

March 7, 2014

Annual Report

(January 1, 2013 through December 31, 2013)

1. Business Performance of Symbio Pharmaceuticals Limited

(1) Business conditions and operating results

During the fiscal year ended December 31, 2013, the Japanese economy continued to recover mildly due to the impact of economic and financial policies leading to depreciation of the yen, rise in stock prices, and improvement in corporate revenues and employment. Overseas, while as a whole, the general tendency is that of recovery, there are causes for concern such as the prolonged sovereign debt crisis in Europe and slowdown in growth of the Chinese economy.

The pharmaceutical industry continued to face a severe business environment, especially for manufacturers of new drugs, even though there was no drug price revision this fiscal year, because of the political measures to reduce medical expenses including promotion of use of generic drugs and review of the medical system.

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®)]

Since December 2010, the Company has marketed the anticancer drug SyB L-0501 in Japan through its business partner Eisai Co., Ltd. (hereinafter “Eisai”), for the indications of refractory/relapsed indolent non-Hodgkin’s lymphoma and mantle cell lymphoma.

The Company has also carried out three clinical trials on TREAKISYM® for additional indications.

With respect to the Phase II clinical trial for the indications of previously untreated indolent non-Hodgkin’s lymphoma and mantle cell lymphoma, the last enrollment was completed in October 2013, and the study data are currently being analyzed and evaluated in preparation for submission. The application for approval in the EU has already been submitted by Astellas Pharma Europe, and is currently being reviewed by the European Medicines Agency (hereinafter “EMA”).

The Phase II clinical trial for the indication of chronic lymphocytic leukemia was initiated in May 2013, and favorable progress has been made with enrollment of patients.

In this connection, TREAKISYM® was designated an orphan drug (pharmaceutical for treatment of rare diseases) for the indication of chronic lymphocytic leukemia during June 2012.

Discussion about future approaches to development for refractory/relapsed aggressive non-Hodgkin's lymphoma is currently being continued with the Pharmaceuticals and Medical Devices Agency ("PMDA").

On the other hand, in the Phase II clinical trial on refractory/relapsed multiple myeloma, which was carried out as part of the expansion of indications, although a dose of 90 mg/m² TREAKISYM® was confirmed to be safe for Japanese patients on the basis of interim results, no patients were found to respond to this treatment, and it was judged that it would be very difficult to achieve the target response rate with TREAKISYM® monotherapy, even with inclusion of more patients in the study, so the study was discontinued.

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

The Japanese Phase I clinical trial of the anticancer drug SyB L-1101 (intravenous formulation) for the indication of refractory/relapsed myelodysplastic syndrome (MDS), a type of blood tumor, has been continued.

With respect to SyB C-1101 (oral formulation), the Japanese Phase I clinical trial for the intended indication of previously untreated MDS was initiated in March 2013.

[SyB D-0701]

The Phase II clinical trial of SyB D-0701, a transdermal antiemetic patch, for the indication of radiotherapy-induced nausea and vomiting was completed during January 2013. However, the expected results with respect to efficacy were not achieved.

(ii) Overseas

SyB L-0501 sold largely as planned in South Korea, Taiwan and Singapore. In Singapore and South Korea, we sell the product through Eisai, as we do in Japan, and the sales figures have been going up steadily.

(iii) Business results

As a result of the above, net sales totaled 1,532,054 thousand yen for the fiscal year ended December 31, 2013, primarily reflecting sales of SyB L-0501 in Japan and the other Asia Pacific territories. The net sales amount was decreased by 21.6% compared to the previous year by following review of the current market inventory level of

TREAKISYM®.

Selling, general and administrative expenses totaled 1,998,522 thousand yen (a year-on-year decrease of 12.9%), including research and development (“R&D”) expenses of 1,052,790 thousand yen (a year-on-year decrease of 26.8%) due to the accrual of expenses associated with the clinical trials for multiple indications for SyB L-0501, clinical trials for SyB L-1101 and SyB C-1101, as well as other selling, general and administrative expenses of 945,731 thousand yen (a year-on-year increase of 10.6 %).

As a result, operating loss of 1,680,528 thousand yen was recognized for the fiscal year ended December 31, 2013 (operating loss of 1,700,273 thousand yen for the previous fiscal year). In addition, recording of amount totaling 35,363 thousand yen as non-operating expenses, primarily comprising commissions and stock-issuance expenses, and amount totaling 114,467 thousand yen as non-operating income, primarily comprising foreign exchange gains, led to ordinary loss of 1,601,424 thousand yen (ordinary loss of 1,729,480 thousand yen for the previous fiscal year) and net loss of 1,605,224 thousand yen (net loss of 1,733,320 thousand yen for the previous fiscal year).

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.

(i) Fund procurement

The Company made a resolution on December 27, 2012 to issue the first 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). 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. Additionally, the stock acquisition rights of the 29th warrant were partially exercised and the paid-in amount of 199,998 thousand yen had been received by the end of January 2013.

The Company made a resolution on November 19, 2013 regarding the issuance of new shares and secondary offering of shares through a public offering and through a third party allotment. Accordingly, the payments of 2,503,744 thousand yen and 321,118 thousand yen had been completed on December 4, 2013 and December 25, 2013, respectively.

(ii) Capital investment

Not applicable.

Status of assets and 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 2010 The 6th Term	FY 2011 The 7th Term	FY 2012 The 8th Term	FY 2013 The 9th Term (current)
Net sales	1,449,972	1,882,521	1,955,178	1,532,054
Operating loss	(612,793)	(2,066,846)	(1,700,273)	(1,680,528)
Ordinary loss	(638,375)	(2,095,382)	(1,729,480)	(1,601,424)
Net loss	(642,307)	(2,104,513)	(1,733,320)	(1,605,224)
Net loss per share (yen)	(5,933.47)	(143.60)	(90.60)	(69.29)
Total assets	4,262,783	7,256,094	5,502,190	7,686,947
Net assets	4,083,064	6,605,564	4,899,957	7,432,996
Net assets per share (yen)	36,541.74	345.28	254.71	239.48

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

(3) Issues to be solved

The Company will solve the following important issues:

(i) Further expansion of pipeline

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

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

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

In order to enhance the enterprise value, it is critical to maximize returns from each drug under development by adding new indications for 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, Phase II clinical trials were completed for refractory/relapsed aggressive non-Hodgkin's lymphoma, and Phase II clinical trials are underway for untreated indolent non-Hodgkin's lymphoma, untreated mantle cell lymphoma and untreated chronic lymphocytic leukemia. Progress is being made with development of intravenous and oral rigosertib formulations for the indication of myelodysplastic syndrome. No useful therapeutic agents are currently available for this indication, so it is an area with very high unmet medical needs.

The Company will determine the domestic development strategy for SyB L-1011 (intravenous formulation), taking into account results of Phase III clinical trial for relapsed or refractory high risk MDS announced in February of this year by Onconova Therapeutics, Inc. (U.S.A., "Onconova"), and anticipated discussions between Onconova and U.S. Food and Drug Administration ("FDA"). We intend to continue the Phase I clinical trial that are currently in progress in Japan.

The aim for the future is to maximize the value of TREAKISYM® and rigosertib by further expansion of indications and by following through with life-cycle management.

(iii) Expansion to other Asian regions

The Company 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 in China, South Korea, Taiwan, and Singapore as well as Japan. We believe that significant medical needs exist for SyB L-0501 in these countries. We also plan to develop and market SyB L-1101/SyB C-1101 in South Korea other than Japan. We will aggressively launch clinical trials on these drugs and apply for marketing approvals in these Asian countries.

(iv) 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.

(v) 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.

(4) Major business activities (As of December 31, 2013)

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.

(5) Main offices and employees

(i) Main offices (As of December 31, 2013)

Name	Location
Main office	Minato-ku, Tokyo

(ii) Employees (As of December 31, 2013)

Classification	Number of employees	Increase or (decrease) from previous fiscal year end	Average age (years)	Average years of service
Male	48	3 decrease	50.2	4.3
Female	24	1 decrease	41.1	3.2
Total or average	72	4 decrease	47.2	4.0

(Notes) 1. Number of employees represents number of individuals in work.

2. Eight temporary employees are not included in the above number of employees.

(6) Status of parent company and significant subsidiaries

Not applicable.

(7) Status of main lenders (As of December 31, 2013)

Not applicable.

2. Matters related to stocks (As of December 31, 2013)

- (1) Total number of authorized shares Common stock 56,000,000 shares
- (2) Total number of shares outstanding Common stock 30,634,182 shares
 (Excluding 75 shares of
 treasury stock)
- (3) Number of shareholders 13,057
- (4) Major shareholders (10 largest ones)

Name of shareholders	Number of shares held	Shareholding ratio
Fuminori Yoshida	3,030,000	9.9%
Cephalon, Inc.	2,589,000	8.5%
JAFCO V2 Investment LP	1,843,900	6.0%
Eisai Co., Ltd.	833,400	2.7%
Waseda No.1 Investment LP	684,000	2.2%
SBI SECURITIES Co., Ltd.	549,400	1.8%
Waseda Global No.1 Investment LP	500,000	1.6%
GMO CLICK Securities, Inc.	473,800	1.5%
Japan Securities Finance Co., Ltd.	295,800	1.0%
TNP On the Road No1. Investment LP	254,000	0.8%

(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 held by the Company's Directors that were issued 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, 2013)

- Number of stock acquisition rights 2,920
- Number of shares to be issued upon exercise of stock acquisition rights 292,000
- 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)	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, 2013)

- Number of stock acquisition rights 3,445
- Number of shares to be issued upon 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)	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, 2013)

- 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 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	-	-	-

(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, 2013)

- 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 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)	1,420	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, 2013)

- 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 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)	3,000	300,000	2
Outside Directors	625	62,500	2
Audit & Supervisory Board Members	-	-	-

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

(As of December 31, 2013)

- Number of stock acquisition rights 1,160
- Number of shares to be issued upon exercise of stock 116,000

- acquisition rights
- 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)	855	85,500	2
Outside Directors	305	30,500	3
Audit & Supervisory Board Members	-	-	-

(Note) The new shares were issued through the public offering on December 4, 2013 and the third party allotment on December 25, 2013, at the paid-in amount less than 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

- (i) Stock acquisition rights granted by the resolution of the Ordinary General Meeting of Shareholders held on March 28, 2013 (The 31st series of stock acquisition rights)

- Number of stock acquisition rights 1,240
- Number of shares to be issued upon exercise of stock acquisition rights 124,000
- Amount paid for stock acquisition rights None
- Amount of asset to be invested at the exercise of each stock acquisition right (Note) 1 799 yen
- Period during which stock acquisition rights may be exercised From May 15, 2015
To May 14, 2023

- Conditions for the exercise of stock acquisition rights
 1. Fraction less than one unit of a stock acquisition right shall be un-exercisable.
 2. 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 May 15, 2015 to May 14, 2016.
 - b) Those who were granted the stock acquisition rights may exercise the rights within the limit of one-half (1/2) from May 15, 2016 to May 14, 2017.
 - c) Those who were granted the stock acquisition rights may exercise the rights within the limit of three-fourths (3/4) from May 15, 2017 to May 14, 2018.
 - d) Those who were granted the stock acquisition rights may exercise all the rights from May 15, 2018 to May 14, 2023.
 3. Those who received the allotment of the stock acquisition rights (hereinafter the “Holder”) 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 Holder 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 Holder is the employee of the Company or its affiliates and retires due to the compulsory retirement.
 - c) The Holder 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.
 4. The Holder 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).

5. In the event where;
 - a)The Holder died before the Exercise Period comes into effect, the inheritor shall exercise the rights of up to one-half (1/2), or
 - b)The Holder 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.
6. 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 shares	Number of holders
Employees of the Company	1,240 (Note) 2.	124,000 (Note) 2.	68

(Note) 1. The new shares were issued through the public offering on December 4, 2013 and the third party allotment on December 25, 2013, at the paid-in amount less than 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. Of the stock acquisition rights mentioned above, 84 units (8,400 shares) had been forfeited due to the retirement of employees.

- (3) Other important matters concerning stock acquisition rights
None to be reported.

4. The Company's Executives (As of December 31, 2013)

(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	Takashi Shimomura	Executive Vice President and Chief Financial Officer and Head of Corporate Division
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	
Full-time Audit & Supervisory Board Member	Koshi Ohizumi	
Audit & Supervisory Board Member	Saneaki Ichijo	
Audit & Supervisory Board Member	Chikara Shimazaki	

- (Note) 1. Of the Directors, Takako Ebata, Lowell Sears, George Morstyn and Milton Grannatt are Outside Directors.
2. Koshi Ohizumi, Saneaki Ichijo 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 Tokyo 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 Ichijo is an attorney (Partner at Anderson, Mori & Tomotsune) and has high insight on corporate legal affairs.
6. Audit & Supervisory Board Member Chikara Shimazaki is a Certified Public Accountant (Representative of Shimazaki accounting office) 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:
- Director Hiroki Maekawa resigned due to expiration of his term of office at the closing of the 8th Ordinary General Meeting of Shareholders held on March 28, 2013.
 - Each of Takashi Shimomura and Milton Grannatt was newly appointed and took office as a Director at the 8th Ordinary General Meeting of Shareholders held on March 28, 2013.
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 (thousands of yen)
Directors	7 (Outside: 4)	105,639 (Outside: 27,444)
Audit & Supervisory Board Members	3 (Outside: 3)	18,428 (Outside: 18,428)
Total	10 (Outside: 7)	124,067 (Outside: 45,873)

(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 thousand 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 80,000 thousand yen (of which, 22,000 thousand yen to Outside Directors) as compensations stipulated in Article 361, Section 1 of Companies Act at the 8th Ordinary General Meeting of Shareholders held on March 28, 2013.
3. The maximum amount of compensation for Audit & Supervisory Board Members has been resolved as the annual amount of 30,000 thousand 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 at the closing of the 8th Ordinary General Meeting of Shareholders held on March 28, 2013.
5. The total compensation amount paid includes expenses (six (6) Directors 36,805 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. Status of main activities during the fiscal year reported
Takako Ebata attended 16 out of 18 meetings (attendance rate: 88.9%) of the Board of Directors held during the fiscal year and spoke as needed.
- 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. 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 16 out of 18 meetings (attendance rate: 88.9%) of the Board of Directors held during the fiscal year and spoke as needed.
- 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 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 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. Status of main activities during the current fiscal year
George Morstyn attended all of 18 meetings (attendance rate: 100.0%) of the Board of Directors held during the fiscal year and spoke as needed.
- 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
Not applicable.
- 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 13 out of 14 meetings (attendance rate: 92.9%) of the Board of Directors held after his appointment on March 2013 and spoke as needed.
- 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) 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. Status of main activities during the current fiscal year
 - (1) Status of attendance at the Board of Directors meetings
Koshi Ohizumi attended all 18 meetings (attendance rate: 100.0%) of the Board of Directors held during the fiscal year and spoke as needed.
 - (2) Status of attendance at the Audit & Supervisory Board meetings
Koshi Ohizumi attended all 13 meetings (attendance rate: 100.0%) of the Audit & Supervisory Board held during the fiscal year and spoke as needed.
- 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: 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 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. Status of main activities during the current fiscal year
 - (1) Status of attendance at the Board of Directors meetings
Saneaki Ichijo attended 17 out of 18 meetings (attendance rate: 94.4%) of the Board of Directors held during the fiscal year and spoke as needed.
 - (2) Status of attendance at the Audit & Supervisory Board meetings
Saneaki Ichijo attended all 13 meetings (attendance rate: 100.0%) of the Audit & Supervisory Board held during the fiscal year and spoke as needed.
 - 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) 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. Status of main activities during the current fiscal year
 - (1) Status of attendance at the Board of Directors meetings
Chikara Shimazaki attended all 18 meetings (attendance rate: 100.0%) of the Board of Directors held during the fiscal year and spoke as needed.
 - (2) Status of attendance at the Audit & Supervisory Board meetings
Chikara Shimazaki attended all 13 meetings (attendance rate: 100.0%) of the Audit & Supervisory Board held during the fiscal year and spoke as needed.
 - 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. 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	18,500,000 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	26,550,000 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 commits to the accounting auditor with compensation, certain services (non-auditing services) regarding advice on Generally Accepted Accounting Principles in the U.S., other than services stipulated in Article 2 (1) of the Certified Public Accountants Act.

(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 legal and 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 of contributing to 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.

- (6) Corporate system for Directors and employees to report to corporate auditors; corporate system for other reports to corporate auditors and corporate system to ensure efficient performance of audits by corporate auditors
 - (i) 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.
 - (ii) 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.
 - (iii) 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.
 - (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, 2013)

(Unit: thousands of yen)

Item	Amount	Item	Amount
(Assets)		(Liabilities)	
Current assets	7,633,962	Current liabilities	250,941
Cash and deposits	6,163,231	Lease obligations	682
Marketable securities	1,100,270	Accounts payable-other	207,134
Merchandise and finished goods	125,056	Income taxes payable	22,554
Supplies	173	Other	20,569
Prepaid expenses	64,306		
Advances paid	87,862	Noncurrent liabilities	3,009
Consumption taxes receivable	32,552	Lease obligations	1,334
Forward exchange contracts	52,438	Provision for retirement benefits	1,675
Other	8,072	Total liabilities	253,950
		(Net assets)	
Noncurrent assets	52,985	Shareholders' equity	7,336,067
Property, plant and equipment	8,632	Capital stock	8,058,860
Buildings	7,705	Capital surplus	8,028,860
Tools, furniture and fixtures	33,921	Legal capital surplus	8,028,860
(Accumulated depreciation)	(32,994)	Retained earnings (deficits)	(8,751,636)
Intangible assets	7,789	Other retained earnings	(8,751,636)
Software	5,898	Retained earnings (deficits)	(8,751,636)
Lease assets	1,891	brought forward	(17)
Investments and other assets	36,562	Treasury stock	(17)
Long-term prepaid expenses	9,427	Valuation and translation adjustment	167
Lease and guarantee deposits	27,135	Valuation difference on available-for-sale securities	167
		Stock acquisition rights	96,761
		Total net assets	7,432,996
Total assets	7,686,947	Total liabilities and net assets	7,686,947

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

Statement of Operations

(From January 1, 2013
to December 31, 2013)

(Unit: thousands of yen)

Item	Amount	
I. Net sales		1,532,054
II. Cost of sales		1,214,061
Gross profit		317,993
III. Selling, general and administrative expenses		1,998,522
Operating loss		(1,680,528)
IV. Non-operating income		
Interest income	7,030	
Interest on securities	3,003	
Foreign exchange gain	97,593	
Dividends income of insurance	1,104	
Other	5,733	114,467
V. Non-operating expense		
Interest expenses	31	
Commission fee	10,734	
Stock issuance cost	23,383	
Bond-issue expenses	100	
Other	1,113	35,363
Ordinary loss		(1,601,424)
Loss before income tax		(1,601,424)
Income taxes – current	3,800	3,800
Net loss		(1,605,224)

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

Statement of Changes in Net Assets

(From January 1, 2013
to December 31, 2013)

(Unit: thousands of yen)

	Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings (deficits)		Treasury stock	Total shareholders' equity
		Legal capital surplus	Other retained earnings	Retained earnings (deficits) brought forward		
Balance at the beginning of the year	6,024,610	5,994,610		(7,146,411)	(17)	4,872,790
Changes of items during the year						
Issuance of new shares	2,034,250	2,034,250		—	—	4,068,501
Net loss	—	—		(1,605,224)	—	(1,605,224)
Net changes of items other than shareholders' equity	—	—		—	—	—
Total changes of items during the year	2,034,250	2,034,250		(1,605,224)	—	2,463,276
Balance at the end of the year	8,058,860	8,028,860		(8,751,636)	(17)	7,336,067

	Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total		
Balance at the beginning of the year	—	—	27,167	4,899,957
Changes of items during the year				
Issuance of new shares	—	—	—	4,068,501
Net loss	—	—	—	(1,605,224)
Net changes of items other than shareholders' equity	167	167	69,594	69,761
Total changes of items during the year	167	167	69,594	2,533,038
Balance at the end of the year	167	167	96,761	7,432,996

(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

Stock issuance costs are accounted for as expenses when incurred.

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, 2013, 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.

(Notes on balance sheet)

Not applicable.

(Notes on income statement)

R&D expenses included in general and administrative expenses 1,052,790 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 year	Increase	Decrease	At the end of the year
Common stock	Shares issued	19,130,900	11,503,357	-	30,634,257
	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 2,465,750 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:	(thousands of yen)
Excess depreciation for lump-sum depreciable assets	1,920
Excess depreciation for depreciable assets	501
Excess amortization for deferred assets	145,726
Research and development expenses	607,327
Account payable-other	14,536
Provision for retirement benefits	596
Enterprise tax payable	7,850
Asset retirement obligation	3,736
Share-based compensation expense	16,829
Loss carried forward	2,012,894
Subtotal	2,811,921
Valuation allowance	(2,811,921)
Total deferred tax assets	—
Deferred tax liabilities	
Valuation difference on available-for-sale securities	102
Total deferred tax liabilities	102
Net deferred tax liabilities	102

(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 three years after the fiscal year end.

(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 & Accounting, Corporate Planning Group 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, 2013, 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, 2013 are as follows.

(Unit: thousands of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	6,163,231	6,163,231	—
(2) Marketable securities	1,100,270	1,100,270	—
(3) Advances paid	87,862	87,862	—
(4) Consumption taxes receivable	32,552	32,552	—
Assets, total	7,383,915	7,383,915	—
(1) Lease obligations (current)	682	683	0
(2) Accounts payable-other	207,134	207,134	—
(3) Income taxes payable	22,554	22,554	—
(4) Lease obligations (non-current)	1,334	1,334	0
Liabilities, total	231,706	231,707	0
Derivative transactions, total (*)	52,438	52,438	—

(*) 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, (3) Advances paid and (4) 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.

(2) Marketable securities

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

Liabilities

(2) Accounts payable-other and (3) 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.

(1) Lease obligations (current) and (4) 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 27,135 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: 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	6,163,194	—	—	—
Marketable securities				
Available-for-sale securities with maturities				
Debt securities				
Corporate bonds	499,940	—	—	—
Other	600,330	—	—	—
Advances paid	87,862	—	—	—
Total	7,351,326	—	—	—

(Note) 4. Maturities of lease obligations after the 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)	682	—	—	—	—	—
Lease obligations (non-current)	—	692	642	—	—	—
Total	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	239.48 yen
(2) Net loss per share	(69.29) yen
Average number of shares outstanding during the year	23,167,804 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.

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