CMIC HOLDINGS Co., Ltd

Consolidated Financial Statements

For the Years ended September 30,
2012
Together with Independent
Auditors' Report

ERNST & YOUNG

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Independent Auditor's Report

The Board of Directors
CMIC HOLDINGS Co., Ltd.

We have audited the accompanying consolidated financial statements of CMIC HOLDINGS Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at September 30, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as at September 30, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Other Matter

The consolidated financial statements of the Company and its consolidated subsidiaries for the year ended September 30, 2011 were audited by the predecessor auditor who expressed an unqualified opinion on the consolidated financial statements on December 15, 2011.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

December 14, 2012
Tokyo, Japan

CONSOLIDATED BALANCE SHEETS

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
As of September 30, 2011 and 2012

ASSETS	Millions of yen 2011	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2012
Current assets:			
Cash and deposits (Notes 4 and 6)	¥ 8,717	¥ 8,400	$ 108,253
Notes and accounts receivable-trade (Note 6)	7,717	8,028	103,459
Merchandise and finished goods	17	112	1,448
Work in process	3,341	3,577	46,098
Raw materials and supplies	385	1,578	20,344
Deferred tax assets (Note 12)	1,126	1,167	15,042
Other	1,143	1,632	21,034
Allowance for doubtful accounts	(4)	(10)	(133)
Total current assets	22,444	24,486	315,544
Property, plant and equipment:			
Buildings and structures	8,466	9,355	120,565
Machinery, equipment and vehicles	4,499	5,342	68,850
Tools, furniture and fixtures	1,159	1,267	16,337
Land	4,514	4,622	59,568
Lease assets	668	757	9,761
Construction in progress	433	950	12,249
Less: accumulated depreciation	(8,674)	(10,042)	(129,407)
Total property, plant and equipment	11,067	12,254	157,921
Intangible assets:			
Goodwill	1,747	1,341	17,287
Other	997	825	10,637
Total intangible assets	2,745	2,166	27,924
Investments and other assets:			
Investment securities (Notes 6 and 7)	484	663	8,548
Deferred tax assets (Note 12)	1,042	1,249	16,105
Lease and guarantee deposits	1,392	1,206	15,553
Other	226	258	3,328
Allowance for doubtful accounts	(20)	(20)	(264)
Total investments and other assets	3,124	3,357	43,270
Total assets	¥ 39,381	¥ 42,265	$ 544,658

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

CONSOLIDATED BALANCE SHEETS (continued)
CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
As of September 30, 2011 and 2012

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Current liabilities:			
Notes and accounts payable-trade (Note 6)	¥ 1,366	¥ 1,536	$ 19,797
Short-term borrowings (Notes 6 and 9)	3,000	4,500	57,990
Current portion of long-term debt (Notes 6 and 9)	1,027	996	12,835
Accounts payable-other	1,197	1,418	18,280
Accrued expenses	449	465	6,002
Income taxes payable	1,066	924	11,918
Advances received	1,475	1,701	21,921
Provision for bonuses	1,855	1,764	22,736
Provision for directors' bonuses	115	29	385
Provision for loss on orders received	495	244	3,152
Deferred tax liabilities (Note 12)	0	1	20
Other	790	998	12,865
Total current liabilities	12,839	14,581	187,900
Noncurrent liabilities:			
Long-term debt (Notes 6 and 9)	6,456	5,460	70,361
Provision for retirement benefits (Note 10)	2,304	2,806	36,166
Deferred tax liabilities (Note 12)	123	131	1,689
Asset retirement obligations	405	332	4,289
Other	344	250	3,227
Total noncurrent liabilities	9,633	8,980	115,731
Total liabilities	22,472	23,561	303,631
NET ASSETS			
Shareholders' equity:			
Capital stock			
Authorized-46,000,000 shares Issued-18,221,860 shares in 2011			
Authorized-46,000,000 shares Issued-18,221,860 shares in 2012	3,087	3,087	39,791
Capital surplus	6,292	6,292	81,087
Retained earnings	7,828	9,479	122,156
Treasury stock, at cost-32,560 shares in 2011 and 32,820 shares in 2012	(44)	(44)	(573)
Total shareholders' equity	17,164	18,814	242,461
Accumulated other comprehensive income:			
Unrealized gain (loss) on securities	57	93	1,204
Foreign currency translation adjustments	(365)	(319)	(4,119)
Total accumulated other comprehensive income	(307)	(226)	(2,915)
Minority interests	51	114	1,482
Total net assets	16,908	18,703	241,027
Total liabilities and net assets	¥ 39,381	¥ 42,265	$ 544,658

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries

Years ended September 30, 2011 and 2012

	Shares	
	2011	2012
Number of shares of common stock:		
Balance at beginning of the year	894,957	18,221,860
Changes due to share exchanges	16,136	-
Changes due to stock split	17,310,767	-
Balance at end of the year	18,221,860	18,221,860

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Capital stock:			
Balance at the end of the year	¥ 3,087	¥ 3,087	$ 39,791
Capital surplus:			
Balance at the beginning of the year	5,960	6,292	81,087
Disposal of treasury stock	0	0	0
Changes due to share exchanges	331	-	-
Balance at the end of the year	6,292	6,292	81,087
Retained earnings:			
Balance at the beginning of the year	6,554	7,828	100,885
Net income	1,811	2,241	28,889
Cash dividends paid - ￥605.00 ($7.893) per share in 2011	(539)	-	-
￥32.50 ($0.419) per share in 2012	-	(591)	(7,618)
Change of scope of equity method	1	-	-
Balance at the end of the year	7,827	9,479	122,156
Treasury stock:			
Balance at the beginning of the year	(416)	(44)	(569)
Acquisition of treasury stock	(1)	(0)	(5)
Disposal of treasury stock	0	0	1
Changes due to share exchanges	373	-	-
Balance at the end of the year - 32,560 shares in 2011 and 32,820 shares in 2012	(44)	(44)	(573)
Total shareholders' equity	17,164	18,814	242,461
Unrealized gain (loss) on securities:			
Balance at the beginning of the year	-	57	747
Net change in items other than those in shareholder's equity	57	35	457
Balance at the end of the year	57	93	1,204
Foreign currency translation adjustments:			
Balance at the beginning of the year	(264)	(365)	(4,710)
Net change in items other than those in shareholders equity	(101)	45	591
Balance at the end of the year	(365)	(319)	(4,119)
Total accumulated other comprehensive income	(307)	(226)	(2,915)
Minority interests			
Balance at the end of the year	51	114	1,482
Total net assets	¥ 16,908	¥ 18,703	$ 241,027

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

CONSOLIDATED STATEMENTS OF INCOME

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note1)
	2011	2012	2012
Net sales	¥ 43,555	¥ 50,303	$ 648,246
Cost of sales	(32,961)	(38,729)	(499,090)
Gross profit	10,593	11,574	149,156
Selling, general and administrative expenses (Note 11)	(6,744)	(7,655)	(98,659)
Operating income	3,849	3,918	50,497
Non-operating income (expenses):			
Interest income	9	10	137
Foreign exchange gains	30	126	1,628
Commission income	2	2	27
Dividends income	-	0	0
Rent income	25	16	216
Management fee income	51	25	334
Other income	33	47	618
Interest expenses	(159)	(150)	(1,944)
Loss on valuation of investments	(94)	(37)	(481)
Equity in losses of affiliates	(7)	(68)	(884)
Other expenses	(29)	(56)	(724)
Ordinary income	3,712	3,835	49,424
Special gains(losses):			
Gain on sales of noncurrent assets	3	3	42
Gain on sales of subsidiaries and affiliates	3	37	480
Insurance income	34	-	-
Other special income	2	-	-
Loss on retirement of noncurrent assets	(92)	(9)	(128)
Impairment loss of noncurrent assets	(5)	-	-
Loss on valuation of investment securities	(17)	(59)	(761)
Retirement benefit expenses	(33)	-	-
Office transfer expenses	-	(113)	(1,468)
Compensation for damage	-	(93)	(1,208)
Loss on adjustment for changes of accounting standard for asset retirement obligations	(168)	-	-
Other special loss	(7)	(3)	(45)
Income before income taxes and minority interests	3,430	3,595	46,335
Income taxes (Note 12):			
Current	2,195	1,652	21,294
Deferred	(592)	(263)	(3,390)
Total income taxes	1,602	1,389	17,905
Income before minority interests	1,827	2,206	28,430
Minority interests	16	(35)	(459)
Net income	¥ 1,811	¥ 2,241	$ 28,889

	Yen	Yen	U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	¥ 100.73	¥ 123.25	$ 1.59
Diluted net income	-	-	-
Cash dividends applicable to the year	30.25	35.00	0.45

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2012	2012
Income before minority interests	¥ 1,827	¥ 2,206	$ 28,430
Other comprehensive income			
Unrealized gain (loss) on securities	57	35	457
Foreign currency translation adjustments	(107)	46	605
Share of other comprehensive income of affiliates accounted for using the equity method	-	(0)	(2)
Total other comprehensive income	(49)	82	1,060
Comprehensive income	¥ 1,778	¥ 2,288	$ 29,490
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ 1,768	¥ 2,323	$ 29,937
Minority interests	9	(34)	(447)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by CMIC HOLDINGS Co., Ltd. (the "Company") and its domestic consolidated 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 the necessary consolidation adjustments made based on materiality.
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. Certain 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 ¥77.60 to U.S. $1.00, the rate of exchange prevailing at September 30, 2012. 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.
Amounts less than one million yen is rounded down and one thousand U.S. dollar is rounded. As a result, the total Japanese yen and U.S. dollar amounts shown in the financial statements and notes do not necessarily agree with the sum of the individual amounts.
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 15 subsidiaries at September 30, 2011 and 2012, respectively. The accompanying consolidated financial statements for the years ended September 30, 2011 and 2012 include the accounts of the Company and all of its subsidiaries (the "Companies"). The Company does not have any unconsolidated subsidiaries. The Company has one affiliate (21% owned) and two affiliates (21% owned and 49% owned) at September 30, 2011 and 2012, respectively.
The fiscal year-end of CMIC (Beijing) Co., Ltd. is December 31. This subsidiary provisionally closes its books at September 30 for the purpose of consolidation of the Company. The fiscal year-end of the other subsidiaries other than the above subsidiary 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 the control of the respective subsidiaries.

Other securities- Other securities with fair market values are stated at fair market value as of the balance sheet date. Unrealized gains or losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using the moving-average method. 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 cost determined by the first-in first-out method. Work-in-process is principally stated at 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 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 on or after April 1, 1998, which are depreciated by the 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

Overseas subsidiaries adopt the straight-line method for depreciation of 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 transactions, 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 internal of the Domestic Companies is amortized using the straight-line method over the estimated useful life (5 years).

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

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

Provision for retirement benefits- The Companies provide an allowance for employees' severance and retirement benefits for the payments of employees’ retirement benefits based on the estimated amounts of the projected retirement benefit obligation at the end of the year. Prior service cost is being amortized as incurred by the straight-line method over the period of principally 6 years, which is shorter than the average remaining years of service of the employees. Actuarial gain or loss amortized using the straight-line method over 1 year commencing from the following the year. Certain consolidated subsidiaries adopt a retirement benefit system of a defined contribution corporate pension plan and certain consolidated subsidiaries adopt simplified methods in calculating their projected benefit obligations.

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

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

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

Foreign currency translation- 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 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 historical rates. The income and expenses of the overseas subsidiaries are translated into Japanese yen at the average exchange 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 items:

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

The hedged items are interest on borrowings.

(3) Hedging policy:

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

(4) Methods for evaluating hedge effectiveness:

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

The Companies omit an evaluation of 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 years. 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 years.

Goodwill- The difference between the cost and the underlying net equity of investments in consolidated subsidiaries or affiliates 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, or 5 years in case the useful life cannot be estimated, 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 a maturity 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.

(Additional information)

Adoption of accounting standard for accounting changes and error corrections
Effective from October 1, 2011, the Companies adopted the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No.24, issued on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24, issued on December 4, 2009) for accounting changes and corrections of prior period errors.

3. Other comprehensive income

The components of other comprehensive income including reclassification adjustments and tax effects income for the year ended September 30, 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars	
Unrealized gain on securities	¥	48	$	624
Tax effects		(13)		(168)
Unrealized gain on securities, net of taxes	¥	35	$	457
Foreign currency translation adjustment	¥	46	$	605
Share of other comprehensive income of affiliates accounted for using the equity method	¥	(0)	$	(2)
Total other comprehensive income	¥	82	$	1,060

4. 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, 2011 and 2012 is as follows:

	Millions of yen				Thousands of U.S. dollars	
	2011		2012		2012	
Cash and deposits	¥	8,717	¥	8,400	$	108,253
Less:						
Time deposits over three months		689		255		3,293
Cash and cash equivalents	¥	8,027	¥	8,144	$	104,960

(2) For the year ended September 30, 2012

A summary of the assets and liabilities of MDS-CMG Inc., a subsidiary at the time it was excluded from the scope of consolidation due to the sale of shares, related sale price of shares and proceeds (net) from the sale is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012		2012	
Current assets	¥	814	$	10,494
Non-current assets		98		1,272
Current liabilities		(460)		(5,935)
Non-current liabilities		(33)		(437)
Book value of the investment after the sale of shares		(205)		(2,646)
Goodwill		(120)		(1,549)
Gain on sales of subsidiaries and affiliates		37		480
Sales price of the shares MDS-CMG Inc.		130		1,678
Cash and cash equivalents in MDS-CMG Inc.		(105)		(1,358)
Net increase in cash and cash equivalents due to the sale of shares in MDS-CMG Inc.	¥	24	$	320

(3)For the year ended September 30, 2012

Orphan Pacific Ltd. became a consolidated subsidiary during the year. A summary of information on the assets and liabilities of the company at the start of consolidation is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2012		2012	
Current assets	¥	200	$	2,577
Minority interests		98		1,263
Acquisition cost of the shares in Orphan Pacific Ltd.		102		1,314
Cash and cash equivalents in Orphan Pacific Ltd.		200		2,577
Net increase in cash and cash equivalents from minority shareholders	¥	98	$	1,263

(4)Information on material non-cash transactions

Effective from the year ended September 30, 2011, the Companies adopted the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18,issued on March 31,2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21,issued on March 31,2008). The Companies recorded ¥16 million ($214 thousand) of asset retirement obligations during the year ended September 30, 2012.

5. Leases

Lessees' Accounting

Finance leases which do not transfer ownership to lessees

If finance leases with no ownership transfer to lessees were capitalized at September 30, 2011 and 2012, the following information would have been recorded on the financial statements.

(1) Acquisition cost, accumulated depreciation and net book value:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Acquisition cost:	¥ 1,062	¥ 836	$ 10,780
Machinery, equipment and vehicles	126	126	1,630
Tools, furniture and fixtures	899	709	9,148
Intangible assets	36	0	2
Accumulated depreciation/amortization	¥ 857	¥ 800	$ 10,314
Machinery, equipment and vehicles	112	123	1,594
Tools, furniture and fixtures	711	676	8,717
Intangible assets	33	0	2
Net book value	¥ 205	¥ 36	$ 466
Machinery, equipment and vehicles	14	2	36
Tools, furniture and fixtures	188	33	430
Intangible assets	2	0	0

(2) Future lease payments at September 30, 2011 and 2012 as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
	¥ 217	¥ 38	$ 502
Due within one year	178	38	495
Due after one year	39	0	7

(3) Lease payments, estimated depreciation and estimated interest expense:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Lease payments	¥ 240	¥ 179	$ 2,308
Estimated depreciation	222	165	2,130
Estimated interest expenses	10	3	51

(4) Estimated depreciation is calculated using the straight-line method over the lease terms assuming no residual value.

(5) Estimated interest expense is the excess of the sum of the lease payments over the acquisition cost, and the allocation of the interest expense is based on the interest method.

(For impairment loss)
No impairment losses were recognized for leased assets.

Operating leases
Future lease payments for non-cancelable operating leases as of September 30, 2011 and 2012 were as follows:
Future lease payments:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
	¥ 160	¥ 120	$ 1,558
Due within one year	97	99	1,283
Due after one year	63	21	276

6. Financial instruments

1. Overall status of financial instruments

(1) Policy for financial instruments

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

(2) Type and risk of financial instruments

Notes and accounts receivable-trade are exposed to customer credit risk. Notes and accounts receivable-trade denominated in foreign currencies are exposed to risk from fluctuations in foreign exchange rates.
Investment securities are composed of shares and investments in limited liability partnerships with entities with which the Companies have business relationships. Those securities are exposed to the business risk of the entities and the risk from fluctuations in foreign exchange rates.
Almost all notes and accounts payable-trade are settled within one year. Notes and accounts payable-trade denominated in foreign currencies are exposed to the risk from fluctuations in foreign exchange rates.
Short-term borrowings are used as financing mainly for operating activities and is exposed to the risk from fluctuation in interest rates. Long-term debt is used as financing mainly for M&A and operating activities.
Derivative transactions include forward foreign exchange contracts to hedge the risk associated with trade receivables and payables denominated in foreign currencies, and interest rate swaps to hedge the interest rate risk for loans. Details on hedge accounting related to hedging instruments, hedged items, hedging policy and assessment of hedge effectiveness are outlined in Hedge Accounting in Note 2, Significant accounting policies.

(3) Risk management

1) Credit risk

The Companies examine credit information for new customers before entering into a new transaction, periodically monitor the overdue balance, and take necessary actions such as negotiation for the payment and assessment of the customer's financial position so that credit risks can be minimized.
The counterparties to derivative transactions are limited to financial institutions with high credit ratings, and the credit risk is minimal.

2) Market risk

The Companies have a very small portion of trade receivables and payables denominated in foreign currencies.
Certain consolidated subsidiaries use forward foreign exchange contracts to hedge the risk associated with trade receivables and payables denominated in foreign currencies.
Market risk of investment securities are periodically assessed by checking the financial status of the issuers, and the merits of holding such securities are continuously reviewed, taking into account the Companies' relationship with respective issuers.
The finance division of the Company continually monitors the 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 under the approval by the responsible officer in the finance division of the Company in accordance with internal rules.

3) Liquidity risk in funding

The Company centrally controls the cash position of both the Company and certain domestic consolidated subsidiaries, and manages cash flows, in order to reduce the liquidity risk and keep sufficient funds 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 no market price is available, the fair value is calculated based on the amount reasonably estimated. As a number of variables are incorporated in such calculation, the estimated fair value is subject to change if different assumptions are used.

2. Fair value of financial instruments

The book value, fair value and the difference as of September 30, 2011 are as follows:

	Millions of yen		
	Book value	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 8,718	¥ 8,718	¥ -
(2) Notes and accounts receivable-trade	7,717	7,717	-
(3) Investment securities	300	300	-
Total assets	¥ 16,735	¥ 16,735	¥ -
Liabilities			
(1) Notes and accounts payable-trade	1,366	1,366	-
(2) Short-term borrowings	3,000	3,000	-
(3) Long-term debt (*1)	7,483	7,558	74
Total liabilities	¥ 11,849	¥ 11,924	¥ 74
Derivative transactions (*2)(*3)	¥ 1	¥ 1	¥ -

*1. Long-term debt includes the current portion of long-term debt.

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

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

The book value, fair value and the difference as of September 30, 2012 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Book value t	Fair value	Difference	Book value	Fair value	Difference
Assets						
(1) Cash and deposits	¥ 8,400	¥ 8,400	¥ -	$ 108,253	$ 108,253	$ -
(2) Notes and accounts receivable-trade	8,028	8,028	-	103,459	103,459	-
(3) Investment securities	349	349	-	4,505	4,505	-
Total assets	¥ 16,778	¥ 16,778	¥ -	$ 216,216	$ 216,216	$ -
Liabilities						
(1) Notes and accounts payable-trade	1,536	1,536	-	19,767	19,767	-
(2) Short-term borrowings	4,500	4,500	-	57,990	57,990	-
(3) Long-term debt (*1)	6,456	6,534	78	83,196	84,203	1,007
Total liabilities	¥ 12,492	¥ 12,570	¥ 78	$ 160,982	$ 161,989	$1,007
Derivative transactions (*2)(*3)	¥ (0)	¥(0)	¥ -	$(2)	$(2)	$ -

*1. Long-term debt includes the current portion of long-term debt.

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

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

Note 1: Method of calculating fair value of financial instruments, and information on 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 they are settled in the short term and the fair value approximates the book value.

(3) Investment securities

For information on investment securities by holding purpose, please refer to “7. Securities”

Liabilities

(1) Notes and accounts payable-trade

These items are recorded at book value, as they are settled in the short term and the fair value approximates the book value.

(2) Short-term borrowings

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

(3) Long-term debt including current portion of long-term debt

The fair value of long-term debt 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 debt with floating interest rates, as the fair value of such debt is almost identical to the book value because it reflects the market rate for the short-term period. However, the fair value of certain long-term debt with floating interest rates hedged by interest rate swaps to which the exceptional method 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 debt.

Derivative transactions

For information relating to derivative transactions, please refer to “8. Derivative financial instruments”

Note 2: Financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Book value in consolidated balance sheet			
Unlisted shares(*1) (*2)	¥ 84	¥ 49	$ 637
Unlisted warrants(*1)	24	0	0
Stocks of affiliates(*1)	40	264	3,407
Investments in capital of affiliates(*1)	79	71	923
Investments in limited partnerships, etc.(*3)	35	0	0
Total	¥ 263	¥ 385	$ 4,966

*1. Unlisted shares, unlisted warrants, stocks of affiliates and investments in capital of affiliates do not have a market value and it is not possible to estimate future cash flows. 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 ¥59 million ($761 thousand) for the fiscal year ended September 30, 2012.

*3. Investments in limited partnerships are composed of non-listed shares etc. Accordingly, appraising the fair value of this 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 subsequent to September 30, 2012.

	Millions of yen		Thousands of U.S. dollars	
	2013	2014 and thereafter	2013	2014 and thereafter
Cash and deposits	¥ 8,394	¥ -	$ 108,176	$ -
Notes and accounts receivable-trade	8,028	-	103,459	-
	¥ 16,422	¥ -	$ 211,635	$ -

Note 4: Redemption schedule for long-term debt subsequent to September 30, 2012.

Please refer to “9. Short-term borrowings and long-term debt”

7. Securities

(1) The Companies did not hold any trading securities as of September 30, 2011 and 2012.

(2) The Companies did not hold any held-to-maturity securities as of September 30, 2011 and 2012.

(3) The Companies held shares of other securities as of September 30, 2011 and 2012.
The book value, the acquisition cost and the unrealized gain as of September 30, 2011 and 2012 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2011			2012			2012		
	Book value	Acquisition cost	Unrealized gain	Book value	Acquisition cost	Unrealized gain	Book value	Acquisition cost	Unrealized gain
Shares	¥ 300	¥ 202	¥ 98	¥ 349	¥ 203	¥ 146	$ 4,505	$ 2,617	$ 1,887

Unlisted shares and unlisted warrants are not included in the above table because they have no market value and it is extremely difficult to estimate their future cash flows or fair value.
Investments in limited partnerships are not included in the above table because assets of the partnership consist of unlisted shares and other assets/investments, for which it is extremely difficult to estimate their fair value.

(4) There were no sales of other securities for the year ended September 30, 2011 and 2012.

(5) The Company recorded an impairment loss of ¥17 million and ¥59 million ($760 thousand) on non-listed securities with no available fair market value for the year September 30, 2011 and 2012 respectively.
If the market value of securities with fair market value other than trading securities declines to less than 50% of the acquisition cost, the difference is recognized as impairment loss, in principle. If the market value drops by between 30 and 50%, the impairment loss is calculated based on the possibility of recovery in market value. If the value of shares with no market value drops by over 50% of the acquisition cost, the amount considered to be impaired is recognized as impairment loss unless the possibility of recovery is demonstrated by sufficient evidence.

8. Derivative financial instruments

(1) The following table summarizes the derivative transactions as of September 30, 2011 and 2012 for which hedge accounting has not been applied:

Currency related:

		Millions of yen			
		2011			
		Contract amount			
		Total	Due after one year	Fair value	Recognized gain (loss)
Non-market transactions	Forward foreign exchange contracts:				
	Buy:Yen/Sell:Won	¥ 26	-	¥ 1	¥ 1
	Total	¥ 26	-	¥ 1	¥ 1

		Millions of yen				Thousands of U.S. dollars			
		2012				2012			
		Contract amount				Contract 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	¥ 8	-	¥ (0)	¥ (0)	$ 110	-	$ (2)	$ (2)
	Total	¥ 8	-	¥ (0)	¥ (0)	$ 109	-	$ (2)	$ (2)

(2) The following table summarizes the derivative transactions as of September 30, 2011 and 2012 for which hedge accounting has been applied:

Interest related:

			Millions of yen		
			2011		
			Contract amount		
Hedge accounting method	Classification	Hedged item	Total	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swap contracts: Pay/fixed and receive/floating	Long-term debt	¥ 5,502	¥ 4,506	(*)

Hedge accounting method	Classification	Hedged item	Millions of yen 2012 Contract amount Total	Due after one year	Fair value	Thousands of U. S. dollars 2012 Contract amount Total	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swap contracts: Pay/fixed and receive/floating	Long-term debt	¥ 4,506	¥ 3,510	(*)	$ 58,067	$ 45,232	(*)

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

9. Short-term borrowings and long-term debt

(1) Short-term borrowings at September 30, 2011 and 2012 consist of the following:

	Millions of yen 2011	Millions of yen 2012	Thousands of U.S. dollars 2012
Short-term borrowings:			
Weighted average interest rate of 0.57% at September 30, 2011 and 2012, respectively	¥ 3,000	¥ 4,500	$ 57,990

(2) Long-term debt at September 30, 2011 and 2012 consist of the following:

	Millions of yen 2011	Millions of yen 2012	Thousands of U.S. dollars 2012
Long-term debt:			
Due 2012 to 2017 with weighted average interest rates of 1.57% and 1.50% at September 30, 2011 and 2012, respectively	¥ 7,483	¥ 6,456	$ 83,196
Less:			
Current portion of long-term debt:			
Weighted average interest rates of 1.94% and 1.96% at September 30, 2011 and 2012, respectively	1,027	996	12,835
	¥ 6,456	¥ 5,460	$ 70,361

(3) Annual maturities of long-term debt at September 30, 2012 are as follows:

Years ending September 30,	Millions of yen 2012	Thousands of U.S. dollars 2012
2013	¥ 996	$ 12,835
2014	1,646	21,211
2015	2,296	29,588
2016	996	12,835
2017	522	6,727

10. Provision for retirement benefits

The Companies provide an 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.
Certain 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 consolidated balance sheets as of September 30, 2011 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Retirement benefit obligation	¥ (2,734)	¥ (3,225)	$ (41,572)
Plan assets	298	347	4,481
Unfunded projected benefit obligation	¥ (2,436)	¥ (2,878)	$ (37,091)
Unrecognized actuarial difference	46	(11)	(151)
Unrecognized prior service cost	85	83	1,077
Provision for retirement benefits	¥ (2,304)	¥ (2,806)	$ (36,166)

(2) Included in the consolidated statements of income for the years ended September 30, 2011 and 2012 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Service cost	¥ 546	¥ 626	$ 8,076
Interest cost	20	25	335
Amortization of unrecognized actuarial gain or loss	87	46	601
Amortization of unrecognized prior service cost	38	42	546
Amortization of changes to the law in principle	33	—	—
Severance and retirement benefit expenses	¥ 726	¥ 741	$ 9,558

(3) Assumptions used in calculating benefit obligation, etc. for the years ended September 30, 2011 and 2012 are as follows:

	2011	2012
Allocation method of expected benefit	Straight-line method	Straight-line method
Discount rate	1.3%	1.3%
Amortization period of unrecognized prior service cost	6 years	6 years
Amortization period of actuarial gain or loss	1 year	1 year

11. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended September 30, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Research and development	¥ 194	¥ 464	$ 5,991
	¥ 194	¥ 464	$ 5,991

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

12. 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 the years ended September 30, 2011 and 2012. 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.
A reconciliation of the difference between the statutory income tax rate and the actual effective income tax rates for the years ended September 30, 2011 and 2012 is follows:

	2011	2012
Statutory income tax rate	40.69 %	40.69 %
Effect of operating loss carry-forwards of subsidiaries	3.58	-
Effect of change in tax rate	-	7.33
Permanently non-deductible expenses	0.89	1.39
Per capita inhabitants tax	1.55	1.57
Amortization of goodwill	2.31	3.34
Utilization of net operating loss carry-forwards	(0.96)	
Effect on sales of subsidiaries	(0.73)	(0.05)
Change in valuation allowance	(0.13)	(15.84)
Other	(0.48)	0.21
Actual effective income tax rates	46.72 %	38.64 %

(2) Significant components of deferred tax assets and liabilities as of September 30, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Deferred tax assets			
Provision for bonuses	¥ 757	¥ 695	$ 8,962
Provision for loss on orders received	199	95	1,225
Enterprise tax payable	100	77	996
Loss on valuation of inventories	126	126	1,634
Asset retirement obligations	157	114	1,473
Goodwill	182	102	1,317

Provision for retirement benefits		891		989		12,753
Net operating loss carry-forwards		748		443		5,710
Loss on valuation of investment securities		284		283		3,648
Accumulated depreciation		145		94		1,223
Other		159		320		4,133
		3,752		3,342		43,074
Less: Valuation allowance		(1,276)		(796)		(10,265)
Total deferred tax assets	¥	2,475	¥	2,545	$	32,809
Offset with deferred tax liabilities		(306)		(128)		(1,662)
Deferred tax assets	¥	2,169	¥	2,417	$	31,147
Deferred tax liabilities						
Negative goodwill		(187)		(103)		(1,337)
Investment securities		(84)		(92)		(1,189)
Removal expenses associated with asset retirement obligations		(78)		(41)		(535)
Other		(79)		(24)		(310)
Total deferred tax liabilities	¥	(429)	¥	(261)	$	(3,371)
Offset with deferred tax assets		306		128		1,662
Deferred tax liabilities	¥	(123)	¥	(132)	$	(1,709)
Net deferred tax assets	¥	2,045	¥	2,284	$	29,438

(3) Re-evaluation of deferred tax assets and liabilities due to the reduction of corporate income tax rate.
Due to the promulgation on December 2, 2011 of the “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011), the corporate income tax rate will be lowered and a special corporation tax for earthquake restoration will be imposed from the years beginning on or after April 1, 2012.
In line with these revisions, the Group changed the statutory tax rate to calculate deferred tax assets and deferred tax liabilities from 40.69% to 38.01% for temporary differences expected to be realized during the period from the year beginning October 1, 2012 to the year beginning October 1, 2014. Similarly, the Company and its domestic consolidated subsidiaries changed the statutory tax rate to calculate deferred tax assets and deferred tax its liabilities from 40.69% to 35.64% for temporary differences expected to be realized from the years beginning October 1, 2015.
As a result of these changes in statutory tax rates, net deferred tax assets (after netting with deferred tax liabilities) decreased by ¥270 million ($3,483 thousand), income taxes - deferred increased by ¥277 million ($3,571 thousand) and unrealized gain (loss) on securities increased by ¥6 million ($87 thousand) as of and for the year ended September 30, 2012.

13. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price 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.

14. Business combinations

(Common control transactions)

1. Incorporation-type company split pursuant to transition to a holding company structure

1. Outline of the business combination

(1) Name of the companies involved and business operations subject to the business combination
CMIC HOLDINGS Co., Ltd. (formerly CMIC Co., Ltd.), which provides contract research organization (CRO)services

(2) Date of the business combination: January 4, 2012

(3) Legal form of the business combination
An incorporation-type company split in which the Company was split and a newly established wholly owned subsidiary assumed Company's CRO business

(4) Name of the after business combination company
Newly established company through an incorporation-type company split: CMIC Co., Ltd.

(5) Outline of the transaction including purpose
Through the implementation of its unique Pharmaceutical Value Creator (PVC) business model, the CMIC Group provides a comprehensive set of services in its five business domains-CRO (Contract Research Organization) business, CMO (Contract Manufacturing Organization) business, CSO (Contract Sales Organization) business, Healthcare business, and IPD (Intellectual Property Development) business-to support the pharmaceutical value chain from drug research and development, through manufacturing, to sales and marketing.
By converting to a holding company structure, the Company looks to achieve stronger group management functions, more proper allocation of resources, and faster decision making at each of the division companies, thereby making the Group's business model more clear, while speeding up the decision-making functions and accelerating growth at each of the division companies. Furthermore, the Group aims to establish a renewed group-wide management structure.

2. Outline of the accounting treatment

The transaction was treated as a common control transaction pursuant to "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement, No.21, December 26, 2008) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" ASBJ Guidance No.10, December 26, 2008).

2. Merger of consolidated subsidiary

1. Outline of the business combination

(1) Name of the companies involved and business operations subject to the business combination

Name of surviving company: CMIC Co., Ltd.

Primary business: Contract research organization (CRO) services

Name of absorbed company: CMIC MEDICAL RESEARCH Co., Ltd.

Primary business: Contract research organization (CRO) services

(2) Date of the business combination: March 1, 2012

(3) Legal form of the business combination: Absorption-type merger with CMIC Co., Ltd. as the surviving company

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

(5) Primary reasons for the business combination

The merger between CMIC, a leading company in the CRO industry, and CMIC MEDICAL RESEARCH which had become a subsidiary of the Company on May 31, 2011, is aimed to enhance opportunities to enter into outsourcing partnerships with pharmaceutical companies and increase efficiency through improvements in productivity of human resources at these two companies.

2. Outline of the accounting treatment

The transaction was treated as a common control transaction pursuant to “Accounting Standard for Business Combinations (ASBJ Statement No.21, December 26, 2008) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, December 26, 2008).

(Business separation)

1. Partial transfer of shares of a consolidated subsidiary

1. Outline of the business separation

(1) Name of the consolidated subsidiary and business operations subject to the business separation

Name of the consolidated subsidiary: MDS Co., Ltd.

Primary business: Strategic planning and production of promotion materials for pharmaceutical products

(2) Name of the company to which the shares are transferred: McCann Healthcare Worldwide Japan

(3) Legal form of the business separation and the interest in the consolidated subsidiary

Legal form: Absorption-type split and sale of shares

Interest in the consolidated subsidiary: 49.0%

(4) Name of the company after the separation: MDS-CMG Inc.

(5) Primary reasons for the business separation

The CMIC Group has been providing sales and marketing support services to pharmaceutical companies through MDS Co., Ltd. (hereinafter referred to as MDS), however, the Japanese pharmaceutical market is becoming more and more globalized, and there is a growing need to enhance services through expanding the target audience and providing a more complete set of services. For this reason, it has been decided that it is best for MDS to start a joint business with a global healthcare communications agency, and as such, an agreement was reached with McCann Healthcare Worldwide Japan (hereinafter referred to as MHWWJ), to partially transfer shares of stock of MDS to MHWWJ and merge the CMG division of MHWWJ with MDS.

(6) Date of the business separation: July 2, 2012.

2. Outline of the accounting treatment

The transaction was treated as a common control transaction pursuant to “Accounting Standard for Business Divestitures” (ASBJ Statement No.7, Revised December 26, 2008) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, December 26, 2007).

(1) Amount of gain on transfer

Gain on sales of subsidiaries and affiliates' stocks: ¥37 million ($480 thousand)

(2) Breakdown of assets and liabilities of the separated Company at the date of the business combination

	Millions of yen		Thousands of U.S. dollars	
Current assets	¥	814	$	10,494
Non-current assets		98		1,272
Total assets	¥	913	$	11,766
Current liabilities		460		5,935
Non-current liabilities		33		437
Total liabilities	¥	494	$	6,373

3. Name of the reportable segments of the separated company: CSO (Contract Sales Organization) business

4. Estimated amount of the separated company’s profit or loss reported on the consolidated statement of income for the year ended September 30, 2012

Net sales: ¥1,254 million ($16,162 thousand)

Operating income: ¥145 million ($1,871 thousand)

15. Asset retirement obligations

The asset retirement obligations are mainly the estimated future restoration obligations pursuant to the office rental agreements and expenses for removing asbestos in accordance with the “Ordinance on Prevention of Asbestos Hazards”. The asset retirement obligations are calculated based upon the estimated period of use ranging from 0.5 to 15 years and discounted by rates ranging from 0.1% to 1.7%.

Asset retirement obligations as of September 30, 2011 and 2012 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2011		2012		2012	
Balance at the beginning of the year	¥	328	¥	405	$	5,221
Liabilities incurred due to the acquisition of property, plant and equipment		26		16		215
Accretion adjustment		3		4		57
Settlement of obligations		(25)		(57)		(742)
Other		71		(35)		(463)
Balance at the end of the year	¥	405	¥	332	$	4,289

*1 The balance of the asset retirement obligations at the beginning of the year ended September 30, 2011 was determined based upon the guidance set forth in “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18 issued on March 31, 2008) and “Guidance on Accounting Standard for Assets Retirement Obligations” (ASBJ Guidance No. 21, issued on March 31, 2008)

16. Investment and rental property

There is no material investment and rental property to be reported as of September 30, 2012.

17. Segment information

1. General Information about Reportable Segments

Under the unique business model of a Pharmaceutical Value Creator (PVC), which contributes to enhance pharmaceutical companies' value, the Companies and its affiliates (the "Group") establish internal operating-companies across the Group such as CRO companies, CMO companies, CSO Companies, Healthcare Companies and IPD Companies. The Group comprehensively formulates strategies for its domestic and overseas operations covering all services and products of the Group.
Based on aforementioned internal operating companies, the Group has five reportable segments, CRO Business, CMO Business, CSO Business, Healthcare Business and IPD Business, which have been classified according to the economic traits of their operations. Individual financial information of each reportable segment is available and the Board of Directors regularly reviews the information to allocate management resources and evaluate performances. The Companies and its affiliates are classified into the following reportable segments.

Segment	Products/Services	CMIC Group Companies (as of Sept 30, 2012)
CRO Business	Services provided to pharmaceutical companies related to support in drug development	CMIC HOLDINGS Co., Ltd. CMIC Co., Ltd. CMIC BIORESEARCH CENTER Co., Ltd. (Overseas) CMIC Korea Co., Ltd. CMIC (Beijing) Co., Ltd. CMIC ASIA-PACIFIC, PTE. LTD. GCP CMIC ClinPlus Co., Ltd.*
CMO Business	Services provided to pharmaceutical companies related to : ・manufacturing ethical and over-the-counter (OTC) drugs ・analytical chemistry	CMIC HOLDINGS Co., Ltd. CMIC CMO Co., Ltd. CMIC CMO TOYAMA Co., Ltd. Institute of Applied Medicine, Inc. (Overseas) CMIC CMO Korea Co., Ltd. CMIC CMO USA Corporation
CSO Business	Services provided to pharmaceutical companies related to support in drug sales and marketing	CMIC MPSS Co., Ltd. MDS-CMG Inc. *
Healthcare Business	Services related to support in maintaining / promoting health and providing / receiving healthcare, targeted at medical institutions, patients, and consumers (e.g., SMO, temporary staffing and recruiting, healthcare information services)	CMIC HOLDINGS Co., Ltd. Site Support Institute Co., Ltd. CMIC BS Co., Ltd. Healthclick Co., Ltd.
IPD Business	Operations related to the development and marketing of diagnostic drugs and orphan drugs	CMIC HOLDINGS Co., Ltd. Orphan Pacific, Inc.

Companies marked with an asterisk (*) are affiliates.

2. Method for calculating the amount of net sales, profit (loss), assets, liabilities and other items by segment

Accounting policies applied to reportable segments are almost the same as those described in “Significant accounting policies”. Segment profit is based on operating income before amortization of goodwill. Inter-segment sales and transfers between segments are based on market prices.

(Changes of the method for calculating segment profit or loss)

The Company converted to a holding company structure on January 4, 2012. As a result, the Group adopted the method for calculating segment profit or loss which does not allocate corporate expenses of the Company to the reportable segments from the year ending September 30, 2012. In addition, prior year segment information is presented based on the revised method for calculating segment profit or loss after this change.

3. Financial information by reportable segment

As of and for the year ended September 30, 2011 (Millions of yen)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥16,407	¥13,525	¥4,514	¥9,073	¥33	¥43,555	–	¥43,555
Inter-segment	319	55	244	194	–	814	¥(814)	–
Total	16,727	13,580	4,759	9,268	33	44,369	(814)	43,555
Segment profit (loss)	¥3,257	¥1,409	¥236	¥915	¥(445)	¥5,374	¥(1,525)	¥3,849
Segment assets	¥6,781	¥16,458	¥1,841	¥7,026	¥246	¥32,354	¥7,026	¥39,381
Others								
Depreciation	251	1,572	24	126	22	1,998	–	1,998
Amortization of goodwill	47	97	–	76	–	221	–	221
Increase in fixed assets	1,217	1,874	–	516	2	3,611	296	3,907

Notes: 1. The adjustment amount of (¥1,525) million in segment profit (loss) includes intersegment eliminations and others of (¥0) million and unallocated corporate expenses of (¥1,524) million.

2. Segment profit corresponds with operating income in the consolidated statement of income.

3. The adjustment amount of ¥7,026 million in segment assets includes unallocated corporate assets of ¥9,037 million and intersegment elimination and others of (¥2,010) million. Depreciation and amortization included in corporate assets were allocated to each of the reporting segments.

As of and for the year ended September 30, 2012 (Millions of yen)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥18,784	¥17,171	¥4,970	¥9,305	¥71	¥50,303	–	¥50,303
Inter-segment	169	59	199	189	–	618	¥(618)	–
Total	18,954	17,230	5,170	9,495	71	50,922	(618)	50,303
Segment profit (loss)	¥3,545	¥1,600	¥129	¥903	¥(667)	¥5,511	¥(1,592)	¥3,918
Segment assets	¥9,433	¥19,168	¥1,883	¥7,314	¥250	¥38,050	¥4,215	¥42,265
Others								
Depreciation	192	1,478	15	101	26	1,814	–	1,814
Amortization of goodwill	190	111	–	112	–	414	–	414
Increase in fixed assets	190	2,560	0	78	14	2,845	156	3,001

As of and for the year ended September 30, 2012 (Thousands of U.S. dollars)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	$242,069	$221,278	$64,051	$119,922	$923	$648,246	–	$648,246
Inter-segment	2,183	768	2,574	2,443	–	7,970	$(7,970)	–
Total	244,253	222,047	66,625	122,365	923	656,216	(7,790)	648,246
Segment profit (loss)	$45,695	$20,624	$1,665	$11,642	$(8,607)	$71,020	$(20,523)	$50,497
Segment assets	$121,565	$247,013	$24,268	$94,264	$3,226	$490,338	$54,319	$544,658
Others								
Depreciation	2,482	19,054	199	1,303	347	23,387	–	23,387
Amortization of goodwill	2,456	1,435	–	1,443	–	5,335	–	5,335
Increase in fixed assets	2,452	32,998	4	1,016	192	36,664	2,018	38,682

Notes: 1. The adjustment amount of (¥1,592) million ($20,523 thousand) in segment profit (loss) includes intersegment eliminations and others of ¥0 million ($4 thousand) and unallocated corporate expenses of (¥1,592) million ($20,527 thousand).
2. Segment profit corresponds with operating income in the consolidated statement of income.
3. The adjustment amount of ¥4,215 million ($54,319 thousand) in segment assets includes unallocated corporate assets of ¥9,839 million ($126,800 thousand) and intersegment elimination and others of (¥5,624) million ($72,480 thousand). Depreciation and amortization included in corporate assets were allocated to each of the reporting segments.

(Related Information)

1. Information by products and services

The disclosure information by products and services is omitted because identical information is disclosed as segment information.

2. Segment information by geographic areas

(1)The disclosure of geographical segment information of net sales is omitted as net sales of the domestic operations represent more than 90% of consolidated net sales.

(2)The disclosure of geographical segment information of property, plant and equipment is omitted as more than 90% of property, plant and equipment on the consolidated balance sheet is located in Japan.

3. Information by major customers for the year ended September 30, 2012 is as follows:

		Net sales	
Name of Customer	Related reportable segment	Millions of yen	Thousands of U.S. dollars
DAIICHI SANKYO Co., Ltd.	CRO Business and CMO Business	¥12,336	$158,976

18. Transactions with related parties

1. Transactions between the Company and related parties for the year ended September 30, 2012 were as follows:

a) Company directors, shareholders (Companies only), etc.

Type	Name	Location	Capital (Millions of yen)	Type of business	Percentage of voting stock owned by CMIC HOLDINGS Co., Ltd. (owned in CMIC HOLDINGS Co., Ltd.) (%)	Transaction details	Transaction amount (Millions of yen)	Transaction amount (Thousands of U.S. dollars)	Balance at fiscal year-end (Millions of yen)
Company in which directors or close relatives hold a majority of the voting stock	Keith Japan (Note 2)	Hokuto-shi	¥10	Management of the museum and accommodation	(3.9%) directly held	Purchase of land	¥50	$648	—
	Artemis Inc. (Note 3)	Shibuya-ku Tokyo	¥11	Asset management	(34.9%) directly held	Purchase of land	¥44	$570	—

Information on transaction terms and policy for determining the terms

Note 1: Transaction amounts do not include consumption tax.

2: President of CMIC HOLDINGS Co., Ltd. Kazuo Nakamura directly holds 100% of the voting rights.

3: President of CMIC HOLDINGS Co., Ltd. Kazuo Nakamura, Keiko Nakamura and close relatives directly hold 100% of the voting rights.

4: Transactions with both companies are based on consideration of normal transaction conditions and market prices.

19. Net assets and net income per share

Net assets and net income per share as of and for the years ended September 30, 2011 and 2012 is as follows:

	Yen		U.S. dollars
	2011	2012	2012
Net assets per share	¥ 926.76	¥ 1,021.97	$ 13.17
Net income per share	100.73	123.25	1.59

No diluted net income per share is presented for the years ended September 30, 2011 and 2012 since no potentially dilutive securities were issued.

20. Subsequent event

(Implementation of Stock Granting Trust (J-ESOP))

The Company resolved at the meeting of the Board of Directors held on November 7, 2012 that the Company will implement Employee Stock Ownership Plan (J-ESOP), which provides shares of the Company as part of a newly developed middle long-term incentive plan for the Company's officers or employees. The J-ESOP trust purchased the Company's stock from the Chairman and CEO Representative Director Mr. Kazuo Nakamura, who is one of the Company's main stockholders.

Outline of the J-ESOP trust

1) Classification of the trust: Money entrust other than cash trust, other gain trust.

2) Trustor: the Company

3) Trustee: Mizuho Trust & Banking Co., Ltd.

4) Beneficiaries: Persons who acquired the right to receive stock-based payments based on official regulations

5) Date hereof of the trust contract: November 14, 2012

6) Date to entrust money: November 14, 2012

7) Term of the trust: From November 14, 2012 until the date of expiration of the trust

8) Effective day of the stock payment in the official regulations: December 1, 2012

9) Purpose of trust: The purpose of the trust is mainly to provide the Company's stock to the beneficiaries based on official regulations

10) Property of the trust: Company stock or cash

11) Total cost for acquiring Company stock: ¥225 million ($2,899 thousand)