Non-consolidated Financial Results for the Six Months Ended December 31, 2014 [Japanese GAAP]

February 10, 2015

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Scheduled starting date of dividend payments: —
Supplementary briefing materials on quarterly financial results: No
Explanatory meeting on quarterly financial results: Yes

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

1. Financial Results for the Six Months Ended December 31, 2014 (July 1, 2014 to December 31, 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	%
Six Months Ended December 31, 2014	387	(17.1)	(14)	-	70	(64.2)	47	(63.2)
Six Months Ended December 31, 2013	467	-	165	-	197	-	129	-

	Net income per share	Diluted net income per share
	Yen	Yen
Six Months Ended December 31, 2014	3.51	2.94
Six Months Ended December 31, 2013	9.71	8.09

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2014	6,043	5,943	98.1
As of June 30, 2014	5,999	5,863	97.7

(Reference) Equity As of December 31, 2014: 5,927 million yen
As of June 30, 2014: 5,860 million yen

2. Payment of Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year ended June 30, 2014	-	0.00	-	0.00	0.00
Fiscal Year ending June 30, 2015	-	0.00			
Fiscal Year ending June 30, 2015 (forecast)			-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: No

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) Revision to the forecast for financial results announced most recently: No

[Notes]

(1) Adoption of accounting policies specific to the preparation of quarterly financial statements : None

(2) 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

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	As of December 31, 2014	13,653,300 shares	As of June 30, 2014	13,433,300 shares
2) Number of treasury stock at the end of the period	As of December 31, 2014	- shares	As of June 30, 2014	- shares
3) Average number of shares during the period	Six months ended December 31, 2014	13,595,257 shares	Six months ended December 31, 2013	13,363,800 shares

* Presentation regarding the implementation status of the quarterly review procedures

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, review procedures for the quarterly 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.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

During the six months ended December 31, 2014 (from July 1, 2014 to December 31, 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.

As for a specific example of progress in joint research and development activities, the Company agreed with Novartis to further optimize, for the late stage of non-clinical trials, nonstandard constrained/macrocyclic peptide (with the target undisclosed), which was discovered through the Collaboration and License Agreement initiated in the year of 2010 and extended in the year of 2012, and extended the original agreement in September 2014. Furthermore, in December 2014 the Company extended an agreement on joint research and development of another drug target.

As an example which demonstrates the rising reputation of the Company's PDPS and nonstandard constrained/macrocyclic peptide, U.S.-based Bristol-Myers Squibb, in August 2014 at the 248th "American Chemical Society National Meeting and Exposition," held in San Francisco in the U.S., presented the powerfulness of the Company's PDPS in producing novel nonstandard constrained/macrocyclic peptide and extremely high potential of nonstandard constrained/macrocyclic peptide against target molecules for diseases difficult to be treated, by naming molecules or nonstandard constrained/macrocyclic peptide with the weight of 500-2,000 Da "Millamolecules," using one of the lead compounds produced by joint research and development with the Company as an example.

Furthermore, an international patent concerning macrocyclic peptide inhibitors of the PD1/PD-L1 and CD80/PD-L1 protein/protein interactions was published. The macrocyclic peptides are a focus of attention as drug targets useful for the amelioration of various diseases, including cancer and infectious diseases. For the Company, these peptides are the first patent-approved lead peptides and there are high expectations concerning further development in contemplation of clinical trials.

In September 2013, the Company concluded a non-exclusive License Agreement with Bristol-Myers Squibb concerning PDPS. Technology transfer to Bristol-Myers Squibb has completed smoothly and Bristol-Myers Squibb has started producing nonstandard constrained/macrocyclic peptides.

Also, with regards to Kras, a well-known oncogene in cancer and a promising drug target with which no effective drug candidate has been detected despite over 20 years of research and development, MedImmune/AstraZeneca presented at an international academic conference research and development data on macrocyclic/constrained peptides that are cyclic peptide binders to Kras and are highly potent in the inhibition of Kras in cancer cells. This validates that the Company's macrocyclic peptides can penetrate cells and inhibit previously intractable intracellular targets and there are high expectations of future application to clinical trials.

As a result, the Company reported net sales of 387,736 thousand yen (down 80,175 thousand yen from the same period of the previous year), an operating loss of 14,538 thousand yen (operating income of 165,340 thousand yen for the same period of the previous fiscal year), ordinary income of 70,644 thousand yen (down 126,844 thousand yen from the same period of the previous fiscal year), and net income of 47,735 thousand yen (down 82,008 thousand yen from the same period of the previous fiscal year) for the six months ended December 31, 2014.

The Company operates in a single business segment, and thus statements for segment information are omitted.

(2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the second quarter ended December 31, 2014 increased by 44,481 thousand yen from the end of the previous fiscal year to 6,043,755 thousand yen. This was mainly because accounts receivable - trade increased by 56,049 thousand yen.

Liabilities decreased by 35,566 thousand yen from the end of the previous fiscal year to 100,502 thousand yen. This was mainly because accrued expenses and advances received decreased by 14,100 thousand yen and 27,254 thousand yen, respectively.

Net assets increased by 80,047 thousand yen from the end of the previous fiscal year to 5,943,252 thousand yen. This was

mainly because net income amounting to 47,735 thousand yen was recorded and capital stock and capital surplus increased by 9,618 thousand yen and 9,618 thousand yen, respectively.

2) Analysis of status of cash flows

Cash and cash equivalents for the six months ended December 31, 2014 increased by 1,130,571 thousand yen from the end of the previous fiscal year to 3,330,964 thousand yen.

Status of cash flows and the factors during the six months ended December 31, 2014 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash outflow of 52,215 thousand yen (decreased by 1,952 thousand yen from the same period of the previous fiscal year). This was mainly due to an increase of 56,049 thousand yen in notes and accounts receivable - trade, a decrease of 27,254 thousand yen in advances received, and income taxes paid amounting to 21,168 thousand yen, despite recording of income before income taxes amounting to 70,644 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash inflow of 1,100,482 thousand yen (cash outflow of 3,205,198 thousand yen for the same period of the previous fiscal year). This was due to proceeds from redemption of securities amounting to 1,300,000 thousand yen, while purchase of property, plant and equipment and purchase of securities amounted to 95,777 thousand yen and 100,000 thousand yen, respectively.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 31,850 thousand yen (increased by 14,690 thousand yen from the same period of the previous year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares and proceeds from issuance of subscription rights to shares amounting to 18,879 thousand yen and 12,970 thousand yen, respectively.

(3) Explanation of Financial Forecasts and Other Forward-looking Information

Financial forecasts remain unchanged from the forecasts for the fiscal year ending June 30, 2015 announced on August 12, 2014.

2. Summary Information (Notes)

(1) Adoption of Accounting Policies Specific to the Preparation of Quarterly Financial Statements

Not applicable.

(2) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatements

Not applicable.

3. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Thousands of yen)

	As of June 30, 2014	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	3,400,392	4,530,964
Accounts receivable - trade	182,174	238,223
Securities	2,200,000	1,000,000
Deferred tax assets	20,400	12,412
Other	31,659	36,079
Total current assets	5,834,626	5,817,679
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings, net	8,101	20,375
Tools, furniture and fixtures, net	156,405	201,966
Total property, plant and equipment	164,506	222,342
Intangible assets	140	3,733
Total non-current assets	164,646	226,075
Total assets	5,999,273	6,043,755
Liabilities		
Current liabilities		
Accounts payable - trade	9,080	13,317
Accounts payable - other	10,050	18,811
Accrued expenses	40,796	26,695
Income taxes payable	25,698	19,995
Advances received	43,587	16,332
Other	6,854	5,349
Total current liabilities	136,068	100,502
Total liabilities	136,068	100,502
Net assets		
Shareholders' equity		
Capital stock	2,734,254	2,743,872
Capital surplus	2,730,536	2,740,154
Retained earnings	395,404	443,140
Total shareholders' equity	5,860,196	5,927,167
Subscription rights to shares	3,009	16,085
Total net assets	5,863,205	5,943,252
Total liabilities and net assets	5,999,273	6,043,755

(2) Quarterly Statements of Income

Six months ended December 31, 2013 and 2014

(Thousands of yen)

	Six months ended December 31, 2013	Six months ended December 31, 2014
Net sales	467,912	387,736
Cost of sales	149,092	244,082
Gross profit	318,819	143,654
Selling, general and administrative expenses	153,478	158,192
Operating income (loss)	165,340	(14,538)
Non-operating income		
Interest income	877	5,014
Foreign exchange gains	31,359	80,291
Other	2	339
Total non-operating income	32,238	85,644
Non-operating expenses		
Share issuance cost	90	120
Other	-	341
Total non-operating expenses	90	461
Ordinary income	197,488	70,644
Income before income taxes	197,488	70,644
Income taxes - current	52,786	14,920
Income taxes - deferred	14,957	7,987
Total income taxes	67,744	22,908
Net income	129,744	47,735

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Six months ended December 31, 2013	Six months ended December 31, 2014
Cash flow from operating activities		
Income before income taxes	197,488	70,644
Depreciation	33,720	45,466
Interest and dividend income	(877)	(5,014)
Foreign exchange losses (gains)	(15,976)	(50,454)
Share issuance cost	90	120
Decrease (increase) in notes and accounts receivable - trade	(137,598)	(56,049)
Increase (decrease) in notes and accounts payable - trade	(3,934)	4,236
Increase (decrease) in accounts payable - other	(34,265)	1,383
Increase (decrease) in accrued expenses	18,387	(14,100)
Increase (decrease) in advances received	(37,828)	(27,254)
Other, net	(33,220)	(5,299)
Subtotal	(14,013)	(36,321)
Interest and dividend income received	251	5,274
Income taxes paid	(40,405)	(21,168)
Net cash provided by (used in) operating activities	(54,167)	(52,215)
Cash flow from investing activities		
Net decrease (increase) in time deposits	(1,200,000)	-
Purchase of short-term and long-term investment securities	(2,000,000)	(100,000)
Proceeds from redemption of securities	-	1,300,000
Purchase of property, plant and equipment	(5,198)	(95,777)
Purchase of intangible assets	-	(3,740)
Net cash provided by (used in) investing activities	(3,205,198)	1,100,482
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	17,160	18,879
Proceeds from issuance of subscription rights to shares	-	12,970
Net cash provided by (used in) financing activities	17,160	31,850
Effect of exchange rate change on cash and cash equivalents	15,976	50,454
Net increase (decrease) in cash and cash equivalents	(3,226,230)	1,130,571
Cash and cash equivalents at beginning of period	5,572,450	2,200,392
Cash and cash equivalents at end of period	2,346,220	3,330,964

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.