

May 14, 2009

Financial Results for the year ended March 31, 2009(non-consolidated)

Name of Company: NanoCarrier Co., Ltd. Listed market: Mothers, TSE
 Code number: 4571 URL: <http://www.nanocarrier.co.jp>
 Representative: (Title) President and CEO (Name) Ichiro Nakatomi
 Contact: (Title) CFO and (Name) Tatsuo Nishiyama Phone: 03-3548-0217
 Director Administration

Scheduled date of the annual shareholders' meeting: June 26, 2009

Scheduled date of dividend payout: -

Scheduled date of the filing of the non-consolidated financial statements: June 29, 2009

(Rounded down to the nearest million yen)

1. Results of the year ended March 31, 2009(April 1, 2008 - March 31, 2009)

(1) Results of operations

(Percentages represent changes from the previous year)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|------------------------|-------------|-------|------------------|-----|-----------------|-----|-------------|-----|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Year ended March, 2009 | 353 | 34.6 | -531 | --- | -523 | --- | -524 | --- |
| Year ended March, 2008 | 262 | 154.0 | -452 | --- | -491 | --- | -494 | --- |

| | Net income per share | Diluted net income per share | Ratio of Net Income to Shareholders' equity | Ratio of Ordinary Income to Total Assets | Ratio of Operating Income to Net sales |
|------------------------|----------------------|------------------------------|---|--|--|
| | Yen | Yen sen | % | % | % |
| Year ended March, 2009 | -4,194.57 | --- | -31.2 | -29.3 | -150.4 |
| Year ended March, 2008 | -5,464.79 | --- | -26.9 | -24.3 | -172.3 |

(Reference) Equity in Earning of non-consolidated subsidiaries and affiliates:

Year ended March, 2009; - million yen

Year ended March, 2008; - million yen

(2) Financial position

| | Total assets | Net assets | Shareholders' Equity ratio | Net assets per share |
|------------------------|--------------|-------------|----------------------------|----------------------|
| | Million yen | Million yen | % | Yen |
| Year ended March, 2009 | 1,529 | 1,458 | 95.4 | 11,475.09 |
| Year ended March, 2008 | 2,044 | 1,907 | 93.3 | 15,514.65 |

(Reference) Shareholders' equity: Year ended March, 2009; 1,458 million yen

Year ended March, 2008; 1,907 million yen

(3) Cash Flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Ending balance of cash and cash equivalents |
|------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---|
| | Million yen | Million yen | Million yen | Million yen |
| Year ended March, 2009 | -456 | -3 | 74 | 1,369 |
| Year ended March, 2008 | -588 | -18 | 643 | 1,754 |

2. Dividends

The company has been recording net loss since the foundation, and therefore, no dividend has been paid and is scheduled in current and next periods.

3. Forecasts for FY ending March 2010(April 1, 2009 - March 31, 2010)

(% represents changes from the previous year for the full year, and year-on-year changes corresponding quarter in the previous year for cumulative amount in the 2nd quarter)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|--|-------------|-------|------------------|-----|-----------------|-----|-------------|-----|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Cumulative period in 2 nd quarter | 127 | -15.6 | -282 | --- | -282 | --- | -284 | --- | -2,235.13 |
| Full year | 505 | 42.8 | -253 | --- | -254 | --- | -257 | --- | -2,022.81 |

4. Others

(1) Changes in significant accounting policies

1) Changes due to revision of accounting standards, etc. : Yes

2) Changes other than above 1) : None

Note: See "Changes in accounting policies" in page 33.

(2) Number of shares outstanding (Ordinary shares)

1) Number of shares outstanding at the end of the period (including treasury stocks)

Year ended March, 2009 127,079 shares

Year ended March, 2008 122,963 shares

2) Number of treasury stocks at the end of the period

Year ended March, 2009 - share

Year ended March, 2008 - share

Note: See "per share data" in page 41, for number of shares on which net profit per share calculation is based.

Notes on appropriate use of forecasts, and other special instructions:

The forecasts are based on information currently available and certain assumptions that the company regards as reasonable. Actual performance and other results may differ considerably from these forecasted figures due to various factors.

1. Results of operations

(1) Analysis on results of operations

As the worsening global economic climate spilled over into the real economy, the Japanese economy in the current business year was fast-sinking due to the great decrease of corporate earnings and the slump in personal consumption due to deteriorating employment conditions.

In the pharmaceutical industry also, difficult business circumstances continued, such as price reduction for original drugs, and the promotion of generic medicine by the Japanese government, to curb medical expenses.

In such an environment, our company has addressed a further speed -up of clinical development and research activities, to amplify pipelines.

Among major pipelines, the Phase II clinical trial of paclitaxel micelle (NK105) has shown good progress, made by the licensee, Nippon Kayaku Co., Ltd.,. For Nanoplatin(NC-6004), cisplatin micelle, we concluded a licensing agreement for the Asian region with Orient Europharma Co. Ltd., of Taiwan (hereafter called "OEP") in September 2008. At the same time, in order to consolidate our trust and collaborative relationships, and to enrich the substance of tie-ups, we implemented an issuance of new shares, valued at 74million Japanese Yen, to Cytec Co., Ltd., wholly owned subsidiary of OEP, as an allocation of new shares to a third party. In December 2008, the Department of Health of Taiwan approved the clinical Phase I / II study of NC-6004 by OEP and us jointly. DACH-platin micelle (NC-4016), licensed to Debiopharm S.A. of Switzerland, was approved to enter clinical Phase I study, by the Medicines and Healthcare products Regulatory Agency of UK, and started in March 2009.

As a result, the net sales in the current fiscal year was 353 million yen (34.6% increase year-on-year basis), with pharmaceutical supply sales and milestone revenue from Debiopharm S.A., as well as milestone revenue from Nippon Kayaku Co., Ltd.; operating loss was 531 million yen (452 million yen in the preceding fiscal year), due to the cost of driving R&D ; ordinary loss was 523 million yen (491 million yen in the preceding fiscal year), and net loss was 524 million yen (494 million yen in the preceding fiscal year).

<Prospect for the next period>

Although we anticipate that the severe operating climate will continue in the next business year, the next year will be a very critical time for us because we aim to be profitable in the March 2011 term. Under this circumstance, we will promote to yield profit from the main pipelines, as scheduled. For Nanoplatin (NC-6004), licensed to OEP, OEP is steadily engaged in the promotion of Phase I / II in Taiwan. We are driving business development in other regions with the intention of research and tie-ups. Regarding to DACH-platin micelle (NC-4016), licensed to Debiopharm S.A., we intend to increase the added value of this drug as progress in Phase I, done by Debiopharm S.A.

Furthermore, we will make efforts to create new pipelines as well as promoting active business development activities in alliance with other pharmaceutical companies, to increase our corporate value.

With these approaches, we estimate the financial results in the next fiscal year; 505 million yen of net sales (42.8% increase from the current fiscal year) with pharmaceutical supply sales from Debiopharm S.A., 253 million yen of operating loss (531 million yen in the current fiscal year) with R&D costs for current projects as well as protein micell and siRNA micelle, 254 million yen of ordinary loss (523 million yen in the current fiscal year), and 257 million yen of net loss (524 million yen in the current fiscal year).

(2) Analysis on financial position

1) Assets, liabilities and net assets

Total assets for the current period decreased by 514 million yen from the preceding period to 1,529 million yen. This is mainly due to decrease in cash and work-in-process. Total liabilities decreased by 65 million yen from the preceding period to 71 million yen. This is mainly due to decrease in account payable and deposits. Total net assets decreased by 449 million yen from the preceding period to 1,458 million yen. This is mainly because decrease in retained earnings due to net loss for the current period.

2) Cash flows

Cash and cash equivalents (hereinafter "cash") for the current period decreased by 385 million yen from the preceding period to 1,369 million yen. Summary of the cash flows for the period is shown below.

Cash flow from operating activities

Cash flow from operating activities decreased by 456 million yen (588 million yen decrease in the preceding period) because cash decreasing factors including 522 million yen of net loss before tax due to R&D costs, exceeded amount of decrease in inventory assets of 109 million yen.

Cash flow from investing activities

Cash flow from investing activities decreased by 3 million yen (18 million yen decrease in the preceding period). This was mainly due to 2 million yen of acquisition for fixed assets to enrich research and analyzing equipment.

Cash flow from financing activities

Cash flow from financing activities increased by 74 million yen (643 million yen increase in the preceding period), with allocation of new shares to third party during the period.

(Reference) Changes in Cash Flow-Related Indices

| | March 31, 2005 | March 31, 2006 | March 31, 2007 | March 31, 2008 | March 31, 2009 |
|--|----------------|----------------|----------------|----------------|----------------|
| Equity ratio (%) | 94.7 | 73.5 | 88.3 | 93.3 | 95.4 |
| Equity ratio based on market value (%) | --- | --- | --- | 145.0 | 117.8 |
| Ratio of cash flow to interest-bearing debt (year) | --- | --- | --- | --- | --- |
| Interest coverage ratio (times) | --- | --- | --- | --- | --- |

Note1: Total market value of shares is based on numbers of shares outstanding excluding treasury stocks.

(3) Basic policy for profit sharing and dividend for current and next period

Our company has not carried out profit sharing since foundation, and no dividend is scheduled in current and next periods.

In consideration that pharmaceutical business of our company still needs to continue R&D activities, we have a policy to focus on securing funds in preparation for continuous R&D activities, by retaining earnings rather than profit sharing. However, we recognize that return profits to shareholders is also significant issue, and thus will consider profit sharing while taking operation result and financial condition into account.

(4) Risks in the business

Risks that may affect operational performance, financial condition and stock price of our company are as follows;

1) Business of the company

a. Current business

1) License agreement with prospective partners

Nanocarrier owns intellectual properties such as patents on micellar nanoparticle technology, and promotes drug discovery R&D based on the manufacturing technology in application of nanotechnology, for delivering new pharmaceuticals with improved efficacy and safety, in responding to medical needs. We are promoting our pipelines in accordance with business steps toward commercialization. Our current business model consists of three categories; a) self-development, b) joint research and c) license out.

Joint research and license out have risks depending on the timing and conditions of joint research agreements or license agreements with partners, which may significantly affect our business plan. Further, should agreements not be close as expected, operational results, financial conditions and the development plan will be seriously affected.

2) Reduced risks in the development of new pharmaceuticals by utilizing existing chemical compounds

In many R&D projects we apply our technology of micellar nanoparticles to existing chemical compounds with confirmed efficacy. We expect the probability of success for our projects are relatively higher than that in the projects applying the compounds with new chemical structures, which have never existed before.

However, it is uncertain that the development risk and the probability of success will be in the levels we expect. If they deviate from the levels we estimated, it may adversely affect our business development.

3) Increase of the pipeline

It is important for our company to ensure exclusiveness by applying for patents on new inventions during R&D process which includes new active ingredients created by the fusion of chemical compounds with polymers of our company. We recognize the increase of pipelines is necessary, based on our technologies endorsed by patents. However, it is uncertain whether pipelines endorsed by patents can be increased as scheduled. In addition, there is no guarantee that R&D of each pipeline can be promoted as scheduled. If pipelines are not increased as scheduled, or R&D of each pipeline is not promoted as scheduled, it may adversely affect the business development of our company.

4) Category of drug application

We intend to develop pharmaceutical products with new active ingredients by fusing existing chemicals with technologies of our company. Value of our pharmaceutical products is expected to be relatively high because the application category is likely to be new active ingredients. However, it is not guaranteed that the evaluation will be as high as we expected. In that case the business development of our company may be adversely affected.

b. Development of pharmaceutical products in NanoCarrier

1) Pipelines of NanoCarrier

To date, we have no pharmaceutical products already placed on the market. There are seven pipelines under development; consisting of paclitaxel micelle (NK105), Nanoplatin[®] (NC-6004), DACH-platin micelle (NC-4016) as three major items and four newly developed pipelines under basic research. All these pipelines are still under R&D, and there is no guarantee that they will be placed on the market. There is a possibility that the development will be suspended or delayed.

Also the result of progressed pipelines (paclitaxel micelle (NK105), Nanoplatin[®] (NC-6004) and DACH-platin micelle (NC-4016) in the clinical development stage may significantly affect the business of our company.

In case pipelines scheduled to be developed globally, the delay in preceding regions will probably lead to the delay in other regions and may adversely affect the progress of our business plan.

2) Development of paclitaxel micelle (NK105)

As research, development, use and commercialization right of paclitaxel micelle (NK105) in Japan and Asia are licensed exclusively to Nippon Kayaku Co., Ltd., the development of paclitaxel micelle is dependent on the progress of clinical studies led by Nippon Kayaku. Phase I clinical trial was completed in June 2006, and phase II clinical trial started in November 2007. But it is still under development and uncertain that it will be approved for manufacturing and selling as a pharmaceutical product and placed on the market.

As the decision making on the development is made by Nippon Kayaku, it may significantly affect our business if Nippon Kayaku decides to suspend or postpone the development program or the duration of the clinical trials are longer than the original schedule. The overseas development program in our policy is depending on the progress of clinical studies in Japan. We recognize that the development schedule of paclitaxel micelle (NK105) has a serious impact on the continuation of our company's business in the case the progress of the development program is far behind the schedule.

3) Development of Nanoplatin[®] (NC-6004)

We have granted the license to Orient Europharma Co., Ltd. (OEP) of Taiwan to develop Nanoplatin[®] (NC-6004). OEP is licensee in Asia except Japan and China, however, OEP does not have manufacturing rights. The development of Nanoplatin[®] (NC-6004) depends on the progress of clinical studies led by OEP. In December 2008, the Department of Health of Taiwan approved the clinical Phase I / II study of Nanoplatin (NC-6004) and the study already started. But it is still under development and uncertain whether it will be approved for manufacturing and selling as a pharmaceutical product and placed on the market.

As the decision making on the development is made by OEP, it may significantly affect our business if OEP decides to suspend or postpone the development program, or if the duration of the clinical trials is longer than the original schedule. The Japanese domestic development program in our policy depends on the progress of the clinical study in Taiwan. We recognize that the development schedule of Nanoplatin[®] (NC-6004) has a serious impact on the continuation of our company's business in the event that progress of the development program is far behind schedule.

4) Development of DACH-platin micelle (NC-4016)

As the exclusive license of DACH-platin micelle (NC-4016) all over the world excluding Japan is authorized to Debiopharm S.A. (excluding manufacturing right), the development program is depending on the progress of clinical studies led by Debiopharm S.A. The pipeline is currently in the stage of Phase I and it is uncertain that it will be approved for manufacturing and selling as a pharmaceutical product and placed on the market. Also, as the decision making on the development is made by Debiopharm, it may significantly affect our business if Debiopharm

decides to suspend or postpone the development program or the duration of clinical studies are longer than the original schedule. The domestic development program in our policy is depending on the progress of overseas clinical studies by Debiopharm. We recognize that the development schedule of DACH-platin micelle (NC-4016) has a serious impact on the continuation of our company's business in the case the progress of the development program is far behind the schedule.

c. Prospect for the future operation

As stated above, we are aiming early development and commercialization of new pharmaceuticals as scheduled in the business plan. The development of pharmaceutical products requires a large amount of development cost, long period of time and approval timing for manufacturing and commercialization is uncertain. They may affect our business plan and thus it is not guaranteed that the launching of our products is implemented as we expect.

In addition, development cost may not be recovered if our products are not approved or target sales are not achieved even if products are approved.

d. Dependency on specific business partner

1) Dependency on specific selling companies

Major selling companies are shown below. During the period, our dependency on two companies, Debiopharm S.A. and OEP. were at high level; sales to each company represent 64.6% and 33.6% of our sales, respectively. However, it is not guaranteed that those two companies will continue transactions with our company in the future. Therefore, changes in transaction policy with those two companies, changes in earnings trend, and suspension of business activities may significantly affect performance of our company.

| Name of company | Preceding period (from April 1, 2007 to March 31, 2008) | | Current period (from April 1, 2008 to March 31, 2009) | |
|----------------------------|--|----------------|--|----------------|
| | Sales (Thousand yen) | Proportion (%) | Sales (Thousand yen) | Proportion (%) |
| Debiopharm S.A. | 147,886 | 56.3 | 228,473 | 64.6 |
| Orient Europharm Co., Ltd. | --- | --- | 118,750 | 33.6 |
| Nippon Kayaku Co., Ltd. | 100,500 | 38.3 | --- | --- |

2) Dependency on specific suppliers

Major suppliers are shown below. During the current period, our dependency on four suppliers, Ieda Chemical Co., Ltd., and Tokai-Chemy, Ozu International Co. Ltd., and Koa Shoji Co., Ltd., were at high level; purchase from these companies were 45.5%, 11.7%, 11.5% and 11.3%, respectively.

We purchase a part of polymers which is a material for micellized nanoparticles and research reagent. It is not guaranteed that those companies will continue transactions with our company in the future. Therefore, changes in transaction policy with those three companies, changes in earnings trend, and suspension of business activities may significantly affect performance of our company.

| Name of company | Preceding period (from April 1, 2007 to March 31, 2008) | | Current period (from April 1, 2008 to March 31, 2009) | |
|--|--|----------------|--|----------------|
| | Purchase (Thousand yen) | Proportion (%) | Purchase (Thousand yen) | Proportion (%) |
| Ieda Chemical Co., Ltd.(Note 1) | 16,247 | 17.0 | 15,688 | 45.5 |
| Tokai-Chemy | 10,509 | 11.0 | 4,015 | 11.7 |
| Ozu Internatinal Co. Ltd. | ----- | ----- | 3,947 | 11.5 |
| Koa Shoji Co., Ltd. | 15,470 | 16.2 | 3,910 | 11.3 |
| Kawahara Chemical Co. Ltd. (Note 2) | 38,813 | 40.6 | 1,822 | 5.3 |

Note 1: Shiki Ieda Chemical Co., Ltd. integrated business with Ieda Chemical Co., Ltd. and Gunma Ieda Chemical Co., Ltd. on December 1, 2008. Shiki Ieda Chemical Co., Ltd. is the surviving company and altered its corporate name to Ieda Chemical Co., Ltd.

Note 2: We purchase polymers manufactured by NOF through Kawahara Chemical Co., Ltd., an agent of NOF, with an agreement with NOF and Kawahara Chemical Co., Ltd. Thus, although the name of the company in the book is shown as Kawahara Chemical Co., Ltd., actual partner company of the transaction is NOF.

e. Operating results and financial condition

Since foundation on June 14, 1996, we have been consistently conducting research and development activities aiming pharmaceutical product development, and in all periods to date, we have posted net loss due to R&D and other costs exceeding profits. In addition, cash flow from operating activities has been negative in the 10th, 11th, 12th and 13th periods in a row.

< Changes in major financial-Related Indices in latest 5 years >

| Period | March 2005 | March 2006 | March 2007 | March 2008 | March 2009 |
|--|------------|------------|------------|------------|------------|
| Sales (Thousand yen) | 113,434 | 107,856 | 103,430 | 262,718 | 353,648 |
| Ordinary loss (Thousand yen) | 503,775 | 803,843 | 727,444 | 491,607 | 523,742 |
| Net loss (Thousand yen) | 509,457 | 974,330 | 729,446 | 494,032 | 524,480 |
| Capital stock (Thousand yen) | 1,334,200 | 1,583,805 | 2,308,553 | 2,630,093 | 2,667,589 |
| Net assets (Thousand yen) | 1,512,540 | 1,037,986 | 1,758,731 | 1,907,779 | 1,458,242 |
| Total assets (Thousand yen) | 1,597,444 | 1,412,400 | 1,991,944 | 2,044,217 | 1,529,327 |
| Cash flow from operating activities (Thousand yen) | --- | -686,266 | -663,009 | -588,172 | -456,620 |
| Cash flow from investing activities (Thousand yen) | --- | -42,501 | -61,816 | -18,605 | -3,998 |
| Cash flow from financing activities (Thousand yen) | --- | 799,210 | 1,142,513 | 643,080 | 74,993 |

f. Negative retained earnings carried forward to the next period

As we are venture business engaged in research and development, substantial amount of R&D costs are recorded in advance, until pipelines currently under clinical trial are placed on the market and the company earns stable profits including royalty revenues. Accordingly, we have recorded net loss for five consecutive periods, and as of the end of the current period, negative retained earnings carried forward to the next period in the amount of -3,858,149 thousand yen was posted.

We are aiming to ensure profits as early as possible through quick, efficient and steady progress of pipelines as scheduled; however, there is a possibility that net profit in the future is not emerged as expected. Also, if operation of our company is not progressed as scheduled and net profit is not recorded, it is possible that the timing the negative retained earnings carried forward to the next period turned to positive may be extremely delayed.

g. Fund management

As a R&D oriented company, we are carrying out self-research and development, and joint researches with universities, which requires substantial amount of R&D fund. Thus, if fund is not ensured as expected due to delay in business plan progress or other reasons, fund becomes insufficient, which may significantly affect our business continuity.

h. Loss carryforwards for tax purposes

Loss carryforwards for tax purposes exists as of the end of the period. If the company becomes not eligible for deduction of loss carryforwards from taxable income, due to our business plan progresses and operational results becomes well or other reasons, net profit/loss and cash flow may be affected, because corporate income tax, residential tax and business tax with ordinary rates will be applied.

i. Competition

We are carrying out development of pharmaceutical products specialized in anticancer agent, with micellization nanoparticle technologies as being a core technology. Because market of pharmaceutical products including anticancer agent is in both domestic and overseas, we are in a position to compete with other companies all over the world in the same trade. Injectable solution containing a platinum system anti-tumor drug, such as paclitaxel and cisplatin, produced by liposome-based drug production technologies, different from our technology, and oral agent using similar chemicals have been developed, which are considered to be competitive with our products currently under development. Although we are making efforts for early development and launch of new drugs, if other companies launch products with similar effect or safety earlier than us, or if they launch superior products following our products, it is possible that profits may not be earned as expected, even though we launch new products.

2) Important agreements in business

The following is a list of important agreement for our business development. We recognize that each of them is an important agreement which affects the basis of our group business. Therefore, if the agreement is cancelled, unfavorably amended to us, or not renewed after termination, those may affect performance of our business.

a. Agreement for Technology out-licensing

1) Basic license agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|---|---|--|
| Nippon Kayaku Co., Ltd. (June 12, 2002) | Starting from March 31 2002, throughout a period when Nippon Kayaku Co., Ltd carries out research, development, manufacturing or sales of paclitaxel-encapsulating polymer micelle ("the Micelle") or pharmaceutical products ("the Pharmaceutical Products") containing the Micelle. | <p>1) We give Nippon Kayaku Co., Ltd. license (with sublicense) to exclusively research, develop, manufacture, use and sell the Micelle or the Pharmaceutical Products in Japan and Asia, and also non-exclusive license to sell the Pharmaceutical Products in other regions.</p> <p>2) Development of the Micelle or the Pharmaceutical Products is carried out by Nippon Kayaku Co., Ltd.; we receive contract lump-sum and milestones depending on development stage (550 million yen in total) from Nippon Kayaku.</p> <p>3) After launch of the product, Nippon Kayaku Co., Ltd. pays 2.0% of net sales as royalty to our company. The royalty will be paid until whichever later, when all industrial property of our company is annihilated, or 10 years from the date of the pharmaceutical product launch.</p> |

2) Agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|---|--|--|
| Nippon Kayaku Co., Ltd. (November 22, 2006) | From November 22 in 2006 to termination of above basic license agreement | <p>1) We give Nippon Kayaku Co., Ltd. a non-exclusive sublicense patent, which is licensed from Japan Science and Technology Agency ("JST"), under 2) New Technology Development Agent Agreement in b. Technology In-Licensing Agreement described later.</p> <p>2) The contract lump-sum paid to JST is shared evenly by our company and Nippon Kayaku Co., Ltd.</p> <p>3) Nippon Kayaku Co., Ltd pays to our company royalty under basic license agreement dated June 12, 2002, plus, 2.5% of net sales of Nippon Kayaku, as consideration of the sublicense, during a term of existence of the patent.</p> |

3) License and Supply Agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|--|---|---|
| Debiopharm S.A. (October 15, 2007) | From launch of DACH-platin micelle produced using MediCelle System ("the product"), to whichever later 10 years from the launch, or annihilation of patent held by our company. | <p>1) Our company gives Debiopharm S.A. an exclusive license (excluding right of manufacturing) in all over the world excluding Japan, of our company's technology and outcomes of joint development with Debiopharm S.A., regarding the product.</p> <p>2) Our company sells the product exclusively to Debiopharm S.A. after development and launch of the product.</p> <p>3) Our company receives contract lump-sum and milestone which is based on development stage (14 million U.S. dollars in total) from Debiopharm S.A., as consideration of the license.</p> <p>4) Our company receives royalty revenue of up to 5% of net sales of the product from Debiopharm S.A. (up to 15% of royalty revenue, if Debiopharm S.A. sublicenses to a third party), after launch of the product.</p> <p>5) If our company develops, registers and launches the product in Japan by using data of Debiopharm S.A., our company pays certain proportion of costs incurred by Debiopharm S.A. to obtain the data (including those for clinical study and nonclinical study), when manufacturing and sales authorization for the product is obtained.</p> |

4) License agreement of NC-6004

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|--|--|--|
| Orient Europharma Co., Ltd. (hereinafter called " OEP ") (September 12, 2008) | 10 years from the date of agreement. This agreement shall be automatically renewed unless either party gives the notice of termination | <p>1) Our company gives OEP the license to develop jointly and commercialize the product of Nanoplatin (NC-6004, Hereinafter called the drug) in Australia, New Zealand, Indonesia, Korea, Taiwan , Thailand, Hong Kong, Malaysia, The Philippines, Singapore, Viet Nam, Macau, Myanmar, Brunei, Cambodia, Laos, and East Timor.</p> <p>2) Our company receives a contract lump-sum and a milestone which is based on the development stage from OEP, as consideration for the license.</p> <p>3) Our company holds the right to manufacture the drug in the development stage as well as after the launch of it. OEP bears 50% of the cost for the manufacturing of the drug during its development. After the launch of the drug, OEP receives the supply of the drug from us at the amount of a certain mark-up of the drug price</p> |

b. Technology In-Licensing Agreement

1) License agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|---|---|---|
| Center for Advanced Science and Technology Incubation (present: Todai TLO, Ltd.) (January 26, 2001) | From January 26, 2001 to annihilation of the patent | <p>1) Todai TLO, Ltd, who owns patent for "cisplatin-encapsulating polymer micelle," gives exclusive license with sublicense right and exclusive license of development, manufacturing and selling of cisplatin-encapsulating micelle in Japan and other countries our company wishes, to our company.</p> <p>2) Our company pays to Todai TLO, Ltd. 1 million yen of lump sum plus 1% royalty of net sales of our company in case we use the license, or the same rate of net sales of sublicense in case we sublicense, in consideration of the license.</p> <p>3) Todai TLO, Ltd. and our company have a right to cancel or change, part of or entire contract, if both parties agree upon 60 days written notice.</p> |

Note: Exclusive license is given under the agreement; however, establishment is not registered.

2) New Technology Development Agent Agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|--|--|---|
| Japan Science and Technology Agency ("JST") (August 8, 2006) | From August 8, 2006 to annihilation of the patent. | <p>1) JST, who owns patent of "physisorption-based polymer micelle pharmaceutical products," gives our company ordinary license of patent and patent application (in Japan, Australia, the U.S., Canada, Europe and South Korea), with sublicense right for R&D, manufacturing and selling of paclitaxel-containing micelles of giant block polymer (license with sublicense right for application in overseas).</p> <p>2) Our company pays to JST, in consideration of the license, contract lump-sum of 1 million yen, plus up to 2.0% of net sales of the product as running royalty.</p> <p>3) JST shall not give license of above scope to any other parties (i.e., it gives priority license to our company within above scope). However, if JST determines that granting ordinary license to other parties is necessary for public good, JST has a right to cancel the priority license to our company. Also, if the licensed product is not placed on the market by December 31, 2011, JST has a right to cancel priority license to our company.</p> |

3) License Agreement and Memorandum

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|---|--|--|
| <p>Today TLO, Ltd. (May 19, 2004)</p> | <p>From May 19, 2004 to annihilation of the patent</p> | <p>1) Today TLO, Ltd., who owns patent of "coordination complex of platinumous (II) diamminocyclohexane with poly (carboxylic acid) segment-containing block copolymer, and anti-tumor drug thereof," gives our company license with sublicense right and exclusive license for development, manufacturing, selling and use of DACH-platin-containing micelles in Japan and other countries our company wishes.</p> <p>2) Our company pays contract lump-sum of 1.5 million yen to Today TLO, Ltd.</p> <p>3) Today TLO and our company have a right to cancel or change, in part or entire agreement, if both parties agree upon 60 days written notice.</p> |
| <p>The University of Tokyo, and Today TLO, Ltd. (March 31, 2006) (see note 2)</p> | <p>From May 19, 2004 to annihilation of the patent</p> | <p>Our company pays to Today TLO, Ltd. royalty of 1% of net sales of our company in case we use the license, and 1% of net sales of sublicensee company or 20% of royalty we receive from sublicensee company, whichever lower, in case we give sublicense to a third party.</p> |

Note 1: Exclusive license is given under the agreement; however, establishment is not registered.

Note2: After above agreement was entered into, a memorandum below was signed, which packaged three patent applications including "the production method of polymerized coordination compounds of platinum complex," which is a joint application of University of Tokyo and our company, and a patent application owned by University of Tokyo.

4) Exclusive license agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|--|---|--|
| Todai TLO, Ltd. (July 31, 2006) | From July 31, 2006 to annihilation of the patent. | <p>1) Todai TLO, Ltd., who owns patent of “electrostatic bond-based polymer micelle carrier and pharmaceutical products thereof,” gives exclusive license with sublicense right in Japan, the U.S., Canada, Europe, Australia and South Korea, to our company, with limited inclusion.</p> <p>2) If our company seeks exclusive license registration in the country where exclusive license registration is allowed and Todai TLO, Ltd. agrees, our company can register exclusive license.</p> <p>3) Our company pays to Todai TLO, Ltd., in consideration of the license, contract lump-sum of 35.5 million yen, 10 new shares reservation rights (which corresponds to 100 ordinary shares), and royalty of 1% of net sales of our company in case our company uses the license, or 1% of net sales of sub-licensee in case our company gives sub-license right. However, during the first 36 months from the sales start of our company or sub-licensee, the royalty is 1.2 % of the net sales.</p> <p>4) Todai TLO, Ltd. and our company have a right to cancel or change, in part or entire of the agreement, if both parties agree.</p> |
| Todai TLD, Ltd. (April 1, 2008) | From April 1, 2008, until both the patent right in question and the above stated “Electrostatic bonding- type macromolecular micelle drug carrier and drug carried thereon” lose their effectiveness. | <p>1)Todai TLD, Ltd. grants exclusive license, with sublicense options in Japan and countries which we desire defining the inclusion, with respect to the “Micelle for Nucleic Acids”, of which Todai TLD, Ltd. possesses the right to grant license.</p> <p>2)In the event that our Company requests registration of the exclusive license regarding the authorized countries and it is agreed upon by Todai TLD, Ltd., such a registration of the exclusive license may be made.</p> <p>3)In consideration of the license given to our Company, the Company pays a lump-sum payment of one million yen, along with a license fee which is the net sales amount of our Company multiplied by the rate of 1% in the event that the license is exercised by our Company; or a license fee which is the net sales amount of a sub-licensee multiplied by the rate of 1%, in the event that the sublicense is exercised by a sub-licensee. However, during the first 36 months since our Company or a sub-licensee started the sale for the first time, the license fee multiplied by the rate of 1.2% shall be paid.</p> <p>4)In the event that the above stated patent right and patent application of “Electrostatic bonding-type macromolecular micelle drug carrier and drug carried thereon” continue to exist validly in each authorized area, the license fee of the patent right and patent application will be included in the license fee defined in (3) of this agreement. (Note)</p> <p>5)In the event that Todai TLD, Ltd. and our Company agree, all or part of the agreement may be cancelled or amended. Furthermore, in the event that the Company decides that the license is no longer needed and communicates in writing at least 2 months before the expected date of termination of the agreement, the agreement may be cancelled.</p> |

(Note) Since, technically, the “Micelle for Nucleic Acids” patent is included in the “Electrostatic bonding- type macromolecular micelle drug carrier and drug carried thereon,” the license fee in the event that “Micelle for Nucleic Acids” is exercised, will be paid in a package with the license fee of “Electrostatic bonding-type macromolecular micelle drug carrier and drug carried thereon”.

5) Exclusive license agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|---|---|--|
| University of Tokyo and Todai TLO, Ltd. (February 15, 2007) | From February 15, 2007 to annihilation of the patent | <p>1) University of Tokyo gives our company exclusive license with sub-license right of "novel block pH-responsive block copolymer for the preparation of polymer micelles and the production method thereof", a patent owned by University of Tokyo, in Japan and other countries our company wishes.</p> <p>2) If our company seeks exclusive license registration in the country where exclusive license registration is allowed and Todai TLO, Ltd. agrees, our company can register exclusive license.</p> <p>3) Our company pays to University of Tokyo, in consideration of the license, contract lump-sum of 3 million yen and royalty of 1% of net sales, or 1% of net sales of sub-licensee in case our company gives sub-license.</p> <p>4) If university of Tokyo, Todai TLO, Ltd., and our company agree, or our company decides license is not necessary and gives two months notice period in writing regarding cancellation of agreement, in part or entire agreement can be cancelled or changed.</p> |

d. Supply agreement
Supply agreement

| Name of company (Date of agreement) | Agreement period | Summary of agreement |
|---|---|--|
| Nippon Oil & Fats Co., Ltd. (present: NOF Corporation) (December 15, 2003) | From December 15, 2003, for 10 years | Nippon Oil & Fats Co., Ltd. exclusively supplies polymers required for research, development of new drug taking advantage of micellization nanoparticle and commercial manufacturing of the product, to our company and our partner companies. |

3) Organizational structure of our company

a. Ensuring human resources

Since our competitive edge lies in our R&D ability, securing personnel with high level of expertise is essential. In addition, staff of sales, manufacturing and administration also needs to be enriched to support business expansion. We are making efforts to ensure excellent personnel and education of employees; however, if ensuring human resources and education of employees are not progressed as scheduled, it may adversely affect business of our company.

b. Small-sized organization

As of March 31, 2009, our company consists of seven directors, three auditors and 28 employees.

We are making efforts to improve our operational structure to carry out business; however, because our business is dependent on limited human resources, if some troubles happen to employees and such troubles interfere with their business operations, or employees drain out of the company, it may adversely affect business of our company.

On the other hand, rapid expansion of scale of the company may lead to increase in fixed costs, which adversely affects performance of our company.

c. Dependency on particular personnel

The operator of our business is Ichiro Nakatomi, the president and CEO of the company. As a CEO of the company, Nakatomi has a considerable influence in deciding managerial strategy and promoting R&D, business development and administration. Thus, we are making efforts to enhance managerial structure to built framework not dependent on Nakatomi excessively; however, the situation is expected to continue for the time being, and therefore, if for some reasons, Nakatomi be in a situation where he cannot be engaged in the business, business strategy or operational results of our company may be significantly affected.

d. Scientific advisor

We entered into scientific advisor agreement with researchers outside of the company as below, to improve structure where state-of-the-art research outcomes can be utilized in our R&D.

Because scientific advisor agreement is signed up annually, if the agreement is not continued, such that agreement is not renewed for some reasons, R&D of our company may be adversely affected.

| Organization | Title and name (area) |
|--|--|
| School of Engineering, University of Tokyo | Professor, Kazunori Kataoka (start-up of new business) |
| Tsukuba Research Center for Interdisciplinary Material Science | Professor, Yukio Nagasaki (new polymers) |

4) Intellectual property right

a. Patent strategy of our company

We intend to ensure our competitive edge over other company by owning patents, and exercise our right while respecting other company's as well.

The three pipelines now under developed and four newly developed pipelines are all based on patent right or patent application which are owned by our company or licensed-in from other companies.

We have a policy to review maintaining patents when necessary, in the light of significance and business possibility of the patent, in order to effectively utilize costs of patent application and maintenance. As of March 31, 2008, we own 31 types of patents and patent applications which

are owned by our company or licensed-in from other companies. Those are applied mainly in U.S., Europe, and Japan, which has a large pharmaceutical market.

However, it is not guaranteed that all applications in the process, which are owned by our company or licensed-in from other companies, are successfully granted. Or even if granted, it is always possible that the technology in the patent is weeded out due to superior R&D. Furthermore, if an outstanding technology that is not included in the scope of our patent right is developed, our business strategy and operational results may be significantly affected.

Among pipelines under development and prospective pipelines, patents owned by other companies and necessary for paclitaxel micelle (NK105), nanoplatin[®] (NC-6004), DACH-platin micelle (NC-4016), siRNA micelle (NC-4017), cytokine micelle, and pH-responsive micelle, are licensed-in.

In case that we need other patents license-in in the future process of our business development and fail to license-in of the patent, or, substantial amount of royalty is necessary, our business strategy and operational results may be significantly affected.

b. Lawsuit and claims regarding intellectual property right

As of March 31, 2008, there are no facts that lawsuits or claims are occurred between our company and a third party regarding intellectual property right developed by our company, including patent right.

However, there is no guarantee that other companies are not conducting similar R&D to our company, and thus, that our company will not conflict with patents of other companies in the future.

In order to prevent these issues, we have a policy to conduct research on patents on our own or through patent agents before business development, and at present, we do not recognize any facts that our technology conflicts with patents of others. However, it is difficult to completely avoid problems to arise regarding infringement on intellectual property right, for companies like us who are research and development oriented. If a conflict with others arises on patent rights, our business strategy and operational results may be significantly affected.

5) Product liability

Development and manufacturing of pharmaceutical products entail product liability risk. If any of the pharmaceutical products poses health disturbance in the future, or inappropriateness is detected during clinical study, manufacturing, marketing or sales, our company must to accept product liability, which may affect business and financial condition of our company significantly. Also, even if compensation claim against to our company is denied, the negative image brought by product liability claim may destroy confidence in our company and our products, which can affect our business adversely.

6) Regulation by Pharmaceutical Law

Although we are currently carrying out R&D of pharmaceutical products, we aim to manufacture pharmaceutical products based on the outcome of the R&D in the future, which is subject to regulations by Pharmaceutical Law and other relevant legislations in Japan. The Law intends to ensure quality, effectiveness and safety of drugs, quasi-drugs, cosmetics and medical devices, and requires approval for each item from the relevant public office for manufacturing and selling of these products. The details are listed below. As the development progress, we accordingly need to obtain approval. Similar law or legislation may apply in foreign countries as well.

| Type of authorization or approval | Approver | Relevant law | Effective period |
|--|---------------------------------------|--------------------------------|------------------|
| Approval for manufacturing and selling of pharmaceutical products | Minister of Health, Labor and Welfare | Article 14, Pharmaceutical Law | - |
| Approval for manufacturing and selling of category I pharmaceutical products | Minister of Health, Labor and Welfare | Article 21, Pharmaceutical Law | 5 years |

7) Issues forming basis for main business activities

License agreement for main pipelines

a. License-in of intellectual property right from universities

We are actively licensing-in of intellectual property rights from universities or research institutes, for practical application of research outcomes from university (i.e., seeds) as pharmaceutical products. Specifically, license agreements listed below, which relates our major pipelines, are significant agreement relevant to the fundamental of our business.

Although there are no factors arise which interfere with continuation of those agreements at present, if factors that interfere with continuation of them arise, unfavorable revision is made for our company, or agreement is not renewed after expiry, our development plan and performance may be significantly affected.

| Type of agreement | Name of company (agreement date) | Summary of agreement |
|--|--|---|
| License agreement | Todai TLO, Ltd. (January 26, 2001) | See "1) License agreement in b. Technology In-Licensing Agreement of 2) Important agreements in business" above. |
| New Technology Development Agent Agreement | Japan Science and Technology Center (August 8, 2006) | See "2) New Technology Development Agent Agreement in b. Technology In-Licensing Agreement of 2) Important agreements in business" above. |
| License agreement | Todai TLO, Ltd. (May 19, 2004) | See "3) License agreement and memorandum" in b. Technology In-Licensing Agreement of 2) Important agreements in business" above. |
| Memorandum | University of Tokyo and Todai TLO, Ltd. (March 31, 2006) | |

b. License-out to partners

In order to lower R&D costs before launch of the pharmaceutical products and minimize financial risks of the company, we promote R&D in three patterns of business model; 1) self-development, 2) joint development, and 3) license-out. Three pipelines (paclitaxel (NK105), Nanoplatin[®] (NC-6004) and DACH-platin micelles (NC-4016)) are licensed-out. License agreements listed below, which relates to license-out, are important agreements relating to fundamental of our business.

Although there are no factors which interfere with continuation of those agreements at present, if factors that interfere with continuation of them arise, unfavorable revision is made for our company, or agreement is not renewed after expiry, our development plan and performance may be significantly affected.

| Type of agreement | Name of company (agreement date) | Summary of agreement |
|------------------------------|--|---|
| License agreement | Nippon Kayaku Co., Ltd. (June 12, 2002) | See "1) Basic license agreement in a. Technology Out-Licensing Agreement of 2) Important business agreements" above. |
| Agreement | Nippon Kayaku Co., Ltd. (November 22, 2006) | See "2) Agreement in a. Technology Out-Licensing Agreement of 2) Important business agreements" above. |
| LICENSE AND SUPPLY AGREEMENT | Debiopharm S.A. (October 15, 2007) | See "3)LICENSE AND SUPPLY AGREEMENT" in a. Technology Out-Licensing Agreement of 2) Important business agreements" above. |
| LICENSE AGREEMENT of NC-6004 | Orient Europharma Co., Ltd (September 12,2008) | See "4)LICENSE AGREEMENT of NC-6004" in a. Technology Out-Licensing Agreement of 2) Important business agreements" above. |

8) Regarding the dividend policy

Our Company has recorded a net loss for the term since its inauguration, and distribution of profits by dividend has not been implemented.

With respect to the drug medicine business of our Company, our policy is to prioritize the securement of funds, in anticipation of continuous implementation of R&D activities, in view of its necessity. While we fully recognize the return of profits to shareholders as a significant issue of management, we will evaluate our distribution of profits by dividend, considering then business performance as well as financial conditions when we manage to generate profits.

(9) Regarding the system of new share subscription rights and stock options

Our Company applies a stock option system, and the number of dilutive securities, in the event that all outstanding new share subscription rights should be exercised, is 16,890 shares, as of March 31, 2009, which comprises 11.7% against the aggregate number of these dilutive shares and the issued and outstanding shares of our Company. If the new share subscription right is exercised, there is a possibility that the stock value per share of our Company will be diluted.

We will continue to implement similar incentive plans, in order to secure qualified human resources. As a consequence, in case the new share subscription rights to be provided in future are implemented, the stock value per share of our Company could be diluted. Furthermore, since we are obliged to appropriate the new stock option as cost, provision of stock options in future could affect the business performance of our Company.

2. Situation of Business Group

Not applicable.

3. Company's Management Policy

(1) Basic policy of company's management

Our company is aiming to be the "Only One" innovative pharmaceutical company in Oncology area needed in the society with a management philosophy of "Create new pharmaceuticals using nanotechnology, and contribute to improve people's health and quality of life." The main business of our company is development and manufacturing of new pharmaceuticals, and gene therapy medicines mainly in oncology area with micellar nanoparticles as the core technology using nanotechnology.

1) Business development

We intend to develop our businesses in accordance with the business phases, for promoting drug discovery R&D based on micellar nanoparticle technologies and commercialization of the products. Currently, there are three patterns of business models, a) self-development, b) joint research and c) license-out.

In self-development, income from sale of the product is recorded when products are developed, launched and sold by our company. But currently there is no pipeline in our company being in that stage.

In joint research, cooperative R&D revenue from the partners to support our R&D activities is recorded. Currently, our company has this kind of income for multiple pipelines.

In case of license-out to other companies, contract lump-sum (upfront) for R&D results and drug supply until the time of signing, milestones at specified development stages, royalty revenues for sales of the product after launching are recorded. Currently we have received contract lump-sum (upfront) and milestone revenues for the start of phase I or phase II clinical trials of our pipelines.

We are trying to reduce R&D costs before launching pipeline products and to lower financial risks, by obtaining contract lump-sum (upfront), milestone revenues and cooperative R&D revenues for drug supply from aligned companies as described above.

2) Pipelines

Our R&D business consists of 3 major pipelines and 4 newly developed pipelines. Three major pipelines are in the stage of clinical study. As these three pipelines are created by encapsulation of existing valued anticancer drugs or their analogues into micellar nanoparticles, the risk associated with the development is expected to be relatively lower than the projects applying products with new chemical structures. The present situations of major pipelines and newly-developed pipelines are shown below. Our goal is to develop these projects in the global scale.

<Products under Development>
(Pipelines)

| Product | Indication | Region of clinical study | Developmental stage | |
|--|-----------------|--------------------------|---------------------------|---|
| | | | Stage | Situation |
| Paclitaxel Micelle (NK105) (Note 1) | Gastric cancer | Japan | Phase II Clinical Study | <ul style="list-style-type: none"> Licensed out to Nippon Kayaku Co., Ltd. The phase I clinical study was completed in June, 2006. No prophylactic medication to reduce adverse reactions. Phase II clinical study started from November, 2007. |
| Nanoplatin [®] (NC-6004) | Pancreas cancer | Taiwan | Phase I/II Clinical Study | <ul style="list-style-type: none"> The Phase I clinical study in the United Kingdom was completed in March, 2008. Development and marketing rights in East Asia (excluding Japan and Greater China), Southeast Asia, and Oceania was licensed-out to Orient Europharma Co., Ltd. in September, 2008. Approval was obtained from the Department of Health, Executive Yuan of Taiwan, to initiate The Phase I/II clinical trial in December, 2008. |
| DACH-Platin Micelle (NC-4016) (Note 2) | Cancer (Note 3) | U.K. | Phase I Clinical Study | <ul style="list-style-type: none"> Licensed out to Debiopharm S.A. The Phase I clinical study started from March, 2009. |

(Newly-developed pipeline)

| Product | Indication | Region of clinical study | Developmental stage | |
|-----------------------|--------------------|--------------------------|---------------------|---|
| | | | Stage | Conditions |
| Protein micelle | Undecided (Note 4) | --- | Basic Research | <ul style="list-style-type: none"> Conducting feasibility study with multiple companies (Contracted companies are undisclosed) |
| siRNA micelle | Undecided (Note 4) | --- | Basic Research | <ul style="list-style-type: none"> Conducting feasibility study with multiple companies after joint research with the National University Corporation, Tokyo University (Contracted companies are undisclosed) |
| pH Sensitive Micelle | Cancer (Note 3) | --- | Basic research | <ul style="list-style-type: none"> Basic research is ongoing by NanoCarrier. |
| Sensor linked micelle | Undecided (Note 5) | --- | Basic research | Basic research is ongoing by NanoCarrier. |

(Note 1) NK105 is a development code for Nippon Chemical Industry Co., Ltd.

(Note 2) NC-4016 is a development code for NanoCarrier; the development code for Debiopharm S.A. is Debio 0507.

(Note 3) Regarding DACH-platin micelle (NC-4016) and pH-sensitive micelle, we assume cancer as the target disease, but we have not narrowed it down to a specific cancer type at this stage. We will decide the specific cancer type at the time of starting a Phase II clinical study, with progression of our research and development.

(Note 4) Regarding protein micelle and siRNA micelle, we have not decided the target disease yet at this stage, as it varies, depending on the type of ingredient contained in micellar nanoparticles,

(Note 5)

Regarding the sensor-linked micelle, we assume cancer or auto-immune disorder as the target disease but it may vary according to the type of sensor, and we have not decided yet at this stage.

a. Paclitaxel Micelle (NK105)

Paclitaxel (Taxol®) is an anti-cancer agent which has been used all over the world for indications such as ovarian cancer, lung cancer, breast cancer and gastric cancer. Since its active ingredient is not soluble in water, a special alcohol based solvent is required for the formulation. Since the solvent often causes adverse drug reactions, prophylactic medications (such as steroids, anti-histamines, and anti-ulcer agents) are required before dosing the drug in order to reduce the adverse drug reactions. This is not convenient in the clinical setting. Hence, we created stable micellar nanoparticles which encapsulated paclitaxel using the technology of micellar nanoparticle (NanoCap® system).

Based on this achievement, we have conducted a joint research with Nippon Kayaku Co., Ltd. and licensed it out to the company in June, 2002. The Phase I clinical study of the pipeline was completed in June, 2006, and the Phase II clinical study was started in November, 2007. We expect that it will move to a Phase III clinical study within 2009.

b. Nanoplatin® (NC-6004)

Cisplatin, an anti-cancer agent, is widely used as a major drug for cancer chemotherapy for its good efficacy. On the other hand, QoL* of patients receiving Cisplatin are very low because they frequently suffer from its severe emetic effect and a large amount of hydration is required for a long time after dosing of the product. In addition, adverse drug reactions such as renal toxicity or neurotoxicity have caused discontinuation or delay of the treatment.

Aiming to develop a new drug with decreased toxicity induced by Cisplatin and with greater anti-tumor effects, we created Nanoplatin® (NC-6004, Cisplatin Micelle), a new compound created by combining Cisplatin and new block copolymers. Since non-clinical studies demonstrated its sustained release and accumulative features in cancer tissues as well as reduced renal toxicity and neurotoxicity, we started the phase I clinical study in the U.K. in May 2006. Based on this achievement, we concluded a license agreement with Orient Europharma Co., Ltd. (Taiwan). We successfully obtained the approval by Department of Health, Executive Yuan of Taiwan and started the Phase I/II clinical trial in December, 2008.

According to the results of basic researches, Nanoplatin® (NC-6004) has shown the anti-tumor effect equivalent to or higher than that of Cisplatin and reduced renal toxicity and neuro toxicity seen with Cisplatin. We expect that it will show better product profiles than Cisplatin.

QoL*: QoL is short for Quality of Life, which is a word mainly meaning “quality of struggle against a disease”. It is an idea that providers of medical treatments are trying to evaluate the treatment effects by the degree of fulfillment and satisfaction in the daily lives of patients.

c. DACH-Platin Micelle (NC-4016)

Oxaliplatin is an anti-cancer drug which has succeeded as a standard drug for colorectal cancer all over the world. However, it is known to cause peripheral neuropathy as an adverse effect, such as “constant numbness in legs and hands”, which is a major cause of discontinuation of the treatment.

Oxaliplatin is converted to a Dachplatin analogue in the body which shows anti-tumor activity. We think it is possible to develop a new anti-cancer drug which can show enhanced anti-tumor effects by encapsulating this Dachplatin analogue directly into the micellar nano-particles.

We conducted joint research with Debiopharm S.A. (the head office in Switzerland) for this pipeline and closed the license and supply agreement in October 2007. Debiopharm started the Phase I clinical study in March 2009.

d. Protein micelle

The groups of proteins called cytokines, such as interleukins and growth factors, are the products which also need to be stabilized in the blood as well. The target profiles of Cytokine Micelle are to improve efficacy and to reduce adverse drug reactions by stabilization of the products in the blood, sustained drug effect and targeted delivery to the lesions. Changing the size of micellar nano-particles or the drug releasing speed will give the drug appropriate profiles according to medical needs. We believe that this technology can be applied to the treatment of hematopoietic diseases, cancers or hepatitis. Cytokines with confirmed efficacy are initially applied for the development of Cytokine Micelle, but other cytokines having new physiological activities will be future candidates. This product is at the stage of feasibility research by a couple of companies..

e. siRNA Micelle

Drugs consisting of nucleic acid such as siRNA are immediately metabolized and disappear from the blood if administered intravenously. As such drugs are difficult to show adequate efficacy, their stability in the blood is essential for the development as pharmaceutical products. We are aiming to stabilize them in the blood by encapsulating into micellar nano-particles. We consider siRNA Micelle as a candidate product which can enhance the efficacy by selective drug delivery to cancer or inflammation sites. This product is at the stage of feasibility research by a couple of companies.

f. pH Sensitive Micelle

pH Sensitive micelle is a system to release drugs effectively in response to the change of pH. It is assumed that micelles are taken up by small vesicles called endosomes formed by cave-in of the cell membrane and are transported inside the cells. The pH is known to be acidic inside the endosomes. The decrease in pH breaks the linkage between drugs and block polymers and drugs encapsulated in micelles are released out. This process is expected to occur very rapidly in the right moment. This technology is currently applied to anti-cancer agents. This product is at the stage of basic research in NanoCarrier.

g. Sensor linked micelle

Its aim is targeting therapy focusing on the targeted cell. It enhances distinguishing properties to target cells by linking antibodies to the surface of micellar nanoparticles. Antibodies recognize unique antigens which appears in target cancer cells. High efficacy and reduced side effects are expected since more medicine can be delivered to the target cells than conventional missile treatment, which is a simple linkage of drug and antibody.. This product is at the stage of in-house basic research.

(2) Target of company operation

We will maintain sustained growth through promoting R&D of pharmaceutical products and ensuring revenues by launching the products in the market or license-out. It is most crucial for our company to promote R&D activities of our current business base, which are three major pipelines and four newly developed pipelines, quickly, efficiently and steadily as scheduled.

Also we will promote our unique R&D activities for early launch of products or license-out through increasing new pipelines and enriching existing pipelines.

(3) Mid- to long-term business strategy

As a R&D oriented company, we promote our basic research and clinical development funded by contract lump-sums, cooperative R&D revenues and milestone revenues from partners such as pharmaceutical companies. We will continue to follow the strategy in the future as well. It is expected that our profit will significantly increase in the future by royalty income through launching of pharmaceutical products.

Although R&D costs are expected to increase in accordance with expansion of business domain or progress of self-development until launching of the products, we intend to promote our business with maintaining steady operation by closing new agreements for cooperative R&D.

(4) Issues to be addressed

Environments surrounding our company are expected to remain harsh in the future, in the light of various domestic and global situations. In these circumstances,, our company sets the social mission of “Create new pharmaceutical products by using nanotechnology and contribute to people’s health with the improvement of QoL”, and promote drug discovery business as an innovation pharmaceutical company in Oncology area. As described in “(2) Target of company operation” and “(3) Mid- to long-term business strategy” above, we recognize the issues we need to address as R&D oriented bio-venture business as follows;

1) Steady promotion of major pipelines and newly-developed pipeline

As the present operation base, we have major pipelines such as Paclitaxel micelle (NK-105), Nanoplatin[®] (NC-6004) and DACH-platin micelle (NC-4016), and newly-developed pipelines at the research stage based on core technology of micellar nanoparticles. It is most important to promote these R&D activities promptly, efficiently and steadily according to the plan.

Specifically, we intend to enhance relationship with partner companies for licensed pipelines, strengthen project management by pipeline and improve R&D ability, accuracy and reliability for self-developed pipelines.

2) Increase new pipelines

While we recognize that promoting above major pipelines and newly developed pipelines is the most important issue, it is also essential to increase new pipelines and enrich line-ups of developing products, in order to increase the corporate value and disperse development risks. We will promote unique R&D activities, which are difficult for other companies, and discover seeds with securing patents to start up new pipelines in collaboration with research institutes such as universities with speed, efficiency and effectiveness as Company’s basic policy.

Furthermore, to expand application scope of our technology, we will actively seek for business development toward new alliance or licensing with domestic and global pharmaceutical companies and bio-ventures.

3) Enhance financial base

Fund procurement including operating capital, investment in R&D and capital investment for promotion of R&D activities are necessary for our company. We intend to finance through capital increase by public offering, secure revenue before launching pharmaceutical products by business alliances, and utilize public subsidies by governments for the enhancement of financial base of our company.

4) Consolidation of internal control

In accordance with the application of the internal control reporting system related to financial reporting based on the Financial Instruments and Exchange Law since April, 2008, we will strive for consolidation of the compliance system and further enhancement of the business efficiency through strengthening of our internal control system and internal audit system,

5) Reinforcement of IR activities

Since the listing of the shares on the Mothers Market of the Tokyo Stock Exchange Co., Ltd. in March, 2008, the market expectation of our Company has been expanding. In view of a considerable number of individual investors to our Company, we have engaged in aggressive IR activities. As one of the efforts, we plan the company presentations to individual investors 2~4 times a year, in addition to the analysts meeting held twice a year. We will continue to respond

expectations of investors by aggressive promotion such as disclosure of the presentation material on our website.

(5) Other important operational issue

Not applicable.

4. Financial Statements

(1) Balance Sheet

| | (Thousand yen) | |
|--|--|--|
| | Preceding period (as of March 31, 2008) | Current period (as of March 31, 2009) |
| <Assets> | | |
| Current asset | | |
| Cash and deposit | 1,302,327 | 914,865 |
| Accounts receivable | 313 | 43,277 |
| Securities | 452,300 | 454,136 |
| Materials | 59,570 | 11,431 |
| Work-in-process | 61,597 | --- |
| Accrued consumption taxes | 15,704 | 12,924 |
| Prepaid expense | 63,150 | 10,935 |
| Accrued income | 19 | 2,163 |
| Others | 16 | 20 |
| Total current assets | 1,955,000 | 1,449,755 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Building and accessory equipment | 31,767 | 31,767 |
| Accumulated depreciation | -28,778 | -29,267 |
| Building and accessory equipment (net) | 2,988 | 2,499 |
| Machine and equipment | 247,923 | 234,069 |
| Accumulated depreciation | -223,000 | -212,650 |
| Machine and equipment (net) | 24,923 | 21,418 |
| Tools, furniture & fixture | 19,850 | 21,790 |
| Accumulated depreciation | -15,472 | -16,491 |
| Tools, furniture & fixture (net) | 4,377 | 5,299 |
| Total tangible fixed assets | 32,289 | 29,217 |
| Intangible fixed assets | | |
| License | 43,216 | 37,223 |
| Telephone subscription right | 149 | 149 |
| Software | 1,649 | 852 |
| Total intangible fixed assets | 45,015 | 38,225 |
| Investments and other assets | | |
| Long-term prepaid expense | 2,426 | 2,643 |
| Deposit with landlord | 9,484 | 9,484 |
| Total investments and other assets | 11,911 | 12,128 |
| Total fixed assets | 89,217 | 79,572 |
| Total assets | 2,044,217 | 1,529,327 |

| | (Thousand yen) | |
|---|--|--|
| | Preceding period (as of March 31, 2008) | Current period (as of March 31, 2009) |
| <Liabilities> | | |
| Current liabilities | | |
| Accounts payable | 3,861 | 8,537 |
| Accrued payable | 84,948 | 29,695 |
| Accrued expense | 22,553 | 19,342 |
| Accrued income taxes | 8,430 | 7,954 |
| Deposits | 16,643 | 5,555 |
| Total current liabilities | 136,438 | 71,085 |
| Total liabilities | 136,438 | 71,085 |
| <Net Assets> | | |
| Shareholders' equity | | |
| Capital stock | 2,630,093 | 2,667,589 |
| Additional paid-in capital | | |
| Legal capital reserve | 2,611,305 | 2,648,802 |
| Total additional paid-in capital | 2,611,305 | 2,648,802 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings | -3,333,669 | -3,858,149 |
| Total retained earnings | -3,333,669 | -3,858,149 |
| Total shareholders' equity | 1,907,729 | 1,458,242 |
| Subscription right to new shares | | |
| Warrant | 50 | --- |
| Total net assets | 1,907,779 | 1,458,242 |
| <Total liabilities and net assets> | 2,044,217 | 1,529,327 |

(2) Income Statement

| Category | Note | (Thousand yen) | |
|---|--------|---|---|
| | | Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
| Sales | | 262,718 | 353,648 |
| Cost of goods sold | | 68,321 | 247,308 |
| Gross margin on sales | | 194,396 | 106,340 |
| Selling and general administrative expense | *1,2,4 | 646,936 | 638,150 |
| Operating loss | | -452,539 | -531,810 |
| Non-operating income | | | |
| Interest income | | 6,477 | 7,176 |
| Interest on consumption tax refund | | 60 | 175 |
| Others | | 278 | 1,354 |
| Non-operating income (total) | | 6,816 | 8,707 |
| Non-operating expense | | | |
| Share distribution expense | | --- | 567 |
| Loss on foreign exchange | | 2,391 | 71 |
| Listing-related expense | | 43,492 | --- |
| Non-operating expense (total) | | 45,884 | 639 |
| Ordinary loss | | -491,607 | -523,742 |
| Extraordinary gain | | | |
| Gain on sale of fixed assets | | --- | *3 1,661 |
| Reversal of subscription right to new shares | | --- | *4 50 |
| Extraordinary gain (total) | | --- | 1,711 |
| Extraordinary loss | | | |
| Loss on disposal of fixed assets | *3 | 4 | *5 29 |
| Extraordinary loss (total) | | 4 | 29 |
| Net loss before income taxes | | -491,612 | -522,060 |
| Income tax, resident tax and business tax | | 2,420 | 2,420 |
| Net loss for the period | | -494,032 | -524,480 |

Schedule of cost of goods sold

| Category | Note | Preceding period (from April 1, 2007 to March 31, 2008) | | Current period (from April 1, 2008 to March 31, 2009) | |
|--|------|---|-------------------|---|-------------------|
| | | Amount (Thousand yen) | Proportion (%) | Amount (Thousand yen) | Proportion (%) |
| I Material cost | *1 | 15,423 | 11.9 | 19,714 | 10.6 |
| II Labor cost | | 45,193 | 34.8 | 30,207 | 16.3 |
| III Other cost | | 69,302 | 53.3 | 135,788 | 73.1 |
| Total manufacturing cost for the period | | 129,919 | 100.0 | 185,710 | 100.0 |
| Work-in-process at the beginning of the period | | --- | | 61,597 | |
| Work-in-process at the end of the period | | 61,597 | | --- | |
| Cost of goods sold for the period | | 68,321 | | 247,308 | |

| Preceding period (from April 1, 2007 to March 31, 2008) | | Current period (from April 1, 2008 to March 31, 2009) | |
|---|---------------------|---|----------------------|
| *1. Details of other costs | | *1. Details of other costs | |
| Joint research cost | 24,209 thousand yen | Joint research cost | 123,150 thousand yen |
| Supplies expense | 23,274 thousand yen | Supplies expense | 2,786 thousand yen |
| 2. Cost calculation is based on job order cost accounting, using actual cost. | | 2. Same as on the left | |

(3) Statements of changes in net assets
Year ended March 31, 2008

| | Shareholders' equity | | | | | |
|---|----------------------|----------------------------|----------------------------------|-------------------------|-------------------------|----------------------------|
| | Capital stock | Additional paid-in capital | | Retained earnings | | Total shareholders' equity |
| | | Legal capital surplus | Total additional paid-in capital | Other retained earnings | Total retained earnings | |
| Beginning balance (Thousand yen) | 2,308,553 | 2,289,765 | 2,289,765 | -2,839,636 | -2,839,636 | 1,758,681 |
| Changes of items during the period | | | | | | |
| Issuance of new shares | 321,540 | 321,540 | 321,540 | | | 643,080 |
| Net loss | | | | -494,032 | -494,032 | -494,032 |
| Total changes of items during the period (Thousand yen) | 321,540 | 321,540 | 321,540 | -494,032 | -494,032 | 149,047 |
| Ending balance (Thousand yen) | 2,630,093 | 2,611,305 | 2,611,305 | -3,333,669 | -3,333,669 | 1,907,729 |

| | Subscription right to new shares | Total net assets |
|---|----------------------------------|------------------|
| Beginning balance (Thousand yen) | 50 | 1,758,731 |
| Changes of items during the period | | |
| Issuance of new shares | | 643,080 |
| Net loss | | -494,032 |
| Total changes of items during the period (Thousand yen) | --- | 149,047 |
| Ending balance (Thousand yen) | 50 | 1,907,779 |

Year ended March 31, 2009

| | Shareholders' equity | | | | | |
|---|----------------------|----------------------------|----------------------------------|-----------------------------------|-------------------------|----------------------------|
| | Capital stock | Additional paid-in capital | | Retained earnings | | Total shareholders' equity |
| | | Legal capital surplus | Total additional paid-in capital | Other retained earnings | Total retained earnings | |
| | | | | Retained earnings brought forward | | |
| Beginning balance (Thousand yen) | 2,630,093 | 2,611,305 | 2,611,305 | -3,333,669 | -3,333,669 | 1,907,779 |
| Changes of items during the period | | | | | | |
| Issuance of new shares issued | 37,496 | 37,496 | 37,496 | | | 74,993 |
| Net loss | | | | -524,480 | -524,480 | -524,480 |
| Net change of items other than Shareholders' equity | | | | | | |
| Total changes during the period (Thousand yen) | 37,496 | 37,496 | 37,496 | -524,480 | -524,480 | -449,536 |
| Ending balance (Thousand yen) | 2,667,589 | 2,648,802 | 2,648,802 | -3,858,149 | -3,858,149 | 1,458,242 |

| | Subscription right to new shares | Total net assets |
|---|----------------------------------|------------------|
| Beginning balance (Thousand yen) | 50 | 1,907,779 |
| Changes of items during the period | | |
| Issuance of new shares issued | | 74,993 |
| Net loss | | -524,480 |
| Net change of items other than Shareholders' equity | -50 | -50 |
| Total changes during the period (Thousand yen) | -50 | -449,536 |
| Ending balance (Thousand yen) | --- | 1,458,242 |

(4) Statements of Cash Flows

| | | Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|---|------|--|--|
| | Note | Amount (Thousand yen) | Amount (Thousand yen) |
| I Cash flow from operating activities | | | |
| Net loss before taxes (-) | | -491,612 | -522,060 |
| Depreciation and amortization | | 14,833 | 15,758 |
| Gains for losses from sales on disposal of fixed assets(gain) | | 4 | -1,632 |
| Interest and dividends received | | -6,477 | -7,176 |
| Change in accounts receivable-trade (increase: -) | | 3,341 | -42,963 |
| Change in inventory (increase: -) | | -78,295 | 109,736 |
| Change in accrued consumption taxes (increase: -) | | -1,410 | 2,780 |
| Change in prepaid expense (increase: -) | | 57,627 | 52,215 |
| Change in accounts payable (decrease: -) | | -2,859 | 4,675 |
| Change in accrued payable (decrease: -) | | 3,943 | -56,507 |
| Change in accrual expense (decrease: -) | | -2,301 | -3,211 |
| Change in deposit (decrease: -) | | -94,280 | -11,087 |
| Others | | 4,736 | -1,902 |
| Sub-total | | -592,749 | -461,376 |
| Interest and dividends received | | 6,477 | 7,176 |
| Income taxes paid | | -1,900 | -2,420 |
| Net cash used in operating activities | | -588,172 | -456,620 |
| II Cash flow from investing activities | | | |
| Payments for purchase of tangible fixed assets | | -14,205 | -2,970 |
| Payments for purchase of intangible fixed assets | | -4,411 | -1,500 |
| Others | | 12 | 471 |
| Net cash used in investing activities | | -18,605 | -3,998 |
| III Cash flow from financing activities | | | |
| Proceeds from issuance of common stock | | 643,080 | 74,993 |
| Net cash provided by financing activities | | 643,080 | 74,993 |
| IV Net change in cash and cash equivalent (decrease: -) | | 36,301 | -385,625 |
| V Beginning balance of cash and cash equivalents | | 1,718,325 | 1,754,627 |
| VI Ending balance of cash and cash equivalents | * | 1,754,627 | 1,369,002 |

Significant accounting policies

| Item | Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|---|---|---|
| 1.Valuation basis and valuation method of securities | Other securities Securities without market value Moving average cost method | Other securities Securities without market value Same as on the left |
| 2.Valuation basis and valuation method of inventory | Materials and work-in-process Identified cost method | Materials Identified cost method (evaluates the amount of the inventories shown on the balance sheet by writing them down based on their decrease in profitability). |
| 3.Depreciation method of fixed assets | (1) Tangible fixed assets Straight line method Major useful lives are as follows; Buildings and accompanying facilities : 10-22 years Machinery and equipment: 4-13 years Tools, furniture and fixture: 3-15 years (2) Intangible fixed assets Straight line method In-house use software is depreciated over 5 years, which is availability period in the company. Right of using patent are depreciated over 8 years, which is the expiration period of industrial property right since application. (3) Long-term prepaid expense Straight line method | (1)Tangible fixed assets Same as on the left (2) Intangible fixed assets Same as on the left (3) Long-term prepaid expense Same as on the left |
| 4.Treatment of deferred assets | Stock delivery cost Share distribution costs are expensed for full amount at the time of disbursement. | Share distribution costs Same as on the left |
| 5.Translation basis of assets and liabilities in foreign currency into Japanese yen | The balance sheet accounts in foreign currency are translated at a spot foreign exchange rate as of balance sheet date, and translation differences are recorded as gain or loss. | Same as on the left |
| 6.Scope of cash and cash equivalents in Statements cash flows t | Cash and cash equivalents consist of cash at hand, cashable deposits, and easily convertible, short-term investment within 3 months or less maturity from acquisition with little fluctuation of price. | Same as on the left |
| 7.Treatment of lease transactions | Finance lease transactions excepting those in which ownership of the leased assets is transferred to lessee, are accounted in accordance with the method conforming to that regarding ordinary leasing transactions. | — |
| 8.Other significant basic issues in preparing financial statements | Accounting for consumption taxes are tax-excluded method. | Same as on the left |

Changes in accounting policies

| Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|--|--|
| <p>(Accounting method for depreciation of fixed assets)</p> <p>Effective from April 1, 2007, the Company changed the depreciation method for the fixed assets acquired on or after April 1, 2007 due to the revision of Japan Corporation Tax Law and its regulation. The effect of this change was immaterial.</p> | <p>-----</p> |
| <p>-----</p> | <p>(Change in valuation standard and method for inventories)</p> <p>Inventories had been evaluated at cost using the identified cost method. Effective from April 1, 2008, the Company adapted the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No.9 , July 5, 2006), and these inventories are measured by means of the identified cost method, which evaluates the amount of the inventories shown on the balance sheet by writing them down based on their decrease in profitability.</p> <p>As a result of the change, operating loss, ordinary loss and net loss before taxes increased by 42,675 thousand yen, respectively.</p> |
| <p>-----</p> | <p>(Accounting standard for lease transactions)</p> <p>Finance leases transactions without title transfer were formerly accounted for by the Company in accordance with the method conforming to that regarding ordinary leasing transactions. Effective from April 1, 2008, the “Accounting Standards for Lease Transactions” (ASBJ Statement No.13, First Committee of the Business Accounting Council, June 17,1993; amended March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16, January 18, 1994(Accounting System Committee, Japanese Institute of Certified Public Accountants); amended March 30, 2007) are applied. Hence, finance lease transactions were accounted for in accordance with the method applied to normal sales transactions.</p> <p>With regard to finance lease transactions without title transfer occurring to the beginning of the current fiscal year ending March 31, 2009, are formerly accounted for by the Company in accordance with the method conforming to that regarding ordinary leasing transactions as of the beginning of the current fiscal year..</p> <p>There was no effect on profit or loss from this change.</p> |

Additional information

| Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|---|--|
| <p>Effective from April 1, 2007, the Company has depreciated 5% of acquisition cost of the fixed assets which were acquired on or before March 31, 2007 by using the straight line method within next 5years after these assets were depreciated to 5% of acquisition cost. The effect of this change was immaterial.</p> | <p>-----</p> |

Notes to financial statements

<Balance Sheet>

| Preceding period (as of March 31, 2008) | Current period (as of March 31, 2009) |
|--|---------------------------------------|
| *1. Accumulated depreciation includes accumulated impairment losses. | *1. Same as on the left |

<Statements of Income>

| Preceding period (from April 1, 2006 to March 31, 2007) | Current period (from April 1, 2007 to March 31, 2008) |
|--|---|
| <p>*1. Sales expenses and administrative expenses approximately account for 2.3% and 97.9%, respectively.</p> <p>Major accounts and amounts are as follows; Salaries: 126,028 thousand yen R&D costs: 329,863 thousand yen Advisory fee: 58,863 thousand yen</p> <p>*2. R&D costs included in administrative expenses total to 329,863 thousand yen.</p> <p>*3. Loss on retirement of fixed assets includes 4 thousand yen of loss on retirement of furniture & fixtures due to non-performing assets.</p> <p>*4. R&D costs in administrative expenses are recorded after netting with income from National Institute of Biomedical Innovation and expenses regarding it.</p> <p>Costs before netting and net amount are follows; Costs before netting: 533,111 thousand yen Net amount: 203,247 thousand yen</p> | <p>*1. Sales expenses and administrative expenses approximately account for 6.2% and 93.8%, respectively.</p> <p>Major accounts and amounts are as follows; Salaries: 136,256 thousand yen R&D costs: 295,594 thousand yen Advisory fee: 44,479 thousand yen Taxes and dues 32,514 thousand yen</p> <p>*2. R&D costs included in administrative expenses total to 295,594 thousand yen.</p> <p>*3. Gain on sale of fixed assets includes 1,661 thousand yen of gain on sale of Machinery and equipment due to non-performing assets.</p> <p>*4 Profit amount and account title due to unexercised bond with subscription warrant in current period</p> <p>Extraordinary gain(Gain on reversal of subscription right to new shares) 50 thousand yen</p> <p>*5 Loss on retirement of fixed assets includes 29 thousand yen of loss on retirement of furniture and fixtures due to non-performing assets.</p> <p>*6. R&D costs in administrative expenses are recorded after netting with income from National Institute of Biomedical Innovation and expenses regarding it.</p> <p>Costs before netting and net amount are follows; Costs before netting: 401,626 thousand yen Net amount: 106,032 thousand yen</p> |

<Statements of changes in net assets>

Preceding period (from April 1, 2007 to March 31, 2008)

1. Type of outstanding shares and number of shares

| | Number of shares at the end of the preceding period (shares) | Number of increased shares during the current period (shares) | Number of decreased shares during the current period (shares) | Number of shares at the end of the current period (shares) |
|------------------------------|--|---|---|--|
| Number of shares outstanding | | | | |
| Ordinary shares | 88,013 | 34,950 | --- | 122,963 |
| Total | 88,013 | 34,950 | --- | 122,963 |

Note: Increase in ordinary share of 34,950 consists of 30,000 shares by public offering and 4,950 shares by allocation of new shares to third party.

2. Treasury stocks

Not applicable

3. Subscription right to new shares

| Subscription right to new shares | Type of shares | Number of shares covered by subscription right (shares) | | | | Balance at the end of the current period (Thousand yen) |
|----------------------------------|-----------------|---|------------------------------------|------------------------------------|---------------------------|---|
| | | End of the preceding period | Increase during the current period | Decrease during the current period | End of the current period | |
| Third subscription right | Ordinary shares | 200 | --- | --- | 200 | 50 |
| Total | --- | 200 | --- | --- | 200 | 50 |

4. Dividends

Not applicable.

Current period (from April 1, 2008 to March 31, 2009)

1. Type of outstanding shares and number of shares

| | Number of shares at the end of the preceding period (shares) | Number of increased shares during the current period (shares) | Number of decreased shares during the current period (shares) | Number of shares at the end of the current period (shares) |
|------------------------------|--|---|---|--|
| Number of shares outstanding | | | | |
| Ordinary shares | 122,963 | 4,116 | --- | 127,079 |
| Total | 122,963 | 4,116 | --- | 127,079 |

Note: Increase in ordinary share of 4,116 consists of 4,116 shares by allocation of new shares to third party.

2. Treasury stocks

Not applicable

3. Subscription right to new shares

| Subscription right to new shares | Type of shares | Number of shares covered by subscription right (shares) | | | | Balance at the end of the current period (Thousand yen) |
|----------------------------------|-----------------|---|------------------------------------|------------------------------------|---------------------------|---|
| | | End of the preceding period | Increase during the current period | Decrease during the current period | End of the current period | |
| Third subscription right | Ordinary shares | 200 | --- | 200 | --- | --- |
| Total | --- | 200 | --- | 200 | --- | --- |

4. Dividends

Not applicable.

<Statements of Cash Flows>

| Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|--|--|
| *To reconcile ending balance of cash and cash equivalents, and cash and deposits in balance sheet account, see below schedule; (as of March 31, 2008) | *To reconcile ending balance of cash and cash equivalents, and cash and deposits in balance sheet account, see below schedule; (as of March 31, 2009) |
| Cash and deposits: 1,302,327 thousand yen | Cash and deposits: 914,865 thousand yen |
| Securities (MMF): <u>452,300 thousand yen</u> | Securities (MMF): <u>454,136 thousand yen</u> |
| Cash and cash equivalents: 1,754,627 thousand yen | Cash and cash equivalents: 1,369,002 thousand yen |

<Lease Transactions>

| Preceding period (from April 1, 2007 to March 31, 2008) | | | | Current period (from April 1, 2008 to March 31, 2009) | | | |
|---|-----------------------------|-------------------------------------|---------------------------|---|-----------------------------|-------------------------------------|---------------------------|
| Finance lease transaction without title transfer | | | | Finance lease transaction without title transfer | | | |
| (1) Acquisition cost equivalent, accumulated depreciation equivalent and ending balance equivalent to leased property | | | | (1) Acquisition cost equivalent, accumulated depreciation equivalent and ending balance equivalent to leased property | | | |
| | Acquisition cost equivalent | Accumulated depreciation equivalent | Ending balance equivalent | | Acquisition cost equivalent | Accumulated depreciation equivalent | Ending balance equivalent |
| | Thousand yen | Thousand yen | Thousand yen | | Thousand yen | Thousand yen | Thousand yen |
| Tools, furniture & fixtures | 7,827 | 3,016 | 4,811 | Tools, furniture & fixtures | 7,813 | 4,739 | 3,073 |
| Total | 7,827 | 3,016 | 4,811 | Total | 7,813 | 4,739 | 3,073 |
| (2) Ending balance of unexpired lease charge equivalent | | | | (2) Ending balance of unexpired lease charge equivalent | | | |
| Within 1 year: 1,728 thousand yen | | | | Within 1 year: 1,768 thousand yen | | | |
| Over 1 year: 3,168 thousand yen | | | | Over 1 year: 1,399 thousand yen | | | |
| Total: 4,896 thousand yen | | | | Total: 3,168 thousand yen | | | |
| (3) Lease payment, depreciation equivalent and interest payment equivalent | | | | (3) Lease payment, depreciation equivalent and interest payment equivalent | | | |
| Lease payment: 1,822 thousand yen | | | | Lease payment: 1,823 thousand yen | | | |
| Depreciation equivalent: 1,731 thousand yen | | | | Depreciation equivalent: 1,721 thousand yen | | | |
| Interest payment equivalent: 131 thousand yen | | | | Interest payment equivalent: 94 thousand yen | | | |
| (4) Calculation of depreciation equivalent and interest payment equivalent | | | | (4) Calculation of depreciation equivalent and interest payment equivalent | | | |
| Calculation of depreciation equivalent: Straight-line method, with lease period as useful life, and residual value as zero. | | | | Calculation of depreciation equivalent; Same as on the left | | | |
| Calculation of interest payment equivalent Difference between total lease payment and acquisition cost equivalent of the property is considered as interest equivalent, and those of allocation to each period are based on interest method. | | | | Calculation of interest payment equivalent Same as on the left | | | |

<Securities>

Details of major securities without market value

| | Preceding period (as of March 31, 2008) | Current period (as of March 31, 2009) |
|------------------|---|--|
| | Amount in balance sheet (Thousand yen) | Amount in balance sheet (Thousand yen) |
| Other securities | | |
| MMF | 452,300 | 454,136 |

<Derivatives>

| Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|--|---|
| Not applicable, as our company carries out no derivative transactions. | Same as on the left |

<Retirement Benefit>

| Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|---|---|
| Not applicable. | Same as on the left |

<Stock option>

1. Warrant and subscription right to new shares

Our company adopts stock option plan. As of March 31, 2009, number of potential ordinary shares when all outstanding subscription rights are exercised would total to 16,890 shares, which accounts for 13.3% of the sum of these potential ordinary shares and outstanding shares. The par value per share could be diluted if these rights are exercised. Our company intends to continue implementing similar type of incentive plan in the future, in order to secure excellent human resources. Therefore, the par value per share could be diluted if the subscription rights which will be granted in the future are exercised. Also, because issuance of new stock option is required to be recorded as expense, granting stock option in the future may affect the company's performance as well.

Issuance of warrant and subscription right

| Name | Number of shares | Number of shares under option | Exercise price | Grant date | Exercise period |
|---|------------------|-------------------------------|----------------|------------|---------------------|
| Warrant attached to Third bond with warrant | 200 | Expired | | 02/04/02 | 02/01/04 - 01/31/09 |
| First stock option plan warrant | 4,460 | 4,430 | 50,000 | 02/28/02 | 02/01/04 - 11/30/11 |
| First subscription right (A) | 190 | 190 | 50,000 | 02/01/03 | 10/26/04 - 10/25/12 |
| First subscription right (B) | 270 | 250 | 50,000 | 08/11/03 | 10/26/04 - 10/25/12 |
| First subscription right (C) | 100 | 100 | 50,000 | 10/22/03 | 10/26/04 - 10/25/12 |
| Second subscription right (A) | 300 | 300 | 46,082.7 | 02/28/04 | 01/15/06 - 01/14/14 |
| Second subscription right (B) | 1,340 | 1,340 | 46,082.7 | 05/31/04 | 01/15/06 - 01/14/14 |
| Second subscription right (C) | 7,250 | 6,900 | 46,082.7 | 09/01/04 | 01/15/06 - 01/14/14 |
| Second subscription right (E) | 1,100 | 1,100 | 46,082.7 | 01/14/05 | 01/15/06 - 01/14/14 |
| Third subscription right (A) | 1,050 | 750 | 46,082.7 | 09/01/05 | 06/28/07 - 06/27/15 |
| Third subscription right (B) | 500 | 500 | 46,082.7 | 10/01/05 | 06/28/07 - 06/27/15 |
| Third subscription right (C) | 550 | 550 | 46,082.7 | 11/01/05 | 06/28/07 - 06/27/15 |
| Third subscription right (D) | 50 | 50 | 75,774.3 | 03/01/06 | 06/28/07 - 06/27/15 |
| Fourth subscription right (A) | 300 | 150 | 75,774.3 | 03/01/06 | 02/01/08 - 01/31/16 |
| Fourth subscription right (B) | 250 | 100 | 75,774.3 | 07/01/06 | 02/01/08 - 01/31/16 |
| Fourth subscription right (C) | 80 | Expired | | 01/22/07 | 02/01/08 - 01/31/16 |
| Fifth subscription right | 250 | 180 | 47,206 | 05/14/07 | 03/10/09 - 03/09/17 |
| Total | 18,240 | 16,890 | | | |

2. Estimation method of intrinsic value per unit of stock option

The intrinsic value of stock option is calculated by subtracting exercise price from stock value, which was calculated based on an eclectic method of the capitalization of earning method and the fair market value method.

3. Total amount of intrinsic value of stock options at the end of current period: 0 yen

4. Estimation method of numbers of vested stock options

In principle, numbers of vested stock options are estimated by reflecting actual number of lapsed options, since reasonable calculation of lapsed options in the future is difficult.

5. Effects on financial statements

There is no effect on financial statements during the current period.

(Deferred tax accounting)

(thousand yen)

| Preceding period (as of March 31, 2008) | Current period (as of March 31, 2009) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|-----------|-----------------------------|--------|------------------------------|-----|------------------|-------|---------|----|-----------|-----------|------------|------------|----------------------------|---|--|----------------------|-----------|-----------------------------|--------|-------------|--------|------------------|-------|---------|-----|-----------|-----------|------------|------------|----------------------------|---|
| <p>1. Breakdown of deferred tax assets and liabilities by cause</p> <p>Deferred tax assets</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Loss carried forward</td> <td style="text-align: right;">1,252,904</td> </tr> <tr> <td style="padding-left: 20px;">Excess of depreciation cost</td> <td style="text-align: right;">32,081</td> </tr> <tr> <td style="padding-left: 20px;">One time depreciation assets</td> <td style="text-align: right;">219</td> </tr> <tr> <td style="padding-left: 20px;">Accrued expenses</td> <td style="text-align: right;">3,332</td> </tr> <tr> <td style="padding-left: 20px;">Others:</td> <td style="text-align: right; border-bottom: 1px solid black;">89</td> </tr> <tr> <td style="padding-left: 20px;">Subtotal:</td> <td style="text-align: right;">1,288,627</td> </tr> <tr> <td style="padding-left: 20px;">Allowance:</td> <td style="text-align: right; border-bottom: 1px solid black;">-1,288,627</td> </tr> <tr> <td style="padding-left: 20px;">Total deferred tax assets:</td> <td style="text-align: right; border-bottom: 1px solid black;">-</td> </tr> </table> | Loss carried forward | 1,252,904 | Excess of depreciation cost | 32,081 | One time depreciation assets | 219 | Accrued expenses | 3,332 | Others: | 89 | Subtotal: | 1,288,627 | Allowance: | -1,288,627 | Total deferred tax assets: | - | <p>1. Breakdown of deferred tax assets and liabilities by cause</p> <p>Deferred tax assets</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Loss carried forward</td> <td style="text-align: right;">1,398,610</td> </tr> <tr> <td style="padding-left: 20px;">Excess of depreciation cost</td> <td style="text-align: right;">24,054</td> </tr> <tr> <td style="padding-left: 20px;">Inventories</td> <td style="text-align: right;">17,283</td> </tr> <tr> <td style="padding-left: 20px;">Accrued expenses</td> <td style="text-align: right;">3,196</td> </tr> <tr> <td style="padding-left: 20px;">Others:</td> <td style="text-align: right; border-bottom: 1px solid black;">745</td> </tr> <tr> <td style="padding-left: 20px;">Subtotal:</td> <td style="text-align: right;">1,443,890</td> </tr> <tr> <td style="padding-left: 20px;">Allowance:</td> <td style="text-align: right; border-bottom: 1px solid black;">-1,443,890</td> </tr> <tr> <td style="padding-left: 20px;">Total deferred tax assets:</td> <td style="text-align: right; border-bottom: 1px solid black;">-</td> </tr> </table> | Loss carried forward | 1,398,610 | Excess of depreciation cost | 24,054 | Inventories | 17,283 | Accrued expenses | 3,196 | Others: | 745 | Subtotal: | 1,443,890 | Allowance: | -1,443,890 | Total deferred tax assets: | - |
| Loss carried forward | 1,252,904 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Excess of depreciation cost | 32,081 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| One time depreciation assets | 219 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accrued expenses | 3,332 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Others: | 89 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Subtotal: | 1,288,627 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Allowance: | -1,288,627 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total deferred tax assets: | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss carried forward | 1,398,610 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Excess of depreciation cost | 24,054 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inventories | 17,283 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accrued expenses | 3,196 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Others: | 745 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Subtotal: | 1,443,890 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Allowance: | -1,443,890 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total deferred tax assets: | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>2. Breakdown of deferred tax assets and liabilities by cause of difference between statutory effective tax rate and corporate income tax rate after application of deferred tax accounting</p> <p>The difference between statutory effective tax rate and corporate income tax rate after application of tax effect accounting is not shown, because the pretax loss is posted.</p> | <p>2. Breakdown of deferred tax assets and liabilities by cause of difference between statutory effective tax rate and corporate income tax rate after application of deferred tax accounting</p> <p>Same as on the left</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

(Gain or loss of equity method)

| Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|--|--|
| Not applicable, since there are no affiliated companies. | Same as on the left |

(Transactions with related parties)

Preceding period (from April 1, 2007 to March 31, 2008)

Not applicable

Current period (from April 1, 2008 to March 31, 2009)

Not applicable.

(Per share data)

| Preceding period (from April 1, 2007 to March 31, 2008) | | Current period (from April 1, 2008 to March 31, 2009) | |
|---|---------------|---|--------------|
| Net assets per share | 15,514.65 yen | Net assets per share | 11,475.09yen |
| Net loss per share | 5,464.79 yen | Net loss per share | 4,194.57 yen |
| Fully diluted earnings per share is not shown, since the net loss is posted for the period. | | Fully diluted earnings per share is not shown, since the net loss is posted for the period. | |

Note: The basis for calculation of net loss per share is shown below:

| | Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|--|--|--|
| Net loss (Thousand yen) | 494,032 | 524,480 |
| Net loss not belonging to ordinary shareholders (Thousand yen) | - | - |
| Net loss related to common stock (Thousand yen) | 494,032 | 524,480 |
| Average shares outstanding (Shares) | 90,402.75 | 125,037.91 |
| Latent shares not included in the fully diluted net loss per share calculation due to lack of dilution effect. | 17 types of stock option made available through new share subscription rights (18,240 shares of common stock). | 15 types of stock option made available through new share subscription rights (16,890 shares of common stock). |

(Important subsequent events)

| Preceding period (from April 1, 2007 to March 31, 2008) | Current period (from April 1, 2008 to March 31, 2009) |
|--|--|
| _____ | _____ |

5. Others

(1) Changes in directors

Not applicable.

(2) Others

Not applicable.