

Financial Statements

YL Biologics Limited

*Year ended March 31, 2018
with Independent Auditor's Report*



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Independent Auditor's Report

The Board of Directors
YL Biologics Limited

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 5th fiscal year from April 1, 2017 through March 31, 2018.

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 5th fiscal year ended March 31, 2018 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, 2018
Tokyo, Japan

Balance Sheet

As of March 31, 2018

(Unit: Yen)

Assets		Liabilities	
Accounts	Amount	Accounts	Amount
Current assets	[¥1,370,579,389]	Current liabilities	[¥732,494,299]
Ordinary deposits	998,405,994	Accounts Payable	381,890,860
Advance payments	131,248,846	Accrued expenses	12,659,590
Prepaid expenses	18,726,682	Income taxes payable	3,832,900
Accounts Receivable - Others	222,197,867	Accrued consumption tax	20,692,200
		Deferred Tax Liabilities	93,100
		Advance Received	311,037,489
		Deposits received	2,288,160
		Total liabilities	732,494,299
Fixed assets	[125,605,936]	Net assets	
(Tangible fixed assets)	(3,326,153)	Shareholders' equity	[763,691,026]
Building fixtures	2,242,317	Capital stock	50,000,000
Tools, equipment and fixtures	4,881,356	Capital surplus	50,000,000
Accumulated depreciation	△3,797,520	Legal capital surplus	12,500,000
(Intangible fixed assets)	(578,675)	Other capital surplus	37,500,000
Software	578,675	Retained earnings	663,691,026
(Investments and other assets)	(121,701,108)	Other retained earnings	663,691,026
Long-term prepaid expenses	121,701,108	Retained earnings carried forward	663,691,026
		Total net assets	763,691,026
Total assets	¥1,496,185,325	Total liabilities and net assets	¥1,496,185,325

Statement of Income

(From April 1, 2017 to March 31, 2018)

(Unit: Yen)

Accounts	Amount	
Operating Revenue	¥2,551,274,669	
Operating Expenses		2,353,315,397
Operating Income		197,959,272
Non-operating Income		
Interest Income	6,766	
Miscellaneous Income	7,170,710	7,177,476
Non-operating Losses		
Miscellaneous Expense	254,639	254,639
Ordinary Income		204,882,109
Extra-Ordinary Loss		
Loss on fixed asset dispose	7,750	7,750
Net Income Before Taxes		204,874,359
Income Taxes		64,253,036
Income Taxes-deferred		6,241,100
Net Income		¥134,380,223

Statement of Changes in Net Assets

(From April 1, 2017 to March 31, 2018)

(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	529,310,803	529,310,803	629,310,803	629,310,803
Changes of items during the period								
Net income				-	134,380,223	134,380,223	134,380,223	134,380,223
Total changes during the period	0	0	0	0	134,380,223	134,380,223	134,380,223	134,380,223
Balance as of the end of the period	50,000,000	12,500,000	37,500,000	50,000,000	663,691,026	663,691,026	763,691,026	763,691,026

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 - Others	¥221,891,760 yen
Advance received	¥310,495,989 yen
Accounts payable	¥235,277,198 yen

3. Notes to the statement of income

(1) Transactions with affiliates

Operating revenue	¥2,551,274,669 yen
Operating expenses	¥266,793,425 yen

(2) Main items of operating expenses

Items	(Yen)
Compensation and allowances	¥117,602,431
Secondment compensation and related expenses	34,254,251
Professional fees	21,869,609
Subcontract and related expenses	2,051,290,249
Other	128,298,857
	<hr/>
Total	¥2,353,315,397

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 liabilities consist of tax effect for enterprise taxes receivable 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 (*6)	Account	Balance as of fiscal year end (*6)
Parent company	Yoshindo Inc.	Directly owned 55%	Contract Services	Development service provided for pharmaceutical products (*1)	¥1,543,327,912	Advance Received	¥300,079,225
				Development service incurred for pharmaceutical products (*2)	¥16,800,527	Accounts Payable	¥1,955,145
				Secundee's costs and other expenses (*3)	¥44,639,349	Accounts Payable	¥4,503,933
				Reimbursement for the License-in payment(*5)	¥116,897,000	Accounts Receivable - Others	¥126,248,760
Other affiliate	Lupin Atlantis Holdings SA	Directly owned 45%	Contract Services	Development service provided for pharmaceutical products (*1)	¥1,007,946,757	Advance Received	¥10,416,764
				Purchase of DS/PFS materials (*4)	¥205,353,504	Accounts Payable	¥16,278,120
				Payment for a Licensed pharmaceutical products(*5)	¥212,540,000	Accounts Payable	¥212,540,000
				Reimbursement for the License-in payment(*5)	¥95,643,000	Accounts Receivable - Others	¥95,643,000

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 secondees' compensation and other expenses are reimbursed to Yoshindo Inc.
- (*4) Price of DS/PFS materials purchased from Lupin Atlantis Holdings SA have been determined based on the market price.
- (*5) License-in payment to Lupin Atlantis Holdings SA is made in accordance with the License Agreement. Based on the agreement among Yoshindo Inc., Lupin Atlantis Holdings SA and YL Biologics Limited, the actual cost of License-in payment is reimbursed by Yoshindo Inc. and Lupin Atlantis Holdings SA.
- (*6) 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 | ¥763,691.03 yen |
| (2) Net earnings per share | ¥134,380.22 yen |