Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2016 [Japanese GAAP]

August 9, 2016

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Scheduled filing date of securities report: September 29, 2016
Scheduled starting date of dividend payments: —
Supplementary briefing materials on financial results: No
Explanatory meeting on financial results: Yes

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

1. Financial Results for the Fiscal Year Ended June 30, 2016 (July 1, 2015 to June 30, 2016)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal Year ended June 30, 2016	4,327	74.9	2,548	83.2	2,372	58.5	1,581	57.5
Fiscal Year ended June 30, 2015	2,474	202.2	1,391	590.9	1,496	574.1	1,004	576.1

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year ended June 30, 2016	28.45	24.52	18.5	24.1	58.9
Fiscal Year ended June 30, 2015	18.36	15.66	15.7	21.8	56.2

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended June 30, 2016: - million yen
Fiscal Year ended June 30, 2015: - million yen

(Note) Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. Net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2016	11,956	10,242	85.6	181.38
As of June 30, 2015	7,738	6,912	89.1	124.91

(Reference) Equity As of June 30, 2016: 10,237million yen
As of June 30, 2015: 6,896 million yen

(Note) Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. .Net assets per share has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

(3) Cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
Fiscal Year ended June 30, 2016	1,533	(981)	1,742	6,909
Fiscal Year ended June 30, 2015	1,386	961	44	4,679

2. Payment of Dividends

	Annual dividends					Total dividends (Annual)	Dividend payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal Year ended June 30, 2015	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ended June 30, 2016	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ending June 30, 2017 (forecast)	-	0.00	-	0.00	0.00		-	

3. Financial Forecasts for the Fiscal Year Ending June 30, 2017 (July 1, 2016 to June 30, 2017)

Regarding the financial forecasts for the fiscal year ending June 30, 2017, as many of the Company's management and business results targets span numerous fiscal years, it is extremely difficult to make projections for business results figures for a single fiscal year. As a result, the Company will no longer announce business results forecasts from the fiscal year ending June 30, 2017. However, qualitative targets and depreciation and amortization estimates are provided in "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results, Forecast for the fiscal year ending June 30, 2017" on page 3 with the intent of contributing to analysis by investors. Furthermore, a "Medium-term outlook" is newly provided for reference.

[Notes]

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

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

(2) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	As of June 30, 2016	56,440,800 shares	As of June 30, 2015	55,213,200 shares
2) Number of treasury stock at the end of the period	As of June 30, 2016	- shares	As of June 30, 2015	- shares
3) Average number of shares during the period	Fiscal Year ended June 30, 2016	55,576,204 shares	Fiscal Year ended June 30, 2015	54,691,775shares

(Note) Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. Number of shares issued at the end of the period and average number of shares during the period have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

*Presentation regarding the implementation status of the audit procedures

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

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

- Financial forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable, and are not meant to be taken as commitment of the Company to achieve such results. Actual performance may differ substantially due to various factors.
- The Company plans to hold an explanatory meeting on financial results for institutional investors on August 24, 2016.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

During the fiscal year ended June 30, 2016, the Company continued to leverage the PDPS (Peptide Discovery Platform System) technology, its proprietary drug discovery and development platform system, and continued to make steady progress in joint research and development activities with pharmaceutical companies both in Japan and abroad.

On September 14, 2015, the Company signed a discovery and optimization agreement with France-based Sanofi S.A. for the identification of nonstandard constrained/macrocyclic peptides against multiple targets of interest to Sanofi. Additionally, the Company signed a multi-target discovery and optimization agreement with Teijin Pharma, Ltd. on September 28, 2015, and with KYORIN Pharmaceutical Co., Ltd. on November 5, 2015. Furthermore, on December 21, 2015, the Company signed a three-party multi-target discovery and optimization agreement with Genentech and its parent company, F. Hoffmann-La Roche. Additionally, the Company entered into a multi-target Collaboration and License Agreements with Shionogi & Co., Ltd. on February 5, 2016, and with Asahi Kasei Pharma Corporation on March 28, 2016, to discover and develop nonstandard constrained/macrocyclic peptide therapeutics and/or small molecule therapeutics against biologic targets supplied by Shionogi and Asahi Kasei. With these new deal signings, the Company now has discovery deals with six major pharmaceutical companies in Japan and ten major pharmaceutical companies abroad. In other areas, on December 18, 2015, the Collaboration and License Agreement with Switzerland-based Novartis which began in 2010 and was extended in 2012 and 2014 was extended further.

Regarding PDPS technology license agreements, the Company agreed upon a non-exclusive technology license agreement with US-based Eli Lilly & Company on March 4th, 2016. The technology license will enable US-based Eli Lilly to utilize the PDPS technology to discover and develop peptide and small molecule therapeutics on their own. The technology transfer to Switzerland-based Novartis was fully completed in June 2016.

In August 2015, the Company completed the internalization of PharmaDesign, Inc. and strengthened its drug discovery platform technology by incorporating the full-scale functions (“optimization functions”) of “bioinformatics,” “molecular modeling,” and “medicinal chemistry” into the Company's operations. The Company continues to expand the power of its PDPS technology beyond hit finding by developing a vast variety of optimization methodologies to not only rapidly identify therapeutic candidates but also to rapidly optimize those candidates to accelerate their development into clinical candidates, with both Company’s in-house programs and partnered programs. Additionally, the Company’s PDPS technology continues to prove itself as a superior hit-finding platform allowing for the identification of not only novel therapeutic candidates but also truly novel sites of action on previously difficult to drug biologic targets.

Additionally, the strength of the Company’s PDPS is that it can freely integrate not only 20 natural amino acids into constrained/macrocyclic peptides, but also nonstandard (non-natural) amino acids (hereinafter, amino acids and nonstandard amino acids are collectively referred to as “nonstandard amino acids, etc.”), and to accomplish this, it is extremely important to stably procure various nonstandard amino acids, etc., and to establish production methods and scale up production for new nonstandard amino acids as required. Therefore, the Company formed a strategic partnership with Watanabe Chemical Industries, Ltd. in May 2016 regarding supply of amino acids and nonstandard (non-natural) amino acids, etc. which are necessary for the discovery and development of nonstandard constrained/macrocyclic peptides. As a result, the Company can access the manufacturing experience of a wide range of nonstandard amino acids, etc. and diverse amino acid procurement partners of Watanabe Chemical Industries, enabling rapid and low-cost acquisition of nonstandard amino acids, etc. which are necessary for the discovery and development of nonstandard constrained/macrocyclic peptides.

On February 24, 2016, the Company entered into an agreement with the Japan Aerospace Exploration Agency (hereinafter referred to as “JAXA”) to conduct high resolution crystallography experiments using the International Space Station’s “Kibo” Japanese Experiment Module. This strategic cooperation between JAXA and the Company will allow for the rapid acquisition of critical structural information on how Company’s candidates interact with their corresponding therapeutic target protein, which ultimately serves to accelerate drug development.

Regarding in-house drug discovery programs, preclinical development, optimization, formulation, and final clinical candidate selection efforts were made on Company’s macrocyclic peptide candidates targeting the influenza virus. However, the Company has positioned development number “PD-001,” which significantly improves the active agent and internal dynamics of previous

nonstandard constrained/macrocyclic peptides, as a new nonstandard constrained/macrocyclic peptide development candidate, and an announcement was made on June 29, 2016 to conduct GLP-compliant pre-clinical trials following the acquisition of GLP-compliant progenitors.

In addition, the Company continues to expand the number of in-house discovery and development peptide-drug conjugates (PDCs) programs against a wide variety of relevant cancer targets. Experimental findings show that the properties of the Company's macrocyclic peptides, high affinity, high selectivity, and excellent in vivo stability, makes them exceptional for use in selectively delivering a drug "conjugate" specifically to cancer cells, and not to healthy cells, thereby significantly increasing efficacy while reducing side effects. While a large number of PDC programs are focused on cancer, additional research programs are underway to investigate other potential uses of the Company's macrocyclic peptides. As one such example, on February 22, 2016, the Company entered into a Collaboration and License Agreement with JCR Pharmaceuticals Co., Ltd. (hereinafter "JCR Pharma") to investigate the use of Company's macrocyclic peptides as carriers for transporting specific drug cargoes "conjugates" across the blood brain barrier (BBB). Such carrier peptides could allow drugs that currently don't readily cross the BBB to do so thereby opening a variety of new treatments for various brain diseases.

As a result, the Company reported net sales of 4,327,878 thousand yen (increased 1,853,379 thousand yen year on year), operating income of 2,548,080 thousand yen (increased 1,156,953 thousand yen year on year), ordinary income of 2,372,312 thousand yen (increased 875,896 thousand yen year on year) and net income of 1,581,288 thousand yen (increased 577,123 thousand yen year on year) for the Fiscal Year Ended June 30, 2016. Furthermore, our business is a single segment, omits the description of the segment.

(Forecast for the fiscal year ending June 30, 2017) Regarding the forecast for the fiscal year ending June 30, 2017, the Company has set targets as follows.

【Targets for the fiscal year ending June 30, 2017】		
①	Acquisition of new discovery and optimization agreement partners	3
②	Achievement of technology transfer for PDPS non-exclusive technology license agreements	1
③	Acquisition of new agreements for PDPS non-exclusive technology license agreements	1
④	Accreditation for clinical development candidate combinations (clinical compounds)	2
⑤	Commencement of clinical trials: Phase I	1
⑥	Commencement of clinical trials: Phase II	1
⑦	Acquisition of new peptide-drug conjugate (PDC) project agreements	2

Regarding 3), as announced on July 20, 2016, the Company has agreed upon a PDPS non-exclusive technology license agreement with US-based Genentech. As a result, one new agreement has already been acquired (Additionally, although not indicated above, this does not deny the possibility of acquiring new agreements in the future for PDPS non-exclusive technology license agreements during the fiscal year ending June 30, 2017.).

Regarding 4) to 6), as it will involve awaiting for candidate agents that will move on to the next stage from among those that have already been delivered to discovery and optimization partners, it is extremely difficult for the Company to accurately predict timing.

The Company's policy is to conclude agreements on a per-project basis for agreements in 7) regarding peptide-drug conjugates (PDC), instead of by company. Currently, 19 PDC projects are underway as in-house projects (in-house drug discovery and development), and the Company will aim to acquire two new agreements from among these projects, etc.

PDC projects allow nonstandard constrained/macrocyclic peptides manufactured by the Company to act as transporters for other medications, etc., and by attaching agents that have not yet been commercialized and agents, etc. that were commercialized but had issues such as side effects, etc., due to low specificity to nonstandard constrained/macrocyclic peptides with high specificity, the projects aims to "selectively deliver required medicines to required locations (specific cells and organs, etc.)."

Since the Company's founding, there were no in-house projects that achieved profitability, but during the fiscal year ending

June 30, 2017, the Company will finally arrive at the stage where it can realize profitability. As the contents of new PDC project agreements that the Company is working toward have clear drug discovery and development targets at the time of concluding the agreement, the Company's policy is to include more favorable conditions than were possible with previous discovery and optimization agreements.

However, although the target for the number of new agreements regarding PDC is two for the fiscal year ending June 30, 2017, the content of the agreements regarding PDC (content regarding consideration) have not been determined at this time, and additionally, as there is no need for the Company to rush concerning PDC projects that have high potential to be superior to antibody-drug conjugates (ADC), there is a certain level of uncertainty regarding agreement acquisitions during the fiscal year ending June 30, 2017.

If all of the above targets are achieved during the fiscal year, business results for the fiscal year ending June 30, 2017 will significantly surpass business results for the fiscal year ended June 30, 2016. Even if all of the above targets are not achieved, it is the Company's goal to focus on producing results that exceed business results for the fiscal year ended June 30, 2016.

The above targets (and medium-term targets outlined in "Medium-term outlook" below) are not meant to serve as promises of achievement.

Additionally, with the intent of contributing to analysis by investors, the following forecast figures are presented.

	Results for the full year ended June 30, 2016	Forecasts for the full year ending June 30, 2017
Depreciation expense（million）	124	151
Research and development expenses（million）	228	551
Capital expenditures（million）	109	185
Year-end headcount（people）	47	61

※ Amounts of capital investment are not the amounts of cash and deposits that will actually be paid, but indicate the amount of increase to be recorded on the balance sheets as non-current assets as those regarding facilities and IT investment.

The Company's future net sales are strongly affected by the characteristics of the Company's business and the surrounding environment, and it is extremely difficult to specify whether or not they will be realized and when (accounting period) they will be recorded. As a result, net sales data that is held internally by the Company for management purposes are merely reference figures calculated based on assumptions and postulations regarding future events and conditions, etc., that the Company does not view as having a high probability of occurrence.

As a result, the Company does not possess forecast figures suited for announcement, and in the Company's view, announcement of figures that serve as nothing more than reference will be misleading for investors as the data on which the calculations are based do not have sufficient rationality, and the Company has decided not to announce quantitative business results forecasts.

(Medium-term outlook)

The Company wishes to work toward creating its first drug during fiscal year ending June 30, 2021 (fiscal year ending June 30, 2021: The term during which the Tokyo Olympics will be held). The Company has no preference on whether the first drug within this context is one that was created under projects based on discovery and optimization agreements, projects within licensees based on PDPS non-exclusive technology license agreements, or in-house drug discovery programs.

Medium-term targets from the fiscal year ending June 30, 2018 to the fiscal year ending June 30, 2021 are as follows.

【Medium-term targets】		
①	Bringing to market new drugs (approval and sales)	1
②	Net increase in number of new discovery and optimization agreements	7
③	Net increase in number of new agreements regarding peptide-drug conjugate (PDC) projects	9
④	Net increase in number of PDPS non-exclusive technology license agreements	6
⑤	Net increase in number of projects for which clinical trials can begin	9
⑥	Number of employees at the end of the fiscal year ending June 30, 2021	120

Aside from these, the Company plans to announce “Chapter 3” of its “PeptiDream Growth Strategy,” which serves as the framework for its medium-term management strategy, at the explanatory meeting on financial results to be held on August 24, 2016. (Materials used at this explanatory meeting are planned to be promptly made available on the Company’s website.)

To realize the Company’s dream of “we wish to work toward hearing ‘Thank you’ from people battling disease. Even just one person,” measures to realize this dream will be accelerated.

(2) Analysis of Financial Position

1) Status of assets, liabilities and net assets

Total assets at the end of the fiscal year under review increased by 4,217,959 thousand yen from the end of the previous fiscal year to 11,956,402 thousand yen. This was mainly because cash and deposits increased by 1,029,530 thousand yen, accounts receivable-trade increased by 1,054,111 thousand yen and property, plant and equipment increased by 1,776,520 thousand yen.

Liabilities increased by 887,634 thousand yen from the end of the previous fiscal year to 1,713,645 thousand yen. This was mainly because advances received increased by 458,273 thousand yen and income taxes payable increased by 220,172 thousand yen.

Net assets increased by 3,330,325 thousand yen from the end of the previous fiscal year to 10,242,756 thousand yen. This was mainly because capital stock increased by 879,847 thousand yen, capital surplus increased by 879,847 thousand yen and retained earnings increased by 1,581,288 thousand yen.

2) Status of cash flows

Cash and cash equivalents at the end of the fiscal year under review increased 2,229,530 thousand yen from the end of the previous fiscal year to6,909,149 thousand yen.

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

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 1,533,057 thousand yen (increased by 164,913 thousand yen year on year). This was mainly due to the recording of income before income taxes of 2,365,811 thousand yen for the year and a 458,273 thousand yen increase in advances received, despite income taxes paid amounting to 733,130 thousand yen and a 1,054,111 thousand yen increase in notes and accounts receivable - trade.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 981,920 thousand yen (an inflow of 961,723 thousand yen in the previous fiscal year), reflecting factors such as outflows of 1,947,890 thousand yen for purchase of property, plant and equipment and 105,000 thousand yen for payments for transfer of business, despite an inflow of 1,200,000 thousand yen from proceeds from withdrawal of time deposits.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 1,742,856 thousand yen (increased by 1,698,489 thousand yen year on year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 1,742,856 thousand yen.

(Reference) Cash flow-related indices

	Fiscal Year ended June 30, 2012	Fiscal Year ended June 30, 2013	Fiscal Year ended June 30, 2014	Fiscal Year ended June 30, 2015	Fiscal Year ended June 30, 2016
Equity ratio (%)	79.9	96.1	97.7	89.1	85.6
Equity ratio based on market capitalization (%)	—	1,606.5	1,798.0	2,447.3	2,870.1
Ratio of interest-bearing liabilities to cash flows (%)	—	—	—	—	—
Interest coverage ratio (%)	—	—	—	—	—

Equity ratio: Shareholders' equity / total assets

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

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

Interest coverage ratio: Cash flows / interest expense

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

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

3. Figures of ratio of interest-bearing liabilities to cash flows and interest coverage ratio for the fiscal years ended June 30, 2012 through 2016 are not stated because the Company did not hold interest-bearing liabilities.

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

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

(4) Business Risks

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

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

1) Risks arising from business environment

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

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

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

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

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

(ii) Technology innovation

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

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

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

2) Risks arising from business

(i)Business based on nonstandard constrained/macrocyclic peptide pharmaceuticals

The Company has been conducting its business operations specializing in nonstandard constrained/macrocyclic peptide

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

Recently, by using nonstandard constrained/macrocyclic peptides as search markers, it has become apparent that this can lead to development of low-molecular weight pharmaceuticals, and the range of applicability for PDPS has significantly widened. As a result, business operations that specialized in nonstandard constrained/macrocyclic peptides is undergoing change, and while making inroads into the industry with PDPS as a foundation in drug discovery and development based on nonstandard constrained/macrocyclic peptides, the Company is attempting to expand use into development of low-molecular weight pharmaceuticals, in addition to nonstandard constrained/macrocyclic peptides. In cases where the Company cannot contribute to the development of low-molecular weight pharmaceuticals, the Company's business strategies and operating results may be negatively impacted.

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

As of the release date of this document, the Company has entered into joint research and development agreements with sixteen companies (six domestic, ten overseas). Each pharmaceutical company has its specific target(s) for drug discovery and development, for which the Company will prosecute by receiving proposals concerning the research and development of, but in rare cases, the target for drug discovery and development may be requested by multiple pharmaceutical companies. Whenever such cases arise, the Company has a formal process for determining which pharmaceutical company has priority. Until now, no issue with this process has occurred.

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

(iii) Revenue recognition

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

Although (A) upfront payments (technological access fees), (B) funding for research and development, and (C) funding for additional research and development significantly rely on the operational success of the Company, for (B) and (C) in particular, project termination resulting from client's policy changes, can result in a situation where ongoing revenue cannot be recognized, as the research and development activities cease. As for (A), whose amount is often relatively larger than that of (B) and (C), such revenue is recognized at one time, which means that the operating results of the Company could be negatively impacted by (A).

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

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

(iv) Possibility of legal disputes

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

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

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

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

(v) Material business agreements

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

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

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

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

In addition, for lead compounds licensed out by the Company, the client conducts the clinical trials and applies for regulatory approval and thus their progress and results significantly affect the Company's business strategies and operating results. Although the Company will support the client even after licensing out, clinical trials and applications for approval should be carried out by the client and those are beyond the control of the Company. Therefore, the possibility that the progress of clinical trials and/or applications for regulatory approval might be delayed due to reasons unexpected by the Company and that clinical trials and applications for approval might be terminated for various reasons, exists.

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

Furthermore, as significant funds are required for the research and development of drugs, organizational restructuring

and M&A are active in this industry. Clients may restructure organization or acquire competing firms (or acquired by competing firms), causing the competitive landscape within the industry to be changed drastically within short periods of time. If such large-scale corporate organizational restructuring occurs at the Company's clients, the Company's business strategies and operating results may be negatively impacted.

(vii) Product pipeline of the Company (in-house drug discovery programs)

The Company is promoting research and development of its own in house product pipeline (in-house drug discovery programs) utilizing the characteristics of nonstandard constrained/macrocyclic peptides.

As things stand, the Company takes a two-pronged approach to development: Use of nonstandard constrained/macrocyclic peptides as pharmaceuticals, and development of PDC for use in combination with other drugs, leveraging the excellent selectivity of nonstandard constrained/macrocyclic peptides. In addition, through using nonstandard constrained/macrocyclic peptides as search markers, this can lead to development of low-molecular weight pharmaceuticals, and the Company has begun development of low-molecular weight pharmaceuticals in its internal pipeline.

As an outcome of measures to use nonstandard constrained/macrocyclic peptides as drugs, the Company made an announcement in April 2014 regarding measures related to an anti-influenza agent, and progress conditions of the above were announced in February 2015. Subsequently, the Company designated development number "PD-001," which significantly improves the active agent and internal dynamics of previous nonstandard constrained/macrocyclic peptides, as a new development candidate nonstandard constrained/macrocyclic peptide, and an announcement was made to conduct GLP-compliant pre-clinical trials following the acquisition of GLP-compliant progenitors.

Regarding PDCs, full-scale operations began from the fiscal year ended June 30, 2016, and joint research is already underway with several pharmaceutical companies.

With regard to the in house product pipeline, if research and development progress smoothly and pre-clinical trials are conducted at the Company's expense, the Company may find itself incurring significant development costs. However, if progress in research and development of the in house product pipeline is not smooth, there is a risk of losing certain options for future commercialization.

(viii) About strategic alliances with other companies and success or failure of corporate acquisitions, etc.

With the intent of strengthening competitiveness and expanding business scope, etc., the Company may make strategic alliances, etc. through transferring business divisions from other companies, acquiring other companies, entering into business alliances with other companies, establishing joint ventures, or making investments in other companies (hereinafter "Strategic alliances, etc.") Regarding such Strategic alliances, etc., there are possibilities such as the possibility that the alliance or integration does not proceed smoothly with the partner company due to differing views, the possibility that initially expected results cannot be attained, and the possibility that the investment amount cannot be recovered, either in part or in whole. Additionally, there is the possibility that the partner company may make decision that conflicts with the Company's benefit, and in cases such as when the partner company makes changes to its business strategy, there is the possibility that it may become difficult for the Company to maintain the relationship under the Strategic alliance, etc., and the Company's business strategies and operating results may be negatively impacted.

3) Intellectual property rights

(i) Acquisition of and application for patents

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

However, it is possible that not all of the pending applications will be granted. In addition, even after receiving grant of patent rights, there remains the possibility that the item requested may be nullified via the patent objection claim system. There is also the possibility that a legal dispute concerning the patent right might arise, such as the filing of a patent

violation lawsuit or request for a hearing on patent invalidation, resulting in some adverse effect to the right implemented by the Company. As of the date of announcement of these materials, one patent objection has been filed regarding a patent for which the Company holds licensing rights.

There are other possibilities that the technology included in the patent right held by the Company might become obsolete due to emergence of a technology superior to the patent right held by the Company. When such a situation occurs, the Company's business strategies and operating results may be negatively impacted. In addition, the Company has obtained, through an agreement, the exclusive license, with the right to sublicense to a third party, with regard to various inventions or patent rights which the University of Tokyo or the State University of New York is the applicant. In such cases where the contents of the said agreement are subject to alterations or the agreement is terminated due to expiration or cancellation, etc., the Company's business strategies and operating results may be negatively impacted.

(ii) Internal assignment of employee inventions

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

4) Risks related to the pharmaceutical research and development business

(i) Uncertainties in pharmaceutical development

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

(ii) Risks related to occurrence of adverse drug reactions

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

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

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

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

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

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

(iv) Product liability

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

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

5) Risks associated with human resources and the organization

(i) Risks from being a small organization

The Company is a small organization comprising eight officers (five Directors and three Audit and Supervisory Committee Members) and 47 employees (as of June 30, 2016) with an internal management system commensurate with the Company's size. While the Company upholds the policy of augmenting employees as necessary for operations and reinforcing its internal system, the Company's business strategies and operating results may be negatively impacted, should an outflow of human resources occur and the Company becomes incapable of replacing necessary personnel.

(ii) Securing human resources

The Company believes that securing superior human resources with expert knowledge and experience in the research and development field is indispensable for elevating its drug discovery platform technology and advancing its drug discovery research and development. Should the Company encounter any obstacles in securing its human resources as planned, or lose any of its superior human resources, the Company's business strategies and operating results may be negatively impacted.

6) Other risks

(i) Being a relatively young company

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

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

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

The Company has granted stock acquisition rights to its officers, employees and business partners, etc. Should such stock acquisition rights be exercised, the Company's number of shares outstanding would increase, and the value of the shares held by existing shareholders and the ratio of voting rights may become diluted. As of June 30, 2016, the number of dilutive shares to be increased by the exercisable subscription rights to shares was 8,564,400 shares, which is equivalent to 13.17% of the aggregate number of shares issued and dilutive shares.

(iii) Dividend policy

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

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

(iv) Information security

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

However, should a leak of corporate information including customer information occur, the Company may face a loss of public confidence and the Company's businesses, etc. may be negatively impacted.

(v) Fluctuation of foreign exchange rates

Due to the large number of overseas pharmaceutical companies among the Company's clients, much of its sales are denominated in foreign currencies (mainly in US dollar) and affected by fluctuations of foreign exchange rates. Therefore, should fluctuations in foreign exchange rates occur, the Company's operating results and financial position may be negatively impacted.

(vi) Occurrence of natural disasters, etc.

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

(vii) Construction of new research facilities and relocation of headquarters

In order to expand the Company's businesses and strengthen its research and development capabilities, the Company plans to construct new research facilities in Tonomachi, Kawasaki, in Kanagawa Prefecture and move from the current facilities to the new place in summer 2017. Although the Company will make every effort to ensure that the transition to the new research facilities progress according to plans, in the event that the construction time of the new research facilities is extended, delivery of research equipment is delayed, accidents occur during transition activities, research materials are damaged, operational troubles arise for newly installed facilities, or troubles arise during exit from current facilities, etc., the Company's operating results and financial position may be negatively impacted.

(viii) Harmful rumors

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

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

Not applicable.

2. Management Policies

(1) Basic Management Policy

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

(2) Management Indices

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

(3) Medium- to Long-term Management Strategies

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

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

(4) Issues to be Addressed

The Company leverages its proprietary PDPS (Peptide Discovery Platform System) to conclude joint research and development agreements with pharmaceutical companies both in Japan and abroad for the purpose of conducting development of drugs that utilize nonstandard constrained/macrocyclic peptides. In addition, the Company develops Peptide Drug Conjugates (PDC), its proprietary drug discovery and development system. The Company recognizes the following as issues that need to be addressed in order to sustain growth as a going concern.

(Issues associated with sales activities)

The Company has built relationships (joint research and development systems) that are mutually amicable and economically beneficial with pharmaceutical companies both in Japan and abroad, and the Company projects the conclusion of further joint research and development agreements in the future. The Company believes that in order to maintain and expand a smooth joint research and development system, strategic sales activities that move in step with establishment and enrichment of the research and development system are important.

(Issues associated with research and development activities)

The Company maintains and utilizes PDPS, and believes this system at the moment has huge technological advantages. Additionally, there are significant possibilities for the use of nonstandard constrained/macrocyclic peptides that are created via PDPS. To continue to uphold the advantage of this in-house technology, the Company is committed to strengthening its in-house research and development system while undertaking joint research with pharmaceutical companies and research institutions, etc. in Japan and overseas.

(Issues associated with internal management and controls)

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

3. Basic Approach to Accounting Standards

To facilitate comparison of financial data between different periods and different companies, the Company policy at the moment is to prepare financial statements based on Japanese GAAP.

While considering domestic and overseas needs, the Company intends to adopt the IFRS (International Financial Reporting Standards) when appropriate.

4. Financial Statements

(1) Balance Sheets

(Thousands of yen)

	As of June 30, 2015	As of June 30, 2016
Assets		
Current assets		
Cash and deposits	5,879,619	6,909,149
Accounts receivable - trade	346,826	1,400,938
Prepaid expenses	35,824	57,934
Deferred tax assets	45,514	194,410
Other	55,924	36,698
Total current assets	6,363,709	8,599,130
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings	24,203	40,941
Accumulated depreciation	(4,192)	(7,397)
Facilities attached to buildings, net	20,011	33,544
Tools, furniture and fixtures	608,369	679,358
Accumulated depreciation	(266,234)	(358,822)
Tools, furniture and fixtures, net	342,134	320,536
Land	1,000,000	1,000,000
Construction in progress	-	1,784,586
Total property, plant and equipment	1,362,146	3,138,666
Intangible assets		
Goodwill	-	82,712
Software	3,337	5,526
Other	-	17,352
Total intangible assets	3,337	105,591
Investments and other assets		
Long-term prepaid expenses	8,014	3,438
Deferred tax assets	1,235	1,311
Other	-	108,263
Total investments and other assets	9,249	113,013
Total non-current assets	1,374,732	3,357,271
Total assets	7,738,442	11,956,402
Liabilities		
Current liabilities		
Accounts payable - trade	16,012	10,197
Accounts payable - other	100,517	57,004
Accrued expenses	148,086	247,574
Income taxes payable	509,132	729,304
Advances received	14,682	472,955
Deposits received	37,580	62,510
Other	-	118,499
Total current liabilities	826,011	1,698,045
Non-current liabilities		
Asset retirement obligations	-	15,600
Total non-current liabilities	-	15,600
Total liabilities	826,011	1,713,645

(Thousands of yen)

	As of June 30, 2015	As of June 30, 2016
Net assets		
Shareholders' equity		
Capital stock	2,750,336	3,630,183
Capital surplus		
Legal capital surplus	2,746,618	3,626,465
Total capital surplus	2,746,618	3,626,465
Retained earnings		
Other retained earnings		
Retained earnings brought forward	1,399,569	2,980,857
Total retained earnings	1,399,569	2,980,857
Total shareholders' equity	6,896,523	10,237,505
Subscription rights to shares	15,908	5,250
Total net assets	6,912,431	10,242,756
Total liabilities and net assets	7,738,442	11,956,402

(2) Statements of Income

(Thousands of yen)

	Fiscal year ended June 30, 2015	Fiscal year ended June 30, 2016
Net sales	2,474,499	4,327,878
Cost of sales	721,639	1,086,291
Gross profit	1,752,859	3,241,586
Selling, general and administrative expenses	361,733	693,506
Operating income	1,391,126	2,548,080
Non-operating income		
Interest income	6,154	1,734
Foreign exchange gains	99,630	-
Operation consignment fee	-	1,346
Other	339	161
Total non-operating income	106,123	3,241
Non-operating expenses		
Share issuance cost	165	6,180
Issuance cost of subscription rights to shares	530	-
Foreign exchange loss	-	172,829
Other	139	-
Total non-operating expenses	834	179,009
Ordinary income	1,496,415	2,372,312
Extraordinary losses		
Loss on retirement of non-current assets	3,041	6,501
Total extraordinary losses	3,041	6,501
Income before income taxes	1,493,374	2,365,811
Income taxes - current	515,558	933,495
Income taxes - deferred	(26,348)	(148,972)
Total income taxes	489,210	784,522
Net income	1,004,164	1,581,288

(3) Statements of Changes in Equity

Fiscal year ended June 30, 2015

(Thousands of yen)

	Shareholders' equity						Subscription rights to shares	Total net assets
	Capital stock	Capital surplus		Retained earnings		Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings			
Balance at the beginning of current period	2,734,254	2,730,536	2,730,536	395,404	395,404	5,860,196	3,009	5,863,205
Changes of items during period								
Issuance of new shares	16,081	16,081	16,081			32,163		32,163
Net income				1,004,164	1,004,164	1,004,164		1,004,164
Net changes of items other than shareholders' equity							12,899	12,899
Total changes of items during period	16,081	16,081	16,081	1,004,164	1,004,164	1,036,327	12,899	1,049,226
Balance at the end of current period	2,750,336	2,746,618	2,746,618	1,399,569	1,399,569	6,896,523	15,908	6,912,431

Fiscal year ended June 30, 2016

(Thousands of yen)

	Shareholders' equity						Subscription rights to shares	Total net assets
	Capital stock	Capital surplus		Retained earnings		Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings			
Balance at the beginning of current period	2,750,336	2,746,618	2,746,618	1,399,569	1,399,569	6,896,523	15,908	6,912,431
Changes of items during period								
Issuance of new shares	879,847	879,847	879,847			1,759,694		1,759,694
Net income				1,581,288	1,581,288	1,581,288		1,581,288
Net changes of items other than shareholders' equity							(10,657)	(10,657)
Total changes of items during period	879,847	879,847	879,847	1,581,288	1,581,288	3,340,982	(10,657)	3,330,325
Balance at the end of current period	3,630,183	3,626,465	3,626,465	2,980,857	2,980,857	10,237,505	5,250	10,242,756

(4) Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended June 30, 2015	Fiscal year ended June 30, 2016
Cash flow from operating activities		
Income before income taxes	1,493,374	2,365,811
Depreciation	103,064	124,431
Amortization of goodwill	-	18,568
Interest and dividend income	(6,154)	(1,734)
Foreign exchange losses (gains)	(86,994)	64,463
Share issuance cost	165	6,180
Loss on retirement of non-current assets	3,041	6,501
Decrease (increase) in notes and accounts receivable - trade	(164,651)	(1,054,111)
Decrease (increase) in prepaid expenses	(28,679)	(18,389)
Increase (decrease) in notes and accounts payable - trade	6,931	(5,814)
Increase (decrease) in accounts payable - other	21,800	13,747
Increase (decrease) in accrued expenses	107,289	99,488
Increase (decrease) in advances received	(28,904)	458,273
Increase (decrease) in deposits received	30,725	24,929
Other, net	(33,696)	161,869
Subtotal	1,417,311	2,264,214
Interest and dividend income received	9,031	1,972
Income taxes paid	(40,200)	(733,130)
Net cash provided by (used in) operating activities	1,386,143	1,533,057
Cash flow from investing activities		
Decrease (increase) in time deposits	-	1,200,000
Purchase of short-term and long-term investment securities	(100,000)	-
Proceeds from redemption of short-term investment securities	2,300,000	-
Purchase of property, plant and equipment	(1,234,536)	(1,947,890)
Purchase of intangible assets	(3,740)	(20,765)
Payments for transfer of business	-	(105,000)
Other	-	(108,263)
Net cash provided by (used in) investing activities	961,723	(981,920)
Cash flow from financing activities		
Proceeds from issuance of subscription rights to shares	12,781	-
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	31,584	1,742,856
Net cash provided by (used in) financing activities	44,366	1,742,856
Effect of exchange rate change on cash and cash equivalents	86,994	(64,463)
Net increase (decrease) in cash and cash equivalents	2,479,227	2,229,530
Cash and cash equivalents at beginning of period	2,200,392	4,679,619
Cash and cash equivalents at end of period	4,679,619	6,909,149

(5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Changes in Accounting Policies)

(Changes in Accounting Standard for Business Combinations, etc.)

Effective from the first quarter of the fiscal year ended June 30, 2016, the Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013; hereinafter the "Business Combination Accounting Standard") and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; hereinafter the "Business Divestiture Accounting Standard"), and the method for recording expenses related to acquisition has been changed to the fiscal year in which the expenses were incurred. Additionally, concerning business combinations which occur on or after the beginning of the first quarter of the fiscal year ended June 30, 2016, the method has been changed to reflect revisions to distribution amounts of acquisition costs resulting from settlement of provisional accounting treatment in the quarterly financial statements for the accounting period to which the business combination applies.

Concerning the application of the Business Combination Accounting Standard, etc., they have been applied in accordance with the transitional treatment set forth in Article 58-2 (4) of the Business Combination Accounting Standard and Article 57-4 (4) of the Business Divestiture Accounting Standard from the beginning of the first quarter of the fiscal year ended June 30, 2016 onward.

These changes did not have material impacts on the Company's profits and losses in the fiscal year under review.

(Segment information, etc.)

[Segment information]

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

(Equity in earnings and losses, etc.)

Not applicable.

(Per share information)

	Fiscal year ended June 30, 2015	Fiscal year ended June 30, 2016
Net assets per share	124.91yen	181.38yen
Net income per share	18.36yen	28.45yen
Diluted net income per share	15.66yen	24.52yen

(Notes) 1. Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. Net assets per share, net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

2. Net income per share and diluted net income per share are calculated based on the following basis:

Items	Fiscal year ended June 30, 2015	Fiscal year ended June 30, 2016
Net income per share		
Net income (thousands of yen)	1,004,164	1,581,288
Net income not attributable to common shareholders (thousands of yen)	—	—
Net income related to common stock (thousands of yen)	1,004,164	1,581,288
Average number of common stock during the period (shares)	54,691,775	55,576,204
Diluted net income per share		
Adjustments for net income (thousands of yen)	—	—
Number of increase of common stock (shares)	9,431,937	8,912,007
(Subscription rights to shares)	(9,431,937)	(8,912,007)
Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share	Sixth series stock acquisition rights (Number of stock acquisition rights: 2,000)	Not applicable

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

Items	As of June 30, 2015	As of June 30, 2016
Total net assets (thousands of yen)	6,912,431	10,242,756
Amounts deducted from total net assets (thousands of yen)	15,908	5,250
(Subscription rights to shares) (thousands of yen)	(15,908)	(5,250)
Amounts of net assets related to common stock at the end of the period (thousands of yen)	6,896,523	10,237,505
Number of common stock at the end of the period used for the calculation of net assets per share (shares)	55,213,200	56,440,800

(Significant subsequent events)

Not applicable.