March 18, 2014

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Notice Concerning Issue of Subscription Rights Through Private Allocation

Japan Tissue Engineering Co., Ltd. (hereinafter referred to as “J-TEC”) announces that its Board of Directors passed a resolution at its meeting held on February 14, 2014 to issue subscription rights through private allocation (hereinafter, such Subscription Rights are referred to as “the Subscription Rights,” and the issue of such Subscription Rights are referred to as “the Subscription Rights Issue”). Note, however, that the Subscription Rights Issue will be proposed at the Extraordinary Shareholders’ Meeting of J-TEC for approval scheduled on March 27, 2014 and that the Subscription Rights Issue will be subject to the approval of the Extraordinary Shareholders’ Meeting.

Description

I. Issuance of Subscription Rights Through Private Allocation

1. Overview of Allocation

(1) Allocation Date	March 31, 2014
(2) Number of Subscription Rights to be Allotted	18,000 units
(3) Issue Price	¥30,000 per One Unit of Subscription Rights (Aggregate Value: ¥540,000,000)
(4) Number of Potential Common Stock Shares Attributable to the Subscription Rights Issue	Number of Potential Common Stock Shares: 18,000 shares
(5) Strike Price	¥380,000 per share
(6) Amount to be Raised from the Subscription Rights Issue	The sum of the amount paid for the Subscription Rights Issuance and the amount to be paid for the exercise of the Subscription Rights : ¥7,380,000,000
(7) Offering or Allocation Method (Proposed Allottee and Number of Units to be Allocated)	Through private allocation to Fujifilm Corporation: 18,000 units
(8) Others	Each of the above items is subject to the condition that the proposal on the Subscription Rights Issue is approved by the Extraordinary Shareholders’ Meeting of J-TEC scheduled on March 27, 2014 and that the filing under the Financial Instruments and Exchange Act becomes effective.

2. Purpose and Reason for the Allocation

J-TEC is engaged in a “Regenerative Medicine Business” applicable under the Pharmaceutical Affairs Act and an “R&D Support Business” not applicable under the Pharmaceutical Affairs Act, on the basis of “tissue engineering” (meaning a technology to artificially create tissues and organs with their original functions as much as possible using living cells). As for the Regenerative Medicine Business, J-TEC is currently promoting the production and sales of an autologous cultured epidermis (product name: JACE) and autologous cultured cartilage (product name: JACC) and is also advancing the development of autologous cultured corneal epithelium. The progress of each business is as shown below.

Autologous cultured epidermis “JACE” is the first human cell tissue-based product in Japan, which was approved for production and sales by the Ministry of Health, Labour and Welfare in October 2007 and then became covered by the National Health Insurance in January 2009. JACE is a medical device for the purpose of treatment of severe burn patients with burns over more than 30 percent of their body surface area. However, there are some points of consideration imposed on JACE with regard to the coverage of National Health Insurance (NHI), such as facility criteria and limitation of charges applicable to NHI coverage. J-TEC focuses on conducting promotional activities to major medical agencies. At the same time, through collaboration with the Japanese Society for Regenerative Medicine, etc., J-TEC is also engaged in providing appropriate instruction to medical agencies about more effective usage of JACE for severe burn treatment. As for the points of consideration imposed on JACE, the revision of the medical payment system relaxed the facility criteria in April 2010 and eased the limitation of charges applicable to NHI coverage in April 2012. Annual revenue of JACE has been increasing over the past several years: ¥12 million for the fiscal year ended March 31, 2009; ¥110 million for the fiscal year ended March 31, 2010; ¥219 million for the fiscal year ended March 31, 2011; ¥316 million for the fiscal year ended March 31, 2012; ¥383 million for the fiscal year ended March 31, 2013. However, the termination of production has frequently occurred due to the limitation of the number of patients applicable to JACE and the frequent death of patients before the shipment of the product. Such burdens borne by J-TEC have made this business unprofitable. J-TEC is promoting to expand the application range of JACE in order to secure profitability for the autologous cultured cartilage business.

The autologous cultured cartilage “JACC” is the first human cell tissue-based product in the field of orthopedics in Japan, which was approved for production and sales by the Ministry of Health, Labour and Welfare in July 2012 and then became covered by the National Health Insurance in April 2013. The application target of JACC is traumatic cartilage defects of the knee joint or osteochondrosis dissecans (except knee osteoarthritis). Since there are some points of consideration imposed on JACC with regard to the NHI coverage, such as facility criteria and regulations for qualified orthopedic surgeons, J-TEC is currently conducting promotional activities with a focus on training for medical agencies and qualified orthopedic surgeons.

In respect of autologous cultured corneal epithelium, J-TEC is summarizing the results of pre-clinical test and validation studies for the preparation of the clinical trial.

In the R&D Support Business, J-TEC has commenced production and sales of the Research Human Tissue Culture Laboratory Site Series in April 2005 and posted sales of ¥74 million in the fiscal year ended March 31, 2013.

With regard to J-TEC’s operating results and financial position for the fiscal year ended March 31, 2013, net sales amounted to ¥563 million, and operating loss, ordinary loss and net loss were ¥1,103 million, ¥1,073 million and ¥1,077 million, respectively. Cash and deposits as of March 31, 2013 totaled ¥1,607 million. With regard to J-TEC’s operating results and financial position for the nine months (April 1 - December 31, 2013) of the fiscal year ending March 31, 2014, net sales amounted to ¥677 million, and operating loss, ordinary loss and net loss were ¥744 million, ¥749 million and ¥752 million, respectively. Cash and deposits as of December 31, 2013 totaled ¥1,012 million. Based on “Medium-Term Management Plan (Revised)” (from the fiscal year ending March 31, 2014 to the fiscal year ending March 31, 2016) that was officially announced on November 13, 2013 (hereinafter referred to as “MTM Plan”), J-TEC plans to post a net loss of ¥803 for the fiscal year ending March 31, 2014 and net loss of ¥520 for the fiscal year ending March 31, 2015. However, J-TEC projects to turn its financial performance around with a net income of ¥520 million for the fiscal year ending March 31, 2016. However, J-TEC currently faces several challenges, including inherent uncertainty factors for revenues of autologous cultured cartilage that is expected to serve as a key driver for the turnaround for the fiscal year ending March 31, 2016, and a limitation of the market size of JACE due to its targeting the treatment of severe burns and frequent death of patients after the order receipt. In addition, future risk implies that J-TEC could possibly not proceed as planned with respect to the development, approval and sales plan of autologous cultured corneal epithelium.

Given the current state of J-TEC as well as the nature of the Regenerative Medicine Business characterized as a time-consuming business requiring approval under pharmaceuticals legislation, J-TEC has been considering various financing schemes in order to stabilize its operating base. J-TEC believes that it is of vital importance to strengthen its financial base for the stabilization of operations in the short run and to secure new sources of revenue as J-TEC growth strategy in the medium and long terms with a view of improving its enterprise value and contributing to the interests of its existing shareholders. Out of the financing schemes that J-TEC considered this time, J-TEC gave up other alternative schemes as given below for the following reasons: (a) public stock offering is thought to have potentially direct impact on J-TEC's stock prices while fund-raising is available temporarily; (b) rights offerings could become a burden on the existing shareholders because rights offerings require them to pay additional funds, although this scheme will enable the maintenance of the shareholding ratio; and (c) a bank loan is not appropriate because it could be difficult to borrow a large amount of money in consideration of the creditworthiness of J-TEC in the future. The reasons for selecting the Subscription Rights Issue as an appropriate financing scheme this time are: (a) J-TEC will be able to secure the amount of money required in the foreseeable future by achieving the proceeds of ¥540 million through the Subscription Rights Issue; and (b)this scheme is thought to have validity and reasonableness in that stock prices will rise in line with progress in business and improvement in enterprise value in conjunction with the promotion to exercise the Subscription Rights, since J-TEC envisages that the purpose funds are not temporary. In addition, J-TEC also believes that gradual exercise of the Subscription Rights will control the impact on dilution of the stock value and accordingly will not undermine the interest of J-TEC shareholders.

As a result of a series of discussions with the proposed allottee after due consideration of these various elements from every angle, J-TEC decided that the Subscription Rights Issue should be the best financing scheme at this time as means to meet the fund demands required in the progress of the business in the foreseeable future as well as to accelerate synergies in development, etc.

The Subscription Rights Issue is intended to enhance J-TEC's financial base and build a stable operating base further as well as to strengthen the cooperation with the proposed allottee for creating greater business synergies than ever.

6. Reason for Selecting the Proposed Allottee and Others

(1) Overview of the Proposed Allottee (as of March 31, 2013)

(i)	Trade Name	Fujifilm Corporation
(ii)	Main Office	26-30, Nishiazabu 2-chome, Minato-ku, Tokyo
(iii)	Representative's Title and Full Name	Shigetaka Komori, Chairman and Chief Executive Officer Shigehiro Nakajimam, President and Chief Operating Officer
(iv)	Description of Businesses	Development, manufacturing, sales and services regarding (1) Imaging Solutions (color films, digital cameras, optical devices, photo finishing equipment, color paper for developing prints, chemicals, services, and others) and (2) Information Solutions (medical systems and life science equipment, graphics system equipment, flat panel display materials, recording media, electronic materials, inkjet material, and others)
(v)	Capital Stock	¥40,000 million
(vi)	Date of Incorporation	October 2, 2006
(vii)	Number of Shares Issued and Outstanding	1,000 shares
(viii)	Fiscal year-end	March 31
(ix)	Number of Employees	7,094 (as of March 31, 2013)
(x)	Main Customers	Private businesses in manufacturing, distribution, service and other sectors and government and municipal offices
(xi)	Main Bank	Sumitomo Mitsui Banking Corporation

(xii)	Major Shareholders and Voting Right Ratio (Breakdown of Shares Held)	Fujifilm Holdings Corporation 100%	
(xiii)	Relationship between J-TEC and the Proposed Allottee	Capital Relationships	As of September 30, 2013, the proposed allottee falls under the category of "other affiliate company" of J-TEC and is the largest and major shareholder, holding 41.1% of J-TEC common stock shares.
		Transactional Relationships	The proposed allottee has annual business transactions of approximately ¥1 million with J-TEC.
		Personal Relationships	One (1) outside director of J-TEC concurrently serves as a director of the proposed allottee, and another one (1) outside director of J-TEC serves as an employee of the proposed allottee. In addition, one (1) staff member is on loan to J-TEC from the proposed allottee.
		Relevant Facts Concerning Related Parties	The allottee falls under the category of "other affiliate company" of J-TEC.
(xiv)	Operating results and financial position for the past three fiscal years (Unit: Millions of JPY)		

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013
Net Assets	1,295,211	1,286,005	1,311,648
Total Assets	1,501,442	1,483,161	1,455,147
Net Assets per Share	1,295	1,286	1,311
Net Sales	692,622	649,059	552,013
Operating Income	57,431	7,733	(2,535)
Ordinary Income	61,840	6,008	12,434
Net Income	84,118	2,038	14,394
Net Income per Share	84	2	14
Dividends per Share	6	9	0

J-TEC affirms that the proposed allottee, its officers and its major shareholder (key sponsor) do not have any relationships with anti-social forces, and J-TEC has submitted a written confirmation thereof to the Tokyo Stock Exchange.

(2) Reason for Selecting the Proposed Allottee

J-TEC issued new common stock through private allocation to the proposed allottee in October 2010. At the same time, J-TEC signed "Capital Alliance Agreement" and Business Alliance Agreement" with the proposed allottee, aiming stabilizing its operating base and strengthening its financial base as well as accelerating business synergies.

J-TEC decided to select Fujifilm Corporation as the proposed allottee of the Subscription Rights, considering in a comprehensive manner the points including: (a) the proposed allottee positions "Healthcare Business" as one of its core businesses in the future; (b) the proposed allottee is ready for the launch of a new project through the basic agreement with J-TEC on consignment of research and development of regenerative medicine products using cell scaffold matrices to be developed by the proposed allottee (see "Notice Regarding Conclusion of Basic Agreement with Fujifilm Corporation" announced on the timely disclosure information on February 14, 2014); and (c) the proposed allottee has the ability to provide J-TEC with the capital support necessary on a continuing basis in order to strengthen its financial base, a challenge facing J-TEC. Fujifilm Corporation has advanced knowledge and a proven track record, mainly in digital X-ray imaging and diagnostic systems, endoscope systems, and high-performance materials, and advanced into the pharmaceutical business through the acquisition of the controlling shares of Toyama Chemical Co., Ltd. in

2008, a shareholder of J-TEC, activating investments in capital and research and development. For the reasons set forth above, J-TEC has determined that, through establishing a stronger collaborative relationship with Fujifilm in research and development and business development, J-TEC would be able to create business synergies aiming at “the industrialization of regenerative medicine,” a mission of J-TEC.

(3) Allottee’s Policy on Holding Shares

J-TEC shall receive an explanation from the allottee that it intends to acquire J-TEC common stock shares by exercising the Subscription Rights in accordance with the principle of holding the shares in the medium and long terms.

7. Major Shareholders and Their Respective Shareholding Ratio after Allocation

Before Allocation (September 30, 2013)		After Allocation	
Fujifilm Corporation	41.10%	Fujifilm Corporation	46.36%
Nidek Co., Ltd.	11.50%	Nidek Co., Ltd.	10.48%
Japan Trustee Services Bank, Ltd.	4.63%	Japan Trustee Services Bank, Ltd.	4.22%
Toyama Chemical Co., Ltd.	4.51%	Toyama Chemical Co., Ltd.	4.11%
LIXIL Corporation	2.44%	LIXIL Corporation	2.22%
The Master Trust Bank of Japan ,Ltd.	2.40%	The Master Trust Bank of Japan ,Ltd.	2.19%
Chubu Shiryo Co., Ltd.	1.08%	Chubu Shiryo Co., Ltd.	0.99%
Yoko Maeda	0.93%	Yoko Maeda	0.84%
Mitsui Sumitomo Insurance Company, Limited	0.81%	Mitsui Sumitomo Insurance Company, Limited	0.74%
Gastec Service, Inc.	0.81%	Gastec Service, Inc.	0.74%

(Note)

1. The shareholder ratio is based on the shareholder register as of September 30, 2013.
2. The number of voting shares of J-TEC held by each major shareholder after the allocation and the ratio of voting shares held to the total number of voting shares outstanding after the allocation is computed based on the denominator computed as the number of shares issued and outstanding as of September 30, 2013 (183,664 shares) plus the number of shares to be increased as though all units of the Subscription Rights were exercised and converted to voting shares (18,000 shares).

8. Future Outlook

The Subscription Rights Issue is intended to improve J-TEC’s enterprise value by enhancing J-TEC’s financial base and securing new sources of revenue under the growth strategy. Therefore, J-TEC considers that the Subscription Rights Issue is likely to have minimal impact on the business results for the fiscal year ending March 31, 2014. J-TEC, however, expects that it could potentially have an impact on earnings forecasts in the medium and long terms. In the event of any impact on business results in the future, J-TEC will disclose such information immediately.

(Procedure for Code of Conduct)

J-TEC has decided that the Subscription Rights Issue is reasonable in terms of the number of shares to be issued and scale of dilution of shares. On the other hand, if all units of the Subscription Rights are exercised and converted into common stock shares, the proposed allottee of Fujifilm Corporation will be the largest shareholder with a 46.36% of the total voting rights of all stockholders. Since Fujifilm Corporation is a wholly-owned subsidiary of Fujifilm Holdings Corporation (hereinafter referred to as “Fujifilm Holdings”) and Toyama Chemical Co., Ltd. is also a 66% subsidiary of Fujifilm Holdings, the combined voting rights will account for 50.47% of the total voting rights, which will eventually make Fujifilm Holdings a controlling shareholder of J-TEC. Therefore, there is a possibility that the Subscription Rights Issue could affect the governance of the business operations of J-TEC.

As mentioned above, since the exercise of the Subscription Rights could potentially trigger a change in the controlling shareholder, J-TEC needs to undertake a procedure to receive an opinion from an independent third party or to confirm the intent of shareholders regarding the Subscription Rights Issue, in accordance with Rule 432 of the Securities Listing Regulations defined by the Tokyo Stock Exchange. In view of the situation that the Subscription Rights Issue could have a significant impact on the existing shareholders, J-TEC should want to explain the rationale for the necessity and reasonableness of the Subscription Rights Issue. On that basis, J-TEC will confirm the intent of the existing shareholders regarding the Subscription Rights Issue through an ordinary resolution at the extraordinary meeting of shareholders scheduled to be held on March 27, 2014.

10. Stock Split (Reference)

(1) Stock Split Method

Each share of common stock owned by shareholders entered or recorded in the final shareholder register on Monday, March 31, 2014 as a reference date will be split into 200 shares per one share of J-TEC.

(2) Increase in the Number of Shares due to the Stock Split

Total number of shares issued and outstanding before the stock split: 183,925 shares
Increase in the number of shares due to the stock split: 36,601,075 shares
Total number of shares issued and outstanding after the stock split: 36,785,000 shares
Total number of authorized shares after the stock split: 55,000,000 shares

The number of shares shown above is calculated based on the total number of shares issued and outstanding as of January 31, 2014. It could be possible that the total number of shares issued and outstanding will increase due to the exercise of the Subscription Rights from the period between the resolution date of the Board of Directors' Meeting and the reference date.

(3) Schedule for the Stock Split

Announcement of the reference date: Friday, March 14, 2014 (electronically notified)
Reference date of the stock split: Monday March 31, 2014
Effective date of the stock split: Tuesday, April 1, 2014

(4) Other

(i) There will be no increase in the capital stock of J-TEC as a result of the stock split.

(ii) Adjustment of the exercise price of subscription rights

Due to the forthcoming stock split, the per-share exercise price of subscription rights issued by J-TEC will be adjusted as follows, effective from Tuesday, April 1, 2014.

	Resolution Date of the Board of Directors' Meeting	Exercise Price Before the Adjustment	Exercise Price After the Adjustment
No.1 Subscription Rights	December 21, 2004	¥100,000	¥500
No.1 (A) Subscription Rights	March 18, 2005	¥100,000	¥500
No.2 (A) Subscription Rights	June 6, 2005	¥100,000	¥500
No.3 Subscription Rights	April 27, 2006	¥250,000	¥1,250
No.4 Subscription Rights	April 27, 2006	¥250,000	¥1,250
No.5 Subscription Rights	June 27, 2007	¥200,000	¥1,000
No. 6 Subscription Rights (the Subscription Rights Issue)	February 14, 2014	¥380,000	¥1,900