CMIC Co., Ltd

Consolidated Financial Statements
For the Years ended September 30, 2009 and 2010
Together with Independent Auditors' Report

KPMG AZSA LLC

<u>**Independent Auditors' Report**</u>

To the Board of Directors of
CMIC Co., Ltd.

We have audited the accompanying consolidated balance sheets of CMIC Co., Ltd. and consolidated subsidiaries as of September 30, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMIC Co., Ltd. and subsidiaries as of September 30, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1)As discussed in Note 15, the Company's business segment information has been changed from the fiscal year ending September 30, 2009.

(2)As discussed in Note18, the Company concluded an agreement to convert the Institute of Applied Medicine, Inc. into a wholly owned subsidiary of the Company through a share exchange on November 9, 2010.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended September 30, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan
December 15, 2010

CONSOLIDATED BALANCE SHEETS

CMIC Co., Ltd. and consolidated subsidiaries
As of September 30, 2009 and 2010

ASSETS	Thousands of yen 2009	Thousands of yen 2010	Thousands of U.S. dollars (Note 1) 2010
Current assets:			
Cash and deposits (Notes 3 and 5)	¥ 5,953,343	¥ **6,096,196**	$ **72,729**
Notes and accounts receivable-trade (Note 5)	5,931,046	**8,075,470**	**96,343**
Merchandise and finished goods	18,904	**17,798**	**212**
Work in process	1,440,758	**2,590,491**	**30,905**
Raw materials and supplies	216,120	**349,286**	**4,167**
Deferred tax assets (Note 11)	646,550	**889,314**	**10,609**
Other	595,849	**915,481**	**10,921**
Allowance for doubtful accounts	(1,645)	**(3,321)**	**(39)**
Total current assets	14,800,925	**18,930,718**	**225,849**
Property, plant and equipment:			
Buildings and structures	5,315,737	**7,517,048**	**89,680**
Machinery, equipment and vehicles	2,660,755	**3,990,348**	**47,606**
Tools, furniture and fixtures	909,467	**996,105**	**11,883**
Land	1,716,676	**4,364,766**	**52,073**
Lease assets	313,726	**491,805**	**5,867**
Construction in progress	97,545	**383,746**	**4,578**
Less accumulated depreciation	(6,011,844)	**(7,069,816)**	**(84,345)**
Total property, plant and equipments	5,002,062	**10,674,003**	**127,344**
Intangible assets:			
Goodwill	672,291	**566,236**	**6,755**
Other	620,344	**757,666**	**9,039**
Total intangible assets	1,292,635	**1,323,902**	**15,794**
Investments and other assets:			
Investment securities (Notes 5 and 6)	464,727	**308,985**	**3,686**
Deferred tax assets (Note 11)	565,260	**719,047**	**8,578**
Lease and guarantee deposits	1,178,716	**1,233,412**	**14,715**
Other	55,583	**101,923**	**1,215**
Allowance for doubtful accounts	(4,738)	**(25,336)**	**(302)**
Total investments and other assets	2,259,548	**2,338,033**	**27,893**
Total assets	¥ 23,355,170	¥ **33,266,659**	$ **396,882**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS (continued)

CMIC Co., Ltd. and consolidated subsidiaries
As of September 30, 2009 and 2010

LIABILITIES AND NET ASSETS	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Current liabilities:			
Notes and accounts payable-trade (Note 5)	¥ 536,240	¥ 1,416,444	$ 16,898
Short-term loans payable (Notes 5 and 8)	749,000	900,000	10,737
Current portion of long-term loans payable (Notes 5 and 8)	679,600	1,132,600	13,512
Accounts payable-other	501,811	969,971	11,572
Accrued expenses	273,382	384,746	4,590
Income taxes payable	931,871	1,130,507	13,487
Advances received	1,291,303	987,042	11,775
Provision for bonuses	1,080,928	1,507,242	17,981
Provision for directors' bonuses	80,490	106,920	1,275
Provision for loss on order received	115,153	214,701	2,561
Deferred tax liabilities (Note 11)	19,638	10,205	121
Other	470,344	677,299	8,080
Total current liabilities	6,729,760	9,437,682	112,594
Noncurrent liabilities:			
Long-term loans payable (Notes 5 and 8)	691,300	6,208,700	74,071
Provision for retirement benefits (Note 9)	1,186,635	1,561,510	18,629
Deferred tax liabilities (Note 11)	27,453	89,541	1,068
Other	233,183	329,984	3,936
Total noncurrent liabilities	2,138,571	8,189,735	97,706
Total liabilities	8,868,331	17,627,418	210,300
NET ASSETS			
Shareholders' equity:			
Capital stock			
Authorized-2,300,000 shares			
Issued-894,957 shares in 2009 and 2010	3,087,750	3,087,750	36,837
Capital surplus	5,960,881	5,960,881	71,115
Retained earnings	5,082,406	6,554,927	78,202
Treasury stock at cost—16,013 shares in 2009 and 16,022 shares in 2010	(416,285)	(416,516)	(4,969)
Total shareholders' equity	13,714,752	15,187,041	181,186
Valuation and translation adjustments:			
Foreign currency translation adjustments	(205,975)	(264,353)	(3,153)
Total valuation and translation adjustments	(205,975)	(264,353)	(3,153)
Minority interests	978,062	716,552	8,548
Total net assets	14,486,839	15,639,241	186,581
Total liabilities and net assets	¥ 23,355,170	¥ 33,266,659	$ 396,882

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

CMIC Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2009 and 2010

	Shares 2009	Shares 2010
Number of shares of common stock:		
Balance at beginning of year	894,957	894,957
Balance at end of year	894,957	894,957

	Thousands of yen 2009	Thousands of yen 2010	Thousands of U.S. dollars (Note 1) 2010
Capital stock:			
Balance at the end of current period	¥ 3,087,750	¥ 3,087,750	$ 36,837
Capital surplus:			
Balance at the end of previous period	5,960,881	5,960,881	71,115
Disposal of treasury stock	(0)	-	-
Balance at the end of current period	5,960,881	5,960,881	71,115
Retained earnings:			
Balance at the end of previous period	4,254,540	5,082,406	60,634
Effect of changes in accounting policies applied to foreign subsidiaries	33,861	-	-
Net income	1,059,685	1,786,329	21,311
Cash dividends paid - ¥300.00 ($3.326) per share in 2009	(265,680)	-	-
¥357.00 ($4.259) per share in 2010	-	(313,783)	(3,743)
Disposal of treasury stock	-	(25)	(0)
Balance at the end of current period	5,082,406	6,554,927	78,202
Treasury stock:			
Balance at the end of previous period	(36,651)	(416,285)	(4,966)
Acquisition of treasury stock	(379,790)	(335)	(4)
Disposal of treasury stock	156	103	1
Balance at the end of current period - 16,013 shares in 2009 and 16,022 shares in 2010	(416,285)	(416,516)	(4,969)
Total shareholders' equity	13,714,752	15,187,041	181,186
Foreign currency translation adjustments:			
Balance at the end of previous period	(131,494)	(205,974)	(2,457)
Total changes of items during the period	(74,481)	(58,378)	(696)
Balance at the end of current period	(205,975)	(264,353)	(3,153)
Minority interests	978,062	716,552	8,548
Total net assets	¥ 14,486,839	¥ 15,639,241	$ 186,581

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

CMIC Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2009 and 2010

	Thousands of yen		Thousands of U.S. dollars (Note1)
	2009	2010	2010
Net sales	¥ 28,784,829	¥ 35,861,532	$ 427,839
Costs and expenses:			
Cost of sales	(20,927,193)	(26,277,734)	(313,501)
Selling, general and administrative expenses (Note 10)	(5,343,404)	(6,272,754)	(74,836)
Total costs and expenses	(26,270,597)	(32,550,488)	(388,337)
Operating income	2,514,232	3,311,043	39,501
Other income (expenses):			
Interest income	14,589	9,821	117
Foreign exchange gains	-	29,742	354
Commission income	1,288	1,407	16
Rent income	21,317	25,073	299
Amortization of negative goodwill	35,838	-	-
Equity in earnings of affiliates	1,862	-	-
Management fee income	-	25,908	309
Other income	33,538	26,207	312
Interest expenses	(41,051)	(95,919)	(1,144)
Foreign exchange losses	(78,528)	-	-
Equity losses on investment	(79,487)	(91,747)	(1,094)
Equity in losses of affiliates	-	(880)	(10)
Other expenses	(23,438)	(25,704)	(306)
Gain on sales of noncurrent assets	-	281	3
Gain on sales of investment securities	1,200	-	-
Gain on negative goodwill	-	271,703	3,241
Deduction of R&D costs for previous years	-	26,685	318
Loss on retirement of noncurrent assets	(35,913)	(54,631)	(651)
Impairment loss on noncurrent assets	-	(25,468)	(303)
Loss on valuation of investment securities	(80,288)	(11,905)	(142)
Retirement benefit expenses	(29,329)	-	-
Office transfer expenses	(19,676)	-	-
Compensation for damage	-	(85,923)	(1,025)
Total other income (expenses)	(278,078)	24,649	294
Income before income taxes and minority interests	2,236,154	3,335,692	39,795
Income taxes (Note 11):			
Income taxes-current	1,333,661	1,844,443	22,004
Income taxes-deferred	(251,766)	(365,974)	(4,366)
Minority interests in income	94,574	70,894	845
Net income	¥ 1,059,685	¥ 1,786,329	$ 21,311

	Yen	Yen	U.S. dollars (Note 1)
Amount per share of common stock:			
Net income	¥ 1,205.63	¥ 2,032.36	$ 24.24
Diluted net income	-	-	-
Cash dividends applicable to the period	334.00	530.00	6.32

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CMIC Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2009 and 2010

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2009	2010	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,236,154	¥ 3,335,692	$ 39,795
Depreciation and amortization	703,496	1,428,695	17,044
Impairment loss on noncurrent assets	-	25,468	303
Amortization of goodwill	114,999	139,576	1,665
Amortization of negative goodwill	(35,838)	-	-
Gain on negative goodwill	-	(271,703)	(3,241)
Increase (decrease) in provision for retirement benefits	270,818	375,919	4,484
Increase (decrease) in provision for bonuses	241,938	435,292	5,193
Increase (decrease) in provision for directors' bonuses	14,171	26,431	315
Increase (decrease) of allowance for doubtful accounts	(1,273)	23,174	276
Increase (decrease) in provision for loss on order received	106,726	99,602	1,188
Interest income	(14,589)	(12,821)	(152)
Interest expenses	41,050	95,919	1,144
Equity in (earnings) losses of affiliates	(1,862)	880	10
Foreign exchange losses (gains)	96,586	13,479	160
Investment amount of equity losses incurred	79,487	91,747	1,094
Loss (gain) on sales of investment securities	(1,200)	-	-
Loss (gain) on valuation of investment securities	80,288	11,905	142
Loss on retirement of noncurrent assets	35,913	54,631	651
Gain on sales of noncurrent assets	-	(281)	(3)
Compensation for damage	-	85,923	1,025
Decrease (increase) in notes and accounts receivable-trade	(742,628)	(2,158,183)	(25,747)
Decrease (Increase) of inventories	(164,996)	(1,160,108)	(13,840)
Increase (decrease) in notes and accounts payable-trade	(47,229)	886,796	10,579
Increase (decrease) of accrued expenses	(320,433)	105,907	1,263
Increase (decrease) in advances received	310,439	(293,633)	(3,503)
Increase (decrease) of deposits received	(419)	24,516	292
Other, net	(59,342)	(88,699)	(1,058)
Subtotal	2,942,256	3,276,131	39,085
Interest and dividends income received	21,972	12,821	152
Interest expenses paid	(42,094)	(97,432)	(1,162)
Income taxes paid	(1,453,431)	(1,583,580)	(18,892)
Net cash provided by operating activities	1,468,703	1,607,940	19,183
Cash flows from investing activities:			
Payments into time deposits	(468,050)	(616,871)	(7,359)
Proceeds from withdrawal of time deposits	636,350	440,431	5,254
Purchase of property, plant and equipment	(802,187)	(819,193)	(9,773)
Proceeds from sales of property, plant and equipment	-	5,093	60
Purchase of intangible assets	(316,745)	(320,982)	(3,829)
Deposit payments for deposit to be paid	(206,219)	(151,002)	(1,801)
Proceeds from collection of lease and guarantee deposits	46,927	93,221	1,112
Purchase of investment securities	(134,049)	(65,275)	(778)
Proceeds from sales of investment securities	4,587	105,000	1,252
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	(143,670)	(5,644,386)	(67,339)
Purchase of investments in subsidiaries	-	(282,222)	(3,367)
Collection of loans receivable	22,431	-	-
Other, net	-	(52,498)	(626)
Net cash used in investing activities	(1,360,625)	(7,308,685)	(87,195)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	649,000	151,000	1,801
Proceeds from long-term loans payable	150,000	6,650,000	79,336
Repayment of long-term loans payable	(701,104)	(679,600)	(8,107)
Repayment of lease obligations	(61,182)	(96,876)	(1,155)
Purchase of treasury stock	(379,791)	(335)	(4)
Disposal of treasury stock	156	78	0
Purchase of treasury stock of consolidated subsidiaries	-	(45)	(0)
Dividends paid	(266,625)	(312,932)	(3,733)
Dividends paid to minority shareholders	(22,488)	(20,760)	(247)
Net cash provided by (used in) financing activities	(632,034)	5,690,528	67,889
Effect of exchange rate changes on cash and cash equivalents	(33,773)	(19,870)	(237)
Net decrease in cash and cash equivalents	(557,729)	(30,087)	(358)
Cash and cash equivalents at beginning of period	6,070,677	5,512,948	65,771
Cash and cash equivalents at end of period (Note 5)	¥ 5,512,948	¥ 5,482,860	$ 65,412

The accompanying notes to the consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CMIC Co., Ltd. and consolidated subsidiaries

1. Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by CMIC Co., Ltd. (the "Company") and its domestic subsidiaries (the "Domestic companies") in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP") which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.
The accounts of overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with consolidation adjustments for the specified six items as applicable.
The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto have been translated from Japanese yen into U.S. dollars on the basis of ¥83.82 to U.S. $1.00, the rate of exchange prevailing at September 30, 2010. Amounts less than one thousand yen and one thousand U.S.dollars in 2009 are rounded to the nearest thousand and those in 2010 are rounded down. The total Japanese yen and U.S.dollars amounts shown in the financial statements and notes do not necessarily agree with the sum of the individual amounts.
These U.S. dollar amounts are not intended to imply that the Japanese yen amounts have been, could have been or could in future be converted, realized or settled in U.S. dollars at this or any other rate of exchange.
In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. Significant accounting policies

Consolidation- The Company has 13 and 14 subsidiaries at September 30, 2009 and 2010, respectively. The consolidated financial statements for the years ended September 30, 2009 and 2010 include the accounts of the Company and all of its subsidiaries (the "Companies"). The Company does not have unconsolidated subsidiary. The Company has an affiliate (40% owned) at September 30, 2009 and 2010.
The fiscal year-end of CMIC (Beijing) Co., Ltd. and CMIC BRASIL RESQUISAS CLINICAS LIDA is December 31. The fiscal year-end of CMIC CMO Co., Ltd. is March 31.These subsidiaries provisionally close their books at September 30 for the purpose of consolidation of the Company. The fiscal year-end of the subsidiaries other than the above subsidiaries is September 30.
In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair values at the time the Company acquired control of the respective subsidiaries.

Securities- Other non-marketable securities are stated at cost or amortized cost computed by the moving-average method.

Derivatives- Derivatives are carried at fair value. However, with respect to interest rate swaps meeting the criteria for the exceptional treatment, the exceptional treatment is, in principle, applied.

Inventories- Inventories are valued at the lower of cost or net realizable value at the fiscal year end in the balance sheet. Merchandise and finished goods are principally stated at the cost determined by the first-in first-out method. Work in process is principally stated at the cost determined by the identified cost method, and by the first-in first-out method in certain consolidated subsidiaries. Raw materials and supplies are principally stated at the cost determined by the moving average method.

Property, plant and equipment- Property, plant and equipment are carried at cost. Depreciation is computed on the declining-balance method over the following estimated useful lives of the assets except for buildings acquired after April 1, 1998, which are computed on a straight-line method.
The estimated useful lives of depreciable assets are as follows:
Buildings and structures: 6 years to 50 years
Machinery, equipment and vehicles: 4 years to 10 years
Tools, furniture and fixtures: 2 years to 15 years
On the other hand, overseas subsidiaries adopt the straight line method in depreciation for property, plant and equipment.

Lease assets- The straight-line method is applied with the useful life of the asset being the lease term and the residual value being zero. The accounting treatment for finance lease transaction, other than those involving a transfer of title, for which the starting date of the lease was September 30, 2008 or earlier, is similar to the accounting treatment for operating lease transactions.

Intangible assets - Intangible assets of the Domestic companies are amortized using the straight-line method over the estimated useful lives. Software for their own use of the Domestic companies is amortized using the straight-line method over the estimated useful lives (5 years).

Stock issuance costs- Stock issuance costs are principally charged to expenses as incurred.

Allowance for doubtful accounts- The Companies provide allowance for doubtful accounts in amounts sufficient to cover probable losses on collection. It comprises an estimated uncollectible account for certain receivables classified as "doubtful" or "bankrupt" and, for other receivables, an amount calculated using the rate of actual defaults in certain reference period.

Provision for retirement benefits- Employees' severance and retirement benefits is provided for the payments of employees' retirement benefits based on the estimated amounts of the projected retirement benefit obligation at the end of the consolidated fiscal year. Prior service cost is being amortized as incurred by the straight-line method over the period of principally 6 years which are shorter than the average remaining years of service of the employees. Net actuarial difference is amortized using the straight-line method over 1 year commencing from the succeeding period. A part of consolidated subsidiaries adopt retirement benefit system of a defined contribution corporate pension plan.

Provision for directors' bonuses- The Companies provide allowance for director's bonuses based on the estimated amount of the bonus payments.

Provision for bonuses- The Companies provide allowance for employees' bonuses based on the estimated amount of the bonus payments.

Provision for loss on order received- To provide for future losses on the order received, the Companies reasonably estimate and provide the amount of foreseeable losses at the end of fiscal year.

Translation of foreign currency- Receivables and payables of the Domestic companies denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The balance sheets of the overseas subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date except for shareholders' equity, which is translated at the historical rates. The income and expenses of the overseas subsidiaries are translated into Japanese yen at the average rates of the year. Differences arising from such translation are shown as Foreign currency translation adjustments and are included in Net assets.

Hedge Accounting -

(1) Hedge accounting method:

The Companies adopt the deferral method. The exceptional treatment is, in principle, applied with respect to interest rate swaps, in cases where criteria for the exceptional treatment are met.

(2) Hedging instruments and hedged transaction:

The derivatives designated as hedging instruments are interest rate swap contracts.

The hedged transactions are interest on borrowings.

(3) Hedging policy:

The Companies' policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risk of interest rate fluctuation.

(4) Methods for evaluating the effectiveness of hedges

The Companies evaluate effectiveness of its hedging transactions by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

The Companies omit to evaluate the effectiveness to which the exceptional treatment is applied.

Consumption Taxes – Transactions of the Domestic companies subject to consumption tax and/or regional consumption tax are recorded at amounts excluding the consumption tax.

Amounts per share of common stock- Computations of net income per share of common stock are based on the weighted-average number of shares outstanding during the respective year. Diluted net income per share is computed based on the weighted-average number of shares of common stock and contingent issuance of common stock from warrants. Cash dividends per share represent the actual amount declared as applicable to the respective year.

Goodwill- The difference between the cost and the underlying net equity of investment in consolidated subsidiaries or associates accounted for by the equity method has been allocated to identifiable assets based on fair market value at the date of acquisition. Any unassigned residual amount is recognized as goodwill and deferred and amortized on a straight-line basis over the estimated useful life, with the exception of minor amounts which are charged to income in the year of acquisition.

Cash and cash equivalents- In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with the maturity of not exceeding three months at the time of purchase without significant risk of change in value are considered to be cash and cash equivalents.

Reclassification and restatement- Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications and restatement have no impact on previously reported results of operations.

(Changes in accounting policy)

Change in Revenue Recognition of Made-to-Order Software

The Companies had used to apply the completed-contract method in revenue recognition of Made-to-order software contracts. However, effective from the year ended September 30, 2010, the Companies adopted the "Accounting Standard for Construction Contracts"(ASBJ Statement No.15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts"(ASBJ Guidance No.18, issued on December 27, 2007), The percentage-of-completion method of the order contracts that can reasonably estimate the progress of the result is applied from this fiscal year, and the completed-contract method is applied to the other order contracts (The progress of the result is estimated based on the percentage of the cost incurred to the estimated total cost). As the change of this matter, there is no impact on the consolidated financial statements for the year ended September 30,2010.

Adoption of Accounting Standards for Business Combinations and related matters

Effective from the year ended September 30, 2010, the Companies adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on December 26, 2008), "the Partial Amendments to Accounting Standard for Research and Development Costs,etc." (ASBJ Statement No.23, issued on December 26, 2008), the "Accounting Standard for Business Divestitures, etc."(ASBJ Statement No.7, issued on December 26, 2008), the "Accounting Standard for Equity Method" (ASBJ Statement No.16, issued on December 26, 2008), and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures, etc." (ASBJ Guidance No.10, issued on December 26, 2008).

Partial Amendments to Accounting Standard for Retirement Benefits (Part3)

Effective from the year ended September 30, 2010, the Companies adopted the "Partial Amendment to Accounting Standard for Retirement Benefit", (ASBJ Statement No.19, issued on July 31, 2008). However, the change has no impact on the consolidated financial statements for the year ended September 30, 2010.

3. **Supplemental Cash flow information**

(1) The reconciliation between Cash and deposits shown in the consolidated balance sheets and Cash and cash equivalents shown in the consolidated statements of cash flows as of September 30, 2009 and 2010 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Cash and deposits	¥ 5,953,343	¥ **6,096,196**	$ **72,729**
Less:			
The deposits over three months	440,395	**613,336**	**7,317**
Cash and cash equivalents	¥ 5,512,948	¥ **5,482,860**	$ **65,412**

(2) For the year ended September 30, 2010, the Company acquired shares in CMIC CMO Co., Ltd. CMIC CMO Co., Ltd. then became a consolidated subsidiary. Summary of the information on the assets and liabilities of the company at the start of consolidation is as follows:

	Thousands of yen		Thousands of U.S. dollars	
	2010		2010	
Current assets	¥	319,923	$	3,816
Non-current assets		5,830,473		69,559
Current liabilities		(48,602)		(579)
Non-current liabilities		(116,694)		(1,392)
Gain on negative goodwill		(242,056)		(2,887)
Acquisition cost of the shares in CMIC CMO Co.,Ltd.		5,743,043		68,516
Cash and cash equivalents in CMIC CMO Co.,Ltd		(98,656)		(1,177)
Net decrease in Cash and cash equivalents due to the purchase of additional shares in CMIC CMO Co.,Ltd	¥	5,644,386	$	67,339

4. Information for certain leases

Lessees' Accounting

Finance leases which do not transfer ownership to lessees

(1) If finance leases which do not transfer ownership to lessees were capitalized at September 30, 2009 and 2010, they would have been recorded on the financial statements as follows:

	Thousands of yen		Thousands of U.S.dollars
	2009	2010	2010
Acquisition cost:	¥ 1,971,807	¥ 1,409,754	$ 16,818
Buildings and structures	22,000	22,000	262
Machinery, equipment and vehicles	297,187	269,770	3,218
Tools, furniture and fixtures	1,543,058	1,058,471	12,627
Intangible assets	109,562	59,512	710
Accumulated depreciation	¥ 1,230,763	¥ 978,888	$ 11,678
Buildings and structures	16,208	20,608	245
Machinery, equipment and vehicles	210,138	224,573	2,679
Tools, furniture and fixtures	926,634	685,502	8,178
Intangible assets	77,783	48,205	575
Net book value	¥ 741,044	¥ 430,865	$ 5,140
Buildings and structures	5,792	1,391	16
Machinery, equipment and vehicles	87,050	45,197	539
Tools, furniture and fixtures	616,423	372,969	4,449
Intangible assets	31,779	11,307	134

(2) Future lease payments as of September 30, 2009 and 2010, exclusive of interest, under such leases are ¥767,072 thousand and ¥451,465 thousand ($ 5,386 thousand), including ¥326,325 thousand and ¥231,856 thousand ($ 2,766 thousand) due within one year, respectively.
(3) Lease payments under finance leases which are accounted for in the same manner as operating leases for the years ended September 30, 2009 and 2010, except to the interest, are ¥441,385 thousand and ¥350,695 thousand ($ 4,183 thousand), respectively. Equivalent amount of depreciation for the years ended September 30, 2009 and 2010 amounted to ¥410,134 thousand and ¥325,384 thousand ($3,881 thousand), respectively. Equivalent amount of interest expenses for the years ended September 30, 2009 and 2010 amounted to ¥30,662 thousand and ¥19,307 thousand ($ 230 thousand), respectively.
(4) The depreciation equivalents are calculated using the straight-line method over the lease terms assuming no residual value.
(5) The interest equivalents are the difference between the sum of payments of lease and equivalents of the acquisition cost of lease assets, and an allocation of the interest equivalents is based on the interest method.

Operating leases

Future lease payments for non-cancelable operating as of September 30, 2009 and 2010, are ¥64,994 thousand and ¥146,029 thousand ($ 1,742 thousand), including ¥20,444 thousand and ¥59,152 thousand ($705 thousand) due within one year, respectively.

5. Financial Instruments

1. Overall status of financial instruments

(1) Policy for the use of financial instruments

The Companies manage temporary cash surpluses through low risk financial instruments. The Companies finance by debt from banks. The Companies use derivative transactions only for the purpose of hedging the exchange rate and the interest rate fluctuation risk and do not engage speculative transactions using these transactions.

(2) Type and risk of financial instruments

Notes and accounts receivable-trade are exposed to the credit risk of the customer. Notes and accounts receivable-trade denominated in foreign currency are exposed to the risk from foreign exchange rates fluctuations.
Investment securities are composed of shares and investment in limited liability partnerships with which the Companies have business relations. Those securities are exposed to the business risk of the entities and the risk from foreign exchange rates fluctuations.
Almost all notes and accounts payable-trade are settled within one year. Notes and accounts payable-trade denominated in foreign currency are exposed to the risk from foreign exchange rates fluctuations.
Short-term loans payable is finance mainly for operating activities and is exposed to the risk from interest rate fluctuation.
Long-term loans payable is finance mainly for M&A and operating activities.
Derivative transactions include forward foreign exchange contracts to hedge the risk associated with trade receivable and payable denominated in foreign currency, and interest rate swaps to hedge the interest rate risks for loans. Hedge accounting details with regards to hedging instruments, hedged items, hedging policy and assessment of hedge effectiveness are outlined in Hedge Accounting in the section 2. Significant accounting policies.

(3) Risk management

1) Credit risk

The Companies examine the credit information for the new customers before new transaction starts, periodically monitor the overdue balance, and take necessary actions such as negotiation for the payment and assessment of the financial position so that credit risks can be minimized.
The counterparty of derivative transactions is limited to financial institutions with high credit ratings and almost no credit risks are involved.

2) Market risk

The Companies have very small portion of trade receivable and payable denominated in foreign currency.
Certain consolidated subsidiaries use forward foreign exchange contracts to hedge the risk associated with trade receivable and payable denominated in foreign currency.
Market risk of investment securities are periodically assessed by checking the financial status of the issuers, and the merit of holding such securities are continuously reviewed, taking into account the Companies' relationship with respective issuers.
The finance division of the Company continues to monitor foreign exchange market to minimize the market risk.
The Companies use interest-rate swaps for the purpose of reducing risk from interest rate fluctuation for loans from banks.
Derivative transactions are executed and managed by way of the approval by the responsible officer in the finance division of the Company in accordance with the internal rule.

3) Liquidity risk in funding

The Company centrally controls the cash position of both the Company and some domestic consolidated subsidiaries, and manages the cash flows, in order to reduce the liquidity risk and keep sufficient fund at the Company.

(4) Supplementary explanation on the fair value of financial instruments

The fair value of financial instruments is based on market price. In case of no market price available, the fair value is calculated based on the amount reasonably estimated. As a number of variables are incorporated in such calculation, the fair value estimated is subject to change as a result of the use of different assumptions.

2. Fair value of financial instruments

The book value, fair value and the differences as of September 30, 2010 are as follows:

	Thousands of yen			Thousands of U.S. dollars		
	Book value in consolidated balance sheet	Fair value	Difference between book value and fair value	Book value in consolidated balance sheet	Fair value	Difference between book value and fair value
(1) Cash and deposits	¥ 6,096,196	¥ 6,096,196	¥ -	$ 72,729	$ 72,729	$ -
(2) Notes and accounts receivable-trade	8,075,470	8,075,470	-	96,343	96,343	-
(3) Investment securities	-	-	-	-	-	-
Total assets	¥ 14,171,666	¥ 14,171,666	¥ -	$ 169,072	$ 169,072	$ -
(1) Notes and accounts payable-trade	1,416,444	1,416,444	-	16,898	16,898	-
(2) Short-term loans payable	900,000	900,000	-	10,737	10,737	-
(3) Long-term loans payable (*1)	7,341,300	7,452,283	110,983	87,584	88,908	1,324
Total liabilities	¥ 9,657,744	¥ 9,768,727	¥ 110,983	$ 115,220	$ 116,544	$ 1,324
Derivative transactions (*2)(*3)	¥ 39	¥ 39	¥ -	$ 0	$ 0	$ -

*1. Long-term loans payable includes current portion of long-term loans payable.

*2. The assets or liabilities arising from derivative transactions are shown as a net amount.

*3. Interest-rate swaps for which the exceptional method is applied are recorded at fair value included in the fair value of the hedged long-term loans payable as such swaps are associated with the hedged long-term loans payable.

Note 1: Method of calculating fair value of financial instruments, and matters relating to Investment securities and derivative transactions.

Assets

(1) Cash and deposits, and (2) Notes and accounts receivable-trade

These items are recorded at book value, as the settlement is made in a short time and the fair value and book value are considered the same.

(3) Investment securities

For matters relating to Investment securities by the purpose of the holding, please refer to Note 6. Securities.

Liabilities

(1) Notes and accounts payable-trade

These items are recorded at book value, as the settlement is made in a short time and the fair value and book value are considered the same.

(2) Short-term loans payable

Book value is used for the fair value, as the fair value is almost identical to its book value, because it reflects the market rate for the short-term period.

(3) Long-term loans payable including current portion of long-term loans payable

The fair value of long-term loans payable with fixed interest rates is calculated based on the total amount of principal and interest discounted by the interest rate which would be applied if the debt were refinanced at the year-end. Book value is used as the fair value for long-term loans payable with floating interest rates, as the fair value of such debt is almost identical to its book value, because it reflects market rate for the short-term period. However, the fair value of certain long-term loans payable with floating interest rates to which the exceptional method of interest-rate swaps is applied is calculated by discounting the total amount of principal and interest that were treated as a single transaction with the interest rate swap using the interest rate that is reasonably estimated to be applicable to similar fixed rate loans payable.

Derivative transactions

For information relating to derivative transactions, please refer to Note 7.Derivative financial instruments.

Note 2: Financial instruments for which the appraisal of fair values is recognized as being extremely difficult.

	Thousands of yen		Thousands of U.S. dollars	
Amount recorded on the consolidated balance sheet				
Non-marketable foreign bonds(*1)	¥	35	$	0
Non-listed shares(*1)(*2)		102,075		1,217
Non-listed stock acquisition rights(*1)		24,000		286
Shares in affiliates (*1)		45,706		545
Investment in the investment limited partnerships, etc(*3)		137,168		1,636
Total	¥	308,985	$	3,686

(*1). Non-marketable foreign bonds, non-listed shares, non-listed stock acquisition rights and shares in affiliates do not have a market value and it is not possible to estimate the future cash flows from them. Accordingly, appraising the fair value of such items is extremely difficult, and they are excluded from Assets (3) Investment securities above.

(*2). The Companies recorded impairment loss of ¥11,905 thousand ($ 142 thousand) for the fiscal year ended September 30, 2010.

(*3). Investment in the investment limited partnerships is composed of non-listed shares, and etc. Accordingly, appraising the fair value of such item is recognized as being extremely difficult, and it is excluded from Assets (3) Investment securities above.

Note 3: Redemption schedule for monetary claims and marketable securities with maturities after the consolidated balance sheet date.

	Thousands of yen				Thousands of U.S. dollars			
	2011		2012 and thereafter		2011		2012 and thereafter	
Cash and deposits	¥	6,096,196	¥	-	$	72,729	$	-
Notes and accounts receivable-trade		8,075,470		-		96,343		-
Investment securities								
"Other marketable securities" with maturities								
Bonds		35		-		0		-
	¥	14,171,701	¥	-	$	169,073	$	-

Note 4: Repayment schedule for the long-term loans payable after the consolidated balance sheet date.

Please refer to Note 8.Short-term loans payable and Long-term loans payable.

(Additional Information)

Effective from the fiscal year ended September 30, 2010, the Companies has adopted the "Accounting Standard for Financial Instruments ", (ASBJ Statement No.10 of March 10,2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 of March 10,2008)

6. Securities

(1) The Companies have no trading securities as of September 30, 2010.

(2) The Companies have no held-to-maturity securities as of September 30, 2010.

(3) Available-for-sale securities such as Non-marketable foreign bonds (¥ 35 thousands in the consolidated balance sheet), Non-Listed shares (¥102,075 thousands in the consolidated balance sheet), non-listed stock acquisition rights (¥24,000 thousands in the consolidated balance sheet), shares of affiliate (45,706 thousands in the consolidated balance sheet) have no market value, and are extremely difficult to estimate the future cash flow nor fair market value.
Furthermore, investment in the investment limited partnership (¥137,168 thousands) as the partnership assets is consists of non-listed stock etc. i.e. extremely difficult to estimate the fair value.

(4) The sales of available-for-sale securities for the year ended September 30, 2010 are summarized as follows:

	Thousands of yen	Thousands of U.S.dollars
Sales price	¥ **105,000**	$ **1,252**
Profits on sales of the securities	-	-
Loss on sales of the securities	-	-

(5) The Company recorded the impairment loss of ¥11,905 thousands ($142 thousands) on securities which is non-listed with no available fair market value, for the year September 30, 2010.
If the market value of securities with fair market value other than trading securities became less than 50% of the acquisition cost, the difference is recognized as the impairment loss in principle. If the market value dropped by 30 to 50%, the impairment loss is calculated based on the possibility to recover the market value. If the value of shares with no market value dropped by over 50% of the acquisition cost, the amount considered to be impaired is recognized as the impairment loss unless the possibility of the recovery is rationalized by sufficient evidences.

7. Derivative financial instruments

(1) The following tables summarize derivative transactions as of September 30, 2010 for which hedge accounting have not been applied:

Currency related:

		Thousands of yen				Thousands of U.S.dollars			
		Contracted amount				Contracted amount			
		Total	Due after One year	Fair Value	Recognized gain(loss)	Total	Due after One year	Fair Value	Recognized gain(loss)
Non- market transactions	Forward foreign exchange contracts:								
	Buy:Yen/Sell:Won	¥ 22,897	-	¥ 39	¥ 39	$ 273	-	$ 0	$ 0
	Total	¥ 22,897	-	¥ 39	¥ 39	$ 273	-	$ 0	$ 0

(2) The following tables summarize derivative transactions as of September 30, 2010 for which hedge accounting have been applied

Interest related:

Hedge accounting method	Classification	Hedged item	Thousands of yen			Thousands of U.S.dollars		
			Contracted amount			Contracted amount		
			Total	Due after One year	Fair Value	Total	Due after One year	Fair Value
The exceptional method of interest rate swaps	Interest rate swap contracts: Pay/fixed and receive/floating	Long-term loans payable	¥6,150,000	¥5,502,000	(*)	$ 73,371	$ 65,640	$ 0

* Interest-rate swaps for which the exceptional method is applied are valued at fair value which is included in the underlying long-term loans payable as such swaps are treated as a single transaction with the hedged long-term loans payable.

8. Short-term loans payable and Long-term loans payable

(1) Short-term loans payable at September 30, 2009 and 2010 consist of the following:

	Thousands of yen		Thousands of U.S.dollars
	2009	**2010**	**2010**
Short-term loans payable	¥ 749,000	¥ **900,000**	$ **10,737**

(2) Long-term loans payable at September 30, 2009 and 2010 consist of the following:

	Thousands of yen		Thousands of U.S.dollars
	2009	**2010**	**2010**
Long-term loans payable:			
Due through 2017 at the weighted average rate of 1.51% and 1.82 % at September 30,2009 and 2010,respectively	¥ 1,370,900	¥ **7,341,300**	$ **87,584**
Less:			
Current portion of long-term loans payable	679,600	**1,132,600**	**13,512**
	¥ 691,300	¥ **6,208,700**	$ **74,071**

(3) The annual maturities of Long-term loans payable at September 30, 2010 were as follows:

Years ending September 30,	Thousands of yen	Thousands of U.S. dollars
	2010	**2010**
2011	¥ **1,132,600**	$ **13,512**
2012	**1,052,700**	**12,559**
2013	**996,000**	**11,882**
2014	**1,646,000**	**19,637**
2015	**996,000**	**11,882**
Thereafter	**1,518,000**	**18,110**

9. Provision for retirement benefits

The Companies provide unfunded lump-sum payment plan, under which all eligible employees are entitled to benefits based on the level of salaries at the time of retirement, length of service and certain other factors.
Some subsidiaries have general type of employee pension plans, defined benefit pension plans and defined contribution pension plans such as employee pension plans.

(1) Provision for retirement benefits included in the liability section of the consolidated balance sheet as of September 30, 2009 and 2010 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Retirement benefit obligation	¥ (1,638,419)	¥ **(2,024,492)**	$ **(24,152)**
Plan assets	204,262	**251,209**	**2,997**
Unfunded projected benefit obligation	¥ (1,434,157)	¥ **(1,773,282)**	$ **(21,155)**
Unrecognized actuarial difference	84,713	**87,425**	**1,043**
Unrecognized prior service cost	162,809	**124,346**	**1,483**
Provision for retirement benefits	¥ (1,186,635)	¥ **(1,561,510)**	$ **(18,629)**

(2) Included in the consolidated statement of income for the years ended September 30, 2009 and 2010 are severance and retirement benefit expenses comprised of the followings:

	Thousands of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Service costs	¥ 317,090	¥ **412,824**	**$ 4,925**
Interest cost	24,406	**16,176**	**192**
Amortization of unrecognized actuarial difference	(9,333)	**84,712**	**1,010**
Amortization of prior service cost	38,462	**38,462**	**458**
Amortization of changes to the law in principle	29,329	**-**	**-**
Severance and retirement benefit expenses	¥ 399,954	¥ **552,176**	**$ 6,587**

(3) Summary of assumption on benefit obligations, etc for the years ended September 30, 2009 and 2010 are as follows:

	2009	2010
Periodic distribution method of expected benefit	Straight-line method	Straight-line method
Discount rate	1.3%	1.3%
Amortization of unrecognized prior service cost	6 year	6 year
Amortization period of actuarial loss	1 year	1 year

10. Research and development expenses

Research and development expenses included in Selling, general and administrative expenses for the years ended September 30, 2009 and 2010 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Selling, general and administrative expenses	¥ 210,997	¥ **509,219**	**$ 6,075**
	¥ 210,997	¥ **509,219**	**$ 6,075**

The amount of grants income which the Companies received from the government is deducted from the total research and development expenses.

11. Income taxes

(1) Income taxes in the consolidated statements of income consist of corporation tax, inhabitant taxes and enterprise tax. The aggregate statutory income tax rate was approximately 40.69% for 2009 and 2010.
The actual effective income tax rates in the accompanying consolidated statements of income differ from the statutory income tax rate due to such items as permanently non-deductible expenses.
Reconciliations of the difference between the statutory income tax rate and the actual effective income tax rates for the years ended September 30, 2009 and 2010 are as follows:

	2009	2010
Statutory income tax rate	40.69 %	**40.69 %**
Effect on operating loss carry-forwards of subsidiaries	2.48	**1.99**
Permanently non-deductible expenses	0.74	**0.64**
Per capita inhabitants tax	1.77	**1.41**
Amortization of goodwill	-	**0.92**
Gain on negative goodwill	-	**(3.41)**
Provision for director's bonuses	1.12	**1.23**
Loss on valuation of Investment securities	1.02	**-**
Use of operating loss carry-forward	(0.83)	**(1.00)**
Other	1.39	**1.85**
Actual effective income tax rate	48.38 %	**44.32 %**

(2) Significant components of the deferred tax assets and liabilities as of September 30, 2009 and 2010 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Deferred tax assets			
Provision for bonuses	¥ 411,042	¥ **590,872**	$ **7,049**
Provision for loss contracts	46,856	**86,980**	**1,037**
Enterprise tax payable	84,771	**98,692**	**1,177**
Loss on valuation of inventories	85,867	**133,675**	**1,594**
Provision for retirement benefits	437,085	**589,802**	**7,036**
Net operating loss carry-forwards	456,468	**190,572**	**2,273**
Loss on valuation of Investment securities	199,145	**236,227**	**2,818**
Other	46,528	**78,075**	**931**
	1,767,762	**2,004,898**	**23,919**
Less: Valuation allowance	(555,952)	**(351,529)**	**(4,193)**
Total deferred tax assets	¥ 1,211,810	¥ **1,653,368**	$ **19,725**
Offset with deferred tax liabilities	-	**(45,006)**	**(536)**
Deferred tax assets	¥ 1,211,810	¥ **1,608,362**	$ **19,188**
Deferred tax liabilities			
Property, plant and equipment	(28,149)	**(22,239)**	**(265)**
Negative goodwill	-	**(105,025)**	**(1,252)**
Other	(18,942)	**(17,488)**	**(208)**
Total deferred tax liabilities	¥ (47,091)	¥ **(144,753)**	$ **(1,726)**
Offset with deferred tax assets	-	**45,006**	**536**
Deferred tax liabilities	¥ (47,091)	¥ **(99,746)**	$ **(1,190)**
Net deferred tax assets	¥ 1,164,719	¥ **1,508,615**	$ **17,998**

Net deferred tax assets are included in the consolidated balance sheet as the following

		Thousands of yen	Thousands of U.S.dollars
		2010	2010
Current assets	—deferred tax assets	¥ 889,314	$ 10,609
Noncurrent assets	—deferred tax assets	719,047	8,578
Current liabilities	—deferred tax liabilities	(10,205)	(121)
Noncurrent liabilities	—deferred tax liabilities	(89,541)	(1,068)

12. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, the Company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in Capital surplus.

Under the Japanese Corporate Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends.

All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

13. Business combinations

(Use of the purchase method)

1. Outline of the business combination

(1) Name and the primary business of the acquired company

Name: CMIC CMO Co., Ltd.

Primary business: Contract manufacturing organization services

(2) Primary reasons for the business combinations

The Company group has built a system to support the pharmaceutical development, manufacturing and marketing activities of pharmaceutical companies. Based on its unique business model as a Pharmaceutical Value Creator (PVC), the Company strives to help pharmaceutical companies maximize their value. At present, the Company is working to strengthen and enhance its support services and further expand its earnings base.

In the contract manufacturing organization (CMO) business, subsequent to the Revision of the Pharmaceutical Affairs Law in 2005, the Company has owned and operated manufacturing plants in three countries—Japan, South Korea and the United States—and has deployed operations relating to the manufacture of ethical drugs, over-the-counter (OTC) drugs and other products. Through this acquisition, the CMO business gains capabilities in the manufacture of solid formulations and injectable formulations, giving it the ability to undertake contract manufacturing of nearly every type of pharmaceutical formulation. A key trend among pharmaceutical companies is the move toward divestiture of manufacturing operations and greater use of outsourcing, giving rise to a diverse range of needs. The Company group is responding to this trend by working to meet the diverse needs of such companies through the provision of flexible and expeditious services.

The Company plans to reinforce its manufacturing technology and pharmaceutical formulation development capabilities through the strengthening of collaboration among its four manufacturing facilities, including the newly added Shizuoka Plant. In doing so, The Company will strive to provide high quality, flexible, stable production capacity. Furthermore, by utilizing the PVC business model to bolster linkages with its drug development support (CRO) and contract sales organization (CSO) businesses, the Company is committed to the expansion of its CMO business. Specifically, the Company will aim to provide support services covering the full spectrum of pharmaceutical companies' manufacturing functions, from investigational new drugs to commercial production.

(3) Date of the business combination: April 1, 2010

(4) Legal form of the business combination: Cash acquisition of 100% share of CMIC CMO Co., Ltd.

(5) Name of the company after the combination: CMIC CMO Co., Ltd.

(6) Ratio of voting rights acquired: 100%

(7) Reason to determine the acquiring company

The transaction was the all-cash acquisition by the Company.

2. Period of the operating results of the acquired company included in the consolidated statement of income

From April 1, 2010 to September 30, 2010

3. Acquisition cost and its breakdown

		Thousands of yen		Thousands of U.S. dollars	
Cost of the acquisition of shares	Cash and deposits	¥	5,740,400	$	68,484
Direct costs for the acquisition	Legal expenses		2,643		31
Total acquisition cost		¥	5,743,043	$	68,516

4. Gain on negative goodwill

(1) Amount of the gain on negative goodwill:

	Thousands of yen		Thousands of U.S. dollars	
Gain on negative goodwill	¥	242,056	$	2,887

(2) Reason to recognize negative goodwill

Negative goodwill is the excess amount the fair value of the net assets of the acquired company at the time of business combination exceeded the acquisition cost.

5. The assets and liabilities which the Company received at the date of the business combination

	Thousands of yen		Thousands of U.S. dollars	
Current assets	¥	319,923	$	3,816
Non-current assets		5,830,473		69,559
Total assets	¥	6,150,397	$	73,376
Current liabilities		48,602		579
Non-current liabilities		116,694		1,392
Total liabilities	¥	165,297	$	1,972

6. Estimated impacts of the business combination on the consolidated statements of income assuming the business combination occurred at the beginning of the fiscal year

It is difficult to estimate the impacts and the Company did not receive the Auditors' opinion with regard to the estimation of impacts.

14. Investment and rental property

There is no material investment and rental property to be reported for the year ended September 30, 2010.

(Additional Information)

Effective from the fiscal year ended September 30, 2010, the Companies adopted the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20 of November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23 of November 28, 2008).

15. Segment information

a. Segment information by business category

FY 2009 (October 1, 2008 through September 30, 2009) (Thousands of yen)

	CRO	CMO	CSO	Healthcare	Other	Total	Eliminations/ Headquarters	Consolidated
I Net sales and operating income (loss)								
Net sales								
(1) Outside customers	16,694,794	2,744,233	1,940,803	6,461,939	943,060	28,784,829	–	28,784,829
(2) Inter-segment	112,187	17,924	21,409	118,870	151,614	422,004	(422,004)	–
Total	16,806,981	2,762,157	1,962,212	6,580,809	1,094,674	29,206,833	(422,004)	28,784,829
Operating expenses	14,861,809	2,821,974	1,939,980	5,672,130	1,408,422	26,704,315	(433,718)	26,270,597
Operating income (loss)	1,945,172	(59,817)	22,232	908,679	(313,748)	2,502,518	11,714	2,514,232
II Assets, depreciation, and capital expenditures								
Assets	12,139,312	4,312,905	1,019,982	5,924,311	630,993	24,027,503	(672,333)	23,355,170
Depreciation	355,153	286,582	22,486	142,609	11,665	818,495	–	818,495
Capital expenditures	640,838	388,833	1,577	336,117	100,413	1,467,778	–	1,467,778

Notes: 1. Method for classifying business segments
Businesses are classified by taking into account products and service groupings and market similarities.
2. Principal services included within each business segment
CRO: Monitoring, Data Management, Strategic & Regulatory affairs consulting, Preclinical Drug Evaluation Study
CMO: Drug / IMP manufacturing
CSO: Medical Communication with Academic Support, Contract MR (Medical Representative)
Healthcare: SMO (Clinical research-disease control), WEB Site Business
Other: Human resources organizational support, diagnostic drug development, new businesses
3. Within operating expenses, there are no unallocated operating expenses included in eliminations/headquarters.
4. Within assets, under the eliminations/headquarters classification, there is no amount for assets assigned to headquarters.
5. Change in business segment classifications
Previously, the Company's business segment information was based on the following classifications: CRO business; CMO business; and CSO and other businesses. However, from the fiscal year ended September 30, 2009, this has been changed to five classifications: CRO business; CMO business; CSO business; Healthcare business; and Other business.

This change is aimed at unifying decision-making, expediting the execution of operations and enhancing efficiency. With the aim of building a structure capable of increasing earnings potential and productivity, the Board of Directors passed a resolution on September 17, 2008, to establish Group-wide in-house companies on October 1, 2008. These in-house companies are: CRO Company, CMO Company, CSO Company and Healthcare Company. The new business segments are designed to show the development of the Company's businesses and the current state of these businesses more clearly.

FY 2010 (October 1, 2009 through September 30, 2010) (Thousands of yen)

	CRO	CMO	CSO	Healthcare	IPD	Other	Total	Eliminations/ Headquarters	Consolidated
I Net sales and operating income (loss)									
Net sales									
(1) Outside customers	17,423,951	6,874,127	3,322,768	7,317,370	17,626	905,687	35,861,532	–	35,861,532
(2) Inter-segment	180,921	9,866	211,549	68,121	–	150,617	621,076	(621,076)	–
Total	17,604,873	6,883,993	3,534,317	7,385,492	17,626	1,056,305	36,482,609	(621,076)	35,861,532
Operating expenses	15,236,267	6,514,753	3,276,299	6,424,661	647,955	1,075,099	33,175,038	(624,549)	32,550,488
Operating income (loss)	2,368,606	369,240	258,017	960,830	(630,328)	(18,794)	3,307,571	3,472	3,311,043
II Assets, depreciation, and capital expenditures									
Assets	13,906,774	12,900,998	1,528,521	5,694,209	145,047	277,214	34,452,765	(1,186,106)	33,266,659
Depreciation	441,268	962,745	10,857	130,256	17,909	5,234	1,568,272	–	1,568,272
Impairment	–	–	–	25,468	–	–	25,468	–	25,468
Capital expenditures	501,522	917,011	4,874	108,093	20,670	3,319	1,555,492	–	1,555,492

FY 2010 (October 1, 2009 through September 30, 2010) (Thousands of U.S.dollars)

	CRO	CMO	CSO	Healthcare	IPD	Other	Total	Eliminations/ Headquarters	Consolidated
I Net sales and operating income (loss)									
Net sales									
(1) Outside customers	207,873	82,010	39,641	87,298	210	10,805	427,839	–	427,839
(2) Inter-segment	2,158	117	2,523	812	–	1,796	7,409	(7,409)	–
Total	210,031	82,128	42,165	88,111	210	12,602	435,249	(7,409)	427,839
Operating expenses	181,773	77,723	39,087	76,648	7,730	12,826	395,789	(7,451)	388,337
Operating income (loss)	28,258	4,405	3,078	11,463	(7,520)	(224)	39,460	41	39,501
II Assets, depreciation, and capital expenditures									
Assets	165,912	153,913	18,235	67,933	1,730	3,307	411,032	(14,150)	396,882
Depreciation	5,264	11,485	129	1,553	213	62	18,709	–	18,709
Impairment	–	–	–	303	–	–	303	–	303
Capital expenditures	5,983	10,940	58	1,289	246	39	18,557	–	18,557

Notes: 1. Method for classifying business segments
Businesses are classified by taking into account products and service groupings and market similarities.
2. Principal services included within each business segment
CRO: Monitoring, Data management, Strategic & Regulatory affairs consulting, Preclinical drug evaluation study
CMO: Drug / IMP manufacturing
CSO: Medical Communication with Academic Support, Contract MR (Medical Representative)
Healthcare: SMO (Clinical research-disease control), WEB Site Business
IPD: Development of intellectual property
Other: General personnel dispatch services, new businesses
3. Within operating expenses, there are no unallocated operating expenses included in eliminations/headquarters.
4. Within assets, under the eliminations/headquarters classification, there is no amount for assets assigned to headquarters.
5. Assets in the CMO business increased by ¥8,510 million during the fiscal year as a result of the inclusion of CMIC CMO Co., Ltd. in the scope of consolidation.
6. Change in business segment classifications
(i) The business in China, which had been included in the Other business segment until the fiscal year ended September 30, 2009, is included in the CRO business segment from the fiscal year ended September 30, 2010. This change was implemented in recognition of similarities between the business in China and the CRO business, and the change in this business reclassification was triggered by the business reorganization. The impact of this change on each segment in the fiscal year under review was insignificant.
(ii) The IPD business, which was previously included in the Other business segment, has been classified as a separate segment in the fiscal year ended September 30, 2010. This was because the absolute amount of operating loss in the IPD business exceeded 10% of the absolute amount of combined operating income.

b. Segment information by geographic region

The disclosure of geographical segment information is omitted as net sales of the foreign operations constituted less than 10% of the consolidated results for both of years ended September 30, 2009 and 2010.

c. Overseas sales

Overseas sales of the Companies constituted less than 10% of the consolidated net sales for both of years ended September 30, 2009 and 2010.

16. Transactions with related parties

There are no material transactions with related parties to be reported for the year ended September 30, 2010

17. Net assets and net income per share

	Yen		U.S. dollars
	2009	**2010**	**2010**
Net assets per share	¥ 15,369.33	¥ **16,978.15**	$ **202.55**
Net income per share	1,205.63	**2,032.36**	**24.24**

No diluted net income per share is presented for the years ended September 30, 2009 and 2010 since no potentially dilutive securities were issued.

18. Subsequent event

(Conversion of the consolidated subsidiary to wholly owned subsidiary through a share exchange)

The Company concluded the agreement to convert the Institute of Applied Medicine, Inc. ("IAM") into a wholly owned subsidiary of the Company through a share exchange. The agreement was approved at the Company's Board of Directors' Meeting held on November 9, 2010. The Company plans to carry out simple share exchange without approval at a shareholders' meeting, in accordance with Article 796-3 of the Japanese Corporate Law. As a result of the share exchange, the Company became a sole shareholder and the common stock of IAM will be delisted from the Mothers Market of the Tokyo Stock Exchange on January 27,2011.

(1) Outline of the share exchange

1) Name and primary business of the combined company
Name: The Institute of Applied Medicine, Inc.
Primary businesses: Quality testing and pharmacokinetics services

2) Effective date of the share exchange: February 1, 2011

3) Legal form of the share exchange: Share exchange

4) Name of the company after the share exchange: The Institute of Applied Medicine, Inc.

5) Primary reasons for the share exchange

The Company aims further enhance technical standards in the area of drug manufacture and reinforce its drug development capability, in order to provide a full range of services to pharmaceutical companies from drug formulation right through to production. In line with this mission, the Company sees it as extremely important to strengthen the collaboration with IAM fully harness their analytical capability in order to ensure the necessary degree of mobility to adapt to the changing business environment.

It is necessary that IAM works quickly to enhance their skill sets through the implementation of strategic personnel training and strengthen their sales and marketing and ties with CROs for the undertaking of stability testing, drug concentration testing and bioequivalence testing. It is the opportunity to come together as a Group to ensure the provision of services to match the needs and expectations of our clients.

(2) Outline of accounting treatment of the share exchange

The share exchange will be accounted for in accordance with "Ⅲ.4 Accounting treatment of transactions between companies under common control, (2) Transactions with minority shareholders" of "Accounting Standard for Business Combinations".

(3) Matters concerning the acquisition of additional share of the subsidiary

1) Share exchange ratio
0.036 share of the Company's common stock will be allotted for each share in IAM.

2) Method of calculating the share exchange ratio
The Company appointed Nomura Securities Co., Ltd. and IAM appointed Mirai Consulting, Inc. to calculate the share exchange ratio. As a result of consultations between the parties on these calculations, the parties determined that above share exchange ratio was appropriate and agreed to that ratio.

3) The number of shares to be delivered
The Company plans to deliver 31,137 shares of common stock which consist of 15,000 shares of treasury stock and 16,137 shares of newly issued common stock.

4) The amount and cause of the resulting goodwill and the applicable amortization method and period
The Company expects to incur goodwill (or negative goodwill) from the share exchange, but the amount of goodwill (or negative goodwill) has not been determined.