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## Summary of Consolidated Financial Results for Q2 ended June 30, 2014 (JGAAP)

**Listed company's name:** RaQualia Pharma Inc.  
**Listed on:** Jasdaq Growth/ Tokyo Stock Exchange (TSE)  
**Stock code:** 4579  
**URL:** <http://www.raqualia.com/>  
**Representative:** Naoki Tani, President and CEO  
**Contact:** Hirobumi Takeuchi, Executive Director (TEL) +81-52-446-6100  
**Scheduled date of filing of quarterly report:** August 8, 2014  
**Scheduled date of dividend payment:** —  
**Supplementary documents for quarterly results:** Yes  
**Quarterly results briefing:** Yes (for institutional investors, analysts and media)

(Amounts are rounded down to the nearest million yen)

### 1. Consolidated Financial Results for the First Six Months of FY2014 (January 1, 2014 to June 30, 2014)

#### (1) Consolidated Operating Results (cumulative)

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

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
FY2014 2nd Quarter	95	(16.0)	(993)	—	(1,060)	—	461	—
FY2013 2nd Quarter	82	—	(1,133)	—	(874)	—	(903)	—

Note: Comprehensive income As of June 30, 2014: (714) million yen As of June 30, 2013: (410) million yen

	Quarterly net income per share	Quarterly net income per share (Diluted)
FY2014 2nd Quarter	yen 34.07	yen 33.68
FY2013 2nd Quarter	(68.10)	—

#### (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
FY2014 2nd Quarter	5,950	5,033	84.0	371.28
FY2013	6,648	5,746	85.9	423.84

Reference: Equity As of June 30, 2014: 4,998 million yen As of December 31, 2013: 5,712 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
FY2013	—	0.00	—	0.00	0.00
FY2014	—				
FY2014(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, 2014 (January 1, 2014 to December 31, 2014)

(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
FY2014	300	31.6	(1,684)	—	(1,685)	—	(282)	—	(20.82)

Note: Revisions to the forecasts of results most recently announced: None

The Company does not provide forecasts of results over a six-month period but rather on an annualized basis.

#### 4. Other information

- (1) Changes in material subsidiaries during the First Six Months of FY 2014: None
- (2) Application of special accounting for preparing quarterly financial statements: None
- (3) 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

(4) Number of issued shares (common stock)

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

As of June 30, 2014	13,557,200 shares
As of December 31, 2013	13,557,200 shares

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

As of June 30, 2014	— shares
As of December 31, 2013	— shares

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

First Six Months of FY 2014	13,557,200 shares
First Six Months of FY 2013	13,267,200 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 Six Months

### (1) Qualitative Information Regarding Consolidated Operating Performance

#### 1) Overall Trend

During the first six-month period under review, the Japanese economy continued to demonstrate strength, beyond an anticipated spike in demand prior to the scheduled consumption tax increase. Concerns diminished regarding Japan's economy slipping into recession following the tax hike. While the current account balance has shifted into negative territory, the yen-dollar exchange rates and the stock market have been relatively stable. The Nikkei average has gradually recovered to a level over 15,000 yen. While the longer-term outlook for the economy remains unclear, Japan has achieved a sustained period of growth.

In the pharmaceutical sector, the business environment remains highly competitive due to several factors, including government efforts to promote the use of generic medicines, fiscal policy pressure on the health care budget, new market entries from other industrial sectors, and continuing globalization.

Against this backdrop, the Company redoubled its marketing efforts and expanded licensing discussions with potential customers around the world. While the Company did not enter into new licensing agreements during the reporting period, it did advance many promising discussions. The Company achieved milestone-related revenue from research collaborations with Asahi Kasei Pharma Corp. and Ajinomoto Pharmaceuticals Co. Ltd. during this Quarter.

In May the Company received a patent allowance for a sodium channel blocker substance application in Japan (Application Number: 2014-011895, Title: ARYLAMIDE DERIVATIVES AS TTX-S BLOCKERS). This allowance strengthens the Company's intellectual property rights in Japan. In June the Company initiated a Phase 1 clinical trial of its acid pump antagonist (RQ-00000004) in Japan. In this study, the first conducted by the Company in Japan, the Company is evaluating the pharmacological effects of RQ-00000004 using biomarker testing, as well as its safety, tolerability and pharmacokinetic profile.

In February 2014 the Company concluded a collaboration agreement with Nagoya University to jointly establish a division for the analytical study of pharmacology efficacy, to be housed at the University. The company relocated our Biology Research function to the University and commenced joint operations. Our Chemistry Research function will be relocated to Nagoya University and start operation in 2015. Moreover the company has entered into a research collaboration agreement with Kyoto University's Center for iPS Cell Research and Application (CiRA: Director, Shinya Yamanaka) and iPS Academia Japan, Inc. (President & CEO, Shosaku Murayama) to research differentiation and induction of iPS cells. The objective of this research collaboration is to develop an effective method to generate immune cells from iPS cells.

In addition, we moved headquarters function from Taketoyo, Chita-gun to Nakamura-ku, Nagoya and changed the registered location of the head office as of June 1, 2014.

Financial results for the first six months of 2014 were as follows. Business revenue for the first six-month reporting period was 95 million yen (up by 16.0% compared with the same period during the previous year). Operating loss totaled 993 million (compared with operating loss of 1,133 million yen during the same period of the previous fiscal year), ordinary loss totaled 1,060 million yen (compared with ordinary loss of 874 million yen in the same period during the previous fiscal year), and net income was 461 million yen (compared with net income of 903 million yen in the same period during the previous fiscal year). Total operating costs were 1,089 million yen (down by 10.4% compared with the same period during the previous year), of which Research and Development expenses were 663 million yen (down by 16.1% compared with the same period during the previous year). Other selling and general administrative expenses totaled 422 million yen (down by 0.5% compared with the same period during the previous year). Over this period, the Company posted a gain on sales of investment securities of 1,542 million yen as extraordinary income. Office transfer expenses were 12 million yen, accounted for as extraordinary loss.

#### 2) Research and Development Activities

Research and Development expenses during the first six-month period were ¥663 million. The main components of these activities were as follows:

##### (A) Exploratory and Discovery Phase

The Company continued to evaluate a selective sodium channel blocker compound for indications such as inflammatory pain and neuropathic pain.

In a project to develop a novel ghrelin agonist for indications such as cancer-related anorexia and cachexia, the company identified several clinical development candidates and initiated an investigation of preclinical efficacy.

The Company explored new TRPM8 blocker compounds and has continued to evaluate them, primarily for indications such as neuropathic pain.

The Company continued collaborative research with four companies.

Company	Start date	Content
Ajinomoto Pharmaceutical Co., Ltd.	October 2012	A specific ion channel target for gastrointestinal treatments
Interprotein Corporation	February 2013	A specific protein-protein interaction (PPI) inhibitor for pain treatments
Carna Biosciences, Inc.	March 2013	Drug discovery research for a specific kinase
Asahi Kasei Pharma Corp.	April 2014	Collaboration on a specific ion channel target

The Company concluded the research collaboration focused on ion channels with Eli Lilly. Each company pursues research separately and independently utilizing certain information obtained during the course of the collaboration.

**(B) Preclinical Development Phase**

**a) 5-HT<sub>2B</sub> Antagonist (RQ-00310941)**

The compound is in preclinical development for irritable bowel syndrome (IBS). In the quarter under review, the Company prepared final study reports for the completed nonclinical studies, including *in vivo* pharmacology studies, metabolism and pharmacokinetics studies, toxicity studies (GLP) and safety pharmacology studies (GLP).

**b) Motilin Receptor Agonist (RQ-00201894)**

The compound is in preclinical development for gastroparesis, post-operative ileus and functional dyspepsia. In the quarter under review, the Company prepared to complete nonclinical studies, including *in vivo* pharmacology studies, metabolism and pharmacokinetics studies, toxicity studies (GLP) and safety pharmacology studies (GLP).

**(C) Development Phase**

**a) 5-HT<sub>4</sub> Partial Agonist (RQ-00000010)**

The compound is under development for functional gastrointestinal disorders (FGID). In the quarter under review, the Company continuously investigated the suitable indication for this compound. Collaboration with Virginia Commonwealth University (VCU) began to evaluate clinical effectiveness of RQ-00000010 in Parkinson's Disease patients with symptomatic gastroparesis in an investigator-initiated clinical trial. An IND was successfully submitted with the U.S. Food and Drug Administration.

**b) EP<sub>4</sub> Antagonist (RQ-00000007 and RQ-00000008)**

These development compounds have therapeutic potential for treatment of chronic inflammatory pain, acute pain, inflammation, autoimmune diseases, allergies, cancer, and other diseases. The Company conducted several additional studies to verify pharmacological effects for these indications, including efficacy pharmacology studies through collaborations with research laboratories specializing in the evaluation of anticancer effects in animal models.

**c) Acid Pump Antagonist (RQ-00000004)**

The compound is under development for gastro-esophageal reflux disease (GERD) in the U.S. and South Korea. In addition, the Company decided to start a development of the compound in Japan. A clinical trial application for a Phase 1 study was submitted to PMDA in May. The Company initiated the study in June, following the receipt of PMDA approval.

**(2) Qualitative Information Regarding Consolidated Financial Position**

**1) Analysis of Assets, Liabilities and Net Assets**

[Assets]

Current assets amounted to 5,950 million, of which cash and deposits totaled 3,267 million. This is primarily because cash and cash-equivalents decreased by 768 million yen, while the fixed assets increased by 33 million yen.

[Liabilities]

During the reporting period, the sum total of debt increased by 14 million yen, to 917 million yen, compared with the end of the last fiscal year. The increase is primarily due to a reduction of deferred income tax liability by 621 million yen with the sale of an investment in securities. Total debt increased by 503 million yen due to the acquisition of a trust beneficiary right as investment securities and increased by 110 million yen due to the issuance of a corporate bond by a subsidiary.

[Net Assets]

The sum total of net assets decreased by 712 million yen compared with the end of the last fiscal year, decreasing to 5,033 million yen. This is primarily due to the Loss on Valuation of Investment Securities, which decreased by 1,176 million yen, although accumulated quarterly net earnings increased by 461 million yen.

**2) Analysis of Cash Flow**

The balance of cash and cash equivalents (hereafter "cash") as of June 30, 2014 amounted to 3,260 million, a decrease of 774 million compared with the beginning of FY 2014.

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

[Cash Flow from Operating Activities]

Net cash used for operating activities was 1,097 million yen (compared with 1,176 million yen in the same quarter of the previous year). While this accounted for quarter net earnings before income taxes of 469 million yen, it is primarily due to a gain from the sale of investment securities of 1,542 million yen.

[Cash Flow from Investment Activities]

Net cash gained by investment activities increased to 243 million yen (compared with 7 million yen cash used in the same quarter of the previous year). This is primarily due to income of 1,853 million yen from the sale of securities, although the amount in arrears decreased by 511 million yen due into a fixed deposit account, 511 million yen due to the acquisition of short-term marketable securities, 552 million yen due to the acquisition of investment securities, and 34 million yen due to payments for the purchase of tangible fixed assets.

[Cash Flow from Financing Activities]

Net cash increased by 110 million yen due to the issuance of a corporate bond by a subsidiary (no change in the same quarter of the previous year).

**(3) Qualitative Information Regarding Earnings Forecasts**

There are no changes in the forecasts of results for the year ending December 31, 2014 previously announced on February 28, 2014.

**2. Consolidated Quarterly Financial Statements**  
**(1) Consolidated Quarterly Balance Sheets**

(Thousands of yen)

	as of December 31, 2013	as of June 30, 2014
<b>Assets</b>		
Current assets		
Cash and deposits	4,035,228	3,267,053
Accounts receivable-trade	59,700	7,200
Short-term marketable securities	—	1,506,500
Work in process	647	—
Raw materials and supplies	46,544	33,367
Other	221,562	331,010
<b>Total current assets</b>	<b>4,363,684</b>	<b>5,145,132</b>
Noncurrent assets		
Property, plant and equipment	7,160	41,016
Intangible asset	11,788	13,350
Investments and other assets		
Investment securities	2,220,670	706,182
Other	44,873	44,864
<b>Total investments and other assets</b>	<b>2,265,544</b>	<b>751,047</b>
<b>Total noncurrent assets</b>	<b>2,284,493</b>	<b>805,414</b>
<b>Total assets</b>	<b>6,648,177</b>	<b>5,950,547</b>
<b>Liabilities</b>		
Current liabilities		
Current portion of bonds	—	110,000
Accounts payable-other	141,653	645,028
Income taxes payable	17,312	14,898
Other	73,805	99,533
<b>Total current liabilities</b>	<b>232,771</b>	<b>869,459</b>
Noncurrent liabilities		
Deferred tax liabilities	669,325	47,552
<b>Total noncurrent liabilities</b>	<b>669,325</b>	<b>47,552</b>
<b>Total liabilities</b>	<b>902,096</b>	<b>917,012</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	8,627,912	8,627,912
Capital surplus	3,911,912	3,911,912
Retained earnings	(8,073,758)	(7,611,914)
<b>Total shareholders' equity</b>	<b>4,466,066</b>	<b>4,927,910</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,246,865	70,863
<b>Total accumulated other comprehensive income</b>	<b>1,246,865</b>	<b>70,863</b>
Subscription rights to shares	33,150	34,760
<b>Total net assets</b>	<b>5,746,081</b>	<b>5,033,534</b>
<b>Total liabilities and net assets</b>	<b>6,648,177</b>	<b>5,950,547</b>

**(2) Consolidated Quarterly Statements of (Comprehensive) Income**

(Consolidated Quarterly Statements of Income (cumulative))

(Thousands of yen)

	First Six Months ended June 30, 2013	First Six Months ended June 30, 2014
Business revenue	82,411	95,562
Business expenses		
Operating cost	307	2,552
Research and development expenses	791,171	663,901
Other selling, general and administrative expenses	424,748	422,708
Total business expenses	1,216,226	1,089,161
Operating loss	(1,133,815)	(993,599)
Non-operating income		
Interest income	879	6,791
Reversal of allowance for investment loss	260,535	—
Other	5,212	1,951
Total non-operating income	266,628	8,743
Non-operating expenses		
Foreign exchange losses	4,210	72,881
Provision of allowance for investment loss	2,150	—
Other	605	2,893
Total non-operating expenses	6,965	75,774
Ordinary loss	(874,152)	(1,060,630)
Extraordinary income		
Gain on sales of investment securities	—	1,542,184
Total extraordinary income	—	1,542,184
Extraordinary loss		
Loss on cancellation of leasehold contracts	24,000	—
Office transfer expenses	—	12,553
Other	1,340	—
Total extraordinary losses	25,340	12,553
Income (loss) before minority interests	(899,492)	469,001
Income taxes	3,955	7,082
Loss before minority interests	(903,448)	461,918
Net income (loss)	(903,448)	461,918

(Consolidated Quarterly Statements of Comprehensive Income (cumulative))

(Thousands of yen)

	First Six Months ended June 30, 2013	First Six Months ended June 30, 2014
Consolidated quarterly statements of comprehensive income		
Loss before minority interests	(903,448)	461,918
Other comprehensive income		
Valuation difference on available-for-sale securities	493,417	(1,176,001)
Total other comprehensive income	493,417	(1,176,001)
Comprehensive income	(410,031)	(714,083)
Comprehensive income attributable to owners parent	(410,031)	(714,083)

**(3) Consolidated Quarterly Statements of Cash Flow**

(Thousands of yen)

	First Six Months ended June 30, 2013	First Six Months ended June 30, 2014
Net cash provided by (used in) operating activities		
Loss before income taxes and minority interests	(899,492)	469,001
Depreciation and amortization	18,010	5,850
Increase (decrease) in allowance for investment loss	(260,535)	—
Loss on cancellation of leasehold contracts	24,000	—
Gain on sales of investment securities	—	(1,542,184)
Office transfer expenses	—	12,553
Interest income	(879)	(6,791)
Foreign exchange losses (gains)	(3,561)	29,339
Stock issuance cost	2,150	—
Decrease (increase) in notes and accounts receivable-trade	(179)	52,500
Decrease (increase) in inventories	(2,098)	13,824
Increase (decrease) in accounts payable-other	(29,644)	(31,918)
Other, net	(17,459)	(85,322)
Subtotal	(1,169,691)	(1,083,148)
Interest and dividends income received	793	603
Income taxes paid	(5,840)	(9,286)
Office transfer expense paid	—	(7,179)
Other, net	(1,409)	1,951
Net cash provided by (used in) operating activities	(1,176,146)	(1,097,058)
Net cash provided by (used in) investing activities		
Payments into time deposits	(50,000)	(511,350)
Proceeds from withdrawal of time deposits	50,000	—
Payments into short-term marketable securities	—	(511,350)
Purchase of property, plant and equipment	(5,930)	(34,439)
Proceeds from sales of property, plant and equipment	3,922	—
Payments into investment securities	—	(552,718)
Proceeds from sales of investment securities	—	1,853,247
Purchase of intangible assets	(6,043)	(2,665)
Payments into security deposit	—	(12,675)
Proceeds from security deposit	—	15,396
Other, net	1,000	—
Net cash provided by (used in) investing activities	(7,050)	243,445
Net cash provided by (used in) financing activities		
Proceeds from current portion of bonds	—	110,000
Net cash provided by (used in) financing activities	—	110,000
Effect of exchange rate change on cash and cash equivalents	3,561	(31,062)
Net increase (decrease) in cash and cash equivalents	(1,179,635)	(774,675)
Cash and cash equivalents at beginning of period	4,889,989	4,035,228
Cash and cash equivalents at end of period	3,710,354	3,260,553

#### (4) Consolidated Quarterly Statements of Notes

##### (Significant subsequent events)

The Company's Board of Directors held its meeting on July 2, 2014 and resolved that among the 8th Series share options (allotment to third party) issued on July 4, 2013 (hereinafter referred to as "The 8th Series share option"), all of the 8th Series share options remaining as of July 22, 2014 were acquired and retired. Furthermore, the 10th Series share option (allotment to third party) (hereinafter referred to as "this share option") will be issued, and, regarding this share option, the contract on allotment to third party with commitment provisions including the following contents will be concluded after the notice based on the Financial Instruments and Exchange Act has come into force.

##### 1. Outline of share option to be acquired and retired

- (1) Name of share option to be acquired and retired: The 8th Series share option (allotment to third party)
- (2) Number of share options to be acquired and retired: 2,210 share options
- (3) Date of acquisition and date of retirement: July 22, 2014
- (4) Acquisition price: 33,150,000 yen (15,000 yen per share option)
- (5) Number of share options that are remaining after the retirement: 0 share options  
(Notice) When the 8th Series share option is exercised by date of acquisition, the "Number of share options to be acquired and retired" and "Acquisition price" will be reduced.

##### 2. Outline of subscription

- (1) Date of allotment: July 22, 2014
- (2) Number of share options issued: 2,210 share options
- (3) Issued price: 6,600 yen per share option (Total amount is 14,586,000 yen)
- (4) Number of residual securities by such issuance  
Number of residual securities: 2,210,000 shares  
Upper limit exercise price is not set. Although lower limit exercise price is 435 yen, the number of residual securities is 2,210,000 shares even at lower limit exercise price.
- (5) Amount of fundraising  
(Notice) 1,366,996,000 yen (Estimated amount of net proceeds)
- (6) Exercise price and amendment conditions of exercise price: Initial exercise price 621 yen  
Although exercise price is modified into the amount equivalent to 90% of closing price of our common share on the trading day immediately before the day that each demand to exercise this share option comes into force, when such amount falls below lower limit exercise price, lower limit exercise price is deemed to be the exercise price after the modification.
- (7) Method of subscription or allotment  
According to the method for allotment to third party
- (8) Expected allotment destination  
Merrill Lynch Japan Securities Company, Limited
- (9) The Company plans to conclude a contract on allotment to third party with commitment provisions with Merrill Lynch Japan Securities Company, Limited after the notice based on the Financial Instruments and Exchange Act has come into force. Such contract on allotment to third party stipulates that approval of our Board of Directors is needed when this share option is transferred.

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