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Securities code: 4579
March 10, 2021

Naoki Tani
President & CEO
RaQualia Pharma Inc.
1-21-19 Meieki Minami,
Nakamura-ku, Nagoya, Japan

CONVOCATION NOTICE OF THE 13TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

We are pleased to announce the 13th Ordinary General Meeting of Shareholders (the “Meeting”) of RaQualia Pharma Inc. (the “Company”) to be held as indicated below.

In order to prevent the spread of novel coronavirus (COVID-19), you are strongly encouraged to refrain from traveling to the venue on the date of the Meeting and exercise your voting rights prior to the Meeting in writing (by mail) or via the internet, if at all possible. Please review the attached Reference Materials for the Ordinary General Meeting of Shareholders and exercise your voting rights no later than 5:30 p.m., Wednesday, March 24, 2021 (Japan Standard Time).

Proposals submitted to this Ordinary General Meeting of Shareholders include company proposals (Proposal 1 and Proposal 2) and shareholder proposals (Proposal 3 to Proposal 7). The Board of Directors has expressed that it objects to all of the shareholder proposals. For details regarding the contents of each proposal and the opinions of the Board of Directors of the Company, please refer to the Reference Materials for the Ordinary General Meeting of Shareholders.

- 1. Date and Time:** March 25, 2021 (Thursday) at 10:30 a.m. (Reception desk is scheduled to open at 9:30 a.m.)
- 2. Place:** Sakae Gas Hall, Sakae Gas Building 5F,
3-15-33 Sakae, Naka-ku, Nagoya, Japan
- 3. Meeting Agenda:**
 - Report matters:**
 1. The Business Report and the Consolidated Financial Statements for the 13th Fiscal Year (January 1, 2020 to December 31, 2020), and the results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit and Supervisory Committee
 2. Non-consolidated Financial Statements for the 13th Fiscal Year (January 1, 2020 to December 31, 2020)
 - Resolution matters:**

<Company Proposals (Proposals 1 to 2)>

Proposal 1: Election of Four (4) Directors (excluding Directors Serving on the Audit and Supervisory Committee)

Proposal 2: Election of One (1) Substitute Director Serving on the Audit and Supervisory Committee

<Shareholder Proposals (Proposals 3 to 7)>

Proposal 3: Election of Three (3) Directors (excluding Directors Serving on the Audit and Supervisory Committee)

Proposal 4: Dismissal of Three (3) Directors Serving on the Audit and Supervisory Committee

Proposal 5: Election of Three (3) Directors Serving on the Audit and Supervisory Committee

Proposal 6: Dismissal of One (1) Substitute Director Serving on the Audit and Supervisory Committee

Proposal 7: Election of One (1) Substitute Director Serving on the Audit and Supervisory Committee

The outlines regarding the shareholder proposals (Proposal 3 to Proposal 7) are provided in the attached “Reference Materials for the Ordinary General Meeting of Shareholders” on pages 11 to 30.

4. Guidance for Exercising Voting Rights: Please refer to the “Guidance for Exercising Voting Rights” on pages 3 to 5.

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- If you plan to attend the Meeting, please submit the enclosed Voting Right Exercise Form to the receptionist at the Meeting.
 - Of the documents to be provided with this Convocation Notice, Share Acquisition Rights, System for Ensuring the Appropriateness of Business Operations, and Summary of Status of Implementation of System (Internal Control System) for Ensuring the Appropriateness of Business Operations in the Business Report; the Basis of Preparing Consolidated Financial Statements and Other Notes in the Consolidated Financial Statements; and Non-consolidated Statement of Changes in Equity and Significant Accounting Policies and Other Notes in the Non-consolidated Financial Statements have been posted on the Company’s website (URL: <https://www.raqualia.co.jp/>) in accordance with laws and ordinances and Article 18 of the Articles of Incorporation. Therefore, those documents are not posted in this Notice. The documents attached thereto constitute a part of the documents audited by the Audit and Supervisory Committee and the Accounting Auditor to prepare the Audit Report. These documents will be available in Japanese only.
 - Any amendments to the Reference Materials for the Ordinary General Meeting of Shareholders, Business Report, Consolidated Financial Statements, and Non-consolidated Financial Statements will be posted on the Company’s website (URL: <https://www.raqualia.co.jp/>). The amendments in these documents will be available in Japanese only.

Guidance for Exercising Voting Rights

For details of the proposals for this Ordinary General Meeting and the Board of Directors' opinion on them, please refer to the "Reference Materials for the Ordinary General Meeting of Shareholders" below on pages 6–30.

Proposals 1 to 2 are the Company's proposals, and Proposals 3 to 7 are the shareholders' proposals. **The Board of Directors of the Company is opposed to Proposals 3 to 7.** For details, please refer to the "Reference Materials for the Ordinary General Meeting of Shareholders" (pages 11–30).

If you agree with the opinions of the Board of Directors of the Company, please **vote for Proposals 1 to 2, and against Proposals 3 to 7.**

(Notes regarding the exercise of voting rights for Proposal 1 and Proposal 3)

Mr. Shuzo Watanabe and Mr. Michihiro Tsuchiya, who are candidates for Director in Proposal 3, which is a shareholder proposal, are candidates for Director in Proposal 1, which is a company proposal.

Accordingly, in order to prevent voting twice for the same candidate, in the event that you exercise your voting rights by mailing the "Voting Right Exercise Form," please indicate your approval or disapproval of the above two people, who are candidates for Director in Proposal 3, which is a shareholder proposal, by indicating your approval or disapproval in Proposal 1, which is a company proposal.

Indication of approval or disapproval of Proposal 3 on the "Voting Right Exercise Form" will be treated as an indication of approval or disapproval regarding the election of Mr. Hirobumi Takeuchi, who is a candidate for Director in Proposal 3.

Neither of the overlapping candidates for Director (Mr. Shuzo Watanabe and Mr. Michihiro Tsuchiya) have agreed to be candidates for Director in relation to the shareholder proposal.

(Notes regarding the exercise of voting rights for Proposal 4 and Proposal 5)

The Articles of Incorporation of the Company stipulates that the quota for Directors serving on the Audit and Supervisory Committee at the Company shall be five (5), but the current number of Directors serving on the Audit and Supervisory Committee at the Company is three (3), and their terms of office are until the conclusion of the Ordinary General Meeting of Shareholders next year. Because of this, if no items in Proposal 4 (Dismissal of Three (3) Directors Serving on the Audit and Supervisory Committee), which is a shareholder proposal, are approved and all items in Proposal 5 (Election of Three (3) Directors Serving on the Audit and Supervisory Committee), which is also a shareholder proposal, are approved, the number of Directors serving on the Audit and Supervisory Committee will exceed the quota stipulated in the Articles of Incorporation.

As such, in the event that voting results in no items in Proposal 4 being approved and all items in Proposal 5 being approved, candidates for Director serving on the Audit and Supervisory Committee shall be elected in order of who has more votes for approval in Proposal 5 with a maximum of two.

(Notes regarding the exercise of voting rights for Proposal 2 and Proposal 7)

As Proposal 2 and Proposal 7 are both proposals related to the election of a substitute Director serving on the Audit and Supervisory Committee, it is necessary to decide prioritization between applicable substitute company officers when electing two (2) or more substitute company officers for the same company officer (Article 329, Paragraph 3 of the Companies Act, Article 96, Paragraph 2, Item 5 of the Regulation for Enforcement of the Companies Act).

In the event that both Proposal 2 and Proposal 7 are approved, prioritization between the substitute Directors serving on the Audit and Supervisory Committee shall be decided in order of who has more votes for approval between the two proposals.

Guidance for Exercising Your Voting Rights

Exercise of voting rights at the Meeting is shareholders' important right. Please review the attached Reference Materials for the Ordinary General Meeting of Shareholders and exercise your voting rights. You may exercise your voting rights by the following three methods.

Voting via the Internet

Please enter your vote "for" or "against" for each of the proposals by following the guidance on the next page.

Deadline: **All data entry to be completed no later than 5:30 p.m., Wednesday, March 24, 2021 (Japan Standard Time)**

Voting in Writing (by Mail)

Please indicate "for" or "against" for each of the proposals in the enclosed Voting Right Exercise Form.

Deadline: **To be received no later than 5:30 p.m., Wednesday, March 24, 2021 (Japan Standard Time)**

Attending the Meeting

Please submit the enclosed Voting Right Exercise Form to the receptionist at the Meeting.

Date and Time: **March 25, 2021 (Thursday) at 10:30 a.m.**
(Reception desk is scheduled to open at 9:30 a.m.)

How to Fill out the Voting Right Exercise Form

Proposals 1,3,4,5

- If you approve of all of the candidates:
Put a circle in the box marked 賛 [For]
- If you disapprove of all of the candidates:
Put a circle in the box marked 否 [Against].
- If you disapprove of some of the candidates:
Put a circle in the box marked 賛 [For] and indicate the number of the candidate that you disapprove.

Proposals 2,6,7

- If you approve:
Put a circle in the box marked 賛 [For]
- If you disapprove:
Put a circle in the box marked 否 [Against].

1. If you exercise voting rights in duplicate, both in writing (by mail) and via the internet, the voting rights exercised via the internet shall be deemed effective. Also, if you exercise voting rights several times via the internet, only your final vote shall be deemed effective.
2. If no approval or disapproval is expressed for the respective proposals, it will be treated as an approval vote for the Company's proposals and a disapproval vote for the shareholder's proposals.

Guidance for Exercising Voting Rights via the Internet

By scanning the QR Code (“smart voting”)

You can login to the website for exercising voting rights without entering the voting right exercise code and password.

1. Please scan the QR Code printed on the Voting Right Exercise Form at the bottom right.

* QR Code is a registered trademark of DENSO WAVE INCORPORATED.

2. Then please follow the on-screen instructions to enter your vote “for” or “against” for each of the proposals.

The exercise of voting right by “smart voting” is available only once.
In case if you want to change your vote after exercising your voting right, please access the website for a personal computer and login by entering the “voting right exercise code” and “password” supplied on the Voting Right Exercise Form, to exercise your voting right again.
*You will be transferred to the website for a personal computer by scanning the QR Code again.

By entering the voting right exercise code and password

Website for exercising voting rights: <https://www.web54.net> (Available in Japanese only)

1. Please access the website for exercising voting rights.

- Click “Proceed to the next”

2. Please enter the “voting right exercise code” supplied on the Voting Right Exercise Form.

- Enter the “voting right exercise code”
- Click “Login”

3. Please enter the “password” supplied on the Voting Right Exercise Form.

- Enter the “initial password”
- Enter the new password that you will actually use
- Click “Register”

4. Then please follow the on-screen instructions to enter your vote “for” or “against” for each of the proposals.

In case you need instructions for how to operate your personal computer/smartphone/mobile phone in order to exercise your voting rights via the internet, please contact:

Sumitomo Mitsui Trust Bank, Limited,
Stock Transfer Agency Web Support (dedicated line)
Telephone: 0120-652-031 (toll free, available only
in Japan) (Support in Japanese only)
[9:00 a.m. to 9:00 p.m. (Japan Standard Time)]

Reference Materials for the Ordinary General Meeting of Shareholders

<Company Proposals (Proposals 1 to 2)>

Proposal 1: Election of Four (4) Directors (excluding Directors Serving on the Audit and Supervisory Committee)

The terms of office of all five (5) Directors (excluding Directors serving on the Audit and Supervisory Committee; the same shall apply hereinafter in this proposal) will expire upon conclusion of this Meeting. Also, the Company will decrease the number of Directors by one (1) to enhance the efficiency of the management system. Therefore, it is proposed that four (4) Directors be elected.

The candidates for Directors are as follows.

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
1	Shuzo Watanabe (May 15, 1967)	<p>Apr. 1992 Joined Pfizer Seiyaku K.K. (currently Pfizer Japan Inc.)</p> <p>Apr. 2005 Senior Scientist, Discovery Biology Research, Pfizer Global Research and Development Nagoya Laboratories, Pfizer Japan Inc.</p> <p>Dec. 2006 Senior Principal Scientist, Discovery Biology Research, Pfizer Global Research and Development Nagoya Laboratories</p> <p>Jul. 2008 Joined the Company</p> <p>Oct. 2012 Vice President (Head of Discovery Research)</p> <p>Mar. 2016 Senior Vice President (Head of Discovery Research) Director (to present)</p> <p>Apr. 2017 Director, TMRC Co., Ltd. (to present)</p> <p>Oct. 2020 Executive Vice President (Head of Discovery Research), the Company (to present)</p> <p><Important concurrent position> Director, TMRC Co., Ltd.</p>	26,400 shares
<p>[Reason for the nomination as candidate for Director]</p> <p>Mr. Shuzo Watanabe has performed roles as Director and Executive Vice President (Head of Discovery Research) that are central to drug development and research, the Company's core business. Expecting Mr. Watanabe to be deeply involved in the decision making of important business execution as a senior manager from a company-wide perspective as well as drug discovery research and contribute to the Company going forward, the Company once again nominates him as a candidate for Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
2	Michihiro Tsuchiya (Jul. 12, 1947)	<p>Apr. 1976 Joined Tanabe Seiyaku Co., Ltd. (currently Mitsubishi Tanabe Pharma Corporation)</p> <p>Jun. 2001 Director, General Manager, Corporate Strategic Planning Department</p> <p>Jun. 2003 Managing Director, Research Headquarters</p> <p>Jun. 2006 Representative Director, Senior Executive Corporate Officer, Research Headquarters</p> <p>Oct. 2007 Board Director, Executive Vice President, Mitsubishi Tanabe Pharma Corporation</p> <p>Jun. 2009 President & Representative Director</p> <p>Jun. 2014 Chairman of the Board & Representative Director</p> <p>Jun. 2016 Chairman of the Board & Director</p> <p>Jun. 2017 Senior Executive Advisor</p> <p>Jun. 2018 Director, Sumitomo Electric Industries, Ltd. (to present)</p> <p>Jun. 2018 Outside Director, Kyoto University Innovation Capital Co., Ltd. (to present)</p> <p>Mar. 2020 Outside Director, the Company (to present)</p> <p><Important concurrent position> Director, Sumitomo Electric Industries, Ltd. Outside Director, Kyoto University Innovation Capital Co., Ltd.</p>	– shares
<p>[Reason for the nomination as candidate for Outside Director]</p> <p>Mr. Michihiro Tsuchiya has abundant experience as a senior manager and broad insight into global operations. Expecting to utilize Mr. Tsuchiya's knowledge in the senior management of the Company, so that he may promote further revitalization of the Board of Directors, improve transparency of senior management and strengthen corporate governance, the Company once again nominates him as a candidate for Outside Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
3	Yasuhiro Takamatsu (Apr. 2, 1959)	<p>Apr. 1982 Joined Sunstar Inc.</p> <p>May 1985 Joined Ciba-Geigy Japan Ltd. (currently Novartis Pharma K.K.)</p> <p>Apr. 1989 Supervisor, Personnel Department</p> <p>Feb. 1997 Joined Matsumoto Medical Inc. (currently Stryker Japan K.K.) Assistant Manager, Personnel Department</p> <p>Sep. 1999 Joined Merck Whey Inc. (currently Mylan Inc.) Manager, Personnel and Administration Department</p> <p>Feb. 2002 General Manager, Personnel and Administration Department</p> <p>Feb. 2005 Joined BB Net Inc. Deputy General Manager, Personnel and Administration Department</p> <p>Jul. 2006 General Manager, Personnel and Administration Department</p> <p>Jan. 2008 Joined TSD Japan Inc. General Manager, Administration Division</p> <p>Jul. 2009 Corporate Officer</p> <p>Jul. 2012 Joined Holonics Inc., Iseikai Group Manager, Personnel Division, Head Office</p> <p>Jul. 2013 Joined Zenkokutsuhan Co., Ltd., Noritsu Koki Group Manager, Administration Department</p> <p>Jan. 2014 General Manager, Administration Department</p> <p>Jan. 2015 Joined the Company Executive General Manager, Personnel & Administration Management Division</p> <p>Mar. 2016 Vice President (in charge of Personnel & Administration)</p> <p>Apr. 2017 General Manager, Administration Department, TMRC Co., Ltd. (to present)</p> <p>Feb. 2019 Vice President (in charge of Personnel & Administration and Legal Affairs), the Company (to present)</p> <p>Mar. 2020 Director, TMRC Co., Ltd. (to present)</p> <p>Mar. 2020 Director, the Company (to present)</p> <p><Important concurrent position> Director, TMRC Co., Ltd.</p>	1,300 shares
<p>[Reason for the nomination as candidate for Director]</p> <p>Mr. Yasuhiro Takamatsu has performed roles as Director and Vice President (in charge of Personnel & Administration and Legal Affairs) where he oversaw the personnel, administration, legal affairs and information technology departments and strengthened various functions in conjunction with the growth of the Company. Expecting that, going forward, Mr. Takamatsu will help the Company achieve sustainable growth based on his abundant experience and achievements, the Company once again nominates him as a candidate for Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
4	*Katsuhiko Uto (Mar. 31, 1974)	<p>May 2005 Joined Nippon Boehringer Ingelheim Co., Ltd.</p> <p>Jan. 2013 Joined Asahi Kasei Pharma Corporation Senior Researcher</p> <p>Jul. 2013 A unit leader, Pharmacology Research Department</p> <p>May 2017 Joined Maruho Co., Ltd.</p> <p>Oct. 2018 Project Manager, Project Management Unit</p> <p>Jun. 2020 Project Manager, Research Planning and Strategy Office, Drug Discovery Research Department</p> <p>Jan. 2021 Joined the Company General Manager, Research Planning, Discovery Research</p>	– shares
<p>[Reason for the nomination as candidate for Director]</p> <p>Mr. Katsuhiko Uto has a deep knowledge of drug discovery business backed by his extensive achievements as a drug discovery researcher, and has demonstrated his prowess in research planning in which overall research has been managed. Expecting that Mr. Uto will perform roles that are central to drug development and research to strengthen the Company's relationships with joint research partners and continue to achieve research results, the Company nominates him as a candidate for Director.</p>			

- (Notes)
1. The candidate with "*" symbol is a new candidate.
 2. No conflict of special interests exists between the Company and each candidate.
 3. Mr. Michihiro Tsuchiya is a candidate for Outside Director.
 4. Mr. Michihiro Tsuchiya's tenure as Outside Director of the Company will be one (1) year at the conclusion of this Ordinary General Meeting.
 5. The Company has designated Mr. Michihiro Tsuchiya as an independent officer based on the regulations stipulated by the Tokyo Stock Exchange and has notified the Tokyo Stock Exchange accordingly. If the reelection of Mr. Tsuchiya is approved, the Company will designate him again as an independent officer.
 6. Under the provision of Article 427, Paragraph 1, of the Companies Act, the Company has entered into an agreement with Mr. Michihiro Tsuchiya to limit his liability for damages specified in Article 423, Paragraph 1 of the said Act. The maximum amount of liability for damages under the agreement shall be the amount provided for by laws and ordinances. If the reelection of Mr. Tsuchiya is approved, the Company plans to continue this agreement with him.
 7. The Company has entered into a contract of Directors and Officers Liability Insurance (D&O Insurance) with an insurance agency, as provided for in Article 430-3, Paragraph 1 of the Companies Act. This insurance policy covers damages from claims, etc. borne by the insured persons pertaining to the pursuit of liability arising in the course of execution of duties. Candidates are included as insured persons in this insurance policy. Furthermore, the Company plans to renew this insurance policy with the same details at the time of the next renewal.

Proposal 2: Election of One (1) Substitute Director Serving on the Audit and Supervisory Committee

Mr. Hitoshi Takano, substitute Director serving on the Audit and Supervisory Committee elected at the 12th Ordinary General Meeting of Shareholders held on March 26, 2020, expressed his willingness to withdraw from the said post at the start of this Meeting. In response to this request, the Board of Directors resolved to cancel his validity of election as substitute Director serving on the Audit and Supervisory Committee at the start of this Meeting with the consent of the Audit and Supervisory Committee.

Accordingly, as preparation for situations where the number of incumbent Directors serving on the Audit and Supervisory Committee does not satisfy the number prescribed by laws and ordinances, it is proposed once again that one (1) substitute Director serving on the Audit and Supervisory Committee be elected as a substitute for all of the Directors serving on the Audit and Supervisory Committee.

The validity of the election of this proposal can be nullified by resolution of the Board of Directors if the consent of the Audit and Supervisory Committee has been obtained; provided, however, that it is only in a time before assuming office.

In addition, the Audit and Supervisory Committee has already given its consent to this proposal.

The candidate for substitute Director serving on the Audit and Supervisory Committee is as follows.

Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
Atsushi Goto (Oct. 22, 1973)	Oct. 1997 Joined Asahi & Co. (currently KPMG AZSA LLC) Mar. 2001 Registered as certified public accountant Mar. 2003 Registered as certified tax accountant Jan. 2009 Head, Goto Accounting Office (to present) Outside Auditor, Gifu Shellac Mfg. Co., Ltd. (to present) <Important concurrent position> Head, Goto Accounting Office Outside Auditor, Gifu Shellac Mfg. Co., Ltd.	– shares
[Reason for the nomination as candidate for substitute Outside Director serving on the Audit and Supervisory Committee] Mr. Atsushi Goto has specialist knowledge acquired in audit firms and an accounting office as a certified public accountant and certified tax accountant, and although he has never been directly involved in the management of a company, the Company expects him to utilize his abundant experience and extensive insight in the Company's audit system. Accordingly, the Company nominates him as a candidate for substitute Outside Director serving on the Audit and Supervisory Committee.		

- (Notes)
1. No conflict of special interests exists between the Company and the candidate.
 2. Mr. Atsushi Goto is a candidate for substitute Outside Director serving on the Audit and Supervisory Committee.
 3. Under the provision of Article 427, Paragraph 1, of the Companies Act, the Company will enter into an agreement with Mr. Atsushi Goto to limit his liability for damages specified in Article 423, Paragraph 1, of the said Act, if he is elected as substitute Outside Director serving on the Audit and Supervisory Committee and actually assumes the office. The maximum amount of liability for damages under the agreement shall be the amount provided for by laws and ordinances.
 4. The Company has entered into a contract of Directors and Officers Liability Insurance (D&O Insurance) with an insurance agency, as provided for in Article 430-3, Paragraph 1 of the Companies Act. This insurance policy covers damages from claims, etc. borne by the insured persons pertaining to the pursuit of liability arising in the course of execution of duties. In the event that Mr. Atsushi Goto assumes office, he will be included as an insured person in this insurance policy.

<Shareholder Proposals (Proposals 3 to 7)>

Proposals 3 to 7 are proposals made by one (1) shareholder.

Neither of the overlapping candidates for Director (Mr. Shuzo Watanabe and Mr. Michihiro Tsuchiya) have agreed to be candidates for Director in relation to the shareholder proposal.

***The Board of Directors objects to all shareholder proposals.**

Location of reasons for objections	Proposal 3	pages 17–19
	Proposal 4	page 21
	Proposal 5	page 26
	Proposal 6 - Proposal 7	page 28, 30

***The Audit and Supervisory Committee objects to all shareholder proposals.**

Location of reasons for objection of the Audit and Supervisory Committee	Proposal 3	pages 19–20
	Proposal 4	pages 22–23
	Proposal 5	pages 26–27
	Proposal 6 - Proposal 7	page 28, 30

The proposals and the reasons are stated verbatim as proposed by the shareholder.

[Explanation of Each Shareholder Proposal]

The contents of each shareholder proposal and reasons for the submission are as described below. Now I would like to give a summary on the reasons why I decided to submit Proposals 1 to 5.

I have been investing in your company for many years because I am attracted to the fact that your company is able to produce new drugs from scratch as a drug discovery venture from Japan.

However, the following issues have appeared in the Medium-Term Management Plan (Gaia 2021), which you are proceeding with.

- Several downward revisions of business performance

For three (3) consecutive fiscal years, you made downward revisions of your earnings forecasts announced at the beginning of each fiscal year.

Regarding the fiscal year ended December 31, 2019 and the fiscal year ended December 31, 2020, you promised to shareholders that you would “definitely achieve surplus” to avoid that you fall under the delisting criteria. However, you recorded operating losses and you are in a situation to be unavoidable to satisfy with the delisting criteria.

Especially for the fiscal year ended December 31, 2020, you revised downward your earnings forecasts not only for the fiscal year ended December 31, 2020 but also for the fiscal year ending December 31, 2021 and the fiscal year ending December 31, 2022, which were announced in August 2020. Having considered such challenging circumstances, I asked you a question to see if an additional downward revision would be made after the said announcement and then you replied that there would not be a problem. Nevertheless, you announced a second downward revision of your earnings forecasts for the fiscal year ended December 31, 2020 after the closure of the stock market on December 28, 2020, which is the vesting date. Regrettably, such dishonest attitude toward shareholders has caused me disappointment.

- Suspension of development of existing pipelines

I would be able to consider this fact a bit more if you tried to reduce R&D expenses “in a strategical manner” or “only for one term” to avoid that you fall under the delisting criteria (to earn operating surplus). However, your company were not able to achieve this goal against your will to “definitely achieve surplus” to shareholders shown at financial results briefings and general meetings of shareholders. I believe that “definitely achieve” means “achieve without failure.” Is my understanding correct?

I do not understand at all your management policy that you were unable to avoid that you fall under the delisting criteria by improving earnings, and you then suspended the existing pipelines.

Existing drug candidates have a patent term. I believe that suspending the development is the same thing as leaving the existing pipelines in an obsolete state.

- Unable to license out new pipelines

Your company is only able to proceed with the development of new pipelines through joint research.

I think that it is difficult to license out to a pharmaceutical company without in-house development to some extent.

In addition, although you have concluded a number of joint research agreements with universities and other institutions under the name of industry-academia collaboration, there are no drug candidates licensed out to a pharmaceutical company yet.

Drug development is a fight against time, because of various factors, including a patent period and appearance of competitors' drugs. I believe it is meaningless to just acquire a patent and do nothing thereafter.

In addition, the percentage of upfront payments, milestone payments, and market royalties is lower at the initial stage (e.g. exploratory research) of joint research.

For those reasons, I believe that your company will continue to decline if no other measures are taken.

<<Measures to address problems → Establish a management structure enabling prompt actions with shareholder governance>>

I was trying to find what the cause of the above problems would be.

I believe this is because your management team is, against the intention of your shareholders and employees, mainly led by Directors, advisors, and consultants in their 60s and 80s who retired from the frontline.

The state of drug development changes every day.

In order to keep up with such state, it is necessary to establish a management structure centered on personnel in their 30s and 50s who have the ability to take actions and have management skills and experiences.

It is of course important that a management structure that can be a model in the Reiwa era, must be effective in terms of shareholder governance.

In short, I find it important to establish a management structure in which experts can share their expertise and act quickly.

1. Persons with management ability and experience will take the lead in the management
2. Drug discovery personnel will be able to concentrate on drug discovery
3. The largest shareholder will assume the post of Director serving on the Audit and Supervisory Committee, and Outside Directors will make up the majority of the Board of Directors, from the viewpoint of shareholder governance

Considering the above points, I am confident that there is no better proposal than my proposal.

I am willing to revive RaQualia Pharma Inc. by building a management structure suitable for the Reiwa era, making it a “drug discovery venture in the Reiwa era” that is able to compete globally.

Proposal 3: Election of Three (3) Directors (excluding Directors Serving on the Audit and Supervisory Committee)

Description of the proposal

In order to make the Company a “drug discovery venture in the Reiwa era” that is able to compete globally, it is proposed all three (3) candidates for Directors listed below be elected.

However, even if only one or two of the three (3) persons are elected, the validity of the said election will not be denied.

Reason for the proposal

As described in [Explanation of Each Shareholder Proposal] above, your company has not achieved results expected by shareholders and has not been recognized in the market under the Medium-Term Management Plan (Gaia 2021), which you are currently promoting. In fact, you stated in public that you were aiming for a total market capitalization of ¥100.0 billion by 2020 in a 2017 interview with THE NIKKAN YAKUGYO. However, the total market capitalization as of December 31, 2020 was ¥21.9 billion, far below the target. In addition, despite two downward revisions of earnings forecasts, the management plan has not been drastically reviewed, no announcement has been made regarding the reduction of compensation for executive officers and other related measures, which should be considered on the principle that “good work will be rewarded and bad work punished.” The situation is left unsolved until today in the condition that managerial personnel are blamed to “be just clinging to their posts.”

In this state, the management carried out by the current five (5) Directors is likely to be insufficient from the management standpoint of a drug discovery venture to improve shareholder value by delivering drugs to patients. I have found that we cannot leave the Company’s future management to such current managerial personnel, and therefore recommend Mr. Hirobumi Takeuchi, Mr. Michihiro Tsuchiya, and Mr. Shuzo Watanabe as candidates for Directors in order to realize <<Measures to address problems → Establish a management structure enabling prompt actions with shareholder governance>> as mentioned above. I believe that these three (3) persons have a number of qualities suitable for serving as Directors of the Company. The career summaries of the candidates are as described below in “(2) Candidates for three (3) Directors in the shareholder proposal.”

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
1	Hirobumi Takeuchi (Dec. 21, 1971)	<p>Apr. 1994 Joined Kyowa Co., Ltd.</p> <p>Feb. 2004 Joined Skylight Biotech Inc, General Manager, Sales Department</p> <p>Sep. 2005 Director in charge of Business Promotion and Finance</p> <p>Jul. 2006 Director and CFO in charge of Administrative Division</p> <p>May 2009 Joined Sumisho Realty Management Co., Ltd. Manager, Administration Department</p> <p>Mar. 2013 Joined Cyfuse Biomedical K.K. Board Director in charge of Corporate Planning and Business Administration</p> <p>Jan. 2014 Joined the Company Assistant General Manager, Accounting Department</p> <p>Apr. 2014 General Manager, Accounting Department</p> <p>Oct. 2014 General Manager, Finance and Accounting Department, Finance and Corporate Planning Division</p> <p>Apr. 2018 President, UBiENCE Inc. (to present)</p>	200 shares
<p>[Reason for the nomination as candidate for Director]</p> <p>Mr. Hirobumi Takeuchi has abundant business experience and knowledge of corporate management and finance as a bioventure manager. After joining the Company in 2014, he played a central role in formulating plans, including the reduction of business expenses as a member of the turnaround team. Expecting that he will conduct management with the understanding of the Company's internal conditions from the standpoint of growth potential, efficiency, and shareholder returns as a drug discovery venture, he has been nominated as a candidate for Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
2	Michihiro Tsuchiya (Jul. 12, 1947)	<p>Apr. 1976 Joined Tanabe Seiyaku Co., Ltd. (currently Mitsubishi Tanabe Pharma Corporation)</p> <p>Apr. 2001 Director, General Manager, Corporate Strategic Planning Department</p> <p>Jun. 2003 Managing Director, Research Headquarters</p> <p>Jun. 2006 Representative Director, Senior Executive Corporate Officer, Research Headquarters</p> <p>Oct. 2007 Board Director, Executive Vice President, Mitsubishi Tanabe Pharma Corporation</p> <p>Jun. 2009 President & Representative Director</p> <p>Jun. 2014 Chairman of the Board & Representative Director</p> <p>Jun. 2016 Chairman of the Board & Director</p> <p>Jun. 2017 Chairman of the Board & Director</p> <p>Jun. 2018 Director, Sumitomo Electric Industries, Ltd. (to present)</p> <p>Jun. 2018 Outside Director, Kyoto University Innovation Capital Co., Ltd. (to present)</p> <p>Mar. 2020 Outside Director, the Company (to present)</p>	– shares
<p>[Reason for the nomination as candidate for Director]</p> <p>Mr. Michihiro Tsuchiya has abundant experience as a senior manager and broad insight into global operations. Expecting to utilize Mr. Tsuchiya's knowledge in the senior management of the Company, so that he may promote further revitalization of the Board of Directors, improve transparency of senior management and strengthen corporate governance, he has once again been nominated as a candidate for Outside Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
3	Shuzo Watanabe (May 15, 1967)	<p>Apr. 1992 Joined Pfizer Seiyaku K.K. (currently Pfizer Japan Inc.)</p> <p>Apr. 2005 Senior Scientist, Discovery Biology Research, Pfizer Global Research and Development Nagoya Laboratories, Pfizer Japan Inc.</p> <p>Dec. 2006 Senior Principal Scientist, Discovery Biology Research, Pfizer Global Research and Development Nagoya Laboratories</p> <p>Jul. 2008 Joined the Company</p> <p>Oct. 2012 Vice President (Head of Discovery Research)</p> <p>Mar. 2016 Senior Vice President (Head of Discovery Research) Director (to present)</p> <p>Apr. 2017 Director, TMRC Co., Ltd. (to present)</p> <p>Oct. 2020 Executive Vice President (Head of Discovery Research) (to present)</p>	26,400 shares
<p>[Reason for the nomination as candidate for Director]</p> <p>Mr. Shuzo Watanabe has been involved in drug development and research, the Company's core business, as Director and Executive Vice President (Head of Discovery Research). Expecting that, going forward, Mr. Watanabe will compile research results mainly through joint research initiatives with Nagoya University and other universities, he has once again been nominated as a candidate for Director.</p>			

Opinion on proposal 3 of the Board of Directors

The Board of Directors objects to this proposal.

1) It is the most favorable way to steadily implement our growth strategies under the new structure planned by the Company from the standpoint of enhancing corporate value

First of all, the Company's Board of Directors is proud that we are growing steadily as a drug discovery company. The pharmaceutical business should be observed from a long-term perspective of 20 to 25 years. It is, therefore, necessary to formulate forward-looking strategies on what kind of business we will be operating in the next ten years, rather than just focusing on and criticizing the status at the present moment. We believe that discussions without such a vision are meaningless.

Royalty income, which accounts for more than half of our current income, is just positioned as a long-term secondary engine in our research strategies, and our essential value is placed in drug discovery research. Small molecule compounds created based on our ion channel drug discovery technology have successfully been licensed out to several pharmaceutical companies and have entered into the development stage. For example, the worldwide licensing agreement for P2X7 receptor antagonist, which was announced on January 29, 2021, is one of our achievements that could again demonstrate the high level of our drug discovery capabilities to external parties. We have created seed compounds that continue to attract attention even today, and our seed creation strategies and technologies are never inferior to other bioventures. Also, we are proud of the quality and achievements of our researchers.

Based on such understanding, on February 12, 2021, the Company announced a management structure planned for the next fiscal year or later (hereinafter, the "New Structure"). The planned New Structure is as follows:

- Mr. Shuzo Watanabe will be newly appointed as Representative Director and will control the overall management of the Group.
 - Mr. Michihiro Tsuchiya will make valuable comments supported by his abundant experience as a manager.
 - Mr. Yasuhiro Takamatsu will play a role in supporting the foundation of the Company as head of personnel and administration.
 - Mr. Katsuhiko Uto will be newly appointed as head of discovery research and is committed to the development of the Company's drug discovery research.
- *Current Directors Naoki Tani and Kiichiro Kawada will retire from office as Directors at the conclusion of this Ordinary General Meeting of Shareholders.

Mr. Shuzo Watanabe, a candidate for Representative Director, has played a central role in the Company's drug discovery research business as a researcher until today and has demonstrated excellent leadership as Director and Executive Vice President. We are confident that the New Structure to be led by Mr. Watanabe will be a management structure that is appropriate to create our bright future by strengthening our core drug discovery research business, and to ensure the stability and continuity of our business as a listed company.

Undoubtedly, there is no better choice than the Company's proposal with the aforementioned contents for all of our stakeholders, including shareholders, researchers and other employees, domestic and overseas partner companies, academia including Nagoya University, and local communities centered on Nagoya. It is the most favorable way to steadily implement our growth strategies based on the new Medium-Term Management Plan (Gaia 2021) under the New Structure from the standpoint of enhancing corporate value.

2) This is a proposal that harms the common interests of our shareholders

Meanwhile, this proposal does not show any specific management strategies, and it is, therefore, unclear how we will enhance our corporate value.

Mr. Takeuchi, Mr. Tsuchiya, and Mr. Watanabe are candidates for Directors. However, among those candidates, Mr. Tsuchiya and Mr. Watanabe, who are our current Directors, have rejected the composition of the Board of Directors with the candidates listed in this proposal. In the first place, this proposal was not submitted with the consent of Mr. Tsuchiya and Mr. Watanabe (they were even not consulted).

Mr. Tsuchiya has served as a manager of a pharmaceutical company and other major companies, and his abundant experience and global and broad insights are valuable to the Company's management. He is also an indispensable person as Outside Director for ensuring the transparency of the Company's management and strengthening corporate governance. In addition, Mr. Watanabe is a person who has played a central role for many years in drug discovery research, which is our core business. We cannot expect our development without his performance. However, Mr. Tsuchiya and Mr. Watanabe believe that they will not be able to sufficiently fulfill their responsibilities as Directors under the structure of the Board of Directors with Mr. Takeuchi.

If Mr. Tsuchiya and Mr. Watanabe cannot fully demonstrate their abilities, it is not just a lack of expectation for development, but we will fall into decline.

On the contrary, regarding Mr. Takeuchi, a candidate for Director of this proposal, his career is centered on finance in small companies, and he has no experience in drug development and/or out-licensing activities, though he belonged to the Company about four (4) years from 2014 to 2018. In addition, Mr. Takeuchi had proposed a shrinkage in the research division, namely the restructuring of research positions, when our cost reduction was necessary during his service period at the Company. Researchers are the foundation of management in the drug discovery industry, and finding competent personnel is challenging. Once we lose those qualified personnel, they would not return to us anymore. Although Mr. Takeuchi has experience in finance and accounting at the Company, not only does he have little experience in the development and licensing of pharmaceutical products, which is an important quality to be the Company's Director, but also lack of insight into drug discovery research.

Actually, we internally conducted a questionnaire about Mr. Takeuchi's appointment as a candidate for Director in response to this proposal. As a result, there were a number of negative opinions about his appointment as Director probably because of his achievements and behaviors during his office at the Company for about four (4) years. Hence, if Mr. Takeuchi were appointed as Director, many researchers and other employees would probably resign.

Considering such a state, this proposal for nominating Mr. Takeuchi as a candidate for Director should be just unrealistic and would harm the common interests of our shareholders.

3) There are many factual errors in the reason for this proposal

• The point on "the market capitalization is below the target"

The reason for this proposal says that we have not achieved the results expected by shareholders and have not been recognized in the market under the Company's Medium-Term Management Plan (Gaia 2021).

Because the market capitalization of ¥100.0 billion is the investment threshold of many investors, including institutional investors, we recognize that this value is one of the important indicators for the Company to make further leaps forward in the research and development activities of pharmaceuticals.

However, we neither adopt market capitalization as our key performance indicator (KPI), nor set a market capitalization target as a KPI even in Gaia 2021. In addition, it cannot be determined that the Medium-Term Management Plan (Gaia 2021) is not recognized in the market only by the figure of the market capitalization of ¥100.0 billion. Thus, it is not rational to criticize the on-going Medium-Term Management Plan (Gaia 2021) as not being recognized in the market by saying that our market capitalization remains below ¥100.0 billion.

The two main initiatives we have set out in Gaia 2021 are "launch of human drug products" and "acceleration of overseas operation." For the first initiative of "launch of human drug products," tegoprazan was released in South Korea in 2019. This drug product remains strong as scheduled to be launched in China in the first half of 2022. For the second initiative of "acceleration of overseas operation," we have established a U.S. base in San Diego, and are working on a collaboration with overseas research institutes, etc., although the business cannot be said "steady" due to the impact of the novel coronavirus (COVID-19) pandemic.

As mentioned above, we are currently steadily progressing those initiatives set out in the Medium-term Management Plan.

• The downward revisions in earnings forecasts were primarily due to the COVID-19 pandemic and a portion of sales being deferred to the next fiscal year

This proposal also indicates the downward revision of the Company's earnings forecasts as one of the reasons for this proposal.

Based on the Medium-Term Management Plan (Gaia 2021) launched in 2019, the Company had been steadily improving its business performance. However, the COVID-19 pandemic has spread worldwide since the beginning of 2020, and has had a significant impact on the Company. The first revision of earnings forecasts was made because sales royalty was found to have dropped in the first half of FY2020. In the second half of FY2020, we were closely monitoring the impact of the pandemic on the Company's business performance. Because such events as a delay in negotiations on licensing and the development status were found over time, we were forced to make a second downward revision.

Business revenue of the Company, which operates pharmaceutical R&D business, is comprised of upfront payments based on the out-licensing agreement of compounds, milestone income associated with development progress, and sales royalty income associated with the sale of pharmaceuticals. The upfront payments vary depending on the sales policy and the business plan (e.g., development plan) of parties with which we are negotiating on licensing, and the milestone income varies depending on the results of the clinical trial of licensee corporations and other related factors. In addition, the sales royalty revenue is likely to be unstable with business performance because forecasts are laid out based on limited information provided by licensee corporations. Moreover, for a company that has a few product items like us, a change in the state of a single item has a significant impact on the business performance.

As mentioned above, because the Company's business performance varies by the circumstances of licensee corporations, our earnings forecasts remain unstable. Furthermore, disclosed information may be limited due to the characteristics of the pharmaceutical industry in which sales information and development information are strictly confidential. Amid such conditions, we strive to provide prompt and fair disclosure. In FY2020, we made downward revisions twice because most of the sales were deferred to FY2021.

We sincerely appreciate your understanding of our business characteristics and your continued support.

- **Compensation for executive officers has been reduced, of which an announcement has been made**

The reason for this proposal indicates that there has been no announcement regarding a reduction in compensation for executive officers and other related measures. However, the compensation of Mr. Tani, the Company's Representative Director, that has been cut by 50% since 2015 continues even today. The fact of reducing compensation for executive officers was announced in 2015. However, we have simply refrained from disclosing the fact of reducing the compensation for executive officers every year because such an announcement may look as if we tried to obtain an indulgence from our shareholders.

As mentioned earlier, we made downward revisions in earnings forecasts for FY2020 because most of the sales were deferred to FY2021. We believe that there is no need to further reduce the compensation for executive officers at this stage.

Plus, the total amount of the Company's compensations for seven (7) Directors in FY2016 and later is approximately ¥35 million, which is almost the lowest amount in the listed bioventure companies.

- **The reason for this proposal indicates that the Company has suspended the development of existing pipelines and has not been able to license out new pipelines; however, this is incorrect**

The reason for this proposal indicates that the Company has suspended the development of existing pipelines and has not been able to license out new pipelines; however, this is incorrect.

First of all, regarding the development of existing pipelines, we are proceeding with the development of existing pipelines in a gradual manner based on our out-licensing strategies. We have never suspended the development. Meanwhile, developing existing pipelines requires a great amount of costs. It costs almost ¥100 million only to manufacture APIs for nonclinical trials, and about additional ¥200 million to conduct the nonclinical trials. Therefore, we need to proceed with development at the right time while assessing the status of the business performance. Under such circumstances, we have been manufacturing APIs for the nonclinical trial of ghrelin receptor agonist (RQ-00433412) since last year. In addition, the details on the development progress may be deemed as trade secrets, and providing competitors with such information may lead to the Company's losses. Needless to say, the contents described in the reason for this proposal show a lack of deep understanding of the operation of pipeline development.

As mentioned above, this proposal is unrealistic and not beneficial for the common interests of our shareholders when we judge this proposal even from the viewpoint that Mr. Tsuchiya and Mr. Watanabe, candidates for Directors, are not in favor of the composition of the Board of Directors with the candidates elected under this proposal. The reason for this proposal is based on many factual errors. Therefore, the Company's Board of Directors objects to this proposal.

Opinion on proposal 3 of the Audit and Supervisory Committee

The Audit and Supervisory Committee objects to this proposal.

1) This is the result of sufficient discussions made regarding the selection of future successor and how the next regime should be, and the Company's proposal presents the most favorable way

The Audit and Supervisory Committee has been discussing over several fiscal years with management members (executive directors and executive officers) and Outside Directors who are not serving on the Audit and Supervisory Committee (hereinafter simply, "Outside Director") on the policy for selecting the successor of President and CEO, Mr. Tani, and how the next regime should be, while understanding our characteristics as a drug discovery venture, growth process, history of internal personnel, and current situation. In those discussions, while broadly considering candidates for the successor internally and externally, each Audit and Supervisory Committee Member and Outside Director often pointed out the "return to the black (the goal to be achieved definitely)," "delisting criteria," and "review of management plans," which were specified in this shareholder proposal, and then proceeded with internal reviews regarding such matters as the policy of the next regime and the timing of the transition. We are willing to convey the "drug discovery venture that is able to compete globally" from Japan and the Chubu region, and we believe that this is a common objective for all parties concerned, including our shareholders, employees, managerial members, Outside Directors, and Audit and Supervisory Committee Members.

Regarding the proposal that Mr. Shuzo Watanabe, Director and Executive Vice President, will be appointed as the successor (the next Representative Director) through a resolution at the Board of Directors

meeting held on February 12, 2021, and as presented in the Notice concerning the Opinion of the Company's Board of Directors on Shareholder Proposals (hereinafter, "BOD Opinion"), the New Structure with this appointment accords with the direction of discussions that have been constructively held until today. The Audit and Supervisory Committee, which should be in a position to evaluate the Company's proposals from an independent standpoint, also believes that promoting this New Structure is the most favorable way because it best matches the aforementioned objectives and is optimal to enhance corporate value. On the contrary, the management structure specified in the shareholder proposal is very likely to harm the common interests of shareholders.

Under the New Structure centered on Mr. Watanabe, the Audit and Supervisory Committee has already requested the Company to formulate corporate plans that are more closely linked to drug discovery research, which is the fundamental value of the Company, and prepare plans with more precise numerical targets that match the stage of our progress. In response to such a request, the Company has been conducting reviews on various aspects, including the establishment of the structure since last year.

2) Mr. Takeuchi is not likely to have satisfied the appointment standards of candidate for the Company's Director.

The Company's Director Regulations contain a provision, "the candidate must possess knowledge and experience that helps him/her properly perform duties" as the appointment standards of a candidate for Director. Looking at Mr. Takeuchi's profile, he currently operates UBiENCE Inc. (established in 2018, capital of ¥6 million, three (3) employees). This unlisted bioventure has not operated for more than three (3) years. Considering UBiENCE's size, it is hard to say that Mr. Takeuchi has the knowledge and experience to properly perform his duties as a current management member of the Company (established in 2008, capital of ¥2,255.4 million, 71 employees on a consolidated basis) by utilizing his knowledge and experience possessed as the UBiENCE's manager.

Through the overall judgment on his track records obtained for about four (4) years at the Company, the status of his performance during the period when he worked with three (3) current Audit and Supervisory Committee Members, and the results of a survey conducted for all employees by the Audit and Supervisory Committee in cooperation with the Internal Audit Office, we have determined that he is not likely to have satisfied the appointment standards of a candidate for the Company's Director. Therefore, the Audit and Supervisory Committee of the Company objects to this proposal.

Proposal 4: Dismissal of Three (3) Directors Serving on the Audit and Supervisory Committee

Description of the proposal

It is proposed that three (3) Directors serving on the Audit and Supervisory Committee be dismissed.

Reason for the proposal

As described in [Explanation of Each Shareholder Proposal] above, you have not achieved results expected by shareholders and various issues have been accumulating under the Medium-Term Management Plan (Gaia 2021), which you are currently promoting. In addition, despite two downward revisions in earnings forecasts in FY2020, the management plan has not been drastically reviewed and no announcement has been made regarding the reduction of compensation for executive officers and other related measures, which should be considered on the principle that “good work will be rewarded and bad work punished.” One of the reasons leading to such state is that the monitoring of management by your current three (3) Directors serving on the Audit and Supervisory Committee was insufficient from the viewpoint of the protection of shareholder value. Therefore, it is proposed that Mr. Shinnosuke Maki, Mr. Hisaji Agata, and Mr. Gakuji Nomoto be dismissed.

(Note) Among the Directors serving on the Audit and Supervisory Committee, whose dismissal is requested in this proposal, the number of each person is as follows: Mr. Shinnosuke Maki: 1, Mr. Hisaji Agata: 2, Mr. Gakuji Nomoto: 3.

Opinion on proposal 4 of the Board of Directors

The Board of Directors objects to this proposal.

The reasons for objecting to Proposal 4, Dismissal of Current Three (3) Audit and Supervisory Committee Members, are as follows:

Although the reason for this proposal makes statements such that the monitoring of management by the current three (3) Directors serving on the Audit and Supervisory Committee was insufficient from the standpoint of the protection of shareholder value, we believe that the current three (3) Directors serving on the Audit and Supervisory Committee have been appropriately performing their duties. The reason for this proposal is contrary to the facts.

In other words, the Audit and Supervisory Committee Members of the Company consist of a certified public accountant, who has experience in corporate management, a corporate management expert involved in the fostering of many venture companies, and an attorney at law who is well versed in corporate legal affairs, such as for the venture companies, and compliance in collaborating among industry, government, and academia. The Audit and Supervisory Committee Members have conducted fruitful and systematic audits thus far by carrying out their necessary investigations in a close cooperation with the Internal Audit Office, and at the same time, they audited the procedures and details of the meetings of the Board of Directors and the Corporate Strategy Committee and other important meetings of the Company that they attended to express their opinions on corrections and objections as needed.

As such, we think that the monitoring of management by the current Audit and Supervisory Committee is sufficient from the standpoint of the protection of shareholder value, and we find no reason to dismiss them.

Furthermore, we think the Audit and Supervisory Committee Members are required to demonstrate the full understanding of the characteristics and operations of the company that is being audited when they conduct both accounting and operational audits as part of their duties, and they can deepen their understanding of the characteristics and operations of the company through their continuous engagement in the company. In other words, the continuous involvement in the company’s management in tandem with the appropriate independence leads to an appropriate audit operation. Therefore, the dismissal of the three (3) Audit and Supervisory Committee Members in the middle of their terms of office would tremendously hinder the effectiveness of the audit operations that the three (3) Members ought to conduct independently in a systematic way.

Accordingly, the Company believes that dismissal of the current three (3) Directors serving on the Audit and Supervisory Committee has no reason as it conversely hinders the effectiveness of the audits and jeopardizes the Company’s interests. In addition, if a resolution on the dismissal without justifiable grounds for the Companies Act were passed, the Company would be held liable for damages incurred by such Directors serving on the Audit and Supervisory Committee, resulting in the outflow of the Company’s assets. Therefore, the Company’s Board of Directors objects to this proposal.

Opinion on proposal 4 of the Audit and Supervisory Committee

The Audit and Supervisory Committee objects to this proposal.

1) The past activities of the Audit and Supervisory Committee Members have been appropriately performed in light of their roles assumed

The function of Audit and Supervisory Committee Members to supervise management members has been strengthened by giving voting rights of the Board of Directors to the auditors assuming their conventional roles. In other words, Audit and Supervisory Committee Members, as the members of the Board of Directors, “supervise” the management members’ “execution” of business by exercising their voting rights to make decisions on important matters (“the monitoring of management” in the shareholder proposal), while fulfilling the duty of “auditing” as their utmost priority. The “supervising” function of the Board of Directors works effectively when the Board of Directors forms a majority opinion with mutual oversight by Audit and Supervisory Committee Members, Outside Directors, and other Directors.

In addition, Audit and Supervisory Committee Members are in a position that prohibits their execution of business in order to maintain their independence (described in 1) of “Opinion on proposal 5 of the Audit and Supervisory Committee”), and, therefore, they, as the members of the Board of Directors, need to balance their reserve to refrain from excessive interference in the day-to-day business execution against their strengthened “supervisory” function.

The Company’s three (3) Audit and Supervisory Committee Members have been appropriately fulfilling the “supervisory” function assumed under their delegated roles.

The reason pointed out for the dismissal in the shareholder proposal, that “the monitoring of management was insufficient from the viewpoint of the protection of shareholder value,” is not grounded in the concrete argument to prove (the monitoring of management to be) “insufficient.” Therefore, we believe the reason pointed out does not constitute a valid point.

We ask shareholders first to understand the “supervisory” (“monitoring of management”) function in light of the delegation of the roles within the Company.

Furthermore, inconsistent with objective facts are the reasons pointed out in the shareholder proposal, which state despite two downward revisions in FY2020 in earnings performance, “issues (on business performance) have been accumulating,” “the management plan has not been drastically reviewed,” and “no announcement has been made regarding the reduction of compensation for executive officers and other related measures, which should be considered on the principle that ‘good work will be rewarded and bad work punished.’” These points are irrelevant because “the downward revisions in earnings forecasts were made primarily due to the COVID-19 pandemic and a portion of sales being deferred to the next fiscal year” and because “compensation for executive officers has been reduced, of which an announcement has been made.” With regard to the matter of “drastically reviewing the management plan,” the Audit and Supervisory Committee Members of the Company, along with Outside Directors, have expressed rigorous opinions to management members punctually while being mindful of their assumed roles not to interfere with the day-to-day business execution excessively. Further, they have held many discussions on the directions of the concrete future management plans (aimed at close organizational cooperation between the Discovery Research Division and the Corporate Planning & Strategies Division and formulation of more precise management plans that match the changing status of the Company), in relation to the selection of the future successor, how the next regime should be established, and the timing of its transition.

We understand that it may be inevitable for shareholders, who are not familiar with the details of activities carried out by management members, the Board of Directors, and the Audit and Supervisory Committee, to feel discontent and voice criticisms such as those stated in the shareholder proposal. The Audit and Supervisory Committee will take these criticisms seriously. With the remaining terms of office of one year, the Audit and Supervisory Committee will continue to hold discussions on the directions of the management plans set out for the New Structure and exercise supervision through the solidifying of opinions. Also, the Audit and Supervisory Committee plans to have a greater focus on reviewing the IR structure than before, on which we notably received strong criticisms, however, determined to provide better opportunities and methods to exchange constructive dialogue with our shareholders in cooperation with management members and Outside Directors.

2) Dismissal in the middle of the terms of office would hinder the effectiveness of audits and jeopardize the Company’s interests

The dismissal of Audit and Supervisory Committee Members in the middle of the terms of office would hinder the effectiveness of audits and jeopardize the Company’s interests as stated in “Opinion on proposal 4 of the Board of Directors.”

The current three (3) Audit and Supervisory Committee Members were elected at the General Meeting of Shareholders held in March 2016 in tandem with the transition of the Company to become a company with an Audit and Supervisory Committee from a company with a Board of Auditors. Since then, they have been deliberating how the new system of the Audit and Supervisory Committee can be operated to become more

effective within the Company and how it can contribute to corporate governance (discussed in below “Opinion on proposal 5 of the Audit and Supervisory Committee”), and thus have put into practice such deliberations. Specifically, in order to conduct audit operations using “the same metrics as regular industrial companies” based on the understanding that “drug discovery is different from the ordinary manufacturing industry,” the Audit and Supervisory Committee Members have conducted audit operations by making efforts to communicate with management members and employees in cooperation with the Internal Audit Office to deepen their understanding of the Company’s business, financial conditions, growth process, and the current situation of internal personnel, while maintaining independence from management members. In anticipation of the resolution of the reappointment for the third term in March last year, the Audit and Supervisory Committee Members began discussions on the selection of candidates who succeed the roles taken up by each Audit and Supervisory Committee Member, and the timing of the succession. At the end of last year, with their remaining terms of office left to be a little over a year, they also held specific discussions on the best course of action for the Company to take in establishing the new structure of the Audit and Supervisory Committee after the current third term of office ending in March next year. The Audit and Supervisory Committee believes that the dismissal of the current Audit and Supervisory Committee Members in the middle of their terms of office amid these developments would prevent the effectiveness of audits, which should be conducted in light of the characteristics and current conditions of the Company, from being realized, and jeopardize the Company’s interests. Therefore, the Company’s Audit and Supervisory Committee objects to this proposal.

Proposal 5: Election of Three (3) Directors Serving on the Audit and Supervisory Committee

Description of the proposal

In order to make the Company a “drug discovery venture in the Reiwa era” that is able to compete globally, it is proposed all three (3) candidates for Directors listed below be elected.

However, even if only one or two of the three (3) persons are elected, the validity of the said election will not be denied.

Reason for the proposal

As mentioned in Proposal 4 above, I believe that the monitoring of management by your current three (3) Directors serving on the Audit and Supervisory Committee was insufficient from the viewpoint of the protection of shareholder value. I have found that we cannot leave the management monitoring to such current three (3) Directors serving on the Audit and Supervisory Committee, and therefore nominate Mr. Yuichi Kakinuma, Mr. Kosuke Ishii, and Ms. Megumi Utsu as candidates for Directors serving on the Audit and Supervisory Committee in order to realize <<Measures to address problems → Establish a management structure enabling prompt actions with shareholder governance>> as mentioned above. I believe that these three (3) persons have a number of qualities suitable for serving as Directors of the Company. The career summaries of the candidates are as described below in “Candidates for three (3) Directors in the shareholder proposal.”

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
1	Yuichi Kakinuma (Nov. 16, 1977)	<p>Apr. 2005 Joined the Legal Training and Research Institute, Supreme Court of Japan</p> <p>Jan. 2007 Registered as a member of Saitama Bar Association</p> <p>Jan. 2007 Joined Takashino Law Office (currently Takashino Kakinuma Law Office)</p> <p>Oct. 2010 Partner (to present)</p> <p>Jun. 2014 Substitute Auditor, TSUTSUMI JEWELRY Co., Ltd.</p> <p>Jun. 2015 Outside Director</p> <p>Jun. 2017 Outside Director (Audit and Supervisory Committee Member) (to present)</p>	2,383,500 shares
<p>[Reason for the nomination as candidate for Director serving on the Audit and Supervisory Committee]</p> <p>Mr. Yuichi Kakinuma has actively practiced as an attorney at law in a broad range of areas, and it is expected to receive his multifaceted advice on corporate legal affairs and compliance that he can offer from his specialist viewpoint. In addition, he is the largest shareholder of the Company and has many years of investment experience as an individual investor in bioventure. I believe that he is a suitable person to achieve shareholder corporate governance, and accordingly he has been nominated as a candidate for Director serving on the Audit and Supervisory Committee.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)		Number of shares of the Company held
2	Kosuke Ishii (Aug. 31, 1982)	Jan. 2005	Joined Arcadia Group Co., Ltd.	– shares
		Nov. 2005	Joined Shin Nihon & Co. (currently Ernst & Young ShinNihon LLC)	
Jun. 2008	Registered as certified public accountant			
Sep. 2013	General Manager, Administrative Department, Megakaryon Corporation (seconded)			
Mar. 2015	Joined Megakaryon Corporation			
Mar. 2018	Executive Officer, General Manager, Corporate Administrative Department			
Jul. 2019	Representative, Kosuke Ishii Accounting Office (to present)			
May 2020	Outside Auditor, Metagen Therapeutics, Inc. (to present)			
May 2020	Representative Director, BioAid Corporation (to present)			
	[Reason for the nomination as candidate for Director serving on the Audit and Supervisory Committee] Mr. Kosuke Ishii has experience in accounting audits at an audit firm, has considerable knowledge of finance and accounting as a certified public accountant, and can reflect his specialist viewpoint on accounting in the Company's auditing. In addition, he has achievements in establishing internal controls, etc. in bioventure. Accordingly, he has been nominated as a candidate for Director serving on the Audit and Supervisory Committee.			
3	Megumi Utsu (Sep. 26, 1960)	Apr. 1983	Joined Chugai Pharmaceutical Co., Ltd.	– shares
		Jun. 2010	Deputy General Manager, Oncology Lifecycle Management Department, Project Lifecycle Management Unit	
Dec. 2006	General Manager, Oncology Lifecycle Management Department, Project Lifecycle Management Unit			
	[Reason for the nomination as candidate for Director serving on the Audit and Supervisory Committee] Ms. Megumi Utsu has played the leading role in the R&D and lifecycle management at Chugai Pharmaceutical Co., Ltd., including tocilizumab (Actemra) and alectinib hydrochloride, which is selective ALK (anaplastic lymphoma kinase) inhibitor. Although she has never been directly involved in the corporate management, I expect her to appropriately perform her duties such as monitoring of corporate management and giving advice from an objective perspective with independence and fairness based on her high level of expertise and insight. Accordingly, she has been nominated as a candidate for Director serving on the Audit and Supervisory Committee.			

Opinion on proposal 5 of the Board of Directors

The Board of Directors objects to this proposal.

The reasons for objecting to Proposal 5, Election of Three (3) Directors Serving on the Audit and Supervisory Committee, are as follows:

Audit and Supervisory Committee Member is not in a position by nature to engage in the execution of businesses such as IR (investor relations) and corporate strategic planning but is in a position to supervise divisions to execute businesses from the standpoint that Audit and Supervisory Committee Member has no authority to execute the business. As audits are conducted to testify whether executive directors perform the execution of their duties properly, it is extremely crucial for the Audit and Supervisory Committee Members to maintain their independence from and impartiality in the divisions to execute business in order to ensure the effectiveness of the audits. Although the largest shareholder of the Company is nominated as a candidate in this proposal, by taking into account the influence over the business execution imposed by the large shareholder, we believe that such a largest shareholder becoming an Audit and Supervisory Committee Member may distort the independence from and impartiality in the divisions to execute business. Besides, there is a concern of doubt as to whether a person as the largest shareholder, who can exert significant influence over the business execution, could make appropriate judgments in consideration of the interests of various stakeholders of the Company, including minority shareholders and employees, who have opinions and visions contrary to those the largest shareholder has.

Furthermore, as stated in “Opinion of on proposal 4 of the Board of Directors,” the monitoring of management by the current Audit and Supervisory Committee is sufficient from the standpoint of the protection of shareholder value, and the Board of Directors finds no reason to dismiss the current three (3) Directors serving on the Audit and Supervisory Committee. Since there is no need or justifiable ground for the dismissal, the election of three (3) new Directors serving on the Audit and Supervisory Committee is not necessary at present. If the candidates under the shareholder proposal were to be elected in addition to the current Directors serving on the Audit and Supervisory Committee, the Audit and Supervisory Committee would unnecessarily expand, causing the outflow of the Company’s assets. Therefore, the Company’s Board of Directors objects to this proposal.

Opinion on proposal 5 of the Audit and Supervisory Committee

The Audit and Supervisory Committee objects to this proposal.

1) The largest shareholder becoming an Audit and Supervisory Committee Member is inappropriate from the standpoint of independence for the Company

As Audit and Supervisory Committee Members and Outside Directors assume their roles to supervise management members, they are prohibited from executing business. Their execution of business would result in “supervising themselves,” and hence Audit and Supervisory Committee Members and Outside Directors are expected to supervise the execution of business by management members from an independent and impartial position. Moreover, the Audit and Supervisory Committee is also in a position to conduct “audits,” independently. The independence is protected under the Companies Act, which requires a majority of the Audit and Supervisory Committee consists of Outside Directors whose terms of office (two (2) years) longer than those of other Directors, with granted rights such as a right to consent to (or a right to veto over) a proposal that the Board of Directors submits to the General Meeting of Shareholders on the election of Audit and Supervisory Committee Members.

The “independence from management members” synonymously means Audit and Supervisory Committee Members “not being in a position to be influenced by management members,” “not being in a position to influence management members,” in addition to “prohibited from their execution of business.” Article 8, Paragraph 2 of the Standards on Audits, etc., by the Audit and Supervisory Committee of the Company stipulates a criterion, in selecting candidates for Audit and Supervisory Committee Member, of “whether independence from executives is ensured” among other criteria.

In addition, Article 3, Paragraph 4 of the same Standards states that “Audit and Supervisory Committee Members shall maintain independence, keep fair and neutral stance at all times, and act based on their own principles.” The “independence” herein mentioned includes a perspective of “independence maintained by the absence of corresponding own economic interests,” which shall be differentiated from the “independence from management members.”

A largest individual shareholder, who holds more than 2.38 million shares of the Company with 11.38% of the voting rights prominent in the shareholder composition of the Company, and has significant economic interests, to become an Audit and Supervisory Committee Member is inappropriate from the perspective of the independence mentioned herein. Furthermore, there are no special circumstances (e.g., a venture company akin to a startup or a company owned by the family of its founder) to justify such a largest individual shareholder becoming the Audit and Supervisory Committee Member. In particular, the Audit and

Supervisory Committee believes the concern due to the independence perspective of “not being in a position to influence management” is significant.

The shareholder proposal states the reason that “the largest shareholder should assume the post of Director serving on the Audit and Supervisory Committee, and Outside Directors should make up the majority of the Board of Directors, from the viewpoint of shareholder governance.”

However, the Audit and Supervisory Committee considers the phrase, “shareholder governance,” should be differentiated from the meaning of corporate governance.

The Audit and Supervisory Committee regards corporate governance as “systematic management of a company as a whole,” taking into consideration the stance of shareholders and other stakeholders in light of the current conditions of a company. Taking into consideration the Company’s scale and the current conditions of its growth phase, the largest shareholder becoming the Audit and Supervisory Committee Member is inappropriate from the standpoint of the independence of Audit and Supervisory Committee Members as stated above, and will consequently diminish the effects of “systematic management of a company as a whole.”

2) Two (2) candidates for Audit and Supervisory Committee Member other than the largest shareholder

Although the Audit and Supervisory Committee has requested to have an interview with the said two (2) candidates for Audit and Supervisory Committee Member through the largest shareholder on February 9, 2021, the Audit and Supervisory Committee has yet to receive any response as of the date of this resolution (February 19, 2021). Accordingly, the Audit and Supervisory Committee does not have sufficient information to assess the aptitude of the two (2) candidates for Audit and Supervisory Committee Member at present.

Proposal 6: Dismissal of One (1) Substitute Director Serving on the Audit and Supervisory Committee

Description of the proposal

It is proposed that one (1) substitute Director serving on the Audit and Supervisory Committee be dismissed.

Reason for the proposal

As preparation for situations where the number of incumbent Directors serving on the Audit and Supervisory Committee does not satisfy the number prescribed by laws and ordinances, it is necessary that one (1) substitute Director serving on the Audit and Supervisory Committee be elected as a substitute in advance for all of the Directors serving on the Audit and Supervisory Committee. As the election of three (3) new Directors serving on the Audit and Supervisory Committee is proposed as stated in Proposal 5 above, and a candidate for the said substitute must be elected with the consent of three (3) new Directors serving on the Audit and Supervisory Committee, it is proposed that one (1) substitute Director serving on the Audit and Supervisory Committee be dismissed.

Opinion on proposal 6 of the Board of Directors
Opinion on proposal 6 and proposal 7 of the Board of Directors is as stated in page 30.

Opinion on proposal 6 of the Audit and Supervisory Committee
Opinion on proposal 6 and proposal 7 of the Audit and Supervisory Committee is as stated in page 30.

Proposal 7: Election of One (1) Substitute Director Serving on the Audit and Supervisory Committee

Description of the proposal

It is proposed that one (1) substitute Director serving on the Audit and Supervisory Committee be elected.

Reason for the proposal

As preparation for situations where the number of incumbent Directors serving on the Audit and Supervisory Committee does not satisfy the number prescribed by laws and ordinances, it is proposed that one (1) substitute Director serving on the Audit and Supervisory Committee be elected as a substitute in advance for all of the Directors serving on the Audit and Supervisory Committee. The consent of all of the candidates for Directors serving on the Audit and Supervisory Committee stipulated in Proposal 5 has been obtained for this proposal.

Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
Akira Takagi (Oct. 7, 1983)	Apr. 2009 Joined PricewaterhouseCoopers Aarata (currently PricewaterhouseCoopers Aarata LLC) Oct. 2014 Joined Sato Sogo Law Office Jan. 2015 External Audit & Supervisory Board Member, i-mobile Co., Ltd. (to present) Aug. 2017 Head, Takagi Certified Public Accountant Office (to present) Jul. 2018 Representative Director, Stradia Co., Ltd. (to present) Mar. 2019 Outside Corporate Auditor, bitbank, inc. (to present) Nov. 2019 Outside Auditor, REXEV Inc. (to present) Mar. 2020 Outside Auditor, LPIXEL Inc. (to present)	– shares
[Reason for the nomination as candidate for substitute Director serving on the Audit and Supervisory Committee] Mr. Akira Takagi has experience in accounting audits at an audit firm, and has considerable knowledge of finance and accounting as a certified public accountant. It is judged that he will be able to audit the execution of duties of the Company's Directors from an objective standpoint based on his knowledge and experience. Accordingly, he has been nominated as a substitute Director serving on the Audit and Supervisory Committee.		

Opinion on proposal 6 and proposal 7 of the Board of Directors

The Board of Directors objects to both Proposal 6 and Proposal 7.

Firstly, the Company's current substitute Director serving on the Audit and Supervisory Committee (one (1) Director) has expressed his intention to resign from the said post as of the start of this Ordinary General Meeting of Shareholders. Accordingly, there is no need to dismiss the substitute Director serving on the Audit and Supervisory Committee.

Furthermore, as stated above, the dismissal of the current three (3) Directors serving on the Audit and Supervisory Committee in this proposal has no reason. Accordingly, the candidate for substitute Director serving on the Audit and Supervisory Committee, to be elected in preparation for a situation where there is a vacancy for the position of the Audit and Supervisory Committee Member, should be a person who has received the consent of the Audit and Supervisory Committee, which comprised of the current Directors serving on the Audit and Supervisory Committee. Considering that the election of a candidate in this proposal as Director serving on the Audit and Supervisory Committee would significantly hinder the effectiveness of the audit operations of the Company and jeopardize the Company's interests, there is no reason to elect the candidate who has received the consent of the candidate for Director serving on the Audit and Supervisory Committee in this proposal as the substitute Audit and Supervisory Committee Member. Therefore, the Board of Directors objects to both Proposal 6 and Proposal 7.

Opinion on proposal 6 and proposal 7 of the Audit and Supervisory Committee

The Audit and Supervisory Committee objects to both Proposal 6 and Proposal 7.

The reason is same as "Opinion on proposal 6 and proposal 7 of the Board of Directors" stated above.

Consolidated Financial Statements

Consolidated Balance Sheet

(Thousands of yen)

Account title	13th Fiscal Year (As of December 31, 2020)	Account title	13th Fiscal Year (As of December 31, 2020)
Assets		Liabilities	
Current assets	2,834,232	Current liabilities	186,662
Cash and deposits	1,394,128	Accounts payable - trade	41,830
Accounts receivable - trade	530,818	Lease obligations	18,281
Securities	719,418	Accounts payable - other	52,666
Supplies	6,540	Accrued expenses	49,868
Advance payments - trade	36,412	Income taxes payable	20,882
Prepaid expenses	50,243	Deposits received	3,133
Other	96,671	Non-current liabilities	53,443
Non-current assets	1,417,002	Lease obligations	27,238
Property, plant and equipment	332,967	Asset retirement obligations	12,031
Buildings	153,242	Deferred tax liabilities	14,173
Tools, furniture and fixtures	871,764	Total liabilities	240,106
Leased assets	49,069	Net assets	
Accumulated depreciation	(741,109)	Shareholders' equity	3,994,407
Intangible assets	33,005	Share capital	2,255,401
Trademark right	4,439	Capital surplus	2,445,184
Software	27,927	Retained earnings	(706,157)
Other	639	Treasury shares	(21)
Investments and other assets	1,051,029	Accumulated other comprehensive income	4,809
Investment securities	1,037,601	Valuation difference on available-for-sale securities	4,809
Deferred tax assets	2,959	Share acquisition rights	11,912
Other	10,468	Total net assets	4,011,129
Total assets	4,251,235	Total liabilities and net assets	4,251,235

(Note) Figures less than one thousand yen are rounded down to the nearest thousand.

Consolidated Statement of Income

(Thousands of yen)

Account title	13th Fiscal Year (January 1, 2020 to December 31, 2020)
Business revenue	1,107,301
Business expenses	1,593,379
Cost of business revenue	138,012
Research and development expenses	932,451
Other selling, general and administrative expenses	522,915
Operating loss	(486,078)
Non-operating income	34,660
Interest income	3,593
Interest on securities	28,144
Other	2,923
Non-operating expenses	76,237
Interest expenses	436
Foreign exchange losses	75,645
Other	154
Ordinary loss	(527,654)
Extraordinary income	9,180
Gain on sales of non-current assets	750
Gain on sales of investment securities	8,430
Extraordinary losses	9,466
Impairment loss	2,542
Loss on sales of investment securities	348
Loss on redemption of investment securities	6,575
Loss before income taxes	(527,941)
Income taxes - current	84,469
Income taxes - deferred	(5,425)
Loss	(606,985)
Loss attributable to owners of parent	(606,985)

(Note) Figures less than one thousand yen are rounded down to the nearest thousand.

Consolidated Statement of Changes in Equity
(13th Fiscal Year from January 1, 2020 to December 31, 2020)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,254,943	2,444,726	(99,172)	(21)	4,600,476
Changes of items during period					
Issuance of new shares	458	458			916
Loss attributable to owners of parent			(606,985)		(606,985)
Net changes of items other than shareholders' equity					–
Total changes of items during period	458	458	(606,985)	–	(606,068)
Balance at end of current period	2,255,401	2,445,184	(706,157)	(21)	3,994,407

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of current period	7,906	7,906	12,265	4,620,647
Changes of items during period				
Issuance of new shares		–		916
Loss attributable to owners of parent		–		(606,985)
Net changes of items other than shareholders' equity	(3,096)	(3,096)	(352)	(3,449)
Total changes of items during period	(3,096)	(3,096)	(352)	(609,518)
Balance at end of current period	4,809	4,809	11,912	4,011,129

(Note) Figures less than one thousand yen are rounded down to the nearest thousand.