CMIC HOLDINGS Co., Ltd

Consolidated Financial Statements

For the Year ended September 30, 2017

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. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at September 30, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CMIC HOLDINGS Co., Ltd. and its consolidated subsidiaries as at September 30, 2017, 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 15, 2017
Tokyo, Japan

CONSOLIDATED BALANCE SHEET

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries

As of September 30, 2016 and 2017

ASSETS	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Current assets:			
Cash and deposits (Notes 11 and 13)	¥ 5,069	¥ 4,947	$ 43,891
Notes and accounts receivable-trade (Note 13)	10,731	12,989	115,226
Merchandise and finished goods(Note 5)	486	479	4,253
Work in process(Note 5)	3,368	3,360	29,813
Raw materials and supplies(Note 5)	1,430	1,603	14,223
Deferred tax assets (Note 18)	1,435	1,596	14,163
Other	2,287	2,376	21,079
Allowance for doubtful accounts	(10)	(12)	(109)
Total current assets	24,799	27,341	242,539
Property, plant and equipment:			
Buildings and structures (Note 8)	17,528	19,008	168,620
Machinery, equipment and vehicles (Note 8)	10,764	13,481	119,590
Tools, furniture and fixtures (Note 8)	3,110	3,447	30,580
Land (Note 8)	6,298	6,160	54,646
Leased assets	1,264	1,294	11,485
Construction in progress	2,979	4,136	36,698
Less: accumulated depreciation	(16,890)	(18,939)	(168,007)
Total property, plant and equipment	25,055	28,589	253,612
Intangible assets:			
Goodwill	1,093	737	6,545
Other (Note 8)	1,274	1,092	9,695
Total intangible assets	2,367	1,830	16,240
Investments and other assets:			
Investment securities (Notes 13 and 15)	1,376	2,878	25,536
Lease and guarantee deposits	1,630	1,638	14,536
Deferred tax assets (Note 18)	1,683	1,872	16,614
Other (Note 3)	2,461	2,057	18,254
Allowance for doubtful accounts	(268)	(603)	(5,357)
Total investments and other assets	6,883	7,844	69,583
Total assets	¥ 59,104	¥ 65,605	$ 581,974

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, 2016 and 2017

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Notes and accounts payable-trade (Note 13)	¥ 953	¥ 1,034	$ 9,177
Current portion of bonds payable (Notes 13 and 14)	50	-	-
Short-term borrowings(Notes 13 and 14)	2,250	1,050	9,314
Current portion of long-term debt(Notes 13 and 14)	2,783	2,918	25,889
Commercial papers (Notes 13 and 14)	2,000	3,000	26,612
Accounts payable-other	4,685	4,566	40,505
Accrued expenses	949	1,019	9,047
Income taxes payable	1,007	1,027	9,115
Advances received	1,200	1,159	10,284
Provision for bonuses	2,054	2,317	20,562
Provision for directors' bonuses	49	53	470
Provision for loss on orders received	402	568	5,040
Other (Note 20)	1,475	2,158	19,149
Total current liabilities	19,861	20,873	185,164
Noncurrent liabilities:			
Long-term debt(Notes 13 and 14)	9,002	11,930	105,833
Deferred tax liabilities (Note 18)	23	79	709
Net defined benefit liability（Note 9 and 17）	6,325	7,068	62,699
Asset retirement obligations (Note 20)	373	416	3,691
Other	2,120	1,629	14,455
Total noncurrent liabilities	17,846	21,124	187,387
Total liabilities	37,707	41,997	372,551
Contingent liabilities (Note 4)			
NET ASSETS (Note 10)			
Shareholders' equity:			
Capital stock			
Authorized-46,000,000 shares Issued-18,923,569 shares in 2016	3,087		
Authorized-46,000,000 shares Issued-18,923,569 shares in 2017		3,087	27,391
Capital surplus	7,715	7,715	68,440
Retained earnings	10,596	11,847	105,096
Treasury shares, at cost-219,791 shares in 2016 and 216,028 shares in 2017	(265)	(261)	(2,320)
Total shareholders' equity	21,134	22,389	198,607
Accumulated other comprehensive income（Note 9 and 17）:			
Unrealized gain (loss) on securities	414	663	5,887
Foreign currency translation adjustments	(143)	15	134
Remeasurements of defined benefit plans	(409)	(200)	(1,777)
Total accumulated other comprehensive income	(138)	478	4,244
Non-controlling interests	401	740	6,572
Total net assets	21,397	23,608	209,423
Total liabilities and net assets	¥ 59,104	¥ 65,605	$ 581,974

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, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note1)
	2016	2017	2017
Net sales	¥ 62,039	¥ 65,282	$ 579,102
Cost of sales	(48,941)	(51,044)	(452,806)
Gross profit	13,097	14,237	126,296
Selling, general and administrative expenses（Note 6 and 7）:	(9,733)	(10,340)	(91,726)
Operating income	3,363	3,897	34,570
Non-operating income (expenses):			
Interest income	31	16	146
Foreign exchange gains (losses)	(186)	96	853
Commission income	10	4	36
Rent income	16	8	74
Government grant	2	1	16
Compensation income	21	-	-
Other income	47	41	365
Interest expenses	(143)	(121)	(1,079)
Share of loss of entities accounted for using equity method	(108)	(147)	(1,308)
Other expenses	(66)	(63)	(562)
Total Non-operating income (expenses)	(374)	(164)	(1,459)
Ordinary income	2,989	3,732	33,111
Special gains (losses):			
Loss on sales of non-current assets	-	(27)	(242)
Loss on retirement of non-current assets	(45)	(125)	(1,117)
Provision of allowance for doubtful accounts	(241)	(310)	(2,751)
Impairment loss (Note 8)	(11)	-	-
Loss on valuation of investment securities	(1)	-	-
Compensation expenses	(90)	-	-
Total special gains (losses)	(389)	(463)	(4,110)
Profit before income taxes	2,599	3,269	29,001
Income taxes (Note 18):			
Current	1,842	2,111	18,734
Deferred	(265)	(515)	(4,569)
Total income taxes	1,577	1,596	14,165
Profit	1,022	1,672	14,836
Profit attributable to non-controlling interests	143	121	1,080
Profit attributable to owners of parent	¥ 878	¥ 1,550	$ 13,756

	Yen	Yen	U.S. dollars (Note 1)
Amounts per share of common stock:			
Profit attributable to owners of parent	¥ 47.00	¥ 82.90	$ 0.74
Cash dividends applicable to the year	16.00	27.50	0.24

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, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Profit	¥ 1,022	¥ 1,672	$ 14,836
Other comprehensive income（Note 9 and 17）:			
Unrealized gain (loss) on securities	347	248	2,208
Foreign currency translation adjustments	(263)	178	1,581
Remeasurements of defined benefit plans	(163)	245	2,178
Total other comprehensive income	(80)	672	5,967
Comprehensive income	¥ 941	¥ 2,345	$ 20,803
Comprehensive income attributable to:			
Owners of the parent	¥ 838	¥ 2,169	$ 19,246
Non-controlling interests	103	177	1,576

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, 2016 and 2017

	Shares	
	2016	2017
Number of shares of common stock:		
Balance at the beginning of the year	18,923,569	18,923,569
Balance at the end of the year	18,923,569	18,923,569

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Capital stock:			
Balance at the beginning of the year	¥ 3,087	¥ 3,087	$ 27,391
Balance at the end of the year	3,087	3,087	27,391
Capital surplus:			
Balance at the beginning of the year	7,715	7,715	68,440
Disposal of treasury stock	(0)	-	-
Balance at the end of the year	7,715	7,715	68,440
Retained earnings:			
Balance at the beginning of the year	9,906	10,596	94,002
Profit attributable to owners of parent	878	1,550	13,756
Cash dividends paid - ￥10.00 ($0.099) per share in 2016	(188)	-	-
￥16.00 ($0.142) per share in 2017	-	(302)	(2,680)
Change in scope of consolidation	-	2	19
Balance at the end of the year	10,596	11,847	105,097
Treasury stock:			
Balance at the beginning of the year	(271)	(265)	(2,357)
Acquisition of treasury stock	(0)	(0)	(3)
Disposal of treasury stock	6	4	39
Balance at the end of the year - 219,791 shares in 2016 and 216,028 shares in 2017	(265)	(261)	(2,321)
Total shareholders' equity	21,134	22,389	198,607
Unrealized gain (loss) on securities:			
Balance at the beginning of the year	67	414	3,680
Net change in items other than those in shareholders' equity	347	248	2,207
Balance at the end of the year	414	663	5,887
Foreign currency translation adjustments:			
Balance at the beginning of the year	98	(143)	(1,273)
Net change in items other than those in shareholders' equity	(241)	158	1,407
Balance at the end of the year	(143)	15	134
Remeasurements of defined benefit plans			
Balance at the beginning of the year	(263)	(409)	(3,633)
Net change in items other than those in shareholders' equity	(146)	209	1,856
Balance at the end of the year	(409)	(200)	(1,777)
Total accumulated other comprehensive income	(138)	478	4,244
Non-controlling interests			
Balance at the beginning of the year	326	401	3,562
Net change in items other than those in shareholders' equity	74	339	3,010
Balance at the end of the year	401	740	6,572
Total net assets	¥ 21,397	¥ 23,608	$ 209,423

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, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 2,599	¥ 3,269	$ 29,001
Depreciation	2,566	2,822	25,036
Impairment loss	11	-	-
Amortization of goodwill	554	355	3,151
Increase (decrease) in net defined benefit liability	823	1,094	9,713
Increase (decrease) in provision for bonuses	213	262	2,325
Increase (decrease) in provision for directors' bonuses	46	4	35
Increase (decrease) in allowance for doubtful accounts	241	311	2,761
Increase (decrease) in provision for loss on order received	10	163	1,453
Interest income	(31)	(16)	(147)
Interest expenses	143	121	1,079
Share of (profit) loss of entities accounted for using equity method	108	147	1,309
Foreign exchange losses (gains)	182	(152)	(1,354)
Loss (gain) on valuation of investment securities	1	-	-
Loss on retirement of non-current assets	45	125	1,117
Loss (gain) on sales of non-current assets	-	27	242
Government grant	(2)	(1)	(16)
Decrease (increase) in notes and accounts receivable - trade	(23)	(2,176)	(19,307)
Decrease (increase) in inventories	115	(135)	(1,200)
Increase (decrease) in notes and accounts payable - trade	(253)	61	547
Increase (decrease) in accrued expenses	34	62	551
Increase (decrease) in advances received	53	(99)	(882)
Increase (decrease) in deposits received	(241)	712	6,318
Other, net	214	186	1,652
Subtotal	7,413	7,145	63,384
Interest and dividend income received	16	9	83
Interest expenses paid	(132)	(125)	(1,111)
Proceeds from government grant	2	1	16
Income taxes paid	(806)	(2,094)	(18,576)
Net cash provided by (used in) operating activities	6,493	4,937	43,798

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Cash flows from investing activities:			
Payments into time deposits	(168)	(99)	(881)
Proceeds from withdrawal of time deposits	180	163	1,449
Purchase of property, plant and equipment	(4,140)	(6,343)	(56,269)
Proceeds from sales of property, plant and equipment	7	166	1,480
Payments for asset retirement obligations	(18)	(40)	(358)
Purchase of intangible assets	(186)	(205)	(1,827)
Proceeds from sales of intangible assets	13	-	-
Payments for lease and guarantee deposits	(69)	(119)	(1,061)
Proceeds from collection of lease and guarantee deposits	110	83	740
Purchase of investment securities	(1)	(1,219)	(10,815)
Net decrease (increase) in short-term loans receivable	(32)	72	639
Payments of long-term loans receivable	(331)	-	-
Collection of long-term loans receivable	124	-	-
Other, net	(127)	0	0
Net cash provided by (used in) investing activities	(4,639)	(7,541)	(66,903)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(800)	(1,200)	(10,645)
Proceeds from long-term loans payable	3,000	6,000	53,225
Repayments of long-term loans payable	(3,084)	(2,936)	(26,053)
Redemption of bonds	(100)	(50)	(444)
Repayments of lease obligations	(220)	(214)	(1,899)
Net increase (decrease) in commercial papers	(1,000)	1,000	8,871
Purchase of treasury shares	(0)	(0)	(3)
Cash dividends paid	(190)	(301)	(2,677)
Proceeds from share issuance to non-controlling shareholders	-	161	1,434
Other, net	4	-	-
Net cash provided by (used in) financing activities	(2,391)	2,458	21,809
Effect of exchange rate change on cash and cash equivalents	(153)	126	1,127
Net increase (decrease) in cash and cash equivalents	(692)	(19)	(170)
Cash and cash equivalents at beginning of period	5,638	4,946	43,879
Increase in cash and cash equivalents from newly consolidated subsidiary	-	1	14
Cash and cash equivalents at end of period (Note 11)	¥ 4,946	¥ 4,928	$ 43,723

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 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 accounting principles generally accepted in the United States, 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 ¥112.73 to U.S. $1.00, the rate of exchange prevailing at September 30, 2017. 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- As of September 30, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method are 21 and 2 (19 and 2 in 2016). The accompanying consolidated financial statements for the years ended September 30, 2016 and 2017 include the accounts of the Company and its subsidiaries (the “Companies”).

During the current consolidated fiscal year, "CMIC-BS Co., Ltd." changed its name to "CMIC Career Co., Ltd." at October 1, 2016 and “Healthclick Co., Ltd.” changed its name to “CMIC Healthcare Co., Ltd.” at April 1, 2017.

In addition, the Company established “CMIC (Suzhou) Pharmaceutical Technology Co., Ltd.”, which was newly included in the scope of consolidation, on June, 2017.

Investment in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. The number of such investment is 1 and 1 at September 30, 2016 and 2017, respectively.

The fiscal year-end of CMIC (Beijing) Pharmaceutical Services Co., Ltd., CMIC (Beijing) Co., Ltd. and CMIC (Suzhou) Pharmaceutical Technology 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 non-controlling interests, are recorded based on the fair values at the time the Company acquired the control of the respective subsidiaries.

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 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 depreciated 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

Intangible assets- Intangible assets of the Companies are amortized using the straight-line method over the estimated useful lives. Software for internal use is amortized using the straight-line method over the estimated useful life (5 years).

Lease assets- Lease assets of the Companies are depreciated using the straight-line method over the lease term with no residual value.

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 “Non-controlling interests” in “Net assets”.

Hedge accounting-

(1) Hedge accounting method:

The Companies adopt the deferral method. The exceptional treatment is 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 subject to consumption taxes are recorded at amounts excluding the consumption taxes.

Consolidated taxation system-

The Company and certain domestic consolidated subsidiaries adopt the consolidated taxation system.

Amounts per share of common stock- Computations of profit attributable to owners of parent per share are based on the weighted-average number of shares outstanding during the respective years. Diluted profit attributable to owners of parent 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- Goodwill represents the difference between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in affiliates accounted for by the equity method has been 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 profit 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 - Certain prior year amounts have been reclassified to conform to the current year presentation.

(Additional information)

Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company and its consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the beginning of the year ended September 30, 2017.

Accounting for Employee Stock Ownership Plan (J-ESOP)

The Company introduced "the Stock Granting Trust (J-ESOP)" as a 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, 2016 and 2017 were ¥204million and ¥200 million ($ 1,776 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, 2016 and 2017 were 184,000 shares and 180,000 shares and the average number of stocks within the trust for the years ended September 30, 2016 and 2017 were 187,750 shares and 182,833 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 amounts per share information.

3 Assets pledged as collateral

Assets pledged as collateral against "short-term borrowings and Long-term debt" from financial institutions of companies other than the Company and the Companies as of September 30, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Assets pledged as collateral:			
Other (in Investments and other assets)	¥ 114	¥ -	$ -

4 Contingent liabilities

Contingent liabilities as of September 30, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Guarantee of obligations:			
Unconsolidated affiliate	¥ 572	¥ 1,056	$ 9,372

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.

5 Loss on Valuation of Inventories

The ending inventory balance is the amount after write-down of book value due to decline in profitability, and the loss on valuation of included in cost of sales (Brackets are the gain on valuation of included in cost of sales) for the years ended September 30, 2016 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Loss on valuation of inventories	¥ (313)	¥ 189	$ 1,683

6 Selling, General and Administrative Expenses

The main components of "Selling, General and Administrative Expenses" for the years ended September 30, 2016 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Directors' compensations	¥ 428	¥ 440	$ 3,912
Salaries and allowances	2,973	3,074	27,277
Bonuses and provision for bonuses	689	764	6,777
Retirement benefit expenses	155	182	1,615
Temporary employee expenses	120	98	874
Provision for directors' bonuses	49	53	470
Rent expenses	1,023	1,006	8,933

7 Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended September 30, 2016 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Research and development expenses	¥ 169	¥ 171	$ 1,525

8 Impairment loss of Fixed Assets

Impairment loss of Fixed Assets for the year ended September 30, 2016, is as follows:

Company Name	Use	Location	Classification	Millions of yen
				2016
CMIC CMO Korea Co., Ltd.	CMO Business facilities	Gyeonggi-do, Korea	Land	¥ 10
OrphanPacific, Inc.	IPD Business facilities	Tokyo, Japan	Software	0

To calculate impairment loss on fixed assets, assets of the Companies are grouped into the smallest unit that generates identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. During the fiscal year, CMIC CMO Korea Co., Ltd. and OrphanPacific, Inc. continuously generated losses for their operating activities, respectively, and both companies are expected to continue to generate losses. As a result, the carrying amount has been reduced to the recoverable amount and the difference has been recognized as impairment loss on fixed assets.

The recoverable amount of assets of the Companies is measured at the net realizable value or value in use and the determination of the net realizable value is based on the expected sales price. In addition, value in use was assessed by setting the recoverable amount at zero based on expected negative future cash flows.

There is no impairment loss of Fixed Assets to be reported as of September 30, 2017.

9 Other comprehensive income

The components of other comprehensive income including reclassification adjustments and tax effects income for the year ended September 30, 2016 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrealized gain (loss) on securities:			
Amount arising during the year	¥ 499	¥ 358	$ 3,182
Amount before tax effect	499	358	3,182
Tax effects	(152)	(109)	(974)
Sub-total, net of tax	347	248	2,208
Foreign currency translation adjustments:			
Amount arising during the year	(263)	178	1,581
Remeasurements of defined benefit plans:			
Amount arising during the year	(427)	(114)	(1,018)
Reclassification adjustments	172	474	4,207
Amount before tax effect	(254)	359	3,189
Tax effects	91	(113)	(1,011)
Sub-total, net of tax	(163)	245	2,178
Total other comprehensive income	¥ (80)	¥ 672	$ 5,967

10 Net assets

Information regarding changes in net assets for the years ended September 30, 2016 and 2017, is as follows:

a. Shares issued and outstanding / Treasury stock

For the year ended September 30, 2016

Type of Shares	Number of shares at October 1, 2015	Increase	Decrease	Number of shares at September 30, 2016
Shares issued:				
Common Stock	18,923,569	―	―	18,923,569
Treasury stock				
Common Stock (Notes 1 ,2 and 3)	225,341	463	6,013	219,791

Notes: 1. Details of the increase are as follows:

Increase due to purchase of shares of less than one unit	463

2. Details of the decrease are as follows:

Decrease due to accepting requests for the purchase of shares of less than one unit	13
Decrease due to transfer treasury stock by the Stock Granting Trust (J-ESOP)	6,000

3. The Stock Granting Trust (J-ESOP):

The number of shares of treasury stock includes the number of stock of the Stock Granting Trust (J-ESOP).

Number of shares at October 1, 2015	190,000
Number of shares at September 30, 2016	184,000

For the year ended September 30, 2017

Type of Shares	Number of shares at October 1, 2016	Increase	Decrease	Number of shares at September 30, 2017
Shares issued:				
Common Stock	18,923,569	—	—	18,923,569
Treasury stock				
Common Stock (Notes 1 ,2 and 3)	219,791	237	4,000	216,028

Notes: 1. Details of the increase are as follows:

Increase due to purchase of shares of less than one unit 237

2. Details of the decrease are as follows:

Decrease due to transfer treasury stock by the Stock Granting Trust (J-ESOP) 4,000

3. The Stock Granting Trust (J-ESOP):

The number of shares of treasury stock includes the number of stock of the Stock Granting Trust (J-ESOP)

Number of shares at October 1, 2016 184,000

Number of shares at September 30, 2017 180,000

b. Dividends

(1) Dividends paid

For the year ended September 30, 2016

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on December 16,2015	Common stock	*1 94	5.00	September 30, 2015	December 17, 2015
Meeting of the Board of Directors on April 28, 2016	Common stock	*2 94	5.00	March 31, 2016	June 15, 2016

*1 The total dividends includes dividends of ¥ 0 million for the Stock Granting Trust (J-ESOP).

*2 The total dividends includes dividends of ¥ 0 million for the Stock Granting Trust (J-ESOP).

For the year ended September 30, 2017

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on December 15,2016	Common stock	*1 207	1,843	11.00	0.10	September 30, 2016	December 16, 2016
Meeting of the Board of Directors on April 28, 2017	Common stock	*2 94	838	5.00	0.04	March 31, 2017	June 15, 2017

*1 The total dividends includes dividends of ¥ 2 million($ 18 thousands) for the Stock Granting Trust (J-ESOP).

*2 The total dividends includes dividends of ¥ 0 million($ 8thousands) for the Stock Granting Trust (J-ESOP).

(2) Dividends with the cut-off date in the year ended September 30, 2016 and the effective date in the year ending September 30, 2017

Resolution	Type of shares	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on December 15,2016	Common stock	*207	Retained earnings	11.00	September 30, 2016	December 16, 2016

* The total dividends includes dividends of ¥ 2 million for the Stock Granting Trust (J-ESOP).

Dividends with the cut-off date in the year ended September 30, 2017 and the effective date in the year ending September 30, 2018

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Source of dividends	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Meeting of the Board of Directors on November 15,2017	Common stock	*424	3,770	Retained earnings	22.50	0.2 0	September 30, 2017	December 1, 2017

* The total dividends includes dividends of ¥ 4 million($ 36 thousands) for the Stock Granting Trust (J-ESOP).

11 Supplemental cash flow information

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, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash and deposits	¥ 5,069	¥ 4,947	$ 43,891
Less:			
Time deposits over three months	(122)	(18)	(168)
Cash and cash equivalents	¥ 4,946	¥ 4,928	$ 43,723

12 Leases

Obligations and future minimum payment under non-cancelable operating leases as of the years ended September 30, 2016 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Due within one year	¥ 1,267	¥ 1,436	$ 12,741
Due after one year	4,411	4,084	36,235
Total	¥ 5,678	¥ 5,521	$ 48,976

13 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, capital investment 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, 2016, are as follows:

	Millions of yen					
	Book value		Fair value		Difference	
Assets						
(1) Cash and deposits	¥	5,069	¥	5,069	¥	—
(2) Notes and accounts receivable-trade		10,731				
Allowance for doubtful accounts(*1)		(7)				
		10,724		10,724		—
(3) Investment securities		721		721		—
Total assets	¥	16,514	¥	16,514	¥	—
Liabilities						
(1) Notes and accounts payable-trade		953		953		—
(2) Short-term borrowings		2,250		2,250		—
(3) Commercial papers		2,000		2,000		—
(4) Bonds payable(*2)		50		50		—
(5) Long-term debt (*3)		11,786		11,829		43
Total liabilities	¥	17,039	¥	17,083	¥	43
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.

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, 2017, 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	¥ 4,947	¥ 4,947	¥ —	$ 43,891	$ 43,891	$ —
(2) Notes and accounts receivable-trade	12,989			115,226		
Allowance for doubtful accounts(*1)	(7)			(70)		
	12,981	12,981	—	115,155	115,155	—
(3) Investment securities	1,120	1,120	—	9,939	9,939	—
Total assets	¥ 19,049	¥ 19,049	¥ —	$ 168,985	$ 168,985	$ —
Liabilities						
(1) Notes and accounts payable-trade	1,034	1,034	—	9,177	9,177	—
(2) Short-term borrowings	1,050	1,050	—	9,314	9,314	—
(3) Commercial papers	3,000	3,000	—	26,612	26,612	—
(4) Long-term debt (*2)	14,849	14,879	30	131,722	131,990	268
Total liabilities	¥ 19,933	¥ 19,963	¥ 30	$ 176,825	$ 177,094	$ 268
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. Long-term debt includes the current portion of long-term debt.

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 “15. 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 “16. 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	
	2016		2017		2017	
Book value in consolidated balance sheet						
Unlisted shares(*)	¥	550	¥	1,656	$	14,694
Stocks of affiliates(*)		104		101		903
Total	¥	654	¥	1,758	$	15,597

* Unlisted shares and stocks 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, 2017.

	Millions of yen				Thousands of U.S. dollars			
	2018		2019 and thereafter		2018		2019 and thereafter	
Cash and deposits	¥	4,946	¥	—	$	43,875	$	—
Notes and accounts receivable-trade		12,989		—		115,226		—
	¥	17,935	¥	—	$	159,101	$	—

Note 4: Redemption schedule for long-term debt subsequent to September 30, 2017.

Please refer to “14. Short-term borrowings and long-term debt” .

14 Short-term borrowings and long-term debt

(1) Short-term borrowings at September 30, 2016 and 2017, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Short-term borrowings:						
'eighted average interest rate of 0.35% and 0.29% at September 30, 2016 and 2017, respectively	¥	2,250	¥	1,050	$	9,314

(2) Commercial papers at September 30, 2016 and 2017, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Commercial papers:						
'eighted average interest rate of 0.08% and 0.07% at September 30, 2016 and 2017, respectively	¥	2,000	¥	3,000	$	26,612

(3) Current portion of bonds payable at September 30, 2016 and 2017, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Current portion of bonds payable:						
Base interest rate of 6-month JBA Japanese Yen TIBOR	¥	50	¥	-	$	-

(4) Long-term debt at September 30, 2016 and 2017, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Long-term debt:						
Due 2017 to 2026 with weighted average interest rates of 0.74% and 0.65% at September 30,2016 and 2017, respectively	¥	11,786	¥	14,849	$	131,722
Less:						
Current portion of long-term debt:						
Weighted average interest rates of 1.00% and 0.69% at September 30, 2016 and 2017, respectively		2,783		2,918		25,889
	¥	9,002	¥	11,930	$	105,833

(5) Annual maturities of long-term debt at September 30, 2017, are as follows:

Years ending September 30,	Millions of Yen		Thousands of U.S. dollars	
	2017		2017	
2018	¥	2,918	$	25,889
2019		3,232		28,671
2020		1,776		15,754
2021		1,756		15,577
2022		1,520		13,486
2023 and thereafter		3,646		32,345
	¥	14,849	$	131,722

(6) Lease obligations at September 30, 2016 and 2017, are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Lease obligations:						
Due 2017 to 2024 with weighted average interest rates of 1.79% and 1.80% at September 30, 2016 and 2017, respectively	¥	604	¥	505	$	4,484
Less:						
Current portion of long-term debt:						
Weighted average interest rates of 1.84% and 1.85% at September 30, 2016 and 2017, respectively		200		208		1,849
	¥	403	¥	297	$	2,636

(7) Annual maturities of Lease obligations at September 30, 2017, are as follows:

Years ending September 30,	Millions of Yen		Thousands of U.S. dollars	
	2017		2017	
2018	¥	208	$	1,849
2019		129		1,148
2020		89		796
2021		57		506
2022		16		143
2023 and thereafter		4		42
	¥	505	$	4,484

15 Securities

(1) The Companies did not hold any trading securities as of September 30, 2016 and 2017.

(2) The Companies did not hold any held-to-maturity securities as of September 30, 2016 and 2017.

(3) The Companies held shares of other securities as of September 30, 2016 and 2017.

The book value, the acquisition cost and the unrealized gain or loss as of September 30, 2016 and 2017, are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2016			2017			2017		
	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	¥721	¥33	¥687	¥ 1,120	¥ 134	¥986	$ 9,939	$1,191	$8,748

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, 2016 and 2017, respectively.

(5) There was no impairment loss recognized on the stock in other securities for the year ended September 30, 2017.The amount of impairment loss recognized on the stock in other securities was ¥1 million for the year ended September 30, 2016.

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.

16 Derivative financial instruments

(1) The following table summarizes the derivative transactions as of September 30, 2016 and 2017, 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, 2016 and 2017.

(2) The following table summarizes the derivative transactions as of September 30, 2016 and 2017, for which hedge accounting has been applied:

Interest related:

			Millions of yen		
			2016		
			Contract amount		
Hedge accounting method	Classification	dged item	Total	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swap contracts: Pay/fixed and receive/floating	Long-term debt	¥ 3,209	¥ 2,210	(*)

			Millions of yen			Thousands of U. S. dollars		
			2017			2017		
			Contract amount			Contract amount		
Hedge accounting method	Classification	dged item	Total	Due after one year	Fair value	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	¥ 2,210	¥ 1,733	(*)	$ 19,611	$ 15,378	(*)

* 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.

17 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.
Certain subsidiaries joined the employees' pension plan fund systems ,but please note the employees' pension plan fund systems was dissolved on November 21, 2016 with the approval of the Minister of Health, Labor and Welfare.

1. Multi-employer plans

The required contributions to employees' pension plan fund systems, which are accounted for in the same manner as the defined contribution plan, for the years ended September 30, 2016 were ¥67 million. There are no required contributions amount for the current consolidated for the years ended September 30, 2017.

2. 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
	2016	2017	2017
Balance at the beginning of the year	¥ 4,616	¥ 5,562	$ 49,347
Service cost	651	746	6,620
Interest cost	54	16	144
Actuarial losses (gains) arising during the year	427	114	1,018
Retirement benefits paid	(168)	(239)	(2,129)
Other	(17)	(26)	(236)
Balance at the end of the year	¥ 5,562	¥ 6,173	$ 54,764

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Retirement benefit obligation under the unfunded plans	¥ 5,562	¥ 6,173	$ 54,764
Net defined benefit liability	¥ 5,562	¥ 6,173	$ 54,764

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥ 651	¥ 746	$ 6,620
Interest cost	54	16	144
Amortization of actuarial losses (gains)	125	427	3,789
Amortization of prior service cost	47	47	418
Total retirement benefit costs	¥ 877	¥ 1,236	$ 10,971

(d) Remeasurements of defined benefit plans before tax effects

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Prior service cost	¥ (47)	¥ (47)	$ (418)
Actuarial loss	301	(312)	(2,771)
Total	¥ 254	¥ (359)	$ (3,189)

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized prior service cost	¥ 191	¥ 144	$ 1,280
Unrecognized actuarial losses (gains)	427	114	1,018
Total	¥ 618	¥ 259	$ 2,298

(f) Actuarial assumptions

The principal actuarial assumption at September 30, 2016 and 2017 are as follows:

	2016	2017
Weighted average discount rate	0.20%~0.70%	0.20%~0.70%

The Company uses the index of salary increases by age at September 30, 2016 and 2017, as the expected rate of future salary increases.

3. 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
	2016	2017	2017
Balance at the beginning of the year	¥ 639	¥ 762	$ 6,768
Retirement benefit cost	297	222	1,977
Retirement benefit paid	(106)	(121)	(1,076)
Contribution to the plans	(67)	-	-
Other	0	30	267
Balance at the end of the year	¥ 762	¥ 894	$ 7,935

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Retirement benefit obligation under the funded plans	¥ 50	¥ 49	$ 441
Plan assets	(6)	(5)	(50)
Retirement benefit obligation under the unfunded plans	718	850	7,545
Net defined benefit liability	¥ 762	¥ 894	$ 7,935

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Retirement benefit cost	¥ 297	¥ 222	$ 1,977

4. Defined contribution plans

Contributions to the defined contribution pension plans are ¥8 million as of September 30, 2016, and ¥10 million ($ 89 thousand) as of September 30, 2017.

18 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 33.06% for the year ended September 30, 2016 and 30.86% for the year ended September 30, 2017.

The reconciliation of the difference between the statutory income tax rates and the actual effective income tax rates for the years ended September 30, 2016 and 2017, is as follows:

	2016	2017
Statutory income tax rate	33.06 %	30.86 %
Permanently non-deductible expenses	1.73	0.99
Per capita inhabitants tax	2.77	2.30
Amortization of goodwill	5.74	2.64
Equity in losses of affiliates	1.38	0.97
Change in valuation allowance	13.13	7.25
Effect of enacted change in tax highs and rates	(0.32)	-
Statutory tax rate difference between the Company and certain subsidiaries	3.29	3.75
Other	(0.11)	0.08
Actual effective income tax rates	60.67 %	48.84 %

(2) Significant components of deferred tax assets and liabilities as of September 30, 2016 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Provision for bonuses	¥ 841	¥ 925	$ 8,208
Provision for loss on orders received	137	198	1,758
Allowance for doubtful accounts	74	174	1,551
Enterprise tax payable	83	114	1,017
Loss on valuation of inventories	183	249	2,215
Asset retirement obligations	127	129	1,148
Accounts payable-other	33	17	157
Net defined benefit liability	2,152	2,426	21,526
Net operating loss carry-forwards	1,044	1,059	9,402
Loss on valuation of investment securities	239	239	2,123
Accumulated depreciation	114	76	679
Other	227	113	1,005
Total deferred tax assets	5,260	5,725	50,789
Less: Valuation allowance	(1,730)	(1,809)	(16,055)
Net deferred tax assets	3,530	3,915	34,733
Deferred tax liabilities:			
Gain on revaluation of fixed assets	(96)	(86)	(770)
Removal expenses associated with asset retirement obligations	(86)	(85)	(763)
Unrealized gain (loss) on securities	(201)	(292)	(2,597)
Other	(48)	(60)	(536)
Total deferred tax liabilities	(434)	(525)	(4,666)
Net deferred tax assets	¥ 3,095	¥ 3,389	$ 30,068

(3) Revision of amount of deferred tax assets and liabilities following amendment of the rate of corporation tax, etc.

For the Domestic Companies, the timing for the proposed increase of consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019 due to that the “Act for Partial Amendment of the Consumption Tax Act for Fundamental Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 85 of 2016) and the “Act for Partial Amendment of the Local Tax Act and the Local Allocation Tax Act for Fundamental Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” (Act No. 86 of 2016) were passed by the Diet on November 18, 2016.

Accordingly, the timing of the abolition of the special local corporate tax and associated restoration of corporate enterprise tax, the revision of the local corporate tax rate, and the revision of the corporate inhabitant tax rate were postponed from the fiscal year commencing on or after April 1, 2017 to the fiscal year commencing on or after October 1, 2019.

The statutory income tax rates used to calculate deferred tax assets and deferred tax liabilities have not changed, but the tax rate has been reclassified between national tax and local tax.

The impact of this change on the financial statements is immaterial.

19 Business combinations

There is no material Business combinations to be reported as of September 30, 2017.

20 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, 2016 and 2017, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance at the beginning of the year	¥ 401	¥ 410	$ 3,638
Liabilities incurred due to the acquisition of property, plant and equipment	12	42	375
Accretion adjustment	4	4	36
Settlement of obligations	(18)	(37)	(330)
Other	11	(3)	(27)
Balance at the end of the year	¥ 410	¥ 416	$ 3,691

21 Investment and rental property

There is no material investment and rental property to be reported as of September 30, 2016 and 2017 respectively.

22 Segment information

1. General Information about Reportable Segments

CMIC Group has five reportable segments, CRO business, CDMO business, CSO business, Healthcare business and IPM business, which have been summarized and classified under the services and business domain which CMIC group offers based on the concept of Pharmaceutical Value Creator (PVC). Well, PVC is the original business model of our group, which strives for increasing the value of pharmaceutical companies.

Each reportable segment can provide its individual financial reports respectively, and the individual financial reports can also be an object of the deliberation at Board Meeting when Board Members decide the distribution of the business resources or evaluate the business performance regularly.

Due to the change in our Group's organizational structure in October, 2016, the assigned segment of CMIC Career Co., Ltd. has been changed from CSO business to CRO business from this fiscal year. Also assigned IPM business of CMIC HOLDINGS Co., Ltd. has been converted to CRO business from the same time. Furthermore, the part of CDMO business of CMIC CMO Co., Ltd. had also been converted to IPM business. Finally the segment title of CMO has been changed to CDMO (Contract Development and Manufacturing Organization), and that of IPD has been done to IPM (Innovative Pharma Model).

Well, the segment information of preceding fiscal year is recalculated in accordance with current segment classification.

Each segment is made of Company and our affiliates as follows;

Segment	Products/Services	CMIC Group Companies (as of September 30, 2017)
CRO Business	Services related to pharmaceutical development support, analytical chemistry services, and healthcare for pharmaceutical companies, and BPO and personnel services for the pharmaceutical industry	CMIC HOLDINGS Co., Ltd. CMIC Co., Ltd. CMIC-PMS Co., Ltd. CMIC ShiftZero K.K. CMIC Korea Co., Ltd. CMIC ASIA-PACIFIC, PTE. LTD. CMIC ASIA PACIFIC (MALAYSIA) SDN. BHD. CMIC Asia-Pacific (Hong Kong) Limited CMIC (Beijing) Pharmaceutical Services Co., Ltd. CMIC (Beijing) Co., Ltd. CMIC Pharma Science Co., Ltd. CMIC, INC. CMIC (Suzhou) Pharmaceutical Technology Co., Ltd. CMIC Career Co., Ltd.
CDMO Business	Services related to drug formulation development and manufacturing support, from formulation design to investigational new drug manufacturing to commercial production of ethical drugs and nonprescription drugs for pharmaceutical companies	CMIC CMO Co., Ltd. CMIC CMO Korea Co., Ltd. CMIC CMO USA Corporation
CSO Business	Services provided to pharma companies related to sales & marketing support	CMIC Ashfield Co., Ltd.
Healthcare Business	Support services primarily for medical institutions and treating, maintaining, and promoting the health of patients and general consumers, such as SMO services and healthcare information services	Site Support Institute Co., Ltd. CMIC Healthcare Co., Ltd. CMIC VIETNAM COMPANY LIMITED
IPM Business	New business solutions provided to pharmaceutical companies that combine marketing authorization licensing and value chains. At the present stage, we are delivering development and marketing services for orphan drugs and diagnostics	CMIC HOLDINGS Co., Ltd. CMIC CMO Co., Ltd. OrphanPacific, 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, 2016 (Millions of yen)

	CRO	CDMO	CSO	Healthcare	IPM	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥31,565	¥14,164	¥7,232	¥6,833	¥2,243	¥62,039	¥-	¥62,039
Inter-segment	151	37	165	61	1	417	(417)	-
Total	31,716	14,201	7,397	6,895	2,245	62,456	(417)	62,039
Segment profit (loss)	5,193	293	452	172	(228)	5,883	(2,520)	3,363
Segment assets	23,847	24,675	2,240	5,236	2,869	58,869	235	59,104
Others								
Depreciation	842	1,574	29	103	16	2,566	-	2,566
Impairment loss	-	10	-	-	0	11	-	11
Amortization of goodwill	517	-	0	37	-	554	-	554
Increase in fixed assets	¥1,329	¥4,090	¥1	¥36	¥-	¥5,458	¥153	¥5,611

Notes: 1. The adjustment amount of ¥(2,520) million in segment profit (loss) includes intersegment eliminations and others of ¥17 million and unallocated corporate expenses of ¥(2,537) million .

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

3. The adjustment amount of ¥235 million in segment assets includes unallocated corporate assets of ¥17,632 million and intersegment elimination and others of ¥(17,397) 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, 2017 (Millions of yen)

	CRO	CDMO	CSO	Healthcare	IPM	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	¥34,024	¥14,365	¥6,885	¥7,628	¥2,378	¥65,282	¥-	¥65,282
Inter-segment	152	93	0	77	2	326	(326)	-
Total	34,176	14,459	6,885	7,706	2,380	65,608	(326)	65,282
Segment profit (loss)	5,844	462	415	988	(627)	7,083	(3,186)	3,897
Segment assets	28,350	29,154	2,172	6,084	2,401	68,161	(2,556)	65,605
Others								
Depreciation	988	1,683	28	107	14	2,822	-	2,822
Impairment loss	-	-	-	-	-	-	-	-
Amortization of goodwill	348	-	6	-	-	355	-	355
Increase in fixed assets	¥869	¥5,029	¥11	¥12	¥3	¥5,925	¥446	¥6,372

As of and for the year ended September 30, 2017 (Thousands of U.S. dollars)

	CRO	CDMO	CSO	Healthcare	IPM	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales								
External customers	$301,819	$127,432	$61,080	$67,671	$21,099	$579,102	$-	$579,102
Inter-segment	1,351	833	3	689	22	2,896	(2,896)	-
Total	303,170	128,265	61,083	68,359	21,121	581,998	(2,896)	579,102
Segment profit (loss)	51,848	4,099	3,682	8,770	(5,568)	62,833	(28,263)	34,570
Segment assets	251,488	258,622	19,268	53,971	21,299	604,648	(22,674)	581,974
Others								
Depreciation	8,766	14,938	251	953	129	25,036	-	25,036
Impairment loss	-	-	-	-	-	-	-	-
Amortization of goodwill	3,093	-	58	-	-	3,151	-	3,151
Increase in fixed assets	$7,712	$44,618	$99	$111	$28	$52,568	$3,957	$56,525

Notes: 1. The adjustment amount of ¥(3,186) million($(28,263) thousand) in segment profit (loss) includes intersegment eliminations and others of ¥(2) million($(18) thousand) and unallocated corporate expenses of ¥(3,184) million($(28,245) thousand) .

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

3. The adjustment amount of ¥(2,556) million ($(22,674) thousand) in segment assets includes unallocated corporate assets of ¥23,400 million ($207,584 thousand) and intersegment elimination and others of ¥(25,957) million ($(230,258) 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) Net sales

As of and for the year ended September 30, 2016 (Millions of yen)

	Japan	Americas	Others	Total
Net sales	55,349	5,182	1,506	62,039
Percentage of the consolidated net sales	89.2%	8.4%	2.4%	100.0%

As of and for the year ended September 30, 2017 (Millions of yen)

	Japan	Americas	Others	Total
Net sales	57,171	6,322	1,788	65,282
Percentage of the consolidated net sales	87.6%	9.7%	2.7%	100.0%

(Thousands of U.S. dollars)

	Japan	Americas	Others	Total
Net sales	507,151	56,085	15,865	579,102
Percentage of the consolidated net sales	87.6%	9.7%	2.7%	100.0%

(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, 2017, is as follows:

There is no major unaffiliated customer which accounts for 10% or more of the net sales on consolidated statements of income.

23 Transactions with related parties

1. Transactions between the Company and related parties for the year ended September 30, 2016 and 2017, are as follows:

Company directors, shareholders (Individual only), etc.

As of and for the year ended September 30, 2016

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	Artemis Inc. (Note 2)	Shibuya-ku, Tokyo	¥11	Asset management Management of the museum and accommodation	(21.4) owned, directly	Administrative service Rent of accommodation facilities for training	¥27 ¥16	Accounts payable-other	¥6

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, Representative managing director of CMIC HOLDINGS Co., Ltd. Keiko Nakamura and their family indirectly holds 100% of the voting rights.

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

As of and for the year ended September 30, 2017

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 Management of the museum and accommodation	(21.4) owned, directly	Administrative service Rent of accommodation facilities for training	¥36 ¥17	$325 $153	Accounts payable-other	¥3	$35

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, Representative managing director of CMIC HOLDINGS Co., Ltd. Keiko Nakamura and their family indirectly holds 100% of the voting rights.

3. 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, 2016 and 2017, are as follows:

Company directors, shareholders (Individual only), etc.

As of and for the year ended September 30, 2016

No related parties transaction was recorded.

As of and for the year ended September 30, 2017

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 Management of the museum and accommodation	(21.4) owned, directly	Administrative service Rent of accommodation facilities for training	¥11	$102	Accounts payable-other	¥1	$9

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, Representative managing director of CMIC HOLDINGS Co., Ltd. Keiko Nakamura and their family indirectly holds 100% of the voting rights.

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

24 Amounts per share

Net assets and profit attributable to owners of parent per share as of and for the years ended September 30, 2016 and 2017, are as follows:

	Yen		U.S. dollars
	2016	2017	2017
Net assets per share	¥ 1,122.55	¥ 1,222.37	$ 10.84
Profit attributable to owners of parent per share	47.00	82.90	0.74

Diluted profit attributable to owners of parent per share for the years ended September 30, 2016 and 2017 is not presented, since no potential shares that could have had a dilutive effect exist.

25 Subsequent event

There is no material Subsequent event to be reported as of September 30, 2017.