February 9, 2018

Summary of Consolidated Financial Results for the Fiscal Year ended December 31, 2017 (JGAAP)

Listed company's name: RaQualia Pharma Inc.
Listed on: Tokyo Stock Exchange (TSE)
Stock code: 4579
URL: http://www.raqualia.com/
Representative: Naoki Tani, President and CEO
Contact: Kiichiro Kawada, Director and Executive Vice President (TEL) +81-52-446-6100
Scheduled date of general meeting of shareholders: March 29, 2018
Scheduled date of dividend payment: —
Scheduled date of filing of securities report: March 30, 2018
Supplementary documents for financial results: Yes
Financial results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen.)

1. Consolidated financial results for the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(1) Consolidated operating results

(Percentage figures represent changes from the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	million yen	%	million yen	%	million yen	%	million yen	%
December 31, 2017	1,419	–	(150)	–	(80)	–	(58)	–
December 31, 2016	–	–	–	–	–	–	–	–

Note: Comprehensive income Fiscal year ended December 31, 2017: (100) million yen [–%]
Fiscal year ended December 31, 2016: – million yen [–%]

	Earnings per share (Basic)	Earnings per share (Diluted)	Profit/equity	Ordinary profit/ total assets	Operating profit/ net sales
Fiscal year ended	yen	yen	%	%	%
December 31, 2017	(2.99)	–	(1.32)	(1.74)	(10.6)
December 31, 2016	–	–	–	–	–

Reference: Share of (profit) loss of entities accounted for using equity method:
Fiscal year ended December 31, 2017: – million yen
Fiscal year ended December 31, 2016: – million yen

Note: Figures for the fiscal year ended December 31, 2016 and year-on-year changes are not presented as the Company began preparing consolidated financial statements in the fiscal year ended December 31, 2017.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
December 31, 2017	5,064	4,887	96.2	240.00
December 31, 2016	–	–	–	–

Reference: Equity As of December 31, 2017: 4,870 million yen As of December 31, 2016: – million yen

Note: Figures for the fiscal year ended December 31, 2016 are not presented as the Company began preparing consolidated financial statements in the fiscal year ended December 31, 2017.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	million yen	million yen	million yen	million yen
December 31, 2017	(307)	533	1,007	2,473
December 31, 2016	–	–	–	–

Note: Figures for the fiscal year ended December 31, 2016 are not presented as the Company began preparing consolidated financial statements in the fiscal year ended December 31, 2017.

2. Dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended December 31, 2016	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ended December 31, 2017	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ending December 31, 2018 (forecast)	–	0.00	–	0.00	0.00		–	

3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(Percentage figures represent changes from the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2018	1,388	(2.2)	(698)	–	(680)	–	(686)	–	(33.84)

Note: As the Company conducts performance management on an annualized basis, forecasts of results over a six-month period are not presented.

*** Notes**

(1) Changes in significant subsidiaries during the fiscal year ended December 31, 2017 (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

Newly included: 1 company TMRC Co., Ltd.

(2) Changes in accounting policies, changes in accounting estimates, and restatements of prior financial statements

a. Changes in accounting policies due to the revisions to accounting standards and other regulations: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

(3) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2017	20,295,236 shares
As of December 31, 2016	18,767,200 shares

b. Total number of treasury shares at the end of the period

As of December 31, 2017	50 shares
As of December 31, 2016	– shares

c. Average number of outstanding shares during the period

For the fiscal year ended December 31, 2017	19,423,317 shares
For the fiscal year ended December 31, 2016	18,767,200 shares

(Reference) Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(1) Non-consolidated operating results

(Percentage figures represent changes from the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	million yen	%	million yen	%	million yen	%	million yen	%
December 31, 2017	1,362	93.2	(114)	–	(44)	–	(27)	–
December 31, 2016	705	384.7	(759)	–	(720)	–	(728)	–

	Earnings per share (Basic)	Earnings per share (Diluted)
Fiscal year ended	yen	yen
December 31, 2017	(1.42)	–
December 31, 2016	(38.80)	–

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
December 31, 2017	5,091	4,917	96.2	241.47
December 31, 2016	4,019	3,788	93.9	201.06

Reference: Equity As of December 31, 2017: 4,900 million yen As of December 31, 2016: 3,773 million yen

2. Forecasts of non-consolidated financial results for the fiscal year ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(Percentage figures represent changes from the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2018	1,369	0.5	(618)	–	(600)	–	(606)	–	(29.89)

Note: As the Company conducts performance management on an annualized basis, forecasts of results over a six-month period are not presented.

*** Financial results reports are not required to be audited.**

*** Appropriate use of financial forecasts and other special remarks**

(Caution concerning forward-looking statements)

Forward-looking statements provided in this document, including financial forecasts, are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future achievement. Actual results, etc. may differ materially from the forecasts depending on various factors.

(Method of accessing supplementary documents for financial results and details of financial results briefing)

The Company plans to hold a financial results briefing for institutional investors and securities analysts on Thursday, February 15, 2018.

The Company plans to post the documents used at the briefing on its website promptly after the briefing is held.

Contents of attachment

1. Overview of consolidated operating results and others

Year-on-year comparison and analysis are not performed as the Group began preparing consolidated financial statements in the fiscal year under review.

(1) Overview of consolidated operating results for the fiscal year under review

1) Consolidated operating results for the fiscal year under review

Overall trend

During the fiscal year under review, the Japanese economy achieved seven consecutive quarters of GDP growth thanks to a strong export growth, a recovery of personal consumption fueled by higher demand for replacing consumer electronics, etc., and labor-saving-oriented corporate investment, despite rising foreign exchange risks from uncertainty about the Trump administration's policy implementation in the U.S. and the current North Korea situation. The Japanese economy also started to eye the path toward overcoming deflation in line with the aim of the government and the Bank of Japan.

In the pharmaceutical sector, domestic pharmaceutical companies actively sought to buy or sell mainly long-listed drug products or businesses, pursuing business restructuring, with a focus on products whose patents had expired. The movements toward becoming specialty pharmaceutical companies specializing in the fields of specific disease and establishing carve-out ventures have a non-negligible effect on the licensing-out activities of drug discovery venture companies such as the Company.

Against this backdrop, the Company pushed ahead with research and development and sales activities, aiming to continuously generate compounds developed as pharmaceuticals, to expand its research and development portfolio, and to license out developed compounds. As a result, the Company entered into a license agreement with Maruho Co., Ltd. ("Maruho") regarding a selective sodium channel blocker during the fiscal year under review. The Company was also able to make an agreement with CJ HealthCare Corporation (South Korea) ("CJ HealthCare (South Korea)") regarding tegoprazan, a potassium-competitive acid blocker, to expand license territory to Rest of World (ROW), specifically Latin America (e.g., Mexico and Brazil), East European countries including Russia, and the Middle East (e.g., Arab countries and Israel).

As for the status at our licensees, the Company has steadily increased the sales of Galliprant®, a pain management compound for dog osteoarthrosis licensed out to Aratana Therapeutics Inc. (U.S.) ("Aratana (U.S.)"), since the product launch in the U.S. in January 2017 thanks to the strong sales network of its strategic partner Elanco Animal Health (U.S.) ("Elanco (U.S.)," an animal pharmaceutical division of Eli Lilly and Company). The Company has also steadily increased the sales of Entyce®, a ghrelin receptor agonist licensed out to Aratana (U.S.), which was launched in the U.S. in October 2017. In addition, application for approval of tegoprazan licensed out to CJ HealthCare (South Korea) was submitted to South Korea's Ministry of Food and Drug Safety ("MFDS") in August 2017. After completion of the new drug approval procedure and listing in that country's National Health Insurance Service drug price list, tegoprazan is scheduled to be launched in December 2018. Meanwhile, the Company has reviewed its portfolio, and decided to terminate the agreements for EP4 antagonist licensed out to Maruishi Pharmaceutical Co., Ltd., and 5-HT_4 partial agonist licensed out to CJ HealthCare (South Korea) after conferring on the development policies with the respective companies and giving comprehensive consideration to the matter. In regard to 5-HT_4 partial agonist, the Company is considering starting in-house development and is conducting activities to maximize value, including a search for new licensees.

On the collaborative research front, the Company recorded a lump-sum payment associated with a milestone achievement in collaborative research with Asahi Kasei Pharma Corporation ("Asahi Kasei Pharma") in July 2017. The Collaborative research project with Asahi Kasei Pharma is continuing, and collaborative research projects with Interprotein Corporation, and XuanZhu Pharma Co., Ltd. (China) are also making good progress. The collaborative research agreement with EA Pharma Co., Ltd. ("EA Pharma") expired in April 2017. However, the development of compounds created as a result of this collaborative research is still being conducted by EA Pharma. Even after the expiration of the agreement, the Company continues to have relevant rights.

As for industry-academia collaboration, the Company has conducted collaborative research since August 2011 on the "Assessment of Novel Therapeutic Mechanisms for Urologic Disease" together with the Department of Continence Medicine at the University of Tokyo Graduate School of Medicine (Yasuhiko Igawa, Professor and Chair), and extended this research

collaboration agreement by one more year so that the two parties can continue joint exploration, including investigation into TRPM8 blocker compounds (RQ-00434739) for potential applications in the urology fields.

In February 2017, the Company made TMRC Co., Ltd. ("TMRC") a wholly owned subsidiary company by share exchange. TMRC is a bio venture specializing in the fields of cancer and rare disease, and is mainly engaged in out-licensing TM-411 (generic name: Tamibarotene) in-licensed from Toko Pharmaceutical Industries Co., Ltd. to Syros Pharmaceuticals, Inc. (headquarters: Massachusetts, U.S.). Through making TMRC a subsidiary, the Company is able to use TMRC's know-how on research and development, and licensing activities relating to new treatment drugs in the fields of cancer and rare disease, and the Company will aim to expand its business domains by conducting research and development and licensing activities based on new mechanisms of action created in academia.

Accordingly, financial results for the fiscal year ended December 31, 2017, the reporting period, were as follows. Business revenue for the period was 1,419 million yen, operating loss totaled 150 million yen, ordinary loss totaled 80 million yen, and loss attributable to owners of parent was 58 million yen. Total business expenses were 1,569 million yen, of which 144 million yen in royalty payments was recorded under cost of business revenue. Moreover, research and development expenses were 848 million yen and other selling, general and administrative expenses totaled 571 million yen.

Research and development activities

Research and development expenses of the Company during the fiscal year ended December 31, 2017 were 848 million yen. The main components of these activities were as follows:

<RaQualia's research and development and collaborative research>

(A) Exploratory and discovery phase

The Company carries out two projects having different characteristics to evaluate a selective sodium channel blocker compound for indications such as inflammatory pain and neuropathic pain. In one of the two projects, the Company has completed exploratory toxicity studies on development candidate compounds and found that there were no problematic findings observed. As a result, the Company made a license agreement with Maruho in December 2017. Maruho will be developing curative medicines that use these compounds as active components. In the other project, the Company has discovered multiple lead compounds and started the investigation of preclinical efficacy.

The Company continued collaborative research with three companies.

Company	Start date	Content
Interprotein Corporation	February 2013	Collaboration on a specific protein-protein interaction (PPI) inhibitor for pain treatments
XuanZhu Pharma Co., Ltd.	December 2015	Collaboration on a specific ion channel target for pain treatments
Asahi Kasei Pharma Corporation	January 2016	Collaboration on a specific ion channel target for pain treatments

(B) Preclinical development phase

a) Ghrelin receptor agonist (RQ-00433412)

The compound is under development for cancer-related anorexia/cachexia syndrome. The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

b) TRPM8 blocker compounds (RQ-00434739)

The compound is under development for neuropathic pain (chemotherapy-induced cold allodynia). The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

c) Motilin receptor agonist (RQ-00201894)

The compound is under development for gastroparesis, functional dyspepsia and post-operative ileus. The Company has completed the preclinical studies, including *in vivo* pharmacology studies, metabolism and pharmacokinetics studies, toxicity studies (GLP) and safety pharmacology studies (GLP), which were the prerequisite studies for Phase I clinical trials. So far, the Company has not detected any inadequacy for moving on to the next clinical development stage.

(C) Clinical development phase

a) 5-HT_4 partial agonist (RQ-00000010)

The compound is under development for gastroparesis, functional dyspepsia and chronic constipation. In August 2016, Virginia Commonwealth University, Parkinson's and Movement Disorders Center ("VCU") of the United States, a research partner of the Company, launched investigator-initiated clinical trials of the

compound. These trials, while obtaining a research grant from The Michael J. Fox Foundation for Parkinson's Research, are currently under way as a clinical research program aimed to examine the safety and efficacy of the compound for managing gastroparesis, a complication of Parkinson's disease patients.

b) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)

The compound is under development for gastro-esophageal reflux disease (RE/NERD), and the Company completed the Phase I clinical trials in Japan, following those in the U.S. Utilizing data on clinical trials in South Korea where development has been underway, we will continue consultations toward licensing out the compound.

c) 5-HT_{2B} antagonist (RQ-00310941)

For the compound, which is under development for irritable bowel syndrome with diarrhea (IBS-D), the Company launched the Phase I clinical trials for the first administration of the compound to human (involving healthy adults and patients) in July 2015 in U.K., and it has completed the administration to subjects. Currently, the data is being analyzed.

<Status of development at licensee corporation>

a) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)

The compound is under development primarily for gastro-esophageal reflux disease (RE/NERD) by CJ HealthCare (South Korea), and that company applied to MFDS for approval in August 2017. After it passes the new-drug approval procedure and gets listed in that country's National Health Insurance Service drug price list, it is scheduled to be launched in December 2018. Meanwhile, development is continuing smoothly in China and in December 2017, the Company entered into an agreement with CJ HealthCare (South Korea) to expand license territory to Rest of World (ROW), specifically Latin America (e.g., Mexico and Brazil), East European countries including Russia, and the Middle East (e.g., Arab countries and Israel).

b) Serotonin 5-HT_{2A} and dopamine D2 receptor blocker (ziprasidone)

The compound is under development for schizophrenia by Meiji Seika Pharma Co., Ltd., and is undergoing Phase III clinical trials in Japan. The agent has been marketed in 75 countries by Pfizer Inc. in the U.S., and is listed as a first-line drug in the U.S. Treatment Guidelines.

c) EP4 antagonist (Galliprant®, RQ-00000007, AT-001, grapiprant)

The compound was developed for pain management for pets by our licensee, Aratana (U.S.). In January 2017, the Company started selling it in the U.S. through Aratana (U.S.) and Elanco (U.S.). In Europe, the compound is now under application with the European Medicines Agency (EMA) for approval for sales and approval is expected to be obtained in 2018.

d) Ghrelin receptor agonist (Entyce®, RQ-00000005, AT-002, capromorelin)

The compound was developed for anorexia management for pets by Aratana (U.S.) and was launched for sale in October 2017 by Aratana (U.S.).

While continuing the program to develop the compound as a cat anorexia management drug, Aratana (U.S.) launched long-term toxicity studies on cats in December 2016.

e) EP4 antagonist (RQ-00000007, AAT-007, grapiprant)

Preparations are currently underway at a licensee of AskAt Inc. ("AskAt") for implementing clinical trials.

f) Cyclooxygenase-2 (COX-2) inhibitor (RQ-00317076, AAT-076)

Preparations are currently underway at a licensee of AskAt for implementing clinical trials.

g) Selective sodium channel blocker

The compound was licensed out to Maruho in December 2017. Maruho will continue to develop this compound.

2) Outlook for the fiscal year ending December 31, 2018

Looking ahead to the next fiscal year (the fiscal year ending December 31, 2018), on the business front, the Company will work steadily to secure profits by licensing out development compounds and managing alliances. On the research and development front, the Company will promote alliances and collaborative research with pharmaceutical companies and others through the advancement of projects at the exploratory and development phases, and thus enhance its corporate value.

On the revenue front, under the out-licensing agreement entered into by and between the Company and Aratana (U.S.), the Company will obtain from Aratana (U.S.) a certain amount of milestone payment if certain terms of the agreement are attained, and it will also obtain royalty corresponding to Aratana's sales of Galliprant® and Entyce® in the U.S. Moreover, with respect to the collaborative research project with Asahi Kasei Pharma, the Company will obtain research collaboration fund from Asahi Kasei Pharma, and if certain results are attained, the Company will also obtain a milestone payment. As for tegoprazan, licensee CJ HealthCare (South Korea) has applied for approval for tegoprazan in South Korea and is currently preparing for a clinical trial process in China and ROW, and if the terms of the agreement are attained, the

Company will obtain milestone payment. In addition, while considering in-house development of medicinal drug compound candidates, including those in the exploratory and discovery phase, the Company aims to partner with pharmaceutical companies via out-licensing agreements.

As for the outlook of consolidated financial results for the fiscal year ending December 31, 2018, the Company forecasts business revenue of 1,388 million yen, operating loss of 698 million yen, ordinary loss of 680 million yen and loss attributable to owners of parent of 686 million yen.

The forecast figures presented above are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future achievement. Actual results, etc., may differ materially from the forecasts depending on various factors. The outlook for fiscal 2018 is based on the following assumptions. The Company assumes that each of the collaborative research projects will progress as expected, that Aratana (U.S.), the licensee, will commence sales of Galliprant® in Europe and that CJ HealthCare (South Korea) will obtain manufacturing and sales approval for tegoprazan in South Korea and launch sales there. The Company also assumes that progress in clinical trials in China will be made. Thus, actual results may differ from the financial forecast depending on the status of approval process. In the case where the Company acknowledges the need to revise the financial forecast, it will disclose such information promptly.

(2) Overview of consolidated financial position for the fiscal year under review

1) Status of assets, liabilities and net assets

Assets

Total assets as of December 31, 2017 were 5,064 million yen. The major components were 2,268 million yen in cash and deposits, 448 million yen in accounts receivable - trade, and 1,503 million yen in investment securities.

Liabilities

Total liabilities as of December 31, 2017 were 176 million yen. The major components were 63 million yen in accounts payable - other, 43 million yen in accrued expenses, and 20 million yen in income taxes payable.

Net assets

Total net assets as of December 31, 2017 were 4,887 million yen. The major components were 2,741 million yen in capital stock, 2,931 million yen in capital surplus, and negative 785 million yen in retained earnings. The equity ratio was 96.2%.

2) Overview of cash flows for the fiscal year under review

The balance of cash and cash equivalents ("cash") as of December 31, 2017 amounted to 2,473 million yen, an increase of 1,229 million yen compared with the beginning of the fiscal year under review.

The respective cash flows in the fiscal year under review and the factors thereof are as follows.

Cash flows from operating activities

Net cash used in operating activities was 307 million yen. This is mainly attributable to the recording of loss before income taxes of 59 million yen, depreciation of 85 million yen, interest and dividend income received of 40 million yen, and increase in notes and accounts receivable - trade of 380 million yen.

Cash flows from investing activities

Net cash provided by investing activities was 533 million yen. This is primarily due to the proceeds from withdrawal of time deposits of 340 million yen, proceeds from sales of investment securities of 1,096 million yen, purchase of investment securities of 719 million yen, and purchase of securities of 110 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 1,007 million yen. This is primarily due to the proceeds from issuance of shares resulting from exercise of subscription rights to shares of 996 million yen.

(Reference) Trend in cash flow-related indicators

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Equity ratio (%)	85.9	89.6	94.8	93.9	96.2
Market value equity ratio (%)	138.9	125.3	132.69	184.90	941.78
Interest-bearing debt to cash flow ratio (years)	–	–	–	–	–
Interest coverage ratio (factor)	–	–	–	–	–

Equity ratio: equity / total assets

Market value equity ratio: market capitalization / total assets

Interest-bearing debt to cash flow ratio: interest-bearing debt / cash flow

Interest coverage ratio: cash flow / paid interest

Notes: 1. Figures are obtained from the non-consolidated financial statements for the fiscal year ended December 31, 2015 and the fiscal year ended December 31, 2016 and from the consolidated financial statements for other fiscal years.

2. Interest-bearing debt to cash flow ratio and interest coverage ratio are not provided since operating cash flow was a minus figure.

(3) Basic policy on profit distribution and dividends for fiscal years 2017 and 2018

The Company is a bio venture company specializing in drug discovery research. Therefore, looking forward, the Company must continually conduct research and development activities. In view of this, we have decided to concentrate on securing internal reserves and to attach priority on securing funds for the continuation of research and development activities without paying dividends. Therefore, because we presently remain in a situation where we continue to record a loss, we have not carried out profit distributions. Since we expect to also record a loss in the next fiscal year, we plan not to carry out profit distributions in that fiscal year.

Nevertheless, we consider the distribution of profits to shareholders to be an important management issue, and we intend to make future profit distributions a continual consideration.

2. Basic rationale for selecting the accounting standard

The Group has adopted Japanese accounting standards to ease the cost, etc., of parallel disclosure of reporting under both Japanese accounting standards and international financial reporting standards (IFRS).

As for the future, we intend to further the consideration on application of IFRS in light of the change in the ratio of foreign shareholders and trends in the application of IFRS by domestic sector peer companies.

3. Consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2017
Assets	
Current assets	
Cash and deposits	2,268,024
Accounts receivable - trade	448,738
Securities	328,957
Supplies	5,153
Advance payments - trade	189,743
Prepaid expenses	62,150
Other	19,631
Total current assets	3,322,398
Non-current assets	
Property, plant and equipment	
Buildings	142,462
Tools, furniture and fixtures	488,193
Accumulated depreciation	(414,975)
Total property, plant and equipment	215,680
Intangible assets	
Trademark right	4,945
Software	4,383
Other	626
Total intangible assets	9,955
Investments and other assets	
Investment securities	1,503,443
Long-term prepaid expenses	2,126
Other	10,584
Total investments and other assets	1,516,154
Total non-current assets	1,741,790
Total assets	5,064,188

(Thousands of yen)

	As of December 31, 2017
Liabilities	
Current liabilities	
Accounts payable - trade	1,984
Accounts payable - other	63,365
Accrued expenses	43,997
Income taxes payable	20,691
Accrued consumption taxes	13,907
Advances received	1,101
Deposits received	3,716
Total current liabilities	148,763
Non-current liabilities	
Asset retirement obligations	11,743
Deferred tax liabilities	15,730
Total non-current liabilities	27,474
Total liabilities	176,237
Net assets	
Shareholders' equity	
Capital stock	2,741,249
Capital surplus	2,931,032
Retained earnings	(785,652)
Treasury shares	(21)
Total shareholders' equity	4,886,607
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	(15,826)
Total accumulated other comprehensive income	(15,826)
Subscription rights to shares	17,168
Total net assets	4,887,950
Total liabilities and net assets	5,064,188

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2017
Business revenue	1,419,195
Business expenses	
Cost of business revenue	149,534
Research and development expenses	848,516
Other selling, general and administrative expenses	571,555
Total business expenses	1,569,607
Operating loss	(150,411)
Non-operating income	
Interest income	3,541
Interest on securities	35,271
Foreign exchange gains	700
Subsidy income	44,072
Other	1,078
Total non-operating income	84,665
Non-operating expenses	
Share issuance cost	12,919
Loss on valuation of compound financial instruments	1,810
Other	100
Total non-operating expenses	14,829
Ordinary loss	(80,575)
Extraordinary income	
Gain on sales of investment securities	17,647
Gain on bargain purchase	3,278
Total extraordinary income	20,926
Extraordinary losses	
Loss on sales of investment securities	199
Total extraordinary losses	199
Loss before income taxes	(59,848)
Income taxes - current	2,982
Income taxes - deferred	(4,707)
Total income taxes	(1,725)
Loss	(58,122)
Profit attributable to non-controlling interests	–
Loss attributable to owners of parent	(58,122)

Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2017
Loss	(58,122)
Other comprehensive income	
Valuation difference on available-for-sale securities	(42,010)
Total other comprehensive income	(42,010)
Comprehensive income	(100,132)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(100,132)
Comprehensive income attributable to non-controlling interests	–

(3) Consolidated statement of changes in equity

Fiscal year ended December 31, 2017

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,237,588	2,237,588	(727,530)	—	3,747,646
Changes of items during period					
Increase by share exchanges		189,783			189,783
Issuance of new shares	503,661	503,661			1,007,322
Purchase of treasury shares				(21)	(21)
Loss attributable to owners of parent			(58,122)		(58,122)
Net changes of items other than shareholders' equity					
Total changes of items during period	503,661	693,444	(58,122)	(21)	1,138,961
Balance at end of current period	2,741,249	2,931,032	(785,652)	(21)	4,886,607

	Accumulated other comprehensive income		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of current period	26,183	26,183	14,785	3,788,615
Changes of items during period				
Increase by share exchanges				189,783
Issuance of new shares				1,007,322
Purchase of treasury shares				(21)
Loss attributable to owners of parent				(58,122)
Net changes of items other than shareholders' equity	(42,010)	(42,010)	2,383	(39,626)
Total changes of items during period	(42,010)	(42,010)	2,383	1,099,335
Balance at end of current period	(15,826)	(15,826)	17,168	4,887,950

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2017
Cash flows from operating activities	
Loss before income taxes	(59,848)
Depreciation	85,785
Interest income	(3,541)
Interest income on securities	(35,271)
Foreign exchange losses (gains)	7,463
Subsidy income	(44,072)
Loss (gain) on valuation of compound financial instruments	1,810
Gain on bargain purchase	(3,278)
Loss (gain) on sales of investment securities	(17,448)
Decrease (increase) in notes and accounts receivable - trade	(380,972)
Decrease (increase) in inventories	1,972
Increase (decrease) in notes and accounts payable - trade	1,984
Decrease (increase) in advance payments	15,493
Decrease (increase) in prepaid expenses	(6,282)
Increase (decrease) in accounts payable - other	(19,930)
Decrease (increase) in consumption taxes refund receivable	18,123
Other, net	48,144
Subtotal	(389,870)
Interest and dividend income received	40,659
Proceeds from subsidy income	44,072
Income taxes paid	(2,296)
Net cash provided by (used in) operating activities	(307,434)
Cash flows from investing activities	
Proceeds from withdrawal of time deposits	340,462
Purchase of securities	(110,049)
Purchase of property, plant and equipment	(87,509)
Purchase of intangible assets	(940)
Purchase of investment securities	(719,750)
Proceeds from sales of investment securities	1,096,847
Proceeds from redemption of investment securities	15,000
Other, net	(259)
Net cash provided by (used in) investing activities	533,800
Cash flows from financing activities	
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	996,382
Proceeds from issuance of subscription rights to shares	10,960
Purchase of treasury shares	(21)
Net cash provided by (used in) financing activities	1,007,321
Effect of exchange rate change on cash and cash equivalents	(4,260)
Net increase (decrease) in cash and cash equivalents	1,229,426
Cash and cash equivalents at beginning of period	1,244,490
Cash and cash equivalents at end of period	2,473,916

(5) Notes to consolidated financial statements

Notes on premise of going concern

No items to report.

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation
   Number of consolidated subsidiaries: 1
   Name of consolidated subsidiary: TMRC Co., Ltd.

2. Balance sheet date of consolidated subsidiary
   The balance sheet date of the consolidated subsidiary is the same as the consolidated balance sheet date.

3. Accounting policies
   (1) Valuation bases and methods of significant assets
      1) Securities
         i) Held-to-maturity securities
            Stated at amortized cost (straight-line method).
         ii) Available-for-sale securities
            Securities with readily determinable fair value
            Stated at fair value based on the market price as of the consolidated balance sheet date (valuation differences are recognized in net assets and the cost of sales is calculated by the moving-average method).
            Note however that available-for-sale securities denominated in foreign currencies are translated into Japanese yen using the spot exchange rate as of the consolidated balance sheet date and the translation differences are treated as valuation differences. Valuation differences are recognized in net assets.
      2) Inventories
         Supplies
         Stated at cost using the last purchase cost method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).
   (2) Depreciation and amortization of significant depreciable and amortizable assets
      1) Property, plant and equipment
         Depreciated by the declining balance method.
         Note however that facilities attached to buildings acquired on and after April 1, 2016, and buildings are depreciated by the straight-line method.
         The main useful lives are as follows:
         Facilities attached to buildings 8 to 15 years
         Tools, furniture and fixtures 4 to 6 years
      2) Intangible assets
         Amortized by the straight-line method.
         Software for internal use is amortized by the straight-line method over the internally estimated useful life (5 years).
      3) Long-term prepaid expenses
         Amortized by the straight-line method.
   (3) Accounting for deferred assets
      Share issuance cost The whole amount is treated as expenses when incurred.
   (4) Criteria for translating assets or liabilities denominated in foreign currencies into Japanese currency
      Monetary claims and liabilities denominated in foreign currencies are translated into Japanese yen using the spot exchange rate as of the consolidated balance sheet date, and translation differences are included in gains or losses.
   (5) Scope of cash and cash equivalents in consolidated statements of cash flows
      Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.
   (6) Other significant matters for preparing the consolidated financial statements
      Accounting for consumption taxes
      Consumption taxes and local consumption taxes are accounted for based on the tax exclusion method.

Additional information

Effective from the fiscal year ended December 31, 2017, the Company has applied “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

Segment information, etc.

[Segment information]
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

[Related information]
For the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

1. Information by products and services
   This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

2. Information by geographic area
   (1) Net sales

(Thousands of yen)

U.S.A.	Japan	Asia	Others	Total
817,706	470,539	130,950	–	1,419,195

Note: Net sales are classified into countries or regions based on customers' location.

   (2) Property, plant and equipment
   Not applicable as the Company does not have property, plant or equipment located overseas.

3. Information by major customer

(Thousands of yen)

Name of customer	Net sales
Aratana Therapeutics Inc.	767,230
Company A	300,000
Company B	150,000

Note: As collaborative research and development agreements contain confidentiality clauses, the company names will not be disclosed.

[Information on amortization and unamortized balance of goodwill by reportable segment]
For the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)
No items to report.

[Information on gain on bargain purchase by reportable segment]
For the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)
This information is omitted.

Per share information

	Fiscal year ended December 31, 2017
Net assets per share (Yen)	240.00
Basic earnings (loss) per share (Yen)	(2.99)

Notes: 1. Diluted earnings per share are not described here because, although there are potentially dilutive shares, basic loss per share was recorded.
2. The basis for calculation of net assets per share is as follows:

	As of December 31, 2017
Total net assets (Thousands of yen)	4,887,950
Amount to be deducted from total net assets (Thousands of yen)	17,168
[Subscription rights to shares included therein] (Thousands of yen)	[17,168]
Amount of net assets at the end of period related to common shares (Thousands of yen)	4,870,781
Number of common shares at the end of period used in calculation of net assets per share (Shares)	20,295,236

3. The basis for calculation of basic loss per share is as follows:

	Fiscal year ended December 31, 2017
Amount of loss (Thousands of yen)	(58,122)
Amount not attributable to common shareholders (Thousands of yen)	–
Amount of loss related to common shares (Thousands of yen)	(58,122)
Average number of outstanding shares during the period (Shares)	19,423,317
Summary of potential shares that are not included in calculation of diluted earnings per share due to a lack of dilution effect	3rd series share options; 5th series share options; 7th series share options (134,209 common shares)

Significant subsequent event

The Company resolved at the meeting of its Board of Directors held on January 29, 2018 to establish a joint venture company with ZTE Coming Biotech Co., Ltd. (headquarters: Shanghai, China) ("ZTE Biotech") and it concluded an agreement relating to the establishment of the joint venture company on the same date.

(1) Purpose of establishment

Currently in China, amid sweeping regulatory reform taking place regarding the promotion of research and development into new drugs, the Chinese government and institutional investors from around the world are busily investing in this field. In response, the Company has decided to establish a new joint venture company in China, conduct drug development and aim to bring new drugs to market.

(2) Name, business description, and business size of the company to be established

(i) Name of company: To be determined
(ii) Business description: Research and development of pharmaceuticals
(iii) Business size: To be determined

(3) Outline of joint venture partner

(i) Name	ZTE Coming Biotech Co., Ltd. (中兴康宁生物科技有限公司)
(ii) Location	Shanghai City
(iii) Representative	Wu Yemin (CEO)
(iv) Business description	Research and development of pharmaceuticals
(v) Established	2014
(vi) Major shareholder and shareholding ratio	Zhongxing Environmental Protection Group Co. Ltd 49%

(4) Date of establishment

May 2018 (Scheduled)

(5) Number of shares to be acquired, acquisition price, and ownership ratio after acquisition

(i) Number of shares: To be determined
(ii) Acquisition price: To be determined
(iii) Ownership ratio after acquisition: ZTE Biotech 65%
The Company 35%