May 11, 2012

Summary of Financial Results for the 1Q ended March 31, 2012 (JGAAP) (Non-consolidated)

Listed company's name: RaQualia Pharma Inc.
Listed on: Osaka Stock Exchange
Stock code: 4579
URL http://www.raqualia.co.jp/
Representative: Atsushi Nagahisa, President and CEO
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Scheduled date of filing of quarterly report: May 14, 2012
Scheduled date of dividend payment —
Supplementary documents for quarterly results: None
Quarterly results briefing: None

(Amounts are rounded down to the nearest million yen)

1. Financial results for the three months ended March 31, 2012 (January 1, 2012 to March 31, 2012)

(1) Operating results (cumulative)

(Percentage figures represent changes from the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income	
First Three months ended	million yen	%	million yen	%	million yen	%	million yen	%
March 31, 2012	—	—	(658)	—	(652)	—	(653)	—
March 31, 2011	602	—	14	—	14	—	13	—

	Quarterly net income per share	Quarterly net income per share (diluted)
First Three months ended	yen	yen
March 31, 2012	(49.25)	—
March 31, 2011	1.49	—

(2) Financial position

	Total assets	Net assets	Equity ratio
As of	million yen	million yen	%
March 31, 2012	7,781	7,545	97.0
December 31, 2011	8,379	8,174	97.6

Reference: Equity As of March 31, 2012: 7,550 million yen
As of December 31, 2011: 8,203 million yen

2. Dividends

	Annual dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2011	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2012	—				
Fiscal year ending December 31, 2012 (forecast)		0.00	—	0.00	0.00

Note: Revisions to the forecast of dividends since the latest announcement: None

3. Forecasts of results for the year ending December 31, 2012 (January 1, 2012 to December 31, 2012)

(Percentage figures represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal Year ending December 31, 2012	1,636 to 2,178	139.1 to 218.3	(1,666) to (1,168)	—	(1,647) to (1,148)	—	(1,700) to (1,202)	—	(128.20) to (90.64)

Note: Revisions to the forecasts of cash dividends most recently announced: None

4. Other information

(1) Application of special accounting for preparing quarterly financial statements: None

(2) Changes in accounting policies, changes in accounting estimates, and restatement of period financial statements after error corrections

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: None

(3) Number of issued shares (common stock)

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

As of March 31, 2012	13,267,200 shares
As of December 31, 2011	13,267,200 shares

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

As of March 31, 2012	— shares
As of December 31, 2011	— shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

First three months of FY 2012	13,267,200 shares
First three months of FY 2011	9,267,200 shares

*** Status of review procedures for quarterly reports**

This Summary of Financial Results is not subject to the review procedures for quarterly reports under the Financial Instruments and Exchange Act. Review procedures for quarterly financial statements under the Financial Instruments and Exchange Act are completed at the time of the disclosure of this Summary of Financial Results.

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

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 realization. Actual results, etc. may differ materially from the forecasts depending on various factors.

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1. Qualitative information regarding settlement of accounts for the first three months

(1) Qualitative information regarding operating performance

1) Overall trend

During the three months under review, the Japanese economy showed signs of a gradual recovery from the stagnation caused by last year's Great East Japan Earthquake. However, Japan's economic outlook remains unpredictable amid uncertainties such as the unresolved European debt crisis, the slowdown in overseas economies, and the persistently strong yen.

In the pharmaceutical industry, many companies recalibrated their strategies toward substantial growth opportunities in emerging markets, due to rapid income growth in those countries' middle class and as a hedge against an anticipated slowdown in mature markets due to health care reform. At the same time, pharmaceutical companies also faced the immediate need to develop new drugs capable of replacing declining revenues due to the consecutive expiration of patents for blockbuster drugs.

Amidst this challenging environment, the Company redoubled its marketing efforts and expanded its licensing discussions with potential customers around the world. While the Company did not enter into new licensing agreements during the reporting period, many promising discussions were advanced. The Company continued to invest in its R&D portfolio and prepared to initiate the first clinical trial for its 5-HT_4 Partial Antagonist (RQ-00000010), selecting the organization to implement the Phase I Clinical Trial in Europe.

For the three month reporting period, the Company posted an operating loss of ¥658 million (compared with operating income of ¥14 million in the same period of the previous fiscal year), an ordinary loss of ¥652 million (compared with ordinary income of ¥14 million in the same period of the previous fiscal year), and a net loss of ¥653 million (compared with net income of ¥13 million in the same period of the previous fiscal year). Total operating costs amounted to ¥658 million (up by 12.0% compared with the same period of the previous year), of which R&D expenses were ¥431 million (up by 19.2% from the same period in the previous fiscal year), and other selling and general administrative expenses were ¥227 million (up by 0.4% from the same period in the previous fiscal year).

2) Research and Development Activities

Research and Development expenses during this three-month period came to ¥431 million. The main components of these activities are as follows:

(A) Exploratory and discovery phase

In projects to develop a 5-HT2B antagonist and CB2 agonist, agents primarily used for indications such as irritable bowel syndrome (IBS), the Company completed initial safety assessments on the identified compounds in rats and dogs.

In projects to develop a Motilin receptor agonist primarily used for indications such as functional dyspepsia (FD), the Company proceeded with an investigation in order to confirm efficacy and clear the initial safety assessments for the compounds identified.

In projects on a T-type calcium channel blocker primarily used for indications such as neuropathic pain, the Company continued its pharmacological evaluation and considered its application to other indications.

In projects on a TRPM8 blocker, another agent mainly used for indications such as neuropathic pain, the Company explored other new compounds and began evaluating them..

In projects to develop a sodium channel blocker incorporating Nav1.3, Nav1.7, and Nav1.8 for indications such as inflammatory pain and neuropathic pain, the Company continued to optimize and evaluate the compound properties.

To extend the Company's initial project to develop an N-type calcium channel blocker, the Company has continued to evaluate the characteristics of multiple families of compounds.

In projects focused on specific ion channels, the Company continued the collaborative research it began with Eli Lilly and Company (United States) in December 2010 with a view toward exploring and discovering development compounds with high levels of efficacy and safety.

(B) Development phase

a) EP_4 Antagonist (RQ-00000007 and RQ-00000008)

The Company believes that these development compounds may have efficacy for indications such as chronic inflammatory pain, acute pain, inflammation, autoimmune diseases, allergies, cancer, and other diseases. During this reporting period, the Company carried out additional trials to verify the pharmacological effects for these indications, including drug efficacy pharmacological tests at the Company, as well as collaborative studies with research laboratories specializing in the evaluation of the anticancer effects in animal models. Regarding RQ-00000008, the Company carried out a safety pharmacological study, under GLP, in order to complete the nonclinical study package required for the commencement of Phase I Clinical Trials.

b) 5-HT_4 Partial Agonist (RQ-00000009)

The Company plans to proceed with preparations for a clinical trial during the current fiscal year to confirm the pharmacological actions of the development compound in healthy adult subjects, with the objective of obtaining data in support of its clinical efficacy for Alzheimer's disease. During this reporting period, the Company developed designs for the clinical trial, selected sites for the manufacture of the investigational drug, and evaluated candidate sites for the clinical trial.

c) 5-HT_4 Partial Agonist (RQ-00000010)

The Company is planning to carry out a Phase I Clinical Trial in the U.K. in the current fiscal year for indications such as gastro-esophageal reflux disease (GERD). The trial will be performed to confirm the safety, tolerability, and pharmacokinetics of the development compound in healthy adult subjects, and also to investigate what appear to favorable effects of the compound on gastric emptying. During the reporting period, the Company filed a Clinical Trial Application (CTA) in the U.K. and obtained approval to commence the First in Human (FIH) trial of the development compound from the Medicines and Healthcare products Regulatory Agency.

(2) Qualitative information regarding financial position

1) Analysis of assets, liabilities and net assets

(Assets)
Current assets decreased by ¥627 million from the end of the previous fiscal year, to ¥7,156 million, primarily due to a ¥2,831 million decline in cash and deposits, offsetting a ¥2,099 million increase in investment securities.
Noncurrent assets increased by ¥29 million from the end of the previous fiscal year, to ¥625 million.

(Liabilities)
Current liabilities rose by ¥31 million from the end of the previous fiscal year, to ¥236 million. The Company has no interest-bearing debt such as loans payable or bonds.

(Net assets)
Net assets fell by ¥629 million from the end of the previous fiscal year, to ¥7,545 million, reflecting a reduction in retained earnings due to the posting of a quarterly net loss.

2) Analysis of cash flow

The balance of cash and cash equivalents (hereafter "cash") as of March 31, 2011 amounted to ¥3,545 million, down ¥331 million compared with the previous fiscal year-end.

The respective cash flow positions in the first three months under review and the factors thereof are as follows.

(Cash flow from operating activities)
Net cash used for operating activities was ¥733 million (¥476 million was used in the first three months of FY2011). As a main breakdown of cash used, Loss before income taxes was ¥652 million.

(Cash flow from investment activities)
Net cash provided for investment activities was ¥395 million (¥0 million was used for first three months of FY2011). As a main breakdown of cash provided, purchase of short-term investment securities was ¥1,100 million and proceeds from withdrawal of time deposits was ¥1,500 million.

(Cash flow from financing activities)
Net cash used for financing activities: none.

(3) Qualitative information regarding earnings forecasts

The Company expects earnings for the fiscal year ending December 2012 to be in line with its initial forecast, and there is no change to the earnings forecasts announced on February 16, 2012.
Although the Company can expect initial payments under licensing agreements from new licensing partners, this revenue depends on the status of negotiations with potential partners, progress in R&D, and is by no means certain at the present time. The Company has, therefore, allowed some latitude in its forecast, taking into consideration the possibility of delays in the conclusion of contracts and R&D.
This report does not include information on the earnings forecast for the six-month period ending June 30, 2012, as the Company manages its performance on an annual basis.

2. Quarterly financial statements

(1) Balance sheets

(Thousands of yen)

	as of December 31, 2011	as of March 31, 2012
Assets		
Current assets		
Cash and deposits	7,672,312	4,840,660
Accounts receivable-trade	1,355	―
Short-term investment securities	―	2,099,976
Raw materials and supplies	45,112	48,764
Advance payments-trade	31,927	67,704
Prepaid expenses	13,842	60,638
Other	18,720	38,424
Total current assets	7,783,270	7,156,169
Noncurrent as ets		
Property, plant and equipment	68,333	76,022
Intangible assets	26,009	23,977
Investments and other assets		
Investment securities	427,515	451,770
Other	74,016	73,744
Total investments and other assets	501,531	525,514
Total noncurrent assets	595,873	625,515
Total assets	8,379,143	7,781,684
Liabilities		
Current liabilities		
Accounts payable-other	99,295	139,986
Accrued expenses	76,911	79,861
Income taxes payable	22,569	7,275
Other	5,897	9,264
Total current liabilities	204,673	236,388
Total liabilities	204,673	236,388
Net assets		
Shareholders' equity		
Capital stock	8,489,850	8,489,850
Capital surplus	3,773,850	3,773,850
Retained earnings	(4,060,024)	(4,713,454)
Total shareholders' equity	8,203,675	7,550,245
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(29,205)	(4,950)
Total valuation and translation adjustments	(29,205)	(4,950)
Total net assets	8,174,470	7,545,295
Total liabilities and net assets	8,379,143	7,781,684

(2) Statements of income

(Statements of income (cumulative))

(Thousands of yen)

	First three months ended March 31, 2011	First three months ended March 31, 2012
Business revenue	602,086	—
Business expenses		
Research and development expenses	361,743	431,283
Other selling, general and administrative expenses	226,289	227,302
Total business expenses	588,032	658,586
Operating income (loss)	14,053	(658,586)
Non-operating income		
Interest income	150	1,895
Foreign exchange gains	5,603	2,761
Other	3,236	1,460
Total non-operating income	8,990	6,117
Non-operating expenses		
Miscellaneous loss	8,298	—
Total non-operating expenses	8,29	—
Ordinary income (loss)	14,745	(652,469)
Income (Loss) before income taxes	14,745	(652,469)
Income taxes-current	960	960
Net income (loss)	13,785	(653,429)

(3) Statements of cash flow

(Thousands of yen)

	First three months ended March 31, 2011	First three months ended March 31, 2012
Net cash provided by (used in) operating activities		
Income (Loss) before income taxes	14,745	(652,469)
Depreciation and amortization	4,259	5,340
Interest income	(150)	(1,895)
Foreign exchange losses (gains)	(2,482)	(6,448)
Miscellaneous expenses	8,298	―
Decrease (increase) in notes and accounts receivable-trade	(383,758)	1,355
Decrease (increase) in inventories	1,601	(3,651)
Decrease (increase) in advance payments	(34,123)	(35,776)
Decrease (increase) in prepaid expenses	(46,666)	(46,795)
Increase (decrease) in accounts payable-other	(70,010)	34,582
Increase (decrease) in accrued expenses	1,968	2,950
Other, net	33,689	(27,487)
Subtotal	(472,629)	(730,297)
Interest and dividends income received	124	904
Proceeds from subsidy	273	―
Income taxes paid	(3,840)	(3,840)
Total net cash provided by (used in) operating activities	(476,071)	(733,233)
Net cash provided by (used in) investing activities		
Proceeds from withdrawal of time deposits	―	1,500,000
Purchase of short-term investment securities	―	(1,100,000)
Purchase of property, plant and equipment	―	(4,890)
Purchase of intangible assets	(409)	―
Total net cash provided by (used in) investing activities	(409)	395,109
Net cash provided by (used in) financing activities		
Net cash provided by (used in) financing activities	―	―
Effect of exchange rate change on cash and cash equivalents	2,482	6,448
Net increase (decrease) in cash and cash equivalents	(473,998)	(331,675)
Cash and cash equivalents at beginning of period	3,392,722	3,877,312
Cash and cash equivalents at end of period	2,918,723	3,545,636

(4) Notes on premise of going concern

No items to report

(5) Notes on significant changes in the amount of shareholders' equity

No items to report