November 9, 2018

Summary of Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending December 31, 2018 (JGAAP)

Listed company's name: RaQualia Pharma Inc.
Listed on: Tokyo Stock Exchange (TSE)
Stock code: 4579
URL: https://www.raqualia.com/
Representative: Naoki Tani, President and CEO
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Scheduled date of filing of quarterly securities report: November 9, 2018
Scheduled date of dividend payment: —
Supplementary documents for quarterly results: None
Quarterly results briefing: None

(Amounts are rounded down to the nearest million yen.)

1. Consolidated financial results for the first nine months of the fiscal year ending December 31, 2018 (January 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
First nine months ended	million yen	%	million yen	%	million yen	%	million yen	%
September 30, 2018	532	(12.1)	(835)	—	(818)	—	(844)	—
September 30, 2017	606	—	(554)	—	(487)	—	(463)	—

Note: Comprehensive income Nine months ended September 30, 2018: (839) million yen [–%]
Nine months ended September 30, 2017: (499) million yen [–%]

	Earnings per share (Basic)	Earnings per share (Diluted)
First nine months ended	yen	yen
September 30, 2018	(41.47)	—
September 30, 2017	(24.16)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	million yen	million yen	%
September 30, 2018	4,454	4,148	92.8
December 31, 2017	5,064	4,887	96.2

Reference: Equity As of September 30, 2018: 4,136 million yen As of December 31, 2017: 4,870 million yen

2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2017	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2018	—	0.00	—		
Fiscal year ending December 31, 2018 (forecast)				0.00	0.00

Note: Revisions to the forecast of dividends most recently announced: None

3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2018	1,028	(27.6)	(1,018)	—	(996)	—	(1,024)	—	(50.31)

Note: Revisions to the forecasts of results most recently announced: None

* As the Company manages financial results annually, forecasts of results over a six-month period are omitted.

*** Notes**

(1) Changes in significant subsidiaries during the first nine months ended September 30, 2018 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

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

(3) Changes in accounting policies, changes in accounting estimates, and restatements of prior financial statements

a. Changes in accounting policies due to the revisions to accounting standards and other regulations: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2018	20,388,389 shares
As of December 31, 2017	20,295,236 shares

b. Total number of treasury shares at the end of the period

As of September 30, 2018	50 shares
As of December 31, 2017	50 shares

c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

For the first nine months ended September 30, 2018	20,362,125 shares
For the first nine months ended September 30, 2017	19,190,161 shares

*** Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

*** Appropriate use of financial forecasts and other special remarks**

(Caution concerning forward-looking statements)

Forward-looking statements provided in this document, including financial forecasts, are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future achievement. Actual results, etc. may differ materially from the forecasts depending on various factors.

Contents of attachment

1. Qualitative information regarding settlement of accounts for the first nine months

(1) Qualitative information regarding consolidated operating results

1) Financial results

During the first nine months ended September 30, 2018, the Japanese economy continued to gradually expand thanks to solid export growth, strong consumer spending, labor-saving-oriented corporate capital investment, etc. However, despite anticipated reconstruction demand, uncertainty surrounding the Japanese economy began to rise due to deteriorating consumer spending performance affected in various ways by hot weather conditions and natural disasters in addition to mounting overseas risks in the face of worsening economic disputes between the U.S. and China, concerns about a downturn in the European economy, growing geopolitical risks in the Middle East and other factors.

In the pharmaceutical sector, domestic pharmaceutical companies actively sought to buy or sell mainly long-listed drug products or businesses, pursuing business restructuring, with a focus on products whose patents had expired. The movements toward becoming specialty pharmaceutical companies specializing in the fields of specific disease and establishing carve-out ventures have a non-negligible effect on the licensing-out activities of drug discovery venture companies such as the Group.

Against this backdrop, the Group pushed ahead with research and development and sales activities, aiming to continuously generate compounds developed as pharmaceuticals, to expand its research and development portfolio, and to license out developed compounds.

During the period under review, CJ HealthCare Corporation (South Korea) ("CJ HealthCare (South Korea)"), to which the Company had licensed out tegoprazan (RQ-00000004/CJ-12420/brand name in South Korea (registered trademark in South Korea): K-CAB®; "tegoprazan"), obtained approval for the production and distribution of the compound from South Korea's Ministry of Food and Drug Safety ("MFDS") in July 2018. Consequently, the Company received a lump-sum payment associated with a milestone achievement. The above-mentioned approval by MFDS deemed tegoprazan to have an indication for not only erosive esophagitis (EE) but also gastro-esophageal reflux disease (GERD) including non-erosive reflux disease (NERD). This marked the world's first-ever approval obtained for a potassium-competitive acid blocker (P-CAB) for an indication for NERD. After the listing in that country's National Health Insurance Service drug price list is completed, tegoprazan is scheduled to be launched.

In its collaborative research activities, in August 2018, the Company terminated a collaborative research agreement with XuanZhu Pharma Co., Ltd. (headquarters: Shandong, China; CEO: Dr. Chengkon Shih) ("XuanZhu") on sodium channel Nav 1.7 selective blocker compound ("Nav 1.7 selective blocker compound"). Both parties have agreed to individually pursue research and development in the future, based on research results attributed to each of them. The Company and XuanZhu jointly made a poster presentation on the collaborative research results at the 17th World Congress on Pain (Boston, U.S.).

In our industry-academia-government collaboration activities, in August 2018, a collaborative research project carried out thus far with the University of Tokyo on TRPM8 blocker compounds (RQ-00434739) revealed the drug's potential as a new treatment of urologic diseases. We released the results at the International Continence Society 2018 held in Philadelphia, the U.S. in August 2018. We will continue to pursue research and development endeavors, based on results achieved through the collaborative research project.

Accordingly, financial results for the first nine months, the reporting period, were as follows. Business revenue for the period was 532 million yen (down 12.1% year on year), operating loss totaled 835 million yen (compared with operating loss of 554 million yen a year earlier), ordinary loss totaled 818 million yen (compared with ordinary loss of 487 million yen a year earlier), and loss attributable to owners of parent was 844 million yen (compared with loss attributable to owners of parent of 463 million yen a year earlier). Total business expenses were 1,368 million yen (up 17.9% year on year). This total mainly consists of research and development expenses (812 million yen, a 38.7% increase from the same quarter last year) and other selling, general and administrative expenses (499 million yen, a 12.7% increase from the same quarter last year). Phase I clinical trial expenses incurred in the U.K. and royalty payments under the patent license agreement are recorded under the research and development expenses and other selling, general and administrative expenses, respectively. In the first nine months, interest on securities of 22 million yen, foreign exchange losses of 14 million yen, and loss on redemption of investment securities of 14 million yen were recognized.

2) Research and development activities

Research and development expenses of the entire Group during the first nine months were 812 million yen. The main components of these activities were as follows:

i. RaQualia's research and development and collaborative research

Exploratory and discovery phase

In a project to evaluate a selective sodium channel blocker compound for indications such as inflammatory pain, the Company has discovered lead compounds and has been carrying out investigation of preclinical efficacy.

The Company continued collaborative research with one company.

Company	Start date	Content
Interprotein Corporation	February 2013	Collaboration on a specific protein-protein interaction (PPI) inhibitor for pain treatments

Note: The agreement on collaborative research with XuanZhu on Nav 1.7 selective blocker compound was terminated effective August 10, 2018.

Preclinical development phase

(a) Ghrelin receptor agonist (RQ-00433412)

The compound is under development for cancer-related anorexia/cachexia syndrome. The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

(b) TRPM8 blocker compounds (RQ-00434739)

The compound is under development for neuropathic pain (chemotherapy-induced cold allodynia). The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

(c) Motilin receptor agonist (RQ-00201894)

The compound is under development for gastroparesis, functional dyspepsia and post-operative ileus. The Company has completed the preclinical studies, including in vivo pharmacology studies, metabolism and pharmacokinetics studies, toxicity studies (GLP) and safety pharmacology studies (GLP), which were the prerequisite studies for Phase I clinical trials. So far, the Company has not detected any inadequacy for moving on to the next clinical development stage.

Clinical development phase

(a) 5-HT_4 partial agonist (RQ-00000010)

The compound is under development for gastroparesis, functional dyspepsia and chronic constipation. In August 2016, Virginia Commonwealth University, Parkinson's and Movement Disorders Center ("VCU") of the United States, a research partner of the Company, launched investigator-initiated clinical trials of the compound. These trials, while obtaining a research grant from The Michael J. Fox Foundation for Parkinson's Research, are currently under way as a clinical research program aimed to examine the safety and efficacy of the compound for managing gastroparesis, a complication of Parkinson's disease patients.

(b) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)

The compound is under development for gastro-esophageal reflux disease (RE/NERD), and the Company completed the Phase I clinical trials in Japan, following those in the U.S. Consultations are currently under way toward licensing out the compound by utilizing data on clinical trials in South Korea where development has been underway.

(c) 5-HT_{2B} antagonist (RQ-00310941)

Regarding this compound under development for irritable bowel syndrome with diarrhea (IBS-D) as a target indication, the Phase I clinical trials (for healthy adults and patients) and the preparation of a clinical trial summary report have been completed in the U.K.

ii. Status of development at licensee corporation

(a) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)

The compound is under development primarily for gastro-esophageal reflux disease (RE/NERD) by CJ HealthCare (South Korea), and that company obtained approval for the production and distribution of the compound from South Korea's Ministry of Food and Drug Safety ("MFDS") in July 2018. Consequently, the Company received a lump-sum payment associated with a milestone achievement. The above-mentioned approval by MFDS deemed tegoprazan to have an indication for not only erosive esophagitis (EE) but also gastro-esophageal reflux disease (GERD) including non-erosive reflux disease (NERD). This marked the world's first-ever approval obtained for a potassium-competitive acid blocker (P-CAB) for an indication for NERD. In addition, development continued smoothly in China.

(b) Serotonin 5-HT_{2A} and dopamine D_2 receptor blocker (ziprasidone)
The compound is under development for schizophrenia by Meiji Seika Pharma Co., Ltd., and is undergoing Phase III clinical trials in Japan. The agent has been marketed in 79 countries by Pfizer Inc. (U.S.), and accepted as a first-choice drug in its class according to treatment guidelines in the United States.

(c) EP4 antagonist (Galliprant®, RQ-00000007, AT-001, grapiprant, animal drug)
The compound was developed for pain management for pets by our licensee, Aratana Therapeutics Inc. (U.S.) ("Aratana (U.S.)"). In January 2017, the Company started selling it in the U.S. through Aratana (U.S.) and Elanco Animal Health (U.S.). The Company also obtained approval for sale of this compound from the European Medicines Agency (EMA) in January 2018, and started to make relevant preparations for its sale in Europe.

(d) Ghrelin receptor agonist (Entyce®, RQ-00000005, AT-002, capromorelin, animal drug)
The compound was developed for anorexia management for pets by Aratana (U.S.) and was launched for sale in October 2017 by Aratana (U.S.). While continuing the program to develop the compound as a cat anorexia management drug, Aratana (U.S.) launched long-term toxicity studies on cats in December 2016.

(e) EP4 antagonist (RQ-00000007, AAT-007, grapiprant)
In September 2018, RMX BioPharma Co., Ltd. (headquarters: Hangzhou, China; CEO: RuiPing Dong), a licensee of Askat Inc. ("Askat"), launched clinical trials in China with pain as a target indication. Preparations are currently under way also at Arrys Therapeutics Inc. (Massachusetts, U.S.), a licensee in the U.S. of AskAt, for implementing clinical trials.

(f) EP4 antagonist (RQ-00000008, AAT-008)
Preparations are currently underway at a licensee of AskAt for development.

(g) Cyclooxygenase-2 (COX-2) inhibitor (RQ-00317076, AAT-076)
Preparations are currently underway at a licensee of AskAt for implementing clinical trials.

(h) Selective sodium channel blocker (no compound code disclosed)
The compound was licensed out to Maruho Co., Ltd. ("Maruho") in December 2017. Currently, Maruho is carrying out development of curative medicines using this compound as an active ingredient.

(i) P2X7 receptor antagonist (RQ-00466479, AKP-23494954)
This compound was created through joint research with Asahi Kasei Pharma Corporation ("Asahi Kasei Pharma") and licensed out when the research moved to the preclinical development phase in March 2018. Currently, Asahi Kasei Pharma is carrying out relevant development to create a new therapeutic agent for neuropathic pain treatment using this compound as an active ingredient.

(2) Qualitative information regarding consolidated financial position

1) Analysis of assets, liabilities and net assets

Assets

Total assets as of September 30, 2018 were 4,454 million yen. The major components were 2,020 million yen in cash and deposits, 346 million yen in property, plant and equipment, and 1,760 million yen in investment securities.

Liabilities

Total liabilities as of September 30, 2018 were 306 million yen. The major components were 212 million yen in accounts payable - other and 46 million yen in accrued expenses.

Net assets

Total net assets as of September 30, 2018 were 4,148 million yen. The major components were 2,793 million yen in capital stock, 2,983 million yen in capital surplus, negative 1,630 million yen in retained earnings, and 12 million yen in subscription rights to shares. The equity ratio was 92.8%.

2) Analysis of cash flows

The balance of cash and cash equivalents (hereafter "cash") as of September 30, 2018 amounted to 2,119 million yen (compared with 1,798 million yen a year earlier), a decrease of 354 million yen compared with the beginning of the fiscal year under review.

The respective cash flows in the first nine months and the factors thereof are as follows.

Cash flows from operating activities

Net cash used in operating activities was 240 million yen (compared with 392 million yen used a year earlier). This is mainly attributable to the recording of loss before income taxes of 828 million yen, decrease in notes and accounts receivable - trade of 447 million yen, and decrease in advance payments of 168 million yen.

Cash flows from investing activities

Net cash used in investing activities was 203 million yen (compared with 940 million yen provided a year earlier). This is mainly attributable to the proceeds from redemption of securities of 113 million yen, proceeds from sales of investment securities of 203 million yen, proceeds from redemption of investment securities of 266 million yen, purchase of property, plant and equipment of 155 million yen, and purchase of investment securities of 625 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 99 million yen (compared with 11 million yen provided a year earlier). This is attributable to the proceeds from issuance of shares resulting from exercise of subscription rights to shares.

(3) Qualitative information regarding consolidated earnings forecasts

There has been no change to the figures contained in the "RaQualia announces the termination of an agreement to form a Joint Venture company in China and revisions to full-year FY12/18 consolidated earnings forecasts" announced on October 12, 2018. The Company carefully examines business revenue and business expenses whenever necessary, and in the case that any revisions are made to the expected earnings forecasts due to changes made to the estimated amounts for the fiscal year under review, the Company will make relevant announcements immediately.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2017	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	2,268,024	2,020,058
Accounts receivable - trade	448,738	856
Securities	328,957	109,694
Supplies	5,153	5,529
Advance payments - trade	189,743	21,604
Prepaid expenses	62,150	125,069
Other	19,631	33,841
Total current assets	3,322,398	2,316,655
Non-current assets		
Property, plant and equipment		
Buildings, net	100,442	91,379
Tools, furniture and fixtures, net	115,237	252,225
Leased assets, net	–	3,031
Total property, plant and equipment	215,680	346,636
Intangible assets		
Trademark right	4,945	4,327
Software	4,383	6,568
Other	626	950
Total intangible assets	9,955	11,845
Investments and other assets		
Investment securities	1,503,443	1,760,226
Long-term prepaid expenses	2,126	7,519
Other	10,584	11,785
Total investments and other assets	1,516,154	1,779,531
Total non-current assets	1,741,790	2,138,014
Total assets	5,064,188	4,454,669

(Thousands of yen)

	As of December 31, 2017	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	1,984	–
Lease obligations	–	741
Accounts payable - other	63,365	212,607
Accrued expenses	43,997	46,078
Income taxes payable	20,691	7,725
Accrued consumption taxes	13,907	–
Advances received	1,101	–
Deposits received	3,716	5,713
Total current liabilities	148,763	272,866
Non-current liabilities		
Lease obligations	–	2,594
Deferred tax liabilities	15,730	19,024
Asset retirement obligations	11,743	11,814
Total non-current liabilities	27,474	33,434
Total liabilities	176,237	306,300
Net assets		
Shareholders' equity		
Capital stock	2,741,249	2,793,458
Capital surplus	2,931,032	2,983,241
Retained earnings	(785,652)	(1,630,136)
Treasury shares	(21)	(21)
Total shareholders' equity	4,886,607	4,146,541
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(15,826)	(10,684)
Total accumulated other comprehensive income	(15,826)	(10,684)
Subscription rights to shares	17,168	12,512
Total net assets	4,887,950	4,148,369
Total liabilities and net assets	5,064,188	4,454,669

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income (cumulative)

(Thousands of yen)

	First Nine months ended September 30, 2017	First Nine months ended September 30, 2018
Business revenue	606,009	532,790
Business expenses		
Cost of business revenue	130,826	55,808
Research and development expenses	586,314	812,961
Other selling, general and administrative expenses	443,525	499,662
Total business expenses	1,160,666	1,368,432
Operating loss	(554,657)	(835,641)
Non-operating income		
Interest income	2,837	7,564
Interest on securities	28,622	22,902
Subsidy income	44,072	855
Other	1,054	2,999
Total non-operating income	76,586	34,321
Non-operating expenses		
Foreign exchange losses	7,571	14,704
Loss on valuation of compound financial instruments	1,450	1,450
Share issuance cost	–	1,408
Other	100	–
Total non-operating expenses	9,121	17,563
Ordinary loss	(487,192)	(818,883)
Extraordinary income		
Gain on sales of investment securities	17,647	4,577
Gain on bargain purchase	3,278	–
Total extraordinary income	20,926	4,577
Extraordinary losses		
Loss on sales of investment securities	199	–
Loss on redemption of investment securities	–	14,303
Total extraordinary losses	199	14,303
Loss before income taxes	(466,465)	(828,609)
Income taxes - current	1,722	16,038
Income taxes - deferred	(4,612)	(165)
Total income taxes	(2,889)	15,872
Loss	(463,575)	(844,481)
Profit attributable to non-controlling interests	–	–
Loss attributable to owners of parent	(463,575)	(844,481)

Consolidated statement of comprehensive income (cumulative)

(Thousands of yen)

	First Nine months ended September 30, 2017	First Nine months ended September 30, 2018
Loss	(463,575)	(844,481)
Other comprehensive income		
Valuation difference on available-for-sale securities	(35,538)	5,142
Total other comprehensive income	(35,538)	5,142
Comprehensive income	(499,113)	(839,339)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(499,113)	(839,339)
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statement of cash flows

(Thousands of yen)

	First Nine months ended September 30, 2017	First Nine months ended September 30, 2018
Cash flows from operating activities		
Loss before income taxes	(466,465)	(828,609)
Depreciation	61,301	86,262
Interest income	(2,837)	(7,560)
Interest income on securities	(28,622)	(22,902)
Foreign exchange losses (gains)	9,232	10,715
Loss (gain) on sales of securities	–	(30)
Subsidy income	(44,072)	(855)
Loss (gain) on valuation of compound financial instruments	1,450	1,450
Gain on bargain purchase	(3,278)	–
Loss (gain) on sales of investment securities	(17,448)	(4,577)
Loss (gain) on redemption of investment securities	–	14,303
Decrease (increase) in notes and accounts receivable - trade	67,766	447,881
Decrease (increase) in inventories	(3,114)	(376)
Increase (decrease) in notes and accounts payable - trade	16,818	(1,984)
Decrease (increase) in advance payments	(26,893)	168,139
Decrease (increase) in prepaid expenses	(59,804)	(62,918)
Increase (decrease) in accounts payable - other	(26,023)	(19,748)
Decrease (increase) in consumption taxes refund receivable	14,223	(13,310)
Increase (decrease) in accrued consumption taxes	–	(13,907)
Other, net	39,817	(3,694)
Subtotal	(467,950)	(251,722)
Interest and dividend income received	34,108	29,245
Proceeds from subsidy income	44,072	855
Income taxes paid	(2,296)	(19,064)
Net cash provided by (used in) operating activities	(392,065)	(240,687)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	340,462	–
Purchase of securities	(110,049)	–
Proceeds from redemption of securities	–	113,040
Purchase of property, plant and equipment	(80,788)	(155,141)
Purchase of intangible assets	(940)	–
Purchase of investment securities	(320,068)	(625,719)
Proceeds from sales of investment securities	1,096,847	203,747
Proceeds from redemption of investment securities	15,000	266,882
Other, net	(259)	(6,475)
Net cash provided by (used in) investing activities	940,203	(203,666)
Cash flows from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	11,274	99,741
Proceeds from issuance of subscription rights to shares	60	–
Purchase of treasury shares	(21)	–
Net cash provided by (used in) financing activities	11,313	99,741
Effect of exchange rate change on cash and cash equivalents	(5,706)	(9,551)
Net increase (decrease) in cash and cash equivalents	553,744	(354,163)
Cash and cash equivalents at beginning of period	1,244,490	2,473,916
Cash and cash equivalents at end of period	1,798,234	2,119,752

(4) Notes to quarterly consolidated financial statements

Notes on premise of going concern

No items to report.

Notes on significant changes in the amount of shareholders' equity

No items to report.

Segment information, etc.

[Segment information]

I. For the first nine months ended September 30, 2017 (January 1, 2017 to September 30, 2017)
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

II. For the first nine months ended September 30, 2018 (January 1, 2018 to September 30, 2018)
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

Significant subsequent event

Suspension of joint venture establishment

The Company resolved at the meeting of its Board of Directors held on October 12, 2018, to suspend a joint venture establishment process pursued to date with ZTE Coming Biotech Co., Ltd. (headquarters: Shanghai, China) ("ZTE Biotech"), and decided to terminate the agreement with the latter.

(1) Reason for suspension of joint venture establishment process
This was due to the fact that the joint venture establishment planned between the Company and ZTE Biotech was delayed as a result of ZTE Corporation, a major company of the ZTE Group, being subjected in April 2018 to U.S. government sanctions banning it from trading with U.S. companies, and that this made it challenging to obtain financing required for developing drugs in the future.

(2) Name of the other party to the agreement
ZTE Coming Biotech Co., Ltd

(3) Effective date
October 12, 2018

(4) Material effects of the agreement termination on operating activities
The termination of the joint venture establishment agreement with ZTE Biotech will not have any material effect on the Group's operating activities.