CMIC HOLDINGS Co., Ltd

Consolidated Financial Statements

For the Year ended September 30, 2013

Together with Independent Auditors' Report

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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. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at September 30, 2013, 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 CMIC HOLDINGS Co., Ltd. and its consolidated subsidiaries as at September 30, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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.

December 13, 2013
Tokyo, Japan

Ernst & Young ShinNihon LLC

CONSOLIDATED BALANCE SHEET

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries

As of September 30, 2012 and 2013

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
Current assets:			
Cash and deposits (Notes 4 and 6)	¥ 8,400	¥ 6,962	$ 71,233
Notes and accounts receivable-trade (Note 6)	8,028	7,695	78,728
Merchandise and finished goods	112	175	1,796
Work in process	3,577	3,954	40,452
Raw materials and supplies	1,578	1,017	10,413
Deferred tax assets (Note 12)	1,167	1,117	11,428
Other	1,632	1,976	20,220
Allowance for doubtful accounts	(10)	(8)	(87)
Total current assets	24,486	22,891	234,183
Property, plant and equipment:			
Buildings and structures	9,355	10,764	110,127
Machinery, equipment and vehicles	5,342	5,952	60,894
Tools, furniture and fixtures	1,267	1,436	14,694
Land	4,622	4,674	47,823
Lease assets	757	973	9,955
Construction in progress	950	2,321	23,744
Less: accumulated depreciation	(10,042)	(11,656)	(119,245)
Total property, plant and equipment	12,254	14,466	147,992
Intangible assets:			
Goodwill	1,341	1,268	12,977
Other	825	859	8,795
Total intangible assets	2,166	2,128	21,772
Investments and other assets:			
Investment securities (Notes 6 and 7)	663	493	5,045
Deferred tax assets (Note 12)	1,249	1,310	13,407
Lease and guarantee deposits	1,206	1,304	13,350
Other	258	287	2,940
Allowance for doubtful accounts	(20)	(26)	(273)
Total investments and other assets	3,357	3,369	34,469
Total assets	¥ 42,265	¥ 42,855	$ 438,416

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

CONSOLIDATED BALANCE SHEET (continued)

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
As of September 30, 2012 and 2013

LIABILITIES AND NET ASSETS	Millions of yen				Thousands of U.S. dollars (Note 1)	
		2012		2013		2013
Current liabilities:						
Notes and accounts payable-trade (Note 6)	¥	1,536	¥	1,215	$	12,432
Short-term borrowings (Notes 6 and 9)		4,500		1,950		19,949
Current portion of long-term debt (Notes 6 and 9)		996		2,015		20,620
Accounts payable-other		1,418		1,251		12,803
Accrued expenses		465		618		6,327
Income taxes payable		924		1,404		14,370
Advances received		1,701		1,960		20,052
Provision for bonuses		1,764		1,971		20,167
Provision for directors' bonuses		29		23		240
Provision for loss on orders received		244		287		2,937
Deferred tax liabilities (Note 12)		1		4		43
Other		998		975		9,979
Total current liabilities		14,581		13,677		139,918
Noncurrent liabilities:						
Long-term debt (Notes 6 and 9)		5,460		5,459		55,853
Provision for retirement benefits (Note 10)		2,806		3,412		34,912
Deferred tax liabilities (Note 12)		131		39		399
Asset retirement obligations (Note 15)		332		350		3,583
Other		250		314		3,220
Total noncurrent liabilities		8,980		9,576		97,967
Total liabilities		23,561		23,253		237,885
NET ASSETS						
Shareholders' equity:						
Capital stock						
Authorized-46,000,000 shares Issued-18,221,860 shares in 2012 Authorized-46,000,000 shares Issued-18,221,860 shares in 2013		3,087		3,087		31,588
Capital surplus		6,292		6,292		64,373
Retained earnings		9,479		10,560		108,032
Treasury stock, at cost-32,820 shares in 2012 and 223,860 shares in 2013		(44)		(257)		(2,638)
Total shareholders' equity		18,814		19,682		201,355
Accumulated other comprehensive income:						
Unrealized gain (loss) on securities		93		(58)		(600)
Foreign currency translation adjustments		(319)		(73)		(749)
Total accumulated other comprehensive income		(226)		(131)		(1,349)
Minority interests		114		51		525
Total net assets		18,703		19,601		200,531
Total liabilities and net assets	¥	42,265	¥	42,855	$	438,416

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

CONSOLIDATED STATEMENT OF INCOME

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note1)
	2012	2013	2013
Net sales	¥ 50,303	¥ 50,934	$ 521,067
Cost of sales	(38,729)	(38,792)	(396,850)
Gross profit	11,574	12,142	124,216
Selling, general and administrative expenses (Note 11):	(7,655)	(7,985)	(81,697)
Operating income	3,918	4,156	42,519
Non-operating income (expenses):			
Interest income	10	10	108
Foreign exchange gains	126	98	1,003
Rent income	16	14	144
Equity in earnings (losses) of affiliates	(68)	61	630
Management fee income	25	-	-
Other income	49	43	444
Interest expenses	(150)	(135)	(1,390)
Contract settlement loss	-	(212)	(2,175)
Loss on valuation of investments	(37)	-	-
Other expenses	(56)	(94)	(964)
Ordinary income	3,835	3,941	40,320
Special gains (losses):			
Gain on sales of noncurrent assets	3	4	44
Gain on sales of investment securities	-	185	1,899
Gain on sales of subsidiaries and affiliates	37	-	-
Loss on retirement of noncurrent assets	(9)	(60)	(615)
Impairment loss on noncurrent assets	-	(12)	(126)
Loss on valuation of investment securities	(59)	-	-
Loss on abolishment of retirement benefit plan	-	(35)	(363)
Office transfer expenses	(113)	(63)	(647)
Compensation for damage	(93)	-	-
Loss on valuation of investment in affilliate	-	(31)	(323)
Other special loss	(3)	-	-
Income before income taxes and minority interests	3,595	3,928	40,190
Income taxes (Note 12):			
Current	1,652	2,252	23,046
Deferred	(263)	(9)	(102)
Total income taxes	1,389	2,242	22,944
Income before minority interests	2,206	1,685	17,245
Minority interests	(35)	(68)	(696)
Net income	¥ 2,241	¥ 1,753	$ 17,942

	Yen	Yen	U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	¥ 123.25	¥ 97.36	$ 1.00
Diluted net income	-	-	-
Cash dividends applicable to the year	35.00	35.00	0.35

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
Income before minority interests	¥ 2,206	¥ 1,685	$ 17,245
Other comprehensive income			
Unrealized gain (loss) on securities	35	(152)	(1,556)
Foreign currency translation adjustments	46	259	2,653
Share of other comprehensive income of affiliates accounted for using the equity method	(0)	0	1
Total other comprehensive income	82	107	1,098
Comprehensive income	¥ 2,288	¥ 1,793	$ 18,344
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ 2,323	¥ 1,848	$ 18,907
Minority interests	(34)	(55)	(563)

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries

Years ended September 30, 2012 and 2013

	Shares	
	2012	2013
Number of shares of common stock:		
Balance at beginning of the year	18,221,860	18,221,860
Balance at end of the year	18,221,860	18,221,860

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
Capital stock:			
Balance at the end of the year	¥ 3,087	¥ 3,087	$ 31,588
Capital surplus:			
Balance at the beginning of the year	6,292	6,292	64,372
Disposal of treasury stock	0	0	1
Balance at the end of the year	6,292	6,292	64,373
Retained earnings:			
Balance at the beginning of the year	7,828	9,479	96,975
Net income	2,241	1,753	17,942
Cash dividends paid - ￥32.50 ($0.419) per share in 2012	(591)	-	-
￥37.00 ($0.379) per share in 2013	-	(672)	(6,885)
Balance at the end of the year	9,479	10,560	108,032
Treasury stock:			
Balance at the beginning of the year	(44)	(44)	(455)
Acquisition of treasury stock	(0)	(213)	(2,183)
Disposal of treasury stock	0	0	0
Balance at the end of the year - 32,820 shares in 2012 and 223,860 shares in 2013	(44)	(257)	(2,638)
Total shareholders' equity	18,814	19,682	201,355
Unrealized gain (loss) on securities:			
Balance at the beginning of the year	57	93	955
Net change in items other than those in shareholder's equity	35	(152)	(1,556)
Balance at the end of the year	93	(58)	(600)
Foreign currency translation adjustments:			
Balance at the beginning of the year	(365)	(319)	(3,270)
Net change in items other than those in shareholder's equity	45	246	2,521
Balance at the end of the year	(319)	(73)	(749)
Total accumulated other comprehensive income	(226)	(131)	(1,349)
Minority interests			
Balance at the beginning of the year	51	114	1,176
Net change in items other than those in shareholder's equity	63	(63)	(651)
Balance at the end of the year	114	51	525
Total net assets	¥ 18,703	¥ 19,601	$ 200,531

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

CONSOLIDATED STATEMENT OF CASH FLOWS
CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,595	¥ 3,928	$ 40,190
Depreciation and amortization	1,814	1,833	18,752
Impairment loss on noncurrent assets	-	12	126
Amortization of goodwill	414	434	4,445
Increase (decrease) in provision for retirement benefits	529	556	5,697
Increase (decrease) in provision for bonuses	(91)	206	2,117
Increase (decrease) in provision for directors' bonuses	(85)	(6)	(66)
Increase (decrease) in allowance for doubtful accounts	3	(2)	(25)
Increase (decrease) in provision for loss on orders received	(251)	40	414
Interest income	(10)	(10)	(108)
Interest expenses	150	135	1,390
Equity in (earnings) losses of affiliates	68	(61)	(630)
Foreign exchange losses (gains)	(4)	(72)	(739)
Losses on valuation of investments	37	-	-
Loss (gain) on sales of investment securities	-	(185)	(1,899)
Loss (gain) on valuation of investment securities	59	-	-
Loss (gain) on sales of investment in subsidiary	(37)	-	-
Loss on retirement of noncurrent assets	9	60	615
Loss on valuation of investment in affilliate	-	31	323
Gain on sales of noncurrent assets	(3)	(4)	(44)
Office transfer expenses	113	0	7
Compensation for damage	93	-	-
Decrease (increase) in notes and accounts receivable-trade	(696)	408	4,175
Decrease (increase) in inventories	(1,528)	195	2,002
Increase (decrease) in notes and accounts payable-trade	269	(344)	(3,520)
Increase (decrease) in accrued expenses	34	141	1,445
Increase (decrease) in advances received	213	225	2,307
Increase (decrease) in deposits received	(23)	213	2,180
Other, net	222	(465)	(4,767)
Subtotal	4,898	7,271	74,387
Interest and dividends income received	10	9	100
Interest expenses paid	(150)	(131)	(1,349)
Compensation for damage paid	-	(93)	(959)
Income taxes paid	(1,941)	(1,853)	(18,962)
Net cash provided by operating activities	2,817	5,201	53,216
Cash flows from investing activities:			
Payments into time deposits	(142)	(167)	(1,712)
Proceeds from withdrawal of time deposits	580	302	3,097
Purchases of property, plant and equipment	(2,850)	(3,283)	(33,593)
Proceeds from sales of property, plant and equipment	6	9	102
Purchases of intangible assets	(178)	(283)	(2,899)
Payments for retirement of noncurrent assets	(53)	(23)	(245)
Payments for lease and guarantee deposits	(159)	(218)	(2,240)
Proceeds from collection of lease and guarantee deposits	269	136	1,400
Purchases of investment securities	-	(213)	(2,183)
Proceeds from sales of investment securities	-	388	3,971
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	24	-	-
Purchases of investments in subsidiaries	-	(8)	(91)
Payments for acquisition of business (Note 4)	-	(561)	(5,748)
Proceeds from liquidation of subsidiaries and affiliates	38	-	-
Payments of loans receivable	-	(76)	(777)
Other, net	(10)	(60)	(614)
Net cash used in investing activities	(2,474)	(4,059)	(41,531)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	1,500	(2,550)	(26,087)
Proceeds from long-term debt	-	2,200	22,506
Repayments of long-term debt	(1,027)	(1,180)	(12,080)
Repayments of lease obligations	(163)	(171)	(1,750)
Purchases of treasury stock	0	(213)	(2,183)
Dividends paid	(590)	(672)	(6,883)
Proceeds from issuance of common stocks by minority shareholders	98	-	-
Other, net	(56)	0	1
Net cash provided by (used in) financing activities	(239)	(2,587)	(26,475)
Effect of exchange rate changes on cash and cash equivalents	13	111	1,136
Net increase (decrease) in cash and cash equivalents	117	(1,334)	(13,653)
Cash and cash equivalents at beginning of the year	8,027	8,144	83,324
Cash and cash equivalents at end of the year (Note 4)	¥ 8,144	¥ 6,810	$ 69,670

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 ¥97.75 to U.S. $1.00, the rate of exchange prevailing at September 30, 2013. 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. 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.
Amounts less than one million yen is rounded down and one thousand U.S. dollar is rounded.
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 and 17 subsidiaries at September 30, 2012 and 2013, respectively. The accompanying consolidated financial statements for the years ended September 30, 2012 and 2013 include the accounts of the Company and all of its subsidiaries (the "Companies"). The Company does not have any unconsolidated subsidiaries.
The Company has 2 and 1 affiliates, to which the equity method is applied, at September 30, 2012 and 2013, respectively. Certain affiliate company has been excluded from the scope of the equity method during this fiscal year, because the Company is not deemed to exercise significant influence directly or indirectly on its decision making anymore.
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 Companies are amortized using the straight-line method over the estimated useful lives. Software for internal of the 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 “Minority interests” 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.

(Accounting standards issued but not yet applied)

"Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, issued on May 17,2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, issued on May 17,2012)

(1)Outline

Under the revised accounting standard for retirement benefits, actuarial gains and losses and prior service costs, after adjusting tax effects, are recognized in the net assets section of the consolidated balance sheets and deficit or surplus is recognized as a liability or asset. As regards the method of attributing expected retirement benefit to periods, the Standard now allows to apply formula basis in addition to the straight-line basis, and the method of calculating the discount rate was also amended.

(2)Scheduled date of application

The Companies plan to apply this accounting standard from the end of the fiscal year ending September 30, 2014. However, the amendment of calculation methods for retirement benefit obligations and current service costs will be applied from the beginning of the fiscal year ending September 30, 2015.

(3)Effect of application of the standard

The effects of applying this accounting standard are currently under evaluation.

(Changes in accounting policies)

From this fiscal year, in accordance with the revision of Corporation Tax Act, the Company and the Domestic Companies changed the depreciation method for property, plant and equipment which acquired on and after October 1, to the depreciation method based on the revised Corporation Tax Act.

The effect of this change on consolidated operation income, ordinary income and income before income taxes and minority interests was immaterial.

(Additional information)

Accounting for Employee Stock Ownership Plan (J-ESOP)

Based on the Board of Directors held on November 7, 2012, the Company has adopted the Employee Stock Ownership Plan (J-ESOP) Trust, to provide a Company's stock as a new middle-long term incentive plan for the company's officers and employees.

J-ESOP Trust is treated as a part of the Company for the accounting purpose in consideration of the economic substance.

J-ESOP Trust holds 190 thousand shares of the Company's common stock at September 30, 2013.

3 Other comprehensive income

The components of other comprehensive income including reclassification adjustments and tax effects income for the year ended September 30, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Unrealized gain on securities:			
Amount arising during the year	¥ 48	¥ (51)	$ (531)
Reclassification adjustment	-	(185)	(1,899)
Amount before tax effect	48	(237)	(2,431)
Tax effects	(13)	85	875
Sub-total, net of tax	35	(152)	(1,556)
Foreign currency translation adjustments:			
Amount arising during the year	46	259	2,653
Share of other comprehensive income of affiliates accounted for using the equity method:			
Amount arising during the year	(0)	10	111
Reclassification adjustment	-	(10)	(109)
Sub-total	(0)	0	1
Total other comprehensive income	¥ 82	¥ 107	$ 1,098

4 Supplemental cash flow information

(1) A 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, 2012 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Cash and deposits	¥ 8,400	¥ 6,962	$ 71,233
Less:			
Time deposits over three months	255	152	1,562
Cash and cash equivalents	¥ 8,144	¥ 6,810	$ 69,670

(2) For the year ended September 30, 2013

A summary of information on the assets and liabilities CMIC-PMS Co., LTD acquired and acquisition cost of business is as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Current assets	¥ 197	$ 2,021
Non-current assets	17	182
Current liabilities	(16)	(166)
Goodwill	362	3,711
Payments for acquisition of business	¥ 561	$ 5,748

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, 2012 and 2013, 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
	2012	2013	2013
Acquisition cost	¥ 836	¥ 4	$ 48
Machinery, equipment and vehicles	126	4	48
Tools, furniture and fixtures	709	-	-
Intangible assets	0	-	-
Accumulated depreciation/amortization	¥ 800	¥ 4	$ 43
Machinery, equipment and vehicles	123	4	43
Tools, furniture and fixtures	676	-	-
Intangible assets	0	-	-
Net book value	¥ 36	¥ 0	$ 5
Machinery, equipment and vehicles	2	0	5
Tools, furniture and fixtures	33	-	-
Intangible assets	0	-	-

(2) Future lease payments at September 30, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
	¥ 38	¥ 0	$ 5
Due within one year	38	0	5
Due after one year	0	-	-

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

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Lease payments	¥ 179	¥ 38	$ 398
Estimated depreciation	165	35	366
Estimated interest expenses	3	0	4

(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, 2012 and 2013 are as follows:

Future lease payments:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
	¥ 120	¥ 44	$ 451
Due within one year	99	34	357
Due after one year	21	9	94

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 and issuance of CP. 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 may change if different assumptions are used.

2. Fair value of financial instruments

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

	Millions of yen					
	Book value		Fair value		Difference	
Assets						
(1) Cash and deposits	¥	8,400	¥	8,400	¥	-
(2) Notes and accounts receivable-trade		8,028		8,028		-
(3) Investment securities		349		349		-
Total assets	¥	16,778	¥	16,778	¥	-
Liabilities						
(1) Notes and accounts payable-trade		1,536		1,536		-
(2) Short-term borrowings		4,500		4,500		-
(3) Long-term debt (*1)		6,456		6,534		78
Total liabilities	¥	12,492	¥	12,570	¥	78
Derivative transactions (*2)(*3)	¥	(0)	¥	(0)	¥	-

*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, 2013 are as follows:

	Millions of yen						Thousands of U.S. dollars					
	Book value		Fair value		Difference		Book value		Fair value		Difference	
Assets												
(1) Cash and deposits	¥	6,962	¥	6,962	¥	-	$	71,233	$	71,233	$	-
(2) Notes and accounts receivable-trade		7,695		7,695		-		78,728		78,728		-
(3) Investment securities		122		122		-		1,257		1,257		-
Total assets	¥	14,781	¥	14,781	¥	-	$	151,218	$	151,218	$	-
Liabilities												
(1) Notes and accounts payable-trade		1,215		1,215		-		12,432		12,432		-
(2) Short-term borrowings		1,950		1,950		-		19,949		19,949		-
(3) Long-term debt (*1)		7,475		7,523		48		76,473		76,971		498
Total liabilities	¥	10,640	¥	10,689	¥	48	$	108,854	$	109,352	$	498
Derivative transactions (*2)(*3)	¥	-	¥	-	¥	-	$	-	$	-	$	-

*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
	2012	2013	2013
Book value in consolidated balance sheet			
Unlisted shares(*1) (*2)	¥ 49	¥ 49	$ 505
Unlisted warrants(*1)	0	0	0
Stocks of affiliates(*1)	264	320	3,283
Investments in capital of affiliates(*1)	71	45	463
Investments in limited partnerships, etc.(*3)	0	0	0
Total	¥ 385	¥ 415	$ 4,251

*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 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, 2013.

	Millions of yen		Thousands of U.S. dollars	
	2014	2015 and thereafter	2014	2015 and thereafter
Cash and deposits	¥ 6,958	¥ -	$ 71,189	$ -
Notes and accounts receivable-trade	7,695	-	78,728	-
	¥ 14,653	¥ -	$ 149,917	$ -

Note 4: Redemption schedule for long-term debt subsequent to September 30, 2013.

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, 2012 and 2013.

(2) The Companies did not hold any held-to-maturity securities as of September 30,2012 and 2013.

(3) The Companies held shares of other securities as of September 30, 2012 and 2013.

The book value, the acquisition cost and the unrealized gain or loss as of September 30, 2012 and 2013 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2012			2013			2013		
	Book value	Acquisition cost	Unrealized gain(loss)	Book value	Acquisition cost	Unrealized gain(loss)	Book value	Acquisition cost	Unrealized gain(loss)
Securities with book value exceeding acquisition cost:									
stock	¥ 349	¥ 203	¥ 146	¥ 1	¥ 1	¥ 0	$ 17	$ 13	$ 4
Securities with book value not exceeding acquisition cost:									
stock	-	-	-	¥ 121	¥ 212	¥(91)	$ 1,240	$ 2,176	$(937)
Total	¥ 349	¥ 203	¥ 146	¥ 122	¥ 214	¥(91)	$ 1,257	$ 2,189	$(933)

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) The Company had the gain on the sale of ¥ 185 million ($ 1,899 thousand) by selling other securities in ¥388 million ($3,971 thousand) for the year ended September 30, 2013. There was no sale of other securities for the year ended September 30, 2012.

(5) No impairment loss was recognized on the stock in other securities for the year September 30, 2013. The amount of impairment loss recognized on the stock in other securities was ¥59 million for the year September 30, 2012.
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, 2012 and 2013 for which hedge accounting has not been applied:

Currency related:

		Millions of yen			
		2012			
		Contract amount			
		Total	Due after one year	Fair value	Recognized gain (loss)
Non-market transactions	Forward foreign exchange contracts:				
	Buy:Yen/Sell:Won	¥ 8	-	¥ (0)	¥ (0)
	Total	¥ 8	-	¥ (0)	¥ (0)

There was no derivative transaction for which hedge accounting has not been applied on September of 30, 2013.

(2) The following table summarizes the derivative transactions as of September 30, 2012 and 2013 for which hedge accounting has been applied:

Interest related:

			Millions of yen		
			2012		
			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	¥ 4,506	¥ 3,510	(*)

Hedge accounting method	Classification	Hedged item	Millions of yen 2013 Contract amount Total	Due after one year	Fair value	Thousands of U. S. dollars 2013 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	¥ 3,510	¥ 2,514	(*)	$ 35,908	$ 25,719	(*)

* 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, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Short-term borrowings:			
Weighted average interest rate of 0.57% and 0.53% at September 30, 2012 and 2013, respectively	¥ 4,500	¥ 1,950	$ 19,949

(2) Long-term debt at September 30, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Long-term debt:			
Due 2013 to 2018 with weighted average interest rates of 1.50% and 1.30% at September 30,2012 and 2013, respectively	¥ 6,456	¥ 7,475	$ 76,473
Less:			
Current portion of long-term debt:			
Weighted average interest rates of 1.96% and 1.35% at September 30, 2012 and 2013, respectively	996	2,015	20,620
	¥ 5,460	¥ 5,459	$ 55,853

(3) Annual maturities of long-term debt at September 30, 2013 are as follows:

Years ending September 30,	Millions of yen 2013	Thousands of U.S. dollars 2013
2014	¥ 2,015	$ 20,620
2015	2,665	27,270
2016	1,365	13,970
2017	891	9,121
2018	369	3,781
2019	167	1,710

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, 2012 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2013		2013	
Retirement benefit obligation	¥	(3,225)	¥	(3,459)	$	(35,392)
Plan assets		347		14		149
Unfunded projected benefit obligation		(2,878)		(3,445)		(35,244)
Unrecognized actuarial difference		(11)		(6)		(62)
Unrecognized prior service cost		83		38		393
Provision for retirement benefits	¥	(2,806)	¥	(3,412)	$	(34,912)

(2) Severance and retirement benefit expenses included in the consolidated statement of income for the years ended September 30, 2012 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2013		2013	
Service cost	¥	626	¥	707	$	7,243
Interest cost		25		30		317
Amortization of unrecognized actuarial gain or loss		46		(11)		(120)
Amortization of unrecognized prior service cost		42		45		462
Loss on abolishment of retirement benefit plan(*)		-		35		363
Severance and retirement benefit expenses	¥	741	¥	807	$	8,264

* Certain subsidiary finished defined benefit pension plans such as employee pension plans.

(3) Assumptions used in calculating benefit obligation, etc. for the years ended September 30, 2012 and 2013 are as follows:

	2012	2013
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, 2012 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2013		2013	
Research and development	¥	464	¥	496	$	5,084

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, 2012 and 38.01% for the years ended September 30, 2013.
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, 2012 and 2013 is as follows:

	2012	2013
Statutory income tax rate	40.69 %	38.01 %
Effect of change in tax rate	7.33	-
Permanently non-deductible expenses	1.39	2.01
Per capita inhabitants tax	1.57	1.55
Amortization of goodwill	3.34	2.93
Effect on sales of subsidiaries	(0.05)	-
Change in valuation allowance	(15.84)	11.56
Other	(0.21)	1.03
Actual effective income tax rates	38.64 %	57.09 %

(2) Significant components of deferred tax assets and liabilities as of September 30, 2012 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2013		2013	
Deferred tax assets:						
Provision for bonuses	¥	695	¥	779	$	7,972
Provision for loss on orders received		95		109		1,122
Enterprise tax payable		77		133		1,367
Loss on valuation of inventories		126		128		1,317

Asset retirement obligations	114	125	1,289
Goodwill	102	13	141
Provision for retirement benefits	989	1,202	12,307
Net operating loss carry-forwards	443	355	3,634
Loss on valuation of investment securities	283	295	3,020
Unrealized gain on securities	-	32	334
Accumulated depreciation	94	217	2,227
Other	320	70	722
	3,342	3,465	35,452
Less: Valuation allowance	(796)	(942)	(9,637)
Total deferred tax assets	2,545	2,523	25,815
Offset with deferred tax liabilities	(128)	(95)	(980)
Deferred tax assets	2,417	2,427	24,835
Deferred tax liabilities:			
Negative goodwill	(103)	(42)	(433)
Investment securities	(92)	-	-
Removal expenses associated with asset retirement obligations	(41)	(48)	(494)
Other	(24)	(48)	(496)
Total deferred tax liabilities	(261)	(139)	(1,422)
Offset with deferred tax assets	128	95	980
Deferred tax liabilities	(132)	(43)	(442)
Net deferred tax assets	¥ 2,284	¥ 2,384	$ 24,392

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.

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14 Business combinations

(Business combinations with acquisition)

1. Outline of the business combination

(1) Subjected Business's Name and its Business Operations

Name of acquiree : Nihon Ultmarc Inc.

Name of business : Contract research organization (CRO) business

(2) Major reasons for the business combination: To expand CRO business.

(3) Date of the business combination: April 1, 2013

(4) Legal form of the business combination: Transfer of business.

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

From April 1, 2013 to September 30, 2013

3. Acquisition cost and details

	Millions of yen		Thousands of U.S. dollars	
Consideration of the business acquisition	¥	561	$	5,748
Direct costs for the acquisition		-		-
Total acquisition cost	¥	561	$	5,748

4. Assets and liabilities the Company received on the date of the business combination and details

	Millions of yen		Thousands of U.S. dollars	
Current assets	¥	197	$	2,021
Non-current assets		17		182
Total assets	¥	215	$	2,203
Current liabilities		16		166
Non-current liabilities		-		-
Total liabilities	¥	16	$	166

5. Amount of goodwill, reason for recognition, amortization method and period

(1) Amount of goodwill:

Millions of yen		Thousands of U.S. dollars	
¥	362	$	3,711

(2) Accrual reason for Goodwill

Goodwill was recognized because the acquisition cost was more than the net amount of acquired assets and liabilities.

(3) Amortization method and period: Straight-line method over five years

6. The effect on the statement of operations supposing the business combination was carried out at the beginning of this fiscal year.

The effect on operating results for the year ended September 30, 2013 is difficult to estimate.

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 2.5 to 15 years and discounted by rates ranging from 0.1% to 1.7%.

Asset retirement obligations as of September 30,2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Balance at the beginning of the year	¥ 405	¥ 332	$ 3,405
Liabilities incurred due to the acquisition of property, plant and equipment	16	38	389
Accretion adjustment	4	4	45
Settlement of obligations	(57)	(24)	(256)
Other	(35)	-	-
Balance at the end of the year	¥ 332	¥ 350	$ 3,583

16 Investment and rental property

There was no material investment and rental property to be reported as of September 30, 2012 and 2013 respectively.

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, 2013)
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. CMIC-PMS Co., Ltd. (Overseas) CMIC Korea Co., Ltd. CMIC (Beijing) Co., Ltd. CMIC ASIA-PACIFIC, PTE. LTD. CMIC ASIA PACIFIC （MALAYSIA） SDN. BHD.
CMO Business	Services provided to pharmaceutical companies related to : ・manufacturing ethical and over-the-counter (OTC) drugs ・analytical chemistry	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 for drug sales and marketing (e.g., Contract MR, MR Training and Medical Communication services) and general dispatch services specializing in pharmaceuticals and healthcare.	CMIC MPSS Co., Ltd. CMIC BS Co., Ltd.
Healthcare Business	Services for medical institutes, patients and general consumers (e.g., SMO, Healthcare Information services)	CMIC HOLDINGS Co., Ltd. Site Support Institute Co., Ltd. Healthclick Co., Ltd.
IPD Business	Utilization of intellectual properties i.e. development and marketing of biomarkers and orphan drugs.	CMIC HOLDINGS Co., Ltd. Orphan Pacific, Inc.

(Change in Reportable Segments)

The CMIC-BS Co.,Ltd. was transferred from the Healthcare Business to CSO Business in line with the organizational change of April 1, 2013. Comparative figures in the corresponding period of the prior fiscal year are adjusted to reflect this new reporting style.

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. Inter-segment sales and transfers between segments are based on market prices.

3. Financial information by reportable segment

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	¥5,777	¥8,498	¥71	¥50,303	–	¥50,303
Inter-segment	169	59	366	27	–	623	¥(623)	–
Total	18,954	17,230	6,144	8,526	71	50,927	(623)	50,303
Segment profit (loss)	¥3,545	¥1,600	¥301	¥730	¥(667)	¥5,511	¥(1,592)	¥3,918
Segment assets	¥9,433	¥19,168	¥2,306	¥6,891	¥250	¥38,049	¥4,215	¥42,265
Others								
Depreciation	192	1,478	16	99	26	1,814	–	1,814
Amortization of goodwill	190	111	–	112	–	414	–	414
Increase in fixed assets	190	2,560	3	75	14	2,845	156	3,001

Notes: 1. The adjustment amount of ¥1,592 million in segment profit (loss) includes intersegment eliminations and others of ¥0 million and unallocated corporate expenses of ¥1,592 million.

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

3. The adjustment amount of ¥4,215 million in segment assets includes unallocated corporate assets of ¥9,839 million and intersegment elimination and others of ¥5,624 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, 2013 (Millions of yen)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥21,298	¥15,880	¥4,673	¥8,821	¥260	¥50,934	–	¥50,934
Inter-segment	167	29	526	35	23	782	¥(782)	–
Total	21,466	15,909	5,199	8,857	283	51,717	(782)	50,934
Segment profit (loss)	¥4,264	¥1,293	¥449	¥643	¥(785)	¥5,865	¥(1,708)	¥4,156
Segment assets	¥11,276	¥20,082	¥2,074	¥7,210	¥280	¥40,924	¥1,930	¥42,855
Others								
Depreciation	206	1,483	23	98	20	1,833	–	1,833
Impairment loss	–	–	–	–	12	12	–	12
Amortization of goodwill	228	101	–	104	–	434	–	434
Increase in fixed assets	585	3,419	11	81	13	4,111	367	4,478

As of and for the year ended September 30, 2013 (Thousands of U.S. dollars)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	$217,890	$162,460	$47,808	$90,246	$2,662	$521,067	–	$521,067
Inter-segment	1,717	301	5,383	368	240	8,009	$(8,009)	–
Total	219,607	162,761	53,191	90,614	2,903	529,076	(8,009)	521,0667
Segment profit (loss)	$43,626	$13,234	$4,598	$6,582	$(8,039)	$60,001	$(17,482)	$42,519
Segment assets	$115,361	$205,444	$21,224	$73,766	$2,867	$418,662	$19,754	$438,416
Others								
Depreciation	2,116	15,178	236	1,011	211	18,752	–	18,752
Impairment loss	–	–	–	–	126	126	–	126
Amortization of goodwill	2,334	1,040	–	1,072	0	4,445	–	4,445
Increase in fixed assets	5,985	34,981	115	838	139	42,059	3,757	45,816

Notes: 1. The adjustment amount of ¥1,708 million ($17,482 thousand) in segment profit (loss) includes intersegment eliminations and others of ¥0 million ($1 thousand) and unallocated corporate expenses of ¥1,708 million ($17,482 thousand).
2. Segment profit corresponds with operating income in the consolidated statement of income.
3. The adjustment amount of ¥1,930 million ($19,754 thousand) in segment assets includes unallocated corporate assets of ¥12,719 million ($130,123 thousand) and intersegment elimination and others of ¥10,788 million ($110,369 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, 2013 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	¥10,673	$108,259

18 Transactions with related parties

1. Transactions between the Company and related parties for the year ended September 30, 2012 and September 30, 2013 are as follows:

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

As of and for the year ended September 30, 2012

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)	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	—
	Artemis Inc. (Note 3)	Shibuya-ku Tokyo	¥11	Asset management	(34.9%) directly held	Purchase of land	¥44	—

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.

As of and for the year ended September 30, 2013

There was no significant transactions to be disclosed.

19 Net assets and net income per share

Net assets and net income per share as of and for the years ended September 30, 2012 and 2013 are as follows:

	Yen		U.S. dollars
	2012	2013	2013
Net assets per share	¥ 1,021.97	¥ 1,086.27	$ 11.11
Net income per share	123.25	97.36	1.00

No diluted net income per share is presented for the years ended September 30, 2012 and 2013 since no potentially dilutive securities were issued.

20 Subsequent event

(Execution of share transfer agreement)

The Company and Mitsubishi Tanabe Pharma Corporation have signed a share transfer agreement on November 29, 2013 whereby the Company will acquire all outstanding shares of CMIC CMO Ashikaga Co. Ltd. which established as a wholly owned subsidiary of Mitsubishi Tanabe Pharma Corporation on November 1, 2013 in order to succeed the manufacturing business and the assets of Ashikaga Plant, Mitsubishi Tanabe Pharma Factory Ltd.(a wholly owned subsidiary of Mitsubishi Tanabe Pharma Corporation) owned.