

November 14, 2022

To whom it may concern,

Company Name: Nichi-Iko Pharmaceutical Co., Ltd.  
Representative: Yuichi Tamura, President & CEO  
(Securities Code: 4541, TSE Prime Market)  
Contact: Susumu Kanda, Executive Vice President,  
President Office Director  
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**Notice Regarding Issuance of New Shares by Third-Party Allotment, Partial Amendment of Articles of Incorporation, Share Consolidation, Abolition of Provisions on Share Units, Reduction of Capital and Capital Reserve Amounts, Appropriation of Surplus, and Change in Parent Company and Largest Shareholder (Major Shareholder)**

At the Board of Directors meeting held today, it was resolved to carry out an issuance of common shares of the Company (the “New Shares”) through a third-party allotment to Godo Kaisha JSD (the “Allottee”), which is managed and operated by J-Will Partners Co., Ltd. (“JWP”), with a total paid-in amount of JPY 20 billion (the “Third-Party Allotment;” such Third-Party Allotment will be carried out through the Third-Party Allotment 1 and Third-Party Allotment 2 as described in “1. Outline of Offering” in “II. Issuance of New Shares Through Third-Party Allotment” below). It was also resolved at the Board of Directors meeting held today to implement share consolidation through which 70,384,700 common shares of the Company into one share and cash totaling approximately JPY 2.5 billion (JPY 36 per share) would be paid to minority shareholders other than Allottee (the “Share Consolidation”) after the implementation of the Third-Party Allotment, so that the Allottee would become the sole shareholder of the Company.

The foregoing resolutions have been adopted with the understanding that the Allottee intends to make the Company become a wholly-owned subsidiary of the Allottee as a result of the Third-Party Allotment and the subsequent Share Consolidation (the “Transaction”), and that the common shares will be de-listed.

We plan to convene an extraordinary general meeting of shareholders in February 2023 (the “EGM”) to submit proposals regarding the Third-Party Allotment, a partial amendment of the Articles of Incorporation to increase the total number of authorized shares as necessary to carry out the Third-Party Allotment, the reduction of the amounts of capital and capital reserves (the “Capital Reduction”) and the application of the other capital reserves that would increase as a result of the Capital Reduction against the negative retained earnings carried forward (the “Appropriation of Surplus”) subject to the payment for the New Shares, and the election of directors nominated by the Allottee subject to the payment for the New Shares (the “Third-Party Allotment Related Proposals”), and proposals regarding the Share Consolidation and a partial amendment of the Articles of Incorporation relating to the abolition of share units (together with the Third-Party Allotment Related Proposals, the “Proposals”). The implementation of the Third-Party Allotment is subject to the approval of the Proposals at the EGM, among other conditions, and the effectiveness of the Share Consolidation is subject to the completion of the Third-Party Allotment.

In addition, we also announce the Company’s parent company and largest shareholder (major shareholder) are expected to be changed through the Third-Party Allotment.

## I. Outline of Procedures and Schedule

The Transaction through the Third-Party Allotment and subsequent Share Consolidation will be implemented substantially in accordance with the following procedures:

- (i) The Proposals will be submitted to the EGM;
- (ii) If the proposed business turnaround plan formulated by the Company (the “Business Turnaround Plan Proposal”) being adopted by an agreement of all creditors covered by the Business Turnaround ADR (the “Covered Creditors”) at the creditors meeting for the resolution of the proposed business turnaround plan (the third creditors meeting) under the specified certified dispute resolution procedure under the Act on Strengthening Industrial Competitiveness (the “Business Turnaround ADR”), the approval of the Proposals at the EGM, the obtainment clearances from relevant authorities in each jurisdiction that is required for the implementation Third-Party Allotment, such as each local competition authority’s permission or notification regarding Third-Party Allotment, the New Shares for the Third-Party Allotment will be issued, and the Allottee will become the parent company and largest shareholder of the Company (the total number of voting rights to be held by Allottee (6,334,623 votes) will be 90.00% of the total number of voting rights of the Company (7,038,470 votes; representing the total of such voting rights and the total number of voting rights of the Company as of September 30, 2022 (703,847 votes));
- (iii) Subject to the issuance of all of the New Shares for the Third-Party Allotment, the Share Consolidation will become effective as of the effective date would occur after the issuance, and the Allottee consequently will become the sole shareholder of the Company;
- (iv) The Company will pay cash totaling approximately JPY 2.5 billion (JPY 36 per share) to the minority shareholders of the Company other than Allottee (fractional shares arising as a result of the Share Consolidation are expected to be handled by the Company purchasing the fractional common shares with the permission of the court pursuant to the provisions of the Companies Act, and delivering to the shareholders the price obtained from the sale).

Assuming that all of the New Shares under the Third-Party Allotment are issued in March 2023, the outline of the schedule (scheduled) for the procedures regarding the Transaction is as follows. Since the actual schedule will depend on the timing of the passage of the Business Turnaround ADR and the issuance of all of the New Shares for the Third-Party Allotment, and the Company will announce it once actual schedule is fixed.

Date of Resolution at the meeting of the Board of Directors regarding the Third-Party Allotment	Monday, November 14, 2022
Date of public notice of record date for EGM	Tuesday, November 15, 2022 (scheduled)
Record date for EGM	Wednesday, November 30, 2022 (scheduled)
Date of the creditors meeting to resolve proposed business turnaround plan under Business Turnaround ADR (third creditors meeting)	Late December 2022 or later (scheduled)
Date of EGM	February 2023 (scheduled)
Date of issuance of the New Shares under the Third-Party Allotment	Around March 2023 (scheduled)
Designation of common shares as securities to be de-listed on the Tokyo Stock Exchange	Around March 2023 (scheduled)
Last trading date for common shares on the Tokyo Stock Exchange	Around March to April 2023 (scheduled)
Date of de-listing of common shares on the Tokyo Stock Exchange	Around March to April 2023 (scheduled)
Effective Date of Share Consolidation	Around late March to April 2023 (scheduled)

## II. Issuance of New Shares through Third-Party Allotment

### 1. Outline of Offering

#### (1) Third-Party Allotment 1 (Note 1)

(i) Payment period	From March 1, 2023 to March 31, 2023 (Note 2)
(ii) Number of shares to be newly issued	126,692,460 shares of common stock
(iii) Amount to be paid in	JPY (20,000,000,000 / 633,462,300) (approximately JPY 31.57) per share
(iv) Aggregate amount to be paid in	JPY 4,000,000,000
(v) Method of offering or allotment(Allottee)	Third-party allotment. (Godo Kaisha JSD)
(vi) Other	<p>Each of the foregoing items is subject to the effectiveness of the securities registration under the Financial Instruments and Exchange Act of Japan, the Business Turnaround Plan Proposal being adopted by the agreement of the Covered Creditors at a creditors meeting to be held in or after late December 2022 for the resolution of the proposed business turnaround plan (third creditors meeting) under the Business Turnaround ADR, the approval of the Proposals at the EGM to be held in February 2023, obtaining clearance from the relevant authorities in each jurisdiction that is required for the implementation Third-Party Allotment, such as the relevant competition authorities of Japan and the U.S.</p> <p>The 633,462,300 New Shares (6,334,623 voting rights) to be issued in the Third-Party Allotment represent 887.42% of the total of 71,382,652 shares issued by the Company and outstanding as of September 30, 2022 (900.0% of the 703,847 voting rights as of September 30, 2022).</p> <p>Therefore, the dilution ratio in the Third-Party Allotment will be greater than 25% and the Third-Party Allotment will constitute a major third-party allotment as provided in Note 23-6 to Form 2 of the Cabinet Office Order on Disclosure of Corporate Affairs. Moreover, as described in “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” under “(1) Background of Third-Party Allotment” under “2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment” below, the Allottee will constitute a special subscriber due to the Third-Party Allotment. Therefore, the resolution of the EGM will serve as approval of the allotment of offered shares to a special subscriber by resolution of a general meeting of shareholders as provided for in Article 206-2(4) of the Companies Act.</p> <p>The Allottee who will become a special subscriber will not have voting rights at the EGM.</p>

(Note 1) Third-Party Allotment 1 and Third-Party Allotment 2 are expected to be implemented simultaneously and it is not anticipated that only one will be implemented.

(Note 2) In relation to Third-Party Allotment 1, it has been resolved that the period from March 1, 2023 through March 31, 2023 shall be the payment period under the Companies Act. This period was

determined because the issuance of the New Shares is subject to the Business Turnaround Plan Proposal being adopted by the agreement of the Covered Creditors, among other conditions as stated in Section (vi) above, the Allottee is unable to make the payment until such conditions are fulfilled, and it is impossible to accurately forecast the time at which these conditions will be fulfilled.

(2) Third-Party Allotment 2 (Note 1)

(i)	Payment period	From March 1, 2023 to March 31, 2023 (Note 2)
(ii)	Number of shares newly issued	506,769,840 shares of common stock
(iii)	Amount to be paid in	JPY (20,000,000,000 / 633,462,300) (approximately JPY 31.57) per share
(iv)	Aggregate amount to be paid in	JPY 16,000,000,000
(v)	Method of offering or allotment (Allottee)	Third-party allotment. (Godo Kaisha JSD)
(vi)	Other	<p>Each of the foregoing items is subject to the effectiveness of the securities registration under the Financial Instruments and Exchange Act of Japan, the Business Turnaround Plan Proposal being adopted by the agreement of the Covered Creditors at a creditors meeting to be held in or after late December 2022 for the resolution of the proposed business turnaround plan (third creditors meeting) under the Business Turnaround ADR, the approval of the Proposals at the EGM to be held in February 2023, the effectiveness of the partial amendments to the Articles of Incorporation within the Third-Party Allotment Related Proposals, obtaining clearance from the relevant authorities in each jurisdiction that is required for the implementation Third-Party Allotment, such as the relevant competition authorities of Japan and the U.S. and other permits, approvals, etc. necessary for the execution of the Third-Party Allotment, etc.</p> <p>The 633,462,300 New Shares (6,334,623 voting rights) to be issued in the Third-Party Allotment represent 887.42% of the total of 71,382,652 shares issued by the Company and outstanding as of September 30, 2022 (900.0% of the 703,847 voting rights as of September 30, 2022).</p> <p>Therefore, the dilution ratio in the Third-Party Allotment will be greater than 25% and the Third-Party Allotment will constitute a major third-party allotment as provided in Note 23-6 to Form 2 of the Cabinet Office Order on Disclosure of Corporate Affairs. Moreover, as described in “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” under “(1) Background of Third-Party Allotment” under “2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment” below, the Allottee will constitute a special subscriber due to the Third-Party Allotment. Therefore, the resolution of the EGM will serve as approval of the allotment of offered shares to a special subscriber by resolution of a general meeting of shareholders as provided in Article 206-2(4) of the Companies Act.</p> <p>The Allottee who will become a special subscriber will not have voting</p>

(Note 1) Third-Party Allotment 1 and Third-Party Allotment 2 are expected to be implemented simultaneously and it is not anticipated that only one will be executed. Under Article 113(3) of the Companies Act, if a public company such as the Company amends its articles of incorporation to increase the total number of authorized shares, the total number of authorized shares after such amendment may not exceed four times the total number of issued shares as of the time the amendment became effective. Based upon the total number of shares issued by the Company as of September 30, 2022 (71,382,652 shares), it would be impossible to conduct a single amendment of the Articles of Incorporation increasing the total number of authorized shares so that all of the New Shares from the Third-Party Allotment could be issued. Therefore, as described below, the amendments to the Articles of Incorporation to increase the total number of authorized shares will be carried out in two stages. Specifically, there will first be an amendment of the Articles of Incorporation to authorize the issuance of no more than four times the total number of shares issued by the Company as of September 30, 2022 (71,382,652 shares) (“Articles of Incorporation Amendment 1”), and then, conditional upon the issuance of 750,000,000 New Shares for Third-Party Allotment 1, the Articles of Incorporation will be amended to authorize the issuance of 126,692,460 shares (“Articles of Incorporation Amendment 2”). The issuance of 506,769,840 New Shares for Third-Party Allotment 2 will be conditional upon the effectiveness of Articles of Incorporation Amendment 2. The issuance of 126,692,460 New Shares for Third-Party Allotment 1, the effectiveness of Articles of Incorporation Amendment 2, and the issuance of 506,769,840 New Shares for Third-Party Allotment 2 will all take place on the same day.

(Note 2) In relation to Third-Party Allotment 2, it has been resolved that the period from March 1, 2023 to March 31, 2023 shall be the payment period under the Companies Act. This period was determined because the issuance of the New Shares is subject to the Business Turnaround Plan Proposal being adopted by the agreement of the Covered Creditors, among other conditions as stated in Section (vi) above, the Allottee is unable to make the payment until such conditions are fulfilled, and it is impossible to accurately forecast the time at which these conditions will be fulfilled.

## 2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment

### (1) Background of Third-Party Allotment

Since its foundation in 1965, the Company has developed a core business of manufacturing and selling highly affordable medical drugs in order to meet the expectations of people who wish to have healthy lives, and we have grown to become one of the largest specialized manufacturers of generic drugs in Japan in terms of consolidated sales. While the rate of usage of generic drugs has risen to close to 80%, the level set by the government in June 2017 as a target to be achieved by September 2020, drug price reductions due to annual drug price adjustments and the like are expected to adversely impact on earnings, and therefore the circumstances require a certain level of increased competitiveness in the generic drug industry in which we operate.

In this tough competitive environment, we formulated our eighth medium-term business plan, “NEXUS∞” (from FY March 2020 to FY March 2022), in May 2019. Aiming to accomplish further progress toward becoming a global general manufacturer of generic drugs by optimizing the three synergies of “territory,” “cost,” and “human resources” generated through expanded and grown alliances with various business partners, and promoting businesses focused on patients and their families, with a theme of “Better than the Best,” we carried out the four fundamental strategies of (1) further deepening and progress of business areas, (2) pursuing thorough optimization of operations, (3) quality assurance and strengthened competitiveness to global standards, and (4) ensuring trust as a life science company (Note) based on ESG activities.

(Note) “Life science company” means a company that researches a wide range of technologies concerning

drugs, food products, chemicals, etc. that are closely related to “survival,” “eating,” and “lifestyle,” the basics of human life.

Amid this situation, we were the subject of a disposition for suspension of business operations pursuant to the Act on Securing Quality, Efficacy and Safety of Products including Pharmaceuticals and Medical Devices issued by Toyama Prefecture in March 2021. Although production and shipment of the products have gradually recommenced at Toyama Plant 1 that was subject of a disposition for suspension of business operations, under strict quality evaluation, shipment have not yet recommenced for certain products scheduled for manufacturing. Furthermore, due to the suspension of production and shipment by Kobayashi Kako Co., Ltd. (“Kobayashi Kako”) in December 2020, our consolidated subsidiary Elmed Co., Ltd. (“Elmed”) suspended the sale of products that it had subcontracted to manufacture. As a result, our sales have been reduced due to the quality issues at Toyama Plant 1 and Kobayashi Kako. Annually implemented drug price reductions have also adversely impacted the structure of our revenue.

Moreover, due to an overall revision in the fiscal year ending March 2022 of the development plans for biosimilars (follow-up products to biopharmaceuticals) and orphan drugs (drugs for rare diseases), in which we have been making ongoing investments in our North American business, we accrued impairment losses of JPY 84.13 billion in the fiscal year ending March 2022, mainly in relation to goodwill accrued from investments in our North American business and intangible assets concerning the development of biosimilars and orphan drugs. Due to the accrual of losses of JPY 104.984 million attributable to owners of parent in the fiscal year ending March 2022, the ratio of owners’ equity to gross assets was reduced from 30.6% at the fiscal year ending March 2021 to 5.1% at the fiscal year ending March 2022. Therefore, our consolidated and non-consolidated financial statements for the fiscal year ending March 2022 contained a “Note Regarding Going Concern Assumptions” on the basis that there were events or conditions that raised material doubt as to the assumption that we would be a going concern. Furthermore, as announced in our “Notice Regarding Accrual of Impairment Losses” dated November 8, 2022, our “Notice Regarding Accrual of Impairment Losses (Progress of Disclosed Matters)” dated November 14, 2022, and our “Report for the First Half of the 59<sup>th</sup> Fiscal Year” dated November 14, 2022, in light of Sagent Group having accrued operating losses in the fiscal year ending March 2022 and the first quarter of the fiscal year ending March 2023 (operating losses of JPY 38.998 billion in the fiscal year ending March 2022 and JPY 1.805 billion in the first quarter of the fiscal year ending March 2023) and the development of the business in the U.S. market, we conducted impairment testing under International Financial Reporting Standards (IFRS) and accrued impairment losses in the second quarter of the fiscal year ending March 2023 on the fixed assets of Sagent Group, including goodwill, and had negative equity of JPY 35,626 million as a result of losses of JPY 54,817 million attributable to owners of parent.

Considering the challenging business climate and financial condition, and aiming to drastically improve our financial condition and establish a firm earnings structure for future re-growth, we resolved at our Board of Directors meeting on May 13, 2022 to apply to use the Business Turnaround ADR, and made a formal application to the Japanese Association of Turnaround Professionals (an association that has been certified by the Minister of Justice and has been accredited as a specified certified dispute business operator by the Minister of Economy, Trade and Industry) to use the Business Turnaround ADR. This was accepted on the same day, and together with the Japanese Association of Turnaround Professionals, we sent a notice requesting temporary suspension pursuant to Article 20 of the Implementation Regulations on the Act on Strengthening Industrial Competitiveness (that there would be no collection of claims, creation of security, or petition for the commencement of bankruptcy, civil rehabilitation, corporate reorganization, reorganization under the provisions of the Act on Special Measures for the Reorganization Proceedings of Financial Institutions, or special liquidation proceedings during a period decided with the consent of all creditors, etc.) (“Temporary Suspension Notice”) to the Covered Creditors on the same day.

Thereafter, we held a creditors meeting with the Covered Creditors on May 26, 2022 (first creditors meeting) to explain the business turnaround plan proposal pursuant to the Business Turnaround ADR, and

received the Covered Creditors' consent to the Temporary Suspension Notice and their approval to the extension of the temporary suspension period until the end of the third creditors meeting (including any extended or continued date if there was an extension or continuance with the consent of all Covered Creditors) to approve the business turnaround plan proposal.

The Covered Creditors confirmed the priority of the loan claims for the funds drawn down pursuant to a JPY 70 billion line of credit extended by our main bank, Sumitomo Mitsui Banking Corporation ("Sumitomo Mitsui Bank"). For the details of the Business Turnaround ADR, please see our "Notice of Formal Application and Acceptance of Business Turnaround ADR" released May 13, 2022 and "Notice Regarding Approval at First Creditors Meeting on Business Turnaround ADR" dated May 26, 2022.

Amid such circumstances, the formulation of the Business Turnaround Plan Proposal in the Business Turnaround ADR required us to realize a fundamental improvement to our financial condition in the form of a capital strengthening for the purposes of escaping from the aforementioned challenging business environment, establishing a stronger earnings structure, drastically improving our financial strength, and continuing our growth. We received an indication of the possibility of an investment by Japan Industrial Solutions III Investment Limited Partnership ("JIS"), and after appointing Mori Hamada & Matsumoto as legal advisor and Deloitte Tohmatsu Financial Advisory LLC ("Deloitte Tohmatsu Financial Advisory") as financial advisor, we executed a Basic Agreement on Investment ("Basic Agreement") with JIS on May 13, 2022, and agreed to have good-faith discussions aimed at the execution of a definitive investment agreement. For the details of the Basic Agreement, please see our "Notice of the Execution of Basic Agreement on Investment with Japan Industrial Solutions III Investment Limited" released on May 13, 2022. Thereafter, following our formal application to use the Business Turnaround ADR, we held discussions with JIS regarding the optimal scale and form of an investment based upon the terms of the Basic Agreement, but also made requests to around 40 sponsor candidates, including business corporations and financial investors, to consider investing as sponsor candidates, seeking out the possibilities for financing on terms and conditions beneficial to the Company. As a result of this sponsor search, we came to receive final expressions of intent from several sponsor candidates, including the Allottee. Thereafter, we determined that the Allottee was the optimal sponsor candidate after a general analysis from the standpoint of the terms of financial support to be requested from the Covered Creditors, amount of capital financing that could be provided to the Company, provision of capital financing at the time desired by the Company and probability of realization of the same, approach to our management and business after participating as a sponsor in order to turn around the Company, content and viability of policies for medium and long-term business continuation and improvement of future company growth through business structural reforms, and the like.

JWP is an investment fund management company that manages and operates Godo Kaisha JSD, the Allottee. Founded in April 2003, JWP currently manages more than JPY 425 billion in cumulative assets funded by institutional investors as an independent investment fund management company. We have been told that it has a track record of approximately 200 investments in domestic companies and businesses, including restructuring support to Anabuki Construction Inc. (Takamatsu City, Kagawa Prefecture) and Emori Group Holdings Co., Ltd. (Fukui City, Fukui Prefecture), and growth support through the management buyout (MBO) take-private transaction of ND Software Co., Ltd. We have been told that the investors in the JWP Fund are Japanese financial institutions, pension funds, funds of funds, and business corporations. The health care field is an area of focus for JWP, and we have been told that it has a track record of involvement in restructuring, growth, and business succession support for more than 30 Japanese hospitals, clinics, care facilities, and adjacent businesses (software companies, pharmacies, chemical drug manufacturers, etc.). We have been told that JWP considers it important for our restructuring to resolve our issues and realize our intrinsic value through formulation of steady business strategies, strengthening of management systems, support of financial reorganization, etc. based upon the broad network and rich track record of JWP.

In making its proposal to provide sponsor support to the Company, the Allottee has told us that it has come

to believe in the importance of (i) strengthening quality assurance and quality management systems and (ii) realizing improvements to sales and productivity through strengthened relations with specific wholesalers by proactively involving knowledge, networks, etc. from other industries, not just relying upon what is within the generic drug industry, to produce a rehabilitation of the Company. Specifically, (i) in relation to strengthening quality assurance and quality management systems, the Allottee believes it is important to swiftly recommence manufacturing of all products that we plan to manufacture and build systems for the stable supply of assured-quality drugs through third-party personnel exchange in the production and quality assurance areas and other proactive utilization of third-party knowledge, in addition to strengthening the Company itself through improvements to recruitment and management processes, etc. Furthermore, (ii) in relation to realizing improvements to sales and productivity through strengthened relations with specific wholesalers, through the alliance with MEDIPAL HOLDINGS CORPORATION (“MEDIPAL”) with whom we executed a capital and business alliance agreement in August 2021, the Allottee has come to believe that it is important to realize improvements to sales and productivity by specifying the alliance model of “Plan Orders, Plan Production” and building production systems based upon demand. In addition, the Allottee believes that the working capital and capital investment funding described in “(2) Specific Use and Time of Expenditure of Procured Financing” of “3. Amount, Use, and Time of Expenditure of Procured Financing” below is necessary in realizing these fundamental structural reforms, and that a capital infusion of around JPY 20 billion is necessary for the same.

Moreover, Allottee has told us that an assumption considered by them in making such a large-scale capital injection in comparison to the market capitalization of the Company is that in light of the severe business environment and lack of certainty surrounding the Company, it is necessary to build a system to execute swift and fundamental rehabilitation measures by taking the Company private.

Specifically, the Allottee believes that a large-scale capital injection while the Company remains listed would only dramatically dilute the holdings of the minority shareholders of the Company, and while the subsequent business structural reforms would contribute to improvements to our business in the medium to long term, it is inappropriate to carry out the business structural reforms while the Company remains listed and expose the minority shareholders of the Company to further risks because profitability in the short term would be reduced and there would be risks if the business structural reforms were unsuccessful; therefore, the Allottee believes that taking the Company private after paying reasonable compensation to the minority shareholders of the Company would contribute to the interests of the minority shareholders of the Company. In particular, Allottee believes that the payment of an amount to minority shareholders that includes a premium over the amount paid in for the Third-Party Allotment would be a relief measure for the minority shareholders of the Company at this stage due to the circumstances, namely that we would otherwise be forced to request a considerable amount of debt relief, etc. from Covered Creditors in the Business Turnaround ADR considering the large amount of future losses, etc., our actual stock value being significantly lower than the market price, and the extreme difficulty of financing cash flow from operations if a large-scale capital injection is not implemented soon, taking into consideration our future cash flows, and our current situation in which, due to the accrual of losses of JPY 104.984 billion attributable to owners of parent in the fiscal year ending March 2022, the ratio of owners’ equity to gross assets was reduced from 30.6% at the end of March 2021 to 5.1% at the end of March 2022, and as announced in our “Notice Regarding Accrual of Impairment Losses” dated November 8, 2022, our “Notice Regarding Accrual of Impairment Losses (Progress of Disclosed Matters)” dated November 14, 2022, and our “Report for the First Half of the 59<sup>th</sup> Fiscal Year” dated November 14, 2022, in light of Sagent Group having accrued operating losses in the fiscal year ending March 2022 and the first quarter of the fiscal year ending March 2023 (operating losses of JPY 38.998 billion in the fiscal year ending March 2022 and JPY 1.805 billion in the first quarter of the fiscal year ending March 2023) and the development of the business in the U.S. market, we conducted impairment testing under International Financial Reporting Standards (IFRS) and accrued impairment losses in the second quarter of the fiscal year ending March 2023 on the fixed assets of Sagent



Group, including goodwill, and had negative equity of JPY 35,626 million as a result of losses of JPY 54,817 million attributable to owners of parent.

We gave careful consideration to the sponsorship proposal by the Allottee dated September 26, 2022, as it not only entailed a major dilution of our current shareholders, but also included a de-listing of the Company and would have a material effect on all of the minority shareholders of the Company.

First, we contacted multiple sponsor candidates prior to the proposal from the Allottee, discussed support for the Company, and determined in the sponsor selection that the Allottee was the optimal sponsor candidate after a general analysis from the perspective of the situation surrounding the Company as described above, including the terms of financial support to be requested from the Covered Creditors, amount of capital financing that could be provided to the Company, provision of capital financing at the time desired by the Company and probability of realization of the same, approach to our management and business after participating as a sponsor in order to turn around the Company, content and viability of policies for medium and long-term business continuation and improvement of future company growth through business structural reforms, and the like.

Furthermore, in the process of advancing consideration of rehabilitation policies with the Allottee since mid-October 2022, we came to believe that strengthening quality assurance and quality management systems, realizing improvements to sales and productivity through strengthened relations with specific wholesalers, and other swift and fundamental business reforms are essential for the rehabilitation of the Company, and we determined that the terms of the proposal by the Allottee conformed to our views as providing for practical and specific terms for the realization of our growth in the medium to long term. As a large-scale capital injection is essential to fundamentally improve our financial condition, and the failure to quickly achieve a large-scale capital injection would risk difficulty in continuing our business due to the extreme difficulty in financing cash flow from operations, leading to further risks to the minority shareholders of the Company from reduced share prices and the like, we held sincere discussions with multiple sponsor candidates, and based on multiple rounds of negotiations with Allottee, which indicated the conditions that we believe to be most optimal from the standpoint of the terms of financial support to be requested from the Covered Creditors, amount of capital financing that could be provided to the Company, provision of capital financing at the time desired by the Company and probability of realization of the same, approach to our management and business after participating as a sponsor in order to turn around the Company, content and viability of policies for medium and long-term business continuation and improvement of future company growth through business structural reforms, and the like, we ultimately reached an agreement today, and have determined that the conditions are the best that the Company can offer to the minority shareholders of the Company. Moreover, we came to decide that promoting the integration of the Company with the Allottee through the Transaction and de-listing and a flexible and agile management strategy ((i) strengthening quality assurance and quality management systems and (ii) realizing improvements to sales and productivity through strengthened relations with specific wholesalers as described above) was the best option, as it was believed to contribute the most to the continuation of our group's business and its medium and long-term growth and avoid causing further risks for the minority shareholders of the Company. We have also received an expression of strong intent from the Allottee to be involved in the aforementioned (i) strengthening quality assurance and quality management systems and (ii) realizing improvements to sales and productivity through strengthened relations with specific wholesalers in cooperation with the Company group and JWP aiming for the realization of our growth from a medium and long-term standpoint after the Transaction, and have determined that the Allottee is the optimal sponsor candidate.

From the standpoint described above, and from the standpoint of supporting both the financing and the business of the Company, we believe that the proposal from the Allottee to provide sponsor support is the best option to improve the enterprise value of the Company, and is also the best option for the minority shareholders of the Company considering the current state of the Company.

## (2) Reasons for Selecting Third-Party Allotment

Before deciding to carry out the Third-Party Allotment, we compared and considered various financing methods. At the time, considering that a large-scale capital injection is essential to fundamentally improve our financial condition, and the failure to quickly achieve a large-scale capital injection would cause extreme difficulty in financing cash flow from operations, as described in “(1) Background of Third-Party Allotment” above, we believed that the most important factor was having an assured expectation of raising the necessary funds on our desired timeline.

In this regard, we determined that if, for example, we issued common stock through a public offering, it would be difficult to carry out a public offering underwritten by a securities company due to the fact that our consolidated financial statements for the second quarter of the fiscal year ending March 2022 contained a “Note Regarding Going Concern Assumptions” and the Company had negative equity of JPY 35,626 million, as announced in the “Report for the First Half of the 59<sup>th</sup> Fiscal Year” dated November 14, 2022. Furthermore, we determined that a rights offering or allocation to shareholders would not be an appropriate option at this time when the Company needs to raise the necessary amount with a degree of certainty, as all of the share options may not be exercised by the shareholders after considering the share price trends and the like, and it may be that not all of the shareholders accept their allotments, so the final amount of funds raised would be undetermined.

In contrast, we believed that a third-party allotment provided for the highest level of assurance that the necessary amount would be raised, and if an appropriate sponsor could be selected, it would be an appropriate option for the Company. As described in “(1) Background of Third-Party Allotment” above, we received an expression of interest in investment from JIS, and executed a Basic Agreement with JIS on May 13, 2022. Thereafter, we held discussions with JIS regarding the optimal scale and form of an investment based upon the terms of the Basic Agreement, but also continued to analyze the possibility of support including provision of funds through investment, etc. with multiple other sponsor candidates, seeking out the possibilities for financing on terms and conditions beneficial to the Company. As a result, we commenced discussions regarding the Third-Party Allotment with the Allottee, the sponsor candidate that indicated the most desirable terms and conditions for the Company. Thereafter, while considering the terms proposed by the Allottee, we continued to discuss and negotiate with the Allottee regarding the optimal scale and form of an investment, and came to determine that receiving a total investment of JPY 20 billion by a third-party allotment through an issuance of New Shares to Allottee would be the best option for the Company at this time.

If the New Shares were allocated to the Allottee through the Third-Party Allotment, the Allottee would come to hold 6,334,623 voting rights, which would be 90.00% of the total voting rights of the Company (7,038,470 votes; representing the total of such voting rights and the total number of voting rights of the Company as of September 30, 2022 (703,847 votes)), and Allottee would be a special subscriber as provided in Article 206-2(1) of the Companies Act. In this regard, at the Board of Directors meeting held today, three directors who are members of the Audit Committee (including two outside directors who are members of the Audit Committee) expressed an opinion that considering the current financial conditions of the Company and its future outlook including with regard to cash flows, raising funds from the Allottee through a Third-Party Allotment and receiving sponsor support through the Transaction is believed to presently be transaction of existential importance for the Company, and the amounts paid in through the Third-Party Allotment and paid to the minority shareholders of the Company through the disposition of fractional shares following the Share Consolidation have been determined by the Board of Directors of the Company and deemed appropriate in light of the need to obtain the agreement of Covered Creditors to a considerable amount of debt relief, etc. in order to obtain sponsor support through the Transaction and considering the valuation of the common shares in the Company as described in the “Share Valuation Report” dated November 14, 2022 (“Share Valuation Report”) and the opinions described in the Opinion dated November 14 that the amounts expected to be paid for new shares and delivered to minority shareholders in the company through the handling of fractional shares in the share combination are appropriate from a financial viewpoint for all

shareholders of the company other than the Allottee (Fairness Opinion) (“Fairness Opinion”), 2022 received from Akasaka International Accounting Co., Ltd. (“Akasaka International Accounting”) through the Special Committee (defined in “9. Procedures Under Corporate Code of Conduct” below), from the standpoint of which the sponsor support through the Transaction is deemed to be a necessary and reasonable transaction for the Company, and it is reasonable to conduct the Third-Party Allotment with the Allottee which constitutes a special subscriber as provided in Article 206-2(1) of the Companies Act. No outside director has expressed an opinion contrary to the decision by the Board of Directors.

### 3. Amount, Use, and Time of Expenditure of Procured Financing

#### (1) Amount of Procured Financing

(i)	Total Amount Paid	JPY 20,000,000,000
(ii)	Estimated Expenses of Issuance	JPY 235,200,000
(iii)	Estimated Net Amount Received	JPY 19,764,800,000

(Note 1) “Estimated Expenses of Issuance” does not include consumption tax, etc.

(Note 2) “Estimated Expenses of Issuance” is principally the total of shareholder meeting related expenses, registration related expenses, financial advisor fees, and share valuation fees.

#### (2) Specific Uses of Procured Financing and Expected Expenditure Dates

	Specific Use	Amount (JPY 100 MM)	Expected Expenditure Date
(i)	Working capital	JPY 8.5 billion	April 2023 to March 2025
(ii)	Financing for capital investment	JPY 11.3 billion	April 2023 to March 2025

(Note) Funds will be managed in bank accounts until they are actually expended.

As described in “(1) Background of Third-Party Allotment” under “2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment” above, we plan to apply the funds raised from the Third-Party Allotment to working capital and financing for capital investment as provided below in order to quickly realize and establish a firm earnings structure for future re-growth, including strengthening quality assurance and quality management systems so as to build systems for the stable supply of quality-assured drugs and speedily resume manufacturing of all planned products, as well as sales and production efficiency improvements by building demand-based production systems through strengthened relationships with specified wholesalers.

#### (i) Working Capital

As described in “(1) Background of Third-Party Allotment” under “2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment” above, due to the accrual of losses of JPY 104.984 million attributable to owners of parent in the fiscal year ending March 2022, the ratio of owners’ equity to gross assets was reduced from 30.6% at the end of March 2021 to 5.1% at the end of March 2022. Therefore, our consolidated and non-consolidated financial statements for the fiscal year ending March 2022 contained a “Note Regarding Going Concern Assumptions” on the basis that there were events or conditions that raised material doubt as to the assumption that we would be a going concern. We also had negative equity of JPY 35,626 million as a result of losses of JPY 54,817 million attributable to owners of parent in the second quarter of the fiscal year ending March 2023. Rationalization of our operating cash flow is therefore an issue for the continuation of our business, and we therefore plan to apply JPY 8.5 billion to necessary working capital until our business structural reforms have been completed, as will still be necessary after obtaining the consent to the debt relief that is requested from the Covered Creditors. The principal items are expected to be costs of raw materials, personnel, and procurement for the manufacturing and sale of generic drugs. We have not currently determined the

itemized amounts and timing of the expenditures. If the use of funds and timing of expenditures has changed, we will provide appropriate timely disclosure as necessary.

(ii) Financing for Capital Investment

We plan to apply JPY 11.3 billion to capital investment concerning safety strengthening, realization of appropriate production systems, etc. in the production line at Toyama Plant 1. We have not currently determined the itemized amounts and timing of the expenditures. If the use of funds and timing of expenditures has changed, we will provide appropriate timely disclosure as necessary.

4. Approach to Reasonableness of Use of Funds

We aim to improve our revenue, stabilize our cash flow, and grow our business in the medium to long term by applying the funds raised through the Third-Party Allotment to fund business structural reforms aimed at fundamental improvement of our financial condition and investments in safety, etc. at the production line at Toyama Plant 1 (for an itemization, please see “(2) Specific Use and Time of Expenditure of Procured Financing” under “3. Amount, Use, and Time of Expenditure of Procured Financing”). We will simultaneously realize stable and long-term growth in our business by strengthening our equity capital and financial condition.

We believe that we can thereby contribute to improving the enterprise value of the Company through the Third-Party Allotment, and have determined that the aforementioned use of funds is reasonable for the Company.

5. Reasonableness of Issuance Terms, Etc.

(1) Calculation Basis and Specific Terms of Payment Amount

In relation to the method and terms of investment, as described in “(1) Background of Third-Party Allotment” under “2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment” above, we conducted sincere discussions with each sponsor candidate considering the business environment, financial condition, demand for financing, share price, and the like of the Company. As a result, we decided that the amount paid for the New Shares will be approximately JPY 31.57 as proposed by the Allottee as a sponsor candidate, the most desirable terms for the Company from the standpoint of the terms of financial support to be requested from the Covered Creditors, amount of capital financing that could be provided to the Company, provision of capital financing at the time desired by the Company and probability of realization of the same, approach to our management and business after participating as a sponsor in order to turn around the Company, content and viability of policies for medium and long-term business continuation and improvement of future company growth through business structural reforms, and the like, aiming to raise funds on the terms most beneficial to the Company.

The amount paid for the New Shares represents a discount of 91.28% (rounded to the nearest hundredth; the same applies to discounts to share prices provided below) to the closing price (“Closing Price”) of the Company’s common stock on the Tokyo Stock Exchange, Inc. (“Tokyo Stock Exchange”) of JPY 362 as of November 11, 2022, the business day before the date of the resolution of the Board of Directors concerning the Third-Party Allotment (“Board Resolution Date”), a discount of 92.84% (rounded to the nearest whole number; the same applies to discounts to simple average Closing Prices provided below) to the simple average Closing Price of JPY 441 during the one-month period immediately preceding the Board Resolution Date (October 12 through November 11, 2022), a discount of 92.39% to the simple average Closing Price of JPY 415 during the three-month period immediately preceding the same (August 12 through November 11, 2022), and a discount of 91.88% to the simple average Closing Price of JPY 389 during the six-month period immediately preceding the same (May 12 through November 11, 2022).

As stated above, considering that the amount paid for the New Shares was ultimately decided as the result of sincere discussions and negotiations with the Allottee, the sponsor candidate that indicated the terms and conditions that we believed to be most desirable for us after sincere discussions with multiple sponsor candidates, the conditions require us to request a considerable amount of debt relief, etc. from Covered

Creditors in the Business Turnaround ADR, including a large amount of future losses, etc., and the circumstances in which the capital financing on the scale of JPY 20 billion as described in “(2) Specific Use and Time of Expenditure of Procured Financing” under “3. Amount, Use, and Time of Expenditure of Procured Financing” above is essential, we have determined that these are currently the best terms and conditions for the Company.

As the amount to be paid differs from the market price, for the analysis of the Consultation Items (as defined in “9. Procedures Under Corporate Code of Conduct” below), the Special Committee requested that a third-party appraiser, Akasaka International Accounting, express an opinion as to the fairness to the minority shareholders of the Company from a financial perspective of the calculation of the valuation of the common shares in the Company and the money expected to be delivered to the shareholders through the payment for the New Shares and the handling of fractional shares in the Share Consolidation (the “Expected Share Consolidation Payment Amount”). The third-party appraiser, Akasaka International Accounting, is not a related party of the Company or the Allottee and has no notable material conflict of interest in relation to the Third-Party Allotment. The compensation of Akasaka International Accounting is a fixed amount that is paid regardless of the success or failure of the Third-Party Allotment and Transaction, and does not include any contingent compensation that is conditional upon the completion of the Third-Party Allotment and Transaction.

Having analyzed the valuation methods for the common shares of the Company, from among the (i) average market price method, (ii) comparable company method, and (iii) discounted cash flow method (“DCF Method”), Akasaka International Accounting used the DCF Method to value the common shares of the Company, and the Special Committee has obtained a Share Valuation Report from Akasaka International Accounting dated November 14, 2022.

The Special Committee has also obtained the Fairness Opinion from Akasaka International Accounting.

According to the Share Valuation Report, the valuation range for each common share of the Company calculated based on each method is as follows:

DCF Method: JPY 0 to 41

Akasaka International Accounting used the (iii) DCF Method in the valuation of the common shares of the Company for the following reasons.

First, regarding the (i) average market price method, it was explained that this method was not used since the forecast earnings of the Company and the like were not announced as of the preparation of the Share Valuation Report, and speculative trading based on optimistic scenarios relating to the announced Business Turnaround ADR may have had a certain effect on price formation, and therefore it was believed to be likely that the material effects on the continued business of the Company that could be expected if the Business Turnaround ADR failed or the Third-Party Allotment and Transaction did not occur were not adequately reflected in the share price, and the effect on the share price due to the lack of appropriate information disclosure, a precondition to using the average market price method, could not be ignored.

Furthermore, regarding the (ii) comparable company method, it was explained that this method was not used because the standard financial indicators generally used in this calculation method such as income, net assets, and EBITDA were each negative in the Company’s most recent financial statements, making this method impossible to use appropriately.

On the other hand, the (iii) DCF Method used in calculating the value of the Company common shares is a calculation method based upon future cash flow (profitability) from the business and is thought to be one appropriate method of valuation assuming the continuation of the business. The Share Valuation Report explains that the business plan we provided to Akasaka International Accounting has been considered, and a valuation of the shares has been calculated through the DCF Method based upon the future cash flows under

the business plan as of the calculation reference date.

The DCF Method evaluates enterprise value based upon the cash flow forecast to be generated in and after the second quarter of the fiscal year ending March 2023, considering the revenue forecast, investment plan, etc. under the business plan we prepared for the period from the fiscal year ending March 2023 until the fiscal year ending March 2027 and other assumptions thought to be reasonable, discounted to present value at a fixed discount rate based upon business risk. The weighted average cost of capital (WACC) of 9.3% to 11.5% has been used as the discount rate, the perpetual growth rate method has been used for the going concern value calculation, and the perpetual growth rate has been calculated as -1.0% to 1.0%, resulting in a valuation range per common share of JPY 0 to 41.

The specific financial forecasts of the Company that were used by Akasaka International Accounting as assumptions in the DCF Method calculation are as follows.

These financial forecasts do not assume that the debt relief that we will request from the Covered Creditors will be granted or that the Transaction including the Third-Party Allotment will be executed.

The financial forecasts of the Company that were used by Akasaka International Accounting as assumptions in the DCF Method calculation include fiscal years in which large-scale changes in income are expected. Specifically, in the fiscal year ending March 2023, we expect to have a large-scale increase in income due to the implementation of resumed production at Toyama Plant 1, advancement of “Plan Orders, Plan Production” (Note) with MEDIPAL, other production and sales improvements, as well as fixed cost reductions, expense reductions, product mix improvements, and other cost reduction measures. In the fiscal years ending March 2024 through March 2027, we expect to have further large-scale year-on-year increases in income due to the advancement of “Plan Orders, Plan Production” with MEDIPAL, other sales and production improvements, fixed cost reductions, expense reductions, product mix improvements, and other cost reduction measures.

Synergy effects that are anticipated through the execution of this transaction were not considered in those financial forecasts as the effects on the Company’s income are currently difficult to estimate.

(Unit: JPY 100 MM)

	FY March 2023 (9 months)	FY March 2024	FY March 2025	FY March 2026	FY March 2027
Sales	141,878	135,379	118,998	119,140	119,431
Operating Profit	(7,481)	(947)	6,877	10,384	12,971
EBITDA	(3,224)	3,451	11,496	15,431	18,214
Free Cash Flow	(6,623)	37,276	9,595	5,644	7,931

(Note) “Plan Orders, Plan Production” refers to a policy under which the medical drug wholesaling companies in the MEDIPAL group send planned orders to the Company, leading to rationalized production schedules and efficient inventory management at the Company.

In relation to the DCF Method used in the Share Valuation Report, the Share Valuation Report calculates the value of the shares assuming that the Company’s business will continue following the end of the plan period and does not expect that it will be difficult to continue business during or after the plan period due to causes such as being unable to obtain backup lines from financial institutions. In this regard, the Share Valuation Report notes a view that if such difficulty in continuing business were expected, there may be a lower share valuation than that which was calculated through the DCF Method in the Share Valuation Report.

As stated above, we have determined that the amount to be paid in the Third-Party Allotment

(approximately JPY 31.57) is reasonable even in light of the Share Valuation Report and Fairness Opinion obtained from a third-party appraiser through the Special Committee. As this amount represents a major discount from the most recent market price of the shares of the Company, and is a particularly beneficial amount for the Allottee, we have made the issuance of the common shares in the Third-Party Allotment conditional upon the approval of a special resolution at the EGM.

(2) Basis for Determining that Issued Quantity and Scale of Share Dilution are Reasonable

633,462,300 New Shares (with 6,334,623 voting rights) will be issued in the Third-Party Allotment, representing 887.42% of the 71,382,652 total shares in the Company issued and outstanding as of September 30, 2022 and 900.00% of the 703,847 total voting rights in the Company as of September 30, 2022.

Therefore, the Third-Party Allotment is expected to cause an extremely large-scale dilution. On the other hand, we believe that the execution of the Third-Party Allotment can be deemed reasonable even considering the large-scale dilution occurring from the Third-Party Allotment considering the conditions, as stated above, that (i) there is a recognized need for the Company to raise a large amount of funds, and while the scale of the issuance in the Third-Party Allotment is large, the scale has been set as necessary to obtain financing on the scale thought to be essential for the Company, as described in “(2) Specific Use and Time of Expenditure of Procured Financing” under “3. Amount, Use, and Time of Expenditure of Procured Financing” above, (ii) the Third-Party Allotment with the Allottee is the most appropriate method of financing when compared to other financing methods, and (iii) the amount paid for the New Shares also represents the best terms and conditions available to the Company in light of our severe financial condition, and the results of our discussions with multiple sponsor candidates regarding the possibility of support and our discussions and negotiations with the Allottee, and can be determined to be fair and reasonable in light of the common share valuation calculations shown in the Share Valuation Report.

Furthermore, as described in “V. Share Consolidation for Conversion to Wholly-Owned Subsidiary” below, as the Company has entered a state of negative equity, we believe that we have provided the best conditions possible to the minority shareholders of the Company with regard to the proposals relating to the Third-Party Allotment, the partial amendments of the Articles of Incorporation to increase the number of authorized shares, and the Share Consolidation, because we will carry out lawful procedures with the approval of the shareholders of the Company by proposing them at the EGM, and moreover, the Share Consolidation will ultimately result in the payment of cash to the minority shareholders of the Company in an amount (JPY 36) that includes a 14.02% (rounded to the nearest hundredth; the same applies to premium percentages below) premium in addition to the amount paid for the New Shares in the Third-Party Allotment (approximately JPY 31.57), which amount was, as described above, ultimately agreed after multiple rounds of negotiations with the Allottee, the sponsor candidate that indicated the terms and conditions thought to be most desirable by the Company after sincere discussions with multiple sponsor candidates amid requests to Covered Creditors for a considerable amount of debt relief under conditions where the failure to realize a large-scale capital infusion would worsen our financial performance and financial condition and make it difficult to continue our business, causing further risks to the minority shareholders of the Company through share price decreases and the like.

A resolution or decision for a third-party allocation that exceeds a dilution rate of 300% constitutes a delisting event unless the Tokyo Stock Exchange has determined that there is no risk of infringement of the interests of shareholders and investors, generally considering the purpose of the third-party allocation, the ownership of the allottees, the conditions of the implementation of the change in the total number of authorized shares, and other terms and conditions (Tokyo Stock Exchange Securities Listing Regulations, Rules 601.1(15) and 601.12(6); Guidelines concerning Listed Company Compliance, etc., Section IV.10). In this regard, we believe that the execution of the Third-Party Allotment can be deemed reasonable even considering the large-scale dilution occurring due to the Third-Party Allotment, for the reasons provided in (i) through (iii) above. Furthermore, we believe that the terms and conditions are the best that we can provide

to minority shareholders and that the Third-Party Allotment would have minimal risk of infringing the interests of shareholders and investors and would not constitute a delisting event because, as described in “V. Share Consolidation for Conversion to Wholly-Owned Subsidiary” under “III. Partial Amendments to Articles of Incorporation to Increase Number of Authorized Shares” above, we will carry out lawful procedures with the approval of the shareholders of the Company by making proposals relating to the Third-Party Allotment, the partial amendments of the Articles of Incorporation to increase the number of authorized shares, and the Share Consolidation at the EGM, and as described in “3. Basis for Amount Expected to be Delivered to Shareholders for Handling Fractional Amounts in Share Consolidation” under “V. Share Consolidation for Conversion to Wholly-Owned Subsidiary,” the Share Consolidation will ultimately result in the payment of cash to the minority shareholders of the Company in an amount (JPY 36) that includes a 14.02% premium in addition to the amount paid for the New Shares in the Third-Party Allotment (JPY 31.57), which amount was, as described above, ultimately agreed after multiple rounds of negotiations with the Allottee, the sponsor candidate that indicated the terms and conditions thought to be most desirable by the Company after sincere discussions with multiple sponsor candidates amid requests to Covered Creditors for a considerable amount of debt relief under conditions where the failure to realize a large-scale capital infusion would worsen our financial performance and financial condition and make it difficult to continue our business, causing further risks to the minority shareholders of the Company through share price decreases and the like.

#### 6. Reasons for Selection of Allottee, Etc.

##### (1) Overview of Allottee

(i)	Name	Godo Kaisha JSD	
(ii)	Address	1-4 Shimomiyabicho, Shinjuku-ku, Tokyo	
(iii)	Name and Title of Representatives	Representative Member: General Incorporated Association JHH Managing Member: Shingo Kaminaga	
(iv)	Nature of Business	Holding, management, purchase, and sale of securities	
(v)	Capital	JPY 300,000	
(vi)	Formation Date	May 12, 2022	
(vii)	Principal Holders of Interests and Holding Ratios	General Incorporated Association JHH 100.00%	
(viii)	Relationships between the parties	Capital Relationships	None.
		Personal Relationships	None.
		Transactional Relationships	None.
		Affiliated Party Status	None.

(Note 1) We have been told that Godo Kaisha JSI (“JSI”) and MEDIPAL plan to make silent partnership (*tokumei kumiai*) investments in the Allottee in the respective percentages of 80% and 20% prior to the execution of the Third-Party Allotment.

We have been told that JSI is a limited liability company (*godo kaisha*) managed and operated by JWP and formed for the principal purpose of making a silent partnership (*tokumei kumiai*) investment in the Allottee, and that an investment fund managed and operated by JWP (the “JWP Fund”) has invested in it. As described in “(4) Confirmation of Assets Required for Payment by Allottee” below, the principal investors in the JWP Fund are Japanese financial institutions, pension funds, funds of funds, and



business corporations, and the partners of the JWP Fund are obligated to make investments if they have received a capital call.

We have been told that MEDIPAL plans to make a silent partnership (*tokumei kumiai*) investment in the Allottee prior to the execution of the Third-Party Allotment following an approach from JWP, as the Allottee has come to believe that an alliance with MEDIPAL is important to the rehabilitation of the Company, as described in “(1) Background of Third-Party Allotment” under “2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment” above.

(Note 2) We have requested that a third-party investigative organization, JP Research & Consulting Inc. (Representative Director: Keisuke Furuno; Address: Toranomom Annex 6F, 3-7-12 Toranomom, Minato-ku, Tokyo), conduct an investigation as to whether Allottee, JWP, JSI, JWP Fund which plans to invest in JSI, and their respective officers and those of their respective subsidiaries (“Allottee Related Persons”) constitute criminal organizations or other anti-social forces or have any relationships with anti-social forces, and we have received a report from this company. This report did not state that any Allottee Related Persons were anti-social forces or that any Allottee Related Persons had any relationships with anti-social forces. Moreover, in the Sponsor Agreement that we executed with the Allottee as of today (the “Sponsor Agreement”), we have received representations and warranties from the Allottee that it does not constitute anti-social forces and has no relationships with anti-social forces. Based on the foregoing, we have determined that the Allottee Related Persons are not anti-social forces and have no relationships with anti-social forces, and have submitted a confirmation letter (third-party allotment) to the Tokyo Stock Exchange indicating that there are no relationships between the allottee and anti-social forces. We have also carried out interviews with JWP to make the necessary and possible confirmations in relation to the investors in the JWP Fund other than the Allottee Related Persons, and we have determined that the investors in the JWP Fund other than the Allottee Related Persons are not anti-social forces and have no relations with anti-social forces.

In relation to MEDIPAL, as MEDIPAL is listed on the Prime Market of the Tokyo Stock Exchange, we have determined that MEDIPAL and its officers have no relationships with anti-social forces by confirming through the Tokyo Stock Exchange website that MEDIPAL has stated, in the “Basic Approach Toward Exclusion of Anti-Social Forces and Implementation Status” section of the Corporate Governance Report submitted to the Tokyo Stock Exchange (most recently updated on August 18, 2022), that “We have established “Management and Thorough Compliance to Increase Shareholder Value” as one of our management policies. We firmly refuse any demands for benefits, etc. from anti-social forces, and will remain resolute and uncompromising.”

## (2) Reasons for Selecting Allottee

Please see “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” above regarding our reasons for selecting the Allottee.

We have executed the Sponsor Agreement with the Allottee regarding matters relating to sponsor support, including the investment in the Company, which includes the following terms.

### (i) Our Principal Obligations

- (a) To make best efforts to cause the Business Turnaround Plan Proposal to be adopted by agreement of all Covered Creditors in the Business Turnaround ADR
- (b) To make best efforts to hold the EGM and cause the Proposals to be approved

### (ii) Allottee’s Principal Obligations

- (a) To provide utmost cooperation to the Company and the persons conducting the Business Turnaround ADR so as to carry out the Business Turnaround ADR, cause the Business Turnaround Plan Proposal to be adopted, and perform the Business Turnaround Plan Proposal

- (b) To refrain from transferring, etc. to any third party the shares, etc. of the Company that it holds within 3 years after the payment date for the Third-Party Allotment without the prior written consent of the Company

(3) Holding Policy of Allottee

We have received a strong statement of intent from the Allottee that it plans to cooperate with our group and JWP so as to grow the Company from a medium to long-term perspective following the Third-Party Allotment, and an explanation that it currently plans to hold the New Shares allocated in the Third-Party Allotment for the medium to long term.

We expect to obtain a confirmation letter from the Allottee no later than the payment date to the effect that the Allottee agrees, for two years from the payment date, if it has transferred all or part of the New Shares obtained through the Third-Party Allotment, to report to us in writing immediately regarding the name and address of the transferee, number of shares transferred, transfer date, transfer price, reasons for transfer, manner of transfer, etc., and that we may report the content of this report to the Tokyo Stock Exchange and make them available for public inspection.

(4) Confirmation of Assets Required for Payment by Allottee

We have received a report from the Allottee that it is able to complete preparation of the funds required for the payment no later than the payment date by requesting the contribution of funds from its investors. Moreover, through confirmation of the investment commitment letters obtained from JWP Fund, which plans to invest in JSI, and JSI, questioning of JWP, and the Balance Certificate issued by the JWP Fund's bank dated November 10, 2022, we have confirmed that the limited partners who are investors in the JWP Fund have promised to make cash contributions in the JWP Fund up to a certain maximum amount in the investment limited liability partnership agreement for the JWP Fund (such amount, the "Committed Investment Amount"), that each limited partner is obligated to make a cash contribution to the extent of their respective Committed Investment Amount minus the amount they have already invested (the "Uninvested Performance Amount") if they have received a notice from the general partner of the JWP Fund requesting that they perform a money investment (a "Capital Call"), and that even if certain limited partners do not perform their investment obligations, the general partner, JWP, can request an additional investment by the other limited partners for the unperformed amount up to their respective Uninvested Performance Amounts, and therefore, the total of the funds that the JWP Fund can procure from its investors through a Capital Call demand for funds after the announcement of the Third-Party Allotment, together with the balance of deposited funds held by the JWP Fund, exceeds the amount required for the payment, ; in addition, the investors of the JWP Fund are Japanese financial institutions, pension funds, funds of funds, and business corporations. We have also confirmed the financial statements of MEDIPAL, which plans to invest in the Allottee, and have determined that it can secure adequate funds to underwrite the securities to be allocated no later than the payment date.

7. Major Shareholders of Company and Percentages Held

Before Third-Party Allotment (As of September 30, 2022)		After Third-Party Allotment	
MEDIPAL HOLDINGS CORPORATION	9.89%	Godo Kaisha JSD	89.99%
The Master Trust Bank of Japan, Ltd. (trust account)	7.87%	MEDIPAL HOLDINGS CORPORATION	0.99%
K.K. TAMURA	6.52%	The Master Trust Bank of Japan, Ltd. (trust account)	0.79%

Hokuriku Bank Ltd.	4.02%	K.K. TAMURA	0.65%
K.K. Taku	3.01%	Hokuriku Bank Ltd.	0.40%
Yuichi Tamura	2.54%	K.K. Taku	0.30%
Nichi-iko employee stock ownership	1.75%	Yuichi Tamura	0.25%
Japan Securities Finance Co., Ltd.	1.39%	Nichi-iko employee stock ownership	0.18%
BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE	1.27%	Japan Securities Finance Co., Ltd.	0.14%
Nichi-iko business partner stock ownership	1.11%	BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE	0.13%

(Note 1) The shareholding ratios of major shareholders prior to the Third-Party Allotment are calculated as a percentage of the difference (70,466,359 shares) of the total of 71,382,652 shares issued and outstanding as of September 30, 2022 less the 916,293 treasury shares held by the Company as of September 30, 2022 from. Shareholding ratios are rounded to two decimal places; the same applies hereinafter.

(Note 2) The shareholding ratios of major shareholders after the Third-Party Allotment are calculated as a percentage of the difference (703,928,659 shares) of the sum of the total of 71,382,652 shares issued and outstanding as of September 30, 2022 plus the 633,462,300 common shares newly issued in the Third-Party Allotment less the 916,293 treasury shares held by the Company as of September 30, 2022.

#### 8. Future Prospects

The funds raised through the Third-Party Allotment are expected to be applied to business structural reforms aimed at fundamental improvement of our financial condition and capital investments including production line safety improvements at Toyama Plan 1. The specific impact on our financial performance is under review, and will be promptly disclosed once the amount becomes clear.

#### 9. Procedures Under Corporate Code of Conduct

The 633,462,300 New Shares (6,334,623 voting rights) issued in the Third-Party Allotment are equal to 887.42% of the 71,382,652 shares issued and outstanding as of September 30, 2022 (900.00% of the 703,847 total voting rights as of September 30, 2022). Therefore the dilution ratio from the Third-Party Allotment will be greater than 25%, and there will be a change in the controlling shareholder, making it necessary to obtain an independent third-party opinion or confirm the intent of the shareholders as provided in Rule 432 of the Tokyo Stock Exchange Securities Listing Regulations. At the EGM, we plan to confirm the intent of all minority shareholders regarding the Third-Party Allotment through a special resolution.

Moreover, the Third-Party Allotment will not only involve a large-scale dilution and change in controlling shareholder, but it is also expected that the Company will become a wholly-owned subsidiary of the Allottee and the Company common shares will be delisted thereafter. Therefore, considering the size of the impact on the minority shareholders of the Company, to ensure the fairness, transparency, and objectivity of our decision-making process, we created a special committee (“Special Committee”) consisting of three members with a certain degree of independence from the Allottee and the management of the Company: Mr. Hajime Imamura (Attorney at Law), an outside director of the Company registered as an independent officer with the Tokyo Stock Exchange; Mr. Hitoshi Hori (Certified Public Accountant), an outside director and audit committee member; and Mr. Tetsutaro Wakatsuki (Attorney at Law, Murata & Wakatsuki Law Offices) as an external expert with rich experience in being involved as a special committee member in structural conflict of interest transactions similar to this one. We requested their opinions as to the necessity and suitability of the Third-Party Allotment (“Consultation Item 1”) and whether the Third-Party Allotment and

Transaction would be detrimental to the minority shareholders of the Company (the “Consultation Item 2;” together with Consultation Item 1, the “Consultation Items”), and we obtained a report of their findings dated November 14, 2022, with the following content:

(Overview of Report of Special Committee Findings)

(1) Contents of Findings

- (i) It is necessary and suitable for the Board of Directors of the Company to carry out the Third-Party Allotment with the Allottee.
- (ii) The Third-Party Allotment and subsequent take-private transaction through a squeeze-out are not detrimental to the minority shareholders of the Company.

(2) Reasons for Findings

[Consultation Item 1]

(i) General Comments

For Consultation Item 1, we analyzed the Third-Party Allotment by the Company from the perspectives of (1) necessity to raise capital, (2) suitability of the means, (3) suitability of the issuance terms, and (4) fairness of the procedures.

(ii) Necessity to Raise Capital

Considering the following points, we believe it is essential for the Company to raise equity capital quickly, and can find the necessity for the Company to procure financing through the Third-Party Allotment.

(a) Deterioration of Company Business

- In recent years, the generic drug market has grown due to the government’s policies of promoting the use of generic drugs, and had a CAGR (annual average growth rate) of 6.5% through 2020. However, on a volume basis, the government target of 80% has already been achieved, and the generic drug market can be viewed as saturated with little room for substitution going forward. Moreover, the drugs manufactured and sold by the Company have a structural problem in that government permission or approval is needed to withdraw unprofitable or low-profit products. Therefore, following the rapid drug price adjustments (price reductions) since 2020, the Company’s broad portfolio of low-volume products with stable supply, which had previously been a strength, led to many unprofitable products that could not easily be withdrawn from the market.
- The Company was also the subject of a business suspension of drug manufacturing at Toyama Plant 1 by Toyama Prefecture in March 2021, and the headquarters was also subject to a business suspension order for drug manufacturing and sales. Furthermore, due to the suspension of production and shipment by Kobayashi Kako in December 2020, Elmed suspended the sale of products that it had contracted to manufacture. As a result, Company sales have been reduced due to the quality issues at Toyama Plant 1 and Kobayashi Kako.
- The Company boasted a broad portfolio of low-volume products with stable supply, but following the rapid drug price adjustments since 2020, many of these became unprofitable or barely profitable.
- The existing business of Sagent Pharmaceuticals, Inc. (“Sagent”) (injectable formulations) lagged due to inadequate pipeline investment and an increasingly competitive market. There were also delays in developing and bringing to market (sale approval) biosimilars and interruptions in development of orphan drugs at Sagent. The

development interruptions in biosimilars and orphan drugs greatly harmed the enterprise value of Sagent Group and caused a large amount of investment losses.

(b) Business Turnaround ADR Petition

- Going forward, the Company needs to obtain the consent of Covered Creditors to its turnaround plan in the Business Turnaround ADR, but in light of the current state of the Company, it is necessary for the terms of the turnaround plan to include a certain degree of debt relief from financial institutions, and for the Covered Creditors to approve such a turnaround plan, the amount of financial support (debt relief) is demanded to be minimized by receiving new equity funding from sponsors.

(iii) Suitability of Means

(a) General Comments

Considering the following points, we believe that the Third-Party Allotment with the Allottee chosen by the Company is a suitable means.

(b) Lack of Other Realistic Means to Procure Financing

Considering the following points, we believe that equity financing through a third-party allotment in which a certain amount is certain to be raised is the most reasonable means, and that the issuance of common shares in the Third-Party Allotment is suitable.

- A public offering to solicit new shareholders would be a difficult method of financing since the Company has accrued large amounts of net losses, has deeply negative free cash flow, and has comments about the assumption that it will be a going concern in the notes to its securities report.
- An allotment to shareholders could be considered, but would involve uncertainty as to the amount to be raised, and is not appropriate in light of the Company's need for financing.
- A bond issuance, loan, or other debt financing could be considered in theory, but there is no likelihood of the Company, having petitioned for the Business Turnaround ADR, being able to obtain the necessary funds to end the Business Turnaround ADR through debt financing, and it would not be a solution to the situation that is currently faced.

(c) Suitability of Sponsor Selection Procedure

Considering the following points, the sponsor selection procedure can be deemed suitable.

- The Company commenced discussions in the Business Turnaround ADR after executing the Basic Agreement with JIS on May 13, 2022. The Basic Agreement did not preclude the Company from requests, negotiations, discussions, and the like with third parties other than JIS concerning the receipt of equity investments, and ensured that the Company would have opportunities to widely solicit sponsor candidates.
- The Company then approached around 40 companies, including operating companies and financial investors, to choose the best sponsor. It ultimately came to receive statements of intent from several sponsors, including the Allottee. The Company then ultimately decided that the Allottee would be the sponsor.

(iv) Suitability of Issuance Terms

(a) General Comments

Considering the following points, the amount paid for the New Shares can be deemed suitable.

(b) Valuation by Third-Party Appraiser

- The Special Committee selected Akasaka International Accounting as an independent third-party appraiser and requested that they appraise the Company shares in order to

validate the suitability of the amount paid. The Special Committee received an explanation from Deloitte Tohmatsu Financial Advisory regarding the Company business plan that formed the assumptions for Akasaka International Accounting to value the Company shares, and confirmed that there were no points that could be deemed unreasonable. The share valuation results by Akasaka International Accounting considering the business plan using the DCF method were as follows:

DCF Method: 0 to 41 JPY

- In this regard, the principal methods for the calculation of stock value include the average market price method and comparable company method in addition to the DCF Method. However, these were not used for the reasons described in “(1) Calculation Basis and Specific Terms of Payment Amount” under “5. Reasonableness of Issuance Conditions, Etc.” above. The Special Committee also considers this to be reasonable.

(c) Relationship with Market Price

- The amount paid for the New Shares is expected to be approximately JPY 31.57 per common share. This price is a discount of 91.28% (rounded to two decimal places) to the Closing Price of the Company’s common stock on the Tokyo Stock Exchange of JPY 362 as of November 11, 2022, the business day before the date of the resolution of the Board of Directors concerning the Third-Party Allotment, a discount of 92.84% to the simple average Closing Price of JPY 441 (rounded to the nearest yen) during the one-month period immediately preceding the same (October 12 through November 11, 2022), a discount of 92.39% to the simple average Closing Price of JPY 415 (rounded to the nearest yen) during the three-month period immediately preceding the same (August 12 through November 11, 2022), and a discount of 91.88% to the simple average Closing Price of JPY 389 (rounded to the nearest yen) during the six-month period immediately preceding the same (May 12 through November 11, 2022).
- However, the amount paid for the New Shares is within the range of the valuation of the Company shares as calculated by Akasaka International Accounting using the DCF method (JPY 0 to 41) while being higher than the median value thereof.
- The price of Company stock on the stock market also cannot be considered to adequately reflect the enterprise value of the Company. Moreover, considering that the Company has negative equity as of the second quarter of the fiscal year ending March 2023, the value of its stock in theory is zero.
- Given the foregoing, we believe that the amount paid for the New Shares being a discount to the Company stock price does not negate the suitability of the amount paid for the New Shares.

(d) Fairness Opinion

- The Special Committee has received a Fairness Opinion from Akasaka International Accounting stating that “as of the date of the Letter of Intent, the amount of approximately JPY 31.57 to be paid for the Third-Party Allotment is reasonable from a financial perspective for the shareholders of the Company other than the Allottee.”

(v) Fairness of Procedure

(a) General Conclusion

Considering the following points, we believe that the fairness of the procedures for the Third-Party Allotment has been ensured.

(b) Establishment of Special Committee

- The Company has established a Special Committee since the initial steps of negotiating the Third-Party Allotment in order to ensure the fairness of the Third-Party Allotment. In other words, on October 12, 2022, the Company selected the Allottee at a board of directors meeting that excluded persons with conflicts of interest, and established the Special Committee on the same day. The Special Committee consists of three members, two of whom are attorneys at law and one of whom is a certified tax advisor, who are outside experts and independent outside directors. The members of the Special Committee have no conflicts of interest with the Allottee.
- (c) Valuation of Company Shares by Independent Third-Party Appraiser
  - The Special Committee selected Akasaka International Accounting as an independent third-party appraiser, and analyzed the Third-Party Allotment based upon the valuation of the Company shares by that appraiser. In the selection of the independent third-party appraiser, there was no introduction from the Allottee and there were no other circumstances that would cause doubt as to their independence.
- (d) Advice from Legal Advisor
  - The Company selected Mori Hamada & Matsumoto, which has rich experience and a high degree of expertise in transactions and business rehabilitations similar to this one, as a legal advisor, and has proceeded with the Third-Party Allotment while receiving their advice on all aspects of the transaction. In the selection of the legal advisor, there was no introduction from the Allottee and there were no other circumstances that would cause doubt as to their independence.
- (e) Advice from Financial Advisor
  - The Company selected Deloitte Tohmatsu Financial Advisory, which has rich experience and a high degree of expertise in transactions and business rehabilitations similar to this one, as a financial advisor, and has analyzed the Third-Party Allotment while receiving their advice on the financial condition of the Company, the business turnaround plan, the sponsor selection, etc. In the selection of the legal advisor, there was no introduction from the Allottee and there were no other circumstances that would cause doubt as to their independence.
- (f) Exclusion of Conflicts of Interest, Etc.
  - The Company has excluded its Representative Board Member, President and CEO, Mr. Yuichi Tamura, from the decision making process for the Third-Party Allotment due to a conflict of interest. Since applying for the Business Turnaround ADR on May 13, 2022, the Company has conducted successive negotiations with each sponsor candidate, including the Allottee, and has conducted analysis and negotiation of the Third-Party Allotment with the Allottee, through its financial advisor while receiving advice from the aforementioned legal and financial advisors.
  - There has been no involvement by persons with conflicts of interest in this process, and no particular facts have been found by which the Allottee and its related persons could be said to have reached out or exercised an effect toward the officers or employees of the Company.
- (g) Unanimous Approval by Board of Directors
  - We have been told that the Company has decided the Third-Party Allotment by a resolution of the Board of Directors excluding those who have conflicts of interest. This is predicated on deliberation by the Board of Directors, but at present, all board members, including audit committee members, have indicated their intention to approve the proposal (other than its Representative Board Member, President & CEO, Mr. Yuichi Tamura).

[Consultation Item 2]

(i) General Comments

We believe that it is suitable to analyze Consultation Item 2 from the viewpoint of (1) the suitability of making the Company a private company after excluding the minority shareholders following the Third-Party Allotment (“Delisting”), and (2) the suitability of the Expected Share Consolidation Payment Amount, in addition to the viewpoints for the analysis of Consultation Item 1.

(ii) Suitability of Delisting

(a) General Conclusion

Taking the Company private through the Transaction can be deemed suitable.

(b) Practical Possibility of Maintaining Minority Shareholder Positions and Meaning of Maintaining Positions

- The Company needs to conclude the Business Turnaround ADR, and support from the Allottee is indispensable in concluding it. In general, it is difficult for a sponsor to turn around a company in rehabilitation through fundamental and agile reforms without minding the views of minority shareholders. If the Business Turnaround ADR is unsuccessful, it is expected that the company would become insolvent and unable to operate, and minority shareholders would lose their shares without any financial compensation.
- Even if we envision the Third-Party Allotment taking place without a squeeze-out, the turnaround procedures for the Company would need to be conducted from a medium and long-term perspective, and for the foreseeable future, the performance of the Company may deteriorate or remain unchanged, requiring a certain period of time before results are seen. There is also a risk of a large amount of further losses being accrued.
- The Allottee would hold a super-majority of the voting rights in the Company as a result of the Third-Party Allotment, minimizing the opportunities for minority shareholders to impact the management of the Company. The Company is also expected to be delisted as a result of the Third-Party Allotment, severely limiting the opportunities for minority shareholders to recover their investments.

(c) Ensuring Opportunity and Procedure to Recover Invested Capital

- Conducting the squeeze-out would give minority shareholders an opportunity to recover their investment in these circumstances. Minority shareholders who wish to appeal the Expected Share Consolidation Payment Amount also have a legal procedure to demand the purchase of shares under the Companies Act.

(iii) Suitability of Share Consolidation Price

(a) General Comments

Considering the following points, we believe that the Expected Share Consolidation Payment Amount can be deemed suitable.

(b) Valuation by Third-Party Appraiser

- In this case, the amount paid to minority shareholders through the Share Consolidation squeeze-out is expected to be JPY 36 per share. This price is within the range of the valuation of the Company shares as calculated by Akasaka International Accounting (JPY 0 to 41) while being higher than the median value thereof, is approximately JPY 4.43 higher than the amount of approximately JPY 31.56 per share paid for the New



Shares, and represents a 14.02% premium over the amount paid for the New Shares.

(c) Background of Share Consolidation Price Determination

- The Expected Share Consolidation Payment Amount was determined through negotiation with the Allottee and is higher than the price initially indicated by the sponsor.

(d) Relationship with Market Price

- The Expected Share Consolidation Payment Amount of JPY 36 is a discount of 90.06% (rounded to two decimal places) to the Closing Price of the Company's common stock on the Tokyo Stock Exchange of JPY 362 as of November 11, 2022, the business day before the date of the resolution of the Board of Directors concerning the Share Consolidation, a discount of 91.84% to the simple average Closing Price of JPY 441 (rounded to the nearest yen) during the one-month period immediately preceding the same (October 12 through November 11, 2022), a discount of 91.33% to the simple average Closing Price of JPY 415 (rounded to the nearest yen) during the three-month period immediately preceding the same (August 12 through November 11, 2022), and a discount of 90.75% to the simple average Closing Price of JPY 389 (rounded to the nearest yen) during the six-month period immediately preceding the same (May 12 through November 11, 2022). However, as explained in the reasons for findings for Consultation Item 1, this is not an element to reject the suitability of the Expected Share Consolidation Payment Amount.
- A payment from the Allottee would be necessary for the minority shareholders of the Company to receive payment for compensation for the Share Consolidation, and the support from the Allottee is based upon receiving consent from financial institutions to debt relief. From the standpoint of the financial institutions, the amount paid to shareholders would be nominal given the request for financial support (waiver of claims) while the Company is in negative equity as of the second quarter of the fiscal year ending in March 2023.
- Therefore, even in this sense, we believe that the Expected Share Consolidation Payment Amount being a discount to the Company stock price does not negate its suitability.

(e) Fairness Opinion

- The Special Committee has received a Fairness Opinion from Akasaka International Accounting stating that "as of the date of the Letter of Intent, the Expected Share Consolidation Payment Amount of approximately JPY 36 is reasonable from a financial perspective for the shareholders of the Company other than the Allottee."

10. Financial Results and Equity Finance Conditions for Past 3 Years

(1) Financial Results for Most Recent 3 Years (Consolidated)

	FY March 2020	FY March 2021	FY March 2022
Revenue	JPY 190,076 MM	JPY 188,218 MM	JPY 179,060 MM
Operating Profit	JPY 2,873 MM	JPY 107 MM	JPY (110,051 MM)
Profit Before Tax	JPY 7,396 MM	JPY 1,068 MM	JPY (107,842 MM)
Profit	JPY 4,917 MM	JPY (4,273 MM)	JPY (105,652 MM)
Profit Attributable to Owners of Parent	JPY 5,133 MM	JPY (4,179 MM)	JPY (104,984 MM)
Comprehensive Income	JPY 1,664 MM	JPY (2,504 MM)	JPY (101,737 MM)

Attributable to Owners of Parent			
Basic Earnings Per Share	JPY 80.42	JPY (65.28)	JPY (1,554.37)
Dividend Per Share	JPY 30.00	JPY 25.00	JPY 0
Owners' Equity Per Share	JPY 1,811.50	JPY 1,733.58	JPY 190.17

(2) Current Number of Shares Issued and Outstanding and Number of Potential Shares (As of September 30, 2022)

	Number of Shares	Percentage of Shares Issued and Outstanding
Number of Shares Issued and Outstanding	71,382,652 shares	100%
Number of Potential Shares at Current Conversion Price (Strike Price)	105,136 shares	0.1%
Number of Potential Shares at Minimum Conversion Price (Strike Price)	—	—
Number of Potential Shares at Maximum Conversion Price (Strike Price)	—	—

(3) Information About Recent Share Prices

(i) Information for Past 3 Years

	FY March 2020	FY March 2021	FY March 2022
Opening Price	JPY 1,489	JPY 1,400	JPY 1,000
High Price	JPY 1,548	JPY 1,488	JPY 1,007
Low Price	JPY 889	JPY 899	JPY 663
Closing Price	JPY 1,427	JPY 995	JPY 776

(ii) Information for Past 6 Months

	June 2021	July 2022	August 2022	September 2022	October 2022	November 2022
Opening Price	JPY 337	JPY 357	JPY 361	JPY 343	JPY 434	JPY 465
High Price	JPY 385	JPY 387	JPY 368	JPY 580	JPY 512	JPY 468
Low Price	JPY 333	JPY 346	JPY 329	JPY 332	JPY 414	JPY 282
Closing Price	JPY 353	JPY 360	JPY 346	JPY 436	JPY 466	JPY 362

(Note) November 2022 share prices are shown as of November 11, 2022.

(iii) Share Price on Business Day Prior to Issuance Resolution

	November 11, 2022
Opening Price	JPY 362
High Price	JPY 362
Low Price	JPY 362
Closing Price	JPY 362

(4) Information About Equity Finance for Past 3 Years

- Third-Party Allotment

Payment Date	September 2, 2021
Amount of Funds Raised	JPY 5,191,020,000 (net total received)
Issuance Price	JPY 841 per share
Total Number of Shares Issued and Outstanding at Time of Offering	65,162,652 shares
Total Number of Issued Shares Offered	6,220,000 shares
Total Number of Shares Issued and Outstanding After Offering	71,382,652 shares
Allottee	MEDIPAL HOLDINGS CORPORATION
Initial Use of Funds at Time of Issuance	(i) JPY 2.2 billion in financing for manufacturing capital investments to improve productivity and quality management-related equipment for the purpose of strengthening our group quality management systems and improving productivity at our plants (ii) JPY 2.991 billion in financing for manufacturing capital investments to improve productivity and quality management-related equipment at Gifu plant received in February 2021
Expected Time of Disbursement at Time of Issuance	(i) September 2021 through April 2022 (ii) September 2021 through March 2023
Current Status of Application	(i) Applied as initially planned (ii) Being applied based upon initial use of funds

### III. Partial Amendments to the Articles of Incorporation in order to Increase the Total Number of Authorized Shares to be Issued

#### 1. Purpose of Amendments

In order to enable the issuance of the New Shares through the Third-Party Allotment, with respect to Article 7 (Total Number of Authorized Shares) of the current Articles of Incorporation to change the total number of authorized shares to be issued shall be amended from the current 93,500,000 shares to 750,000,000 shares.

#### 2. Details of Amendments

The content of the amendments is as follows.

Under Article 113(3) of the Companies Act, if a public company such as the Company amends its articles of incorporation to increase the total number of authorized shares, the total number of authorized shares after such amendment may not exceed four times the total number of issued shares as of the time the amendment became effective. Based upon the total number of shares issued by the Company as of September 30, 2022 (71,382,652 shares), it would be impossible to conduct a single amendment of the Articles of Incorporation increasing the total number of authorized shares so that all of the New Shares from the Third-Party Allotment could be issued. Therefore, as described below, the amendments to the Articles of Incorporation to increase the total number of authorized shares will be carried out in two stages. Specifically, we will first conduct Articles of Incorporation Amendment 1 to authorize the issuance of no more than four times the total number of shares issued by the Company as of September 30, 2022 (71,382,652 shares), and then, conditional upon the issuance of 126,692,460 New Shares for Third-Party Allotment 1, we will conduct Articles of Incorporation Amendment

2 to authorize the issuance of 750,000,000 shares. The issuance of 506,769,840 New Shares for Third-Party Allotment 2 will be conditional upon the effectiveness of Articles of Incorporation Amendment 2. The issuance of 126,692,460 New Shares for Third-Party Allotment 1, the effectiveness of Articles of Incorporation Amendment 2, and the issuance of 506,769,840 New Shares for Third-Party Allotment 2 will all take place on the same day.

(1) Details of Articles of Incorporation Amendment 1

(Underlines indicate amended portions.)

Current Articles of Incorporation	Amendment Proposal
(Total Number of Authorized Shares to be Issued) Article 7. The total number of authorized shares by the Company shall be <u>93,500,000</u> shares.	(Total Number of Authorized Shares to be Issued) Article 7. The total number of authorized shares by the Company shall be <u>200,000,000</u> shares.

(2) Details of Articles of Incorporation Amendment 2

(Underlines indicate amended portions.)

Articles of Incorporation as amended by Articles of Incorporation Amendment 1	Additional Amendment Proposal
(Total Number of Authorized Shares to be Issued) Article 7. The total number of authorized shares by the Company shall be <u>200,000,000</u> shares.	(Total Number of Authorized Shares to be Issued) Article 7. The total number of authorized shares by the Company shall be <u>750,000,000</u> shares.

3. Schedule

If the 126,692,460 New Shares for Third-Party Allotment 1 have been issued around March 2023, the schedule (scheduled) for the amendments to the Articles of Incorporation is as follows. Articles of Incorporation Amendment 1 will be effective on the date of, and on the condition that, approval at the EGM to be held in February 2023. As described in “2. Content of Amendments” above, the effective date of Articles of Incorporation Amendment 2 will vary depending upon the timing of the issuance of the 126,692,460 New Shares for Third-Party Allotment 1. It is expected that Third-Party Allotment 1 and Third-Party Allotment 2 will be implemented at the same time, and it is not expected that only one of them will be executed.

Date to hold the EGM	February 2023 (planned)
Effective date of Articles of Incorporation Amendment 1	February 2023 (planned)
Effective date of Articles of Incorporation Amendment 2	Around March 2023 (planned)

IV. Change in Parent Company and Largest Shareholder (Major Shareholder)

1. Background of Change

Through the Third-Party Allotment, the Allottee will come to hold 90.00% of the voting rights of the Company, making it the new parent company and largest shareholder (major shareholder) of the Company.

2. Overview of Changed Shareholder

An overview of the Allottee is provided in “(1) Overview of Allottee” under “6. Reasons for Selection of Allottee, Etc.” under “II. Issuance of New Shares Through Third-Party Allotment” above.

3. Number of Voting Rights Held by Shareholder (Number of Shares Owned) Before and After Change and Percentage of Voting Rights Held by All Shareholders

	Status	Number of Voting Rights (Voting Rights Percentage and Number of Shares Owned)			Shareholder Ranking
		Directly Held Portion	Total Covered	Total	
Before Change (As of September 30, 2022)	—	—	—	—	—
After Change	Parent company and largest shareholder (major shareholder)	6,334,623 (90.00%, 633,462,300 shares)	—	6,334,623 (90.00%, 633,462,300 shares)	No. 1

(Note 1) The voting rights percentages before the change are expressed as a percentage of the 703,847 voting rights held by all shareholders as of September 30, 2022. Voting rights percentages are rounded to two decimal places; the same applies hereinafter.

(Note 2) The voting rights percentages after the change are expressed as a percentage of the 7,038,470 voting rights held by all shareholders after the addition of 6,334,623 voting rights through the Third-Party Allotment.

#### 4. Expected Date of Change

Issuance date of the common stock (any date between March 1, 2023 and March 31, 2023)

#### 5. Future Outlook

As described in “(3) Holding Policy of Allottee” under “6. Reasons for Selection of Allottee, Etc.” under “II. Issuance of New Shares Through Third-Party Allotment” above.

### V. Share Consolidation for Conversion to Wholly-Owned Subsidiary

#### 1. Purpose and Reasons for Share Consolidation

As described in “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” under “II. Issuance of New Shares by Third-Party Allotment” above, we have determined that conducting the Third-Party Allotment and carrying out the Transaction is the best option available to the Company.

Therefore, as described above, we resolved at the Board of Directors meeting held today to carry out the Third-Party Allotment and the Share Consolidation to make the Allottee the sole shareholder of the Company, conditional upon the issuance of all of the New Shares in the Third-Party Allotment and assuming the approval of all of the shareholders of the Company is obtained at the EGM.

Due to the Share Consolidation, it is expected that the number of the Company common shares held by minority shareholders other than the Allottee will be a fraction of less than one share.

#### 2. Summary of Share Consolidation

##### (1) Schedule of Share Consolidation

As described in “I. Summary of Procedures and Schedule” above, the Third-Party Allotment is conditional upon the effectiveness of the notification pursuant to the Financial Instruments Exchange Act, the Business Turnaround Plan Proposal being adopted by the agreement of the Covered Creditors at a creditors meeting for the resolution of the proposed business turnaround plan (third creditors meeting) under the Business

Turnaround ADR to be held in or after late December 2022, the approval of the Proposals at the EGM to be held in February 2023 (and, with regard to Third-Party Allotment 2, the effectiveness of the partial amendments to the Articles of Incorporation within the Third-Party Allotment Related Proposals), the obtainment of necessary business combination notifications and permits from each country's competition authorities and other permits, approvals, etc. necessary for the execution of the Third-Party Allotment, etc. The resolution of the EGM will serve as approval by resolution of a general meeting of shareholders as provided in Article 206-2(4) of the Companies Act.

Furthermore, as the Share Consolidation will be carried out conditional upon the issuance of all New Shares for the Third-Party Allotment as a portion of the Transaction, we resolved at the Board of Directors Meeting held today regarding providing for multiple effective dates for the Share Consolidation, as follows, depending upon the timing of the issuance of all New Shares for the Third-Party Allotment ("Share Consolidation Effective Date).

- (i) Conditional upon all New Shares for the Third-Party Allotment being issued no later than March 9, 2023, the Share Consolidation Effective Date shall be March 31, 2023.
- (ii) Conditional upon all New Shares for the Third-Party Allotment being issued on or after March 10, 2023 and no later than March 31, 2023, the Share Consolidation Effective Date shall be April 22, 2023.

(2) Terms of Share Consolidation

- (i) Type of Shares to be Combined  
Common shares

- (ii) Combination Ratio

As of the Share Consolidation Effective Date, every 70,384,700 of the Company common shares held by shareholders entered or recorded in the final shareholder register on the prior day will be combined into one share.

- (iii) Total Number of Issued Shares to be Reduced

704,844,942 shares

(Note) The total number of issued shares to be reduced is in comparison to 704,844,952 shares, being the 71,382,652 shares issued and outstanding as of September 30, 2022, plus the 633,462,300 common shares newly issued in the Third-Party Allotment.

- (iv) Total Number of Shares Issued and Outstanding Prior to the Share Consolidation Taking Effect

704,844,952 shares

(Note) The total number of shares issued and outstanding prior to the Share Consolidation taking effect is the 71,382,652 shares issued and outstanding as of September 30, 2022, plus the 633,462,300 common shares newly issued in the Third-Party Allotment.

- (v) Total Number of Shares Issued and Outstanding After the Share Consolidation Takes Effect

10 shares

- (vi) Total Number of Authorized Shares as of the Effective Date

10 shares

- (vii) Handling of Fractional Amounts of Less than One Share and Amount Expected to be Delivered to Shareholders Thereby

As described in "1. Purpose and Reasons for Share Consolidation" above, due to the Share

Consolidation, it is expected that the number of the Company common shares held by minority shareholders other than the Allottee will be a fraction of less than one share.

To handle fractional amounts of less than one share arising due to the Share Consolidation, we will sell a number of shares equal to the total thereof (under Article 235(1) of the Companies Act, any fractional amount of less than one share in the total will be rounded down) in accordance with the provisions of Article 235 of the Act and other related laws and regulations, and deliver the proceeds of that sale to the shareholders of the Company proportionally to their fractions. We expect that for this sale, we will acquire a number of the Company common shares corresponding to the total of the fractional amounts with the permission of a court pursuant to the provisions of Article 234(2) and Article 234(4) of the Companies Act, applying Article 235(2) of the Act *mutatis mutandis*.

If the permission of the court is obtained as stated above, the sale price in this case will be set so that the amount will be equal to the number of common shares held by the shareholders of the Company multiplied by JPY 36.

### 3. Basis for Amount Expected to be Delivered to Shareholders for Handling Fractional Amounts in Share Consolidation

#### (1) Basis and Reasons for Amount Expected to be Delivered to Shareholders for Handling Fractional Amounts

##### (i) Non-Infringement of Interests of Other Shareholders if Parent Company, Etc. Exists

In the Transaction, the Allottee is not a parent company, etc. of the Company prior to the payment for the Third-Party Allotment. However, considering that the Allottee intends to become the sole shareholder of the Company through the Transaction, which includes the Third-Party Allotment, and the effects on the minority shareholders of the Company, we implemented the measures described in “(4) Measures to Ensure Fairness and Avoid Conflicts of Interest in Transaction” below to ensure the fairness of the Transaction from the standpoint of ensuring fairness in the Transaction and eliminating arbitrariness and avoiding conflicts of interest in the decision making process leading to the decision to carry out the Transaction.

##### (ii) Method of Handling Fractional Amounts of Less Than One Share, Amount to be Delivered to Shareholders Through Such Handling, and Adequacy of Such Amount

#### (1) Method of Handling Fractional Amounts of Less Than One Share

(a) Whether Handling Will Follow Any Provisions of Article 234(2) of the Companies Act, applying Article 235(1) or Article 235(2) of the Act *mutatis mutandis*, and Reasons Therefor  
Please see “(vii) Handling of Fractional Amounts of Less than One Share and Amount Expected to be Delivered to Shareholders Thereby” under “(2) Terms of Share Consolidation” under “2. Summary of Share Consolidation” above.

(b) Names of Persons Expected to Purchase Shares in the Sale  
Nichi-Iko Pharmaceutical Co., Ltd.

(c) Method of Ensuring Funds for Persons Expected to Purchase Shares in the Sale to Pay the Price for Sale and Adequacy of Such Method

We currently have cash and deposits in an amount adequate to pay the sale price for a number of the Company common shares equal to the total of all fractional amounts arising due to the Share Consolidation. No event has occurred that would have an effect on the payment of the sale price for the Company common shares in an amount equal to the total of all fractional amounts arising due to the Share Consolidation, and we are not aware of a possibility of such an occurrence in the future.

Therefore, we have determined that the method for ensuring funds for the payment of the sale price for the Company common shares in an amount equal to the total of all fractional amounts arising due to the Share Consolidation by Allottee is adequate.

(d) Expected Time of Sale and Time of Delivery of Sale Proceeds to Shareholders

Between around April 2023 and May 2023, we expect to make a petition to a court for permission to sell the Company common shares in an amount equal to the total of the fractional amounts of less than one share arising due to the Share Consolidation, pursuant to the provisions of Article 234(2) of the Companies Act, applying Article 235(2) of the Act *mutatis mutandis*. The timing of obtaining this permission will vary depending upon the circumstances of the court and the like, but we expect to obtain the permission of the court and sell the common shares between April 2023 and May 2023, and thereafter make the necessary preparations to deliver the proceeds of the sale to the shareholders of the Company, and deliver the proceeds of the sale to the shareholders of the Company between around May 2023 and June 2023.

Considering that time may be required for certain procedures between the effective date of the Share Consolidation and the sale, we have determined that the sale of the Company common shares corresponding to the total of the fractional amounts of less than one share arising as a result of the Share Consolidation and the delivery of the sale proceeds to the shareholders will take place at the times respectively stated above.

The proceeds of the sale are expected to be delivered to all shareholders of the Company who are entered or recorded in the final shareholder register as of the business day prior to the effective date of the Share Consolidation, in the same manner as for deliveries of assets as in-kind distributions.

(2) Amount of Money Expected to be Delivered to Shareholders in Handling of Fractional Amounts and Adequacy of Such Amount

The Expected Share Consolidation Payment Amount is expected to be to an amount equal to the number of common shares held by all of the shareholders of the Company multiplied by JPY 36, which is an amount equal to the paid-in amount for the New Shares in the Third-Party Allotment (approximately JPY 31.57) plus a premium of 14.02%. This amount represents a discount of 90.06% to the closing price of JPY 362 as of November 11, 2022, the business day prior to the Board Resolution Date. However, considering that, as described in “(1) Background of Third-Party Allotment” under “2. Purpose and Reasons for Issuance of New Shares by Third-Party Allotment” under “II. Issuance of New Shares Through Third-Party Allotment” above, the Expected Share Consolidation Payment Amount was ultimately agreed after multiple rounds of negotiations with the Allottee, the sponsor candidate that indicated the terms and conditions thought to be most desirable by the Company after sincere discussions with multiple sponsor candidates, under conditions where the failure to realize a large-scale capital infusion would worsen our financial performance and financial condition and make it difficult to continue our business, causing further risks to the minority shareholders of the Company through share price decreases and the like, and the circumstances have required us to make requests to Covered Creditors for a considerable amount of debt relief considering the large amount of future losses, etc. in the Business Turnaround ADR, and we are in a position where it is essential to raise funds on a scale of JPY 20 billion, we have determined that these are the best conditions that we can provide to all of the minority shareholders of the Company, and that we are providing a reasonable sale opportunity to all of the minority shareholders of the Company.

Therefore, we have determined that the Expected Share Consolidation Payment Amount (JPY 36) is adequate.



(3) Disposition of Material Assets, Incurrence of Material Liabilities, and Other Events Having Material Effect on the Property of the Company After the End of the Prior Fiscal Year

(i) Going-Concern Assumption

As described in “(1) Background of Third-Party Allotment” under “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” under “II. Issuance of New Shares by Third-Party Allotment” above, due to an overall revision in the fiscal year ending March 2022 of the development plans for biosimilars (successors to original drugs) and orphan drug formulations (drugs for rare medical conditions) in which we had continually invested in our North American business, we accrued impairment losses of JPY 84.13 billion in the fiscal year ending March 2022, mainly in relation to goodwill accrued from investments in our North American business and intangible assets concerning the development of biosimilars and orphan drug formulations. Due to the accrual of losses of JPY 104.984 million attributable to owners of parent in the fiscal year ending March 2022, the ratio of owners’ equity to gross assets was reduced from 30.6% at the end of March 2021 to 5.1% at the end of March 2022. Furthermore, we continued to accrue impairment losses and quarterly losses attributable to owners of parent during the fiscal year ending March 2023. Therefore, there are events or conditions that raise material doubt as to the assumption that we will be a going concern.

(ii) Formal Application for Business Turnaround ADR and Acceptance

As described in “(1) Background of Third-Party Allotment” under “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” under “II. Issuance of New Shares by Third-Party Allotment” above, considering the harsh management conditions and financial condition, and aiming to drastically improve our financial condition and establish a firm earnings structure for future re-growth, we resolved at our Board of Directors meeting on May 13, 2022 to apply for the Business Turnaround ADR, and made a formal application to the Japanese Association of Turnaround Professionals (an organization certified by the Minister of Justice as a certified dispute resolution provider and approved by the Minister of Economy, Trade and Industry as a specified certified dispute resolution provider) for the Business Turnaround ADR. This was accepted on the same day, and together with the Japanese Association of Turnaround Professionals, we sent a Temporary Suspension Notice to the Covered Creditors on the same day.

Thereafter, we held a creditors meeting with the Covered Creditors on May 26, 2022 (first creditors meeting) to explain the business turnaround plan proposal pursuant to the Business Turnaround ADR, and received the Covered Creditors’ consent to the Temporary Suspension Notice and their approval to the extension of the temporary suspension period until the end of the creditors meeting to approve the business turnaround plan proposal. We also received the Covered Creditors’ approval for the drawdown of a line of credit extended by our main bank, SMBC.

(iii) Third-Party Allotment

As described in “II. Issuance of New Shares Through Third-Party Allotment” above, at a Board of Directors meeting held today, we resolved to carry out an issuance of the New Shares through a third-party allotment to Godo Kaisha JSD, with a total paid-in amount of JPY 20 billion.

We also resolved, at the Board of Directors meeting held today, to combine every 70,384,700 of the Company common shares into one share and to deliver a total of JPY 2.5 billion (JPY 36 per share) in cash to the minority shareholders of the Company other than the Allottee (the Share Consolidation) after the execution of the Third-Party Allotment, so that the Allottee becomes the sole shareholder of the Company.

The above resolutions of the Board of Directors were passed on the assumption that the Allottee plans to make the Company a wholly-owned subsidiary through the Third-Party Allotment and Share Consolidation, and that the Company common shares are expected to be delisted.

(iv) Accrual of Impairment Losses Concerning North America Business

As described in “(1) Background of Third-Party Allotment” under “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” under “II. Issuance of New Shares by Third-Party Allotment” above, in light of Sagent Group having accrued operating losses in the fiscal year ending March 2022 and the first quarter of the fiscal year ending March 2023 (operating losses of JPY 38.998 billion in the fiscal year ending March 2022 and JPY 1.805 billion in the first quarter of the fiscal year ending March 2023) and the development of the business in the U.S. market, we conducted impairment testing under International Financial Reporting Standards (IFRS) and accrued impairment losses of JPY 47,417 million in the second quarter of the fiscal year ending March 2023 on fixed assets including goodwill concerning Sagent Group.

(2) Calculations

(i) Name of Calculating Organization and Relationships with Listed Company, Shareholders After Share Consolidation, Etc.

As described in “(1) Calculation Basis and Specific Terms of Payment Amount” under “5. Reasonableness of Issuance Conditions, Etc.” under “II. Issuance of New Shares Through Third-Party Allotment” above, in its consideration of the Consultation Items, the Special Committee requested that Akasaka International Accounting, a third-party appraiser, express an opinion as to the fairness of the calculation of the value of the Company common shares, the amount paid for the New Shares, and the Expected Share Consolidation Payment Amount for the minority shareholders of the Company from a financial perspective, and obtained the Share Valuation Report and Fairness Opinion from Akasaka International Accounting. Akasaka International Accounting, the third-party appraiser, is not a related party of the Company or of Allottee, which is the shareholder of the Company following the Share Consolidation, and has no notable material conflicts of interest in relation to the Third-Party Allotment.

(ii) Overview of Calculations

For the specific calculation method, reasons for selecting the calculation method, values (ranges) resulting from the calculation method, and material assumptions to the calculation method for the valuation of the Company common shares, please see “(1) Calculation Basis and Specific Terms of Payment Amount” under “5. Reasonableness of Issuance Conditions, Etc.” under “II. Issuance of New Shares Through Third-Party Allotment” above.

(3) Expectation of Delisting

(i) Delisting

As described in “1. Purpose and Reasons for Share Consolidation” above, we expect to carry out the Share Consolidation and make the Allottee the sole shareholder of the Company, conditional upon the issuance of all New Shares for the Third-Party Allotment and assuming that we receive the approval of all shareholders at the EGM. As a result, the Company common shares are expected to be delisted after prescribed procedures in accordance with the listing standards of the Tokyo Stock Exchange. After delisting, it will not be possible to trade the Company common shares on the Tokyo Stock Exchange.

(ii) Reasons for Delisting

As described in “2. Purposes and Reasons for New Share Issuance by Third-Party Allotment” under “II. Issuance of New Shares Through Third-Party Allotment” above, we reached a final determination that our integration with the Allottee and the advancement of a flexible management strategy through the Transaction and delisting is the best option because it would contribute the most to the continued business of our group and its medium and long-term growth and avoid causing further risks to all of the minority

shareholders of the Company.

(iii) Effects on Minority Shareholders and Approach Thereto

As described in “9. Procedures Under Corporate Code of Conduct” under “II. Issuance of New Shares Through Third-Party Allotment” above, we created a Special Committee consisting of three members with a certain degree of independence from the Allottee and the management of the Company, namely Mr. Hajime Imamura (Attorney at Law), an outside director of the Company registered as an independent officer with the Tokyo Stock Exchange, Mr. Hitoshi Hori (Certified Public Accountant), an outside director and audit committee member, and Mr. Tetsutaro Wakatsuki (Attorney at Law, Murata & Wakatsuki Law Offices), an external expert with rich experience in being involved as a special committee member in structural conflict of interest transactions similar to this one, requested their opinions as to the necessity and suitability of the Third-Party Allotment and whether the Third-Party Allotment and Transaction would be detrimental to the minority shareholders of the Company, and obtained a report of their findings stating that the Third-Party Allotment is deemed necessary and suitable, and that the Third-Party Allotment and Transaction are not deemed to be detrimental to the minority shareholders of the Company.

(4) Measures to Ensure Fairness and Avoid Conflicts of Interest in Transaction

(i) Special Committee Acquisition of Valuation and Fairness Opinion from Independent Third-Party Appraiser

As described in “(1) Calculation Basis and Specific Terms of Payment Amount” under “5. Reasonableness of Issuance Conditions, Etc.” under “II. Issuance of New Shares Through Third-Party Allotment” above, in considering the Consultation Items, the Special Committee requested that Akasaka International Accounting, a third-party appraiser, express an opinion as to the fairness to the minority shareholders of the Company from a financial perspective of the calculation of the valuation of the common shares in the Company, the amount paid for the New Shares, and the Expected Share Consolidation Payment Amount, and has obtained the Share Valuation Report from Akasaka International Accounting. For an overview of the calculation, please see “(1) Calculation Basis and Specific Terms of Payment Amount” under “5. Reasonableness of Issuance Conditions, Etc.” under “II. Issuance of New Shares Through Third-Party Allotment” above.

The Special Committee has also obtained the Fairness Opinion from Akasaka International Accounting.

(ii) Obtaining Opinion from Persons With Certain Degree of Independence from Our Management

As described in “9. Procedures Under Corporate Code of Conduct” under “II. Issuance of New Shares Through Third-Party Allotment” above, we created a Special Committee consisting of three members with a certain degree of independence from the Allottee and the management of the Company, namely Mr. Hajime Imamura (Attorney at Law), an outside director of the Company registered as an independent officer with the Tokyo Stock Exchange, Mr. Hitoshi Hori (Certified Public Accountant), an outside director and audit committee member, and Mr. Tetsutaro Wakatsuki (Attorney at Law, Murata & Wakatsuki Law Offices), an external expert with rich experience in being involved as a special committee member in structural conflict of interest transactions similar to this one, requested their opinions as to the necessity and suitability of the Third-Party Allotment and whether the Third-Party Allotment and Transaction would be detrimental to the minority shareholders of the Company, and obtained a report of their findings stating that the Third-Party Allotment is deemed necessary and suitable, and that the Third-Party Allotment and Transaction are not deemed to be detrimental to the minority shareholders of the Company.

(iii) Advice from Independent Law Firm to Our Company

We have selected Mori Hamada & Matsumoto as a legal advisor and are receiving legal advice from this firm regarding the method, schedule, etc. of the Board of Directors decision making, including the

procedures for the Third-Party Allotment and Transaction. Mori Hamada & Matsumoto is independent from the Company and the Allottee and has no material conflict of interest with the Company or the Allottee.

(iv) Approval by Directors who have No Conflict of Interest with the Company (Including Directors who are Audit Committee Members)

At the Board of Directors meeting held today, 9 directors were present who have no special conflict of interest, and they passed the foregoing resolution unanimously. Yuichi Tamura, the Representative Director and President of the Company, currently holds a total of 8,504,448 shares in the Company (with 85,044 voting rights, representing 12.08% of all voting rights) either directly or through K.K. TAMURA, of which he serves as representative director, or its wholly-owned subsidiary K.K. Taku, and was absent from this meeting of the Board of Directors due to the risk of constituting a director with a special conflict of interest.

4. Overview of Shareholders After Share Consolidation

For an overview of the Allottee, the shareholder after the Share Consolidation, please see “(1) Overview of Allottee” under “6. Reasons for Selection of Allottee, Etc.” under “II. Issuance of New Shares by Third-Party Allotment” above.

5. Future Outlook

As described in “(i) Delisting” under “(3) Expectation of Delisting” under “3. Basis for Amount Expected to be Delivered to Shareholders for Handling Fractional Amounts in Share Consolidation” above, the Company common shares are expected to be delisted upon the implementation of the Share Consolidation.

VI. Abolition of Share Units

1. Reason for Abolition

When the Share Consolidation takes effect, the total number of shares issued and outstanding of the Company will become 10 shares, and there will no longer be a need to provide for share units.

2. Expected Date of Abolition

Same as the Share Consolidation Effective Date

3. Conditions to Abolition

To be conditional upon the effectiveness of the Share Consolidation

VII. Partial Amendment of Articles of Incorporation to Abolish Share Unit Provisions

1. Purpose of Amendment

If the proposal for the Share Consolidation is approved as proposed at the EGM and the Share Consolidation takes effect, the total number of common shares issued and outstanding of the Company will be reduced to 10 shares in accordance with the provisions of Article 182(2) of the Companies Act. To clarify this point, we will amend Article 7 (Total Number of Authorized Shares) of the Articles of Incorporation, conditional upon the effectiveness of the Share Consolidation.

When the Share Consolidation takes effect, the total number of shares issued and outstanding will become 10 shares, and there will no longer be a need to provide for share units. Therefore, conditional upon the effectiveness of the Share Consolidation, we will delete the entirety of Article 9 (Unit of Shares) of the Articles of Incorporation in order to abolish the provisions regarding common share units, which currently provide for

100 shares per unit, as well as Article 11 (Rights to Shares of Less Than One Unit) and Article 12 (Right to Demand Purchase of Shares of Less Than One Unit), and re-number the other articles accordingly.

2. Content of Amendment

The content of the amendment is as follows. This amendment to the Articles of Incorporation will become effective on the Share Consolidation Effective Date, conditional upon the proposal for the Share Consolidation having been approved as proposed at the EGM and the Share Consolidation having become effective.

(Underlines indicate amended portions.)

Articles of Incorporation as amended by Articles of Incorporation Amendment 2	Additional Amendment Proposal
<p>(Total Number of Authorized Shares) Article 7. The total number of authorized shares by the Company shall be <u>750,000,000</u> shares.</p> <p><u>(Unit of Shares)</u> <u>Article 9. A unit of shares in the Company shall consist of 100 shares.</u></p> <p>Article <u>10</u> (Text omitted)</p> <p><u>(Rights to Shares of Less Than One Unit)</u> <u>Article 11. A shareholder of the Company may not exercise rights with regard to shares of less than one unit that he or she holds, other than the following:</u></p> <p>(1) <u>Rights listed in Article 189(2) of the Companies Act</u></p> <p>(2) <u>Rights to make demands under the provisions of Article 166(1) of the Companies Act</u></p> <p>(3) <u>Rights to receive allotments of offered shares and offered share options proportionally to the number of shares held by the shareholder</u></p> <p>(4) <u>Rights to make demands as provided in the following Article</u></p> <p><u>(Right to Demand Purchase of Shares of Less Than One Unit)</u> <u>Article 12. A shareholder of the Company may demand the purchase of shares of less than one unit that he or she holds, as provided in the Share Handling Regulations.</u></p> <p>Articles <u>13</u> to <u>36</u> (Text omitted)</p>	<p>(Total Number of Authorized Shares) Article 7. The total number of authorized shares by the Company shall be <u>10</u> shares.</p> <p>(Deleted)</p> <p>Article <u>9</u> (Text omitted)</p> <p>(Deleted)</p> <p>(Deleted)</p> <p>(Deleted)</p> <p>Articles <u>10</u> to <u>33</u> (Text omitted)</p>

3. Schedule

The planned schedule for the amendment to the Articles of Incorporation if all of the New Shares for the

Third-Party Allotment have been issued around March 2023 is as follows:

EGM Date	February 2023 (planned)
Share Consolidation Effective Date	Around March to April 2023 (planned)
Effective date of amendment to Articles of Incorporation	Around March to April 2023 (planned)

## VIII. Capital Reduction and Appropriation of Surplus

### 1. Purpose of Capital Reduction and Appropriation of Surplus

In order to quickly improve our financial condition and prepare for a flexible and agile capital policy, we have decided to reduce the amount of capital, etc. and make a transfer to other capital surplus, which constitutes a distributable amount.

The Company will also conduct an Appropriation of Surplus pursuant to Article 452 of the Companies Act and apply the increase in other capital surplus as a result of the Capital Reduction against the negative retained earnings carried forward.

The Capital Reduction and Appropriation of Surplus will be carried out conditional upon the payment for the New Shares, but the details have not been determined as of today, and will be announced once decided.

### 2. Schedule

The planned schedule for the Capital Reduction and Appropriation of Surplus if all of the New Shares for the Third-Party Allotment have been issued around March 2023 is as follows:

Public announcement requesting creditor objections	Around February 2023 (planned)
Date of the EGM	February 2023 (planned)
Final date for creditor objections	Around March 2023 (planned)
Effective date of Capital Reduction and Appropriation of Surplus	Around March to April 2023 (planned)

End of document