

Note: This document has been translated from a part of the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the Japanese original shall prevail.

(Securities code: 4597)

March 14, 2019

To Our Shareholders:

Yoshihiro Arai,
President and Chief Executive Officer
Solasia Pharma K.K.
4F, SUMITOMO FUDOSAN SHIBA-
KOEN TOWER, 2-11-1, Shiba-koen,
Minato-ku, Tokyo

Notice of the 11th Annual General Meeting of Shareholders

You are cordially invited to attend the 11th Annual General Meeting of Shareholders of Solasia Pharma K.K. (the “Company”), which will be held as described below.

If you are unable to attend the meeting in person, you can exercise your voting rights by either of the following methods. Please exercise your voting rights after reviewing the enclosed reference documents concerning the General Meeting of Shareholders.

[Voting by mail]

Please indicate your approval or disapproval of the proposals in the enclosed voting form and return it so that your vote is received by 5:30 p.m. on Thursday, March 28, 2019 (JST).

[Voting via the Internet]

Please access the website for the exercise of voting rights specified by the Company (<https://evote.tr.mufg.jp/>), enter the “login ID” and the “temporary password” printed in the enclosed voting form and follow the guidance on the screen to cast your vote of approval or disapproval by 5:30 p.m. on Thursday, March 28, 2019 (JST).

Please refer to the “Guide to Exercising Voting Rights via the Internet” on page 3 for further details.

- 1. Date and Time:** Friday, March 29, 2019, at 10:00 a.m. (Reception starts at 9:30 a.m.) (JST)
- 2. Venue:** NEW PIER HALL
1F, New Pier Takeshiba North Tower, 1-11-1, Kaigan, Minato-ku, Tokyo

3. Purpose of the Meeting:

Matters to be reported

The business report, consolidated financial statements and non-consolidated financial statements for the 11th fiscal year (from January 1, 2018 to December 31, 2018) and the results of audits concerning consolidated financial statements made by independent auditors and the Audit & Supervisory Board

Matters to be resolved

- Proposal No. 1:** Election of Six (6) Board Directors
- Proposal No. 2:** Election of One (1) Audit & Supervisory Board Member
- Proposal No. 3:** Reduction in Amounts of Capital stock

- When you attend the meeting, you are kindly requested to submit the enclosed voting form at reception. Please note that anyone who is not entitled to exercise voting rights, such as non-shareholding proxy and person accompanying the shareholder will not be allowed to enter the venue.
Please also bring this notice for your reference.
- If the reference documents for the General Meeting of Shareholders, the business report, the consolidated financial statements and the non-consolidated financial statements are to be revised, the Company shall post the revised content on the Company's website (<https://www.solasia.co.jp>).

Guide to Exercising Voting Rights via the Internet

If you exercise your voting rights via the Internet, please read carefully and make sure you understand the following matters.

If you intend to attend the Annual General Meeting of Shareholders, you do not need to exercise your voting rights either by mail (the voting form) or via the Internet.

1. Voting rights website and exercising your voting rights

- (1) To exercise your voting rights via the Internet, please access the website (“Voting Site”) specified by the Company (<https://evote.tr.mufg.jp/>) using a computer, a smartphone or a mobile phone (i-mode, EZweb or Yahoo! Keitai)*. You can exercise your voting rights via the Internet only by accessing this voting site (Please be advised that this voting site cannot be accessed each day from 2:00 a.m. to 5:00 a.m. [JST]).
* i-mode, EZweb and Yahoo! are trademarks or registered trademarks of NTT DOCOMO, INC., KDDI CORPORATION and Yahoo! Inc. in the U.S., respectively.
- (2) Please be aware that, depending on your Internet environment, you may not be able to access this voting site (e.g., if you connect to the Internet via a firewall, have anti-virus software installed, use a proxy server, or if you don’t choose TLS encrypted communication, etc.).
- (3) To exercise your voting rights via mobile phone, please use either i-mode, EZweb, or the Yahoo! Keitai service. To ensure security, the voting site is not compatible with any models that do not enable TLS encrypted communication and transmission of terminal ID information.
- (4) You can exercise your voting rights on the voting site until 5:30 p.m. on Thursday, March 28, 2019 (JST). However, we respectfully request that you exercise your voting rights at your earliest convenience.

2. Exercising your voting rights on the Voting Site

- (1) Please access the voting site to exercise voting rights (<https://evote.tr.mufg.jp/>), use the “login ID” and the “temporary password” printed in the voting form and follow the guidance on the screen to cast your vote of approval or disapproval.
- (2) Please note that, in order to prevent illegal online access (impersonation) and falsification from non-shareholders, you will be requested to change your “temporary password” on the voting site.
- (3) You will be given a new “login ID” and “temporary password” every time a General Meeting of Shareholders is convened.

3. Multiple exercise of voting rights

- (1) Please note that your vote through the voting site shall take precedence if you exercise your voting rights both by mail and through the voting site.
- (2) If you exercise your voting rights more than once on the voting site, the last exercise shall be prioritized. In addition, if you exercise your voting rights through multiple devices, the last vote shall be prioritized.

4. Fees incurred when accessing the voting rights website

Any fees (including connection fees to Internet providers, etc.) incurred when accessing the voting rights website shall be borne by shareholders. Similarly, if voting via a mobile phone, etc., any connection charges or other fees arising from the use of the mobile phone, etc. shall be borne by shareholders.

[Attachment]

Business Report

(From January 1, 2018 to December 31, 2018)

1. Current status of the Group

(1) Business progress and results

(i) Overview of business

(ii) The Company is both a specialty pharma company, specializing in the development and commercialization of products in the oncology domain, and a type of biotechnology venture company. Clinical trials and other evaluations associated with research and development for pharmaceutical and other related products require a large amount of upfront investment. They also tend to be conducted over medium to long periods of time, requiring equivalent periods of time for the securing of revenue and the collection of investment capital. Since its founding, the Company has undertaken the development of four candidate pharmaceutical products and, as a result of its upfront investment in these pipeline products, obtained official approval for two of them. One of these approved products was released onto the Japanese market in 2018 while the other is slated for launch in China in 2019. Meanwhile, the remaining two pipeline products have both reached the final stages of their clinical trials, and, if the trials are successful, the Company will send approval applications to the related authorities. The Company is aware that the aforementioned product launches are a starting point for collecting investment capital, but it is still conducting upfront investment for its entire business to compensate for the multiple final-stage clinical trials that are currently underway. The Company is still making these investments because the final stages of clinical trials typically require larger amounts of investment than any other phase of research and development for pharmaceutical and other related products.

The United States is home to numerous successful biopharma venture companies, the majority of which post losses on a single-year basis. According to research by Solasia Pharma, of the companies that make up the NASDAQ Biotechnology Index, 105 companies have market capitalization of more than 100 billion yen. Of those, 78 are posting operating losses as of January 28, 2019. We believe that this situation exists because the market places more importance on making proactive upfront investments in promising drug development than on assessing these companies on the basis of their single-year gains and losses. At present, the Company is operating in accordance with this sort of business strategy.

During the fiscal year under review, the Company concentrated on the progress of its four pipeline products (development codes: SP-01, SP-02, SP-03, SP-04) and on the establishment of an independent sales structure for SP-01 and SP-03 in China. The key circumstances involving these four products are explained in detail below:

■ SP-01 Sancuso®

Granisetron transdermal delivery system (Indication: chemotherapy-induced nausea and vomiting)

Current status

- We have rights in China, Hong Kong, Macau, Taiwan, Malaysia and Singapore. We out-licensed rights to Kyowa Hakko Kirin in Hong Kong, Macau, Taiwan, Malaysia and Singapore.
- We obtained approval from the Chinese authorities in July 2018 and are currently preparing for sales, as outlined below.

Product manufacturing

- We have completed final commercial product manufacturing for launch.

Building of distribution channels

- We have entered into an agency agreement for sales in China with Itochu Corporation (hereinafter “Itochu”) and have built sales channels utilizing Itochu and the Itochu Group.
- The Company is conducting independent sales in Beijing, Shanghai and Guangzhou where it is also building the sales structure described below.
- In other parts of China, the Company is preparing for launch in accordance with sales and licensing agreements with Lee’s Pharmaceutical (HK) Limited (hereinafter “Lee’s”).

- The Company's direct sales partner is Itochu. We commenced initial product shipments to Itochu in November 15, 2018.

Plans

- We expect to conduct launches in the first quarter of the fiscal year ending December 31, 2019.

■ SP-02 darinaparsin

Mitochondria-targeted apoptosis inducer (Expected indication: peripheral T-cell lymphoma)

Current status

- We have worldwide rights.
- We out-licensed rights to Meiji Seika Pharma Co., Ltd. (hereinafter "Meiji") in Japan and to HB Human BioScience SAS in Latin America.
- This product is currently undergoing a multinational phase II clinical study on patients with relapsed or refractory peripheral T-cell lymphoma in Japan, South Korea, Taiwan and Hong Kong.
- Following discussions with the Pharmaceuticals and Medical Devices Agency (PMDA), the Company considers this clinical study to be the final study before New Drug Application (NDA). As of today, patient enrollment has reached about 90% of the target number.

Plans

- The Company expects to close this clinical study in 2019. If the results of this clinical study are successful, we plan to apply to the relevant authorities for NDA in 2020.

Expansion of indications

- Currently, the Company is conducting non-clinical studies on other hematologic cancers.

■ SP-03 episil[®]

For the management and relief of oral pain associated with oral mucositis/stomatitis caused by chemotherapy and radiotherapy (Indication: oral mucositis/stomatitis caused by chemotherapy and radiotherapy)

- We have rights in Japan, China and South Korea.

Current status in Japan

- We obtained approval from the Japanese authorities in 2017 and Meiji began selling the product in May 2018, based on a corresponding License and collaboration agreement.

Current status in China

- We obtained approval from the Chinese authorities in February 2019 and are currently preparing for sales.

Building distribution channels

- As is the case with SP-03, we have entered into an agency agreement for sales in China with Itochu and have built sales channels utilizing Itochu and the Itochu Group.
- The Company is conducting independent sales in Beijing, Shanghai and Guangzhou, where it is also building the sales structure described below.
- In other parts of China, the Company is preparing for sales in accordance with sales and other licensing agreements with Lee's.

China plans

- We plan to launch in 2019.

Current status in South Korea

- Exclusive development and marketing rights for South Korea were obtained in August 2018, and we are currently preparing to apply for approval to the relevant authorities.

South Korea plans

- We plan to apply to authorities for approval in 2019.

■ SP-04 PledOx[®]

Intracellular superoxide removing agent (Expected indication: chemotherapy-induced peripheral neuropathy)

We have rights in Japan, China, South Korea, Hong Kong and Macau.

Current status

- We initiated a multinational phase III clinical study in December 2018.

Plans

- We plan to complete the multinational phase III clinical study in 2020.

■ Building of an independent sales structure in China

Independent sales strategy

- Within China, the Company plans to conduct independent sales and marketing activities for SP-01 and SP-03 in Beijing, Shanghai and Guangzhou in the interest of maximizing profits from product sales and controlling fixed costs.

Organization of personnel

- We have appointed the following three business directors and are building a foundation for an independent sales structure. We have also recruited product managers for each product, a medical manager to take charge of post marketing surveillance and other key members. Furthermore, we are establishing an independent sales framework comprising about 30 medical representatives (MRs), with about 10 each stationed in Beijing, Shanghai and Guangzhou.

General manager of Chinese business

Career history: Formerly the head of oncology at Roche in China and a medical doctor (formerly at the Shanghai Ninth People's Hospital attached to the Shanghai Jiao Tong University School of Medicine)

Marketing director of our subsidiary in China:

Career history: Formerly at Roche, BMS and Sanofi and a medical doctor (formerly in ER at Shanghai General Hospital)

Sales director of our subsidiary in China:

Career history: Formerly at Roche and BI and a medical doctor (formerly Cardiac Surgeon at Suzhou Municipal Hospital)

Bases

- Solasia Medical Information Consulting (Shanghai) Co. Ltd., a wholly owned subsidiary, is taking charge of the Company's sales activities in China.
- The Company has completed the establishment of bases in Shanghai, Beijing and Guangzhou.

We made progress in terms of the aforementioned development pipeline, launching pipeline product SP-03 in Japan during May 2018 and gaining approval for pipeline product SP-01 in China in July 2018 and pipeline product SP-03 in China in February 2019. In addition, we continue to make upfront investments, including those in support of promoting clinical trials for pipeline products SP-02 and SP-04. Given these circumstances, our financial performance during the fiscal year ended December 31, 2018, was as follows:

As with the previous fiscal year, we once again incurred both operating loss and loss during the fiscal year under review, with respect to which our financial performance: revenue for the fiscal year under review amounted to 318 million yen (410 million yen in the previous fiscal year), while operating loss amounted to 2,420 million yen (compared with an operating loss of 1,009 million yen in the previous fiscal year), loss before tax amounted to 2,445 million yen (compared with a loss before tax of 1,016 million yen in the previous fiscal year) and loss amounted to 2,422 million yen (compared with a loss of 1,007 million yen in the previous fiscal year). Revenue mainly consists of sales and milestone revenue from pipeline products SP-03 and SP-01. Pipeline investment amounted to 1,649 million yen. This figure includes 185 million yen in development costs recorded as intangible assets and 1,463 million yen in R&D expenses. However, manufacturing and sales triggered amortization of intangible assets related to the Japanese business for pipeline product SP-03, while amortization of intangible assets related to pipeline product SP-01 commenced as order acceptance began based on regulatory approval, leading to amortization of 148 million yen.

(iii) Future outlook

Based on the following business progress, we forecast that for the fiscal year ending December 31, 2019, revenue will range from 500 million to 1.7 billion yen, and operating loss, loss before tax and final loss will each range from 2.0 billion to 3.0 billion yen.

1) Business progress on pipeline products

SP-01 China: Launch (planned for first quarter of 2019)

SP-02 Japan, other: Conclusion of multinational phase II clinical study (pivotal study) (planned for 2019)

SP-03 Japan: Launched

SP-03 China: Launch (expected for second half of 2019)

SP-04 Japan, other: Move forward on multinational phase III clinical study (scheduled to conclude in 2020)

2) Key assumptions behind the revenue forecast (500 million yen to 1.7 billion yen)

- As a result of development investments, we expect to generate revenue from product sales of SP-03 (Japan), which launched in the fiscal year ended December 31, 2018, and the launch of SP-01 and SP-03 in China. However, we believe the extent of market penetration achieved in the initial phase of sales will most likely remain limited relative to the potential size of the market.

- We also anticipate some revenues from the out-licensing of pipeline products, including from the partial out-licensing of SP-02 and SP-04, etc.

3) Key assumptions behind the operating expense forecast (3.5 billion to 3.7 billion yen)

- We will incur cost of sales due to product sales of SP-01 and SP-03.

- For SP-01 and SP-03, we will operate an independent sales structure in China and invest in marketing activities, including post-marketing surveillance.

- We will continue investing in a phase II clinical study on SP-02, which we consider to be a pivotal study, prior to applying for approval.

- We will continue investing in a phase III clinical study on SP-04, which we consider to be a pivotal study, prior to applying for approval.

- With the commencement of SP-01 and SP-03 sales, we will incur amortization expenses on intangible assets for the full year. However, as we have recorded the corresponding cash outflow in previous fiscal years, no cash outflow will occur in the fiscal year ending December 31, 2019.

Because the overall Group expects to continue making upfront investments as described above, we forecast operating loss, loss before tax and final loss of between 2.0 billion and 3.0 billion yen each.

(iv) Status of capital investment

No items to report.

(v) Status of financing

On September 12, 2018, the Company procured funds amounting to 3,257 million yen through the issue of new shares by public offering to cover the development cost of a multinational phase III clinical study of SP-04.

As of December 31, 2018, the Company's financing limit was 3.5 billion yen based on agreements with domestic banks, and none of this limit was currently in use.

(2) Changes in assets and profit (loss)

(i) Status of assets and profit (loss) of the Group (under International Financial Reporting Standards)

[IFRS])

(Millions of yen)

Classification	8th fiscal year ended December 31, 2015	9th fiscal year ended December 31, 2016	10th fiscal year ended December 31, 2017	11th fiscal year ended December 31, 2018 (Fiscal year under review)
Revenue	229	501	410	318
Loss attributable to owners of parent	(643)	(474)	(1,007)	(2,422)
Basic loss per share (Yen)	(24.83)	(18.46)	(12.24)	(25.98)
Total assets	4,119	3,704	6,655	7,728
Total equity	998	3,433	6,208	7,087

Note: The above amounts are based on the consolidated financial statements, which are prepared under International Financial Reporting Standards (IFRS).

(ii) Status of assets and profit (loss) of the Company (under Japanese GAAP)

(Millions of yen)

Classification	8th fiscal year ended December 31, 2015	9th fiscal year ended December 31, 2016	10th fiscal year ended December 31, 2017	11th fiscal year ended December 31, 2018 (Fiscal year under review)
Net sales	229	501	410	318
Loss	(1,380)	(1,058)	(1,565)	(2,532)
Loss per share (Yen)	(42.92)	(31.46)	(19.03)	(27.16)
Total assets	2,140	1,161	3,588	4,589
Net assets	(944)	960	3,213	3,970

(3) Status of parent company and significant subsidiaries

(i) Status of the parent company

Not applicable.

(ii) Status of significant subsidiaries

Solasia Medical Information Consulting (Shanghai) Co. Ltd. (wholly-owned subsidiary)

(4) Issues to be addressed

The Group is an enterprise that specializes in the sale and development of drugs and other such products and accordingly engages in management concerning the following issues to be addressed.

(i) Progress in development of existing pipelines

The Group's future earnings hinge upon the success of pipeline development. Accordingly, we recognize it is critical for the Group to develop products, conduct clinical studies and obtain approvals in order to increase corporate value. Please refer to "1. (1) (i) Overview of business for information regarding the current status of development.

(ii) Management of marketing activities and marketing organization in China

The Group partly out-licenses product marketing and partly conducts marketing in-house, as a means of gaining profits in China. Proper management of marketing activities and related organizational structures is of key importance in terms of our marketing business model, and involves establishing brand images of the Group's products through our marketing teams, and working in conjunction with our regulatory affairs section, particularly when corresponding with regulatory authorities on matters regarding our products. With the Company's Chinese subsidiary

having established a marketing organization in the major cities of Beijing, Shanghai and Guangzhou, we are poised to consistently generate sales volume through marketing activities that adhere to China's regulations and business practices. Furthermore, we are planning a marketing strategy throughout China based on close communication with our licensors and accordingly aim to promote sales by sharing the same strategy with our partners.

(iii) Expansion of new pipeline

For the Group, a full pipeline is directly linked with corporate value and also greatly affect future profits. As a business model, the Group out-licenses product marketing to partners while simultaneously conducting in-house marketing and achieves added value through product development, which includes clinical studies. To make the most of clinical development functions, the Group's primary strength, we aim to achieve proper portfolio balance spanning from the early stages of development just before the initiation of clinical studies through the late stages of development just before approval. In addition, the Group will actively engage in efforts geared toward discovery of candidates for new drug development, especially in anti-malignant tumor drug and cancer supportive drug fields, and medical devices that show promise for contributing to the overall treatment of cancer.

(iv) Building strong partnerships

The Group's business model for gaining profits on internally developed products involves both out-licensing product marketing to partners and conducting internal marketing. Accordingly, it is extremely important that we license commercial rights to, and maintain solid partnership with, strong and trustworthy partners that have sales networks established in their countries/territories. In order to develop and enhance this earnings structure, the Group will actively promote collaboration with partners that have achieved good performance in respective fields of business.

(v) Strengthening the organization

The Group endeavors to hire and place staff members in each section who have knowledge, experience and management in their fields. Meanwhile, it is important that we properly increase the workforce and form an efficient organization in order to address an increasing volume of development activity brought about by pipeline expansion, as well as an increasing volume of marketing and sales activity in China. The Group strives to act as an entity that continually satisfies the expectations of its shareholders. Accordingly, we recognize that this entails maintaining a well-balanced workforce, in which job assignments are decided regardless of age or gender and accumulated knowledge and experience are passed to following generations. The Group will set its sights on building up its organization using a small staff of experts, rather than pursuing efforts geared toward increasing the size of the organization. In doing so, we will take active steps that entail securing the requisite workforce, training employees and strengthening the organization from a medium- to long-term perspective. In addition, alliances that involve collaboration between the Group's staff members, outside specialists and external mandated organizations are an essential aspect of implementing the Group's business model. Going forward, we will assemble optimal teams primarily comprising talent from the Group, focusing our efforts on building partnerships, particularly with specialists and organizations with superior levels of expertise.

(vi) Strengthening internal controls

The Group works to implement and sustain its business model. To that end, we will remain mindful of appropriateness, efficiency, corporate ethics and compliance in doing business, while maintaining an awareness of how these considerations relate to the Group's business and corporate scale. At the same time, with the aim of acting as a company that continually satisfies the expectations of its stakeholders, we will remain steadfastly committed to implementing internal controls, particularly those involving risk management and compliance practices.

(vii) Financing

As noted earlier, we must strengthen our pipeline in order to increase our corporate value. With this in mind, we need a certain funds for finance advance investment, particularly to cover development expenses and in-licensing expenses.

The Group has been procuring funds by sub-licensing products to pharmaceutical companies and issuing new shares. Going forward, we will continue to consider fundraising options geared toward strengthening our operating infrastructure, while also taking steps to ensure that our business activities continue unimpeded.

(5) Principal business (as of December 31, 2018)

The Group engages in drug development, specializing in the field of oncology.

(6) Principal offices (as of December 31, 2018)

(i) The Company

Headquarters: Minato-ku, Tokyo

(ii) Subsidiary

Solasia Medical Information Consulting (Shanghai) Co. Ltd.

Headquarters: Shanghai, China

Beijing Office: Beijing, China

Guangzhou Office: Guangzhou, China

(7) Status of employees (as of December 31, 2018)

Status of employees of the Group

Number of employees	Changes from the end of previous fiscal year	Average age	Average service years
31 (1)	Increase by 10 (Decrease by 1)	43.0	3.0

Note: "Number of employees" indicates the number of full-time employees (incl. those seconded from outside the Company), excluding the number of part-time and temporary employees (indicated in parentheses).

(8) Status of borrowings (as of December 31, 2018)

No items to report.

(9) Other significant matter regarding current status of the Group

No items to report.

2. Status of shares (as of December 31, 2018)

- | | | |
|---------------------------------------|-----------------|--------------------|
| (1) Total number of authorized shares | Ordinary shares | 165,000,000 shares |
| (2) Total number of issued shares | Ordinary shares | 105,022,169 shares |
| (3) Number of shareholders | Ordinary shares | 27,662 |
| (4) Major Shareholders | | |

Name of shareholders	Number of shares held	Shareholding ratio (%)
	Ordinary shares	
ITOCHU Corporation	22,850,943	21.75
Meiji Seika Pharma Co., Ltd.	3,833,048	3.64
Lee's Pharmaceutical Holdings Limited	2,254,722	2.14
MSIVC2012V Venture Capital Limited Partnership	1,234,295	1.17
Kyoto Corporation	951,807	0.90
Matsui Securities Co., Ltd	752,200	0.71
SBI SECURITIES Co., Ltd.	680,100	0.64
Yoshihiro Arai	538,302	0.51
Deutsche Bank AG London 610	526,600	0.50
Nomura Securities Co., Ltd	524,137	0.49

Notes: 1. The Company does not hold treasury shares. Trust & Custody Services Bank, Ltd. (Trust Account) currently retains 320,000 Company shares that are not included in treasury stock as trust assets under a Japanese employee stock ownership plan (J-ESOP) system.

2. Lee's Pharmaceutical Holdings Limited is listed in the shareholder registry under a different name. However, the Company understands that Lee's Pharmaceutical Holdings Limited purchases shares in the Company through the entity listed in the shareholder registry. Therefore, the Company includes its name in the above list.

(5) Other significant matters regarding shares

- The total number of issued shares of the Company increased by 14,782,700 shares through issuance of new shares by means of public offering with a paid-in date of September 12, 2018.
- The total number of issued shares of the Company increased by 2,485,566 shares through exercise of share acquisition rights.

3. Status of share acquisition rights

- (1) Status of share acquisition rights granted to and held by officers of the Company as considerations for performance of duties (as of December 31, 2018)

		No. 4 Share acquisition rights	No. 5 Share acquisition rights
Date of resolution on issuance		September 10, 2012	July 31, 2013
Total number of share acquisition rights granted		237,000 units	1,225,600 units
Class and number of shares to be issued upon exercise of share acquisition rights		Ordinary shares: 237,000 shares (1 share per unit of share acquisition rights)	Ordinary shares: 1,225,600 shares (1 share per unit of share acquisition rights)
Paid-in amount of share acquisition rights		No cash payment is required in exchange for share acquisition rights.	No cash payment is required in exchange for share acquisition rights.
Amounts to be paid upon exercise of share acquisition rights		20.75467641 yen per share	20.75467641 yen per share
Exercise period for share acquisition rights		From October 1, 2014 to September 30, 2022	From August 1, 2015 to July 31, 2023
Major conditions for exercise of share acquisition rights		(Note 1)	(Note 2)
Share acquisition rights held by officers of the Company	Board Directors (excluding outside Board Directors)	26,000 units (1 person)	271,600 units (1 person)

		No. 6 Share acquisition rights	No. 7 Share acquisition rights
Date of resolution on issuance		September 17, 2013	October 3, 2014
Total number of share acquisition rights granted		1,045,000 units	950,000 units
Class and number of shares to be issued upon exercise of share acquisition rights		Ordinary shares: 1,045,000 shares (1 share per unit of share acquisition rights)	Ordinary shares: 950,000 shares (1 share per unit of share acquisition rights)
Paid-in amount of share acquisition rights		No cash payment is required in exchange for share acquisition rights.	No cash payment is required in exchange for share acquisition rights.
Amounts to be paid upon exercise of share acquisition rights		20.75467641 yen per share	20.75467641 yen per share
Exercise period for share acquisition rights		From March 20, 2016 to March 19, 2024	From October 11, 2016 to October 10, 2024
Major conditions for exercise of share acquisition rights		(Note 2)	(Note 3)
Share acquisition rights held by officers of the Company	Board Directors (excluding outside Board Directors)	440,000 units (1 person)	105,000 units (1 person)

		No. 8 Share acquisition rights	No. 9 Share acquisition rights
Date of resolution on issuance		February 4, 2016	April 30, 2016
Total number of share acquisition rights granted		3,415,000 units	100,000 units
Class and number of shares to be issued upon exercise of share acquisition rights		Ordinary shares: 3,415,000 shares (1 share per unit of share acquisition rights)	Ordinary shares: 100,000 shares (1 share per unit of share acquisition rights)
Paid-in amount of share acquisition rights		No cash payment is required in exchange for share acquisition rights.	No cash payment is required in exchange for share acquisition rights.
Amounts to be paid upon exercise of share acquisition rights		29 yen per share	29 yen per share
Exercise period for share acquisition rights		From February 5, 2018 to February 4, 2026	From May 3, 2018 to May 2, 2026
Major conditions for exercise of share acquisition rights		(Note 4)	(Note 3)
Share acquisition rights held by officers of the Company	Board Directors (excluding outside Board Directors)	1,090,000 units (2 persons)	–
	Outside Board Directors	114,166 units (2 persons)	100,000 units (1 person)
	Audit & Supervisory Board Members	170,000 units (2 persons)	–

Notes: 1. When any holder of share acquisition rights dies or becomes unable to work for the Company due to a permanent mental or physical health disorder, the holder's heir or proxy may exercise the share acquisition rights of the holder

within one year from the date on which the holder dies or develops the permanent mental or physical health disorder referenced above.

2. When any holder of share acquisition rights dies or becomes unable to work for the Company or its subsidiary due to a permanent mental or physical health disorder, the holder's heir or proxy may exercise the share acquisition rights of the holder within one year from the date on which the holder dies or develops the permanent mental or physical health disorder referenced above.
3. When any holder of share acquisition rights dies or becomes unable to work for the Company due to a mental or physical health disorder, the holder's heir or proxy may exercise the holder's share acquisition rights within one year from the date on which the holder dies or develops the mental or physical health disorder referenced above.
4. When any holder of share acquisition rights dies or becomes unable to work for the Company or its subsidiary due to a mental or physical health disorder, the holder's heir or proxy may exercise the share acquisition rights of the holder within one year from the date on which the holder dies or develops the mental or physical health disorder referenced above.

- (2) Status of share acquisition rights granted to employees, etc. as consideration for performance of duties during the fiscal year under review
Not applicable.

4. Status of officers of the Company

(1) Status of Board Directors and Audit & Supervisory Board Members (as of December 31, 2018)

Name	Position and responsibilities in the Company	Important concurrent positions
Yoshihiro Arai	President and Chief Executive Officer	
Toshio Miyashita	Board Director, CFO and Head of Administration Division	
Masahiro Michisuji	Board Director	
Stanley Lau	Board Director	Executive Partner, BizPro International LLC Senior Advisor, Wuxi SiFong Information Technology Co. Ltd Board Director, Xian Libang Pharmaceutical
Norikazu Eiki	Board Director	Board Director, AnGes, Inc. Advisor, CM Plus Corporation President, EIKI CONSULTING, LLC Board Director, TOWA PHARMACEUTICAL CO., LTD. Board Director, FunPep Co., Ltd. Board Director, Gene Techno Science Co., Ltd
Tajio Enoki	Board Director	Deputy General Manager, Industrial Chemicals Department, Manager, Medical Business Team Energy & Chemicals Company, ITOCHU Corporation Director, ITOCHU CHEMICAL FRONTIER Corporation Director, Remeje Pharmaceuticals (China) Co., Ltd. Director, Ailex HD Limited Director, Promethera Biosciences SA
Koichi Sagiya	Standing Audit & Supervisory Board Member	
Makoto Matsuo	Audit & Supervisory Board Member	Partner, Momo-o, Matsuo & Namba Board Director, Demel Japan Co., Ltd. Auditor, Nike Japan Corp. Board Director, Audit and Supervisory Committee Member, CAPCOM Co., Ltd. Auditor, Burberry Japan K.K. Auditor, CEOLIA Pharma Co., Ltd. Auditor, Katokichi Resort K.K. Auditor, Sumitomo Forestry Co., Ltd.
Jiro Fujiyama	Audit & Supervisory Board Member	Manager, Affiliate Administration Section, Energy & Chemicals Company, Itochu Corporation Auditor, ITOCHU PLASTICS INC. Auditor, TOHO EARTHTECH, INC. Auditor, YOKKAICHI L.P.G TERMINAL CO.,LTD.

- Notes:
1. Board Directors Masahiro Michisuji, Stanley Lau, Norikazu Eiki and Tajio Enoki are outside Board Directors.
 2. Audit & Supervisory Board Members Koichi Sagiya, Makoto Matsuo and Jiro Fujiyama are outside Audit & Supervisory Board Members
 3. There are no special interests between the Company and any of the corporate bodies etc., at which the outside Board Directors listed above concurrently serve as officers, etc.
 4. There are no special interests between the Company and any of the corporate bodies etc., at which the outside Audit & Supervisory Board Members listed above concurrently serve as officers, etc.
 5. The Company has designated Board Directors Masahiro Michisuji, Stanley Lau and Norikazu Eiki and Audit & Supervisory Board Members Koichi Sagiya and Makoto Matsuo as independent officers and has notified the Tokyo

Stock Exchange regarding this designation.

6. Tasuku Toita resigned as an outside Audit & Supervisory Board Member at the closing of the 10th Annual General Meeting of Shareholders.

(2) Remuneration, etc. for Board Directors and Audit & Supervisory Board Members

Classification	Number	Amount of remuneration, etc.
Board Directors (of which outside Board Directors)	7 (5)	94 million yen (15 million yen)
Audit & Supervisory Board Members (of which outside Audit & Supervisory Board Members)	4 (4)	13 million yen (13 million yen)
Total (of which outside officers)	9 (7)	107 million yen (28 million yen)

Note: The figures above include one outside Board Director and one outside Audit & Supervisory Board Member who resigned upon conclusion of the 10th Annual General Meeting of Shareholders held on March 30, 2018.

(3) Outside officers

(i) Status of major activities of outside officers

Position	Name	Major activities
Board Director	Masahiro Michisuji	Attended 13 of 13 meetings of the Board of Directors held during the fiscal year under review; made necessary remarks as appropriate from the standpoint of his abundant experience in the pharmaceutical industry.
Board Director	Stanley Lau	Attended 13 of 13 meetings of the Board of Directors held during the fiscal year under review; made necessary remarks as appropriate from the standpoint of his abundant experience in the pharmaceutical industry and his familiarity with the business environment in China.
Board Director	Norikazu Eiki	Attended 13 of 13 meetings of the Board of Directors held during the fiscal year under review; made necessary remarks as appropriate from the standpoint of his abundant experience in the pharmaceutical industry.
Board Director	Tajio Enoki	Attended 10 of 10 meetings of the Board of Directors held since his appointment on March 30, 2018; made necessary remarks as appropriate from the standpoint of his extensive experience and abundant knowledge of the pharmaceutical industry in China.
Audit & Supervisory Board Member	Koichi Sagiya	Attended 13 of 13 meetings of the Board of Directors and 14 of 14 meetings of the Audit & Supervisory Board held during the fiscal year under review; made necessary remarks as appropriate based on his experience as an Audit & Supervisory Board Member at listed companies and from a comprehensive point of view he established through his work at financial institutions.
Audit & Supervisory Board Member	Makoto Matsuo	Attended 13 of 13 meetings of the Board of Directors and 14 of 14 meetings of the Audit & Supervisory Board held during the fiscal year under review; made necessary remarks as appropriate from his professional standpoint as an attorney at law.
Audit & Supervisory Board Member	Jiro Fujiyama	Attended 10 of 10 meetings of the Board of Directors and 10 of 10 meetings of the Audit & Supervisory Board held since his appointment on March 30, 2018; made necessary remarks as appropriate from the standpoint of his professional insight pertaining to risk management.

Note: In addition to the number of meetings held by the Board of Directors indicated above, four resolutions made in writing were deemed to have been resolved at the meetings of the Board of Directors.

(ii) Overview of the limited liability agreement

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with each outside Board Director and each outside Audit & Supervisory Board Member to limit the liability for damages under Article 423, Paragraph 1 of the same act. The maximum amount of liability for damages under the said agreements shall be the amount provided for by laws and regulations.

5. Status of Independent Auditor

- (i) Name of Independent Auditor
BDO Sanyu & Co.
- (ii) Amount of remuneration, etc. paid to Financial Auditor for the fiscal year under review
 - Amount of remuneration, etc. for services stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act 10 million yen
 - Total amount of cash and other property benefits to be paid to Independent Auditor by the Company and its subsidiary 11 million yen

Notes: 1. Under the audit agreement between the Company and its Independent Auditor, audit remuneration, etc. for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separate, and cannot be effectively separated. Consequently, the above amounts reflect total audit remuneration, etc.

2. The Audit & Supervisory Board conducted necessary verifications to determine the appropriateness of details of the audit plan made by the Independent Auditor, circumstances regarding the performance of accounting audits and the basis for the calculation of remuneration estimates. Based on the results of these verifications, the Board approved the amount of remuneration, etc. paid to the Independent Auditor.

- (iii) Details of non-auditing services
The Company makes payments to BDO Sanyu & Co. in exchange for the preparation of comfort letters, which constitutes a service other than those stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act.
- (iv) Policy on decision for dismissal or non-reappointment of Independent Auditor
The Audit & Supervisory Board shall determine the content of proposals related to the dismissal or non-reappointment of the Independent Auditor and will submit them to the General Meeting of Shareholders of the Company if it judges that the Independent Auditor is unable to carry out his or her duties appropriately.
In addition, when it is deemed that the Independent Auditor falls into any of the categories stipulated under Article 340, Paragraph 1 of the Companies Act, the Independent Auditor will be dismissed based on the unanimous agreement of the Audit & Supervisory Board Members.
In this case, an Audit & Supervisory Board Member selected by the Audit & Supervisory Board shall report the dismissal of the Independent Auditor and the reason for dismissal at the first General Meeting of Shareholders to be held following the dismissal.
- (v) Overview of the limited liability agreement
Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into an agreement with the Independent Auditor to limit the liability for damages under Article 423, Paragraph 1 of the same act.
The maximum amount of the liability for damages under the said agreement shall be the higher amount between either 9,000 million yen, or the amount prescribed according to Article 425, Paragraph 1 of the Companies Act.

6. System for Ensuring the Appropriateness of Operations and the Operating Status of the System

- (1) The Board of Directors has resolved to develop systems necessary as follows to ensure that the duties performed by the Board of Directors of the Company and its subsidiary comply with the laws and regulations, the Articles of Incorporation and other systems necessary to ensure the operational appropriateness of the Company and its subsidiary:
 - (i) System for Ensuring Compliance with Laws, Regulations and the Articles of Incorporation in the Performance of Duties by Directors and Employees
 - The Company is to promote the thorough understanding of the “Code of Conduct” among Directors and employees.
 - The Company is to establish and maintain an internal control system to ensure the reliability of financial reporting and conduct appropriate assessments.
 - The Company is to promptly comprehend and appropriately respond to any violation of the laws and any other material matters related to compliance in accordance with the “Rules of the Whistleblowing System.”
 - The Company is to take decisive actions against anti-social forces and promote efforts for cutting off any and all relationships with anti-social forces in accordance with the “Regulations regarding Anti-Social Forces.”
 - The Company is to regularly implement internal audits in accordance with the “Internal Audit Rules” and verify the above matters.
 - (ii) System for Preservation and Management of Information Relating to the Performance of Duties by Directors

The documents and related materials concerning Director performance, including the minutes of Board of Director meetings, shall be properly preserved and managed in accordance with laws and the “Document Management Rules” and made accessible to the Directors and Corporate Auditors at all times.
 - (iii) Regulations Concerning the Management of Risk of Loss and Other Relevant Risk Management Systems

The Company is to take measures promptly and appropriately against management risks affecting the operation of the Company in accordance with the “Risk Management Rules.”
 - (iv) System for Ensuring Efficient Functioning of Directors
 - The Company shall formulate a midterm-business plan, which will govern the duties of Directors and establish regulations regarding the implementation of internal controls.
 - The Company shall implement IT systems during regular and extraordinary board director meetings, as well as other meetings, to make decisions necessary for performing duties in a timely manner.
 - (v) System for Ensuring the Adequacy of Operations of the Solasia Group (Consisting of Solasia and its Subsidiary)
 - (a) System for Ensuring Compliance with Laws, Regulations and the Articles of Incorporation in the Performance of Duties by Directors and Employees of the Subsidiary
 - The Company is to establish a Code of Conduct governing the Solasia Group and its subsidiary and promote the thorough understanding of this Code among Directors and employees of the subsidiary.
 - All of the operations and activities of the subsidiary are to be subject to internal audit by the audit division.
 - (b) System for Reporting of Matters Related to Business Operations performed by Directors of the Subsidiary
 - The Company is to appoint Directors and Corporate Auditors as Directors of the subsidiary and to incorporate the subsidiary’s operations into the internal control system.
 - The Company shall clarify any matters that require approval or reporting and ensure thorough compliance with these criteria at the subsidiary.

- (c) Regulations of the Subsidiary Concerning the Management of Risk of Loss and Other Relevant Risk Management Systems
 - The Company is to establish a subsidiary risk management system which follows the “Risk Management Rules.”
 - (d) System for Ensuring Efficient Functioning of Directors of the Subsidiary
 - The operations of the subsidiary shall be governed by the mid-term business plan, under which the Directors of the subsidiary are to perform their duties and according to which internal controls are to be implemented.
- (vi) Matters Regarding Employees Assisting Corporate Auditors and the Independence of Such Employees from the Directors
Corporate Auditors may instruct employees to assist them with any matters required for the audit and in such cases, these employees shall be free from the command and control of other Directors and employees.
- (vii) System for Reporting by Directors and Employees to Corporate Auditors and other systems for reporting to Corporate Auditors
- The Company is to ensure that Corporate Auditors attend any and all of the Company’s meetings and to properly obtain any information related to efficacy of internal control systems.
 - The Directors and employees are to report their performance to Corporate Auditors upon request.
 - The Directors and employees are to directly report any and all matters that infringe upon laws and regulations or could have a major impact on the finance or business of the Company to the Corporate Auditors immediately upon recognition of these matters.
 - The Company is to ensure that Directors and employees will not be treated adversely in retaliation for having reported such matters to Corporate Auditors.
 - The Company shall promptly confer advance payments upon Corporate Auditors for expenses related to the performance of their duties upon request, provided that these payments are deemed necessary for the completion of these duties.
- (viii) Other Relevant Systems for Ensuring the Proper Functioning of Audits
The Corporate Auditors are to maintain close communication and coordination with the division in charge of internal and independent auditors and the Company is to ensure that the representative director holds regular meetings with the Corporate Auditors to exchange opinions and information.
- (2) The following is an overview of the operating status of the system for ensuring the appropriateness of operations of the Company for the fiscal year under review:
- (i) Performance of Duties by Board Directors
Pursuant to the Regulations of the Board of Directors, in addition to monthly regular Board meetings, extraordinary Board meetings will be held via teleconference or written resolutions will be made as necessary to make key decisions related to matters prescribed by laws and regulations, etc. or important matters concerning business operations. Moreover, the minutes of the Board meetings and other information regarding the performance of duties of the Directors shall be stored and managed appropriately in accordance with laws and regulations and the “Document Management Rules.”
 - (ii) Performance of Duties by Audit & Supervisory Board Members
Audit & Supervisory Board Members, in addition to audits conducted in accordance with the auditing policy specified by the Audit & Supervisory Board, shall audit the performance of duties by Directors and confirm the proper establishment and operation of internal controls by attending Board meetings and other important internal meetings and regularly exchanging information with the Representative Director, the Independent Auditor and the internal audit section.
 - (iii) Implementation of internal audits
Internal audits of the Company shall be implemented in accordance with the Internal Audit Plan.

7. Policy regarding decisions on dividends of surplus, etc.

The Company regards the generation of capital gains through increases in corporate value and the subsequent return of profits to shareholders through dividends of surplus as key managerial priorities. Meanwhile, the Company must make substantial investment in drug development over extended periods of time. Therefore, given that the Company places a relatively high emphasis on upfront investment in comparison to other business operations, it is not in a financial position that allows for the payment of dividends under Japan's Companies Act. Going forward, we intend to consider the prospect of paying dividends with a focus on further improving balance between investment in development and shareholder returns once we have successfully commercialized products currently under development and attained an adequate financial standing.

The Company stipulates in its Articles of Incorporation that the payment of dividends shall be determined by a resolution of the Board of Directors and not by a resolution of the General Meeting of Shareholders, unless otherwise provided for by laws and regulations. The recording date of year-end dividends is December 31 of each year and the recording date of interim dividends is June 30 of each year.

Consolidated statement of financial position

(As of December 31, 2018)

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	3,370	4,046
Trade and other receivables	18	193
Inventories	93	122
Other current assets	43	143
Total current assets	3,525	4,504
Non-current assets		
Property, plant and equipment	0	58
Intangible assets	3,085	3,123
Other non-current assets	43	42
Total non-current assets	3,129	3,224
Total assets	6,655	7,728
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	372	580
Other current liabilities	39	39
Total current liabilities	411	619
Non-current liabilities		
Deferred tax liabilities	34	11
Other non-current liabilities	0	10
Total non-current liabilities	34	21
Total liabilities	446	641
Equity		
Share capital	5,962	7,632
Capital surplus	5,801	7,483
Retained earnings	(5,553)	(7,975)
Treasury stock	—	(48)
Other components of equity	(2)	(3)
Total equity	6,208	7,087
Total liabilities and equity	6,655	7,728

Note: The above financial statement has been prepared under IFRS.

Consolidated statement of profit or loss

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Revenue	410	318
Cost of sales	–	213
Gross profit	410	105
Research and development expenses	773	1,463
Selling, general and administrative expenses	647	1,061
Operating profit (loss)	(1,009)	(2,420)
Finance income	0	0
Finance costs	6	25
Other income	0	0
Profit (loss) before tax	(1,016)	(2,445)
Income taxes	(8)	(23)
Profit (loss)	(1,007)	(2,422)
Profit (loss) attributable to:		
Owners of parent	(1,007)	(2,422)

Note: The above financial statement has been prepared under IFRS.

Consolidated statement of changes in equity

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity
Balance at January 1, 2017	4,053	3,929	(4,546)	—	(2)	3,433
Comprehensive income						
Profit (loss)	—	—	(1,007)	—	—	(1,007)
Other comprehensive income	—	—	—	—	0	0
Total comprehensive income	—	—	(1,007)	—	0	(1,007)
Transactions with owners						
Issuance of new shares	1,902	1,865	—	—	—	3,767
Exercise of share acquisition rights	7	6	—	—	—	14
Total transactions with owners	1,909	1,872	—	—	—	3,782
Balance at December 31, 2017	5,962	5,801	(5,553)	—	(2)	6,208
Comprehensive income						
Profit (loss)	—	—	(2,422)	—	—	(2,422)
Other comprehensive income	—	—	—	—	(1)	(1)
Total comprehensive income	—	—	(2,422)	—	(1)	(2,423)
Transactions with owners						
Issuance of new shares	1,643	1,614	—	—	—	3,257
Exercise of share acquisition rights	26	25	—	—	—	51
Acquisition of treasury shares	—	—	—	(48)	—	(48)
Share-based payments	—	41	—	—	—	41
Total transactions with owners	1,669	1,681	—	(48)	—	3,301
Balance at December 31, 2018	7,632	7,483	(7,975)	(48)	(3)	7,087

Note: The above financial statement has been prepared under IFRS.

Balance sheet

(As of December 31, 2018)

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets	3,516	4,482
Cash and deposits	3,364	4,012
Current trade receivables	4	144
Merchandise	93	122
Other	54	203
Non-current assets	71	106
Property, plant and equipment	0	40
Buildings	—	27
Tools, furniture and fixtures	0	12
Leased assets	0	0
Investments and other assets	70	66
Investments in capital of subsidiaries and associates	30	30
Lease and guarantee deposits	40	36
Total assets	3,588	4,589
Liabilities		
Current liabilities	374	566
Accounts payable—other Trade and other payables	329	515
Income taxes payable—Other current liabilities	34	43
Other	10	7
Non-current liabilities	0	52
Allowance for employee stock benefit	—	41
Other non-current liabilities	0	10
Total liabilities	374	618
Shareholders' equity	3,213	3,970
Capital stock	5,962	7,632
Capital surplus	5,962	7,631
Legal capital surplus	5,962	7,631
Retained earnings	(8,711)	(11,244)
Other retained earnings	(8,711)	(11,244)
Retained earnings brought forward	(8,711)	(11,244)
Treasury stock	—	(48)
Total net assets	3,213	3,970
Total liabilities and net assets	3,588	4,589

Note: The above financial statement has been prepared under Japanese GAAP.

Statement of income

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Net sales	410	318
Cost of sales	-	213
Gross profit	410	105
Selling, general and administrative expenses	1,932	2,581
Operating profit (loss)	(1,521)	(2,476)
Non-operating income	0	0
Interest income	0	0
Other	0	0
Non-operating expenses	43	55
Interest expenses	0	0
Commission fee	3	13
Share issuance cost	37	29
Foreign exchange losses	2	13
Ordinary loss	(1,564)	(2,531)
Loss before income taxes	(1,564)	(2,531)
Income taxes—current	1	1
Profit (loss)	(1,565)	(2,532)

Note: The above financial statement has been prepared under Japanese GAAP.

Statement of changes in equity

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity					Total net assets	
	Capital stock	Capital surplus	Retained earnings		Treasury shares		Total shareholders' equity
		Legal capital surplus	Other retained earnings	Retained earnings brought forward			
			Retained earnings brought forward				
Balance at January 1, 2018	5,962	5,962	(8,711)	—	3,213	3,213	
Changes of items during period							
Issuance of new shares	1,643	1,643	—	—	3,286	3,286	
Exercise of share acquisition rights	26	26	—	—	52	52	
Acquisition of treasury shares	—	—	—	(48)	(48)	(48)	
Loss	—	—	(2,532)	—	(2,532)	(2,532)	
Total changes of items during period	1,669	1,669	(2,532)	(48)	756	756	
Balance at December 31, 2018	7,632	7,931	(11,244)	(48)	3,970	3,970	

Note: The above financial statement has been prepared under Japanese GAAP.

(From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Shareholders' equity				Total net assets	
	Capital stock	Capital surplus	Retained earnings			Total shareholders' equity
		Legal capital surplus	Other retained earnings	Retained earnings brought forward		
			Retained earnings brought forward			
Balance at January 1, 2017	4,053	4,052	(7,146)	960	960	
Changes of items during period						
Issuance of new shares	1,902	1,902	—	3,804	3,804	
Exercise of share acquisition rights	7	7	—	14	14	
Loss	—	—	(1,565)	(1,565)	(1,565)	
Total changes of items during period	1,909	1,909	(1,565)	2,253	2,253	
Balance at December 31, 2017	5,962	5,962	(8,711)	3,213	3,213	

Note: The above financial statement has been prepared under Japanese GAAP.

Audit Report of Independent Auditor on Consolidated Financial Statements (Copy)

Independent Auditor's Report (translation)

February 18, 2019

To the Board of Directors of
Solasia Pharma K.K.

BDO Sanyu & Co.			
Designated Partner			
Engagement Partner	Certified Public Accountant	Hiroshi Saito	(Seal)
Designated Partner			
Engagement Partner	Certified Public Accountant	Hidetoshi Kawai	(Seal)

We have audited, pursuant to the provisions of Article 444, Paragraph 4 of the Companies Act, Solasia Pharma K.K.'s consolidated financial statements for the fiscal year spanning from January 1, 2018 to December 31, 2018, which consist of the consolidated statement of financial position, the consolidated statement of profit or loss and the consolidated statement of changes in equity, as well as the notes attached to the consolidated financial statements.

Management's responsibility for consolidated financial statements

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with the provisions set forth in the second sentence of Article 120, Paragraph 1 of the Rules of Corporate Accounting, which allow the partial omission of disclosure items required under International Financial Reporting Standards, and for designing and operating internal controls determined by management to be necessary for the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on the auditing we conduct as independent auditors. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance regarding the accuracy of consolidated financial statements and to ensure that they are free of material misstatements.

An audit involves conducting procedures aimed at obtaining audit evidence concerning the amounts and disclosures in consolidated financial statements. The procedures selected and applied depend on the auditor's judgment, including the assessment of risk of material misstatement due to fraud or error. In making risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are circumstantially appropriate; the purpose of an audit is not, however, to express an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application and the reasonableness of accounting estimates made by management, as well as examinations of the overall presentation of consolidated financial statements.

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

Opinion

In our opinion, the above consolidated financial statements, prepared by partially omitting the disclosure items required under International Financial Reporting Standards in accordance with the provisions set forth in the second sentence of Article 120, Paragraph 1 of the Rules of Corporate Accounting, present fairly, in all material respects, the financial position and the operational results of the Group, which consists of Solasia Pharma K.K. and its consolidated subsidiary, for the accounting period covered.

Conflict of interest

Our firm and its engagement partners have no interests in or relationships with the Company that are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act.

Audit Report of Independent Auditor on Non-consolidated Financial Statements (Copy)

Independent Auditor's Report (translation)

February 18, 2019

To the Board of Directors of
Solasia Pharma K.K.

BDO Sanyu & Co.

Designated Partner Certified Public Accountant Hiroshi Saito (Seal)
Engagement Partner

Designated Partner Certified Public Accountant Hidetoshi Kawai (Seal)
Engagement Partner

We have audited, pursuant to Article 436, Paragraph 2, item 1 of the Companies Act, Solasia Pharma K.K.'s non-consolidated financial statements for the 11th fiscal year spanning from January 1, 2018 to December 31 2018, which consist of the balance sheet, the statement of income and the statement of changes in equity, as well as the notes attached to the non-consolidated financial statements and supplementary schedules.

Management's responsibility for the non-consolidated financial statements and others

Management is responsible for the preparation and fair presentation of non-consolidated financial statements and supplementary schedules in accordance with generally accepted accounting principles in Japan, and for designing and operating internal controls deemed necessary by management for enabling the preparation and fair presentation of non-consolidated financial statements and supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements and supplementary schedules based on the auditing we conduct as independent auditors. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance regarding the accuracy of non-consolidated financial statements and supplementary schedules and to ensure they are free of material misstatements.

An audit involves performing procedures to obtain audit evidence regarding the amounts and disclosures in non-consolidated financial statements and supplementary schedules. The procedures selected and applied depend on the auditor's judgment, including the assessment of risk of material misstatement due to fraud or error. In making risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of non-consolidated financial statements and supplementary schedules in order to design audit procedures that are circumstantially appropriate; the purpose of an audit is not, however, to express an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application and the reasonableness of accounting estimates made by management, as well as examinations concerning the overall presentation of non-consolidated financial statements and supplementary schedules.

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

Opinion

In our opinion, the non-consolidated financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and operating results of Solasia Pharma K.K. for the accounting period covered in accordance with accounting principles generally accepted in Japan.

Conflict of interest

Our firm and its engagement partners have no interests in or relationships with the Company that are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act.

Audit Report of the Audit & Supervisory Board (Copy)

Audit Report

We, the Audit & Supervisory Board, have prepared, upon consultation, this Audit Report based on reports compiled by each Audit & Supervisory Board Member concerning the performance of duties conducted by Board Directors during the 11th fiscal year spanning from January 1, 2018 to December 31, 2018 and hereby report as follows:

1. Auditing methods and contents used by Audit & Supervisory Board Members and the Audit & Supervisory Board

- (1) The Audit & Supervisory Board specified an audit policy, an audit plan, etc.; received reports from each Audit & Supervisory Board Member on the status of implementation and results of audits; obtained reports from Board Directors, etc. and the Independent Auditor on the status of the performance of their duties; and requested explanations as needed.
- (2) Each Audit & Supervisory Board Member has, according to the audit policy, audit plan, etc., maintained good communications with Board Directors, the internal audit division and other employees, etc., and strived to collect information and improve the audit environment. We have conducted the audits based on the following methods:
 - (i) Each Audit & Supervisory Board Member attended meetings of the Board of Directors and other important meetings; received reports on the performance of duties by Board Directors, employees, etc.; asked for explanations as necessary; examined documents concerning important decisions; and examined business and financial conditions at the headquarters and its principal branches. Additionally, in terms of the subsidiary of the Company, we have maintained good communications and exchanged information with Board Directors, Audit & Supervisory Board Members and other personnel of the subsidiary and received reports on business conditions from the subsidiary as needed.
 - (ii) Each Audit & Supervisory Board Member received reports on a regular basis from the Board Directors and employees, etc.; requested explanations as necessary; and provided opinions with respect to matters mentioned in the business report. These matters consist of the contents of the Board of Directors' resolutions, which regard the development and maintenance of systems for ensuring that Board Directors' performances of their duties comply with applicable laws and regulations as well as the Articles of Incorporation of the Company. These resolutions also concern other systems that are set forth in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act as being necessary for ensuring the appropriateness of the corporate affairs of a joint stock company (*kabushiki gaisha*) and the group that comprises the company and its subsidiary, as well as systems developed and maintained based on these resolutions (internal control systems).
 - (iii) We have also monitored and verified whether the Independent Auditor maintains independence and properly conducts audits, received reports on the performance of duties from the Independent Auditor and requested explanations as necessary. The Independent Auditor reported that "systems for ensuring that the performance of duties is being carried out correctly" (listed in each item of Article 131 of the Rules of Corporate Accounting) have been established in accordance with the "Standards for Quality Control of Audits" (Business Accounting Council, October 28, 2005), etc., and requested explanations as necessary.

Based on the methods mentioned above, we have reviewed the Business Report, its supplementary schedules, non-consolidated financial statements (balance sheet, statement of income, statement of changes in equity and notes attached to non-consolidated financial statements), their supplementary schedules and consolidated financial statements (consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of changes in equity and notes to consolidated financial statements) for the 11th fiscal year.

2. Results of audits

- (1) Results of audit of the Business Report, etc.
 - (i) We consider that the Business Report and their supplementary schedules fairly present the situation of the Company in accordance with relevant laws and regulations and the Company's Article of Incorporation.
 - (ii) With respect to the performance of duties by Board Directors, we have found neither unjust transactions nor material facts that violate relevant laws and regulations or the Company's Article of Incorporation.
 - (iii) We consider that the details of the resolution made by the Board of Directors concerning internal control systems are proper. We have discovered no report-worthy issues related to the details described in the Business Report regarding these internal control systems and the performance of related duties by Board Directors.
- (2) Results of audit of non-consolidated financial statements and their supplementary schedules
We consider that the auditing methods and the results of audits conducted by the Company's Independent Auditor, BDO Sanyu & Co., are proper.
- (3) Results of audit of consolidated financial statements and their supplementary schedules

We consider that the auditing methods and results of audits conducted by the Company's Independent Auditor, BDO Sanyu & Co., are proper.

February 22, 2019

	Solasia Pharma K.K.	Audit & Supervisory Board
Standing Audit & Supervisory Board Member		Koichi Sagiya (Seal)
Audit & Supervisory Board Member		Makoto Matsuo (Seal)
Audit & Supervisory Board Member		Jiro Fujiyama (Seal)

Reference Documents for General Meeting of Shareholders

Proposals and Reference Information

Proposal No. 1: Election of Six (6) Board Directors

The terms of office of all six (6) incumbent Board Directors of the Company will expire at the conclusion of this Annual General Meeting of Shareholders. Therefore, the Company proposes the election of six (6) Board Directors.

The candidates for Board Director are as follows:

No.	Name	Current position and responsibility in the Company
1	Yoshihiro Arai Reelection	President and Chief Executive Officer, Board Director
2	Toshio Miyashita Reelection	Board Director, CFO and Head of Administration Division
3	Masahiro Michisuji Reelection/Outside/Independent	Board Director
4	Stanley Lau Reelection/Outside/Independent	Board Director
5	Norikazu Eiki Reelection/Outside/Independent	Board Director
6	Tajio Enoki Reelection/Outside	Board Director

No.	Name (Date of birth)	Career summary, position and responsibility in the Company and significant concurrent positions outside the Company	Number of shares in the Company owned
1	Yoshihiro Arai (July 27, 1960) Number of Attended Board of Director Meetings: 13/13	Apr. 1985 Searle Yakuhin K.K. (currently Pfizer Japan Inc.) Feb. 1994 Director, Clinical Development, Amgen Ltd Apr. 2007 Director, Head of Product Planning, Development, Amgen Ltd. Sept. 2007 Executive Vice President, Head of Development, JapanBridge Inc. (currently Solasia Pharma K.K.) Feb. 2013 President and Chief Executive Officer, Board Director, Solasia Pharma K.K. (present)	538,302
2	Toshio Miyashita (Nov. 25, 1967) Number of Attended Board of Director Meetings: 13/13	Sept. 1997 Innotech Corporation Jan. 1999 Administration Director, Admon Science Inc. (Transferred) May 2003 Administration Director, Sosei Co. Ltd. (currently Sosei Group Corporation) Nov. 2005 VP Corporate Planning, Director, Arakis Limited (Transferred) Mar. 2007 Partner & Board Director, HIBIKI Partners Co., Ltd. May 2007 Auditor, ATANI LIMITED Apr. 2008 Auditor, Value Pharma Co., Ltd. Aug. 2009 CFO, J-Pharma Co., Ltd. Nov. 2011 Acting CFO, Solasia pharma K.K. Apr. 2012 Board Director, CFO, J-Pharma Co., Ltd Jan. 2014 CFO, Solasia Pharma K.K. Dec. 2015 Board Director, CFO, Solasia Pharma K.K. (present)	375,000
3	Masahiro Michisuji (Nov. 20, 1935) Number of Attended Board of Director Meetings: 13/13	Apr. 1959 Essex Japan K.K. (currently MSD K.K.) Jan. 1986 Vice President & Board Director, Searle Yakuhin K.K. (currently Pfizer Japan Inc.) May 1988 Vice President & Board Director, Bristol-Myers Squibb K.K. Apr. 1991 President and Representative Director, Monsanto Japan Ltd. Jan. 1999 President & CEO, Novartis Pharma K.K. Apr. 2002 Board Director, JOHNSON COMPANY, LIMITED Feb. 2005 Board Director and Vice Chairman, Novartis Pharma AG Oct. 2006 Advisor, Novartis Pharma K.K. Apr. 2008 Board Director, JapanBridge Inc. (currently Solasia Pharma K.K.) (present)	83,634

No.	Name (Date of birth)	Career summary, position and responsibility in the Company and significant concurrent positions outside the Company	Number of shares in the Company owned
4	Stanley Lau (Aug. 30, 1954) Number of Attended Board of Director Meetings: 13/13	<p>June 1981 Pfizer Corp. Hong Kong Apr. 1987 Managing Director, Merck & Co. Oct. 1994 General Manager, Schering Plough China Ltd. Oct. 1998 Vice President, Pharmacia / Searle Asia Area July 2002 General Manager, Baxter Healthcare International China Apr. 2009 Managing Director, Haopy Pharmaceuticals Co., Ltd. Nov. 2010 President, China Biologic Products, Inc. Mar. 2012 COO, Eddingpharm Ltd. Mar. 2013 CEO, Amsino Medical Group Dec. 2014 Board Director, Solasia Pharma K.K. (present) Mar. 2015 Executive Partner, BizPro International LLC (present) May 2015 Senior Advisor, Wuxi SiFong Information Technology Co., Ltd (present) June 2017 Board Director, Xian Libang Pharmaceutical (present)</p> <p><Significant concurrent positions> Executive Partner, BizPro International LLC Senior Advisor, Wuxi SiFong Information Technology Co., Ltd Board Director, Xian Libang Pharmaceutical</p>	-
5	Norikazu Eiki (Apr. 17, 1948) Number of Attended Board of Director Meetings: 13/13	<p>Apr. 1969 Shell Oil Co., Ltd. (currently Showa Shell Sekiyu K.K.) June 1973 Matsushita Electric Works Ltd. (currently Panasonic Corporation) Aug. 1979 General Manager, Corporate Planning, Ciba-Geigy Japan Ltd. (currently Novartis Pharma K.K.) Jan. 1994 General Manager, Technical Operation Division, Bayer Yakuhin Ltd. Mar. 1997 Board Director, Head of Shiga Factory, Bayer Yakuhin Ltd. July 2002 President and CEO, Bayer Yakuhin Ltd. Jan. 2007 Chairman and Representative Director, Bayer Yakuhin Ltd. Apr. 2010 Chairman, Director, Bayer Yakuhin Ltd. May 2014 Board Director, AnGes MG, Inc. (currently AnGes, Inc.) (present) June 2014 Advisor, CM Plus Corporation (present) Jan. 2015 President, EIKI CONSULTING, LLC (present) Mar. 2015 Board Chairman, FunPep Co., Ltd. June 2015 Board Director, TOWA PHARMACEUTICAL CO., LTD. (present) Apr. 2016 Board Director, Solasia Pharma K.K. (present) Jan. 2017 Board Director, FunPep Co., Ltd. (present)</p> <p><Significant concurrent positions> Board Director, AnGes, Inc. Advisor, CM Plus Corporation President, EIKI CONSULTING, LLC Board Director, TOWA PHARMACEUTICAL CO., LTD. Board Director, FunPep Co., Ltd. Board Director, Gene Techno Science Co., Ltd</p>	-

No.	Name (Date of birth)	Career summary, position and responsibility in the Company and significant concurrent positions outside the Company	Number of shares in the Company owned
6	Tajio Enoki (Oct. 24, 1966) Number of Attended Board of Director Meetings: 10/10 (since his appointment)	<p>Apr. 1991 ITOCHU Corporation</p> <p>Mar. 2011 Managing Director, Remeje Pharmaceuticals (China) Co., Ltd.</p> <p>Dec. 2012 Senior Officer, China Energy & Chemicals Div., East Asia Bloc, ITOCHU SHANGHAI LTD. (present)</p> <p>Dec. 2012 Deputy General Manager, PTAGENT CORPORATION CO., LTD (present)</p> <p>Oct. 2015 Vice Chairman, BEIJING ITOCHU-HUATANG COMPREHENSIVE PROCESSING CO., LTD.</p> <p>Mar. 2018 Board Director, Solasia Pharma K.K. (present)</p> <p>Apr. 2018 Deputy General Manager, Industrial Chemicals Department, Manager, Medical Business Team Energy & Chemicals Company, ITOCHU Corporation(present)</p> <p>Apr. 2018 Director, ITOCHU CHEMICAL FRONTIER Corporation (present)</p> <p>Apr. 2018 Director, Remeje Pharmaceuticals (China) Co., Ltd. (present)</p> <p>June.2018 Director, Ailex HD Limited (present)</p> <p>Dec 2018 Director, Promethera Biosciences SA (present)</p> <p><Significant concurrent positions></p> <p>Deputy General Manager, Industrial Chemicals Department, Manager, Medical Business Team Energy & Chemicals Company, ITOCHU Corporation</p> <p>Director, ITOCHU CHEMICAL FRONTIER Corporation</p> <p>Director, Remeje Pharmaceuticals (China) Co., Ltd.</p> <p>Director, Ailex HD Limited (present)</p> <p>Director, Promethera Biosciences SA</p>	-

- Notes:
1. There are no special interests between any of the candidates and the Company.
 2. Among the candidates for Board Director, Masahiro Michisuji, Stanley Lau, Norikazu Eiki and Tajio Enoki are candidates for outside Board Director.
 3. The Company has nominated Masahiro Michisuji as a candidate for outside Board Director because it expects him to contribute to the management of the Company with the extensive experience and abundant knowledge he accumulated as a member of corporate management. At the conclusion of this Annual General Meeting of Shareholders, his tenure as an outside Board Director will have been ten years and eleven months.
 4. The Company has nominated Stanley Lau as a candidate for outside Board Director because it expects him to contribute to the management of the Company with the extensive experience and abundant knowledge he accumulated as a member of corporate management in China. At the conclusion of this Annual General Meeting of Shareholders, his tenure as an outside Board Director will have been four years and three months.
 5. The Company has nominated Norikazu Eiki as a candidate for outside Board Director because it expects him to contribute to the management of the Company with the extensive experience and abundant knowledge he has accumulated as a member of corporate management. At the conclusion of this Annual General Meeting of Shareholders, his tenure as an outside Board Director will have been two year and eleven months.
 6. The Company has nominated Tajio Enoki as a candidate for outside Board Director because it expects him to contribute to the management of the Company with the extensive experience and abundant knowledge he has accumulated in the field of Chinese business. At the conclusion of this Annual General Meeting of Shareholders, his tenure as an outside Board Director will have been one year.
 7. The Company stipulates, in Article 28, Paragraph 2 of the Articles of Incorporation of the Company, that it may enter into limited liability agreements with Directors (excluding executive Directors, etc.) pursuant to Article 427, Paragraph 1 of the Companies Act. The maximum amount of liability for damages under the agreement is the liability amount prescribed by laws and regulations. If the nominations of Masahiro Michisuji, Stanley Lau, Norikazu Eiki and Tajio Enoki, candidates for outside Board Director, are approved, the Company plans to renew its limited liability agreements with each one of them.
 8. The Company has reported Masahiro Michisuji, Stanley Lau and Norikazu Eiki as independent officers according to provisions set forth by the Tokyo Stock Exchange.

Proposal No. 2: Election of One (1) Audit & Supervisory Board Member

For the purpose of strengthening the audit function, to increase the number by one, the Company proposes the election of one (1) Audit & Supervisory Board Member.

The consent of the Audit & Supervisory Board has been obtained for this proposal.

The candidate for Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Career summary, position and responsibility in the Company and significant concurrent positions outside the Company	Number of shares in the Company owned
Susumu Araki (Aug. 6, 1952)	Apr. 1976 The Tokai Bank, Ltd. (currently MUFG Bank, Ltd.) June 1996 Branch manager, Labuan Branch, The Tokai Bank, Ltd. (currently MUFG Bank, Ltd.) July. 2001 Branch manager, Kamata Branch, The Tokai Bank, Ltd. (currently MUFG Bank, Ltd.) June. 2002 General Planning Director, Financial Director, Qol Co., Ltd. June 2004 Board Director, Qol Co., Ltd. June 2008 Senior Executive Managing Director, Qol Co., Ltd. June 2017 Retirement, Qol Co., Ltd.	—

- Notes:
1. Susumu Araki is candidate for outside Audit & Supervisory Board Member.
 2. There are no special interests between Susumu Araki and the Company.
 3. The Company has reported Susumu Araki as an independent officer under provisions set forth by the Tokyo Stock Exchange. If the nomination of Susumu Araki for Audit & Supervisory Board Member is approved, the Company will submit him as an independent officer.
 4. The Company stipulates, in Article 36, paragraph 2 of the Articles of Incorporation of the Company, that it may enter into limited liability agreements with Audit & Supervisory Board Members pursuant to Article 427, Paragraph 1 of the Companies Act. The maximum amount of liability for damages under the agreement is the liability amount prescribed by laws and regulations. If the nomination of Susumu Araki for outside Audit & Supervisory Board Member is approved, the Company will enter into a limited liability agreement with him.

Proposal No. 3: Reduction in Amounts of Capital stock

As of December 31, 2018, the Company reported a retained loss brought forward of 11,244,530,471 yen. The Company proposes to reduce its capital stock in accordance with stipulations contained in Article 447, Paragraph 1 of the Companies Act in order to compensate for this loss brought forward; return financial conditions to a state in which shareholder return policies such as the distribution of surplus funds as dividends and share buybacks are possible; and aim for increased flexibility and maneuverability in its capital policy. This proposal does not involve any changes to the total number of issued shares and will not affect shares already held by shareholders. Furthermore, this proposal represents an accounting transfer within the net assets category and will not cause changes to net assets or net assets per share.

1. Details of capital stock reduction

The Company will reduce a portion of its capital stock in accordance with stipulations in Article 447, Paragraph 1 of the Companies Act and will transfer the total amount of reduction in capital stock to other capital surplus.

- (1) Amount of capital stock reduction
7,532,240,417 yen of the 7,632,240,417 yen in capital stock held as of December 31, 2018
- (2) Effective date of the capital stock reduction
May 10, 2019 (tentative)

2. Notes

At the meeting held on February 27, 2019, the Company's Board of Directors resolved to reduce the Company's legal capital surplus from 7,631,740,384 yen, the recorded amount as of December 31, 2018, by 3,712,290,054 yen in accordance with stipulations contained in Article 448, Paragraph 1 and Article 459, Paragraph 1, item 2 of the Companies Act, as well as Article 42 of the Articles of Incorporation, effective May 10, 2019. The entire amount of reduction will be rerecorded as other capital surplus.

Provided that this proposal is approved and goes into effect as proposed and legal capital surplus is reduced by the planned amount stated above, 11,244,530,471 yen will be recorded as other capital surplus due to the reductions in capital stock and legal capital surplus mentioned above. In order to compensate for loss brought forward, this amount will be transferred, in full, to retained earnings brought forward in accordance with stipulations contained in Article 452 and Article 459, Paragraph 1, item 3 of the Companies Act and Article 42 of the Articles of Incorporation.