

Summary of Non-consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2017

[Japanese GAAP]

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Listing: Tokyo Stock Exchange
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Expected filing date of the quarterly report: November 10, 2016

Scheduled date of payment of dividend: -

Preparation of supplementary materials for financial results for the second quarter: Yes

Holding of financial results meeting for the second quarter: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Financial Results for the Second Quarter of the Fiscal Year 2017 (April 1, 2016 – September 30, 2016)

(1) Results of operations (Cumulative) (Percentages shown are changes from the same quarter of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Second quarter of fiscal year ending March 31, 2017	490	(38.0)	(731)	-	(757)	-	(803)	-
Second quarter of fiscal year Ended March 31, 2016	791	443.7	(116)	-	(99)	-	(100)	-

	Net income per share for the quarter		Diluted net income per share for the quarter	
	Yen		Yen	
Second quarter of fiscal year 2017	(92.85)		-	
Second quarter of fiscal year Ended March 31, 2016	(20.61)		-	

(Note) 1. According to a decision made at the Company's board of directors meeting held on September 13, 2016, the Company has conducted a two-for-one stock split on October 1, 2016. Calculation for net income per share for the quarter is done based on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

2. Diluted net income per share for the quarter is not shown due to a net loss, though there were outstanding dilutive shares.

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
At the end of the second quarter of the fiscal year 2017	3,577	3,088	85.9
As of March 31, 2016	1,694	403	22.6

Reference: Shareholders' equity
3,072 million yen

At the end of the second quarter of the fiscal year ending March 31, 2017:
As of Mar. 31, 2016: 382 million yen

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year 2016	-	0.00	-	0.00	0.00
Fiscal year 2017	-	0.00			
Fiscal year 2017 (forecasts)			-	0.00	0.00

(Note) Changes from the most recently publicized expected dividend distribution amount: None

3. Forecast for the Fiscal Year 2017 (April 1, 2016 – March 31, 2017)

(Percentages shown are changes from the same quarter of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,685	45.1	(493)	-	(494)	-	(542)	-	(61.35)

(Note) Changes from the most recently publicized performance forecast: None

*** Notes**

(1) Special accounting treatments used in preparation of financial statements of the quarter: None

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(Note) For detailed information, please refer to Item (1): "Changes to accounting policies, accounting forecasts and adjustments made" of Section 2: "Explanation of summary information (noted matters)" on page 3 of the Attachment.

(3) Number of outstanding shares (common stock)

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

At the end of the second quarter of the fiscal year 2017: 9,006,716 shares

As of Mar. 31, 2016: 5,770,884 shares

2) Number of treasury shares at the end of period

At the end of the second quarter of the fiscal year 2017: - shares

As of Mar. 31, 2016: - shares

3) Average number of shares outstanding during the period (cumulative quarter)

At the end of the second quarter of the fiscal year 2017: 8,658,751 shares

At the end of the second quarter of the fiscal year 2016: 4,891,135 shares

*** Information on the quarterly review procedures**

This quarterly summary report is exempted from quarterly review procedures according to the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly summary report, the audit review procedures for the financial statements have not been completed.

*** Cautionary statement with respect to forward-looking statements, and other special items**

1. Forecasts regarding future performance in these materials are based on assumptions judged to be valid and the information available to Gene Techno Science at the time these materials were created. These materials on future performances are not promises by the Company. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to item (3): "Explanation of future information, such as future business forecasts" of Section 1: "Qualitative information for this quarter" on page 3 of the Attachment for forecast assumptions and notes of caution for usage.
2. According to a decision made at the Company's board of directors meeting held on September 13, 2016, the Company conducted a two-for-one stock split on October 1, 2016. As of October 4, 2016, the number of shares issued increased by 18,000 shares through the exercising of equity warrants. Calculation for net income per share for the quarter is done based on the assumption that the stock split was conducted at the beginning of the previous fiscal year.
3. Gene Techno Science plans to hold a financial results meeting for institutional investors and securities analysts on Tuesday, November 15, 2016. Materials distributed at this meeting will be available on the Company's website immediately thereafter.

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1. Qualitative information for this quarter

(1) Explanation of business performance

During the cumulative second quarter, the Japanese economy has been slowly recovering due to governmental economic policies, as well as quantitative and qualitative credit relaxation policies with negative interest rates imposed by the Bank of Japan. However, the measures taken have not been helping companies much with improvement to their earnings due to the influences of a higher yen and lower dollar. In addition, there have been many natural disasters, such as typhoons, hitting many parts of Japan in recent years, and they are giving concern regarding the economic recovery of Japan. Even though employment rates in the U.S. and Europe seem to be improving, and they are supporting the recoveries of economies and consumer spending, there are still many concerning factors for the international financial markets, such as the British exit from the European Union and stagnating economic growth in emerging nations like China, and market trend focused on raising of interest rate in the U.S. The future of the overall economy remains unclear.

According to the results of the national census conducted and published in 2015 by the Ministry of Internal Affairs and Communications, the population percentage who are younger than age 15 is 12.7%, which of October 2015 is the lowest percentage ever, and the population percentage who are older than age 65 has exceeded 25% for the first time. These results show that Japan is in an era of seriously low birth rates and the aging population. In the medical and pharmaceutical industries that our company is involved in, there is a need for controlling social security costs and lowering medical expenses. Responding to such increasing social needs, the Japan Biosimilar Association was established in April 2016, having the purposes of biosimilar promotion and development. The market environment for generic medicine is progressing steadily.

Under these circumstances, our company's biosimilar business is having steady growth by working together with Fuji Pharma Co., Ltd. and Mochida Pharmaceutical Co., Ltd. to increase sales of the neutropenia medicine, "Filgrastim BS". In addition, in September 2016, we started Phase III clinical study in Japan for the biosimilar of Darbepoetin alpha, which is developed together with Sanwa Kagaku Kenkyusho Co., Ltd.. Also, becoming a part of Noritsu Koki Group enables us to strengthen our connections with regenerative medicine, which is a business specialty of Noritsu Koki Co., Ltd. We have been having discussions on exploring new business opportunities. In our company, we are striving to improve our existing products and develop new products in order to provide high quality biosimilar products at a lower cost to many more patients, as shown below:

- 1) Development of "Pegfilgrastim (PEG-G-CSF) biosimilar" that is the next generation of Filgrastim (G-CSF)
- 2) Domestic joint development of Darbepoetin alpha biosimilars with Sanwa Kagaku Kenkyusho Co., Ltd.
- 3) Business alliance with Mochida Pharmaceutical Co., Ltd. for biosimilars in the field of oncology
- 4) Capital and business alliance with Senju Pharmaceutical Co., Ltd. for biosimilar in the field of ophthalmology
- 5) Upgrading and expansion of development in other biosimilar products

In the development of the biologics, we are in research and development of next-generation antibody drugs, as well as having a collaboration in nucleic acid with GeneDesign, Inc. to explore opportunities in the use of nucleic acid for medicines. We are also working toward gaining new technologies, such as being a co-applicant for a patent on Exosome with National Cancer Center Japan.

In order to strengthen our business foundation to support the development of medicines which often takes a long time, we are exploring businesses in the healthcare industry, such as medical devices, diagnostic medicines and regenerative medicines.

As a result, the sales amount was 490,793 thousand yen (a 38% decrease compared to the same quarter in the previous year), operating loss was 731,957 thousand yen (operating loss for the same quarter in the previous year was 116,407 thousand yen), ordinary loss was 757,346 thousand yen (ordinary loss for the same quarter in the previous year was 99,840 thousand yen), and net loss for the quarter was 803,928 thousand yen (net loss for the same quarter in the previous year was 100,790 thousand yen).

(2) Explanation of financial conditions

1) Assets, liabilities and shareholder's equity

(Changes in assets)

The balance of total assets at the end of the second accounting quarter was 3,577,233 thousand yen, which was higher than the balance at the end of the previous year by 111.2%. This is mainly due to an increase in cash and cash deposits by 2,110,553 thousand yen, while accounts receivable decreased by 21,060 thousand yen, advance payments in other current assets decreased by 147,744 thousand yen and investments in available-for-sale securities in investments and other assets decreased by 54,272 thousand yen. An increase in cash and deposits is mainly due to cash receipts through allocation of new shares to a third party and exercising equity warrants.

(Changes in liabilities)

The balance of total liabilities at the end of the second accounting quarter was 488,794 thousand yen, which was lower than the balance at the end of the previous year by 62.1%. This is mainly due to decreases in short-term borrowings by 306,720 thousand yen, decreases in convertible bonds that are redeemable within a year by 350,000 thousand yen, decreases in accrued expenses in current liabilities by 88,814 thousand yen and decreases in advance receipts by 125,000 thousand yen.

(Changes in shareholders' equity)

The equity balance at the end of the second accounting quarter was 3,088,439 thousand yen, which was higher than the balance at the end of the previous year by 665.8%. This is mainly due to increases both in common stocks and additional paid-in capital through allocation of new shares to a third party and increase of the exercising of equity warrants by 1,751,752 thousand yen.

2) Cash flows

Cash and cash equivalents (collectively, "cash" hereafter) at the end of the second accounting quarter increased by 2,110,553 thousand yen from the balance at the end of the previous year, with a balance of 2,927,895 thousand yen.

The explanation and factors for each cash flow activity for the second cumulative quarter are as follows:

(Cash flows from operating activities)

Cash outflows from operating activities was 708,106 thousand yen (outflows for the same quarter of the previous year was 25,586 thousand yen). This is mainly due to a recording of net loss before tax for the quarter of 802,718 thousand yen and a decrease in advance payments by 147,744 thousand yen.

(Cash flows from investing activities)

Cash outflows from investing activities was 124 thousand yen (outflows for the same quarter of the previous year was 7,072 thousand yen). This is due to payments made for guarantee deposits.

(Cash flows from financing activities)

Cash increase from financing activities was 2,818,784 thousand yen (an increase of 190,897 thousand yen from the same quarter in the previous year). This is mainly due to an increase to cash inflows from receipts through allocation of new shares to a third party by 1,990,634 thousand yen and to an increase to inflows through receipts through exercising equity warrants in the amount of 1,134,869 thousand yen, even though there was an outflow in net decrease of short-term borrowing of 306,720 thousand yen.

(3) Explanation of future information, such as future business forecasts

There is no change to future business forecasts that as announced as of August 5, 2016.

2. Explanation of summary information (noted matters)

(1) Changes to accounting policies, accounting forecasts and adjustments made

Changes to accounting policies

(Changes in accounting procedures of depreciation methods in accordance with the tax reform of 2016)

“Changes in accounting procedures of depreciation methods in accordance with the tax reform of 2016” (Practical Issues Task Force No. 32, June 17, 2016) based on the revision of the Corporation Tax Act were applied during the first accounting quarter, and the depreciation calculation method for building fixtures and structures acquired subsequent to April 1, 2016 was changed from the declining-balance method to the straight-line method.

There is no accounting effect on the income statement for the second cumulative quarter from the change in depreciation methods.

3. Financial statements for the quarter

(1) Balance sheet at the end of the quarter

(in thousand yen)

	At the end of previous fiscal year (March 31, 2016)	At the end of second accounting quarter (September 30, 2016)
Assets		
Current assets		
Cash and deposits	817,342	2,927,895
Accounts receivable	199,368	178,308
Other current assets	503,637	351,648
Total current assets	1,520,347	3,457,852
Non-current assets		
Tangible fixed assets	2,111	1,956
Intangible fixed assets	209	190
Investments and other	171,448	117,234
Total non-current assets	173,769	119,381
Total assets	1,694,117	3,577,233
Liabilities		
Current liabilities		
Accounts payable	69,336	58,168
Short-term borrowings	460,080	153,360
Convertible bonds redeemable within a year	350,000	—
Income tax payable	8,190	14,641
Other	392,150	250,204
Total current liabilities	1,279,756	476,374
Non-current liabilities		
Allowance for retirement benefits	11,070	12,420
Total non-current liabilities	11,070	12,420
Total liabilities	1,290,826	488,794
Shareholders' equity		
Shareholders' capital		
Common stocks	2,037,041	3,788,794
Additional paid-in capital	1,940,308	3,692,060
Retained earnings	△3,594,214	△4,398,142
Total shareholders' equity	383,135	3,082,712
Valuation, translation adjustments and others		
Valuation difference on available-for-sale securities	△981	△9,881
Total valuation, translation adjustments and others	△981	△9,881
Equity warrant	21,136	15,608
Total shareholders' equity	403,290	3,088,439
Total liabilities and shareholders' equity	1,694,117	3,577,233

(2) Income statement for the quarter
(Income statement for the cumulative quarter)

(in thousand yen)

	For the cumulative quarters (from April 1 to September 30, 2015)	For the cumulative quarters (from April 1 to September 30, 2016)
Gross sales	791,800	490,793
Cost of goods sold	333,000	138,140
Gross profit	458,800	352,653
Selling, general and administrative expenses		
Research and development expenses	399,060	862,962
Other expenses	176,146	221,647
Total selling, general and administrative expenses	575,207	1,084,610
Operating loss (△ means loss)	△116,407	△731,957
Non-operating income		
Interest income	42	62
Subsidized income	20,000	—
Contract fee income	—	200
Foreign exchange gain	—	420
Miscellaneous income	437	92
Total non-operating income	20,479	775
Non-operating expenses		
Interest expense	—	2,631
Stock delivery expense	1,098	17,473
Foreign exchange loss	201	—
Miscellaneous expense	2,612	6,059
Total non-operating expenses	3,912	26,164
Ordinary loss (△ means loss)	△99,840	△757,346
Extraordinary loss		
Loss on valuation of investment securities	—	45,371
Total extraordinary loss	—	45,371
Net loss for the quarters before income (△ means loss)	△99,840	△802,718
Corporate, residential and enterprise taxes	950	1,210
Total corporate and other taxes	950	1,210
Net loss for the quarters (△ Loss)	△100,790	△803,928

(3) Statement of cash flows for the quarter

(in thousand yen)

	For the cumulative quarters (from April 1 to September 30, 2015)	For the cumulative quarters (from April 1 to September 30, 2016)
Cash flows from operating activities		
Net loss for the quarter (△ means loss)	△99,840	△802,718
Depreciation expenses	72	173
Changes in allowance for retirement benefits (△ means decrease)	—	1,350
Valuation gain/loss of investment securities (△ means gain)	—	45,371
Interest or dividends received	△42	△62
Interest paid	—	2,631
Stock delivery expense	1,098	17,473
Changes in accounts receivable (△ means increase)	△22,516	21,060
Changes in advance payments (△ means increase)	12,391	147,744
Changes in accounts payable (△ means decrease)	—	△11,167
Changes in accrued expenses (△ means decrease)	14,899	△88,814
Changes in advance receipts (△ means decrease)	20,000	△125,000
Other changes	50,178	88,316
Sub-total	△23,757	△703,640
Interest and dividends received	42	62
Interest paid	—	△2,631
Payment of corporate and other taxes	△1,871	△1,897
Cash flows from operating activities	△25,586	△708,106
Cash flows from investing activities		
Payment for guarantee deposits	△7,072	△124
Cash flows from investing activities	△7,072	△124
Cash flows from financing activities		
Net increase/decrease in short-term borrowings (△ means decrease)	—	△306,720
Issuance of stocks	—	1,990,634
Issuance of stocks through exercising equity warrant	190,897	1,134,869
Cash flows from financing activities	190,897	2,818,784
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase/decrease in cash and cash equivalents (△ means decrease)	158,239	2,110,553
Cash and cash equivalents at the beginning of the period	599,471	817,342
Cash and cash equivalents at the end of the quarter	757,710	2,927,895

(4) Notes to the financial statement for the quarter

(Notes on going concern assumption)

No applicable matters to be reported.

(Notes on significant changes to shareholders' equity)

On April 13, 2016, the company received cash through the allocation of new shares to a third party by Launchpad12, a limited liability company (currently, Noritsu Koki Bio Holdings L.L.C.). On April 28, 2016, our second equity warrants and first unsecured convertible bonds rights were exercised by an investment business limited partnership, which has Whiz Partners Inc. as an unlimited liability partner. As a result, common stocks increased by 1,740,252 thousand yen, and additional paid-in capital increased by 1,740,252 thousand yen. As of the end of the second accounting quarter, the balance of common stocks is 3,788,794 thousand yen, and the balance of additional paid-in capital is 3,692,060 thousand yen, which includes increases through exercising equity warrants for new shares during the quarter.

(Subsequent events)

1. Stock splits

According to a decision made at the company's board of directors meeting held on September 13, 2016, the company has conducted stock splits with the purposes of improving the liquidity of the shares and to attract more investors, as follows:

(1) Stock split ratio and timing of the split

Effective October 1, 2016, two shares of stock per share are distributed to the listed shareholders as of September 30, 2016.

(2) Number of increased shares by split: common stock, 4,503,358 shares

Per share calculation is done based on the assumption that the split was conducted at the beginning of the previous fiscal year.

2. Capital and business alliance

According to a decision made at the company's board of directors meeting held on October 13, 2016, the company entered into a capital and business alliance contract (the "contract," hereafter) with Japan Regenerative Medicine Co., Ltd. ("JRM," hereafter) as of October 21, 2016.

(1) Purpose and reason for the contract

The company has become a member of Noritsu Koki Group as of June 2016 through the third party allotment and the takeover bid by Launchpad12 (NK Relations L.L.C. ("NK Relations," hereafter; a wholly-owned subsidiary of Noritsu Koki Co, Ltd., and currently, Noritsu Koki Bio Holdings L.L.C.). Being a part of the Noritsu Koki Group, we have been able to take advantage of the group's reputation and obtain funds for research and development. The company strives to stabilize its financial foundation. At the same time, the company has been discussing possible launches for new collaborative bio businesses through operations that Noritsu Koki Group already have, such as regenerative medicine and diagnosis medicine operations.

JRM is also a member of Noritsu Koki Group, whose stake is 100% funded by NK Relations. JRM is in the business of research and development for regenerative medicine products using cardiac stem cells that are diverse somatic stem cells. This is the first time in the world this research and development is being done. This is a regenerative medicine product that can offer new treatments to patients with serious heart diseases.

We believe that the technologies that we obtained through bio medicine development can contribute to JRM's first development of regenerative medicine products using cardiac stem cells so that the development can proceed quickly and lead to a business. Also, through this contract with JRM, we can gain a foothold for exploring the regenerative medicine industry, which we believe will be one of the important factors in our business growth, and we can also expect synergetic effects with new bio businesses. This is considered to be the first big step into the future of the bio industry for Noritsu Koki Group, and therefore, we both agreed to sign the contract after many discussions were held.

(2) Details of this contract

In assisting with the commercialization of regenerative medicine using cardiac stem cells by JRM, we plan to share our knowledge in research and development, manufacturing, pharmaceutical affairs, business development and human resource networking so that a steady and faster business launch can be obtained. In order to facilitate the process, we have purchased a part of JRM shares sold through allocation to a third party, and the payments were completed as of November 1, 2016.

(3) General information of the counterparty

- | | |
|-------------------------------------|---|
| 1) Company name | Japan Regenerative Medicine Co., Ltd. |
| 2) Address | 1-10-10 Azabu Juban, Minato-ku, Tokyo |
| 3) Title and name of representative | Managing director, Kotaro Toda |
| 4) Description of business | Research and development of regenerative medicine technologies, regenerative medicine products and cell medicines |