KYOWA CritiCare Co., Ltd.

Financial Statements for the Year Ended March 31, 2017, and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KYOWA CritiCare Co., Ltd.:

We have audited the accompanying balance sheet of KYOWA CritiCare Co., Ltd. (the "Company") as of March 31, 2017, and the related statements of operations, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KYOWA CritiCare Co., Ltd. as of March 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the Company changed its depreciation method for property, plant and equipment (excluding leased assets) from the declining-balance method to the straight-line method, except for buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998, to which the straight-line method has already been applied. Our conclusion is not qualified in respect of this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown in 'Supplementary Information 1-3' is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

Restriction on Distribution and Use

This report is intended solely for the information and use of the boards of directors and management of the Company, Lupin Limited and Kyowa Pharmaceutical Industry Co., Ltd., and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte Touche Tohmatsu LLC

April 28, 2017

KYOWA CritiCare Co., Ltd.

Balance Sheet
March 31, 2017

ASSETS	Thousands of Yen 2017	Thousands of Yen 2016
CURRENT ASSETS:		
Cash and cash equivalents (Note 11)	¥ 437,006	¥ 631,109
Receivables (Notes 9 and 11):		
Trade notes	363,613	407,795
Trade accounts	1,054,310	1,137,739
Electronically-recorded monetary claims - operating	631,850	573,347
Other	199,604	91,493
Allowance for doubtful receivables	(8,890)	
Income taxes receivable (Note 8)	44,135	
Inventories (Note 4)	1,969,544	1,762,137
Deferred tax assets (Note 8)		142,346
Prepaid expenses and other current assets	46,372	36,028
Total current assets	4,737,544	4,781,994
PROPERTY, PLANT AND EQUIPMENT (Note 5):		
Land	464,638	464,638
Buildings and structures	2,702,476	2,142,667
Machinery and equipment	2,808,219	1,561,891
Furniture and fixtures	334,099	236,301
Construction in progress	128,944	1,250,050
Total	6,438,376	5,655,547
Accumulated depreciation	(3,183,741)	(3,051,507)
Net property, plant and equipment	3,254,635	2,604,040
INVESTMENTS AND OTHER ASSETS:		
Lease deposits (Note 11)	65,971	66,521
Long-term prepaid expenses		33
Software	86,230	84,191
Trademark and licenses	17,138	19,418
Software in progress		15,574
Other assets	307	306
Total investments and other assets	169,646	186,043
TOTAL	¥ 8,161,825	¥ 7,572,077

LIABILITIES AND EQUITY	Thousands of Yen 2017	Thousands of Yen 2016
CURRENT LIABILITIES:		
Short-term borrowings (Notes 5, 9 and 11)	¥ 1,000,000	¥ 300,000
Current portion of long-term debt (Notes 5 and 11)	118,333	
Payables (Notes 9 and 11):		
Trade notes	327,427	774,273
Trade accounts	651,116	848,320
Electronically-recorded obligations - operating	636,913	
Notes and accounts payable - construction	52,902	33,140
Other	96,315	201,492
Income taxes payable (Note 8)		110,698
Deferred tax liabilities (Note 8)	4,669	
Accrued expenses	254,996	272,406
Other current liabilities (Note 9)	6,798	5,862
Total current liabilities	3,149,469	2,546,191
LONG-TERM LIABILITIES:		
Long-term debt (Notes 5 and 11)	1,381,667	1,100,000
Liability for retirement benefits (Note 6)	552,095	512,308
Customer deposits (Note 11)	8,349	9,084
Deferred tax liabilities (Note 8)	21,058	4,909
Other long-term liabilities	2,428	
Total long-term liabilities	1,965,597	1,626,301
EQUITY (Note 7):		
Common stock, authorized, 100,000,000 shares; issued, 31,616,000 shares in 2017 and 2016	100,000	100,000
Capital surplus:		
Additional paid-in capital	1,777,200	1,777,200
Other capital surplus	1,174,768	1,174,768
Retained earnings - Unappropriated (Accumulated deficits)	(5,209)	347,617
Total equity	3,046,759	3,399,585
TOTAL	¥8,161,825	¥7,572,077

See notes to financial statements.

KYOWA CritiCare Co., Ltd.

Statement of Operations
Year Ended March 31, 2017

	Thousands of Yen	
	2017	2016
NET SALES (Note 9)	¥6,175,754	¥5,772,550
COST OF SALES (Note 9)	4,927,614	4,199,393
Gross profit	1,248,140	1,573,157
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 10)	1,459,408	1,387,933
Operating (loss) income	(211,268)	185,224
OTHER INCOME (EXPENSES):		
Interest and dividend income	31	47
Interest expense (Note 9)	(7,368)	(2,316)
Loss on disposal of property, plant and equipment	(163)	(3,361)
Other - net (Note 9)	37,127	4,020
Other income (expenses) - net	29,627	(1,610)
(LOSS) INCOME BEFORE INCOME TAXES	(181,641)	183,614
INCOME TAXES (Note 8):		
Current	8,021	116,210
Deferred	163,164	(50,290)
Total income taxes	171,185	65,920
NET (LOSS) INCOME	¥ (352,826)	¥ 117,694

	Yen	
	2017	2016
PER SHARE OF COMMON STOCK (Note 2):		
Net (loss) income	¥(11.16)	¥3.72

See notes to financial statements.

KYOWA CritiCare Co., Ltd.

Statement of Changes in Equity
Year Ended March 31, 2017

	Thousands	Thousands of Yen				
			Capital Surplus			
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Other Capital Surplus	Retained Earnings	Total Equity
BALANCE, APRIL 1, 2015	31,616	¥100,000	¥1,777,200	¥1,174,768	¥ 229,923	¥3,281,891
Net income					117,694	117,694
BALANCE, MARCH 31, 2016	31,616	100,000	1,777,200	1,174,768	347,617	3,399,585
Net loss					(352,826)	(352,826)
BALANCE, MARCH 31, 2017	31,616	¥100,000	¥1,777,200	¥1,174,768	¥ (5,209)	¥3,046,759

See notes to financial statements.

KYOWA CritiCare Co., Ltd.

Statement of Cash Flows
Year Ended March 31, 2017

	Thousands of Yen	
	2017	2016
OPERATING ACTIVITIES:		
(Loss) income before income taxes	¥ (181,641)	¥ 183,614
Adjustments for:		
Income taxes paid	(162,854)	(5,531)
Depreciation and amortization	171,741	156,373
Loss on disposal of property, plant and equipment	163	3,361
Changes in assets and liabilities:		
Decrease (increase) in trade accounts receivable, trade notes receivable and electronically-recorded monetary claims - operating	69,108	(36,714)
Increase in other receivable	(108,111)	(87,955)
Increase in inventories	(207,407)	(509,121)
Increase in prepaid expenses and other current assets	(10,344)	(9,434)
(Decrease) increase in trade accounts payable, trade notes payable and electronically-recorded obligation - operating	(7,137)	77,843
(Decrease) increase in other payables	(105,177)	61,800
(Decrease) increase in accrued expenses	(17,410)	27,748
Increase in liability for retirement benefits	39,787	57,834
Increase in allowance for doubtful receivables	8,890	
Other - net	301	52,986
Total adjustments	(328,450)	(210,810)
Net cash used in operating activities	(510,091)	(27,196)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(773,248)	(1,306,005)
Purchases of software	(11,314)	(81,265)
Decrease (increase) in lease deposits	550	(147)
Other - net		(20,450)
Net cash used in investing activities	(784,012)	(1,407,867)
FINANCING ACTIVITIES:		
Increase in short-term borrowing	700,000	300,000
Proceeds from long-term debt	400,000	500,000
Net cash provided by financing activities	1,100,000	800,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(194,103)	(635,063)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	631,109	1,266,172
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 437,006	¥ 631,109

See notes to financial statements.

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying financial statements have been prepared from the accounts maintained by KYOWA CritiCare Co., Ltd. (the "Company") in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Revenue Recognition*** - Regarding goods sold to wholesalers, the significant risks and rewards of ownership of the goods are retained by the manufacturer until wholesalers sell them to their customers. Therefore, the sales of goods to certain wholesalers shall be recognized only after shipments from the wholesalers are confirmed. Other sales are recognized upon shipment of goods to customers.

b. ***Cash and Cash Equivalents*** - Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

c. ***Allowance for Doubtful Receivables*** - The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

d. ***Inventories*** - Inventories are stated at the lower of cost, determined by the moving average method, or market.

e. ***Property, Plant and Equipment*** - Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method (see Note 3). The range of useful lives is from 5 to 38 years for buildings, structures and attached facilities, from 3 to 10 years for machinery, equipment and vehicles, and from 2 to 20 years for furniture and fixtures.

f. ***Long-lived Assets*** - The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. ***Retirement and Pension Plans*** - The Company has an unfunded retirement benefit plan covering substantially all of its employees who meet eligibility requirements under the retirement allowance plan. Under the plan, employees are entitled to benefits based on level of salary, length of service, and certain other factors at the time of retirement or termination.

The Company accounts for the liability for retirement benefits based on projected benefit obligations at the balance sheet date.

Prior service cost and actuarial gain/loss are recognized at the time of occurrence.

In May 2012, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard and guidance for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

The revised accounting standard and guidance made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and guidance are effective for the beginning of annual periods beginning on or after April 1, 2014. No retrospective application of this accounting standard to financial statements in prior periods is required.

Retirement allowances for directors are recorded to state the liability at the amount that would be required if all directors retired at the balance sheet date.

h. ***Research and Development Costs*** - Research and development costs are charged to income as incurred.

i. ***Asset Retirement Obligations*** - In March 2008, the ASBJ issued the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard and guidance, an asset retirement obligation is defined as a legal obligation imposed either by law or by contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. ***Income Taxes*** - The provision for income taxes is computed based on the pretax income included in the statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying current enacted tax law to the temporary differences.

On March 31, 2016, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate was reduced from approximately 35.3% to 34.8% effective from the year beginning April 1, 2016, and to 34.6% effective from the year beginning April 1, 2018. The effect of these changes as of and for the year ended March 31, 2017 is immaterial.

On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework that included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit, temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The change had no effect on the financial statements of the Company.

k. ***Per Share Information*** - Net income per share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

l. ***Segment Information*** - Considering the similarity of products types, products characteristics, production methods and markets, all of the Company's business and operations belong to the "Pharmaceutical Segment," as the Company only manufactures and sells pharmaceutical products, and therefore, the Company does not disclose "Segment Information."

3. ACCOUNTING CHANGE

Change in Accounting Policy that Is Difficult to Distinguish from Change in Accounting Estimate

Effective April 1, 2016, the Company changed its depreciation method for property, plant and equipment (excluding leased assets) from the declining-balance method to the straight-line method, except for buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998, to which the straight-line method has already been applied.

This change is the result of a review of the actual usage patterns of the majority of the Company's property, plant and equipment and better matches the expenses with the related revenue that is generated.

The impact of this accounting change is immaterial for the year ended March 31, 2017.

4. INVENTORIES

Inventories as of March 31, 2017 and 2016, consisted of the following:

	Thousands of Yen	
	2017	2016
Merchandise	¥ 573,287	¥ 490,019
Finished products	1,002,684	815,692
Work in process	30,162	10,813
Raw materials and supplies	363,411	445,613
Total	¥1,969,544	¥1,762,137

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings were made under an agreement with banks at March 31, 2017 and with Kyowa Pharmaceutical Industry Co., Ltd. at March 31, 2016. The annual interest rate on short-term borrowings was 0.28% and 0.90% as of March 31, 2017 and 2016, respectively.

Long-term debt as of March 31, 2017 and 2016, consisted of the following:

	Thousands of Yen	
	2017	2016
Unsecured loans from banks, 0.35%, guaranteed by Lupin Limited (¥10,000 thousand maturing monthly beginning April 2017)	¥ 600,000	¥ 600,000
Unsecured loans from banks, 0.31%, guaranteed by Kyowa Pharmaceutical Industry Co., Ltd. (¥8,333 thousand maturing monthly beginning March 2018)	500,000	500,000
Unsecured loans from banks, 0.38%, guaranteed by Kyowa Pharmaceutical Industry Co., Ltd. (¥6,666 thousand maturing monthly beginning March 2019)	400,000	
Total	1,500,000	1,100,000
Less current portion	(118,333)	
Long-term debt, less current portion	¥1,381,667	¥1,100,000

Annual maturities of long-term debt as of March 31, 2017, were as follows:

Years Ending March 31:	Thousands of Yen
2018	¥ 118,333
2019	226,662
2020	309,988
2021	299,988
2022	299,988
2023 and thereafter	245,041
Total	¥1,500,000

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥200,000 thousand at March 31, 2017 were as follows:

	Thousands of Yen
Land	¥464,638
Building - net of accumulated depreciation	485,648
Total	¥950,286

6. RETIREMENT AND PENSION PLANS

Reconciliations of beginning and ending balances of the projected benefit obligations are as follows:

	Thousands of Yen	
	2017	2016
Projected benefit obligations at beginning of year	¥512,308	¥450,079
Service cost	47,366	43,806
Interest cost	512	1,800
Actuarial loss	449	22,072
Benefits paid	(8,540)	(5,449)
Projected benefit obligations at end of year	¥552,095	¥512,308

The components of net periodic benefit costs as of March 31, 2017 and 2016, were as follows:

	Thousands of Yen	
	2017	2016
Service cost	¥47,366	¥43,806
Interest cost	512	1,800
Recognized actuarial loss	449	22,072
Net periodic benefit costs	¥48,327	¥67,678

Assumptions used for the years ended March 31, 2017 and 2016, were as follows:

	2017	2016
Discount rate	0.2%	0.1%

In addition, the Company is a member of the "Tokyo Pharmaceutical Industry Employee Pension Fund." This multiemployer pension plan does not permit reasonable calculation of the value of the pension assets based on the Company's contributions. As a result, this multiemployer pension plan is excluded from the calculation of the projected benefit obligation. Required contributions to the plan are charged to income.

The contributions to such multiemployer plan, which are accounted for using the same method as a defined contribution plan, were ¥33,572 thousand and ¥34,132 thousand for the years ended March 31, 2017 and 2016, respectively.

7. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions of the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3,000 thousand.

(b) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 34.8% and 35.3% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets or liabilities as of March 31, 2017 and 2016, are as follows:

	Thousands of Yen	
	2017	2016
Current:		
Deferred tax assets:		
Inventories	¥ 110,084	¥ 34,653
Accrued expenses	83,254	84,961
Others	19,976	22,732
Less valuation allowance	(213,314)	
Total		142,346
Deferred tax liabilities:		
Accrued enterprise tax	(4,669)	
Net - current deferred tax (liabilities) assets	¥ (4,669)	¥ 142,346
Noncurrent:		
Deferred tax assets:		
Liability for retirement benefits	¥ 190,711	¥ 177,040
Property, plant and equipment	37,963	39,321
Others	3,664	10,626
Less valuation allowance	(232,338)	(209,323)
Total		17,664
Deferred tax liabilities:		
Reserve deductible for Japanese tax purposes	(21,058)	(22,573)
Net - noncurrent deferred tax liabilities	¥ (21,058)	¥ (4,909)

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying statement of operations for the year ended March 31, 2016, was as follows:

	2016
Normal effective statutory tax rate	35.3%
Inhabitant tax on per capita basis	2.0
Tax deduction for research and development expenses	(6.9)
Increase of valuation allowance for deferred tax assets	7.8
Others	(2.3)
Actual effective tax rate	35.9%

Reconciliation for the year ended March 31, 2017 was not presented because of the net loss for the period.

9. RELATED PARTY DISCLOSURES

Transactions of the Company with the parent companies for the years ended March 31, 2017 and 2016, were as follows:

	Thousands of Yen			
	2017		2016	
	Lupin Limited	Kyowa Pharmaceutical Industry Co., Ltd.	Lupin Limited	Kyowa Pharmaceutical Industry Co., Ltd.
Transactions:				
Sales		¥ 64,403		¥ 55,469
Cost of sales		9,486		22,608
Selling, general and administrative expenses	¥ 5,614	133,126	¥ 6,719	93,498
Purchase of software		165		
Other income		16,536		1,885
Interest expense		2,448		79
Balance:				
Trade accounts receivables		4,137		4,544
Other receivables		17,859		
Other payables	1,644	22,563	3,712	39,546
Other current liabilities				
Short-term borrowings				300,000
Off-balance-sheet transactions:				
Guarantee for long-term debt	600,000	900,000	600,000	500,000

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income, which are included in selling, general and administrative expenses, were ¥106,993 thousand and ¥107,826 thousand for the years ended March 31, 2017 and 2016, respectively.

11. FINANCIAL INSTRUMENTS

Policies for Financial Instruments

The Company uses financial instruments depending on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets.

Nature and Extent of Risks Arising from Financial Instruments and Risk Management

Trade notes receivable, trade accounts receivable, electronically-recorded monetary claims - operating, and other receivables which are part of operational assets are exposed to credit risk of customers. The risk is managed through monitoring of due dates/outstanding receivable balances and regular tracking of credit status of customers, following the Company's standard credit management procedures.

Trade notes payable, trade accounts payable, electronically-recorded obligations - operating notes and accounts payable - construction, and other payables which are part of operational liabilities are due within one year. Short-term borrowings are borrowed for operational activities, and long-term debt is used mainly for investment in fixed assets. Those operational liabilities and debt are exposed to liquidity risk, and the risk is managed through adequate financial planning by the accounting department.

Fair Value of Financial Instruments

The estimated fair values of financial instruments as of March 31, 2017 and 2016, are summarized as follows:

	Thousands of Yen		
	2017		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 437,006	¥ 437,006	
Trade notes receivable	363,613	363,613	
Trade accounts receivable	1,054,310	1,054,310	
Electronically-recorded monetary claims - operating	631,850	631,850	
Other receivables (deducting corresponding allowance for doubtful receivable)	193,005	193,005	
Short-term borrowings	1,000,000	1,000,000	
Trade notes payable	327,427	327,427	
Trade accounts payable	651,116	651,116	
Electronically-recorded obligations - operating	636,913	636,913	
Notes and accounts payable - construction	52,902	52,902	
Other payables	96,315	96,315	
Long-term debt (including current portion)	1,500,000	1,495,929	¥(4,071)

	Thousands of Yen		
	2016		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 631,109	¥ 631,109	
Trade notes receivable	407,795	407,795	
Trade accounts receivable	1,137,739	1,137,739	
Electronically-recorded monetary claims - operating	573,347	573,347	
Other receivables	91,493	91,493	
Short-term borrowings	300,000	300,000	
Trade notes payable	774,273	774,273	
Trade accounts payable	848,320	848,320	
Notes and accounts payable - construction	33,140	33,140	
Other payables	201,492	201,492	
Long-term debt	1,100,000	1,078,748	¥(21,252)

Carrying Amount of Financial Instruments whose Fair Values Cannot Be Reliably Determined

	Thousands of Yen	
	2017	2016
Lease deposits	¥65,971	¥66,521
Customer deposits	8,349	9,084

Method of Evaluating the Fair Value of Financial Instruments

Cash and cash equivalents, trade notes receivable, trade accounts receivable, electronically-recorded monetary claims - operating and other receivables:

- The carrying amounts approximate fair value because of the short maturities of these instruments.

Short-term borrowings, trade notes payable, trade accounts payable, electronically-recorded obligations - operating, notes and accounts payable - construction, and other payables:

- The carrying amounts approximate fair value because of the short maturities of these instruments.

Long-term debt:

- The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Company's assumed corporate borrowing rate.

(SUPPLEMENTARY INFORMATION)

1. PROPERTY, PLANT AND EQUIPMENT

The changes in acquisition cost and the related depreciation by asset type for the year ended March 31, 2017 were as follows:

		Thousands of Yen									
		Acquisition Cost				Accumulated Depreciation				Total Net	
Description	Useful Life (Years)	Balance, April 1, 2016	Increase	Decrease	Balance, March 31, 2017	Balance, April 1, 2016	Increase	Decrease	Balance, March 31, 2017	Balance, April 1, 2016	Balance, March 31, 2017
Land		¥ 464,638			¥ 464,638					¥ 464,638	¥ 464,638
Buildings and structures	5 - 38	2,088,304	¥ 559,809		2,648,113	¥1,376,828	¥ 66,151		¥1,442,979	711,476	1,205,134
Attached facilities	5 - 18	54,363			54,363	49,768	1,033		50,801	4,595	3,562
Subtotal		2,142,667	559,809		2,702,476	1,426,596	67,184		1,493,780	716,071	1,208,696
Machinery and equipment	8 - 10	1,524,252	1,246,728	¥ 400	2,770,580	1,383,727	58,705	¥ 400	1,442,032	140,525	1,328,548
Vehicles	3 - 7	37,639			37,639	36,129	366		36,495	1,510	1,144
Subtotal		1,561,891	1,246,728	400	2,808,219	1,419,856	59,071	400	1,478,527	142,035	1,329,692
Furniture and fixtures	2 - 20	236,301	109,939	12,141	334,099	205,055	18,357	11,978	211,434	31,246	122,665
Construction in progress		1,250,050	825,277	1,946,383	128,944					1,250,050	128,944
Total		¥5,655,547	¥2,741,753	¥1,958,924	¥6,438,376	¥3,051,507	¥144,612	¥12,378	¥3,183,741	¥2,604,040	¥3,254,635

2. COST OF SALES

The statement of cost of sales for the year ended March 31, 2017, was as follows:

	Thousands of Yen
Materials consumed	¥1,141,372
Labor costs:	
Salary/benefit	475,774
Legal benefit	74,226
Bonus	57,428
Retirement benefit expenses (Note 6)	28,660
Retirement pension contribution to multiemployer pension fund (Note 6)	18,739
Commuting transportation	13,094
Welfare	4,092
Manufacturing overhead:	
Outsourced processing	1,769,316
Utilities	144,041
Repairs and maintenance	77,299
Taxes and duties	22,154
Depreciation	123,128
Production consumable goods	94,461
Lease	2,729
Commissions paid	23,668
Temporary staffing cost	64,608
Other expenses	45,303
Total production expenses	4,180,092
Deduct - net change in work in progress	(19,349)
Total manufacturing cost	4,160,743
Merchandise and finished goods purchased	986,827
Other	50,304
Deduct - net change in merchandise and finished goods	(270,260)
Total cost of sales for the year	¥4,927,614

3. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The statement of selling, general and administrative expenses for the year ended March 31, 2017, was as follows:

	Thousands of Yen
Salary/benefit	¥ 381,162
Legal benefit	61,714
Bonus	42,419
Retirement benefit expenses (Note 6)	18,417
Commuting transportation	7,524
Retirement pension contribution to multiemployer pension fund (Note 6)	14,107
Advertisement	142
Freight	204,882
Sales promotion	27,380
Utilities	11,106
Research and development costs (Note 10)	106,993
Depreciation and amortization	33,579
Communication	9,004
Travel	84,426
Lease	79,197
Rent	30,445
Commissions paid	98,776
Temporary staffing cost	32,582
Repairs and maintenance	19,535
Insurance premium	3,182
Taxes and duties	2,520
Tools	15,588
Consumable goods	6,279
Entertainment	1,186
Provision for allowance for doubtful receivables	8,890
Other	158,373
Total selling, general and administrative expenses for the year	¥1,459,408

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