CMIC HOLDINGS Co., Ltd

Consolidated Financial Statements

For the Year ended September 30,
2014
Together with Independent
Auditors’ Report

Building a better
working world

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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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

1. We draw attention to Note 2 to the consolidated financial statements, which describes that effective for the year ended September 30, 2014, the Company and its domestic consolidated subsidiaries have changed their depreciation method from the declining-balance method to the straight-line method.
2. We draw attention to Note 20 to the consolidated financial statements, which describes that the Company entered into a share exchange agreement in order to make JCL Bioassay Corporation a wholly owned subsidiary based on approval at the board of directors meeting held on November 17, 2014.

Our opinion is not qualified in respect of these matters.

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 17, 2014
Tokyo, Japan

CONSOLIDATED BALANCE SHEET

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries

As of September 30, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	2014	2014
Current assets:			
Cash and deposits (Notes 4 and 5)	¥ 6,962	¥ 5,922	$ 54,111
Notes and accounts receivable-trade (Note 5)	7,695	9,154	83,644
Merchandise and finished goods	175	119	1,096
Work in process	3,954	3,226	29,482
Raw materials and supplies	1,017	1,258	11,496
Deferred tax assets (Note 10)	1,117	1,659	15,160
Other	1,976	2,288	20,907
Allowance for doubtful accounts	(8)	(10)	(93)
Total current assets	22,891	23,619	215,802
Property, plant and equipment:			
Buildings and structures	10,764	13,834	126,400
Machinery, equipment and vehicles	5,952	8,624	78,799
Tools, furniture and fixtures	1,436	1,928	17,617
Land	4,674	5,934	54,218
Lease assets	973	1,164	10,642
Construction in progress	2,321	122	1,118
Less: accumulated depreciation	(11,656)	(12,789)	(116,849)
Total property, plant and equipment	14,466	18,819	171,946
Intangible assets:			
Goodwill	1,268	820	7,496
Other	859	1,650	15,080
Total intangible assets	2,128	2,470	22,576
Investments and other assets:			
Investment securities (Notes 5 and 6)	493	922	8,425
Deferred tax assets (Note 10)	1,310	1,610	14,711
Lease and guarantee deposits	1,304	1,517	13,866
Other	287	307	2,811
Allowance for doubtful accounts	(26)	(30)	(277)
Total investments and other assets	3,369	4,327	39,536
Total assets	¥ 42,855	¥ 49,237	$ 449,860

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, 2013 and 2014

LIABILITIES AND NET ASSETS	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Notes and accounts payable-trade (Note 5)	¥ 1,215	¥ 589	$ 5,385
Short-term borrowings (Notes 5 and 8)	1,950	600	5,482
Commercial papers (Note 5)	-	2,000	18,273
Current portion of long-term debt (Notes 5 and 8)	2,015	3,201	29,249
Accounts payable-other	1,251	2,626	23,996
Accrued expenses	618	902	8,248
Income taxes payable	1,404	1,207	11,036
Advances received	1,960	1,211	11,066
Provision for bonuses	1,971	1,989	18,173
Provision for directors' bonuses	23	38	347
Provision for loss on orders received	287	307	2,812
Deferred tax liabilities (Note 10)	4	-	-
Other	975	1,733	15,838
Total current liabilities	13,677	16,406	149,904
Noncurrent liabilities:			
Long-term debt (Notes 5 and 8)	5,459	7,608	69,514
Provision for retirement benefits (Note 9)	3,412	-	-
Net defined benefit liability（Note 9）	-	4,082	37,297
Deferred tax liabilities (Note 10)	39	12	113
Asset retirement obligations (Note 15)	350	372	3,403
Other	314	444	4,065
Total noncurrent liabilities	9,576	12,520	114,392
Total liabilities	23,253	28,927	264,296
Contingent liabilities (Note 11)			
NET ASSETS			
Shareholders' equity:			
Capital stock			
Authorized-46,000,000 shares Issued-18,221,860 shares in 2013			
Authorized-46,000,000 shares Issued-18,221,860 shares in 2014	3,087	3,087	28,212
Capital surplus	6,292	6,292	57,491
Retained earnings	10,560	11,098	101,399
Treasury stock, at cost-223,860 shares in 2013 and 224,140 shares in 2014	(257)	(258)	(2,360)
Total shareholders' equity	19,682	20,220	184,742
Accumulated other comprehensive income:			
Unrealized gain (loss) on securities	(58)	0	(1)
Foreign currency translation adjustments	(73)	39	358
Remeasurements of defined benefit plans	—	(34)	(313)
Total accumulated other comprehensive income	(131)	4	44
Minority interests	51	85	778
Total net assets	19,601	20,309	185,564
Total liabilities and net assets	¥ 42,855	¥ 49,237	$ 449,860

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, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note1)
	2013	2014	2014
Net sales	¥ 50,934	¥ 52,836	$ 482,741
Cost of sales	(38,792)	(41,948)	(383,270)
Gross profit	12,142	10,887	99,471
Selling, general and administrative expenses (Note 13):	(7,985)	(8,120)	(74,192)
Operating income	4,156	2,766	25,280
Non-operating income (expenses):			
Interest income	10	9	90
Foreign exchange gains	98	21	200
Rent income	14	14	129
Equity in earnings (losses) of affiliates	61	(23)	(219)
Government grant	-	35	327
Other income	43	66	609
Interest expenses	(135)	(134)	(1,227)
Contract settlement loss	(212)	-	-
Impairment loss of investment	-	(57)	(529)
Other expenses	(94)	(53)	(489)
Ordinary income	3,941	2,645	24,171
Special gains (losses):			
Gain on sales of noncurrent assets	4	-	-
Gain on sales of investment securities	185	-	-
Gain for a bargain purchase	-	281	2,573
Loss on retirement of noncurrent assets	(60)	(109)	(1,000)
Impairment loss on noncurrent assets	(12)	(28)	(261)
Loss on abolishment of retirement benefit plan	(35)	-	-
Office transfer expenses	(63)	-	-
Loss on valuation of investment in affilliate	(31)	-	-
Compensation for damage	-	(170)	(1,560)
Loss on disposal of facilities and others	-	(150)	(1,378)
Total other income (expenses)	(12)	(177)	(1,626)
Income before income taxes and minority interests	3,928	2,467	22,545
Income taxes (Note 10):			
Current	2,252	2,078	18,989
Deferred	(9)	(811)	(7,413)
Total income taxes	2,242	1,267	11,576
Income before minority interests	1,685	1,200	10,968
Minority interests	(68)	25	237
Net income	¥ 1,753	¥ 1,174	$ 10,731

	Yen	Yen	U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	¥ 97.36	¥ 65.26	$ 0.60
Diluted net income	-	-	-
Cash dividends applicable to the year	35.00	35.00	0.31

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, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Income before minority interests	¥ 1,685	¥ 1,200	$ 10,968
Other comprehensive income (Note 3):			
Unrealized gain (loss) on securities	(152)	58	535
Foreign currency translation adjustments	259	120	1,099
Share of other comprehensive income of affiliates accounted for using the equity method	(0)	-	-
Total other comprehensive income	107	178	1,634
Comprehensive income	¥ 1,793	¥ 1,379	$ 12,602
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ 1,848	¥ 1,345	$ 12,293
Minority interests	(55)	33	309

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, 2013 and 2014

	Shares	
	2013	2014
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)
	2013	2014	2014
Capital stock:			
Balance at the end of the year	¥ 3,087	¥ 3,087	$ 28,212
Capital surplus:			
Balance at the beginning of the year	6,292	6,292	57,491
Disposal of treasury stock	0	(0)	(0)
Balance at the end of the year	6,292	6,292	57,491
Retained earnings:			
Balance at the beginning of the year	9,479	10,560	96,484
Net income	1,753	1,174	10,731
Cash dividends paid - ￥37.00 ($0.379) per share in 2013	(672)	-	-
￥35.00 ($0.320) per share in 2014	-	(636)	(5,816)
Balance at the end of the year	10,560	11,098	101,399
Treasury stock:			
Balance at the beginning of the year	(44)	(257)	(2,356)
Acquisition of treasury stock	(213)	(0)	(5)
Disposal of treasury stock	0	0	1
Balance at the end of the year - 223,860 shares in 2013 and 224,140 shares in 2014	(257)	(258)	(2,360)
Total shareholders' equity	19,682	20,220	184,742
Unrealized gain (loss) on securities:			
Balance at the beginning of the year	93	(58)	(536)
Net change in items other than those in shareholder's equity	(152)	58	535
Balance at the end of the year	(58)	(0)	(1)
Foreign currency translation adjustments:			
Balance at the beginning of the year	(319)	(73)	(669)
Net change in items other than those in shareholder's equity	246	112	1,027
Balance at the end of the year	(73)	39	358
Remeasurements of defined benefit plans			
Balance at the beginning of the year	-	-	-
Net change in items other than those in shareholder's equity	-	(34)	(313)
Balance at the end of the year	-	(34)	(313)
Total accumulated other comprehensive income	(131)	4	44
Minority interests			
Balance at the beginning of the year	114	51	469
Net change in items other than those in shareholder's equity	(63)	33	309
Balance at the end of the year	51	85	778
Total net assets	¥ 19,601	¥ 20,309	$ 185,564

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, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,928	¥ 2,467	$ 22,545
Depreciation and amortization	1,833	1,579	14,436
Impairment loss on noncurrent assets	12	28	261
Amortization of goodwill	434	448	4,094
Gain for a bargain purchase	-	(281)	(2,573)
Increase (decrease) in provision for retirement benefits	556	-	-
Increase (decrease) in net defined benefit liability	-	605	5,529
Increase (decrease) in provision for bonuses	206	17	160
Increase (decrease) in provision for directors' bonuses	(6)	14	133
Increase (decrease) in allowance for doubtful accounts	(2)	1	10
Increase (decrease) in provision for loss on orders received	40	19	175
Interest income	(10)	(9)	(91)
Interest expenses	135	134	1,227
Equity in (earnings) losses of affiliates	(61)	23	219
Foreign exchange losses (gains)	(72)	(61)	(557)
Loss (gain) on sales of investment securities	(185)	-	-
Impairment loss of investment	-	57	529
Loss on retirement of noncurrent assets	60	109	1,000
Loss on valuation of investment in affilliate	31	-	-
Gain on sales of noncurrent assets	(4)	-	-
Office transfer expenses	0	-	-
Compensation for damage	-	170	1,560
Loss on disposal of facilities and others	-	150	1,378
Government grant	-	(35)	(327)
Decrease (increase) in notes and accounts receivable-trade	408	(1,415)	(12,934)
Decrease (increase) in inventories	195	492	4,498
Increase (decrease) in notes and accounts payable-trade	(344)	(639)	(5,845)
Increase (decrease) in accrued expenses	141	273	2,502
Increase (decrease) in advances received	225	(743)	(6,797)
Increase (decrease) in deposits received	213	280	2,565
Other, net	(465)	1,362	12,448
Subtotal	7,271	5,050	46,144
Interest and dividends income received	9	71	656
Interest expenses paid	(131)	(131)	(1,203)
Compensation for damage paid	(93)	-	-
Proceeds from government grant	-	35	327
Income taxes paid	(1,853)	(2,349)	(21,465)
Net cash provided by operating activities	5,201	2,677	24,459
Cash flows from investing activities:			
Payments into time deposits	(167)	(160)	(1,465)
Proceeds from withdrawal of time deposits	302	159	1,456
Purchases of property, plant and equipment	(3,283)	(2,158)	(19,718)
Proceeds from sales of property, plant and equipment	9	2	22
Purchases of intangible assets	(283)	(840)	(7,683)
Payments for retirement of noncurrent assets	(23)	(77)	(709)
Payments for lease and guarantee deposits	(218)	(332)	(3,040)
Proceeds from collection of lease and guarantee deposits	136	123	1,125
Purchases of investment securities	(213)	(66)	(608)
Proceeds from sales of investment securities	388	-	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 4)	-	(3,218)	(29,408)
Purchase of shares of subsidiaries and associates	(8)	(341)	(3,123)
Payments for acquisition of business	(561)	-	-
Payments of loans receivable	(76)	56	512
Other, net	(60)	(55)	(503)
Net cash used in investing activities	(4,059)	(6,910)	(63,143)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(2,550)	(1,350)	(12,334)
Proceeds from long-term debt	2,200	5,500	50,251
Repayments of long-term debt	(1,180)	(2,165)	(19,786)
Repayments of lease obligations	(171)	(220)	(2,011)
Net increase (decrease) in commercial papers	-	2,000	18,273
Purchases of treasury stock	(213)	(0)	(4)
Dividends paid	(672)	(636)	(5,817)
Other, net	0	(16)	(146)
Net cash provided by (used in) financing activities	(2,587)	3,111	28,426
Effect of exchange rate changes on cash and cash equivalents	111	64	589
Net increase (decrease) in cash and cash equivalents	(1,334)	(1,058)	(9,670)
Cash and cash equivalents at beginning of the year	8,144	6,810	62,223
Cash and cash equivalents at end of the year (Note 4)	¥ 6,810	¥ 5,751	$ 52,553

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 ¥109.45 to U.S. $1.00, the rate of exchange prevailing at September 30, 2014. 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 17 and 17 subsidiaries at September 30, 2013 and 2014, respectively. The accompanying consolidated financial statements for the years ended September 30, 2013 and 2014 include the accounts of the Company and all of its subsidiaries (the "Companies"). The Company does not have any unconsolidated subsidiaries.
The Company has 1 and 3 affiliates, to which the equity method is applied, at September 30, 2013 and 2014, respectively. Certain affiliate companies have been excluded from the scope of the equity method, 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- Tangible fixed assets of the Companies are amortized using the straight-line method over the estimated useful lives.
The estimated useful lives of depreciable assets are as follows:

Buildings and structures: 2 years to 56 years
Machinery, equipment and vehicles: 4 years to 17 years
Tools, furniture and fixtures: 2 years to 15 years

(Change in depreciation method)
Effective for the year ended September 30, 2014, the Company and its domestic consolidated subsidiaries have changed their depreciation method from the declining-balance method to the straight-line method.
The Company believes the straight-line method will better reflect, from a more reasonable cost allocation perspective, the effect of stable capital investment expected to be realized during the useful lives since a CMO (Contract Manufacturing Organization) system has been completed – which will lead to stable long term operations mainly in the CMO (pharmaceutical products production support) business – as a result of the start of operations for a large-scale production facility and implementation of marketing initiatives for expanding the customer base under the mid-term business plan.
As a result, operating income, ordinary income and income before income taxes and minority interests increased by ¥437 million ($4,001 thousand) each, for the year ended September 30, 2014.
The effect on segment profit (loss) is described in the segment information

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.

Retirement benefits- The retirement benefits obligation for employees is attributed to each period by the straight-line method over estimated years of service of the eligible employees.
Prior service cost is being amortized as incurred by the straight-line method over the periods (6 years), which are shorter than the average remaining years of the employees.
Actuarial gain or loss amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over period (1 year), which is shorter than the average remaining years of service of the employees.
Certain consolidated subsidiaries adopt, in calculating their projected benefit obligation, the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year end.

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)
"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, issued on May 17, 2012)
(1) Outline
This accounting standard was revised mainly on a processing method of unrecognized actuarial loss and unrecognized prior service cost, a calculation method of retirement benefit obligations and service cost and expansion of the disclosure based on a point of view that improved a financial report and international trend.
(2) Scheduled date of application
The revisions to the calculation method of retirement benefit obligations and service costs will be adopted effective October 1, 2014.
(3) Effect of application of the standard
The impacts of the revised calculation method of retirement benefit obligations and costs on the consolidated financial statements are insignificant.

(Changes in accounting policies)
Accounting standard for retirement benefit
The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of fiscal year ended September 30, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as net defined benefit liability. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in remeasurements of defined benefit plans through accumulated other comprehensive income.
As a result of this change, net defined benefit liability was recognized in the amount of ¥4,082 million ($37,297 thousand) and accumulated other comprehensive income decreased by ¥34 million($313 thousand) , as of September 30, 2014.

(Additional information)

The consolidated taxation system

As the Company and certain of its domestic consolidated subsidiaries have been given approval to adopt the consolidated taxation system from the year ending September 30, 2015, the Company has revaluated deferred taxes based on the consolidated taxation System to be adopted in accordance with the “Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation system (Part 1)” (ASBJ Practical Issues Task Force (“PITF”) No.5, March 18, 2011) and “Practical Solution on Tentative Treatment of Tax Effect Accounting Consolidated Taxation system (Part 2)” (ASBJ PITF No.7, June 30, 2010) from the year ended September 30, 2014.

3 Other comprehensive income

The components of other comprehensive income including reclassification adjustments and tax effects income for the year ended September 30, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Unrealized gain on securities:			
Amount arising during the year	¥ (51)	¥ 91	$ 832
Reclassification adjustment	(185)	-	-
Amount before tax effect	(237)	91	832
Tax effects	85	(32)	(296)
Sub-total, net of tax	(152)	58	535
Foreign currency translation adjustments:			
Amount arising during the year	259	120	1,099
Share of other comprehensive income of affiliates accounted for using the equity method:			
Amount arising during the year	10	-	-
Reclassification adjustment	(10)	-	-
Sub-total	0	-	-
Total other comprehensive income	¥ 107	¥ 178	$ 1,634

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, 2013 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Cash and deposits	¥ 6,962	¥ 5,922	$ 54,111
Less:			
Time deposits over three months	152	170	1,558
Cash and cash equivalents	¥ 6,810	¥ 5,751	$ 52,553

(2) Assets and liabilities newly acquired

The Company acquired CMIC CMO ASHIKAGA Co., Ltd. during the year ended September 30, 2014. A summary of the assets and liabilities of the company newly acquired at the start of consolidation is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014		2014	
Current assets	¥	100	$	914
Non-current assets		3,602		32,913
Current liabilities		(32)		(293)
Non-current liabilities		(70)		(640)
Negative goodwill		(281)		(2,573)
Acquisition cost of the shares	¥	3,318	$	30,321
Cash and cash equivalents held by CMIC CMO ASHIKAGA Co., Ltd.		(100)		(914)
Net decrease in Cash and cash equivalents	¥	3,218	$	29,408

5 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.

(1) 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.

(2) 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, 2013 are as follows:

	Millions of yen		
	Book value	Fair value	Difference
Assets			
(1) Cash and deposits	¥ 6,962	¥ 6,962	¥ -
(2) Notes and accounts receivable-trade	7,695	7,695	-
(3) Investment securities	122	122	-
Total assets	¥ 14,781	¥ 14,781	¥ -
Liabilities			
(1) Notes and accounts payable-trade	1,215	1,215	-
(2) Short-term borrowings	1,950	1,950	-
(3) Long-term debt (*1) (*2)	7,475	7,523	48
Total liabilities	¥ 10,640	¥ 10,689	¥ 48
Derivative transactions	¥ -	¥ -	¥ -

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

*2. 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, 2014 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	¥ 5,922	¥ 5,922	¥ -	$ 54,111	$ 54,111	$ -
(2) Notes and accounts receivable-trade	9,154	9,154	-	83,644	83,644	-
(3) Investment securities	513	373	(139)	4,694	3,415	(1,279)
Total assets	¥ 15,591	¥ 15,451	¥ (139)	$ 142,449	$ 141,170	$ (1,279)
Liabilities						
(1) Notes and accounts payable-trade	589	589	-	5,385	5,385	-
(2) Short-term borrowings	600	600	-	5,482	5,482	-
(3) Commercial papers	2,000	2,000	-	18,273	18,273	-
(4) Long-term debt (*1) (*2)	10,809	10,859	50	98,763	99,221	458
Total liabilities	¥ 13,998	¥ 14,049	¥ 50	$ 127,903	$ 128,361	$ 458
Derivative transactions	¥ -	¥ -	¥ -	$ -	$ -	$ -

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

*2. 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

The fair values of equity securities are measured based on quoted market price.

For information on investment securities by holding purpose, please refer to “6. 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, and (3) Commercial papers

These items are recorded at book value, as the fair value is almost identical to the book value because it reflects the market rate for the short-term period.

(4) 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 "7. 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
	2013	2014	2014
Book value in consolidated balance sheet			
Unlisted shares(*1)	¥ 49	¥ 115	$ 1,052
Unlisted warrants(*1)	0	-	-
Stocks of affiliates(*1)	320	293	2,678
Investments in capital of affiliates(*1)	45	45	414
Investments in limited partnerships, etc.(*2)	0	0	0
Total	¥ 415	¥ 453	$ 4,144

*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. 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, 2014.

	Millions of yen		Thousands of U.S. dollars	
	2015	2016 and thereafter	2015	2016 and thereafter
Cash and deposits	¥ 5,919	¥ -	$ 54,085	$ -
Notes and accounts eceivable-trade	9,154	-	83,644	-
	¥ 15,073	¥ -	$ 137,730	$ -

Note 4: Redemption schedule for long-term debt subsequent to September 30, 2014.

Please refer to "8. Short-term borrowings and long-term debt"

6 Securities

(1) The Companies did not hold any trading securities as of September 30, 2013 and 2014.

(2) The Companies did not hold any held-to-maturity securities as of September 30, 2013 and 2014.

(3) The Companies held shares of other securities as of September 30, 2013 and 2014.

The book value, the acquisition cost and the unrealized gain or loss as of September 30, 2013 and 2014 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2013			2014			2014		
	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	¥ 1	¥1	¥0	¥ -	¥ -	¥ -	$ -	$ -	$ -
Securities with book value not exceeding acquisition cost:									
stock	¥121	¥212	¥(91)	¥ 1	¥ 1	¥ (0)	$ 16	$ 17	$(1)
Total	¥122	¥214	¥(91)	¥ 1	¥ 1	¥(0)	$ 16	$ 17	$(1)

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 was no sale of other securities for the year ended September 30, 2014. The Company had the gain on the sale of ¥ 185 million by selling other securities in ¥388 million for the year ended September 30, 2013.

(5) The amount of impairment loss recognized on the stock in other securities was ¥0 million for the year September 30, 2014.No impairment loss was recognized on the stock in other securities for the year September 30, 2013.

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.

7 Derivative financial instruments

(1) The following table summarizes the derivative transactions as of September 30, 2013 and 2014 for which hedge accounting has not been applied:

There was no derivative transaction for which hedge accounting has not been applied on September of 30, 2013 and 2014.

(2) The following table summarizes the derivative transactions as of September 30, 2013 and 2014 for which hedge accounting has been applied:

Interest related:

			Millions of yen		
			2013		
Hedge accounting method	Classification	Hedged item	Contract amount: Total	Contract amount: 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	(*)

			Millions of yen			Thousands of U. S. dollars		
			2014			2014		
Hedge accounting method	Classification	Hedged item	Contract amount: Total	Contract amount: Due after one year	Fair value	Contract amount: Total	Contract amount: Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swap contracts: Pay/fixed and receive/floating	Long-term debt	¥ 4,814	¥ 3,653	(*)	$ 43,984	$ 33,382	(*)

* 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.

8 Short-term borrowings and long-term debt

(1) Short-term borrowings at September 30, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Short-term borrowings:			
Weighted average interest rate of 0.53% and 0.42% at September 30, 2013 and 2014, respectively	¥ 1,950	¥ 600	$ 5,482

(2) Long-term debt at September 30, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Long-term debt:			
Due 2013 to 2018 with weighted average interest rates of 1.30% and 1.13% at September 30,2013 and 2014, respectively	¥ 7,475	¥ 10,809	$ 98,763
Less:			
Current portion of long-term debt:			
Weighted average interest rates of 1.35% and 1.12% at September 30, 2013 and 2014, respectively	2,015	3,201	29,249
	¥ 5,459	¥ 7,608	$ 69,514

(3) Annual maturities of long-term debt at September 30, 2014 are as follows:

Years ending September 30,	Millions of yen	Thousands of U.S. dollars
	2014	2014
2015	¥ 3,201	$ 29,249
2016	2,137	19,525
2017	1,663	15,194
2018	1,841	16,821
2019	788	7,205
2020	471	4,307

9 Retirement benefits

Year ended September 30, 2014

The Company and certain of its subsidiaries 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. Defined benefit plans (except the plans to which the simplified method has been applied)

(a) Movement in retirement benefit obligation

	Millions of yen	Thousands of U.S. dollars
Balance at October 1, 2013	¥ 2,751	$ 25,138
Service cost	481	4,396
Interest cost	36	334
Actuarial losses (gains) arising during the year	31	291
Retirement benefits paid	(148)	(1,357)
Other	(11)	(102)
Balance at September 30, 2014	¥ 3,141	$ 28,700

(b) Reconciliation between retirement benefit obligation and net defined benefit liability on the Consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation under the unfunded plans	¥ 3,141	$ 28,700
Net defined benefit liability	3,141	28,700

(c) Retirement benefit cost

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 481	$ 4,396
Interest cost	36	334
Amortization of actuarial losses (gains)	(6)	(55)
Amortization of prior service cost	15	143
Other	0	1
Total retirement benefit costs	¥ 527	$ 4,820

(d) Remeasurements of defined benefit plans before tax effects

		Millions of yen		Thousands of U.S. dollars
Unrecognized actuarial losses (gains)	¥	22	$	208
Unrecognized prior service cost		31		291
Total	¥	54	$	499

(e) Actuarial assumptions

The principal actuarial assumption at September 30, 2014 is as follows:

Weighted average discount rate 1.3%

2. Defined benefit plans to which the simplified method has been applied

(a) Movement in net defined benefit liability

		Millions of yen		Thousands of U.S. dollars
Balance at October 1, 2013	¥	693	$	6,338
Retirement benefit cost		292		2,674
Retirement benefit paid		(29)		(273)
Contribution to the plans		(19)		(180)
Other		4		41
Balance at September 30, 2014	¥	940	$	8,597

(b) Reconciliation between retirement benefit obligation and net defined benefit liability on the Consolidated balance sheets

		Millions of yen		Thousands of U.S. dollars
Retirement benefit obligation under the funded plans	¥	49	$	454
Plan assets		(11)		(104)
		38		351
Retirement benefit obligation under the unfunded plans		902		8,246
Net defined benefit liability	¥	940	$	8,597

(c) Retirement benefit cost

		Millions of yen		Thousands of U.S. dollars
Retirement benefit cost	¥	292	$	2,674

3. Defined contribution plans

Contributions to the defined contribution pension plans are ¥26 million ($ 242 thousand)

Year ended September 30, 2013

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, 2013 is as follows:

	Millions of yen	
	2013	
Retirement benefit obligation	¥	(3,459)
Plan assets		14
Unfunded projected benefit obligation		(3,445)
Unrecognized actuarial difference		(6)
Unrecognized prior service cost		38
Provision for retirement benefits	¥	(3,412)

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

	Millions of yen	
	2013	
Service cost	¥	707
Interest cost		30
Amortization of unrecognized actuarial gain or loss		(11)
Amortization of unrecognized prior service cost		45
Loss on abolishment of retirement benefit plan(*)		35
Severance and retirement benefit expenses	¥	807

* 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, 2013 is as follows:

	2013
Allocation method of expected benefit	Straight-line method
Discount rate	1.3%
Amortization period of unrecognized prior service cost	6 years
Amortization period of actuarial gain or loss	1 year

10 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 38.01% for the years ended September 30, 2013 and 2014.
A reconciliation of the difference between the statutory income tax rates and the actual effective income tax rates for the years ended September 30, 2013 and 2014 is as follows:

	2013	2014
Statutory income tax rate	38.01 %	38.01 %
Effect of enacted change in tax lows and rates	-	4.88
Permanently non-deductible expenses	2.01	2.37
Per capita inhabitants tax	1.55	2.58
Amortization of goodwill	2.93	4.66
Effect of sales of subsidiaries	-	(4.34)
Change in valuation allowance	11.56	3.51
Other	1.03	(0.33)
Actual effective income tax rates	57.09 %	51.35 %

(2) Significant components of deferred tax assets and liabilities as of September 30, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Deferred tax assets:			
Provision for bonuses	¥ 779	¥ 837	$ 7,651
Provision for loss on orders received	109	275	2,520
Enterprise tax payable	133	91	839
Loss on valuation of inventories	128	83	761
Asset retirement obligations	125	134	1,229
Goodwill	13	-	-
Accounts payable-other	-	98	900
Provision for retirement benefits	1,202	1,428	13,048
Net defined benefit liability	-	20	186
Net operating loss carry-forwards	355	608	5,561
Loss on valuation of investment securities	295	295	2,698
Unrealized gain on securities	32	-	-
Accumulated depreciation	217	213	1,951
Other	70	214	1,961
	3,465	4,301	39,306
Less: Valuation allowance	(942)	(891)	(8,147)
Total deferred tax assets	2,523	3,410	31,158
Offset with deferred tax liabilities	(95)	(140)	(1,287)
Deferred tax assets	2,427	3,269	29,871
Deferred tax liabilities:			
Negative goodwill	(42)	(15)	(144)
Gain on revaluation of fixed assets	-	(86)	(792)
Removal expenses associated with asset retirement obligations	(48)	(35)	(321)
Other	(48)	(15)	(144)
Total deferred tax liabilities	(139)	(153)	(1,401)
Offset with deferred tax assets	95	140	1,287
Deferred tax liabilities	(43)	(12)	(113)
Net deferred tax assets	¥ 2,384	¥ 3,256	$ 29,758

11 Contingent liabilities

Contingent liabilities as of September 30, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantee of obligations: Unconsolidated affiliate	¥ 157	$ 1,443

The obligations under guarantee are based on a joint liability on guarantee. Since the guarantors ability to pay is sufficient and the self-payment ratio is specified, the Company's payment amount is stated.

12 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

13 Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended September 30, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Research and development	¥ 496	¥ 286	$ 2,619

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

14 Business combinations

(Business combinations through acquisition)

1. Outline of the business combination

(1) Name and business activities of the acquired company

Name : CMIC CMO ASHIKAGA Co., Ltd.

Business activities : Contract manufacturing organization (CMO) business

(2) Principal reasons for the business combination: To reinforce tablet and injectable production capabilities about CMO business

(3) Date of the business combination: April 1, 2014

(4) Legal form of the business combination: Acquisition of 100% share of CMIC CMO ASHIKAGA Co., Ltd. in cash

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

From April 1, 2014 to September 30, 2014

3. Acquisition cost and details

	Millions of yen		Thousands of U.S. dollars	
Consideration for the acquisition	¥	3,285	$	30,020
Direct costs for the acquisition		33		302
Total acquisition cost	¥	3,318	$	30,321

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	¥	100	$	914
Non-current assets		3,602		32,913
Total assets	¥	3,702	$	33,827
Current liabilities		32		293
Non-current liabilities		70		640
Total liabilities	¥	102	$	933

5. Amount and cause of the gain for a bargain purchase.

(1) Amount of the gain for a bargain purchase:

Millions of yen		Thousands of U.S. dollars	
¥	281	$	2,573

(2) Cause of the gain for a bargain purchase

Gain for a bargain purchase was recognized because the acquisition cost was less than the net amount of acquired assets and liabilities.

6. The estimated effect on the operating results assuming the business combination has been completed at the beginning of this fiscal year.

The estimated effect on the operating results for the year ended September 30, 2014 is inestimable.

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, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Balance at the beginning of the year	¥ 332	¥ 350	$ 3,200
Liabilities incurred due to the acquisition of property, plant and equipment	38	70	640
Accretion adjustment	4	4	38
Settlement of obligations	(24)	(51)	(474)
Balance at the end of the year	¥ 350	¥ 372	$ 3,403

16 Investment and rental property

There was no material investment and rental property to be reported as of September 30, 2013 and 2014 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, 2014)
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 ASHIKAGA 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.

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, 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

Notes: 1. The adjustment amount of ¥1,708 million in segment profit (loss) includes intersegment eliminations and others of ¥0 million and unallocated corporate expenses of ¥1,708 million.

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

3. The adjustment amount of ¥1,930 million in segment assets includes unallocated corporate assets of ¥12,719 million and intersegment elimination and others of ¥10,788 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, 2014 (Millions of yen)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥23,218	¥15,346	¥6,663	¥7,134	¥473	¥52,836	–	¥52,836
Inter-segment	73	25	499	298	24	922	¥(922)	–
Total	23,292	15,371	7,162	7,433	498	53,758	(922)	52,836
Segment profit (loss)	¥4,821	¥381	¥645	¥(521)	¥(546)	¥4,781	¥(2,014)	¥2,766
Segment assets	¥12,872	¥25,311	¥2,879	¥6,135	¥429	¥47,627	¥1,609	¥49,237
Others								
Depreciation	154	1,309	14	84	17	1,579	–	1,579
Impairment loss	–	–	–	–	28	28	–	28
Amortization of goodwill	263	101	–	82	–	448	–	448
Increase in fixed assets	187	2,075	13	58	30	2,365	888	3,253

As of and for the year ended September 30, 2014 (Thousands of U.S. dollars)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	$212,137	$140,214	$60,878	$65,187	$4,326	$482,741	–	$482,741
Inter-segment	675	230	4,567	2,727	228	8,428	$(8,428)	–
Total	212,811	140,444	65,445	67,914	4,554	491,169	(8,428)	482,741
Segment profit (loss)	$44,054	$3,490	$5,900	$(4,763)	$(4,995)	$43,686	$(18,407)	$25,280
Segment assets	$117,612	$231,258	$26,304	$56,055	$3,927	$435,156	$14,704	$449,860
Others								
Depreciation	1,413	11,965	130	769	159	14,436	–	14,436
Impairment loss	–	–	–	–	261	261	–	261
Amortization of goodwill	2,411	929	–	754	0	4,094	–	4,094
Increase in fixed assets	1,714	18,967	122	534	278	21,615	8,115	29,730

Notes: 1. The adjustment amount of ¥2,014 million ($18,407 thousand) in segment profit (loss) includes intersegment eliminations and others of ¥2 million ($27 thousand) and unallocated corporate expenses of ¥2,017 million ($18,434 thousand).

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

3. The adjustment amount of ¥1,609 million ($14,704 thousand) in segment assets includes unallocated corporate assets of ¥13,604 million ($124,295 thousand) and intersegment elimination and others of ¥11,994 million ($109,592 thousand). Depreciation and amortization included in corporate assets were allocated to each of the reporting segments.

4. Matters concerning changes in reportable segments, etc.

(Change in depreciation method)

As described in “2.Significant accounting policies, Changes in the Method of Depreciation,” effective for the year ended September 30, 2014, the Company and its domestic consolidated subsidiaries have changed their depreciation method from the declining-balance method to the straight-line method.

With this change, compared with the previous accounting method, Segment profit (loss) for the year ended September 30, 2014 increased by ¥9 million($90 thousand) in CRO business , ¥384 million($3,515 thousand) in CMO business , ¥0 million($1 thousand) in CSO business ,¥8 million($76 thousand) in Healthcare business, ¥0 million($2 thousand) in IPD business, and ¥34 million($317 thousand) in Adjustment.

(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, 2014 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	¥6,759	$61,760

18 Transactions with related parties

1. Transactions between the Company and related parties for the year ended September 30, 2013 and 2014 are as follows:

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

As of and for the year ended September 30, 2013

There was no significant transaction to be disclosed.

As of and for the year ended September 30, 2014

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)	Item	Balance at fiscal year-end (Millions of yen)	Balance at fiscal year-end (Thousands of U.S. dollars)
Company in which directors or close relatives hold a majority of the voting stock	Kobuchizawa art village resort & spa Inc. (Note 2)	Hokuto-shi	¥10	Management of the museum and accommodation	—	Administrative service	¥12	$114	Accounts payable-other	¥1	$11

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: 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, 2013 and 2014 are as follows:

	Yen		U.S. dollars
	2013	2014	2014
Net assets per share	¥ 1,086.27	¥ 1,123.74	$ 10.27
Net income per share	97.36	65.26	0.60

No diluted net income per share is presented for the years ended September 30, 2013 and 2014 since no potentially dilutive securities were issued.

20 Subsequent event

(Partial share transfer of CMIC MPSS Co., Ltd.)

The Company transferred 49.9% portion in the shares of consolidated subsidiary CMIC MPSS Co., Ltd. ("MPSS") to UDG Healthcare Corporation on October 1, 2014.

(1) Reason of share transfer

In recent years, in conjunction with the globalization of pharmaceutical industry, international competition in the medical sales support business has intensified.

In response to this change in the business environment, we have entered into a business alliance with Ashfield KK, a Japanese company in UDG Healthcare plc group, which operates in 22 countries and holds Europe's largest CSO "Ashfield Commercial & Medical Service division," since November 2012. Through this business alliance, we have developed and delivered new CSO business models. In order to enhance our competitiveness and expand our service lines, we determined that it was necessary to strengthen our collaboration and maximize synergies with UDG group, and consequently transferred 49.9% of MPSS shares to UDG group and make it a joint venture. AS a result, our holdings in MPSS were reduced to 50.1%.

(2) Name of the company MPSS shares were transferred to

UDG Healthcare Corporation

(3) Name of transferred subsidiary and business activities

1) Name

CMIC MPSS Co., Ltd.

2) Business activities

MR outsource / dispatch, PMS monitor outsource / dispatch, educational training for MR

(4) Other information for the share transfer

1) Number of shares transfer

6,519 shares

2) Transfer price

¥852 million ($7,784 thousand)

3) Gain on sales of subsidiary

¥627 million ($5,736 thousand)

4) Percentage of holding shares of CMIC MPSS Co., Ltd. after the transfer

50.1%

(Share exchange of JCL Bioassay Corporation)

The Company entered into a share exchange agreement in order to make JCL Bioassay Corporation ("JCL") a wholly owned subsidiary based on approval at the board of directors meeting held on November 17, 2014.

(1) Outline of share exchange

1) Name and the company whose shares will be exchanged and business activities

Name : JCL Bioassay Corporation

Business activities : Contract Research Organization Business

2) Date of the business combination: March 1, 2015

3) Name of the company after combination: JCL Bioassay Corporation

4) Principal reasons for the share exchange

Through the share exchange, the company's CRO business related to pharmaceutical product analysis will become the largest in Japan. Consequently, the Company expect increase in business opportunities coupled with the development of new medicine and generic drugs, streamlining of operations resulting from improvements in capacity utilization and productivity, and strengthening of BCP (business continuity plan) responses by having the analysis CRO business in multiple areas. In addition, the Company's CRO business in the United States will be expanded through cooperation between the Company's CMO (pharmaceutical products production support) business operations in the United States and JCL's American research institute. With regard to JCL, streamlined business development in the domestic business and growth in the bio analysis trust business in the United States and expected by leveraging CMIC Group's global network, human resources and management know-how.

(2) Accounting treatment of the combination

The Company treats the share exchange as an acquisition in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No.21) and Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestitures (ASBJ Guidance No.10), and will apply the purchase method as the acquiring company.

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

1) Share exchange ratio

0.29 share of the Company's common stock will be allotted for each share of JCL.

2) Method of calculating the share exchange ratio

The Company and JCL separately appointed independent appraiser for calculating the share exchange fairly and reasonably. AS a result, the Company appointed SMBC Nikko Securities Inc. and JCL appointed Plutus Consulting Co., Ltd.

3) The number of shares to be delivered

The Company will transfer common stock to JCL's shareholders (excluding the Company) just before the Company acquires all of JCL shares (excluding JCL shares the Company holds), at the share exchange ratio as determined above. For this purpose, the Company will use a portion of its treasury stock, although the number of the treasury stock has not been determined yet. The Company will issue new common stock for the residual portion of the stock transfer in the share exchange.

4) The amount and cause of the resulting goodwill and the applicable amortization method and period

The amount of goodwill or gain on purchase may arise from the share exchange has not been determined.

(Purchase of Treasury Stock)

At the meeting of the Board of Directors held on November 17, 2014, the Company approved to repurchase its treasury stocks according to 156 of the Corporation Laws, as applied mutatis mutandis to Articles 165 Paragraph 3 of the law.

(1) Reason for repurchase

The Company has decided to repurchase its treasury stock to enhance the capital efficiency in order to respond to the change in the business environment.

(2) Detail of repurchase of treasury stock

1) Type of stock to be repurchased	Common stock
2) Number of shares to be repurchased	300,000 shares (maximum), which represents 1.67% of shares outstanding as of September 30, 2014
3) Total purchasing cost	¥450 million ($4,111 thousand) (maximum)
4) Period of repurchase	From November 18, 2014 to February 20, 2015