



**Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2016  
(Six Months Ended June 30, 2016)**

[Japanese GAAP]

August 12, 2016

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Holding of quarterly financial results meeting: Yes

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

**1. Consolidated Financial Results for the Six Months Ended June 30, 2016 (Jan. 1, 2016 to Jun. 30, 2016)**

(1) Consolidated results of operations (Percentages represent year-on-year changes)

|                                | Net sales       |       | Operating income |   | Ordinary income |   | Profit attributable to owners of parent |   |
|--------------------------------|-----------------|-------|------------------|---|-----------------|---|-----------------------------------------|---|
|                                | Millions of yen | %     | Millions of yen  | % | Millions of yen | % | Millions of yen                         | % |
| Six months ended Jun. 30, 2016 | 1,051           | (3.8) | (169)            | - | (186)           | - | (256)                                   | - |
| Six months ended Jun. 30, 2015 | 1,092           | 5.9   | (229)            | - | (244)           | - | (267)                                   | - |

Note: Comprehensive income (millions of yen) Six months ended Jun. 30, 2016: (232) (- %)

Six months ended Jun. 30, 2015: (242) (- %)

|                                | Net income per share | Diluted net income per share |
|--------------------------------|----------------------|------------------------------|
|                                | Yen                  | Yen                          |
| Six months ended Jun. 30, 2016 | (18.30)              | -                            |
| Six months ended Jun. 30, 2015 | (19.23)              | -                            |

(2) Consolidated financial position

|                     | Total assets    | Net assets      | Equity ratio |
|---------------------|-----------------|-----------------|--------------|
|                     | Millions of yen | Millions of yen | %            |
| As of Jun. 30, 2016 | 2,209           | 1,259           | 53.3         |
| As of Dec. 31, 2015 | 2,377           | 1,491           | 60.6         |

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2016: 1,178 As of Dec. 31, 2015: 1,441

**2. Dividends**

|                      | Dividend per share |        |        |          |       |
|----------------------|--------------------|--------|--------|----------|-------|
|                      | 1Q-end             | 2Q-end | 3Q-end | Year-end | Total |
|                      | Yen                | Yen    | Yen    | Yen      | Yen   |
| FY12/2015            | -                  | 0.00   | -      | 0.00     | 0.00  |
| FY12/2016            | -                  | 0.00   | -      | -        | -     |
| FY12/2016 (Forecast) | -                  | -      | -      | 0.00     | 0.00  |

Note: Revisions to the most recently announced dividend forecast: None

**3. Consolidated Forecast for the Fiscal Year Ending December 31, 2016 (Jan. 1, 2016 to Dec. 31, 2016)**

(Percentages represent year-on-year changes)

|           | Net sales       |       | Operating income |   | Ordinary income |   | Profit attributable to owners of parent |   | Net income per share |
|-----------|-----------------|-------|------------------|---|-----------------|---|-----------------------------------------|---|----------------------|
|           | Millions of yen | %     | Millions of yen  | % | Millions of yen | % | Millions of yen                         | % | Yen                  |
| Full year | 1,850           | (3.1) | (450)            | - | (470)           | - | (550)                                   | - | (39.30)              |

Note: Revisions to the most recently announced consolidated forecast: Yes

**\* Notes**

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

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

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

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

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to “2. (3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements” on page 5 of the attachments for further information.

(4) Number of shares outstanding (common stock)

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

|                      |                   |                      |                   |
|----------------------|-------------------|----------------------|-------------------|
| As of Jun. 30, 2016: | 13,995,156 shares | As of Dec. 31, 2015: | 13,995,156 shares |
|----------------------|-------------------|----------------------|-------------------|

2) Number of treasury shares at the end of the period

|                      |            |                      |            |
|----------------------|------------|----------------------|------------|
| As of Jun. 30, 2016: | 253 shares | As of Dec. 31, 2015: | 253 shares |
|----------------------|------------|----------------------|------------|

3) Average number of shares outstanding during the period

|                                 |                   |                                 |                   |
|---------------------------------|-------------------|---------------------------------|-------------------|
| Six months ended Jun. 30, 2016: | 13,994,903 shares | Six months ended Jun. 30, 2015: | 13,885,524 shares |
|---------------------------------|-------------------|---------------------------------|-------------------|

Note 1: Information regarding the implementation of quarterly review procedures

At the time of disclosure, the review procedures based on the Financial Instruments and Exchange Act for the quarterly consolidated financial statements have been completed.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time these materials were created. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 4 of the attachments for forecast assumptions and notes of caution for usage.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

#### 1) Summary of the Current Fiscal Year

In the first half of 2016, the tella Group's operating environment was as follows. The promotion of regenerative and cell medicine is one of the main elements of the Abenomics growth strategy. One result was the April 2013 passage of the Act concerning the Comprehensive Promotion of Measures for the Rapid and Safe Use of Regenerative Medicine in Japan. Additional two laws were passed in November 2013. One is the Act concerning the Assurance of Quality, Efficacy and Safety for Pharmaceuticals and Medical Devices, which newly defines regenerative medicine products and establishes a system for quick approvals of these products with certain conditions. The other is the Act concerning the Assurance of Safety for Regenerative Medicine, which is aimed at facilitating the commercialization of cell processing operations. Overall, there is progress toward establishing an environment for regenerative medicine and cell therapy businesses and even creating an industry for these activities.

Additionally, the Regenerative Medicine Safety Act prescribes the three-level standards for provision of drugs for a clinical trial and the procedures for filing a plan, which are commensurate with the risk of regenerative medicine; and also the standards and approval procedures for cell culture and processing facilities. All of which create the environment that allows us to offer regenerative medicine and cell medicine more smoothly and promptly.

The tella Group performs R&D activities involving the DC vaccine therapy, which is one type of cancer immunotherapies. We provide cancer treatment technologies and know-how, which incorporate many exclusive modifications of ours, to contracted medical institutions. We conduct sales activities targeting medical institutions nationwide and academic and information activities. In particular, we provide information to patients by using seminars and other methods and present research results at academic conferences. We also operate cell processing facilities by contract chiefly at universities and research institutions and provide maintenance and management services for these facilities, sell cell culture devices, and operate a CRO business, small-amount short-term insurance business and pharmaceuticals business.

First half net sales decreased 41,748 thousand yen, or 3.8 %, from one year earlier to 1,051,247 thousand yen mainly because of a decline in the number of cases from one year earlier in the Cell Medicine Business. Although orders and sales of cell culture devices and other items were strong in the Medical Support Business, sales declined in the Cell Medicine Business and there were development expenses for regulatory approval as regenerative medicine products in the Pharmaceuticals Business. As a result, operating loss was 169,098 thousand yen compared with a loss of 229,103 thousand yen one year earlier, ordinary loss was 186,077 thousand yen compared with a loss of 244,003 thousand yen one year earlier, and net loss attributable to owners of parent was 256,080 thousand yen compared with a loss of 267,060 thousand yen one year earlier.

Performance by reportable segment was as follows.

#### Cell Medicine Business

In this business segment, tella provides unique cancer treatment technologies and know-how, chiefly the DC vaccine therapy, to contracted medical institutions.

To provide information to patients, we held cancer treatment seminars jointly with contracted medical institutions in the prefectures of Hokkaido, Miyagi, Tokyo, Saitama, Kanagawa, Aichi, Ishikawa, Hyogo, and Fukuoka.

Regarding sales activities targeting medical institutions across Japan, tella established a client medical institution agreement with YAMAMOTO Urological Clinic in May 2016. The new agreement brought the total number of contracted medical institutions in Japan to 39.

Regarding R&D activities, tella reached an agreement with OncoTherapy Science, Inc. in April 2016 to tackle joint development of “Neoantigen DC vaccine therapy” based on somatic mutation analysis of cancer.

During the second quarter (April to June) of 2016, there were approximately 220 cases in which the DC vaccine therapy was used in the contracted medical institutions. This raised the total number of these therapy cases since the establishment of tella to about 10,560.

Segment sales for the first half decreased 107,215 thousand yen, or 20.4 %, from one year earlier to 419,478 thousand yen due to the decline in the number of cases from one year earlier. Operating loss totaled 62,824 thousand yen, compared with operating loss of 90,000 thousand yen one year earlier.

### Medical Support Business

Activities in this segment include the operation of cell processing facilities by contract for research and medical institutions, the provision of maintenance and management services for these facilities, sales of replacement supplies and cell culture devices, sales of small-amount short-term insurance, the CRO business and the genetic diagnosis support business.

Segment sales for the first half increased 67,542 thousand yen, or 11.9%, from one year earlier to 633,908 thousand yen due to strong orders and sales of cell culture devices. Operating income totaled 28,895 thousand yen, compared with an operating loss of 82,786 thousand yen one year earlier.

### Pharmaceuticals Business

In the Pharmaceuticals Business, we are making further efforts to put in place a development system and accelerating the development activities for the purpose of obtaining pharmaceutical approval for the DC vaccine as a regenerative medicine product for pancreatic cancer.

There was an operating loss of 142,727 thousand yen, compared with an operating loss of 71,597 thousand yen one year earlier due to the development activities to obtain the pharmaceutical approval.

## (2) Explanation of Financial Position

### 1) Assets, Liabilities and Net Assets

Total assets, liabilities and net assets at the end of the first half of the current fiscal year were as follows.

(Thousands of yen)

|                   | FY12/2015 | First half of FY12/2016 | Change    |
|-------------------|-----------|-------------------------|-----------|
| Total assets      | 2,377,331 | 2,209,107               | (168,223) |
| Total liabilities | 885,713   | 949,282                 | 63,569    |
| Net assets        | 1,491,617 | 1,259,824               | (231,793) |

Total assets decreased 168,223 thousand yen from the end of the previous fiscal year to 2,209,107 thousand yen as of the end of the second quarter of 2016. It was mainly due to increases in cash and deposits and allowance for doubtful accounts, and decreases due to the collection of lease and guarantee deposits and sales of investment securities.

Total liabilities increased 63,569 thousand yen from the end of previous fiscal year to 949,282 thousand yen. This was mainly due to an increase in short-term loans payable while there are decreases in notes and accounts payable-trade and long-term loans payable.

Net assets decreased 231,793 thousand yen from the end of the previous fiscal year to 1,259,824 thousand yen. This was mainly due to a decrease in retained earnings attributable to the booking of net loss.

## 2) Cash Flows

Cash flows by category during the period were as follows.

(Thousands of yen)

|                                                      | First half of FY12/2015 | First half of FY12/2016 |
|------------------------------------------------------|-------------------------|-------------------------|
| Cash flow from operating activities                  | (107,804)               | (85,118)                |
| Cash flow from investing activities                  | (82,502)                | 100,049                 |
| Cash flow from financing activities                  | 16,553                  | 99,740                  |
| Net increase (decrease) in cash and cash equivalents | (173,753)               | 114,671                 |
| Cash and cash equivalents at beginning of period     | 1,749,478               | 899,069                 |
| Cash and cash equivalents at end of period           | 1,575,725               | 1,013,741               |

Cash and cash equivalents as of the end of the first half of 2016 totaled 1,013,741 thousand yen, 114,671 thousand yen more than as of the end of 2015. The cash flow components during the first half and the main reasons for changes are as described below.

### Cash Flow from Operating Activities

Net cash used in operating activities totaled 85,118 thousand yen, compared with net cash used of 107,804 thousand yen one year earlier. Major items included loss before income taxes of 189,135 thousand yen, depreciation of 83,116 thousand yen, an increase in allowance for doubtful accounts of 44,600 thousand yen, and a decrease in notes and accounts payable-trade of 54,922 thousand yen.

### Cash Flow from Investing Activities

Net cash provided by investing activities totaled 100,049 thousand yen, compared with net cash used of 82,502 thousand yen one year earlier. Major items included purchase of property, plant and equipment of 34,668 thousand yen, proceeds from sales of investment securities of 108,600 thousand yen, and proceeds from collection of lease and guarantee deposits of 21,284 thousand yen.

### Cash Flow from Financing Activities

Net cash provided by financing activities totaled 99,740 thousand yen, compared with net cash provided of 16,553 thousand yen one year earlier. There were 200,000 thousand yen in proceeds from short-term loans payable, 86,180 thousand yen in repayments of long-term loans payable, 10,000 thousand yen in redemption of bonds, and 4,079 thousand yen in repayments of lease obligation.

## (3) Explanation of Consolidated Forecast and Other Forward-looking Statements

The forecast for 2016 that was announced on February 9, 2016 was revised on August 12. First half performance in relation to the forecast for the entire year was one consideration. In addition, in the Cell Medicine Business, the growth in the number of cases is expected to slowdown in the third and fourth quarters. In the Pharmaceuticals Business, development activities to receive regulatory approval of the DC vaccine as regenerative medicine products are increasing expenses.

|                          | Net sales       | Operating income | Ordinary income | Profit attributable to owners of parent | Net income per share |
|--------------------------|-----------------|------------------|-----------------|-----------------------------------------|----------------------|
|                          | Millions of yen | Millions of yen  | Millions of yen | Millions of yen                         | Yen                  |
| Previous forecast (A)    | 2,052           | (316)            | (328)           | (349)                                   | (24.96)              |
| Revised forecast (B)     | 1,850           | (450)            | (470)           | (550)                                   | (39.30)              |
| Change (B-A)             | (202)           | (133)            | (141)           | (200)                                   | -                    |
| Change (%)               | (9.9)           | -                | -               | -                                       | -                    |
| (Reference) 2015 results | 1,909           | (601)            | (623)           | (990)                                   | (71.06)              |

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time these materials were created. Consequently, these statements incorporate many uncertainties. Actual performance may differ from these forecasts for a number of reasons.

## **2. Matters Related to Summary Information (Notes)**

### **(1) Changes in Significant Subsidiaries during the Period**

Not applicable.

### **(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements**

Not applicable.

### **(3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements**

#### Changes in Accounting Policies

##### 1) Application of Accounting Standard for Business Combinations

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. from the first quarter of the current fiscal year. Accordingly, difference arising from changes in the Company’s ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus, and the acquisition costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise. Regarding business combinations that take place on or after the beginning of the first quarter of the current fiscal year, the Company has revised the method to reflect reviewed allocation of the acquisition costs arising from determination of the provisional accounting treatment on the quarterly consolidated financial statements to which the date of the business combination belongs. In addition, the presentation of net income has been revised and the minority interests item has been renamed non-controlling interests. For consistency with these changes, the consolidated financial statements for the first half of the previous fiscal year and the previous fiscal year have been revised.

In the quarterly consolidated statement of cash flows of the first half of the current fiscal year, cash flows associated with purchase or sales of shares of subsidiary not resulting in changes in the scope of consolidation are included in cash flows from financing activities. On the other hand, cash flows associated with acquisition costs of shares of subsidiary resulting in changes in the scope of consolidation or expenses arisen from purchase or sales of shares of subsidiary not resulting in changes in the scope of consolidation are included in cash flows from operating activities. The Company has adopted these accounting standards, etc. from the beginning of the first quarter of the current fiscal year, in accordance with the transitional accounting treatments set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures.

There is no impact on the quarterly consolidated financial statements for the first half of the current fiscal year.

##### 2) Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Following the revision of the Corporation Tax Act, the Company has applied the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the second quarter of the current fiscal year, and changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

This change has no effect on the results of operations in the first half of the current fiscal year because there is no acquisition of facilities attached to buildings and structures.

### **3. Important Information about Going Concern Assumption**

The tella Group performs R&D activities involving the DC vaccine therapy, which is one type of cancer immunotherapy. We make up-front investments to make medical institutions aware of technologies incorporating many exclusive modifications of ours and to increase the use of these technologies. Furthermore, expenses are incurred prior to earnings involving R&D and medical support services associated with cancer treatment technologies and other know-how. For these reasons, there are significant doubts about the going concern assumption because of the resulting operating losses and negative operating cash flows year after year.

At this time, we believe that there are no concerns about the continuity of our business operations after considering cash and cash equivalents at the end of the first half of the current fiscal year and the outlook for cash flows. Furthermore, group companies are improving operating efficiency and holding down investments and operating expenses as much as possible in order to defuse the current situation. We aim to become profitable on a consolidated basis over a period of two years starting from January 1, 2016 and ending on December 31, 2017 as we establish more relationships with medical institutions and group companies with respect to business operations and technologies.

We will continue to work on improving profitability by taking these actions and we have secured adequate working capital for upcoming business activities. Consequently, we believe that there are no significant uncertainties regarding the going concern assumption.

**4. Quarterly Consolidated Financial Statements****(1) Quarterly Consolidated Balance Sheet**

|                                     | (Thousands of yen)                 |                                                      |
|-------------------------------------|------------------------------------|------------------------------------------------------|
|                                     | FY12/2015<br>(As of Dec. 31, 2015) | Second quarter of FY12/2016<br>(As of Jun. 30, 2016) |
| Assets                              |                                    |                                                      |
| Current assets                      |                                    |                                                      |
| Cash and deposits                   | 899,069                            | 1,013,741                                            |
| Notes and accounts receivable-trade | 334,846                            | 332,919                                              |
| Merchandise                         | 2,328                              | 4,298                                                |
| Work in process                     | 12,601                             | 2,325                                                |
| Raw materials                       | 5,053                              | 5,360                                                |
| Prepaid expenses                    | 40,046                             | 28,932                                               |
| Income taxes receivable             | 7,589                              | 20                                                   |
| Deferred tax assets                 | 2,533                              | 2,977                                                |
| Other                               | 50,152                             | 46,892                                               |
| Allowance for doubtful accounts     | -                                  | (44,600)                                             |
| Total current assets                | 1,354,221                          | 1,392,868                                            |
| Non-current assets                  |                                    |                                                      |
| Property, plant and equipment       |                                    |                                                      |
| Buildings, net                      | 285,057                            | 270,180                                              |
| Tools, furniture and fixtures, net  | 133,193                            | 114,755                                              |
| Leased assets, net                  | 13,161                             | 11,630                                               |
| Total property, plant and equipment | 431,412                            | 396,566                                              |
| Intangible assets                   |                                    |                                                      |
| Software                            | 62,736                             | 52,515                                               |
| Goodwill                            | 739                                | 650                                                  |
| Right of using patent               | 13,663                             | 10,902                                               |
| Total intangible assets             | 77,139                             | 64,067                                               |
| Investments and other assets        |                                    |                                                      |
| Investment securities               | 242,035                            | 120,711                                              |
| Long-term loans receivable          | 18,075                             | 16,000                                               |
| Lease deposits                      | 176,721                            | 141,903                                              |
| Insurance funds                     | 15,238                             | 17,142                                               |
| Deferred tax assets                 | 1,249                              | 1,051                                                |
| Other                               | 61,238                             | 58,793                                               |
| Total investments and other assets  | 514,557                            | 355,604                                              |
| Total non-current assets            | 1,023,109                          | 816,238                                              |
| Total assets                        | 2,377,331                          | 2,209,107                                            |

|                                                       | (Thousands of yen)                 |                                                      |
|-------------------------------------------------------|------------------------------------|------------------------------------------------------|
|                                                       | FY12/2015<br>(As of Dec. 31, 2015) | Second quarter of FY12/2016<br>(As of Jun. 30, 2016) |
| <b>Liabilities</b>                                    |                                    |                                                      |
| <b>Current liabilities</b>                            |                                    |                                                      |
| Notes and accounts payable-trade                      | 79,335                             | 24,413                                               |
| Current portion of bonds                              | 20,000                             | 10,000                                               |
| Short-term loans payable                              | -                                  | 200,000                                              |
| Current portion of long-term loans payable            | 172,360                            | 172,360                                              |
| Lease obligations                                     | 7,927                              | 7,156                                                |
| Outstanding claims                                    | 728                                | 1,331                                                |
| Policy reserve                                        | 1,388                              | 1,187                                                |
| Accounts payable-other                                | 103,063                            | 84,040                                               |
| Income taxes payable                                  | 5,807                              | 40,186                                               |
| Deferred tax liabilities                              | 648                                | -                                                    |
| Asset retirement obligations                          | 12,016                             | -                                                    |
| Other                                                 | 28,604                             | 46,861                                               |
| <b>Total current liabilities</b>                      | <b>431,880</b>                     | <b>587,538</b>                                       |
| <b>Non-current liabilities</b>                        |                                    |                                                      |
| Long-term loans payable                               | 333,030                            | 246,850                                              |
| Lease obligations                                     | 18,400                             | 15,091                                               |
| Long-term lease deposited                             | 88,124                             | 88,124                                               |
| Asset retirement obligations                          | 8,942                              | 10,210                                               |
| Deferred tax liabilities                              | 5,335                              | 1,468                                                |
| <b>Total non-current liabilities</b>                  | <b>453,832</b>                     | <b>361,744</b>                                       |
| <b>Total liabilities</b>                              | <b>885,713</b>                     | <b>949,282</b>                                       |
| <b>Net assets</b>                                     |                                    |                                                      |
| <b>Shareholders' equity</b>                           |                                    |                                                      |
| Capital stock                                         | 1,346,778                          | 1,346,778                                            |
| Capital surplus                                       | 1,218,455                          | 1,218,455                                            |
| Retained earnings                                     | (1,131,687)                        | (1,386,729)                                          |
| Treasury shares                                       | (282)                              | (282)                                                |
| <b>Total shareholders' equity</b>                     | <b>1,433,264</b>                   | <b>1,178,222</b>                                     |
| <b>Accumulated other comprehensive income</b>         |                                    |                                                      |
| Valuation difference on available-for-sale securities | 8,228                              | -                                                    |
| <b>Total accumulated other comprehensive income</b>   | <b>8,228</b>                       | <b>-</b>                                             |
| Subscription rights to shares                         | 4,459                              | 4,207                                                |
| Non-controlling interests                             | 45,665                             | 77,394                                               |
| <b>Total net assets</b>                               | <b>1,491,617</b>                   | <b>1,259,824</b>                                     |
| <b>Total liabilities and net assets</b>               | <b>2,377,331</b>                   | <b>2,209,107</b>                                     |

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****Quarterly Consolidated Statement of Income****For the Six-month Period**

(Thousands of yen)

|                                                             | First six months of FY12/2015<br>(Jan. 1 – Jun. 30, 2015) | First six months of FY12/2016<br>(Jan. 1 – Jun. 30, 2016) |
|-------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| Net sales                                                   | 1,092,995                                                 | 1,051,247                                                 |
| Cost of sales                                               | 588,515                                                   | 559,003                                                   |
| Gross profit                                                | 504,479                                                   | 492,243                                                   |
| Selling, general and administrative expenses                | 733,583                                                   | 661,341                                                   |
| Operating loss                                              | (229,103)                                                 | (169,098)                                                 |
| Non-operating income                                        |                                                           |                                                           |
| Interest income                                             | 845                                                       | 256                                                       |
| Rent income of real estate                                  | 38,830                                                    | 61,229                                                    |
| Subsidy income                                              | -                                                         | 9,933                                                     |
| Other                                                       | 6,391                                                     | 4,700                                                     |
| Total non-operating income                                  | 46,066                                                    | 76,119                                                    |
| Non-operating expenses                                      |                                                           |                                                           |
| Head office transfer related cost                           | -                                                         | 20,460                                                    |
| Interest expenses                                           | 4,104                                                     | 3,919                                                     |
| Interest on bonds                                           | 190                                                       | 82                                                        |
| Share of loss of entities accounted for using equity method | 4,539                                                     | 6,453                                                     |
| Rent cost of real estate                                    | 38,830                                                    | 61,229                                                    |
| Share issuance cost                                         | 142                                                       | -                                                         |
| Guarantee commission                                        | 167                                                       | 157                                                       |
| Other                                                       | 12,991                                                    | 795                                                       |
| Total non-operating expenses                                | 60,966                                                    | 93,098                                                    |
| Ordinary loss                                               | (244,003)                                                 | (186,077)                                                 |
| Extraordinary income                                        |                                                           |                                                           |
| Gain on change in equity                                    | -                                                         | 1,765                                                     |
| Gain on sales of non-current assets                         | -                                                         | 610                                                       |
| Gain on sales of investment securities                      | -                                                         | 8,600                                                     |
| Gain on reversal of subscription rights to shares           | -                                                         | 660                                                       |
| Total extraordinary income                                  | -                                                         | 11,636                                                    |
| Extraordinary losses                                        |                                                           |                                                           |
| Loss on change in equity                                    | 7,480                                                     | -                                                         |
| Impairment loss                                             | -                                                         | 5,788                                                     |
| Loss on retirement of non-current assets                    | 454                                                       | 3,532                                                     |
| Loss on valuation of investment securities                  | -                                                         | 5,373                                                     |
| Total extraordinary losses                                  | 7,935                                                     | 14,694                                                    |
| Loss before income taxes                                    | (251,938)                                                 | (189,135)                                                 |
| Income taxes-current                                        | 9,938                                                     | 35,908                                                    |
| Income taxes-deferred                                       | (32)                                                      | (692)                                                     |
| Total income taxes                                          | 9,906                                                     | 35,216                                                    |
| Loss                                                        | (261,845)                                                 | (224,351)                                                 |
| Profit attributable to non-controlling interests            | 5,214                                                     | 31,728                                                    |
| Loss attributable to owners of parent                       | (267,060)                                                 | (256,080)                                                 |

**Quarterly Consolidated Statement of Comprehensive Income****For the Six-month Period**

(Thousands of yen)

|                                                                | First six months of FY12/2015<br>(Jan. 1 – Jun. 30, 2015) | First six months of FY12/2016<br>(Jan. 1 – Jun. 30, 2016) |
|----------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| Loss                                                           | (261,845)                                                 | (224,351)                                                 |
| Other comprehensive income                                     |                                                           |                                                           |
| Valuation difference on available-for-sale securities          | 19,668                                                    | (8,228)                                                   |
| Total other comprehensive income                               | 19,668                                                    | (8,228)                                                   |
| Comprehensive income                                           | (242,176)                                                 | (232,579)                                                 |
| Comprehensive income attributable to                           |                                                           |                                                           |
| Comprehensive income attributable to owners of parent          | (247,391)                                                 | (264,308)                                                 |
| Comprehensive income attributable to non-controlling interests | 5,214                                                     | 31,728                                                    |

**(3) Quarterly Consolidated Statement of Cash Flows**

(Thousands of yen)

|                                                                      | First six months of FY12/2015<br>(Jan. 1 – Jun. 30, 2015) | First six months of FY12/2016<br>(Jan. 1 – Jun. 30, 2016) |
|----------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
| Cash flows from operating activities                                 |                                                           |                                                           |
| Loss before income taxes                                             | (251,938)                                                 | (189,135)                                                 |
| Depreciation                                                         | 91,686                                                    | 83,116                                                    |
| Impairment loss                                                      | -                                                         | 5,788                                                     |
| Amortization of goodwill                                             | 5,727                                                     | 88                                                        |
| Increase (decrease) in allowance for doubtful accounts               | 4                                                         | 44,600                                                    |
| Interest and dividend income                                         | (845)                                                     | (256)                                                     |
| Interest expenses paid on loans and bonds                            | 4,295                                                     | 4,001                                                     |
| Share of (profit) loss of entities accounted for using equity method | 4,539                                                     | 6,453                                                     |
| Share-based compensation expenses                                    | 5,177                                                     | 408                                                       |
| Loss (gain) on sales and valuation of investment securities          | -                                                         | (3,227)                                                   |
| Loss on retirement of non-current assets                             | 454                                                       | 3,532                                                     |
| Loss (gain) on change in equity                                      | 7,480                                                     | (1,765)                                                   |
| Decrease (increase) in notes and accounts receivable-trade           | 38,388                                                    | 1,927                                                     |
| Decrease (increase) in inventories                                   | 1,055                                                     | 7,999                                                     |
| Increase (decrease) in notes and accounts payable-trade              | (7,258)                                                   | (54,922)                                                  |
| Decrease (increase) in prepaid expenses                              | (25,586)                                                  | 11,442                                                    |
| Decrease (increase) in accounts receivable-other                     | 4,328                                                     | (2,961)                                                   |
| Increase (decrease) in accounts payable-other                        | (25,332)                                                  | (19,050)                                                  |
| Increase (decrease) in accrued expenses                              | 2,001                                                     | (515)                                                     |
| Increase (decrease) in accrued consumption taxes                     | 21,326                                                    | 5,317                                                     |
| Other, net                                                           | 26,990                                                    | 12,163                                                    |
| Subtotal                                                             | (97,503)                                                  | (84,993)                                                  |
| Interest and dividend income received                                | 648                                                       | 258                                                       |
| Interest expenses paid                                               | (4,562)                                                   | (4,088)                                                   |
| Income taxes paid                                                    | (6,435)                                                   | (3,886)                                                   |
| Income taxes refund                                                  | 47                                                        | 7,592                                                     |
| Net cash provided by (used in) operating activities                  | (107,804)                                                 | (85,118)                                                  |
| Cash flows from investing activities                                 |                                                           |                                                           |
| Purchase of property, plant and equipment                            | (9,982)                                                   | (34,668)                                                  |
| Proceeds from sales of property, plant and equipment                 | -                                                         | 3,000                                                     |
| Purchase of intangible assets                                        | (30,037)                                                  | -                                                         |
| Purchase of investment securities                                    | (10,000)                                                  | -                                                         |
| Proceeds from sales of investment securities                         | -                                                         | 108,600                                                   |
| Additional purchase of investments in subsidiaries                   | (17,419)                                                  | -                                                         |
| Collection of lease receivables                                      | 54,974                                                    | -                                                         |
| Payments for long-term deposits                                      | (46,500)                                                  | -                                                         |
| Payments of short-term loans receivable                              | (32,803)                                                  | -                                                         |
| Collection of short-term loans receivable                            | 26,132                                                    | -                                                         |
| Payments of long-term loans receivable                               | (16,000)                                                  | -                                                         |
| Collection of long-term loans receivable                             | -                                                         | 2,075                                                     |
| Purchase of insurance funds                                          | (1,931)                                                   | (1,904)                                                   |
| Payments for lease and guarantee deposits                            | (46,573)                                                  | (337)                                                     |
| Proceeds from collection of lease and guarantee deposits             | 1,036                                                     | 21,284                                                    |
| Proceeds from long-term deposits received                            | 46,573                                                    | -                                                         |
| Other, net                                                           | 28                                                        | 2,000                                                     |
| Net cash provided by (used in) investing activities                  | (82,502)                                                  | 100,049                                                   |

|                                                                                              | (Thousands of yen)                                        |                                                           |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
|                                                                                              | First six months of FY12/2015<br>(Jan. 1 – Jun. 30, 2015) | First six months of FY12/2016<br>(Jan. 1 – Jun. 30, 2016) |
| Cash flows from financing activities                                                         |                                                           |                                                           |
| Increase in short-term loans payable                                                         | 95,000                                                    | 200,000                                                   |
| Decrease in short-term loans payable                                                         | (95,000)                                                  | -                                                         |
| Proceeds from long-term loans payable                                                        | 100,000                                                   | -                                                         |
| Repayments of long-term loans payable                                                        | (81,180)                                                  | (86,180)                                                  |
| Redemption of bonds                                                                          | (10,000)                                                  | (10,000)                                                  |
| Repayments of lease obligations                                                              | (7,463)                                                   | (4,079)                                                   |
| Proceeds from issuance of shares resulting from<br>exercise of subscription rights to shares | 29,057                                                    | -                                                         |
| Proceeds from issuance of subscription rights to shares                                      | 2,880                                                     | -                                                         |
| Proceeds from disposal of treasury shares of<br>subsidiaries                                 | 16,000                                                    | -                                                         |
| Purchase of treasury shares of subsidiaries                                                  | (32,735)                                                  | -                                                         |
| Cash dividends paid                                                                          | (5)                                                       | -                                                         |
| Net cash provided by (used in) financing activities                                          | 16,553                                                    | 99,740                                                    |
| Net increase (decrease) in cash and cash equivalents                                         | (173,753)                                                 | 114,671                                                   |
| Cash and cash equivalents at beginning of period                                             | 1,749,478                                                 | 899,069                                                   |
| Cash and cash equivalents at end of period                                                   | 1,575,725                                                 | 1,013,741                                                 |

**(4) Notes to Quarterly Consolidated Financial Statements****Going Concern Assumption**

Not applicable.

**Significant Changes in Shareholders' Equity**

There was no significant change in shareholders' equity compared to the end of the previous fiscal year.

**Segment and Other Information**

## Segment Information

I First six months of FY12/2015 (Jan. 1 – Jun. 30, 2015)

## 1. Information related to net sales and profit or loss for reportable segments (Thousands of yen)

|                                   | Reportable segment |                 |                 |           | Total     | Adjustments | Amounts shown on quarterly consolidated statement of income |
|-----------------------------------|--------------------|-----------------|-----------------|-----------|-----------|-------------|-------------------------------------------------------------|
|                                   | Cell Medicine      | Medical Support | Pharmaceuticals | Subtotal  |           |             |                                                             |
| Net sales                         |                    |                 |                 |           |           |             |                                                             |
| External sales                    | 526,693            | 566,301         | -               | 1,092,995 | 1,092,995 | -           | 1,092,995                                                   |
| Inter-segment sales and transfers | -                  | 64              | -               | 64        | 64        | (64)        | -                                                           |
| Total                             | 526,693            | 566,366         | -               | 1,093,060 | 1,093,060 | (64)        | 1,092,995                                                   |
| Segment loss                      | (90,000)           | (82,786)        | (71,597)        | (244,385) | (244,385) | 15,281      | (229,103)                                                   |

Notes: 1. The 15,281 thousand yen adjustment to segment loss includes an elimination for inter-segment transactions of 13,501 thousand yen and an adjustment of 1,779 thousand yen to non-current assets.

2. Segment loss is adjusted with operating loss shown on the quarterly consolidated statement of income.

II First six months of FY12/2016 (Jan. 1 – Jun. 30, 2016)

## 1. Information related to net sales and profit or loss for reportable segments (Thousands of yen)

|                                   | Reportable segment |                 |                 |           | Total     | Adjustments | Amounts shown on quarterly consolidated statement of income |
|-----------------------------------|--------------------|-----------------|-----------------|-----------|-----------|-------------|-------------------------------------------------------------|
|                                   | Cell Medicine      | Medical Support | Pharmaceuticals | Subtotal  |           |             |                                                             |
| Net sales                         |                    |                 |                 |           |           |             |                                                             |
| External sales                    | 419,478            | 631,768         | -               | 1,051,247 | 1,051,247 | -           | 1,051,247                                                   |
| Inter-segment sales and transfers | -                  | 2,140           | -               | 2,140     | 2,140     | (2,140)     | -                                                           |
| Total                             | 419,478            | 633,908         | -               | 1,053,387 | 1,053,387 | (2,140)     | 1,051,247                                                   |
| Segment profit (loss)             | (62,824)           | 28,895          | (142,727)       | (176,656) | (176,656) | 7,558       | (169,098)                                                   |

Notes: 1. The 7,558 thousand yen adjustment to segment loss includes an elimination for inter-segment transactions of 1,825 thousand yen and an adjustment of 5,733 thousand yen to non-current assets.

2. Segment loss is adjusted with operating loss shown on the quarterly consolidated statement of income.

*This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*