Disclaimer: This translation is prepared and provided for readers' convenience only. This summary does not constitute any guarantee, and the Company will not compensate any losses and/or damage stemming from actions taken based on these statements. In the case that there is any discrepancy between the Japanese and English versions, the Japanese version is assumed to be correct.

February 12, 2016

Summary of Non-consolidated Financial Results for the Fiscal Year ended December 31, 2015 (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 general meeting of shareholders: March 30, 2016
Scheduled date of dividend payment: —
Scheduled date of filing of securities report: March 31, 2016
Supplementary documents for financial results: Yes
Financial results briefing: Yes (for institutional investors and analysts)

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

1. Non-consolidated financial results for the fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

(1) Non-consolidated operating results

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

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	million yen	%	million yen	%	million yen	%	million yen	%
December 31, 2015	145	(5.5)	(1,864)	–	(1,795)	–	(1,854)	–
December 31, 2014	153	32.4	(2,122)	–	(1,942)	–	(464)	–

	Net income per share	Net income per share (Diluted)	Net income/ equity	Ordinary income/ total assets	Operating income/ net sales
Fiscal year ended	yen	yen	%	%	%
December 31, 2015	(116.45)	–	(39.78)	(36.07)	(1,281.5)
December 31, 2014	(33.23)	–	(8.84)	(32.88)	(1,379.2)

Note: The financial figure that the Company presents as business revenues in the statement of income is displayed above as net sales.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
December 31, 2015	4,752	4,514	94.8	239.96
December 31, 2014	5,202	4,831	92.7	324.47

Reference: Equity As of December 31, 2015: 4,503 million yen As of December 31, 2014: 4,820 million yen

(3) Non-consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	million yen	million yen	million yen	million yen
December 31, 2015	(2,116)	665	1,701	2,243
December 31, 2014	–	–	–	–

Note: The consolidated operating results for the fiscal year ended December 31, 2014 have previously been disclosed. However, as operating results are now being disclosed on a non-consolidated basis from the fiscal year ended December 2015, cash flows in the fiscal year ended December 31, 2014 is not presented.

2. Dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio	Ratio of dividends to net assets
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended December 31, 2014	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ended December 31, 2015	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ending December 31, 2016 (forecast)	–	0.00	–	0.00	0.00		–	

3. Forecasts of non-consolidated financial results for the fiscal year ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(Percentage figures represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2016	950	552.9	(819)	–	(819)	–	(825)	–	(44.00)

Note: As the Company conducts performance management on an annualized basis, forecasts of results over a six-month period are omitted from this report.

*** Notes**

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

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

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

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

(2) Number of issued shares (common shares)

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

As of December 31, 2015	18,767,200 shares
As of December 31, 2014	14,857,200 shares

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

As of December 31, 2015	– shares
As of December 31, 2014	– shares

c. Average number of outstanding shares during the period

For the fiscal year ended December 31, 2015	15,923,610 shares
For the fiscal year ended December 31, 2014	13,980,625 shares

*** Status of audit procedures for financial reports**

This Summary of Financial Results is exempt from the external auditor's audit procedures for non-consolidated financial statements under the Financial Instruments and Exchange Act. Audit procedures for non-consolidated financial statements under the said Act are incomplete at the time of disclosure of this Summary of Financial Results.

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

(Caution concerning forward-looking statements)

Forward-looking statements provided in this document, including financial forecasts, are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future realization. Actual results, etc. may differ materially from the forecasts depending on various factors. Please refer to "1. Analysis of business results and financial positions, (1) Analysis of business results" on page 2 of the attached material for the suppositions that form the assumptions for financial forecasts and cautions concerning the use of financial forecasts.

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

The Company plans to hold a financial results briefing for institutional investors and securities analysts on Monday, February 15, 2016.

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

Contents of attachment

1. Analysis of business results and financial positions 2
(1) Analysis of business results 2
(2) Analysis of financial positions 4
(3) Basic policy on profit distribution and dividends for fiscal years 2015 and 2016 6
2. Management Policy 7
(1) Basic policies for company management 7
(2) Target management indicators 7
(3) Medium- and long-term management strategy 7
(4) Issues to address 8
(5) Critical contracts for operation and others 10
3. Basic rationale for selecting the accounting standard 15
4. Non-consolidated financial statements 16
(1) Non-consolidated balance sheet 16
(2) Non-consolidated statement of income 18
(3) Non-consolidated statement of changes in equity 19
(4) Non-consolidated statement of cash flows 21
(5) Notes to non-consolidated financial statements 22
Non-consolidated statement of income 22
Non-consolidated statement of changes in equity 22
Significant subsequent events 25
5. Others 27
(1) Shift to a company with an Audit and Supervisory Committee and appointment of officers 27
(2) Partial amendments to the Articles of Incorporation 27

1. Analysis of business results and financial positions

(1) Analysis of business results

1) Non-consolidated results for the fiscal year ended December 31, 2015

Overall trend

During the fiscal year under review, the Japanese economy was on a recovery path. However, the outlook for the Japanese economy is gloomy as the effects of the weaker yen ran its course toward the end of the year, coupled with the impact of China's market crash and slide in the commodity markets including crude oil.

The pharmaceutical sector in Japan is experiencing an increasingly challenging business environment due to several factors including the globalization of the market, increased competition among companies and government measures to contain medical expenditures by such means as promoting the use of generic medicines. As a result, industry realignment through M&A is gaining momentum in Japan and overseas. Meanwhile, in the field of drug discovery research and development, the Japan Agency for Medical Research and Development, or "AMED" was established in April 2015, and a government-project-led drug discovery business support structure has been put in place.

Against this backdrop, the Company pushed ahead with research and development and sales activities, aiming to continuously generate compounds developed as pharmaceuticals, to expand its research and development portfolio, and to license out developed compounds.

On the business front, the Company obtained a research collaboration fund by conducting collaborative research with Asahi Kasei Pharma Corporation on drug discovery research. In addition, we signed a research collaboration agreement (hereinafter referred to as the "Agreement") with XuanZhu Pharma Co., Ltd. (headquarters: Shandong, China) with the aim to develop pre-clinical compounds for a specific ion channel target that could lead to new pain treatment.

As the status of clinical trials, the Phase III clinical trials that started in South Korea in 2015 with regard to an acid pump antagonist that is licensed out to CJ Healthcare Corporation (headquarters: Seoul, South Korea) are progressing steadily. Moreover, a second generation (atypical) antipsychotic drug, ziprasidone, that is licensed out to Meiji Seika Pharma Co., Ltd., is also making steady progress in the Phase III clinical trials that started in 2015 in Japan. For the EP_4 antagonist that was licensed out to Aratana Therapeutics Inc. (headquarters: State of Kansas, U.S.) (hereinafter referred to as "Aratana Inc. (U.S.)"), necessary trials have been completed and preparations are underway for filing for approval and commencement of sales in 2016. In addition, the Ghrelin receptor agonist has produced favorable results in the final stage of animal pharmaceutical clinical trials, and preparations are underway for filing for approval and commencement of sales in 2016.

In August 2015, the Company completed the Phase I clinical trials for an acid pump antagonist that was started in 2014 in Japan. As the Company expected, it demonstrated a faster effect in controlling the secretion of stomach acids compared with the current products for treatment of gastro-esophageal reflux disease. As for the acid pump antagonist, the Phase III clinical trials are under way in South Korea as mentioned above, and the Company will continue to work toward its commercialization in Japan. In addition, we launched the Phase I clinical trials for a 5-HT_{2B} antagonist (RQ-00310941), which we are developing for treatment of diarrhea-predominant irritable bowel syndrome (IBS), in the U.K. in July 2015.

In the area of collaboration with academia, the Company established two new laboratories for academic-industrial research collaboration, the Laboratory of Pharmaceutical Sciences & Analytical Chemistry and the Laboratory of Medicinal Chemistry with Nagoya University, and the Company relocated its chemistry research division, which carried out research in Taketoyo town in Aichi Prefecture, to the Higashiyama Campus of Nagoya University. We will further step up drug discovery research activities with Nagoya University through academic-industrial collaboration.

In July 2015, the Company obtained authorization as 2015 First Collaborative New Business Development Plan with Other Business Sector (new collaborative plan) by the Chubu Bureau of Economy, Trade and Industry of Ministry of Economy, Trade and Industry. In addition, our project was adopted as 2015 New Collaboration Business to Promote Commercial and Service Competitiveness (new collaboration business) by the bureau in August 2015. The Company is to receive subsidy for up to two-thirds of costs eligible for subsidy, with the upper limit of subsidy set at 30 million yen, for the first year and subsidy in the second year in the amount, in principle, equal to the amount of subsidy granted for the first year.

Financial results for the fiscal year ended December 31, 2015, the reporting period, were as follows. Business revenue for the period was 145 million yen, operating loss totaled 1,864 million yen, ordinary loss totaled 1,795 million yen, and net loss was 1,854 million yen. Total business expenses were 2,010 million yen, of which research and development expenses were 1,302 million yen. Other selling, general and administrative expenses totaled 707 million yen.

In this reporting period, a gain on sales of investment securities of 65 million yen, office transfer expenses of 43 million yen and special retirement expenses associated with the voluntary retirement scheme of 69 million yen were recognized.

Research and development activities

Research and development expenses of the Company during the fiscal year ended December 31, 2015 were 1,302 million yen. The main components of these activities were as follows:

<RaQualia's research and development and collaborative research>

(A) Exploratory and discovery phase

The Company continued to evaluate a selective sodium channel blocker compound for indications such as inflammatory pain and neuropathic pain. In addition, the Company explored new lead compounds and discovered several candidate compounds.

In a project to develop TRPM8 blocker compounds primarily for indications such as neuropathic pain, the Company continued an investigation of preclinical efficacy for clinical development candidates.

The Company continued collaborative research with four companies.

Company	Start date	Content
Ajinomoto Pharmaceuticals Co., Ltd.	October 2012	Collaboration on a specific ion channel target for gastrointestinal treatments
Interprotein Corporation	February 2013	Collaboration on a specific protein-protein interaction (PPI) inhibitor for pain treatments
XuanZhu Pharma Co., Ltd.	December 2015	Collaboration on a specific ion channel target for pain treatments

(Note) With regard to "Collaboration on a specific ion channel target" that had been ongoing since April 2015 in cooperation with Asahi Kasei Pharma Corporation, the project was completed in December 2015 and we received a milestone payment. We are currently carrying on negotiations toward signing an agreement with the company for the next stage of research.

(B) Preclinical development phase

a) Ghrelin receptor agonist (RQ-00433412)

The compound is under development for cancerous cachexia. The Company has completed investigation of preclinical efficacy and is considering moving on to the next stage of performing preclinical development study.

b) Motilin receptor agonist (RQ-00201894)

The compound is under development for GI motility disorders. The Company has completed the preclinical studies, including *in vivo* pharmacology studies, metabolism and pharmacokinetics studies, toxicity studies (GLP) and safety pharmacology studies (GLP), which were the prerequisite studies for Phase I clinical trials. The Company found no problem for moving on to the next stage of development.

(C) Clinical development phase

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

The compound is under development for functional gastrointestinal disorders (FGID). The Company received an investigational new drug (IND) approval to conduct investigator-initiated clinical trials at Virginia Commonwealth University (VCU) from the U.S. Food and Drug Administration (FDA). Final preparations for conducting trials are currently under way at VCU, and the Company has continually been providing support to VCU from the perspective of science.

b) Acid pump antagonist (RQ-00000004)

The compound is under development for gastro-esophageal reflux disease (GERD), and the Company completed the Phase I clinical trials in Japan, following those in the U.S., and finished preparing a clinical trial summary report in accordance with the guidelines. As a result of conducting clinical trials of the compound, we achieved results that confirmed the favorable safety, tolerability and pharmacokinetic profiles and revealed excellent pharmacological nature also for Japanese. Specifically, the compound showed significant strong gastric acid secretion inhibitive activity immediately after dosing, and the effect lasted for many hours (24-hour pH$\geqq$4 Retention time ratio = 90%). We will continue with our activities toward licensing out the compound.

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

For the compound, which is under development for diarrhea-predominant irritable bowel syndrome (IBS), the Company launched the Phase I clinical trials for the first administration of the compound to human (involving healthy adults and patients) in July 2015 in U.K., which is currently ongoing.

d) Second-generation semisynthetic lipoglycopeptide antibacterial agent (dalbavancin)

The Company signed an agreement with Durata Therapeutics, Inc. (currently, Allergan, Inc.) in December 2010 to transfer the rights on dalbavancin, which it had owned as a treatment for acute bacterial skin and skin structure infections (ABSSSI), but reacquired the rights in Japan on June 23, 2015 in accordance with provisions of the rights transfer agreement. We will conduct further activities to prepare for development in Japan and find

a new licensee corporation. The agent has been launched as a treatment for ABSSSI under the brand name of DALVANCE™ in the U.S., and received marketing approval under the brand name of XYDALBA™ in Europe in March 2015.

<Status of development at licensee corporation>

a) Acid pump antagonist (RQ-00000004, tegoprazan)

The compound is under development for gastro-esophageal reflux disease (GERD) by CJ Healthcare Corporation in South Korea, and is undergoing Phase III clinical trials in South Korea. In addition, preparations are under way to start its development in China.

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

The compound is under development for schizophrenia by Meiji Seika Pharma Co., Ltd., and is undergoing Phase III clinical trials in Japan. The agent has already been marketed in 83 countries by Pfizer Inc. in the U.S., and is listed as a first-line drug in the U.S. Treatment Guidelines.

c) EP_4 antagonist (RQ-00000007, AT-001, grapiprant)

The compound is under development for pain management for pets by Aratana Therapeutics, Inc. (U.S.). Following favorable results of clinical trials with dogs in the U.S., Aratana is proceeding with the procedures for filing an application for a new animal drug approval with the FDA.

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

The compound is under development for an anorectic drug for pets by Aratana Therapeutics, Inc. in the U.S. Following favorable results obtained in clinical trials with dogs, Aratana is proceeding with procedures for filing an application for a new animal drug approval with the FDA.

e) EP_4 antagonist (RQ-00000007, AAT-007, grapiprant)

The compound was licensed out to AskAt, which is advancing licensing activities as a human pharmaceutical.

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

The compound was licensed out to AskAt, which is advancing licensing activities as a human pharmaceutical.

2) Outlook for the fiscal year ended December 31, 2016

Looking ahead to the next fiscal year (the fiscal year ending December 31, 2016), on the business front, the Company will continue working steadily to secure profits by licensing out development compounds and managing alliances. On the research and development front, the Company will promote alliances and collaborative research with pharmaceutical companies and others through the advancement of projects at the exploratory and development phases, and thus enhance its corporate value.

On the profitability front, the Company will receive a certain amount of milestone under the out-licensing agreement signed with Aratana (U.S.) in December 2010, upon filing an application for approval and commencing sales of grapiprant (RQ-00000007, AT-001, EP_4 antagonist) and capromorelin (RQ-00000005, AT-002, Ghrelin receptor agonist) in the U.S. The Company will also obtain a research collaboration fund as the collaborative research projects with pharmaceutical companies including XuanZhu Pharma Co., Ltd. (China) progress. At present, the Company is working with Asahi Kasei Pharma Corporation toward an agreement for the next stage of research as a joint research project was completed in December 2015 and expects to receive a research collaboration fund once an agreement is successfully concluded. While considering in-house development of medicinal drug compounds candidates under clinical development phase, such as acid pump antagonist (RQ-00000004) and dalbavancin as well as the ion channel drug discovery , the Company aims to partner with pharmaceutical firms via out-licensing agreements.

With regard to costs, business expenses are expected to fall substantially in an ongoing effort to cut operating costs, and in addition, a voluntary retirement scheme implemented twice during the last fiscal year and employees' salary revision this fiscal year have been implemented. On the other hand, a certain level of research and development expenses are expected to support the continuing research and development activities planned for future profit generation.

As for the outlook of non-consolidated financial results for the fiscal year ending December 31, 2016, the Company forecasts business revenues of 950 million yen, operating loss of 819 million yen, ordinary loss of 819 million yen and net loss of 825 million yen.

The forecast figures presented above are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future realization. Actual results, etc., may differ materially from the forecasts depending on various factors. The outlook for fiscal 2016 is based on the assumption that Aratana (U.S.), the licensee, is to file for approval and commence sales in the U.S. and thus actual results may differ from the financial forecast depending on the regulatory review. In the case where the Company acknowledges the need to revise the financial forecast, it will disclose such information promptly.

(2) Analysis of financial positions

1) Status of assets, liabilities and net assets

Assets

Total assets as of December 31, 2015 were 4,752 million yen. The major components were 1,840 million yen in cash and deposits, 503 million yen in securities, and 1,751 million yen in investment securities.

Liabilities

Total liabilities as of December 31, 2015 were 237 million yen. The major components were 123 million yen in accounts payable - other, 57 million yen in accrued expenses, and 25 million yen in deferred tax liabilities.

Net assets

Total net assets as of December 31, 2015 were 4,514 million yen (down 6.6% from the previous fiscal year). The major components were 9,806 million yen in capital stock, 5,090 million yen in capital surplus, negative 10,421 million yen in retained earnings, and 28 million yen in valuation difference on available-for-sale securities. The equity ratio was 94.8%.

2) Status of cash flows

The balance of cash and cash equivalents (hereafter "cash") as of December 31, 2015 amounted to 2,243 million yen, an increase of 251 million yen compared with the end of the previous fiscal year.

The respective cash flows in the fiscal year ended December 31, 2015 and the factors thereof are as follows.

Cash flows from operating activities

Net cash used in operating activities was 2,116 million yen. This is mainly attributable to other business expenses such as research and development expenses of 2,010 million yen and payments for removal expenses of 43 million yen.

Cash flows from investing activities

Net cash provided by investing activities was 665 million yen. This is primarily due to proceeds from redemption of securities of 1,557 million yen, purchase of securities of 620 million yen, and purchase of property, plant and equipment of 195 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 1,701 million yen. This is primarily due to proceeds from issuance of shares resulting from exercise of subscription rights to shares of 1,686 million yen.

(Reference) Trend in cash flow-related indicators

	Fiscal year ended December 31, 2011	Fiscal year ended December 31, 2012	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015
Equity ratio (%)	97.6	96.5	85.9	89.6	94.8
Market value equity ratio (%)	95.0	83.9	138.9	125.3	132.69
Interest-bearing debt to cash flow ratio (years)	–	–	–	–	–
Interest coverage ratio (factor)	–	–	–	–	–

Equity ratio: equity / total assets

Market value equity ratio: market capitalization / total assets

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

Interest coverage ratio: cash flow / paid interest

(Note 1) Figures are obtained from the consolidated financial statements for the fiscal year ended December 31, 2013 and the fiscal year ended December 31, 2014 and from non-consolidated financial statements for other fiscal years.

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

(3) Basic policy on profit distribution and dividends for fiscal years 2015 and 2016

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

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

2. Management Policy

(1) Basic policies for company management

The Company is a research and development-oriented drug discovery company whose aim is to create new pharmaceutical products leveraging its cutting-edge science and technology focusing on medical fields where patients have the greatest need. The foundation of our business development is the acquisition of revenue from upfront payment, milestones and royalties by licensing out the original development compounds for new drugs that we discover to pharmaceutical companies and others. The basic policies of the Company are as below.

1) We will establish an integrated drug discovery business model from exploratory research and initial development right through to licensing out, with the aim of setting up and streamlining our system.
2) We will strive to generate innovative development compounds by conducting cutting-edge drug discovery research through industry-academia-government collaboration research.
3) We will build relationships of trust with our business partners, resulting in dependable business outcomes.

(2) Target management indicators

The Company will aim for sustained growth by promoting research and development into drugs and licensing out the compounds discovered as a result of exploratory research, preclinical trials and initial clinical trials as well as securing revenue through the commercialization and marketing carried out by licensees. We are pursuing business activities with the objective of licensing out a large number of development compounds at an early stage by further enhancing our research and development projects and promoting research and development of each development compound.

(3) Medium- and long-term management strategy

Research and development of pharmaceuticals generally requires considerable time and expense. In addition, the chances of success are not high as there are various risks before a development compound comes to market, including circumstances such as suspension or delay of research and development due to efficacy, safety and other problems at each phase of the research and development.

Under such circumstances, the Company is developing its business based on the following strategies.

1) Licensing-out and alliance management strategy

The Company has developed responsive and flexible activities for licensing-out by making its entire research and development portfolio available for licensing out at each stage from the initial exploratory phase through to the development phase. Although the top priority objective for the Company's research and development portfolio is the licensing-out of worldwide development, marketing and manufacturing rights, the Company's policy aims for licensing out in a variety of forms in order to maximize revenue, including licensing out for each region and licensing out for each dosage form as well as licensing out for animal pharmaceutical applications in accordance with the characteristics of each project and the needs of the client pharmaceutical companies and others.

Furthermore, the Company supports promotion of satisfactory development for its candidate development compounds that have already been licensed out based on the structure of the collaboration with each licensee corporation, implementing alliance management with the aim of achieving acquisition of revenue at the earliest stage possible as well as acquiring stable revenue over the long term.

2) Research and development strategy

(A) Continuous reinforcement of research and development portfolio

Since its foundation, the Company has been working on the generation of new development compounds with pain and gastrointestinal diseases as the core of our research and development program. The Company established a new division for academic-industrial research collaboration in Nagoya University in fiscal year 2014, and has since been engaging in joint research projects, ranging from cutting-edge drug discovery research to generation of innovative development compounds.

In addition, the Company will continue to undertake "Research Collaboration" projects such as those ongoing with one domestic pharmaceutical company and one overseas pharmaceutical company, with the aim to continually strengthen its research and development portfolio.

(B) Enhancement of development project value and achievement of revenue at an early stage

The clinical trial phase requires considerable research and development expenses. Therefore, the Company has been implementing "Selection and Concentration" with regard to its development compounds with the aim of reducing research and development expenses and the burden of risk. In addition to concentrating internal resources on selected programs, we will further enhance project value through the utilization of external project finance and other means as needed to achieve early acquisition of revenue. Moreover, we aim to acquire future revenue through the acceleration of development.

(4) Issues to address

The Company will work on the following as its main business challenges, with the aim of achieving profitable research results in the medium and long-term.

1) Reinforce the research and development portfolio

In order to enhance corporate value as a drug discovery venture company, the Company needs to continuously generate highly innovative development compounds and strengthen its research and development portfolio. To this end, the Company will implement the following measures:

- The Company is striving to generate development compounds early by leveraging its unique assessment system and related database etc.
- The Company is striving to develop projects aimed at new indications from its existing research and development portfolio.
- The Company will proactively advance joint research with other companies in ion channel drug discovery projects that can actively utilize the technology and knowhow of the Company with the aim of creating development compounds at an early stage.
- The Company is striving to advance exploration research activities through industry-academia-government collaboration and add new development compounds based on cutting-edge drug discovery research.

2) Enhance the value of each project by selection and concentration of resources

The Company will take the following measures according to the status of development compounds, in order to advance research and development of development compounds it owns by leveraging funds and human resources effectively.

- Licensing out preparation program..Program in which the Company promotes licensing out with a focus on independent research and development of development compounds mainly at the exploratory phase and Phase I clinical trials in which the Company has strength.
- Licensed out program .....Program whereby the Company mainly provides support to clinical development for which licensee corporation take the initiative in conducting Phase II and Phase III clinical trials.
- Research collaboration program…Program whereby the Company and pharmaceutical company combine our respective strengths mainly at the explorative stage to generate innovative development compounds

3) Strengthen the activities for licensing out and bolster alliance management functions

The Company will take the following measures to achieve commercialization of development compounds.

- In order for the Company to commercialize its portfolio of development compounds that are at stages ranging from the exploratory stage to Phase I clinical trials, it is necessary that the Company conduct clinical development. In the meantime, the Company needs to tie up with pharmaceutical companies and license out in order to advance development and minimize risk. The Company has thus set this as a high-priority issue and is working on licensing out activities through various channels.
- After licensing out, the Company will actively support promotion of development by providing data to and periodically communicating with licensee corporation, with the aim to achieve commercialization of licensed out products as early as possible.

4) Strengthen business foundation and enhance corporate value

Drug discovery venture companies including the Company are required to make upfront investment in research and development expenses for a long period of time until product launch. The Company has hence incurred an operating loss and operating cash outflow every year, from the first fiscal year to the eighth fiscal year. In addition, the Company expects the trend will continue. However, the Company recognizes that it is necessary to raise funds and generate innovative development compounds to strengthen business foundation and enhance corporate value. Given the circumstances, the Company will carry out the following measures:

- Raise funding to advance research and development

  The Company issued the 11th series share options with an exercise price amendment clause in September 2015, with the aim to advance research and development. We will continue to consider appropriate funding methods to raise funding as needed at an appropriate time until a stable revenue stream is established.
- Generate innovative development compounds through an industry-academia-government collaboration scheme

  In the U.S., which leads the world in drug development, nearly 60 percent of newly launched drugs are said to be developed by academia or drug discovery venture companies. Amid the progress of drug discovery by academia and drug discovery venture companies in Japan, the Company established a new division for academic-industrial research collaboration in Nagoya University in fiscal 2014, and is working on generation of innovative development compounds based on the cutting-edge drug discovery research in academia.

  In July 2015, the Company obtained authorization for the 2015 First Collaborative New Business Development Plan with Other Business Sectors (new collaborative plan) from the Chubu Bureau of Economy, Trade and Industry of the Ministry of Economy, Trade and Industry. In addition, our project was adopted as the 2015 New Collaboration Business to Promote Commercial and Service Competitiveness (new collaboration business) by the bureau in August 2015. We will receive a subsidy for up to two-thirds of costs eligible for the subsidy with a maximum of 30 million yen for the first year and a subsidy in the second year in the amount in principle, equal to the amount of subsidy that will be granted for the first year.

5) Improve financial strength

In order to ease the tax burden and cover the loss in retained earnings brought forward to improve financial strength, the Company passed a resolution at the Board of Directors meeting held on February 12, 2016 to propose “Reduction of Capital Stock” and “Reduction of Legal Capital Surplus” at the 8th Ordinary General Meeting of Shareholders to be held on March 30, 2016.

6) Further enhancement of compliance of internal structures and systems with the Pharmaceutical Affairs Law and the Relevant Regulations

The Company has always complied and continues to fully comply with the regulations and standards for efficacy, safety, and quality for research and development of pharmaceutical products set by each governing body in the countries within which it operates. The Company recognizes the importance of internal structures and systems to ensure compliance with these regulations and continuously carries out employee training and education regarding its Standard Operating Procedures (SOPs). These SOPs are regularly updated to reflect changes in regulations. The Company will continue to monitor and adjust to changes in the pharmaceutical affairs legislation and other relevant regulations in the countries within which it operates in order to further reinforce its compliance practices.

(5) Critical contracts for operation and others

The critical contracts for the Company's operation are as below.

1) Agreements relating to the establishment of Industry-Academia Collaborative Chair (or laboratories)

Agreement title	ESTABLISHMENT OF NEW ACADEMIC-INDUSTRIAL RESEARCH COLLABORATION DIVISION AGREEMENT
Agreement partner	Nagoya University
Date of execution	February 18, 2014
Term of agreement	Three years starting on April 1, 2014
Main content of agreement	a) The Company will establish the Industry-Academia Collaborative Chair (course name: Division for the analytical study of pharmacology efficacy)) in Nagoya University's Research Institute of Environmental Medicine (Furo-cho, Chikusa-ku, Nagoya, Aichi Prefecture). b) In line with the establishment of this division for academic-industrial research collaboration Nagoya University will provide the facility and associated services (utilities), and the Company will use the facility and associated services. c) The Company will pay Nagoya University the specified research expenses and academic-industrial research collaboration promotion expenses.

Agreement title	ESTABLISHMENT OF NEW ACADEMIC-INDUSTRIAL RESEARCH COLLABORATION LABORATORY AGREEMENT
Agreement partner	Nagoya University
Date of execution	February 17, 2015
Term of agreement	Three years starting on April 1, 2015
Main content of agreement	a) The Company will establish the laboratory for academic-industrial research collaboration (course name: Laboratory of Pharmaceutical Sciences & Analytical Chemistry)) in Nagoya University Graduate School of Medicine (Furo-cho, Chikusa-ku, Nagoya, Aichi Prefecture). b) In line with the establishment of this laboratory for academic-industrial research collaboration Nagoya University will provide the facility and associated services (utilities), and the Company will use the facility and associated services. c) The Company will pay Nagoya University the specified research expenses and academic-industrial research collaboration promotion expenses.

Agreement title	ESTABLISHMENT OF NEW ACADEMIC-INDUSTRIAL RESEARCH COLLABORATION LABORATORY AGREEMENT
Agreement partner	Nagoya University
Date of execution	February 17, 2015
Term of agreement	Three years starting on April 1, 2015
Main content of agreement	a) The Company will establish the laboratory for academic-industrial research collaboration (course name: Laboratory of Medicinal Chemistry)) in Nagoya University Graduate School of Pharmaceutical Sciences (Furo-cho, Chikusa-ku, Nagoya, Aichi Prefecture). b) In line with the establishment of this laboratory for academic-industrial research collaboration Nagoya University will provide the facility and associated services (utilities), and the Company will use the facility and associated services. c) The Company will pay Nagoya University the specified research expenses and academic-industrial research collaboration promotion expenses.

2) Agreements relating to transfer and license of intellectual property

Agreement title	INTELLECTUAL PROPERTY TRANSFER & LICENSE AGREEMENT
Agreement partner	Pfizer Inc.
Date of execution	June 30, 2008
Term of agreement	Fifty years starting on June 30, 2008
Main content of agreement	a) Pfizer Inc. will transfer the intellectual property rights or license (includes the right to sublicense) the use of intellectual property rights relating to a number of projects at the exploratory phase and development phase to the Company. b) The Company will pay Pfizer Inc. the consideration for the ANIDULAFUNGIN MARKETING RIGHTS AGREEMENT, DALBAVANCIN MARKETING RIGHTS AGREEMENT and ZIPRASIDONE HCL /ZIPRASIDONE MESYLATE MARKETING RIGHTS AGREEMENT below. c) The Company will pay Pfizer Inc. royalties for specified compounds from among the number of compounds covered by the aforementioned a).

Agreement title	ANIDULAFUNGIN MARKETING RIGHTS AGREEMENT
Agreement partner	Pfizer Inc.
Date of execution	June 30, 2008
Term of agreement	From June 30, 2008 until marketing in Japan ceases
Main content of agreement	a) Pfizer Inc. will license development, commercialization and formulation manufacturing rights and sublicensing rights pertaining to Andulafungin in Japan to the Company, and the Company will pay the consideration provided for in the separate INTELLECTUAL PROPERTY TRANSFER & LICENSE AGREEMENT. b) The Company will pay Eli Lilly and Company, which owns the patent for the compound, milestones after regulatory approval in Japan and royalties after the commencement of marketing.

Agreement title	ZIPRASIDONE HCL / ZIPRASIDONE MESYLATE MARKETING RIGHTS AGREEMENT
Agreement partner	Pfizer Inc.
Date of execution	June 30, 2008
Term of agreement	From June 30, 2008 until marketing in Japan ceases
Main content of agreement	Pfizer Inc. will license development, commercialization and formulation manufacturing rights and sublicensing rights pertaining to Ziprasidone HCL/Ziprasidone Mesylate in Japan to the Company, and the Company will pay the consideration provided for in the separate INTELLECTUAL PROPERTY TRANSFER & LICENSE AGREEMENT.

Note: The Company sublicensed the development, marketing and formulation manufacturing rights pertaining to ZiprasidoneHCL/Ziprasidone Mesylate in Japan to Meiji Seika Pharma Co., Ltd. on March 14, 2011 in exchange for receipt of certain considerations. Details on the content of the agreement are as described in 5) Agreement relating to sublicense of rights below.

3) Agreements relating to transfer of rights

Agreement title	SALE AND PURCHASE AGREEMENT
Agreement partner	AskAt Inc.
Date of execution	January 29, 2013
Main content of agreement	a) The Company will transfer all intellectual property rights pertaining to the EP_4 antagonist (RQ-00000007) to AskAt Inc. b) With the conclusion of this Agreement, the Company will receive a certain rate of the revenue that AskAt Inc. earns from RQ-00000007 as royalties as the consideration for the conclusion of this Agreement.

Notes 1: Notwithstanding this Agreement, the Company does not transfer its status under the out-licensing agreement concluded with Maruishi Pharmaceutical Co., Ltd. dated August 4, 2010. The details of the out-licensing agreement with Maruishi Pharmaceuticals Co., Ltd. are as described in 4) Agreements relating to licensing out (A) EP_4 antagonist (RQ-00000007), LICENSE AGREEMENT below.

2: With the conclusion of this Agreement, the Company will transfer its status under the out-licensing agreement concluded with Aratana Therapeutics, Inc. dated December 27, 2010 to AskAt Inc. The details of the out-licensing agreement with Aratana Therapeutics, Inc. are as described in 4) Agreements relating to licensing out (A) EP_4 antagonist (RQ-00000007), EXCLUSIVE IP LICENSE AGREEMENT FOR RQ-00000007 below.

Agreement title	SALE AND PURCHASE AGREEMENT
Agreement partner	AskAt Inc.
Date of execution	January 29, 2013
Main content of agreement	a) The Company will transfer all intellectual property rights pertaining to the EP_4 antagonist (RQ-00000008) to AskAt Inc. b) With the conclusion of this Agreement, the Company will receive a certain rate of the revenue that AskAt Inc. earns from RG-00000008 as royalties as the consideration for the conclusion of this Agreement.

Agreement title	SALE AND PURCHASE AGREEMENT
Agreement partner	AskAt Inc.
Date of execution	January 29, 2013
Main content of agreement	a) The Company will transfer all intellectual property rights, related data and the relevant compound ingredients pertaining to the cyclooxygenase-2 (COX-2) inhibitor (RQ-00317076) to AskAt Inc. b) With the conclusion of this Agreement, the Company will receive a certain rate of the revenue that AskAt Inc. earns from RQ-00317076 as royalties as the consideration for the conclusion of this Agreement.

Agreement title	SALE AND PURCHASE AGREEMENT
Agreement partner	AskAt Inc.
Date of execution	January 29, 2013
Main content of agreement	a) The Company will transfer data and compounds required for research pertaining to the 5-HT_4 partial agonist (RQ-00000009) to AskAt Inc. b) With the conclusion of this Agreement, the Company will receive a certain rate of the revenue that AskAt Inc. earns from RG-00000009 as royalties as the consideration for the conclusion of this Agreement.

Agreement title	SALE AND PURCHASE AGREEMENT
Agreement partner	AskAt Inc.
Date of execution	November 1, 2015
Main content of agreement	a) The Company will transfer all intellectual property rights and related data and compound ingredients pertaining to the CB2 antagonist project to AskAt Inc. b) With the conclusion of this Agreement, the Company will receive a certain rate of the revenue that AskAt Inc. earns from the said project as royalties as the consideration for the conclusion of this Agreement.

4) Agreements relating to licensing out

(A) EP_4 antagonist (RQ-00000007)

This development compound was transferred by Pfizer Inc. Under the INTELLECTUAL PROPERTY TRANSFER & LICENSE AGREEMENT dated June 30, 2008 between the Company and Pfizer Inc., the parties agreed to the effect that in the event that the Company licenses out rights to a third party, the Company will pay Pfizer Inc. an amount calculated by multiplying the revenue obtained through licensing out (upfront payment, milestones and royalties, etc.) by a certain rate. The details of the INTELLECTUAL PROPERTY TRANSFER & LICENSE AGREEMENT are as described in 2) Agreements relating to transfer and license of intellectual property above.

Agreement title	LICENSE AGREEMENT
Agreement partner	Maruishi Pharmaceutical Co., Ltd.
Date of execution	August 4, 2010
Term of agreement	From the date of execution of the agreement until development, manufacture and marketing of the development compound by Maruishi Pharmaceutical Co., Ltd. or its sublicensees cease
Main content of agreement	a) The Company will grant Maruishi Pharmaceutical Co., Ltd. exclusive license with sublicense rights for the development, marketing and manufacture for the intravenous formulation of EP_4 antagonist (RQ-00000007) as a human and animal pharmaceutical in Japan and the East Asia region (South Korea, China and Taiwan). b) Maruishi Pharmaceutical Co., Ltd. has options to add countries in Asia other than Japan and East Asia and countries in Europe and the United States to the region covered by the Agreement. c) The Company has an obligation to provide Maruishi Pharmaceutical Co., Ltd. with the active pharmaceutical ingredient. d) With the conclusion of this Agreement, the Company will receive an upfront payment, milestones corresponding to the stage of development, and royalties in proportion to sales of the product as the consideration for a) through c) above. e) In the event that Maruishi Pharmaceutical Co., Ltd. sublicenses its rights to a third party outside Japan, the Company will receive a certain rate of the revenue that Maruishi Pharmaceutical Co., Ltd. earns as a result of the sublicense.

Notes 1: In conjunction with the partial amendment of the content of the Agreement, the AGREEMENT RELATING TO PARTIAL AMENDMENT OF THE LICENSE AGREEMENT was concluded on December 24, 2010, and the content above reflects the content of the amended agreement.

2: Among the options in b) above, the exclusive license with sublicense rights for development, marketing and manufacture as an animal pharmaceutical was extinguished at the end of the fiscal year ended December 31, 2015 in conjunction with the conclusion of an out-licensing agreement between the Company and Aratana Therapeutics, Inc. (US). The details of the out-licensing agreement with Aratana Therapeutics, Inc. are as described in EXCLUSIVE IP LICENSE AGREEMENT FOR RQ-00000007 below.

Agreement title	EXCLUSIVE IP LICENSE AGREEMENT FOR RQ-00000007
Agreement partner	Aratana Therapeutics, Inc.
Date of execution	December 27, 2010
Term of agreement	From the date of execution of the agreement until canceled under the conditions provided for in the agreement
Main content of agreement	a) The Company will grant Aratana Therapeutics, Inc. exclusive license with sublicense rights for the worldwide development, marketing and manufacture of an EP_4 antagonist (RQ-00000007) as an animal pharmaceutical. (However, the right to the intravenous formulation of animal pharmaceuticals in Japan, South Korea, China and Taiwan is excluded.) b) The Company will supply a certain volume of the active pharmaceutical ingredient and the formulation that it already holds to Aratana Therapeutics, Inc. without compensation for the purpose of clinical trials. c) With the conclusion of this Agreement, the Company will receive an upfront payment, milestones corresponding to the stage of development, and royalties in proportion to sales of the product as the consideration for a) and b) above.

Notes 1: As of December 31, 2015, the Company owns common shares in Aratana Therapeutics, Inc.

2: The Company transferred its status under this Agreement based on the SALE AND PURCHASE AGREEMENT it concluded with AskAt Inc. dated January 29, 2013. The details of the sale and purchase agreement with AskAt Inc. are as described in 3) Agreements relating to transfer of rights, SALE AND PURCHASE AGREEMENT above.

(B) Ghrelin receptor agonist (RQ-00000005)

Agreement title	EXCLUSIVE IP LICENSE AGREEMENT FOR RQ-00000005
Agreement partner	Aratana Therapeutics, Inc.
Date of execution	December 27, 2010
Term of agreement	From the date of execution of the agreement until canceled under the conditions provided for in the agreement
Main content of agreement	a) The Company will grant Aratana Therapeutics, Inc. exclusive license with sublicense rights for the worldwide development, marketing and manufacture of the Ghrelin receptor agonist (RQ-00000005) as an animal pharmaceutical. b) The Company will supply a certain volume of the active pharmaceutical ingredient and the formulation that it already holds to Aratana Therapeutics, Inc. without compensation for the purpose of clinical trials. c) With the conclusion of this Agreement, the Company will receive an upfront payment, milestones corresponding to the stage of development, and royalties in proportion to sales of the product as the consideration for a) and b) above.

Note: As of December 31, 2015, the Company owns common shares in Aratana Therapeutics, Inc.

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

Agreement title	LICENSE AGREEMENT
Agreement partner	CJ CheilJedang Corporation
Date of execution	July 28, 2011
Term of agreement	From the date of execution of the agreement until CJ CheilJedang Corporation's obligation to pay royalties to the Company ceases
Main content of agreement	a) The Company will grant CJ CheilJedang Corporation exclusive license with sublicense rights for development, marketing and manufacture of the 5-HT_4 partial agonist (RQ-00000010) as a human pharmaceutical in South Korea, China (includes Hong Kong), Taiwan, India and the Southeast Asia region. b) With the conclusion of this Agreement, the Company will receive an upfront payment, milestones corresponding to the stage of development, and royalties in proportion to sales of the product as the consideration for a) above.

Note: This agreement was succeeded from CJ CheilJedang Corporation to CJ HealthCare Corporation on April 1, 2014.

(D) Acid pump antagonists (RQ-00000004 and RQ-00000774)

Agreement title	LICENSE AGREEMENT
Agreement partner	CJ CheilJedang Corporation
Date of execution	September 3, 2010
Term of agreement	From the date of execution of the agreement until CJ CheilJedang Corporation's obligation to pay royalties to the Company ceases
Main content of agreement	a) The Company will grant CJ CheilJedang Corporation exclusive license with sublicense rights for development, marketing and manufacture of acid pump antagonists (RQ-00000004 and RQ-00000774) as human pharmaceuticals in South Korea, China (includes Hong Kong) and Taiwan. b) The Company will grant CJ CheilJedang Corporation an option guaranteeing the same rights as in a) above with regard to backup compounds. c) With the conclusion of this Agreement, the Company will receive an upfront payment, milestones corresponding to the stage of development, and royalties in proportion to sales of the product as the consideration for a) and b) above.

Note: This agreement was succeeded from CJ CheilJedang Corporation to CJ HealthCare Corporation on April 1, 2014.

Agreement title	LICENSE AGREEMENT FOR RQ-00000004 (CJ-12420) AND RQ-00000774 IN SOUTHEAST ASIAN COUNTRIES
Agreement partner	CJ HealthCare Corporation
Date of execution	November 27, 2014
Term of agreement	From the date of execution of the agreement until CJ HealthCare Corporation's obligation to pay royalties to the Company ceases
Main content of agreement	a) The Company will grant CJ HealthCare Corporation exclusive license with sublicense rights for development, marketing and manufacture of acid pump antagonists (RQ-00000004 and RQ-00000774) as human pharmaceuticals in Southeast Asian countries. b) The Company will grant CJ HealthCare Corporation an option guaranteeing the same rights as in a) above with regard to backup compounds. c) With the conclusion of this Agreement, the Company will receive an upfront payment and royalties in proportion to sales of the product as the consideration for a) and b) above.

5) Agreement relating to sublicense of rights

Agreement title	SUBLICENSE AGREEMENT
Agreement partner	Meiji Seika Kaisha, Ltd. (now Meiji Seika Pharma Co., Ltd.)
Date of execution	March 14, 2011
Term of agreement	From the date of execution of the agreement until marketing in Japan ceases, except for termination under the condition provided for in the agreement
Main content of agreement	a) The Company grants Meiji Seika Pharma Co., Ltd. exclusive license with sublicense rights for development, marketing and manufacture in Japan of ZIPRASIDONE HCL/ZIPRASIDONE MESYLATE licensed to the Company by Pfizer Inc. under the ZIPRASIDONE HCL/ZIPRASIDONE MESYLATE MARKETING RIGHTS AGREEMENT. b) With the conclusion of this Agreement, the Company will receive an upfront payment, milestones corresponding to the stage of development, and royalties in proportion to sales of the product as the consideration for a) above.

6) Agreements relating to collaborative research

Agreement title	JOINT RESEARCH AGREEMENT
Agreement partner	Ajinomoto Pharmaceuticals Co., Ltd.
Date of execution	October 31, 2012
Term of agreement	Forty two months from the date of execution of the agreement
Main content of agreement	a) The Company will conduct joint exploratory research with Ajinomoto Pharmaceuticals Co., Ltd. on compounds for a specific ion channel. b) Ajinomoto Pharmaceuticals Co., Ltd. will develop and commercialize any compounds that are discovered as a result of the joint research. c) The Company will receive an upfront payment with the conclusion of the Agreement as consideration for commencement of a) above and research grants as consideration for execution of a). The Company will also receive milestones corresponding to the development, regulatory approval and commercialization of any compounds that are discovered as a result of the joint research. d) The Company will receive royalties at a certain rate of sales after any products are brought to market.

Note: In accordance with the Memorandum of Understanding signed on April 30, 2015, the expiration date of the agreement has been extended by one year.

3. Basic rationale for selecting the accounting standard

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

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

4. Non-consolidated financial statements

(1) Non-consolidated balance sheet

(Thousands of yen)

	As of December 31, 2014	As of December 31, 2015
Assets		
Current assets		
Cash and deposits	1,891,197	1,840,239
Accounts receivable - trade	20,000	72,866
Securities	1,184,379	503,037
Raw materials and supplies	8,728	–
Supplies	–	7,148
Advance payments - trade	58,122	179,368
Prepaid expenses	55,398	65,488
Other	43,402	39,639
Total current assets	3,261,229	2,707,787
Non-current assets		
Property, plant and equipment		
Buildings	79,622	140,198
Structures	17,518	–
Machinery and equipment	1,979	–
Tools, furniture and fixtures	349,239	394,484
Construction in progress	–	–
Accumulated depreciation	(363,035)	(273,392)
Total property, plant and equipment	85,324	261,290
Intangible assets		
Trademark right	2,781	2,306
Software	6,463	8,213
Other	2,989	3,708
Total intangible assets	12,234	14,228
Investments and other assets		
Investment securities	1,800,412	1,751,779
Long-term prepaid expenses	4,394	5,479
Other	38,528	11,545
Total investments and other assets	1,843,335	1,768,805
Total non-current assets	1,940,895	2,044,324
Total assets	5,202,124	4,752,112

(Thousands of yen)

	As of December 31, 2014	As of December 31, 2015
Liabilities		
Current liabilities		
Accounts payable - other	118,808	123,405
Accrued expenses	62,532	57,067
Income taxes payable	16,146	15,071
Advances received	13,500	–
Deposits received	5,218	4,663
Other	45,624	–
Total current liabilities	261,829	200,207
Non-current liabilities		
Asset retirement obligations	–	11,555
Deferred tax liabilities	108,806	25,985
Total non-current liabilities	108,806	37,540
Total liabilities	370,636	237,748
Net assets		
Shareholders' equity		
Capital stock	8,952,367	9,806,225
Capital surplus		
Legal capital surplus	4,236,367	5,090,225
Total capital surpluses	4,236,367	5,090,225
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(8,566,920)	(10,421,274)
Total retained earnings	(8,566,920)	(10,421,274)
Total shareholders' equity	4,621,814	4,475,176
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	198,904	28,170
Total valuation and translation adjustments	198,904	28,170
Subscription rights to shares	10,769	11,017
Total net assets	4,831,488	4,514,364
Total liabilities and net assets	5,202,124	4,752,112

(2) Non-consolidated statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015
Business revenue	153,895	145,500
Business expenses		
Cost of business revenue	2,552	–
Research and development expenses	1,479,947	1,302,452
Other selling, general and administrative expenses	793,909	707,644
Total business expenses	2,276,409	2,010,097
Operating loss	(2,122,513)	(1,864,597)
Non-operating income		
Interest income	2,923	4,142
Interest on securities	31,345	77,906
Dividend income	–	186
Foreign exchange gains	27,020	14,323
Gain on sales of securities	–	1,165
Reversal of allowance for doubtful accounts	100,000	–
Gain on valuation of compound financial instruments	20,427	–
Other	5,432	1,074
Total non-operating income	187,149	98,798
Non-operating expenses		
Loss on valuation of compound financial instruments	–	21,487
Loss on redemption of securities	–	1,530
Share issuance cost	6,919	6,400
Total non-operating expenses	6,919	29,417
Ordinary loss	(1,942,282)	(1,795,216)
Extraordinary income		
Gain on sales of non-current assets	5,520	–
Gain on sales of investment securities	1,543,899	65,655
Total extraordinary income	1,549,420	65,655
Extraordinary losses		
Loss on redemption of investment securities	–	6,000
Office transfer expenses	54,301	43,416
Special retirement expenses	10,467	69,483
Total extraordinary losses	64,768	118,900
Loss before income taxes	(457,631)	(1,848,460)
Income taxes - current	6,943	5,893
Net loss	(464,575)	(1,854,353)

(3) Non-consolidated statement of changes in equity

Fiscal year ended December 31, 2014

(Thousands of yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
		Legal capital surplus	Other retained earnings	
			Retained earnings brought forward	
Balance at beginning of current period	8,627,912	3,911,912	(8,102,345)	4,437,479
Changes of items during period				
Issuance of new shares	324,455	324,455		648,910
Net loss			(464,575)	(464,575)
Net changes of items other than shareholders' equity				
Total changes of items during period	324,455	324,455	(464,575)	184,334
Balance at end of current period	8,952,367	4,236,367	(8,566,920)	4,621,814

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	1,246,865	1,246,865	33,150	5,717,494
Changes of items during period				
Issuance of new shares				648,910
Net loss				(464,575)
Net changes of items other than shareholders' equity	(1,047,960)	(1,047,960)	(22,380)	(1,070,341)
Total changes of items during period	(1,047,960)	(1,047,960)	(22,380)	(886,006)
Balance at end of current period	198,904	198,904	10,769	4,831,488

Fiscal year ended December 31, 2015

(Thousands of yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
		Legal capital surplus	Other retained earnings	
			Retained earnings brought forward	
Balance at beginning of current period	8,952,367	4,236,367	(8,566,920)	4,621,814
Changes of items during period				
Issuance of new shares	853,858	853,858		1,707,716
Net loss			(1,854,353)	(1,854,353)
Net changes of items other than shareholders' equity				
Total changes of items during period	853,858	853,858	(1,854,353)	(146,637)
Balance at end of current period	9,806,225	5,090,225	(10,421,274)	4,475,176

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	198,904	198,904	10,769	4,831,488
Changes of items during period				
Issuance of new shares				1,707,716
Net loss				(1,854,353)
Net changes of items other than shareholders' equity	(170,733)	(170,733)	247	(170,485)
Total changes of items during period	(170,733)	(170,733)	247	(317,123)
Balance at end of current period	28,170	28,170	11,017	4,514,364

(4) Non-consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2015
Cash flows from operating activities	
Loss before income taxes	(1,848,460)
Depreciation	53,353
Interest income	(4,142)
Dividend income	(186)
Interest income on securities	(77,906)
Foreign exchange losses (gains)	(14,432)
Loss (gain) on sales of securities	(1,165)
Share issuance cost	6,400
Loss (gain) on valuation of compound financial instruments	21,487
Loss (gain) on redemption of securities	1,530
Loss (gain) on sales of investment securities	(65,655)
Loss (gain) on redemption of investment securities	6,000
Extra retirement payment	69,483
Office transfer expenses	43,416
Decrease (increase) in notes and accounts receivable - trade	(52,866)
Decrease (increase) in inventories	1,579
Decrease (increase) in advance payments	(121,245)
Decrease (increase) in prepaid expenses	(10,089)
Decrease (increase) in consumption taxes refund receivable	6,317
Increase (decrease) in accounts payable - other	(45,744)
Other, net	(62,814)
Subtotal	(2,095,143)
Interest and dividend income received	71,238
Income taxes paid	(5,769)
Payments for extra retirement payments	(37,042)
Payments for removal expenses	(43,416)
Other, net	(6,400)
Net cash provided by (used in) operating activities	(2,116,533)
Cash flows from investing activities	
Purchase of securities	(620,950)
Proceeds from sales of securities	51,089
Proceeds from redemption of securities	1,557,256
Purchase of property, plant and equipment	(195,545)
Purchase of intangible assets	(3,981)
Purchase of investment securities	(853,936)
Proceeds from sales of investment securities	559,942
Proceeds from redemption of investment securities	150,000
Proceeds from collection of guarantee deposits	26,243
Other, net	(4,201)
Net cash provided by (used in) investing activities	665,915
Cash flows from financing activities	
Proceeds from issuance of subscription rights to shares	15,450
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	1,686,260
Net cash provided by (used in) financing activities	1,701,710
Effect of exchange rate change on cash and cash equivalents	625
Net increase (decrease) in cash and cash equivalents	251,718
Cash and cash equivalents at beginning of period	1,991,558
Cash and cash equivalents at end of period	2,243,276

(5) Notes to non-consolidated financial statements

Non-consolidated statement of income

*1 The approximate ratio of expense items recorded under research and development expenses is 65.0% for the fiscal year ended December 31, 2014 and 64.8% for the fiscal year ended December 31, 2015.
Among research and development expenses, significant expense items and their amounts are as follows:

(Thousands of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015
Salaries and allowances	409,771	409,195
Research and development consignment expenses	248,242	192,391
Business consignment expenses	175,478	–
Academic-industrial research collaboration expenses	60,887	151,552
Clinical research expenses	6,074	146,146
Depreciation	14,316	41,175

*2 The approximate ratio of expense items recorded under other selling, general and administrative expenses is 34.9% for the fiscal year ended December 31, 2014 and 35.2% for the fiscal year ended December 31, 2015.
Among other selling, general and administrative expenses, significant expense items and their amounts are as follows:

(Thousands of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015
Salaries and allowances	228,301	215,602
Business consignment expenses	141,906	116,906
Patent maintenance expenses	121,284	139,990
Depreciation	6,781	8,861

*3 The contents of gain on sales of non-current assets are as follows:

(Thousands of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015
Structures	3,576	–
Tools, furniture and fixtures	1,943	–
Total	5,520	–

Non-consolidated statement of changes in equity

Fiscal year ended December 31, 2014

1. Class and total number of issued shares and treasury shares

	Fiscal year ended December 31, 2014 Number of shares at start of period (Shares)	Fiscal year ended December 31, 2014 Increase in number of shares (Shares)	Fiscal year ended December 31, 2014 Decrease in number of shares (Shares)	Fiscal year ended December 31, 2014 Number of shares at end of period (Shares)
Issued shares				
Common shares	13,557,200	1,300,000	–	14,857,200
Total	13,557,200	1,300,000	–	14,857,200
Treasury shares				
Common shares	–	–	–	–
Total	–	–	–	–

Note: The increase of 1,300,000 in the total number of issued shares is an increase resulting from exercise of stock acquisition rights.

2. Dividends

No items to report.

3. Stock acquisition rights

Category	Breakdown of stock acquisition rights	Class of shares underlying stock acquisition rights	Number of shares underlying stock acquisition rights (shares)				Balance at end of Fiscal year ended December 31, 2014 (thousand yen)
			Start of fiscal year ended December 31, 2014	Increase in fiscal year ended December 31, 2014	Decrease in fiscal year ended December 31, 2014	End of fiscal year ended December 31, 2014	
Filing company	3rd series share options (Stock acquisition rights as stock options)	–	–	–	–	–	–
	5th series share options (Stock acquisition rights as stock options)	–	–	–	–	–	–
	7th series share options (Stock acquisition rights as stock options)	–	–	–	–	–	–
	8th series share options (Stock acquisition rights as stock options on the Company's own stock)	–	–	–	–	–	–
	9th series share options (Stock acquisition rights as stock options)	–	–	–	–	–	4,763
	10th series share options (Stock acquisition rights as stock options on the Company's own stock)	–	–	–	–	–	6,006
Total		–	–	–	–	–	10,769

Notes: 1. In cases where stock acquisition rights are granted as stock options or stock options on the Company's own stock, the class and number of the shares underlying the stock acquisition rights are not provided.

2. On the grant dates of the 3rd series share options, 5th series share options and 7th series share options, as the Company's shares were not listed, fair unit values on the grant dates were calculated according to a method in which the intrinsic value per unit was estimated. The intrinsic value at the end of the fiscal year ended December 31, 2014 (intrinsic value on grant date) was zero for each of the series and there was no balance as of the end of the fiscal year ended December 31, 2014.

3. The Company acquired and cancelled all 8th series share options remaining unexercised on July 22, 2014, and therefore, there are no such share options remaining unexercised at the end of the fiscal year ended December 31, 2014.

Fiscal year ended December 31, 2015

1. Class and total number of issued shares and treasury shares

	Fiscal year ended December 31, 2015 Number of shares at start of period (Shares)	Fiscal year ended December 31, 2015 Increase in number of shares (Shares)	Fiscal year ended December 31, 2015 Decrease in number of shares (Shares)	Fiscal year ended December 31, 2015 Number of shares at end of period (Shares)
Issued shares				
Common shares	14,857,200	3,910,000	–	18,767,200
Total	14,857,200	3,910,000	–	18,767,200
Treasury shares				
Common shares	–	–	–	–
Total	–	–	–	–

Note: The increase of 3,910,000 in the total number of issued shares is an increase resulting from exercise of stock acquisition rights.

2. Dividends

No items to report.

3. Stock acquisition rights

Category	Breakdown of stock acquisition rights	Class of shares underlying stock acquisition rights	Number of shares underlying stock acquisition rights (shares)				Balance at end of Fiscal year ended December 31, 2015 (thousand yen)
			Start of fiscal year ended December 31, 2015	Increase in fiscal year ended December 31, 2015	Decrease in fiscal year ended December 31, 2015	End of fiscal year ended December 31, 2015	
Filing company	3rd series share options (Stock acquisition rights as stock options)	–	–	–	–	–	–
	5th series share options (Stock acquisition rights as stock options)	–	–	–	–	–	–
	7th series share options (Stock acquisition rights as stock options)	–	–	–	–	–	–
	9th series share options (Stock acquisition rights as stock options)	–	–	–	–	–	11,017
	10th series share options (Stock acquisition rights as stock options on the Company's own stock)	–	–	–	–	–	–
	11th series share options (Stock acquisition rights as stock options on the Company's own stock)	–	–	–	–	–	–
Total		–	–	–	–	–	11,017

Notes: 1. In cases where stock acquisition rights are granted as stock options or stock options on the Company's own stock, the class and number of the shares underlying the stock acquisition rights are not provided.
2. On the grant dates of the 3rd series share options, 5th series share options and 7th series share options, as the Company's shares were not listed, fair unit values on the grant dates were calculated according to a method in which the intrinsic value per unit was estimated. The intrinsic value at the end of the fiscal year ended December 31, 2015 (intrinsic value on grant date) was zero for each of the series and there was no balance as of the end of the fiscal year ended December 31, 2015.
3. There were no 10th series share options issued on July 22, 2014 remaining unexercised at the end of the fiscal year ended December 31, 2015 since all of such share options remaining unexercised were exercised on July 7, 2015.
4. There were no 11th series share options issued on September 14, 2015 remaining unexercised at the end of the fiscal year ended December 31, 2015 since all of such share options remaining unexercised were exercised on November 27, 2015.

Significant subsequent events

(Significant Subsequent Events)

The Company resolved at the Board of Directors meeting held on February 12, 2016, to propose a reduction of capital stock and legal capital surplus as well as appropriation of retained earnings, as described below, at the 8th Ordinary General

Meeting of Shareholders to be held on March 30, 2016.

1. Purpose of reduction of capital stock and legal capital surplus as well as appropriation of retained earnings
For eliminating the loss carried forward and of retained earnings restore the financial position to enable it to distribute dividends from retained earnings and implement shareholder return measures, such as purchase of treasury stock, in the future, as well as ensuring the flexibility and mobility of the capital policy going forward.

2. Outline of the reduction of capital stock
(1) Amount of capital stock to be reduced
Capital stock of 9,806,225,500 yen will be reduced by 7,568,637,328 yen to 2,237,588,172 yen.

(2) Method of reduction of capital stock
Reduction of capital without compensation, whereby the total number of shares issued shall not be changed but part of capital stock will be reduced and transferred to other capital surplus, will be implemented.

3. Outline of the reduction of legal capital surplus
(1) Amount of legal capital surplus to be reduced
Legal capital surplus of 5,090,225,500 yen will be reduced by 2,852,637,329 yen to 2,237,588,171 yen.

(2) Method of reduction of legal capital surplus
Legal capital surplus will be reduced and transferred to other capital surplus.

4. Outline of the appropriation of retained earnings
Pursuant to provisions of Article 452 of the Companies Act, the entire amount of other capital surplus, after the above-mentioned resolution takes effect, of 10,421,274,657 yen will be transferred to retained earnings brought forward to cover the loss.

(1) Items and amounts of surplus to be reduced
Retained earnings brought forward: 10,421,274,657 yen

(2) Items and amounts of surplus to be increased
Other capital surplus: 10,421,274,657 yen

5. Schedule
(1) Date of resolution of the Board of Directors: February 12, 2016
(2) Date of resolution of the Ordinary General Meeting of Shareholders: March 30, 2016 (scheduled)
(3) Initial date of public notice for creditors to make objections: March 31, 2016 (scheduled)
(4) Final due date for creditors to make objections: Late April 2016 (scheduled)
(5) Effective date: May 1, 2016 (scheduled)

6. Other significant matters
Regarding the reduction of capital stock and legal capital surplus as well as appropriation of retained earnings, these actions are accounting transfers within the “Net Assets section” in the balance sheet, and therefore, they will not change the Company’s net assets and will not affect the Company’s financial results. These are, however, subject to approval at the general meeting of shareholders scheduled for March 30, 2016.

5. Others

(1) Shift to a company with an Audit and Supervisory Committee and appointment of officers

The Company resolved at the Board of Directors' meeting held today to shift to a company with an Audit and Supervisory Committee on the condition that approval is obtained at the 8th Ordinary General Meeting of Shareholders to be held on March 30, 2016. Accordingly, the Company also decided on the appointment of candidates for directors to be submitted to the Ordinary General Meeting of Shareholders on the same date. For details, please refer to the "Notice Regarding the Shift to a Company with an Audit and Supervisory Committee and Appointment of Officers" announced today.

(2) Partial amendments to the Articles of Incorporation

The Company resolved at the Board of Directors meeting held today to submit a proposal for partial amendments to the Articles of Incorporation to the 8th Ordinary General Meeting of Shareholders to be held on March 30, 2016. For details, please refer to the "Notice Regarding Partial Amendments to the Articles of Incorporation" announced today.