activities.

(2) Status of fund procurement, etc.

1) Fund procurement

The Company made a resolution on December 27, 2012 to issue the 1st unsecured convertible bond with stock acquisition rights (total issue price: 1 billion yen) with Whiz Healthcare PE Series 1 Investment Limited Liability Partnership as the allottee and the 29th warrant (total issue price: 5.1 million yen, total issue price of stocks when issued through exercising the stock acquisition rights: 500 million yen), with the aim of accelerating development of new drug candidates and further reinforce the pipeline. Accordingly, Whiz Healthcare PE Series 1 Investment Limited Liability Partnership completed payment of 1,005,100 thousand yen to the Company on January 15, 2013.

Furthermore, the conversion of the 1st unsecured convertible bond with stock acquisition rights (450,000 thousand yen) and the exercise of the 29th warrant (200,000 thousand yen), both conducted by January 31, 2013, brought the Company's capital stock to 6,350,629 thousand yen, capital surplus to 6,320,629 thousand yen and the number of shares outstanding to 21,151,465.

2) Capital expenditures

Capital expenditures for the fiscal year under review primarily consisted of installation expenses of IT equipment and electric facilities associated with the establishment of a new anti-disaster office, totaling 3,048 thousand yen. The capital expenditures were funded mainly by cash on hand.

(3) Status of assets and profit and loss in the current fiscal year and the three preceding fiscal years
 (Unit: Thousand yen, except for per-share figures)

Fiscal year / Classification	FY 2009 The 5th Term	FY 2010 The 6th Term	FY 2011 The 7th Term	FY 2012 The 8th Term (current)
Net sales	1,191,127	1,449,972	1,882,521	1,955,178
Operating loss	(208,027)	(612,793)	(2,066,846)	(1,700,273)
Ordinary loss	(214,072)	(638,375)	(2,095,382)	(1,729,480)
Net loss	(217,872)	(642,307)	(2,104,513)	(1,733,320)
Net loss per share (yen)	(3,252.84)	(5,933.47)	(143.60)	(90.60)
Total assets	4,260,689	4,262,783	7,256,094	5,502,190
Net assets	4,053,758	4,083,064	6,605,564	4,899,957
Net assets per share (yen)	40,275.39	36,541.74	345.28	254.71

The Company conducted a 100-for-1 stock split effective on June 2, 2011.

(4) Issues to be solved

The Company will solve the following important issues:

1) Further expansion of pipeline

In order to enhance the enterprise value as a specialty pharmaceutical company, we need to expand the pipeline through continual in-licensing of new candidate drugs for development.

Currently, we have four (4) products (SyB L-0501, SyB D-0701, SyB L-1101 and SyB C-1101) in the pipeline. Going forward, we will continue our efforts to proactively in-license new developed drugs for further expansion of the pipeline. Moreover, we have further evaluated multiple new drug candidates.

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

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

TREAKISYM® has received the approval for manufacture and marketing with the approved indications of refractory/relapsed indolent non-Hodgkin's lymphoma and refractory/relapsed mantle cell lymphoma. For additional indications, currently four clinical trials are underway. Phase II clinical trials were completed for refractory/relapsed aggressive non-Hodgkin's

lymphoma and, as we were requested by the Pharmaceuticals and Medical Devices Agency at the pre-application meeting to conduct additional trials, we continue discussion with the Agency. Patient enrollment is under way for Phase II clinical trials for untreated indolent non-Hodgkin's lymphoma, untreated mantle cell lymphoma and refractory/relapsed multiple myeloma. Moreover, our notification of the clinical trial plan for Phase II clinical trials for the indication of chronic lymphocytic leukemia has been accepted, and we will work to enroll patients for the trials.

With regard to rigosertib, development for the indication of refractory/relapsed myelodysplastic syndrome (MDS) is under way, both for the intravenous form and the oral form. Refractory/relapsed myelodysplastic syndrome (MDS) is one of the treatment areas that command extremely strong healthcare needs due to lack of excellent drugs. Moreover, with Phase II clinical trials for the indication of pancreatic cancer under way in the United States conducted by Onconova Therapeutics, we plan to make a judgment as to the implementation of the clinical trials in Japan by referring to the results of these trials.

We will add new indications in pursuit of life cycle management to maximize the business value of TREAKISYM® and rigosertib.

3) Expansion to other Asian regions

SymBio positions China, South Korea, Taiwan, and Singapore as our important strategic geographic domains in addition to Japan. In these areas, high growth in economy and medical needs is expected and we consider that these areas will assume increasing importance in our corporate strategy.

Among our pipelines, we plan to develop and market SyB L-0501 and SyB D-0701 in China, South Korea, Taiwan, and Singapore as well as Japan. We also plan to develop and market SyB L-1101/C-1101 in South Korea other than Japan and are currently making investigations as to the application for approval in South Korea. We will aggressively launch clinical trials and apply for marketing approvals for these drugs in these Asian countries.

4) Securing people

SymBio places the highest priority on people as the company management resource. We cannot make superior achievements in exploring and developing new drugs without talent. We are continually engaged in recruiting talented people, and have hired excellent human resources since listing in order to further reinforce the management organization in particular. We plan to further strengthen our human resources by providing development programs such as OJT and other trainings.

5) Financial issue

The Company is required to raise funds to meet the needs of business activities such as R&D expenditures externally as the pipeline development progresses and the number of drug candidates increases.

Therefore, we make every effort to strengthen the financial base by continually diversifying the method for fund procurement and reducing costs through tight budget control.

(5) Main contents of business (As of December 31, 2012)

The Company regards underserved therapeutic areas that lack the development of new drugs despite extremely significant medical needs as business opportunities. We engage in the development of new drugs focusing on the areas of oncology, hematology, and autoimmune diseases, from search, development and manufacture to sales as the main contents of our business.

(6) Main offices and employees

(i) Main offices (As of December 31, 2012)

Name	Location
Main office	Minato-ku, Tokyo

(ii) Employees (As of December 31, 2012)

Classification	Number of employees	Increase or (decrease) from previous fiscal year end	Average age (years)	Average years of service
Male	51	5 increase	48.6	3.6
Female	25	-	39.5	2.7
Total or average	76	5 increase	45.6	3.3

(Notes) 1. Number of employees represents number of individuals in work.
2. Twelve temporary employees are not included in the above number of employees.

(7) Situation of parent company and significant subsidiaries

Not applicable.

(8) Situation of main leaders (As of December 31, 2012)

Not applicable.

2. Matters related to stocks (As of December 31, 2012)

- (1) Total number of authorized shares Common stock 56,000,000 shares
- (2) Total number of shares outstanding Common stock 19,130,825 shares
 (Excluding 75 shares of treasury stock)
- (3) Number of shareholders 4,533
- (4) Major shareholders (10 largest ones)

Name of shareholders	Number of shares held	Shareholding ratio
Fuminori Yoshida	3,030,000	15.8%
Cephalon, Inc.	2,589,000	13.5%
JAFCO V2 Investment LP	2,308,800	12.1%
Eisai Co., Ltd.	833,400	4.4%
T & S Co., Ltd.	729,100	3.8%
Waseda No.1 Investment LP	684,000	3.6%
Waseda Global No.1 Investment LP	500,000	2.6%
TNP On the Road No1. Investment LP	254,000	1.3%
DAIICHI SANKYO Co., Ltd.	200,000	1.0%
WERU Technology Venture Investment LP	196,800	1.0%

(Note) The calculation of percent of issued shares excludes treasury stock from number of shares outstanding.

3. Matters related to stock acquisition rights

- (1) Stock acquisition rights possessed by the Company's Directors that were distributed as compensation for services
- (i) Stock acquisition rights granted by the resolution of the Extraordinary General Meeting of Shareholders held on June 20, 2005 (The 1st series of stock acquisition rights)

(As of December 31, 2012)

- Number of stock acquisition rights 3,510
- Number of shares to be issued upon exercise of stock acquisition rights 351,000
- Amount paid for stock acquisition rights Free of charge
- Price of assets invested in the exercise of stock acquisition rights 500 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)	900	90,000	1
Outside Directors	500	50,000	2
Audit & Supervisory Board Members	-	-	-

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

(As of December 31, 2012)

- Number of stock acquisition rights 3,610
- Number of shares to be issued upon exercise of stock acquisition rights 361,000
- Amount paid for stock acquisition rights Free of charge
- Price of assets invested in the exercise of stock acquisition rights 600 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 subject shares	Number of holders
Directors (excluding Outside Directors)	2,130	213,000	2
Outside Directors	600	60,000	2
Audit & Supervisory Board Members	-	-	-

(iii) Stock acquisition rights granted by the resolution of the Ordinary General Meeting of Shareholders held on March 30, 2010 (The 22nd series of stock acquisition rights)
(As of December 31, 2012)

- Number of stock acquisition rights 1,530
- Number of shares to be issued upon exercise of stock acquisition rights 153,000
- Amount paid for stock acquisition rights Free of charge
- Price of assets invested in the exercise of stock acquisition rights 600 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 subject shares	Number of holders
Directors (excluding Outside Directors)	-	-	-
Outside Directors	200	20,000	1
Audit & Supervisory Board Members	-	-	-

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

(As of December 31, 2012)

- Number of stock acquisition rights 1,920
- Number of shares to be issued upon exercise of stock acquisition rights 192,000
- Amount paid for stock acquisition rights Free of charge
- Price of assets invested in the exercise of stock acquisition rights 700 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 subject shares	Number of holders
Directors (excluding Outside Directors)	1,420	142,000	2
Outside Directors	300	30,000	2
Audit & Supervisory Board Members	-	-	-

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

(As of December 31, 2012)

- Number of stock acquisition rights 3,625
- Number of shares to be issued upon exercise of stock acquisition rights 362,500
- Amount paid for stock acquisition rights Free of charge
- Price of assets invested in the exercise of stock acquisition rights 570 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 subject shares	Number of holders
Directors (excluding Outside Directors)	3,000	300,000	2
Outside Directors	625	62,500	2
Audit & Supervisory Board Members	-	-	-

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

(i) Stock acquisition rights granted by the resolution of the Ordinary General Meeting of Shareholders held on March 29, 2012 (The 27th series of stock acquisition rights)

- Number of stock acquisition rights 4,307
- Number of shares to be issued upon exercise of stock acquisition rights 430,700
- Amount paid for stock acquisition rights Free of charge
- Price of assets invested in the exercise of stock acquisition rights 570 yen
- Period during which stock acquisition rights may be exercised From April 18, 2014
To April 17, 2022
- Conditions for the exercise of stock acquisition rights
 - (i) Fraction less than one unit of a stock acquisition right shall be un-exercisable.
 - (ii) Those who were granted the right may exercise all or part of the rights in accordance with the following classifications:
 - a) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from April 18, 2014 to April 17, 2015.
 - b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from April 18, 2015 to April 17, 2016.

- c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from April 18, 2016 to April 17, 2017.
- d) Those who were granted the stock acquisition rights may exercise all the rights from April 18, 2017 to April 17, 2022.
- (iii) Those who received the allotment of the stock acquisition rights (hereinafter the “Person Granted”) must be in a status of the Director, Audit & Supervisory Board Member or employee of the Company or its affiliates at the time of exercise. However, this is not necessarily the cases where;
 - a) The Person Granted is the Director or Audit & Supervisory Board Member of the Company or its affiliates and retires due to the expiry of her/his term.
 - b) The Person Granted is the employee of the Company or its affiliates and retires due to the compulsory retirement.
 - c) The Person Granted is the Director, Audit & Supervisory Board Member or employee of the Company or its affiliates and the Board of Directors resolves that he/she resigns or retires with honorable recognition.
- (iv) The Person Granted shall exercise the rights starting from the date of resolution by the below-mentioned Shareholders’ meeting or the Board of Directors’ meeting until one day before the effective date of the Organizational Restructuring as followed, regardless the conditions of exercise period originally stipulated, when the Organizational Restructuring are approved by the resolution of the Company’s Shareholders’ meeting (including the case where resolution of a

Shareholders' meeting is deemed to exist pursuant to the provision of Article 319 of the Companies Act) or the Board of Directors' meeting (limited to the case where no Shareholders' meeting is required for the said Organizational Restructuring) before the exercise period (hereinafter the "Exercise Period") of the stock acquisition rights comes into effect: an absorption-type merger or an incorporation-type merger where the Company becomes a dissolving company and an absorption-type split or an incorporation-type company split where the Company becomes a split company or a share exchange or a share transfer where the Company becomes a wholly-owned subsidiary (collectively, "Organizational Restructuring" as mentioned above).

(v) In the event where;

a) The Person Granted died before the Exercise Period comes into effect, the inheritor shall exercise the rights of up to one-half (1/2), or

b) The Person Granted died during the Exercise Period, the inheritor shall exercise all the rights within six months from the commencement of inheritance.

However, in the event that the inheritor died, the rights shall be discarded and shall not be exercised by his/her inheritor.

(vi) The stock acquisition rights shall not be offered for pledge or disposed of in any other way.

-Status of allotment to the Company's employees

	Number of stock acquisition rights	Number of subject shares	number of employees allotted
Employees of the Company	4,307 (Note)	430,700 (Note)	70

(Note) 1. Of the stock acquisition rights mentioned above, 293 units (29,300 shares) had been forfeited due to the retirement of employees.

(ii) Stock acquisition rights granted by the resolution of the Ordinary General Meeting of Shareholders held on March 29, 2012 (The 28th series of stock acquisition rights)

- | | |
|--|--|
| -Number of stock acquisition rights | 165 |
| -Number of shares to be issued upon exercise of stock acquisition rights | 16,500 |
| -Amount paid for stock acquisition rights | Free of charge |
| -Price of assets invested in the exercise of stock acquisition rights | 570 yen |
| -Period during which stock acquisition rights may be exercised | From September 14, 2014
To September 13, 2022 |
- Conditions for the exercise of stock acquisition rights
- (i) Fraction less than one unit of a stock acquisition right shall be un-exercisable.
 - (ii) Those who were granted the right may exercise all or part of the rights in accordance with the following classifications:
 - a) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-fourth (1/4) from September 14, 2014 to September 13, 2015.
 - b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from September 14, 2015 to September 13, 2016.
 - c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from September 14, 2016 to September 13, 2017.
 - d) Those who were granted the stock acquisition rights may exercise all the rights from September 14, 2017 to September 13, 2022.
 - (iii) Those who received the allotment of the stock acquisition rights (hereinafter the "Person Granted") must be in a status of the Director, Audit & Supervisory Board Member or employee of the

Company or its affiliates at the time of exercise.
However, this is not necessarily the cases where;

- a) The Person Granted is the Director or Audit & Supervisory Board Member of the Company or its affiliates and retires due to the expiry of her/his term.
- b) The Person Granted is the employee of the Company or its affiliates and retires due to the compulsory retirement.
- c) The Person Granted is the Director, Audit & Supervisory Board Member or employee of the Company or its affiliates and the Board of Directors resolves that he/she resigns or retires with honorable recognition.
- (iv) The Person Granted shall exercise the rights starting from the date of resolution by the below-mentioned Shareholders' meeting or the Board of Directors' meeting until one day before the effective date of the Organizational Restructuring as followed, regardless the conditions of Exercise Period originally stipulated, when the Organizational Restructuring are approved by the resolution of the Company's Shareholders' meeting (including the case where resolution of a Shareholders' meeting is deemed to exist pursuant to the provision of Article 319 of the Companies Act) or the Board of Directors' meeting (limited to the case where no Shareholders' meeting is required for the said Organizational Restructuring) before the exercise period (hereinafter the "Exercise Period") of the stock acquisition rights comes into effect: an absorption-type merger or an incorporation-type merger where the Company becomes a dissolving company and an absorption-type split or an incorporation-type company split where the Company becomes a split company or a share exchange or a share transfer where the

Company becomes a wholly-owned subsidiary (collectively “Organizational Restructuring” as mentioned above).

(v) In the event where;

a) The Person Granted died before the Exercise Period comes into effect, the inheritor shall

exercise the rights of up to one-half (1/2), or

b) The Person Granted died during the Exercise Period, the inheritor shall exercise all the rights within six months from the commencement of inheritance.

However, in the event that the inheritor died, the rights shall be discarded and shall not be exercised by his/her inheritor.

(vi) The stock acquisition rights shall not be offered for pledge or disposed of in any other way.

-Status of allotment to the Company’s employees

	Number of stock acquisition rights	Number of subject shares	number of employees allotted
Employees of the Company	165	16,500	5

(3) Other important matters concerning stock acquisition rights

No stock acquisition rights were allotted to external collaborators during the current fiscal year.

4. The Company's Executives (As of December 31, 2012)

(1) Name and primary matters of Directors and Audit & Supervisory Board Members

Status in the Company	Name	Responsibility and significant concurrent position
Representative Director and President	Fuminori Yoshida	Chief Executive Officer
Director	Hiroki Maekawa	Senior Corporate Officer Chief Financial 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
Full-time Audit & Supervisory Board Member	Koshi Ohizumi	
Audit & Supervisory Board Member	Saneaki Ichijyo	Attorney (Partner, Anderson, Mori & Tomotsune)
Audit & Supervisory Board Member	Chikara Shimazaki	Certified Public Accountant (Representative, Shimazaki accounting office)

- (Note) 1. Of the Directors, Takako Ebata, Lowell Sears and George Morstyn are Outside Directors.
 2. Koshi Ohizumi, Saneaki Ichijyo and Chikara Shimazaki are outside members of Audit & Supervisory Board.
 3. Chikara Shimazaki, an outside member of Audit & Supervisory Board, is the independent officer who does not have the potential to cause conflict of interests against general shareholders, the position that Osaka Securities Exchange requires us to appoint.
 4. Full-time Audit & Supervisory Board Member Koshi Ohizumi experienced accounting work for years and has high insight on finance and accounting.
 5. Audit & Supervisory Board Member Saneaki Ichijyo is an attorney and has high insight on corporate legal affairs.
 6. Audit & Supervisory Board Member Chikara Shimazaki is a Certified Public Accountant and has high insight on finance and accounting.
 7. Changes in Directors and Audit & Supervisory Board Members during the current fiscal year are as follows:
 - Audit & Supervisory Board Member Masahiko Goto resigned at the closing of the 7th Ordinary General Meeting of Shareholders held on March 29, 2012.
 - Takako Ebata was newly appointed and took office as a Director at the 7th Ordinary General Meeting of Shareholders held on March 29, 2012.
 - Director Osamu Ogawa resigned on July 31, 2012. His position at the Company was Senior Corporate Officer, Head of Research & Development Division.
 8. The Company adopts the corporate officer system. The Corporate Officers who do not hold concurrent position as Director are as follows:
 Corporate Officer Masataka Ohta
 Corporate Officer Qin Albert

(2) Total amount of compensation to Directors and Audit & Supervisory Board Members

Status in the Company	Number of persons paid	Amount paid (Thousand yen)
Directors	6 (Outside) 3	85,829 (Outside) 14,413
Audit & Supervisory Board Members	4 (Outside) 4	20,279 (Outside) 20,279
Total	10 (Outside) 7	106,108 (Outside) 34,692

(Note) 1. Salary for employee in the event of a Director doubling as employee is not included in the above amount paid to Directors.

2. The maximum amount of Directors' compensation has been resolved as the annual amount of 130,000,000 yen at the Extraordinary General Meeting of Shareholders held on August 3, 2005. Besides, in addition to aforementioned compensation, it was resolved that stock acquisition rights would be granted within the maximum amount of 130,000,000 yen (of which, 21,000,000 yen to Outside Directors) as compensations stipulated in Article 361, Section 1 of Companies Act at the 7th Ordinary General Meeting of Shareholders held on March 29, 2012.

3. The maximum amount of compensation for Audit & Supervisory Board Members has been resolved as the annual amount of 30,000,000 yen at the Extraordinary General Meeting of Shareholders held on June 30, 2011.

4. The number of persons paid stated above includes one Director who resigned on July 31, 2012 and one Audit and Supervisory Board Member who resigned at the closing of the 7th Ordinary General Meeting of Shareholders held on March 29, 2012.

5. The total compensation amount paid includes expenses (four (4) Directors 14,559 thousand yen) in connection with stock acquisition rights as stock options for the current fiscal year.

(3) Matters concerning Outside Directors

(i) Director: Takako Ebata

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 company and the Company

Not applicable.

c. Relationship with particular related companies, such as main customers

Not applicable.

d. Situation of main activities during the fiscal year reported

The rate of attendance at the Board of Directors meetings was 86.7%

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.

(ii) Director: Lowell Sears

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

He holds a 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 a concurrent position of outside auditor at Cellerant Therapeutics, 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. Situation of main activities during the current fiscal year

The rate of attendance at Board of Directors' meetings was 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.

(iii) Director: George Morstyn

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

He holds a 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 Ventures 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 Board). There is no business transaction between the above companies and the Company.

c. Relationship with particular related companies, such as main customers

Not applicable.

d. Situation of main activities during the current fiscal year

The rate of attendance at Board of Directors meetings was 78.9%

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) Full-time Audit & Supervisory Board Member: 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. Situation of main activities during the current fiscal year

(1) Situation of attendance at the Board of Directors meetings

The rate of attendance at the Board of Directors meetings was 100.0%

(2) Situation of attendance at the Audit & Supervisory Board meetings

The rate of attendance at the Audit & Supervisory Board meetings was 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.

(v) Audit & Supervisory Board Member: Saneaki Ichijyo

- 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 concurrent positions 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. Situation of main activities during the current fiscal year

(1) Situation of attendance at the Board of Directors meetings

The rate of attendance at the Board of Directors meetings was 94.7%

(2) Situation of attendance at the Audit & Supervisory Board meetings

The rate of attendance at the Audit & Supervisory Board meetings was 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.

(vi) Audit & Supervisory Board Member: 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. Situation of main activities during the current fiscal year
- (1) Situation of attendance at the Board of Directors meetings
The rate of attendance at the Board of Directors meetings was 100.0%
- (2) Situation of attendance at the Audit & Supervisory Board meetings
The rate of attendance at the Audit & Supervisory Board meetings was 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 by Board of Directors based on high personal insight of business administration, and from a standpoint that was independent from business operations.

Each member of Audit & Supervisory Board appropriately raised questions to fulfill the function of management monitor for resolutions and reports by Board of Directors based on high personal insight of business administration from an independent and neutral standpoint, and aggressively raised questions and expressed opinions regarding resolutions and reports by Audit & Supervisory Board in order to execute highly effective audits.

5. Situation 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	13,000,000 yen
Amount of compensation pertaining to services set forth in Certified	

Public Accountants Act Article 2 (1)	
The total amount of cash and property benefit to be paid by the Company to the accounting auditor	13,000,000 yen

(Note) 1. The amounts of compensations for the audits conducted 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 practically impossible to distinguish the compensations for these two types of audits; therefore the total amount thereof is stated.

2. The Company does not engage the accounting auditor to perform duties other than auditing stipulated by Certified Public Accountants Act Article 2 (1).

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

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

6. Summary of contents of resolutions concerning the establishment of system to ensure appropriate 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 make thoroughly known to all of its Directors, Audit & Supervisory Board members, and employees (including contract employees, temporary employees and subcontract employees) its policy that any and all corporate activities should be based on the spirit of compliance with laws and maintenance of ethics (hereinafter the "Compliance") by repeatedly urging them to abide by the spirit of the Corporate Action Charter.
 - (ii) The Company promotes the activities for Compliance with a compliance committee composed of the senior manager in charge of corporate division as the chairman thereof and the head or senior managers of relevant departments as members thereof to act as the center of such activities.
 - (iii) The Company makes efforts to find and cure any and all unfair acts and practices as early as possible through a compliance hot-line permanently installed outside the

Company. The Company also receives consultation from its employees with regard to Compliance-related problems through its liaison window permanently installed within the Company for the purpose of receiving such consultation.

- (iv) The Company has its own internal audit office to act under the direct control of President, which 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 makes evaluation and gives necessary advice and suggestion 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 as to the performance by Directors of their duties

The Company has the head of general affairs as 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 its 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 performs the business of 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, keeps an organizationally traversing watch on the condition of risk control, and takes appropriate measures on a whole-company basis, if necessary. In case of emergency, the Company will temporarily set up its headquarters for such case with its Representative Director and President to act as the chairman thereof, and take necessary measures in accordance with decisions made by such headquarters.

(4) Corporate system to ensure the efficient performance by Directors of their duties

- (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 the executive management committee as provided in the "Rules for the Executive Management Committee" for the purpose to assist the sound and appropriate decision by the Representative Director and President.
 - (iii) The Company develops its long-term business plan, and operates and expands its business in accordance with such long-term plan. The Company also predetermines numerical targets for each business year for inclusion in such long-term plan, and conducts the evaluation of business results and the control of budgets in comparison with such numerical targets. The Company reports to Board of Directors every month on the state of achievement of such numerical targets.
- (5) Corporate system for the control of the assistant of Audit & Supervisory Board Members appointed at the request of such Members
- (i) The Company at present has no employee to act as an assistant of Audit & Supervisory Board Member. The Audit & Supervisory Board Member, however, may require the Representative Director and President to appoint such assistant, and if and when so required, the Representative Director and President shall appoint such assistant as far as deemed necessary.
 - (ii) Any employee shall, if and when he/she is ordered by the Audit & Supervisory Board Member to perform audit-related tasks, not receive any instruction or direction from the Director in charge, the internal audit section or any other similar section with regard to such order as is received from the Audit & Supervisory Board Member.
 - (iii)-1 Audit & Supervisory Board gives any and all job-executing Directors and employees with significant responsibilities an opportunity of hearing individually from such Directors and employees with regard to jobs in their charge respectively.
 - (iii)-2 Any Director or other executive officer shall, if and when he/she finds any fact which threatens to cause any remarkable damage or adverse influence to the Company, promptly inform the Audit & Supervisory Board Member thereof.
 - (iii)-3 Audit & Supervisory Board Members may attend the Board of Directors' meetings, the executive management committee and other important meetings for the purpose of grasping the process of important decision-making and the condition of business execution.
 - (iv) Audit & Supervisory Board holds meetings for mutual exchange of views and opinions with the Representative Director and President and independent auditors respectively.

Balance Sheet

(As of December 31, 2012)

(Unit: Thousand yen)

Item	Amount	Item	Amount
(Assets)		(Liabilities)	
Current assets	5,420,623	Current liabilities	598,527
Cash and deposits	4,540,022	Accounts payable-trade	329,768
Accounts receivable-trade	148,081	Lease obligations	673
Marketable securities	300,000	Accounts payable-other	195,833
Merchandise and finished goods	164,571	Income taxes payable	15,588
Storage	320	Other	56,662
Prepaid expenses	98,192		
Advances paid	99,036	Noncurrent liabilities	3,705
Consumption taxes receivable	39,495	Lease obligations	2,017
Forward exchange contract	21,385	Provision for retirement benefits	1,688
Other	9,517		
		Total liabilities	602,232
Noncurrent assets	81,567	(Net assets)	
Property, plant and equipment	13,721	Shareholders' equity	4,872,790
Buildings	7,705	Capital stock	6,024,610
Tools, furniture and fixtures	33,921	Capital surplus	5,994,610
(Accumulated depreciation)	(27,905)	Legal capital surplus	5,994,610
Intangible assets	10,864	Retained earnings	(7,146,411)
Software	8,324	Other retained earnings	(7,146,411)
Lease assets	2,540	Retained earnings brought forward	(7,146,411)
Investments and other assets	56,980	Treasury stock	(17)
Long-term prepaid expenses	27,646	Subscription rights to shares	27,167
Lease and guarantee deposits	29,334		
		Total net assets	4,899,957
Total assets	5,502,190	Total liabilities and net assets	5,502,190

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

Income Statement

(From January 1, 2012
to December 31, 2012)

(Unit: Thousand yen)

Item	Amount	
I. Net sales		1,955,178
II. Cost of sales		1,362,199
Gross profit		592,979
III. Selling, general and administrative expenses		2,293,253
Operating loss		1,700,273
IV. Non-operating income		
Interest income	1,585	
Interest on securities	3,353	
Dividends income of insurance	1,122	
Other	1,247	7,309
V. Non-operating expense		
Interest expenses	137	
Commission fee	10,829	
Bond-issue expenses	9,473	
Foreign exchange losses	15,755	
Other	320	36,516
Ordinary loss		1,729,480
VI. Extraordinary loss		
Loss on retirement of noncurrent assets	39	39
Loss before income tax		1,729,520
Income taxes – current	3,800	3,800
Net loss		1,733,320

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

Statement of Changes in Net Assets

(From January 1, 2012
to December 31, 2012)

(Unit: Thousand yen)

	Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings		Treasury stock	Total shareholders' equity
		Legal capital surplus	Other retained earnings	Retained earnings brought forward		
Balance as of January 1, 2012	6,024,610	5,994,610	(5,413,091)	(17)	6,606,110	
Amount of change during the fiscal year						
Net loss			(1,733,320)		(1,733,320)	
Changes in items other than shareholders' equity during the fiscal year (net amount)						
Total amount of changes during the fiscal year	-	-	(1,733,320)	-	(1,733,320)	
Balance as of December 31, 2012	6,024,610	5,994,610	(7,146,411)	(17)	4,872,790	

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total		
Balance as of January 1, 2012	(546)	(546)	-	6,605,564
Amount of change during the fiscal year				
Net loss				(1,733,320)
Changes in items other than shareholders' equity during the fiscal year (net amount)	546	546	27,167	27,713
Total amount of changes during the fiscal year	546	546	27,167	(1,705,606)
Balance as of December 31, 2012	-	-	27,167	4,899,957

(Note) Fractions 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 a 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)	By straight-line method The useful lives of major assets are as follows: Building 2 to 18 years Tools, furniture and fixtures 4 to 10 years
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Intangible assets (excluding lease assets)	By 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

Bond-issue expenses are accounted for as expenses 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 which are experiencing financial difficulties. As of December 31, 2012, no allowance for doubtful accounts is provided due to no historical experience of bad debt and no receivable balances that are deemed uncollectible.
Provision for retirement benefits	The provision for retirement benefits is provided at an amount to be required as of the balance sheet date.

(6) Accounting for consumption tax

Transactions are recorded at amounts exclusive of consumption tax.

(Change in presentation)

(Income statement)

Dividends income of insurance that was previously included in other under non-operating income is shown separately from the current fiscal year, considering the significant monetary impact to the financial statements.

(Additional information)

(Adoption of Accounting Standards for Accounting Changes and Error Corrections)

Effective January 1, 2012, the Company applied the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No. 24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

(Notes on balance sheet)

Not applicable.

(Notes on income statement)

R&D expenses included in general and administrative expenses 1,438,125 thousand yen

(Notes on statement of changes in net assets)

(1) Shares issued and outstanding / Treasury stock

(Unit: Number of shares)

		At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year
Common stock	Shares issued	19,130,900	-	-	19,130,900
	Treasury stock	75	-	-	75

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

Common stock 1,423,000 shares

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

(Notes on deferred tax accounting)

Significant components of deferred tax assets and liabilities

Deferred tax assets:	(Thousand yen)
Excess depreciation for lump-sum depreciable assets	1,094
Excess depreciation for depreciable assets	621
Excess amortization for deferred assets	212,730
Research and development expenses	836,309
Accounts payables-trade	14,899
Account payable-other	19,905
Provision for retirement benefits	601
Enterprise tax payable	5,203
Asset retirement obligation	3,143
Loss carried forward	1,454,943
Subtotal	2,549,452
Valuation allowance	(2,549,452)
Total deferred tax assets	—
Deferred tax liabilities	—
Total deferred tax liabilities	—
Net 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 offering by new stock issuance). 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 purpose but uses them within the scope prescribed in the 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 relatively low risk of falling below initial investments. However, it might 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 the internal rules based on balances of receivables and payables denominated in foreign currencies as well as actual volume of exports and imports transactions denominated in foreign currencies.

Lease and guarantee deposits are mostly security deposits related to rented office premises and their refunds are subject to the credit risk of the lessor.

Lease obligations are associated with the finance lease transactions that intend to finance capital expenditures and the longest maturity of lease term is 4 years after December 31, 2012.

(iii) Risk management for financial instruments

1. Monitoring of credit risks (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 by individual customer. In addition, the Company is making efforts to promptly identify and mitigate risks of bad debts 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 risks of falling below initial investments by investing in securities with the satisfactory credit rating and investment period in accordance with the internal investment policies.

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

Followed by appropriate authorization procedures prescribed in the internal rules, Finance and accounting department executes and monitors derivative transactions. Monthly transaction performances are reported to the executive management committee.

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

Based on the report from each department, the responsible department of the Company prepares and updates its cash flow plans on a timely basis and ensures to maintain liquidity on hand to manage liquidity risk.

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably

estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

(v) Concentration of credit risk

As of December 31, 2012, all operating receivables are from one particular major customer.

(2) Fair value of financial instruments

Carrying value on the balance sheet, fair value and their difference as of December 31, 2012 are as follows.

(Unit: Thousand yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	4,540,022	4,540,022	—
(2) Accounts receivable-trade	148,081	148,081	—
(3) Marketable securities	300,000	300,000	—
(4) Advances paid	99,036	99,036	—
(5) Consumption taxes receivable	39,495	39,495	—
Assets, total	5,126,635	5,126,635	—
(1) Accounts payable-trade	329,768	329,768	—
(2) Lease obligations (current)	673	678	4
(3) Accounts payable-other	195,833	195,833	—
(4) Income taxes payable	15,588	15,588	—
(5) Lease obligations (non-current)	2,017	2,023	5
Liabilities, total	543,882	543,892	10
Derivative transactions, total (*1)	21,385	21,385	—

(*1) 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 as the fair value since these are 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 as the fair value since these are 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 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 whose fair value is extremely difficult to determine

Lease and guarantee deposits (carrying value of 29,334 thousand yen) are not included in 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: Thousand 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	4,539,915	—	—	—
Accounts receivable-trade	148,081	—	—	—
Marketable securities				
Available-for-securities with maturities				
(1) Debt securities	300,000	—	—	—
Advances paid	99,036	—	—	—
Total	5,087,032	—	—	—

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

(Unit: Thousand 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)	673	—	—	—	—	—
Lease obligations (non-current)	—	682	692	642	—	—
Total	673	682	692	642	—	—

(Notes on investment and rental properties)

Not applicable.

(Notes on equity in earnings)

Not applicable.

(Notes on transactions with related parties)

Not applicable.

(Notes on per-share information)

(1) Net assets per share	254.71 yen
(2) Net loss per share	90.60 yen
Average number of shares outstanding during the year	19,130,825 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: Thousand 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)

1. Issuance of the 1st unsecured convertible bond with stock acquisition rights and the 29th series warrant

Based upon the resolution at the Company's Board of Directors' meeting held on December 27, 2012, the Company has issued the 1st unsecured convertible bond with stock acquisition rights and the 29th series warrant on January 15, 2013 and received the proceeds in the amount of 1,005,100 thousand yen on the same date. The following summarizes the details.

(1) Purpose of the issuance

The issuance was made to procure funds for technology development of the existing pipeline and implementation of new alternative technology, which help achieve steady growth in the value of the Company's business.

(2) Outline of the issuance

(i) The 1st unsecured convertible bond with stock acquisition rights

(1)The date of payment	January 15, 2013
(2)Total number of stock acquisition rights	40
(3)The issue price of convertible bond and stock acquisition rights	Issue price per convertible bond: 25 million yen (100 yen per par value of 100 yen) No cash payment required for stock acquisition rights associated with the convertible bond
(4)Number of potential dilutive shares	3,311,258 shares
(5)Amount of proceeds	1,000,000,000 yen
(6)Conversion price	302 yen
(7)Subscription or allotment (Allotted party)	The convertible bond with stock acquisition rights is allotted to the following party by third-party allotment: Wiz Healthcare PE Series 1 Investment Limited Liability Partnership 1,000,000,000 yen

(8) Coupon	The bond does not bear interest.
(9) Other	The preceding terms of subscription are conditional upon notification of such terms coming into force in accordance with the Financial Instruments and Exchange Act.

(ii) The 29th series warrant (stock acquisition rights)

(1) The date of allotment	January 15, 2013
(2) Total number of stock acquisition rights	50
(3) The issue price	Total 5,100,000 yen (102,000 yen per each stock acquisition right)
(4) Number of potential dilutive shares	1,326,250 shares
(5) Amount of proceeds	505,100,000 yen (detail) Issuance of stock acquisition rights 5,100,000 yen Exercise of stock acquisition rights 500,000,000 yen
(6) Exercise price	377 yen
(7) Subscription or allotment (Allotted party)	The warrant is allotted to the following party by third-party allotment: Wiz Healthcare PE Series 1 Investment Limited Liability Partnership 50 units
(8) Other	The preceding terms of subscription are conditional upon notification of such terms coming into force in accordance with the Financial Instruments and Exchange Act.

2. Issuance of new shares upon exercise of the 1st unsecured convertible bond with stock acquisition rights and the 29th series warrant

The stock acquisition rights of the 1st unsecured convertible bond, in the par amount of 450,000 thousand yen, were exercised by January 31, 2013 and 1,490,065 shares of common stock were newly issued.

In addition, 20 units of stock acquisition rights as the 29th warrant (26,525 shares equivalent per unit) were exercised by the end of January 2013 and 530,500 shares of common stock were newly issued.

As a result, capital stock and legal capital surplus amounted to 6,350,629 thousand yen and 6,320,629 thousand yen, respectively, with total number of shares outstanding of 21,151,465 shares as of January 31, 2013.

*The “Annual Report” and “Business Report” published on March 7, 2014 are the same document.