CMIC HOLDINGS Co., Ltd

Consolidated Financial Statements
For the Year ended September 30, 2015
Together with Independent Auditors' Report

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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, 2015, 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, 2015, 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.

Ernst & Young ShinNihon LLC

December 16, 2015
Tokyo, Japan

CONSOLIDATED BALANCE SHEET

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
As of September 30, 2014 and 2015

ASSETS	Millions of yen 2014	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2015
Current assets:			
Cash and deposits (Notes 4 and 5)	¥ 5,922	¥ 5,804	$ 48,385
Notes and accounts receivable-trade (Note 5)	9,154	10,787	89,923
Merchandise and finished goods	119	264	2,201
Work in process	3,226	3,592	29,947
Raw materials and supplies	1,258	1,583	13,198
Deferred tax assets (Note 10)	1,659	1,295	10,797
Other	2,288	2,968	24,744
Allowance for doubtful accounts	(10)	(11)	(96)
Total current assets	23,619	26,283	219,100
Property, plant and equipment:			
Buildings and structures	13,834	16,012	133,483
Machinery, equipment and vehicles	8,624	9,291	77,452
Tools, furniture and fixtures	1,928	3,305	27,557
Land	5,934	6,343	52,878
Lease assets	1,164	1,937	16,155
Construction in progress	122	1,185	9,886
Less: accumulated depreciation	(12,789)	(16,166)	(134,766)
Total property, plant and equipment	18,819	21,910	182,645
Intangible assets:			
Goodwill	820	1,680	14,005
Other	1,650	1,596	13,306
Total intangible assets	2,470	3,276	27,312
Investments and other assets:			
Investment securities (Notes 5 and 6)	922	849	7,079
Deferred tax assets (Note 10)	1,610	1,609	13,416
Lease and guarantee deposits	1,517	1,682	14,023
Other	307	280	2,339
Allowance for doubtful accounts	(30)	(29)	(246)
Total investments and other assets	4,327	4,391	36,611
Total assets	¥ 49,237	¥ 55,861	$ 465,668

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, 2014 and 2015

LIABILITIES AND NET ASSETS	Millions of yen 2014	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2015
Current liabilities:			
Notes and accounts payable-trade (Note 5)	¥ 589	¥ 1,226	$ 10,227
Current portion of bonds payable (Note 5)	-	100	834
Short-term borrowings (Notes 5 and 8)	600	3,050	25,425
Current portion of long-term debt (Notes 5 and 8)	3,201	2,869	23,924
Commercial papers (Note 5)	2,000	3,000	25,008
Accounts payable-other	2,626	2,848	23,749
Accrued expenses	902	921	7,681
Income taxes payable	1,207	412	3,439
Advances received	1,211	1,176	9,810
Provision for bonuses	1,989	1,840	15,341
Provision for directors' bonuses	38	3	25
Provision for loss on orders received	307	394	3,286
Other	1,733	1,885	15,719
Total current liabilities	16,406	19,729	164,468
Noncurrent liabilities:			
Bonds payable (Note 5)	-	50	417
Long-term debt (Notes 5 and 8)	7,608	9,000	75,028
Deferred tax liabilities (Note 10)	12	12	100
Net defined benefit liability（Note 9）	4,082	5,255	43,813
Asset retirement obligations (Note 15)	372	401	3,345
Other	444	745	6,213
Total noncurrent liabilities	12,520	15,464	128,916
Total liabilities	28,927	35,194	293,384
Contingent liabilities (Note 11)			
NET ASSETS			
Shareholders' equity:			
Capital stock			
Authorized-46,000,000 shares			
Issued-18,221,860 shares in 2014			
Authorized-46,000,000 shares			
Issued-18,923,569 shares in 2015	3,087	3,087	25,740
Capital surplus	6,292	7,715	64,315
Retained earnings	11,098	9,906	82,585
Treasury stock, at cost-224,140 shares in 2014 and 225,341 shares in 2015	(258)	(271)	(2,264)
Total shareholders' equity	20,220	20,438	170,376
Accumulated other comprehensive income:			
Unrealized gain (loss) on securities	(0)	67	562
Foreign currency translation adjustments	39	98	818
Remeasurements of defined benefit plans	(34)	(263)	(2,194)
Total accumulated other comprehensive income	4	(97)	(814)
Minority interests	85	326	2,722
Total net assets	20,309	20,667	172,284
Total liabilities and net assets	¥ 49,237	¥ 55,861	$ 465,668

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, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note1)
	2014	2015	2015
Net sales	¥ 52,836	¥ 55,904	$ 466,028
Cost of sales	(41,948)	(44,816)	(373,597)
Gross profit	10,887	11,087	92,431
Selling, general and administrative expenses (Note 13):	(8,120)	(9,676)	(80,660)
Operating income	2,766	1,411	11,770
Non-operating income (expenses):			
Interest income	9	12	100
Foreign exchange gains (losses)	21	(25)	(210)
Commission income	-	19	166
Rent income	14	16	140
Equity in losses of affiliates	(23)	(291)	(2,434)
Government grant	35	20	167
Gain on sales of materials	-	17	146
Other income	66	36	303
Interest expenses	(134)	(144)	(1,205)
Impairment loss of investment	(57)	-	-
Other expenses	(53)	(101)	(850)
Total Non-operating income (expenses)	(121)	(441)	(3,676)
Ordinary income	2,645	970	8,094
Special gains (losses):			
Gain on sales of investment securities	-	110	924
Gain on sales of shares of subsidiaries and affiliates	-	818	6,821
Gain on step acquisitions	-	27	232
Gain for bargain purchase	281	-	-
Insurance income	-	72	607
Loss on retirement of noncurrent assets	(109)	(72)	(602)
Impairment loss on noncurrent assets	(28)	(74)	(623)
Loss on valuation of investment securities	-	(15)	(129)
Office transfer expenses	-	(163)	(1,360)
Compensation for damage	(170)	(150)	(1,250)
Loss on revision of pay regulations	-	(157)	(1,310)
Loss on disposal of facilities and others	(150)	(87)	(730)
Total special gains (losses)	(177)	309	2,581
Income before income taxes and minority interests	2,467	1,280	10,675
Income taxes (Note 10):			
Current	2,078	1,162	9,692
Deferred	(811)	634	5,291
Total income taxes	1,267	1,797	14,982
Income (loss) before minority interests	1,200	(516)	(4,308)
Minority interests	25	25	214
Net income (loss)	¥ 1,174	¥ (542)	$ (4,522)

	Yen	Yen	U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (loss)	¥ 65.26	¥ (29.57)	$ (0.25)
Cash dividends applicable to the year	35.00	22.50	0.19

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, 2014 and 2015

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2014		2015		2015	
Income (loss) before minority interests	¥	1,200	¥	(516)	$	(4,308)
Other comprehensive income (Note 3):						
Unrealized gain (loss) on securities		58		67		563
Foreign currency translation adjustments		120		67		566
Remeasurements of defined benefit plans		-		(229)		(1,911)
Total other comprehensive income		178		(93)		(782)
Comprehensive income	¥	1,379	¥	(610)	$	(5,090)
Comprehensive income attributable to:						
Owners of the parent	¥	1,345	¥	(644)	$	(5,376)
Minority interests		33		34		286

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, 2014 and 2015

	Shares	
	2014	2015
Number of shares of common stock:		
Balance at the beginning of the year	18,221,860	18,221,860
Changes due to share exchanges	-	701,709
Balance at the end of the year	18,221,860	18,923,569

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Capital stock:			
Balance at the beginning of the year	¥ 3,087	¥ 3,087	$ 25,740
Balance at the end of the year	3,087	3,087	25,740
Capital surplus:			
Balance at the beginning of the year	6,292	6,292	52,454
Disposal of treasury stock	(0)	0	0
Changes due to share exchanges	-	1,422	11,861
Balance at the end of the year	6,292	7,715	64,315
Retained earnings:			
Balance at the beginning of the year	10,560	11,098	92,515
Net income (loss)	1,174	(542)	(4,522)
Cash dividends paid - ¥35.00 ($0.320) per share in 2014	(636)	-	-
¥35.00 ($0.292) per share in 2015	-	(648)	(5,409)
Balance at the end of the year	11,098	9,906	82,585
Treasury stock:			
Balance at the beginning of the year	(257)	(258)	(2,153)
Acquisition of treasury stock	(0)	(452)	(3,770)
Disposal of treasury stock	0	438	3,659
Balance at the end of the year - 224,140 shares in 2014 and 225,341 shares in 2015	(258)	(271)	(2,264)
Total shareholders' equity	20,220	20,438	170,376
Unrealized gain (loss) on securities:			
Balance at the beginning of the year	(58)	(0)	(1)
Net change in items other than those in shareholders' equity	58	67	563
Balance at the end of the year	(0)	67	562
Foreign currency translation adjustments:			
Balance at the beginning of the year	(73)	39	326
Net change in items other than those in shareholders' equity	112	58	492
Balance at the end of the year	39	98	818
Remeasurements of defined benefit plans			
Balance at the beginning of the year	-	(34)	(286)
Net change in items other than those in shareholders' equity	(34)	(228)	(1,908)
Balance at the end of the year	(34)	(263)	(2,194)
Total accumulated other comprehensive income	4	(97)	(814)
Minority interests			
Balance at the beginning of the year	51	85	710
Net change in items other than those in shareholders' equity	33	241	2,013
Balance at the end of the year	85	326	2,722
Total net assets	¥ 20,309	¥ 20,667	$ 172,284

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, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,467	¥ 1,280	$ 10,675
Depreciation and amortization	1,579	2,314	19,298
Impairment loss on noncurrent assets	28	74	623
Amortization of goodwill	448	583	4,860
Gain for bargain purchase	(281)	-	-
Increase (decrease) in net defined benefit liability	605	669	5,584
Increase (decrease) in provision for bonuses	17	(217)	(1,809)
Increase (decrease) in provision for directors' bonuses	14	(35)	(292)
Increase (decrease) in allowance for doubtful accounts	1	(0)	(0)
Increase (decrease) in provision for loss on orders received	19	64	539
Interest income	(9)	(12)	(100)
Interest expenses	134	144	1,205
Equity in (earnings) losses of affiliates	23	291	2,434
Foreign exchange losses (gains)	(61)	(4)	(37)
Loss (gain) on sales of investment securities	-	(110)	(924)
Loss (gain) on sales of shares of subsidiaries and affiliates	-	(818)	(6,821)
Impairment loss of investment	57	-	-
Gain on step acquisitions	-	(27)	(232)
Loss on retirement of noncurrent assets	109	72	602
Office transfer expenses	-	163	1,360
Compensation for damage	170	150	1,250
Loss on disposal of facilities and others	150	87	730
Government grant	(35)	(20)	(167)
Decrease (increase) in notes and accounts receivable-trade	(1,415)	(639)	(5,329)
Decrease (increase) in inventories	492	(377)	(3,149)
Increase (decrease) in notes and accounts payable-trade	(639)	122	1,022
Increase (decrease) in accrued expenses	273	(45)	(379)
Increase (decrease) in advances received	(743)	(246)	(2,057)
Increase (decrease) in deposits received	280	(36)	(308)
Other, net	1,362	35	295
Subtotal	5,050	3,463	28,871
Interest and dividends income received	71	28	236
Interest expenses paid	(131)	(150)	(1,255)
Compensation for damage paid	-	(320)	(2,674)
Proceeds from government grant	35	20	167
Income taxes paid	(2,349)	(2,151)	(17,934)
Net cash provided by operating activities	2,677	889	7,411
Cash flows from investing activities:			
Payments into time deposits	(160)	(180)	(1,503)
Proceeds from withdrawal of time deposits	159	196	1,634
Purchases of property, plant and equipment	(2,158)	(3,108)	(25,910)
Proceeds from sales of property, plant and equipment	2	20	169
Purchases of intangible assets	(840)	(640)	(5,336)
Payments for retirement of noncurrent assets	(77)	(15)	(131)
Payments for lease and guarantee deposits	(332)	(929)	(7,748)
Proceeds from collection of lease and guarantee deposits	123	766	6,388
Purchases of investment securities	(66)	(616)	(5,137)
Proceeds from sales of investment securities	-	141	1,179
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 4)	(3,218)	102	851
Proceeds from sales of shares of subsidiaries and affiliates	-	1,126	9,390
Purchase of shares of subsidiaries and affiliates	(341)	(90)	(754)
Payments of loans receivable	56	(233)	(1,948)
Other, net	(55)	-	-
Net cash used in investing activities	(6,910)	(3,461)	(28,854)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(1,350)	2,400	20,007
Proceeds from long-term debt	5,500	3,400	28,343
Repayments of long-term debt	(2,165)	(3,537)	(29,488)
Repayments of lease obligations	(220)	(201)	(1,678)
Redemption of bonds	-	(50)	(417)
Net increase (decrease) in commercial papers	2,000	1,000	8,336
Purchases of treasury stock	(0)	(458)	(3,819)
Dividends paid	(636)	(648)	(5,407)
Other, net	(16)	0	2
Net cash provided by financing activities	3,111	1,904	15,877
Effect of exchange rate changes on cash and cash equivalents	64	21	176
Net increase (decrease) in cash and cash equivalents	(1,058)	(646)	(5,390)
Cash and cash equivalents at the beginning of the year	6,810	5,751	47,949
Increase in cash and cash equivalents resulting from share exchanges (Note 4)	-	533	4,447
Cash and cash equivalents at the end of the year (Note 4)	¥ 5,751	¥ 5,638	$ 47,005

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 ¥119.96 to U.S. $1.00, the rate of exchange prevailing at September 30, 2015. 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 21 subsidiaries at September 30, 2014 and 2015, respectively. The accompanying consolidated financial statements for the years ended September 30, 2014 and 2015 include the accounts of the Company and all of its subsidiaries (the "Companies"). The Company does not have any unconsolidated subsidiaries.
The Company has 3 and 2 affiliates, to which the equity method is applied, at September 30, 2014 and 2015, 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. and CMIC (Beijing) Pharmaceutical Services Co., Ltd. is December 31. These subsidiaries provisionally close their books at September 30 for the purpose of consolidation of the Company. The fiscal year-end of the other subsidiaries other than the above subsidiaries is September 30.
In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair values at the time the Company acquired 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.

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 60 years
Machinery, equipment and vehicles: 4 years to 17 years
Tools, furniture and fixtures: 2 years to 15 years

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.

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).

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 benefit formula 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.

Consolidated taxation system-

The Company and certain domestic consolidated subsidiaries adopted the consolidated taxation system from the fiscal year ended September 30, 2015.

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)

"Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No.21, issued on September 13, 2013)

"Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on September 13, 2013)

"Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued on September 13, 2013)

"Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2, issued on September 13, 2013)

"Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on September 13, 2013)

"Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4, issued on September 13, 2013)

(1) Outline

Under these revised accounting standards, the following were mainly amended.

① The accounting treatment for the changes in a parent's ownership interest in a subsidiary while the parent retains control over the subsidiary

② The accounting treatment of acquisition related costs

③ Change in presentation method of net income and change in presentation to "non-controlling interest" from "minority interests".

④ The accounting treatment for adjustments to provisional amounts.

(2) Expected adoption date

The revised accounting standard and guidance will be adopted from the beginning of the fiscal year ending September 30, 2016. The accounting treatment for adjustments to provisional amounts will apply to corporate business combination performed on or after the beginning of the fiscal year ending September 30, 2016.

(3) Effect of application of the standard

The financial impact of the application of these accounting standards on the consolidated financial statements is currently being evaluated.

(Changes in accounting policies)

Accounting standard for retirement benefits

The Company applied the “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 March 26, 2015) pursuant to certain provisions in the main clause of Article 35 of the standard and in the main clause of Article 67 of the guidance effective from the beginning of the fiscal year ended September 30, 2015.

Under the new standards, the calculation methods of retirement benefit obligations and service costs are revised. Specifically, the method of attributing the projected benefits is changed from the straight-line basis to the benefit formula basis, and the method of determining the discount rates is also changed from the discount rate based on the average remaining service years of the employees to a single weighted average discount rate.

In accordance with the transitional treatment as stipulated in Article 37 of the standard, the effects of these changes are recognized in retained earnings at October 1, 2014.

As a result, these changes have no impact either on net defined benefit liability, retained earnings, operating income, ordinary income, income before income taxes and minority interests.

Moreover, there are no impact on net assets per share and net income per share.

Adoption of practical solution on transactions of Delivering the Company’s Own Stock to employees etc. through trusts

The Company adopted “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (Practical Issue Task Force (“PITF”) No.30, issued on March 26, 2015) from the beginning of the fiscal year ended September 30, 2015.

As article 20 of PITF No.30 allows the Company to continue to apply previous method for the trust which was established prior to the adoption, this change has no impact on the consolidated financial statements.

(Additional information)

The Company introduced “the Stock Granting Trust (J-ESOP)” as an mid- to long-term incentive program for employees of the Company and its subsidiaries and affiliates (the “Group”), based on approval at the board of directors meeting held on November 7, 2012.

(1) Overview of the transactions

J-ESOP is a program to grant the Company’s common stocks to the employees of the companies who fulfill requirements under the regulations of the Company. The Companies vest points to each employee based on their contributions, and grant the Company’s common stocks according to their total points at the time that fulfill requirements under the regulations of the Company. Such stocks, including stocks to be granted in the future, are purchased by money held in the J-ESOP trust, managed separately from book of the Company.

J-ESOP is an incentive program to motivate them to improve corporate value, and to secure talented people.

(2) While adopting “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No.30, issued on March 26, 2015), the Company applies the same accounting treatment as before.

(3) Information related to the stocks of the Company which the trusts hold

①Book value of the stocks of the Company within the trust for the years ended September 30, 2014 and 2015 were ¥211 million and ¥211 million ($1,761 thousand).

②These stocks were recorded as the treasury stock in the total shareholders' equity.

③The number of stocks within the trust at the year-end for the years ended September 30, 2014 and 2015 were both 190,000 shares and the average number of stocks within the trust for the years ended September 30, 2014 and 2015 were both 190,000 shares.

④The number of shares at the year-end and the average number of stocks were included in the treasury stock, which is deducted when calculating per-share information.

3 Other comprehensive income

The components of other comprehensive income including reclassification adjustments and tax effects income for the year ended September 30, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrealized gain (loss) on securities:			
Amount arising during the year	¥ 91	¥ 85	$ 714
Amount before tax effect	91	85	714
Tax effects	(32)	(18)	(151)
Sub-total, net of tax	58	67	563
Foreign currency translation adjustments:			
Amount arising during the year	120	67	566
Remeasurements of defined benefit plans:			
Amount arising during the year	—	(347)	(2,896)
Reclassification adjustment	—	38	321
Amount before tax effect	—	(308)	(2,576)
Tax effects	—	79	665
Sub-total, net of tax	—	(229)	(1,911)
Total other comprehensive income	¥ 178	¥ (93)	$ (782)

4 Supplemental cash flow information

(1) The reconciliation between cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of September 30, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Cash and deposits	¥ 5,922	¥ 5,804	$ 48,385
Less:			
Time deposits over three months	170	165	1,380
Cash and cash equivalents	¥ 5,751	¥ 5,638	$ 47,005

(2) Assets and liabilities newly acquired

The Company acquired JCL Bioassay Corporation (the "JCL") and another company through share exchange during the year ended September 30, 2015.

A summary of the assets and liabilities of these companies newly acquired at the start of consolidation is as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥ 1,545	$ 12,886
Noncurrent assets	1,535	12,798
Goodwill	1,377	11,479
Current liabilities	(887)	(7,398)
Noncurrent liabilities	(1,161)	(9,681)
Book value of equity method investment at the acquisition of control	(459)	(3,830)
Gain on step acquisitions	(27)	(232)
Expense for share exchanges	(60)	(504)
Acquisition cost of the shares in JCL and another company	¥ 1,861	$ 15,519
Cash and cash equivalents held by JCL and another company	533	(4,447)
Issue price of shares through share exchanges	(1,362)	(11,360)
(Treasury stock issuance cost)	(498)	(4,159)
Net increase in Cash and cash equivalents due to share exchange	¥ 533	$ 4,447

(3)Content of material noncash transaction

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Decrease in Treasury stock by share exchanges	¥ —	¥ 438	$ 3,658
Increase in Capital surplus by share exchanges:	¥ —	¥ 1,422	$ 11,861

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 commercial papers. 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 and is exposed to the risk from fluctuation in interest rates.

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.

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, 2014 are as follows:

	Millions of yen					
	Book value		Fair value		Difference	
Assets						
(1) Cash and deposits	¥	5,922	¥	5,922	¥	-
(2) Notes and accounts receivable-trade		9,154		9,154		-
(3) Investment securities		513		373		(139)
Total assets	¥	15,591	¥	15,451	¥	(139)
Liabilities						
(1) Notes and accounts payable-trade		589		589		-
(2) Short-term borrowings		600		600		-
(3) Commercial papers		2,000		2,000		-
(4) Long-term debt (*1) (*2)		10,809		10,859		50
Total liabilities	¥	13,998	¥	14,049	¥	50
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, 2015 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	¥ 5,804	¥ 5,804	¥ -	$ 48,385	$ 48,385	$ -
(2) Notes and accounts receivable-trade	10,787			89,923		
Allowance for doubtful accounts(*1)	(1)			(15)		
	10,785	10,785	-	89,908	89,908	-
(3) Investment securities	127	127	-	1,060	1,060	-
Total assets	¥ 16,716	¥ 16,716	¥ -	$ 139,353	$ 139,353	$ -
Liabilities						
(1) Notes and accounts payable-trade	1,226	1,226	-	10,227	10,227	-
(2) Short-term borrowings	3,050	3,050	-	25,425	25,425	-
(3) Commercial papers	3,000	3,000	-	25,008	25,008	-
(4) Bonds payable(*2)	150	150	-	1,250	1,250	-
(5) Long-term debt (*3) (*4)	11,870	11,928	58	98,952	99,437	486
Total liabilities	¥ 19,297	¥ 19,355	¥ 58	$ 160,862	$ 161,348	$ 486
Derivative transactions	¥ -	¥ -	¥ -	$ -	$ -	$ -

*1. Allowance for doubtful accounts calculated as the specific reserve for the default possibility of notes and accounts receivable-trade are included.

*2. Bonds payable includes the current portion of bonds payable.

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

*4. 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) Bonds payable including current portion of bonds payable

Book value is used as the fair value for bonds payable 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.

(5) 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	
	2014		2015		2015	
Book value in consolidated balance sheet						
Unlisted shares(*)	¥	115	¥	645	$	5,383
Stocks of affiliates(*)		293		76		636
Investments in capital of affiliates(*)		45		45		377
Total	¥	453	¥	767	$	6,397

* Unlisted shares, 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.

Note 3: Redemption schedule for monetary claims and marketable securities with maturities subsequent to September 30, 2015.

	Millions of yen				Thousands of U.S. dollars			
	2016		2017 and thereafter		2016		2017 and thereafter	
Cash and deposits	¥	5,800	¥	-	$	48,350	$	-
Notes and accounts receivable-trade		10,787		-		89,923		-
	¥	16,587	¥	-	$	138,274	$	-

Note 4: Redemption schedule for long-term debt subsequent to September 30, 2015.

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, 2014 and 2015.

(2) The Companies did not hold any held-to-maturity securities as of September 30, 2014 and 2015.

(3) The Companies held shares of other securities as of September 30, 2014 and 2015.

The book value, the acquisition cost and the unrealized gain or loss as of September 30, 2014 and 2015 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2014			2015			2015		
	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	¥ -	¥ -	¥ -	¥ 124	¥ 60	¥ 64	$ 1,040	$ 500	$ 540
Securities with book value not exceeding acquisition cost:									
stock	¥ 1	¥ 1	¥ (0)	¥ 2	¥ 2	¥ (0)	$ 19	$ 21	$(2)
Total	¥ 1	¥ 1	¥(0)	¥ 127	¥ 62	¥ 64	$ 1,060	$ 521	$539

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 ¥ 110 million by selling other securities in ¥141 million for the year ended September 30, 2015. There was no sale of other securities for the year ended September 30, 2014.

(5) The amount of impairment loss recognized on the stock in other securities was ¥15 million for the year ended September 30, 2015, and ¥0 million for the year ended September 30, 2014.

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, 2014 and 2015 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, 2014 and 2015.

(2) The following table summarizes the derivative transactions as of September 30, 2014 and 2015 for which hedge accounting has been applied:

Interest related:

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

Hedge accounting method	Classification	Hedged item	Millions of yen 2015 Contract amount Total	Due after one year	Fair value	Thousands of U. S. dollars 2015 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	¥ 3,718	¥ 2,374	(*)	$ 31,000	$ 19,791	(*)

* 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, 2014 and 2015 are as follows:

	Millions of yen 2014	Millions of yen 2015	Thousands of U.S. dollars 2015
Short-term borrowings:			
Weighted average interest rate of 0.42% and 0.48% at September 30, 2014 and 2015, respectively	¥ 600	¥ 3,050	$ 25,425

(2) Long-term debt at September 30, 2014 and 2015 are as follows:

	Millions of yen 2014	Millions of yen 2015	Thousands of U.S. dollars 2015
Long-term debt:			
Due 2016 to 2022 with weighted average interest rates of 1.13% and 0.89% at September 30,2014 and 2015, respectively	¥ 10,809	¥ 11,870	$ 98,952
Less:			
Current portion of long-term debt:			
Weighted average interest rates of 1.12% and 1.26% at September 30, 2014 and 2015, respectively	3,201	2,869	23,924
	¥ 7,608	¥ 9,000	$ 75,028

(3) Annual maturities of long-term debt at September 30, 2015 are as follows:

Years ending September 30,	Millions of Yen	Thousands of U.S. dollars
	2015	2015
2016	¥ 2,869	$ 23,924
2017	2,354	19,630
2018	2,532	21,113
2019	2,849	23,757
2020	534	4,454
2021	728	6,074

9 Retirement benefits

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
	2014	2015	2015
Balance at the beginning of the year	¥ 2,751	¥ 3,141	$ 26,186
Service cost	481	565	4,713
Interest cost	36	42	351
Actuarial losses (gains) arising during the year	31	125	1,043
Retirement benefits paid	(148)	(197)	(1,643)
Prior service cost	-	242	2,022
Transfers regarding a change in calculation from simplified method to principle method	-	707	5,896
Other	(11)	(10)	(84)
Balance at the end of the year	¥ 3,141	¥ 4,616	$ 38,484

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

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Retirement benefit obligation under the unfunded plans	¥ 3,141	¥ 4,616	$ 38,484
Net defined benefit liability	¥ 3,141	¥ 4,616	$ 38,484

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Service cost	¥ 481	¥ 565	$ 4,713
Interest cost	36	42	351
Amortization of actuarial losses (gains)	(6)	31	265
Amortization of prior service cost	15	26	224
Other	0	-	-
Total retirement benefit costs	¥ 527	¥ 666	$ 5,553

(d) Remeasurements of defined benefit plans before tax effects

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Prior sevice cost	¥ -	¥ 215	$ 1,798
Actuarial loss	-	93	778
Total	¥ -	¥ 308	$ 2,576

(e) Accumulated remeasurements of defined benefit plans before tax effects

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrecognized prior service cost	¥ 22	¥ 238	$ 1,988
Unrecognized actuarial losses (gains)	31	125	1,043
Total	¥ 54	¥ 363	$ 3,031

(f) Actuarial assumptions

The principal actuarial assumption at September 30, 2014 and 2015 are as follows:

	2014	2015
Weighted average discount rate	1.30%	0.70%~1.30%

The Company uses the index of salary increases by age at September 30, 2014 and 2015 as the expected rate of future salary increases.

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	
	2014		2015		2015	
Balance at the beginning of the year	¥	693	¥	940	$	7,843
Retirement benefit cost		292		311		2,600
Retirement benefit paid		(29)		(83)		(695)
Contribution to the plans		(19)		(27)		(227)
Transfers regarding a change in calculation from simplified method to principle method		-		(707)		(5,896)
Increase resulting from inclusion of subsidiaries in consolidation		-		197		1,649
Other		4		6		55
Balance at the end of the year	¥	940	¥	639	$	5,330

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

	Millions of yen				Thousands of U.S. dollars	
	2014		2015		2015	
Retirement benefit obligation under the funded plans	¥	49	¥	58	$	488
Plan assets		(11)		(11)		(95)
Retirement benefit obligation under the unfunded plans		902		592		4,937
Net defined benefit liability	¥	940	¥	639	$	5,330

(c) Retirement benefit cost

	Millions of yen				Thousands of U.S. dollars	
	2014		2015		2015	
Retirement benefit cost	¥	292	¥	311	$	2,600

3. Defined contribution plans

Contributions to the defined contribution pension plans are ¥26 million as of September 30, 2014, and ¥27 million ($ 231 thousand) as of September 30, 2015.

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 year ended September 30, 2014 and 35.64% for the year ended September 30, 2015.

The reconciliation of the difference between the statutory income tax rates and the actual effective income tax rates for the years ended September 30, 2014 and 2015 are as follows:

	2014	2015
Statutory income tax rate	38.01 %	35.64 %
Effect of enacted change in tax lows and rates	4.88	12.07
Permanently non-deductible expenses	2.37	1.15
Per capita inhabitants tax	2.58	5.42
Amortization of goodwill	4.66	14.09
Equity in losses of affiliates	-	8.13
Effect of sales of subsidiaries	(4.34)	-
Change in valuation allowance	3.51	67.25
Statutory tax rate difference between the Company and certain subsidiaries	-	(1.53)
Gain on step acquisitions	-	(0.78)
Other	(0.33)	(1.09)
Actual effective income tax rates	51.35 %	140.35 %

(2) Significant components of deferred tax assets and liabilities as of September 30, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Deferred tax assets:			
Provision for bonuses	¥ 837	¥ 754	$ 6,290
Provision for loss on orders received	275	134	1,118
Enterprise tax payable	91	77	644
Loss on valuation of inventories	83	284	2,372
Asset retirement obligations	134	156	1,307
Accounts payable-other	98	1	12
Net defined benefit liability	1,448	1,797	14,986
Net operating loss carry-forwards	608	984	8,210
Loss on valuation of investment securities	295	252	2,102
Accumulated depreciation	213	163	1,364
Other	214	171	1,429
Total deferred tax assets	4,301	4,778	39,834
Less: Valuation allowance	(891)	(1,626)	(13,562)
Net deferred tax assets	3,410	3,151	26,272
Offset with deferred tax liabilities	(140)	(246)	(2,059)
Deferred tax assets	3,269	2,904	24,214
Deferred tax liabilities:			
Negative goodwill	(15)	-	-
Gain on revaluation of fixed assets	(86)	(109)	(914)
Removal expenses associated with asset retirement obligations	(35)	(96)	(804)
Unrealized gain (loss) on securities	-	(20)	(174)
Other	(15)	(32)	(267)
Total deferred tax liabilities	(153)	(259)	(2,159)
Offset with deferred tax assets	140	246	2,059
Deferred tax liabilities	(12)	(12)	(100)
Net deferred tax assets	¥ 3,256	¥ 2,892	$ 24,113

11 Contingent liabilities

Contingent liabilities as of September 30, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Guarantee of obligations:			
Unconsolidated affiliate	¥ 157	¥ 493	$ 4,113

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, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Research and development expenses	¥ 286	¥ 154	$ 1,286

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)

The Company carried out share exchange in order to make JCL Bioassay Corporation ("JCL") a wholly owned subsidiary as of March 1, 2015.

1. Outline of the business combination

(1) Name and business activities of the acquired company

Name : JCL Bioassay Corporation

Business activities : Contract Research Organization Business

(2) Principal reasons for the business combination:

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.

(3) Date of the business combination: March 1, 2015(The deemed acquisition date: March 31, 2015)

(4) Legal form of the business combination: Share exchange

(5) Name of company after the business combination: No change

(6) Percentage of the acquirer company

Voting right ratio before acquisition: 20.74%

Voting right ratio acquired at acquisition: 79.26%

Voting right ratio after acquisition: 100%

(7) Reason for determination of the acquirer company:

The Company acquired 100% portion of the voting rights of JCL in share exchange.

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

From October 1, 2014 to September 30, 2015

The business results for the period of October 1, 2014 to March 31, 2015 were presented as on equity in losses of affiliates under the equity method.

3. Acquisition cost and details

	Millions of yen	Thousands of U.S. dollars
Fair value of JCL shares held by the Company immediately before the date of business combination	¥ 487	$ 4,062
Fair value of the Company's common shares issued on the date of business combination	1,861	15,519
Direct costs for the acquisition	60	504
Total acquisition cost	¥ 2,409	$ 20,085

4. 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. The independent appraisers applied the market price method and the discounted cash flow method individually. We negotiated the exchange ratio considering these results, financial conditions and business performances and concluded.

5. Difference between cost of the acquired company and total acquisition cost of individual transactions leading to acquisition.
Gain on step acquisitions: ¥27 million ($232 thousand)

6. Amount of goodwill, reason for recognizing goodwill, amortization method and amortization period

1) Amount of goodwill

¥1,377 million ($11,479 thousand)

2) Reason for recognizing goodwill

Future business activities are expected to generate excess profitability.

3) Method and term to amortize goodwill

Goodwill is amortized by the straight-line method over 5 years.

7. 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	¥	1,357	$	11,317
Non-current assets		1,637		13,650
Total assets	¥	2,994	$	24,967
Current liabilities		817		6,812
Non-current liabilities		1,145		9,549
Total liabilities	¥	1,962	$	16,361

8. Estimate of the effects on the consolidated statements of income for the fiscal year ended September 30, 2015 if the business combination had been completed at the beginning of the fiscal year and method of calculation.

Net sales	¥1,111 million ($ 9,263 thousand)
Operating income	¥26 million ($218 thousand)
Ordinary income	¥161 million ($1,347 thousand)
Income before income taxes and minority interests	¥31 million ($260 thousand)
Net income	¥1 million ($14 thousand)
Net income per share	¥0.09 ($0.001)

Method of calculating of the estimated amounts

The differences between estimates of sales revenues, and income and loss information if the business combination had been completed at the beginning of the fiscal year and sales revenues and income and loss information reported on the consolidated statements of income of the acquirer were used to estimate the effects.

An audit report has not been received on these estimations.

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 to 50 years and discounted by rates ranging from 0.1% to 2.3%.

Asset retirement obligations as of September 30, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2015	2015
Balance at the beginning of the year	¥ 350	¥ 372	$ 3,105
Liabilities incurred due to the acquisition of property, plant and equipment	70	263	2,199
Accretion adjustment	4	4	34
Settlement of obligations	(51)	(184)	(1,542)
Other	—	(54)	(451)
Balance at the end of the year	¥ 372	¥ 401	$ 3,345

16 Investment and rental property

There was no material investment and rental property to be reported as of September 30, 2014 and 2015 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 Group have 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 September 30, 2015)
CRO Business	Services provided to pharmaceutical companies related to support in drug development ・clinical trials ・nonclinical trials ・analytical chemistry	CMIC HOLDINGS Co., Ltd. CMIC Co., Ltd. CMIC-PMS Co., Ltd. CMIC BIORESEARCH CENTER Co., Ltd. Institute of Applied Medicine, Inc. JCL Bioassay Corporation (Overseas) CMIC Inc. CMIC Korea Co., Ltd. CMIC ASIA-PACIFIC, PTE. LTD. CMIC ASIA PACIFIC（MALAYSIA） SDN. BHD. CMIC(Beijing) Pharmaceutical Service Co., Ltd. CMIC (Beijing) Co., Ltd.
CMO Business	Services provided to pharmaceutical companies related to : ・manufacturing ethical, investigational and over-the-counter drugs	CMIC CMO Co., Ltd. CMIC CMO ASHIKAGA Co., Ltd. (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 and MR Training) and BPO and staffing service business specializing in pharmaceuticals and healthcare.	CMIC Ashfield 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. (Overseas) CMIC VIETNAM COMPANY LIMITED
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)

Institute of Applied Medicine, Inc. was transferred from the CMO Business to CRO Business in line with the organizational change of October 1, 2014. 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, 2014 (Millions of yen)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥24,959	¥13,604	¥6,663	¥7,134	¥473	¥52,836	–	¥52,836
Inter-segment	83	8	499	298	24	915	¥(915)	–
Total	25,043	13,613	7,162	7,433	498	53,751	(915)	52,836
Segment profit (loss)	¥4,830	¥379	¥645	¥(521)	¥(546)	¥4,787	¥(2,020)	¥2,766
Segment assets	¥16,286	¥21,883	¥2,879	¥6,135	¥429	¥47,614	¥1,622	¥49,237
Others								
Depreciation	400	1,063	14	84	17	1,579	–	1,579
Impairment loss	–	–	–	–	28	28	–	28
Amortization of goodwill	365	–	–	82	–	448	–	448
Increase in fixed assets	448	1,814	13	58	30	2,365	888	3,253

Notes: 1. The adjustment amount of ¥2,020 million in segment profit (loss) includes intersegment eliminations and others of ¥2 million and unallocated corporate expenses of ¥2,017 million .

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

3. The adjustment amount of ¥1,622 million in segment assets includes unallocated corporate assets of ¥13,604 million and intersegment elimination and others of ¥11,981 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, 2015 (Millions of yen)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥27,378	¥13,771	¥8,425	¥5,605	¥723	¥55,904	–	¥55,904
Inter-segment	93	38	450	34	38	656	¥(656)	–
Total	27,471	13,810	8,875	5,640	762	56,560	(656)	55,904
Segment profit (loss)	¥5,092	¥(325)	¥716	¥(1,188)	¥(356)	¥3,938	¥(2,526)	¥1,411
Segment assets	¥21,465	¥22,412	¥3,183	¥4,714	¥865	¥52,641	¥3,219	¥55,861
Others								
Depreciation	653	1,514	35	95	16	2,314	–	2,314
Impairment loss	30	–	–	41	2	74	–	74
Amortization of goodwill	503	—	13	66	–	583	–	583
Increase in fixed assets	822	2,189	7	41	2	3,063	1,355	4,418

As of and for the year ended September 30, 2015 (Thousands of U.S. dollars)

	CRO	CMO	CSO	Healthcare	IPD	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	$228,231	$114,805	$70,233	$46,728	$6,031	$466,028	–	$466,028
Inter-segment	778	324	3,753	291	324	5,470	$(5,470)	–
Total	229,010	115,129	73,986	47,019	6,354	471,498	(5,470)	466,028
Segment profit (loss)	$42,448	$(2,714)	$5,976	$(9,907)	$(2,972)	$32,831	$(21,061)	$11,770
Segment assets	$178,935	$186,834	$26,540	$39,302	$7,218	$438,828	$26,839	$465,668
Others								
Depreciation	5,446	12,628	295	794	135	19,298	–	19,298
Impairment loss	258	–	–	346	19	623	–	623
Amortization of goodwill	4,195	—	109	556	–	4,860	–	4,860
Increase in fixed assets	6,854	18,248	64	348	21	25,536	11,296	36,832

Notes: 1. The adjustment amount of ¥2,526 million ($21,061 thousand) in segment profit (loss) includes intersegment eliminations and others of ¥14 million ($117 thousand) and unallocated corporate expenses of ¥2,512 million ($20,944 thousand).
2. Segment profit corresponds with operating income in the consolidated statement of income.
3. The adjustment amount of ¥3,219 million ($26,839 thousand) in segment assets includes unallocated corporate assets of ¥17,149 million ($142,958 thousand) and intersegment elimination and others of ¥13,929 million ($116,119 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, 2015 is as follows:

Name of Customer	Related reportable segment	Net sales: Millions of yen	Net sales: Thousands of U.S. dollars
DAIICHI SANKYO Co., Ltd.	CRO Business and CMO Business	¥4,866	$40,570

18 Transactions with related parties

1. Transactions between the Company and related parties for the year ended September 30, 2014 and 2015 are as follows:

Company directors, shareholders (Individual only), etc.

As of and for the year ended September 30, 2014

No related parties transaction was recorded.

As of and for the year ended September 30, 2015

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	Artemis Inc. (Note 2)	Shibuya-ku, Tokyo	¥11	Asset management	33.9	Administrative service Lease of training facilities	¥9 ¥11	$82 $98	Other_Current assets Accounts payable-other	¥1 ¥1	$11 $11
Company in which directors or close relatives hold a majority of the voting stock	Kobuchizawa art village resort & spa Inc. (Note 3)	Hokuto-shi	¥10	Management of the museum and accommodation	—	Use of lodging facility	¥11	$98	Accounts payable-other	¥1	$8

Information on transaction terms and policy for determining the terms

Note 1: Transaction amounts do not include consumption tax.

2. Chairman & CEO of CMIC HOLDINGS Co., Ltd. Kazuo Nakamura, Representive managing director of CMIC HOLDINGS Co., Ltd. Keiko Nakamura and their family directly holds 100% of the voting rights.

3: Chairman & CEO of CMIC HOLDINGS Co., Ltd. Kazuo Nakamura directly holds 100% of the voting rights.

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

2. Transactions between consolidated subsidiaries of the Company and related parties for the year ended September 30, 2014 and 2015 are as follows:

Company directors, shareholders (Individual only), etc.

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)	Item	Balance at fiscal year-end (Millions of yen)
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	Accounts payable-other	¥1

As of and for the year ended September 30, 2015

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, etc.	¥11	$99	Accounts payable-other	¥0	$5

Information on transaction terms and policy for determining the terms

Note 1: Transaction amounts do not include consumption tax.

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

3: Transactions with related parties are based on consideration of normal transaction conditions and market prices.

19 Net assets and net income per share

Net assets and net income (loss) per share as of and for the years ended September 30, 2014 and 2015 are as follows:

	Yen		U.S. dollars
	2014	2015	2015
Net assets per share	¥ 1,123.74	¥ 1087.84	$ 9.07
Net income (loss) per share	65.26	(29.57)	(0.25)

No diluted net income (loss) per share is presented for the years ended September 30, 2014 and 2015 since no potentially dilutive securities were issued.

20 Subsequent event

There was no material Subsequent event to be reported as of September 30, 2015.