Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2014 [Japanese GAAP]

August 12, 2014

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Scheduled filing date of securities report: September 26, 2014
Scheduled starting date of dividend payments: —
Supplementary briefing materials on financial results: No
Explanatory meeting on financial results: Yes

(Amounts of less than one million yen are rounded down)

1. Financial Results for the Fiscal Year Ended June 30, 2014 (July 1, 2013 to June 30, 2014)

(1) Operating results (% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal Year ended June 30, 2014	818	20.7	201	25.2	221	27.5	148	8.3
Fiscal Year ended June 30, 2013	678	152.1	160	-	174	-	137	-

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year ended June 30, 2014	11.09	9.27	2.6	3.7	24.6
Fiscal Year ended June 30, 2013	12.32	9.86	4.6	5.5	23.7

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended June 30, 2014: - million yen
Fiscal Year ended June 30, 2013: - million yen

(Notes)
1. The Company conducted a 100-for-1 stock split of its common stock effective February 13, 2013 where 100 shares constitute 1 share unit, and net income per share has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.
2. As the Company became listed on the Mothers section of the Tokyo Stock Exchange on June 11, 2013, diluted net income per share for the previous fiscal year is calculated by assuming the average of the stock price between the day of the listing to the end of the previous fiscal year as the average stock price for the previous fiscal year.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2014	5,999	5,863	97.7	436.47
As of June 30, 2013	5,926	5,696	96.1	429.96

(Reference) Equity As of June 30, 2014: 5,860 million yen
As of June 30, 2013: 5,693 million yen

(Note) The Company conducted a 100-for-1 stock split of its common stock effective February 13, 2013 where 100 shares constitute 1 share unit, and net assets per share has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

(3) Cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
Fiscal Year ended June 30, 2014	72	(3,473)	18	2,200
Fiscal Year ended June 30, 2013	234	(112)	5,187	5,572

2. Payment of Dividends

	Annual dividends					Total dividends (Annual)	Dividend payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal Year ended June 30, 2013	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ended June 30, 2014	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ending June 30, 2015 (forecast)	-	0.00	-	0.00	0.00		-	

3. Financial Forecasts for the Fiscal Year Ending June 30, 2015 (July 1, 2014 to June 30, 2015)

(% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	1,724	110.6	631	213.7	570	157.2	367	147.4	27.35

(Note) As business results are managed by year, only forecasts for the full year are posted.

[Notes]

(1) Changes in accounting policies, changes in accounting estimates and retrospective restatements

1) Changes in accounting policies due to amendment to the accounting standards, etc. : None
2) Changes in accounting policies other than 1) above : None
3) Changes in accounting estimates : None
4) Retrospective restatements : None

(2) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	As of June 30, 2014	13,433,300 shares	As of June 30, 2013	13,241,300 shares
2) Number of treasury stock at the end of the period	As of June 30, 2014	- shares	As of June 30, 2013	- shares
3) Average number of shares during the period	Fiscal Year ended June 30, 2014	13,393,037 shares	Fiscal Year ended June 30, 2013	11,131,038 shares

(Note) The Company conducted a 100-for-1 stock split of its common stock effective February 13, 2013 where 100 shares constitute 1 share unit, and average number of shares during the period has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

*Presentation regarding the implementation status of the audit procedures

These financial results are outside the scope of audit procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, audit procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

*Explanation on the appropriate use of operating forecasts and other special instructions

- Financial forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable, and are not meant to be taken as commitment of the Company to achieve such results. Actual performance may differ substantially due to various factors.
- The Company plans to hold an explanatory meeting on financial results for institutional investors on August 18, 2014.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

During the fiscal year ended June 30, 2014, the Company leveraged the PDPS (Peptide Discovery Platform System), its proprietary drug discovery and development platform system, and made steady progress in joint research and development activities with pharmaceutical companies both in Japan and abroad.

In September 2013, the Company concluded a non-exclusive License Agreement with U.S.-based Bristol-Myers Squibb Company, which marked the beginning of the global rollout of PDPS as a de-facto standard system for nonstandard constrained/macrocyclic peptide drug discovery and development. The Company believes that this agreement, which is due in no small part to the successes from three years of joint research and development activities with Bristol-Myers Squibb, represents recognition of the superiority of the Company's technology and systems, and an affirmation of the potential of nonstandard constrained/macrocyclic peptides as drug candidates.

In December 2013, the Company concluded a Collaboration and License Agreement with its new joint research and development partner, U.S.-based Eli Lilly and Company.

In research and development activities, the Company has shown success in targeting intracellular protein-protein interactions, which have proven extremely difficult to do with small molecules, antibodies and/or any other conventional drug candidates, through the use of nonstandard constrained/macrocyclic peptides. Data on one such discovery program was presented by the Company's joint research and development partner, U.K.-based AstraZeneca, at an international conference. Through this research, the Company was able to confirm that nonstandard constrained/macrocyclic peptides are a class of molecules capable of targeting intracellular protein-protein interactions, opening up a treasure trove of drug targets, thus further increasing the future business potential of the Company.

Furthermore, progress has also been made in the development of anti-influenza drugs, which is being conducted as part of its in house drug discovery research and development. The Company, using nonstandard constrained/macrocyclic peptides, was able to target a portion of the influenza virus that is less susceptible to mutations a process which has proven difficult using conventional antibodies. This research has, in effect, opened the door for the development of highly-versatile therapeutics effective against pandemic influenza strains, and has enabled the Company to aim for pre-clinical trials earlier than initially planned.

In conjunction with these joint research and development activities and in house drug discovery research and development activities, the Company has been making investments in order to accelerate these business initiatives.

As a result, the Company reported net sales of 818,901 thousand yen (up 140,631 thousand yen year on year), operating income of 201,362 thousand yen (up 40,551 thousand yen year on year), ordinary income of 221,992 thousand yen (up 47,872 thousand yen year on year) and net income of 148,512 thousand yen (up 11,332 thousand yen year on year) for the current fiscal year.

(Forecast for the fiscal year ending June 30, 2015)

In terms of revenues, the Company expects to continue its Alliance business, in addition to licensing out the lead compounds currently owned by the Company to its joint research and development partners, concluding new technology license agreements and acquiring new joint research and development partners. In terms of expenses, the Company expects to make capital investments to further enhance the efficiency of its research and development, as well as research and development investments to promote the development of its in house pipeline, including the development of its anti-influenza agent announced in April 2014.

Consequently, forecasts of operating results for the fiscal year ending June 30, 2015 are as follows: Net sales is expected to increase 110.6% year on year to 1,724 million yen. Operating income is expected to increase 213.7% year on year to 631 million yen, ordinary income by 157.2% year on year to 570 million yen and net income by 147.4% year on year to 367 million yen.

(2) Analysis of Financial Position

1) Status of assets, liabilities and net assets

Total assets at the end of the current fiscal year increased by 73,119 thousand yen from the end of the previous fiscal year to 5,999,273 thousand yen. This was mainly because cash and deposits decreased by 2,172,058 thousand yen, while accounts receivable - trade and securities increased by 35,372 thousand yen and 2,200,000 thousand yen, respectively.

Liabilities decreased by 93,843 thousand yen from the end of the previous fiscal year to 136,068 thousand yen. This was mainly because accounts payable - other, advances received and income taxes payable decreased by 39,443 thousand yen, 23,816 thousand yen and 30,030 thousand yen, respectively.

Net assets increased by 166,962 thousand yen from the end of the previous fiscal year to 5,863,205 thousand yen, as a result of retained earnings increasing by 148,512 thousand yen.

2) Status of cash flows

Cash and cash equivalents for the current fiscal year decreased by 3,372,058 thousand yen from the end of the previous fiscal year to 2,200,392 thousand yen.

Status of cash flows and the factors during the current fiscal year are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 72,174 thousand yen. This was mainly because income taxes paid, an increase in notes and accounts receivable - trade and a decrease in accounts payable - other amounted to 76,510 thousand yen, 35,372 thousand yen and 39,111 thousand yen, respectively, while income before income taxes for the current fiscal year amounted to 221,992 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 3,473,143 thousand yen. This was mainly due to the purchase of short-term and long-term investment securities, increase in time deposits and purchase of property, plant and equipment amounting to 2,200,000 thousand yen, 1,200,000 thousand yen and 73,143 thousand yen, respectively.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 18,360 thousand yen. This was due to the proceeds from the issuance of shares resulting from exercise of subscription rights to shares amounting to 18,360 thousand yen.

(Reference) Cash flow-related indices

	Fiscal Year ended June 30, 2010	Fiscal Year ended June 30, 2011	Fiscal Year ended June 30, 2012	Fiscal Year ended June 30, 2013	Fiscal Year ended June 30, 2014
Equity ratio (%)	92.6	50.0	79.9	96.1	97.7
Equity ratio based on market capitalization (%)	—	—	—	1,606.5	1,798.0
Ratio of interest-bearing liabilities to cash flows (%)	—	—	—	—	—
Interest coverage ratio (%)	—	—	—	—	—

Equity ratio: Shareholders' equity / total assets

Equity ratio based on market capitalization: Market capitalization of shares / total assets

Ratio of interest-bearing liabilities to cash flows: Interest-bearing liabilities / cash flows

Interest coverage ratio: Cash flows / interest expense

(Notes) 1. Market capitalization of shares is calculated by multiplying the closing share price at the end of the period by the number of shares issued at the end of the period (excluding treasury stock). It should be noted that the Company does not hold treasury stock.

2. For cash flows, operating cash flows are used.

3. Figures of equity ratio based on market capitalization for the fiscal years ended June 30, 2010, 2011 and 2012 are not stated because the Company's shares were not listed.
4. Figures of ratio of interest-bearing liabilities to cash flows and interest coverage ratio for the fiscal years ended June 30, 2010 through 2014 are not stated because the Company did not hold interest-bearing liabilities.

(3) Basic Policy for Profit Distribution and Dividends for the Fiscal Year under Review and the Following Fiscal Year

The Company acknowledges that returning profits to shareholders is an essential management issue and intends to consider profit distribution taking into account its operating results and financial position. However, for the time being the Company is focusing on maintaining internal reserves and placing priority on securing research and development funds.

(4) Business Risks

The following are matters that could potentially become major risk factors associated with the business development and/or other activities of the Company. For the purpose of proactive information disclosure to investors, the Company has also included risks that are not necessarily perceived to be material to the Company and risks that are less likely to materialize, as long as they are thought to be significant from the perspective of investment decisions by the investor or for better understanding the business activities of the Company. Upon recognizing the possibility of these risks, the Company has set its policy to make every effort to prevent such risks from materializing and to minimize their impact when they occur, but does not guarantee that such risks will be prevented altogether. It should also be noted that the following is by no means an exhaustive list of all possible risks facing the Company.

Forward-looking statements hereunder are based on the Company's judgment as of the release date of this document and involve inherent uncertainties, and therefore the actual results may differ.

1) Risks arising from business environment

(i) Potential of nonstandard constrained/macrocyclic peptides as pharmaceuticals

The nonstandard constrained/macrocyclic peptides of the Company includes not only the 20 L-amino acids that are used to naturally make proteins, but also D-amino acids, N-methyl amino acids, and other amino acid derivatives, etc. called nonstandard amino acids. This property enables the Company to create various highly diverse nonstandard constrained/macrocyclic peptide libraries from which nonstandard constrained/macrocyclic peptides that exhibit high affinity and specificity against the target protein, which maintain high in-vivo stability and cell membrane permeability, can be produced.

Owing to this feature, the nonstandard constrained/macrocyclic peptides of the Company are expected to represent a new therapeutic class of molecules, and such expectations have led and continue to lead to agreements with pharmaceutical companies.

The Peptide Discovery Platform System (PDPS) of the Company arose in 2010. Pharmaceuticals, in general, require a significant amount of developing costs and time (10 years or more) from basic research until obtaining marketing authorizations, etc. It is not long since the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology was created and thus to date, no novel drug generated from nonstandard constrained/macrocyclic peptide of the Company has been approved. (However, novel drugs generated from organic compounds incorporating nonstandard amino acids that exist in nature have been approved. For example, in 1983, Sandoz Pharmaceuticals AG of Switzerland launched an immunosuppressive drug named " Sandimmun," and this was created by a peptide (cyclosporine) with a nonstandard structure, produced by a fungus found in the soil of the Hardanger Plateau in southern Norway).

Going forward, in cases where novel drugs cannot be developed from nonstandard constrained/macrocyclic peptides of the Company, or in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot beneficially contribute to the clients' drug development, the Company's business strategies and operating results may be negatively impacted.

(ii) Technology innovation

The Peptide Discovery Platform System (PDPS) of the Company incorporates a variety of technologies that are necessary for using the nonstandard constrained/macrocyclic peptides as therapeutic candidates (i.e., technologies (A) to produce nonstandard constrained/macrocyclic peptides, (B) to generate/produce libraries with further diversity as compared with low-molecular weight pharmaceuticals and antibody pharmaceuticals and (C) to rapidly conduct screening). The Company considers that the technologies (A) to (C) are all superior to those technologies of other companies that also discover and develop peptides as therapeutic candidates.

However, technology is always evolving, and there is always a chance that a technology superior to the PDPS of the Company will be developed, by utilizing a technology that does not conflict with the patented technology of the Company.

The Company intends to continue to actively perform research and development and to endeavor to secure intellectual property rights necessary for PDPS technology, for the continued upgrade and evolution of PDPS technology. However, if a technology superior to the PDPS is developed, the Company's competitive advantage will decrease and, as a result, the Company's business strategies and operating results may be negatively impacted, with more of such cases where agreements under conditions desired by the Company can no longer be entered into with the clients.

2) Risks arising from business

(i) Business specializing in nonstandard constrained/macrocyclic peptide pharmaceuticals

The Company conducts its business operations specializing in nonstandard constrained/macrocyclic peptide pharmaceuticals. Nonstandard constrained/macrocyclic peptides produced by the Peptide Discovery Platform System (PDPS) of the Company have novelty and inventiveness leading to high originality, thus the Company believes that it is unlikely that alternative technology be easily developed to put the existence value of the Company at risk. However, in cases where pharmaceutical companies' views are changed regarding the value of nonstandard constrained/macrocyclic peptides and also in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot contribute to the clients' drug development, the Company's business strategies and operating results may be negatively impacted.

(ii) Conducting joint research and development with multiple pharmaceutical companies

As of the release date of this document, the Company has entered into joint research and development agreements with nine companies (two domestic, seven overseas). Each pharmaceutical company has its specific target(s) for drug discovery and development, for which the Company will prosecute by receiving proposals concerning the research and development of, but in rare cases, the target for drug discovery and development requested by multiple pharmaceutical companies compete with each other. Whenever competition arises, the Company stands in between the pharmaceutical companies to take charge of preventing troubles and thus troubles have never occurred up to now.

However, in cases hereafter where this kind of coordination becomes difficult, the Company will not be able to enter into new joint research and development agreements and to acquire new target proteins, and thus the Company's business strategies and operating results may be negatively impacted.

(iii) Revenue recognition

The sales category of the Company for joint research and development agreements is, in principle, composed sequentially of (A) upfront payments (technological access fees), (B) funding for research and development, (C) funding for additional research and development, (D) premiums for drug discovery and development (E) incentive for reaching goals (milestones), (F) royalties on net sales, and (G) incentive for reaching sales targets .

Although (A) upfront payments (technological access fees), (B) funding for research and development, and (C) funding for additional research and development significantly rely on the operational success of the Company, for (B) and (C) in particular, project termination resulting from client's policy changes, can result in a situation where ongoing revenue cannot

be recognized, as the research and development activities cease. As for (A), whose amount is often relatively larger than that of (B) and (C), such revenue is recognized at one time, which means that the operating results of the Company could be negatively impacted by (A).

(D) Premiums for drug discovery and development and (E) incentive for reaching goals significantly rely on the business progress and strategy of the client, which are sales categories that are largely out of the control of the Company.

Therefore, in cases where the client's development progress is slowed, deprioritized or delayed, or in cases where the client's development strategy is changed, etc., the Company's business strategies and operating results may be negatively impacted.

(iv) Possibility of legal disputes

The Company, during the course of conducting its business operations, in cases where it violates the rights or interest of a third party or in cases where the counterparty considers it did, even though it actually did not, legal disputes such as lawsuits for damages, etc. may occur.

As of the release date of this document, no legal dispute has occurred nor has any formal litigation initiated, however, a foreign bio-venture is arguing that the Company's business conflicts with the foreign company's patent rights, and thus a legal dispute with the bio-venture may occur in the future. The possibility that the Company might preemptively take legal action toward the invalidation of the patent right(s) of the foreign bio-venture in question remains possible. In the future, when a legal dispute occurs between a third party and the Company, dispute resolution may require certain resources in addition to time and money and the Company can also be exposed to reputation risks resulting from the legal dispute, regardless of the final outcome. In such cases, the Company's business strategies and operating results may be negatively impacted.

In the course of future business operations, conflicts with patent rights, etc. of other companies may limit the Company's business, and in such cases, the Company's business strategies and operating results may be negatively impacted.

Furthermore, there exist no examples of the Company's nonstandard constrained/macrocyclic peptide pharmaceuticals researched and developed jointly by the Company and a pharmaceutical company commercially launched as pharmaceuticals to date. Therefore, in the unlikely event that the pharmaceutical researched and developed jointly by the Company causes unforeseen health problems, the negative image/reputation may adversely affect the reliability of the Company and its Peptide Discovery Platform System (PDPS) and thus the Company's business strategies and operating results may be negatively impacted.

(v) Material business agreements

As for agreements considered to be important or material to the Company's business operations, in cases where such agreements are terminated or in cases where changes are made to the counterparty's strategic plans, the Company's business strategies and operating results may be negatively impacted.

Further, revenue/funding related to joint research and development agreements (corresponding to or represented as sales for the Company) are, in principle, received as advances to the Company, which in turn is not obligated to return the money even in cases of early termination of the agreements. In exchange for this benefit, the counterparty holds the right to terminate the agreement at its discretion.

(vi) Dependence on counterparties of joint research and development agreements

Revenue in the Alliance business of the Company is mostly from counterparties of joint research and development agreements (clients). Going forward, in cases where the joint research and development for novel target molecule is not commenced with the clients or in cases where results of the joint research and development do not meet the criteria required by the clients, the Company's business strategies and operating results may be negatively impacted.

In addition, for lead compounds licensed out by the Company, the client conducts the clinical trials and applies for regulatory approval and thus their progress and results significantly affect the Company's business strategies and operating

results. Although the Company will support the client even after licensing out, clinical trials and applications for approval should be carried out by the client and those are beyond the control of the Company. Therefore, the possibility that the progress of clinical trials and/or applications for regulatory approval might be delayed due to reasons unexpected by the Company and that clinical trials and applications for approval might be terminated for various reasons, exists.

Furthermore, marketing plans after obtaining approval for manufacturing and sale rest solely with the clients, and thus there are possibilities such that marketing plan targets cannot be achieved due to factors such as changes in the clients' management policies or marketing plans and deterioration in the business environment.

(vii) Product pipeline of the Company

The Company is promoting research and development of its own in house product pipeline utilizing the characteristics of nonstandard constrained/macrocyclic peptides.

The Company is largely focused on utilizing nonstandard constrained/macrocyclic peptides as pharmaceuticals, and on developing PDCs (Peptide Drug Conjugates), which derives other drugs by using the excellent selectivity of nonstandard constrained/macrocyclic peptides. As a result of the former approach, the Company made an announcement on the initiative for a new anti-influenza agent in April, 2014.

The Company's own in house product pipeline is still in the early stages of discovery and development at present, but if progress continues, it is possible that pre-clinical studies may start in this fiscal year or in the following fiscal year, reaching a situation where a large amount of development costs are required. On the other hand, if research and development of the product pipeline does not progress favorably, future options for industrialization might be lost to some extent.

3) Intellectual property rights

(i) Acquisition of and application for patents

The Company engages in various inventions and patent rights in the course of its business, some of which have already been granted to the Company, the University of Tokyo or the State University of New York, while others are at various stages of the patent process.

However, it is possible that not all of the pending applications will be granted. In addition, even after receiving grant of said patent rights, there remains the possibility that a legal dispute concerning the patent right might arise, resulting in some adverse effect to the right implemented by the Company and other possibilities that the technology included in the patent right held by the Company might become obsolete due to emergence of a technology superior to the patent right held by the Company. When such a situation occurs, the Company's business strategies and operating results may be negatively impacted.

In addition, the Company has obtained, through an agreement, the exclusive license, with the right to sublicense to a third party, with regard to various inventions or patent rights which the University of Tokyo or the State University of New York is the applicant. In such cases where the contents of the said agreement are subject to alterations or the agreement is terminated due to expiration or cancellation, etc., the Company's business strategies and operating results may be negatively impacted.

(ii) Internal assignment of employee inventions

When the Company receives a right to obtain a patent from an officer or employee, etc. who is the inventor of an invention, the Company will pay "reasonable consideration" that is provided for in the Patent Act. The Company has established rules for its handling in the internal rules, etc. and no disputes have occurred between the inventors and the Company. However, if issues such as payment claims for reasonable consideration arise in handling employee inventions, the Company's business strategies and operating results may be negatively impacted.

4) Risks related to the pharmaceutical research and development business

(i) Uncertainties in pharmaceutical development

Pharmaceutical development in general, not only requires a considerable amount of research and development investment and time, but also has a notably low success rate compared with other industries. Even for compounds considered to be promising at the early stages of research and development, research and development can fall behind schedule due to reasons such that useful effects are not discovered in the course of pre-clinical studies and clinical trials, leading to extension or cancellation of the development. When the development is extended, additional funding may be required and the remaining patent life will be shortened, affecting the recovery of funds invested. In addition, when the development is cancelled, the funds invested in the research and development may not be recovered.

(ii) Risks related to occurrence of adverse drug reactions

Pharmaceuticals can cause unexpected adverse drug reactions starting from the clinical trial stage to post-marketing. When such unexpected adverse drug reactions occur, claim litigation and loss of creditworthiness, etc. are all possible, to which the Company's business strategies and operating results may be negatively impacted.

(iii) Regulations concerning pharmaceutical affairs including the Pharmaceutical Affairs Act

The pharmaceutical industry is subject to various regulations including the Pharmaceutical Affairs Act of each country and other related laws and regulations regarding business activities of research, development, manufacturing and sales.

The product pipeline of the Company is now at the discovery and development, with no product yet having been approved for sale by the Ministry of Health, Labour and Welfare of Japan, U.S. Food and Drug Administration (FDA) and European Medicines Agency (EMA). However, the Company intends to apply for regulatory approval for manufacturing and sales of pharmaceuticals pursuant to various regulations of the Pharmaceutical Affairs Act of each country and to obtain such approval in the future.

Therefore, the Company is required to prepare an internal system that meets and adheres to the regulations from the various regulatory entities mentioned above. Moreover, the Pharmaceutical Affairs Act of each country and other related laws and regulations are subject to change from time to time, and it is possible that these changes can affect the class of peptides Company is developing in either a positive or negative way, and that further improvement and amendment of the internal system might become necessary.

Compliance with such regulations shall affect the Company's business strategies and operating results.

(iv) Product liability

Development and manufacturing of pharmaceuticals are subject to the underlying risks of product liability. If any developed pharmaceutical causes adverse health issues or unintended side effects are found, whether in the course of clinical trials, manufacturing, operating or sales, in the future, the Company shall bear product liability and thus the Company's business strategies and operating results may be negatively impacted.

In addition, the negative image resulting from the product liability compensation claim can adversely affect the credibility of the Company and its pharmaceuticals, and thus the Company's business strategies and operating results may be negatively impacted.

5) Risks associated with human resources and the organization

(i) Dependence on specific human resources

Kiichi Kubota, Chief Executive Officer of the Company, plays a vital role in formulating the Company's business strategies as well as in the promotion of research and development, and business development. Additionally, Hiroaki Suga, Outside Director and a leading expert in nonstandard constrained/macrocyclic peptide drug discovery, and Patrick C. Reid, Managing Director and Chief Scientific Officer, also play significant roles in the decision-making and business promotion of the Company.

The Company has been making efforts to reinforce the management system so as not to become overly dependent on

these Directors. However, the Company for the time being is expected to remain heavily dependent on these Directors. Under such circumstances, should a situation arise in which the Directors' involvement in the Company's business becomes compromised for any reason, the Company's business strategies and operating results may be negatively impacted.

(ii) Risks from being a small organization

The Company is a small organization comprising seven officers (four Directors and three Statutory Auditors) and 28 employees (as of June 30, 2014) with an internal management system commensurate with the Company's size. While the Company upholds the policy of augmenting employees as necessary for operations and reinforcing its internal system, the Company's business strategies and operating results may be negatively impacted, should an outflow of human resources occur and the Company becomes incapable of replacing necessary personne.

(iii) Securing human resources

Although the Company, at the present time, has no plans for any sudden increases in the number of employees, it believes that securing superior human resources with expert knowledge and experience in the research and development field is indispensable for elevating its drug discovery platform technology and advancing its drug discovery research and development.

Should the Company encounter any obstacles in securing its human resources as planned, or lose any of its superior human resources, the Company's business strategies and operating results may be negatively impacted.

6) Other risks

(i) Being a relatively young company

The Company, established in July 2006 and being a relatively young company, does not have sufficient financial data to conduct a comparison of its performance from period to period. Therefore, the operating results and financial position of prior periods alone do not cover the period required to provide sufficient materials on which to make decisions regarding the Company's future performance.

Additionally, since the Company commenced its Alliance business in the fifth fiscal year (the fiscal year that ended on June 30, 2011), nonstandard constrained/macrocyclic peptide pharmaceuticals have yet to reach the market launch phase.

(ii) Dilution of the Company's stock value due to the exercise of stock acquisition rights

The Company has granted stock acquisition rights to its officers, employees and business partners, etc. Should such stock acquisition rights be exercised, the Company's number of shares outstanding would increase, and the value of the shares held by existing shareholders and the ratio of voting rights may become diluted. As of June 30, 2014, the number of dilutive shares to be increased by these stock acquisition rights was 2,618,000 shares, which is equivalent to 16.31% of the aggregate number of shares issued and dilutive shares.

(iii) Dividend policy

The Company recognizes returning profits to shareholders through dividends as one of its important management tasks.

Once steady predictable revenues have been attained, and enough revenue exists to cover the costs of research and development, upon comprehensively taking into account the necessity of enhancing internal reserves in preparation for future research and development activities, the Company will consider the profit distribution to its shareholders.

(iv) Information security

The Company's business involves receiving information on targeted proteins from client pharmaceutical companies. For this reason, the Company makes every effort to prevent the leakage of corporate information by requiring its employees to sign confidentiality agreements relating to corporate information including customer information.

However, should a leak of corporate information including customer information occur, the Company may face a loss of

public confidence and the Company's businesses, etc. may be negatively impacted.

(v) Fluctuation of foreign exchange rates

Due to the large number of overseas pharmaceutical companies among the Company's clients, most of its sales are denominated in foreign currencies. However, the Company does not engage in forward exchange contracts and other means to hedge against exchange risks. Therefore, should fluctuations in foreign exchange rates occur, the Company's operating results and financial position may be negatively impacted.

(vi) Occurrence of natural disasters, etc.

The Company's head office and laboratory are located in Meguro-ku, Tokyo and all facilities and personnel related to its business activities and research and development activities are concentrated at this location. Therefore, should an unforeseen situation occur in the vicinity of this current location, such as a natural disaster including earthquakes and eruptions, a massive accident or terrorist attack, destroying the Company's facilities and suspending the supply of infrastructure, the Company's business strategies and operating results may be negatively impacted.

(vii) Harmful rumors

Should negative rumors about the Company, or the Company's related parties or business partners be spread by media coverage or be posted on the Internet, public confidence of the Company may be affected, regardless of whether there was any truth in the rumors. Should negative rumors about the Company, or the Company's related parties or business partners be spread, the credibility of the Company may be adversely affected due to the negative image, and the Company's financial position and operating results may be negatively impacted.

(5) Significant Events Regarding Going Concern Assumption, etc.

Not applicable.

2. Management Policies

(1) Basic Management Policy

The Company's basic management policy is to leverage its proprietary PDPS (Peptide Discovery Platform System) to discover and develop nonstandard constrained/macrocyclic peptide pharmaceuticals in order to address unmet medical needs (medical needs for which there are no effective treatments) and to improve the quality of life of patients worldwide. To this end, the Company will contribute to the creation of a market for "nonstandard constrained/macrocyclic peptide pharmaceuticals" as a third major market following "low-molecular weight pharmaceuticals" and "antibody pharmaceuticals," and contribute to the progress of medicine around the world.

(2) Management Indices

The Company promotes the research and development of nonstandard constrained/macrocyclic peptide pharmaceuticals and expects to continue making investments consisting mainly of research and development expenses until the time the Company's products are launched on the market. In response to these expenses, the Company intends to stabilize its business management and promote its business development by securing revenues from its Alliance business.

(3) Medium- to Long-term Management Strategies

The Company, as a technology-oriented company, focuses on acquiring intellectual property and developing its patent portfolio, and has formed proactive intellectual property and patent strategies. However, as constant advances in technological innovation are being made, the Company intends to actively monitor the latest trends in state-of-the-art technology while at the same time develop reasonable yet timely strategies.

On the other hand, research and development associated with drug discovery requires significant amount of time and substantial development funds. The Company, in an effort to mitigate these risks, has been promoting the Alliance business as a pillar of its business portfolio. Nevertheless, business costs are expected to increase in conjunction with an increase in research and development costs associated with the full-scale development of the Company's proprietary in house pipeline. The Company intends to build a management structure that will enable the Company to withstand such cost increases.

(4) Issues to be Addressed

The Company leverages its proprietary PDPS (Peptide Discovery Platform System) to conduct joint research and development agreements with pharmaceutical companies both in Japan and abroad for the purpose of conducting development of potential drug candidates that are expected to rival and compete with low-molecular weight pharmaceuticals and antibody pharmaceuticals. The Company recognizes the following as issues that need to be addressed in order to sustain growth as a going concern.

(Issues associated with sales activities)

The Company has built relationships (joint research and development systems) that are mutually amicable and economically beneficial with pharmaceutical companies both in Japan and abroad. Currently, the Company has entered into agreements with two pharmaceutical companies in Japan and seven pharmaceutical companies overseas, indicating a higher percentage of clients overseas. Although this ratio is consistent with the trend of globalization of the economy and the market share of the pharmaceutical companies, the Company believes that in light of its corporate philosophy of "Contributing to the discovery of world-class drugs from Japan," it will need to and/or must proactively develop stronger relationships with more Japanese pharmaceutical companies.

However, as domestic pharmaceutical companies generally do not share the same approach towards drug discovery nor the awareness of the costs associated with research and development compared with overseas pharmaceutical companies, the Company has found it more difficult to build relationships/discovery alliances with domestic pharmaceutical companies than with overseas pharmaceutical companies. For example, domestic pharmaceutical companies generally prefer to complete the entire process from the research phase for drug discovery to the actual drug development phase internally (i.e. utilizing internal resources), while many of the overseas pharmaceutical companies tend to outsource the research phase to bio-ventures (i.e.

utilizing external resources) or engage in joint research and development rather than perform the entire process internally. The Company believes that overcoming this situation will be a major issue that will need to be addressed in realizing the above management philosophy, and to this end it intends to make the utmost effort going forward to do so.

(Issues associated with research and development activities)

The Company believes that it holds a substantial technological advantage as it currently possesses and utilizes the PDPS (Peptide Discovery Platform System), its drug discovery and development platform system. Nevertheless, technological advances are constantly evolving. Therefore, in order to maintain its technical superiority, the Company will need to possess a clear sense of purpose and focus on efficient technology development. To this end, the Company intends to not only reinforce its internal systems but also engage in the proactive promotion of joint research with academia as well as research institutes both in Japan and abroad.

(Issues associated with internal management and controls)

The Company recognizes the reinforcement of its corporate governance as a major issue that needs to be addressed in order to develop its corporate structure as a going concern. The Company is aware that enhancement of the efficiency, soundness and transparency of management, and the long-term, stable and continuous improvement of its share value will be indispensable in winning the trust of each stakeholder, including its shareholders. The Company will, therefore, make every effort to develop an organization equipped with agility and company-level efficiency while keeping in mind the adequacy of business execution, and the efficiency and efficacy of its management functions.

3. Financial Statements

(1) Balance Sheets

(Thousands of yen)

	As of June 30, 2013	As of June 30, 2014
Assets		
Current assets		
Cash and deposits	5,572,450	3,400,392
Accounts receivable - trade	146,802	182,174
Securities	-	2,200,000
Prepaid expenses	1,264	7,144
Deferred tax assets	40,058	20,400
Other	-	24,515
Total current assets	5,760,575	5,834,626
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings	6,546	9,708
Accumulated depreciation	(681)	(1,607)
Facilities attached to buildings, net	5,865	8,101
Tools, furniture and fixtures	269,671	339,321
Accumulated depreciation	(110,143)	(182,916)
Tools, furniture and fixtures	159,528	156,405
Total property, plant and equipment	165,393	164,506
Intangible assets		
Software	184	140
Total intangible assets	184	140
Total non-current assets	165,577	164,646
Total assets	5,926,153	5,999,273
Liabilities		
Current liabilities		
Accounts payable - trade	7,996	9,080
Accounts payable - other	49,494	10,050
Accrued expenses	27,708	40,796
Income taxes payable	55,728	25,698
Accrued consumption taxes	10,692	-
Advances received	67,403	43,587
Deposits received	10,889	6,854
Total current liabilities	229,911	136,068
Total liabilities	229,911	136,068
Net assets		
Shareholders' equity		
Capital stock	2,725,000	2,734,254
Capital surplus		
Legal capital surplus	2,721,282	2,730,536
Total capital surplus	2,721,282	2,730,536
Retained earnings		
Other retained earnings		
Retained earnings brought forward	246,891	395,404
Total retained earnings	246,891	395,404

(Thousands of yen)

	As of June 30, 2013	As of June 30, 2014
Total shareholders' equity	5,693,174	5,860,196
Subscription rights to shares	3,068	3,009
Total net assets	5,696,242	5,863,205
Total liabilities and net assets	5,926,153	5,999,273

(2) Statements of Income

(Thousands of yen)

	Fiscal year ended June 30, 2013	Fiscal year ended June 30, 2014
Net sales	678,269	818,901
Cost of sales	267,579	314,763
Gross profit	410,690	504,137
Selling, general and administrative expenses	249,879	302,775
Operating income	160,810	201,362
Non-operating income		
Interest income	68	6,409
Foreign exchange gains	57,523	13,964
Other	-	345
Total non-operating income	57,591	20,719
Non-operating expenses		
Share issuance cost	29,622	90
Going public expenses	14,588	-
Other	71	-
Total non-operating expenses	44,282	90
Ordinary income	174,119	221,992
Income before income taxes	174,119	221,992
Income taxes - current	44,498	53,820
Income taxes - deferred	(7,559)	19,658
Total income taxes	36,939	73,479
Net income	137,180	148,512

(3) Statements of Changes in Equity

Fiscal year ended June 30, 2013

(Thousands of yen)

	Shareholders' equity						Subscription rights to shares	Total net assets
	Capital stock	Capital surplus		Retained earnings		Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings			
Balance at the beginning of current period	108,750	105,750	105,750	109,711	109,711	324,211	3,068	327,279
Changes of items during period								
Issuance of new shares	2,616,250	2,615,532	2,615,532			5,231,782		5,231,782
Net income				137,180	137,180	137,180		137,180
Net changes of items other than shareholders' equity							—	—
Total changes of items during period	2,616,250	2,615,532	2,615,532	137,180	137,180	5,368,962	—	5,368,962
Balance at the end of current period	2,725,000	2,721,282	2,721,282	246,891	246,891	5,693,174	3,068	5,696,242

Fiscal year ended June 30, 2014

(Thousands of yen)

	Shareholders' equity						Subscription rights to shares	Total net assets
	Capital stock	Capital surplus		Retained earnings		Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings			
Balance at the beginning of current period	2,725,000	2,721,282	2,721,282	246,891	246,891	5,693,174	3,068	5,696,242
Changes of items during period								
Issuance of new shares	9,254	9,254	9,254			18,509		18,509
Net income				148,512	148,512	148,512		148,512
Net changes of items other than shareholders' equity							(59)	(59)
Total changes of items during period	9,254	9,254	9,254	148,512	148,512	167,021	(59)	166,962
Balance at the end of current period	2,734,254	2,730,536	2,730,536	395,404	395,404	5,860,196	3,009	5,863,205

(4) Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended June 30, 2013	Fiscal year ended June 30, 2014
Cash flow from operating activities		
Income before income taxes	174,119	221,992
Depreciation	52,365	73,742
Interest and dividend income	(68)	(6,409)
Foreign exchange losses (gains)	(33,711)	(10,550)
Share issuance cost	29,622	90
Going public expenses	14,588	-
Decrease (increase) in notes and accounts receivable - trade	(107,647)	(35,372)
Decrease (increase) in prepaid expenses	(1,264)	(5,879)
Increase (decrease) in notes and accounts payable - trade	5,619	1,084
Increase (decrease) in accounts payable - other	39,678	(39,111)
Increase (decrease) in accrued expenses	14,377	13,088
Increase (decrease) in accrued consumption taxes	7,442	(10,692)
Increase (decrease) in advances received	59,903	(23,816)
Increase (decrease) in deposits received	6,027	(4,034)
Other, net	12,789	(28,739)
Subtotal	273,844	145,390
Interest and dividend income received	68	3,293
Income taxes paid	(39,346)	(76,510)
Net cash provided by (used in) operating activities	234,566	72,174
Cash flow from investing activities		
Decrease (increase) in time deposits	-	(1,200,000)
Purchase of short-term and long-term investment securities	-	(2,400,000)
Proceeds from redemption of short-term and long-term investment securities	-	200,000
Purchase of property, plant and equipment	(112,404)	(73,143)
Purchase of intangible assets	(221)	-
Net cash provided by (used in) investing activities	(112,625)	(3,473,143)
Cash flow from financing activities		
Proceeds from issuance of common shares	5,202,159	-
Payments for going public expenses	(14,588)	-
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	-	18,360
Net cash provided by (used in) financing activities	5,187,570	18,360
Effect of exchange rate change on cash and cash equivalents	33,711	10,550
Net increase (decrease) in cash and cash equivalents	5,343,222	(3,372,058)
Cash and cash equivalents at beginning of period	229,227	5,572,450
Cash and cash equivalents at end of period	5,572,450	2,200,392

(5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Equity in earnings and losses, etc.)

Not applicable.

(Segment information, etc.)

[Segment information]

The Company operates in a single business segment, the Alliance business segment. As such, statements for segment information are omitted because of immateriality.

(Per share information)

	Fiscal year ended June 30, 2013	Fiscal year ended June 30, 2014
Net assets per share	429.96 yen	436.24 yen
Net income per share	12.32 yen	11.09 yen
Diluted net income per share	9.86 yen	9.27 yen

(Notes) 1. As the Company became listed on the Mothers section of the Tokyo Stock Exchange on June 11, 2013, diluted net income per share for the previous fiscal year is calculated by assuming the average of the stock price between the day of the listing to the end of the previous fiscal year as the average stock price for the previous fiscal year.

2. Based on the resolution of the Board of Directors' meeting held on January 11, 2013, the Company conducted a 100-for-1 stock split of its common stock effective February 13, 2013. Net assets per share and net income per share have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

3. Net income per share is calculated based on the following basis:

Items	Fiscal year ended June 30, 2013	Fiscal year ended June 30, 2014
Net income per share		
Net income (thousands of yen)	137,180	148,512
Net income not attributable to common shareholders (thousands of yen)	—	—
Net income related to common stock (thousands of yen)	137,180	148,512
Average number of common stock during the period (shares)	11,131,038	13,393,037
Diluted net income per share		
Adjustments for net income (thousands of yen)	—	—
Number of increase of common stock (shares) (Subscription rights to shares)	2,785,306 (2,785,306)	192,000 (192,000)
Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share	—	—

4. Net assets per share is calculated based on the following basis:

Items	As of June 30, 2013	As of June 30, 2014
Total net assets (thousands of yen)	5,696,242	5,863,205
Amounts deducted from total net assets (thousands of yen)	3,068	3,009
(Subscription rights to shares) (thousands of yen)	(3,068)	(3,009)
Amounts of net assets related to common stock at the end of the period (thousands of yen)	5,693,174	5,860,196
Number of common stock at the end of the period used for the calculation of net assets per share (shares)	13,241,300	13,433,300

(Significant subsequent events)

Not applicable.