

Financial Statements

YL Biologics Limited

*Year ended March 31, 2017
with Independent Auditor's Report*



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Independent Auditor's Report

The Board of Directors
YL Biologics Limited

In accordance with the same provisions in Article 436, Section 2, Paragraph 1 of the Companies Act applicable to statutory audits, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets and the notes to the financial statements of YL Biologics Limited (the "Company") applicable to the 4th fiscal year from April 1, 2016 through March 31, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of YL Biologics Limited applicable to the 4th fiscal year ended March 31, 2017 in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Ernst & Young ShinNihon LLC

April 20, 2017
Tokyo, Japan

Balance Sheet

As of March 31, 2017

(Unit: Yen)

Assets		Liabilities	
Accounts	Amount	Accounts	Amount
Current assets	[¥898,157,777]	Current liabilities	[¥279,926,290]
Ordinary deposits	525,024,990	Accounts payable	216,660,547
Accounts receivable	230,723,492	Accrued expenses	3,515,550
Advance payments	126,119,174	Income taxes payable	59,204,800
Prepaid expenses	5,523,748	Advance received	496,000
Deferred tax assets	6,148,000	Suspense received	49,393
Consumption taxes receivable	4,618,373		
		Total liabilities	279,926,290
Fixed assets	[11,079,316]	Net assets	
(Tangible fixed assets)	(2,737,580)	Shareholders' equity	[629,310,803]
Building fixtures	1,388,667	Capital stock	50,000,000
Tools, equipment and fixtures	4,128,556	Capital surplus	50,000,000
Accumulated depreciation	△2,779,643	Legal capital surplus	12,500,000
(Intangible fixed assets)	(826,667)	Other capital surplus	37,500,000
Software	826,667	Retained earnings	529,310,803
(Investments and other assets)	(7,515,069)	Other retained earnings	529,310,803
Long-term prepaid expenses	7,515,069	Retained earnings carried forward	529,310,803
		Total net assets	629,310,803
Total assets	¥909,237,093	Total liabilities and net assets	¥909,237,093

Statement of Income

(From April 1, 2016 to March 31, 2017)

(Unit: Yen)

Accounts	Amount	
Operating Revenue	¥3,313,094,321	
Operating Expenses		2,929,502,269
Operating Income		383,592,052
Non-operating Income		
Interest Income	5,409	
Other Income	5,381,557	
Foreign exchange gains	508,756	5,895,722
Non-operating Losses		
Other Losses	254,892	254,892
Ordinary Income		389,232,882
Net Income Before Taxes		389,232,882
Income Taxes		117,629,028
Income Taxes-deferred		4,312,000
Net Income		¥267,291,854

Statement of Changes in Net Assets
(From April 1, 2016 to March 31, 2017)

(Unit: Yen)

	Shareholders' equity							Total net assets
	Capital stock	Capital surplus			Retained earnings		Total shareholders' equity	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Balance at the beginning of the period	50,000,000	12,500,000	37,500,000	50,000,000	262,018,949	262,018,949	362,018,949	362,018,949
Changes of items during the period								
Net income				-	267,291,854	267,291,854	267,291,854	267,291,854
Total changes during the period	0	0	0	0	267,291,854	267,291,854	267,291,854	267,291,854
Balance as of the end of the period	50,000,000	12,500,000	37,500,000	50,000,000	529,310,803	529,310,803	629,310,803	629,310,803

Notes to Financial Statements

1. Summary of significant accounting policies

(1) Basis of presenting financial statements

The accompanying financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Financial Instruments and the Companies Act of Japan and in conformity with accounting principles generally accepted in Japan, which may differ in some material respects from accounting principles generally accepted and applied in countries and jurisdictions other than Japan.

(2) Valuation basis and valuation method of inventories

Supplies: Supplies stated at cost as determined by individual method (for balance sheet values, a book value write-down method is used taking account of decreased useful value)

(3) Fixed assets and related depreciation

The straight-line method is adopted for tangible fixed assets and intangible fixed assets.

(4) Accounting for consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

2. Notes to the balance sheet

Monetary receivable from and payable to affiliates

Accounts receivable	¥230,723,492 yen
Accounts payable	¥21,476,350 yen

3. Notes to the statement of income

(1) Transactions with affiliates

Operating revenue	¥3,313,094,321 yen
Operating expenses	¥369,628,575 yen

(2) Main items of operating expenses

Items	(Yen)
Compensation and allowances	¥78,895,558
Secondment compensation and related expenses	31,608,915
Professional fees	29,056,319
Subcontract and related expenses	2,684,682,214
Other	105,259,263
Total	¥2,929,502,269

4. Statements of shareholders' equity

Total number of shares outstanding at the end of the period

Common stock: 1,000 shares

5. A note to tax effect accounting

Deferred tax assets consist of tax effect for enterprise taxes to be paid in next year.

6. Notes to transactions with related parties

(1) Parent company and other shareholders

(Yen)

Category	Name of the company, etc.	Ownership of voting rights	Relationship	Description of transactions	Amount of transaction (*5)	Account	Balance as of fiscal year end (*5)
Parent company	Yoshindo Inc.	Directly owned 55%	Contract Services	Development service provided for pharmaceutical products (*1)	¥1,822,201,877	Accounts receivable	¥151,361,364
				Development service incurred for pharmaceutical products (*2)	59,605,692	Accounts payable	7,160,892
				Secondee's costs and other expenses (*3)	35,141,411	Accounts payable	3,124,514
Other affiliate	Lupin Atlantis Holdings SA	Directly owned 45%	Contract Services	Development service provided for pharmaceutical products (*1)	1,490,892,444	Accounts receivable	79,362,128
				Purchase of DS/PFS materials (*3)	231,192,387	—	—

Transaction conditions, policy for determining transaction conditions, etc., are as follows.
(Notes)

- (*1) Service fee from Yoshindo Inc. and Lupin Atlantis Holdings SA is agreed in the Joint Venture Agreement and the Contract Research Service Agreement with the actual market price taken into consideration.
- (*2) Subcontract fee to Yoshindo Inc. is determined with the actual market price taken into consideration.
- (*3) The actual cost of secondee's compensation and other expenses are reimbursed to Yoshindo Inc.
- (*4) Price of DS/PFS materials purchasing from Lupin Atlantis Holdings SA have been determined based on the market price.
- (*5) Consumption taxes are excluded from the amount of transactions while it is included in the balance as of fiscal year end.

7. Notes to the per share information

- (1) Book value per share ¥629,310.80 yen
- (2) Net earnings per share ¥267,291.85 yen