CMIC HOLDINGS Co., Ltd.

Consolidated Financial Statements

For the Year ended September 30,2022

Together with Independent

Auditors’ Report

Independent Auditor's Report

The Board of Directors
CMIC HOLDINGS Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of CMIC HOLDINGS Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at September 30, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of non-current assets (Ashikaga plant of CMIC CMO Co., Ltd.)

Description of Key Audit Matter	Auditor's Response
On September 30, 2022, property, plant and equipment and intangible assets are valued at ¥45,114 million in the consolidated balance sheet, which represented 42% of total assets. CMIC HOLDINGS Co., Ltd. (the Company) recorded property, plant and equipment and intangible assets of the asset group related to Ashikaga Plant (the new sterile injectable production facility) of CMIC CMO Co., Ltd in CDMO business of ¥4,999 million as of September 30, 2022. As described in the Note (Significant Accounting Estimates), the Company determined that there was an indication of impairment for the asset group due to continuous operating losses recorded. However, the Company did not recognize an impairment loss as the undiscounted estimated future cash flows generated from the asset group exceeded the book value. The estimated future cash flows generated from the continued use of an asset or assets group are determined based on the business plan approved by the Board of Directors. As described in Note (Significant Accounting Estimates), significant assumptions in estimating future cash flows include sales unit price and order volume which serve as the basis of the business plan. Given that the significant assumptions used to estimate the recoverable amount are subject to uncertainty and require management's judgement, as well as quantitative materiality of property, plant and equipment and intangible assets on this business, we determined valuation of non-current assets to be a key audit matter.	The audit procedures we performed to assess impairment loss on property, plant and equipment and intangible assets in Ashikaga Plant of CMIC CMO Co., Ltd. include the following, among others: ・We compared the cash flows projection period with the remaining economic useful lives of the major assets. ・We compared the estimated future cash flows with the business plan approved by the Board of Directors to evaluate consistency. ・We compared the Company's business plan for prior years with actual results to evaluate the effectiveness of management's estimation process. ・We assessed the significant assumptions in the Company's business plan including sales unit price and order volume which serve as the basis of the business plan, by discussing with the management and comparing contract, estimation and order forecast to evaluate consistency.

Valuation of non-current assets （CMIC CMO USA Corporation）	
Description of Key Audit Matter	Auditor's Response
On September 30, 2022, property, plant and equipment and intangible assets are valued at ¥42,822 million in the consolidated balance sheet, which represented 40% of total assets. As described in the Note (Note 11 Impairment loss on non-current assets), the Company determined that there was an indication of impairment for the asset group related to property, plant and equipment and intangible assets of ¥2,774 million in CMIC CMO USA Corporation as the start of operation of the new facility has been significantly delayed from the original plan due to the novel coronavirus (COVID-19) and other factors. As the undiscounted estimated future cash flows generated from the asset group is below the book value, the Company reduced the book value to the fair value and recognized an impairment loss of ¥1,386 million. In assessing the amount of impairment loss on non-current assets, the Company measures the fair value of the asset group based on net selling price. Significant assumptions in estimating future cash flows include the timing of Food and Drug Administration (FDA) approval. Given that the significant assumptions used to estimate future cash flows are subject to uncertainty and require management's judgement, as well as quantitative materiality of property, plant and equipment and intangible assets on this business, we determined impairment loss on non-current assets to be a key audit matter.	The audit procedures we performed to assess impairment loss on property, plant and equipment and intangible assets by involving the component audit teams in the United States included the following, among others: (1) Evaluation on reasonableness of estimation for future cash flows ・ We understood the lease agreement detail and compared the cash flows projection period with the remaining economic useful lives of the major assets. ・ We compared the estimated future cash flows with the business plan approved by the Board of Directors to evaluate consistency. ・ We compared the Company's business plan for prior years with actual results to evaluate the effectiveness of management's estimation process. ・ We assessed the significant assumptions including the timing of FDA approval, by discussing with the management and comparing the average term for FDA approval with FDA guideline to evaluate consistency. (2) Consideration for the fair value of leased assets. We obtained the market rent information of rental real estate prepared by external research company and compared the rent of leased assets with its market rent information.

Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

February 28, 2023

/s/ Kaeko Kitamoto
Kaeko Kitamoto
Designated Engagement Partner
Certified Public Accountant

/s/ Mikio Shimizu
Mikio Shimizu
Designated Engagement Partner
Certified Public Accountant

CONSOLIDATED BALANCE SHEET

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
As of September 30, 2021 and 2022

	Millions of yen	
ASSETS	2021	**2022**
Current assets:		
Cash and deposits (Note 15)	¥ 9,381	¥ **11,806**
Notes and accounts receivable-trade	18,065	―
Notes and accounts receivable-trade, and contract assets (Note 3)	―	**24,632**
Merchandise and finished goods(Note 8)	560	**526**
Work in process(Note 8)	4,715	**4,384**
Raw materials and supplies(Note 8)	2,503	**3,932**
Other	3,409	**2,786**
Allowance for doubtful accounts	(59)	**(58)**
Total current assets	38,577	**48,010**
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	26,886	**29,412**
Machinery, equipment and vehicles	24,059	**25,593**
Tools, furniture and fixtures	7,118	**8,026**
Land	6,570	**6,836**
Leased assets	3,792	**5,183**
Construction in progress	3,414	**4,335**
Less: accumulated depreciation	(31,752)	**(36,565)**
Total property, plant and equipment	40,089	**42,822**
Intangible assets:		
Goodwill	54	**32**
Other	1,907	**2,260**
Total intangible assets	1,961	**2,292**
Investments and other assets:		
Investment securities (Notes 17 and 19)	2,813	**3,039**
Deferred tax assets (Note 22)	5,389	**8,471**
Lease and guarantee deposits	1,974	**2,350**
Other	998	**1,321**
Allowance for doubtful accounts	(611)	**(719)**
Total investments and other assets	10,564	**14,464**
Total non-current assets	52,615	**59,580**
Total assets	¥ 91,192	¥ **107,590**

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, 2021 and 2022

	Millions of yen	
LIABILITIES AND NET ASSETS	2021	**2022**
Current liabilities:		
Notes and accounts payable-trade	¥ 1,034	¥ **1,190**
Short-term borrowings(Notes 18)	918	**—**
Current portion of long-term debt(Notes 17 and 18)	3,652	**3,602**
Accounts payable-other	6,495	**8,400**
Accrued expenses	1,484	**2,024**
Income taxes payable	3,312	**3,868**
Advances received	1,944	**—**
Contract liabilities	—	**4,470**
Provision for bonuses	3,138	**6,110**
Provision for directors' bonuses	89	**92**
Provision for loss on orders received	1,307	**1,225**
Other	4,445	**4,888**
Total current liabilities	27,823	**35,872**
Non-current liabilities:		
Long-term debt(Notes 17 and 18)	12,469	**13,534**
Lease obligations	2,689	**3,627**
Deferred tax liabilities (Note 22)	11	**12**
Net defined benefit liability（Note 21）	10,258	**11,000**
Asset retirement obligations (Note 23)	571	**370**
Long-term unearned revenue	2,542	**1,581**
Other	340	**322**
Total non-current liabilities	28,883	**30,448**
Total liabilities	56,706	**66,320**
NET ASSETS (Note 14)		
Shareholders' equity:		
Capital stock		
Authorized-46,000,000 shares Issued-18,923,569 shares in 2021	3,087	
Authorized-46,000,000 shares Issued-18,923,569 shares in 2022		**3,087**
Capital surplus	6,100	**6,093**
Retained earnings	16,600	**24,444**
Treasury shares, at cost-833,290 shares in 2021 and 1,367,340 shares in 2022	(1,546)	**(2,346)**
Total shareholders' equity	24,242	**31,279**
Accumulated other comprehensive income （Note 13 and 21）:		
Unrealized gain (loss) on securities	642	**742**
Foreign currency translation adjustments	(1)	**(432)**
Remeasurements of defined benefit plans	182	**34**
Total accumulated other comprehensive income	822	**344**
Non-controlling interests	9,420	**9,645**
Total net assets	34,485	**41,269**
Total liabilities and net assets	¥ 91,192	¥ **107,590**

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, 2021 and 2022

	Millions of yen	
	2021	**2022**
Net sales (Note 7)	¥ 85,788	**¥ 108,461**
Costs and expenses:		
Cost of sales	(68,061)	**(82,203)**
Gross profit	17,727	**26,258**
Selling, general and administrative expenses （Notes 9 and 10）:	(12,806)	**(14,412)**
Operating income	4,920	**11,845**
Non-operating income (expenses):		
Interest income	2	**3**
Foreign exchange gains	190	**1,720**
Share of profit of entities accounted for using equity method	20	－
Other income	187	**106**
Interest expenses	(133)	**(152)**
Commission expenses	(19)	**(29)**
Other expenses	(76)	**(43)**
Total Non-operating income (expenses)	170	**1,604**
Ordinary income	5,091	**13,450**
Extraordinary income (losses):		
Gain on sales of investment securities	577	－
Gain on sales of shares of subsidiaries and affiliates	19	－
Gain on forgiveness of debts	117	－
Gain on reversal of asset retirement obligations	－	**139**
Impairment loss(Note 11)	(2,102)	**(1,386)**
Loss on retirement of non-current assets(Note 12)	(107)	**(155)**
Loss on valuation of investment securities	(122)	**(8)**
Total extraordinary income (losses)	(1,617)	**(1,410)**
Profit before income taxes	3,474	**12,039**
Income taxes (Note 22):		
Current	3,947	**6,066**
Deferred	(1,550)	**(3,071)**
Total income taxes	2,397	**2,994**
Profit	1,077	**9,045**
Profit (loss) attributable to non-controlling interests	(946)	**657**
Profit attributable to owners of parent	¥ 2,023	**¥ 8,387**

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

CONSOLIDATED STATEMENT OF INCOME (continued)

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2021 and 2022

	2021	2022
	Yen	Yen
Amounts per share of common stock:		
Profit attributable to owners of parent(Note 28)	¥ 111.85	¥ **469.44**
Diluted net income	—	—
Cash dividends applicable to the year(Note 14)	33.50	**50.00**

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, 2021 and 2022

	Millions of yen	
	2021	**2022**
Profit	¥ 1,077	¥ **9,045**
Other comprehensive income （Note 13 and 21）:		
Unrealized gain (loss) on securities	(694)	**99**
Foreign currency translation adjustments	7	**(828)**
Remeasurements of defined benefit plans	561	**(173)**
Share of other comprehensive income of entities accounted for using equity method	(1)	—
Total other comprehensive income	(127)	**(902)**
Comprehensive income	¥ 949	¥ **8,142**
Comprehensive income attributable to:		
Owners of the parent	¥ 1,913	¥ **7,909**
Non-controlling interests	(963)	**233**

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, 2021 and 2022

	Shares	
	2021	**2022**
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	
	2021	**2022**
Capital stock:		
Balance at the beginning of the year	¥ 3,087	**¥ 3,087**
Balance at the end of the year	3,087	**3,087**
Capital surplus:		
Balance at the beginning of the year	6,100	**6,100**
Change in ownership interest of parent due to transactions with non-controlling interests	─	**(6)**
Balance at the end of the year	6,100	**6,093**
Retained earnings:		
Balance at the beginning of the year	15,052	**16,600**
Cumulative effects of changes in accounting policies		**67**
Restated balance		**16,667**
Profit attributable to owners of parent	2,023	**8,387**
Cash dividends paid - ¥25.00 per share in 2021	(456)	
¥33.50 per share in 2022		**(610)**
Change in scope of consolidation	(18)	**(0)**
Balance at the end of the year	16,600	**24,444**
Treasury stock:		
Balance at the beginning of the year	(1,545)	**(1,546)**
Acquisition of treasury stock	(0)	**(800)**
Balance at the end of the year - 833,290 shares in 2021 and 1,367,340 shares in 2022	(1,546)	**(2,346)**
Total shareholders' equity	¥ 24,242	**¥ 31,279**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (continued)

CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries

Years ended September 30, 2021 and 2022

	Millions of yen	
	2021	**2022**
Unrealized gain (loss) on securities:		
Balance at the beginning of the year	¥ 1,336	¥ **642**
Net change in items other than those in shareholders' equity	(694)	**100**
Balance at the end of the year	642	**742**
Foreign currency translation adjustments:		
Balance at the beginning of the year	(29)	**(1)**
Net change in items other than those in shareholders' equity	28	**(431)**
Balance at the end of the year	(1)	**(432)**
Remeasurements of defined benefit plans		
Balance at the beginning of the year	(373)	**182**
Net change in items other than those in shareholders' equity	555	**(147)**
Balance at the end of the year	182	**34**
Total accumulated other comprehensive income	822	**344**
Non-controlling interests		
Balance at the beginning of the year	10,384	**9,420**
Net change in items other than those in shareholders' equity	(963)	**224**
Balance at the end of the year	9,420	**9,645**
Total net assets	¥ 34,485	¥ **41,269**

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, 2021 and 2022

	Millions of yen	
	2021	**2022**
Cash flows from operating activities:		
Profit before income taxes	¥ 3,474	¥ **12,039**
Depreciation	5,161	**5,227**
Impairment loss	2,102	**1,386**
Amortization of goodwill	21	**21**
Increase (decrease) in allowance for doubtful accounts	34	**105**
Interest income and dividends	(2)	**(3)**
Interest expenses	133	**152**
Commission expenses	19	**29**
Foreign exchange losses (gains)	(41)	**(1,646)**
Share of loss (profit) of entities accounted for using equity method	(20)	―
Decrease (increase) in notes and accounts receivable – trade	(4,795)	**(6,064)**
Decrease (increase) in inventories	147	**(1,398)**
Increase (decrease) in notes and accounts payable – trade	3	**124**
Increase (decrease) in provision for bonuses	721	**2,962**
Increase (decrease) in provision for directors' bonuses	89	**2**
Increase (decrease) in net defined benefit liability	1,163	**471**
Increase (decrease) in provision for loss on order received	481	**(81)**
Loss (gain) on sales of investment securities	(577)	―
Loss (gain) on valuation of investment securities	122	**8**
Loss (gain) on sales of shares of subsidiaries and affiliates	(19)	―
Loss on retirement of non-current assets	107	**155**
Gain on forgiveness of debt	(117)	―
Gain on reversal of asset retirement obligations	―	**(139)**
Increase (decrease) in advances received	215	―
Increase (decrease) in contract liabilities	―	**2,111**
Increase (decrease) in accrued expenses	155	**488**
Increase (decrease) in deposits received	398	**557**
Other, net	1,971	**143**
Subtotal	10,949	**16,654**
Interest and dividend income received	47	**2**
Interest expenses paid	(141)	**(154)**
Income taxes paid	(1,050)	**(5,289)**
Net cash provided by (used in) operating activities	¥ 9,804	¥ **11,213**

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
CMIC HOLDINGS Co., Ltd. and consolidated subsidiaries
Years ended September 30, 2021 and 2022

	Millions of yen			
		2021		**2022**
Cash flows from investing activities				
Payments into time deposits	¥	—	¥	**(99)**
Purchase of property, plant and equipment		(6,527)		**(6,508)**
Proceeds from sales of property, plant and equipment		9		**12**
Purchase of investment securities		(80)		**(80)**
Proceeds from sales of investment securities		734		**30**
Purchase of intangible assets		(744)		**(885)**
Payment for investments in subsidiaries		(60)		**(136)**
Net decrease (increase) in short-term loans receivable		1		**—**
Payments for lease and guarantee deposits		(54)		**(466)**
Proceeds from collection of lease and guarantee deposits		55		**98**
Other, net		(19)		**(8)**
Net cash provided by (used in) investing activities		(6,685)		**(8,045)**
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable		(5,000)		**(918)**
Proceeds from long-term loans payable		5,800		**4,700**
Repayments of long-term loans payable		(3,259)		**(3,684)**
Purchase of treasury stock		(0)		**(800)**
Cash dividends paid		(456)		**(610)**
Dividends paid to non-controlling interests		—		**(8)**
Repayments of lease obligations		(431)		**(552)**
Proceeds from sale and leaseback transactions		—		**643**
Net increase (decrease) in commercial papers		(3,000)		**—**
Net cash provided by (used in) financing activities		(6,348)		**(1,230)**
Effect of exchange rate change on cash and cash equivalents		(82)		**325**
Net increase (decrease) in cash and cash equivalents		(3,310)		**2,263**
Cash and cash equivalents at beginning of period		12,688		**9,379**
Increase in cash and cash equivalents from newly consolidated subsidiary		1		**60**
Cash and cash equivalents at end of period (Note 15)	¥	9,379	¥	**11,703**

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.

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, 2022, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method are 24 and 1 (24 and 0 in 2021). The accompanying consolidated financial statements for the years ended September 30, 2021 and 2022 include the accounts of the Company and its subsidiaries (the “Companies”).

“CMIC CMO NISHINE Co., Ltd.” has been excluded from the scope of consolidation due to the merger with CMIC CMO Co., Ltd. during the current fiscal year.

“harmo Co., Ltd.”, has been included in the scope of consolidation due to its increasing significance during the current fiscal year.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. The Company has an affiliate as such at September 30, 2021 and 2022.

The fiscal year-end of CMIC (Beijing) Co., Ltd. is December 31. This subsidiary provisionally closes its books at September 30 for the purpose of consolidation of the Company. The fiscal year-end of the other subsidiaries other than the above 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- Securities are classified into three categories: trading, held-to-maturity or available-for-sale. The Companies have no securities categorized as trading securities or held-to-maturity securities. Marketable securities classified as available-for-sale securities are stated at fair value. 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. Non-marketable securities classified as available-for-sale 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: 2 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- The Companies use the same depreciation method that applies to self-owned fixed assets for finance lease transactions that transfer ownership and use the straight-line method over the lease term with no residual value for finance lease transactions that do not transfer ownership.

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

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

Provision for directors’ bonuses- The Companies provide an allowance for directors’ 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.

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.

Accounting standards for significant revenue and expenses- For the Companies' revenue from contracts with customers, the details of major performance obligations in their major businesses and a point in time when the performance obligation is satisfied (a point in time when revenue is recognized) are as follows:

(1)Pharmaceutical Solutions

CRO(Contract Research Organization)-Main customers are pharmaceutical companies, and the Companies carry out services related to pharmaceutical development support. The Companies recognizes performance obligations to provide the services, which include consulting services from development to application for approval and launch of pharmaceuticals, regenerative medicine products, medical devices, analytical chemistry services related to quality assurance and pharmacokinetics ,non-clinical and clinical studies to confirm the efficacy and safety of candidate substances, PMS (post-marketing surveillance) ,and clinical research , etc. The Companies recognize that such performance obligations are satisfied primarily in accordance with the provision of services in contracts with customers. When an invoiced amount (right to invoice) directly corresponds to the consideration amount for the satisfied performance obligation, the Companies recognize revenue by the amount in which the invoice is entitled.

CDMO(Contract Development Manufacturing Organization)-Main customers are pharmaceutical companies, and the Companies carry out services related to pharmaceutical formulation development and manufacturing support. Mainly the Companies have performance obligations to provide customers with the products for commercial production, and recognize the revenue at the time when the performance obligation is completed by customers' acceptance of the products, because control of the products is transferred to the customers and the performance obligation is satisfied at that time.

Market Solutions-Main customers are pharmaceutical companies, and the Companies carry out services related to CSO(Contract Sales Organization) and provide services on dispatching MR to pharmaceutical companies and dispatching SR(Sales Representative) to medical device manufacturers , mainly. The companies recognize that performance obligations of dispatching service is to provide labor under contracts. The companies recognize that such performance obligations are satisfied in accordance with the provision of labor to customers, and the revenue is recognized based on the amount stipulated in the temporary staffing contract according to the utilization performance of the temporary staff during the dispatch period.

In addition, regarding the distribution business for orphan and other drugs, the companies have performance obligations to deliver the product, and recognize the revenue at the time when the performance obligation is completed by customers' acceptance of the product, because control of the products is transferred to the customer and the performance obligation is satisfied at that time.

(2)Healthcare Solutions -Healthcare Solutions is constituted Site Support Solutions business and Healthcare Revolution business, Site Support Solutions business provides comprehensive support for healthcare-related facilities and healthcare professionals, and Healthcare Revolution business provides solutions using a new ecosystem for healthcare to individuals and local governments. In both business, the companies recognize the provision of services in contracts with customers as performance obligation. The Companies recognize that such performance obligations are satisfied primarily in accordance with the provision of services in contracts with customers. When an invoiced amount (right to invoice) directly corresponds to the consideration amount for the satisfied performance obligation, the Companies recognize revenue by the amount in which the invoice is entitled.

In addition, regarding to provide the product for self-checking, the Companies have performance obligations to provide it for customers and recognize the revenue at the time when the performance obligation is completed by the customers' acceptance of the product, because control of the products is transferred to the customers and the performance obligation is satisfied at that time.

<u>Foreign currency translation-</u> 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 and Gaines and losses arising foreign currency transaction are presented as "Foreign exchange gains (losses)" in "CONSOLIDATED STATEMENT OF INCOME", 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".

<u>Hedge accounting-</u>

(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.

<u>Goodwill-</u> 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 with the exception of minor amounts which are charged to the consolidated statement of 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.

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

Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system-

The Company and its some domestic subsidiaries will apply the transition from the Consolidated Taxation System to the Group Tax Sharing System for the year ending of September 2023. However, the Company and its some domestic subsidiaries do not apply Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28 issued on February 16, 2018) to the transition to the group tax sharing system established under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and items revised under the non-consolidated taxation system in connection with the transition to the group tax sharing system, pursuant to the treatment as provided in Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39 issued on March 31, 2020), and instead apply the pre-amendment income tax provisions to the amount of deferred tax assets and deferred tax liabilities.

The Company and its some domestic subsidiaries will apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42 issued on August 12, 2021) from the beginning of the year ending of September 2023.

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.

Reclassification- Certain prior year amounts have been reclassified to conform to the current year presentation.

(Significant accounting estimates)

・Impairment loss on non-current assets

For the year ended September 30, 2021

(1) Amount recorded in the consolidated financial statements for the years ended September 30, 2021.

The Company determined that there was an indication of impairment for property, plant and equipment (tangible assets) and intangible assets of the asset group related to Ashikaga Plant (the new sterile injectable production facility) of CMIC CMO Co., Ltd. (CMIC CMO) (book value ¥ 5,985 million) and tangible assets and intangible assets of CMIC CMO USA Corporation (CMIC CMO USA) (book value ¥ 3,106 million). However, the Company did not recognize an impairment loss on tangible assets and intangible assets of CMIC CMO and CMIC CMO USA. as the undiscounted estimated future cash flows generated from the asset group exceeded the book value respectively.

(2) Information on significant accounting estimates for the identified items

① Calculation method

The Companies base their assets grouping into the smallest unit (asset group) that generates identifiable cash flows that are largely independent of cash flows from other assets or asset groups and determines whether there is an indication of impairment for each asset group. Whenever there are indications of impairment for an asset or an asset group, the Company determines whether recognition of impairment loss is necessary or not. When the Company determines that an impairment loss should be recognized, the book value is reduced to recoverable amount and an impairment loss is recognized.

The estimated future cash flows generated from the continued use of an asset or asset group are determined based on the business plan approved by the Board of Directors or other organs. In addition, the net realizable value is calculated based on the real estate appraisal value.

② Major assumptions

The major assumptions in estimating future cash flows include sales unit price, order volume, labor costs which serve as the basis of the business plan, and net realizable value of non-current assets.

③ Impact on consolidated financial statements for the next consolidated fiscal year

If major assumptions deviate from the actual results due to fluctuations in future economic trends, the Companies may determine that there are indications of impairment for new assets or asset groups. If the recoverable amount is less than the book value, an impairment loss may occur in the next consolidated fiscal year.

For the year ended September 30, 2022

(1) Amount recorded in the consolidated financial statements for the years ended September 30, 2022.

The Company determined that there was an indication of impairment for property, plant and equipment (tangible assets) and intangible assets of the asset group related to Ashikaga Plant (the new sterile injectable production facility) of CMIC CMO Co., Ltd. (CMIC CMO) (book value ¥ 4,999 million) However, the Company did not recognize an impairment loss on tangible assets and intangible assets of CMIC CMO . as the undiscounted estimated future cash flows generated from the asset group exceeded the book value .

(2) Information on significant accounting estimates for the identified items

① Calculation method

The Companies base their assets grouping into the smallest unit (asset group) that generates identifiable cash flows that are largely independent of cash flows from other assets or asset groups and determines whether there is an indication of impairment for each asset group. Whenever there are indications of impairment for an asset or an asset group, the Company determines whether recognition of impairment loss is necessary or not. When the Company determines that an impairment loss should be recognized, the book value is reduced to recoverable amount and an impairment loss is recognized.

The estimated future cash flows generated from the continued use of an asset or asset group are determined based on the business plan approved by the Board of Directors or other organs.

② Major assumptions

The major assumptions in estimating future cash flows include sales unit price and order volume which serve as the basis of the business plan.

③ Impact on consolidated financial statements for the next consolidated fiscal year

If major assumptions deviate from the actual results due to fluctuations in future economic trends, the Companies may determine that there are indications of impairment for new assets or asset groups. If the recoverable amount is less than the book value, an impairment loss may occur in the next consolidated fiscal year.

(Application of Accounting Standard for Revenue Recognition)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, dated March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, dated March 26, 2021) have been effective from the beginning of the year ended September 30, 2022 . And the Companies recognize revenue at the amount expected to be received in exchange for promised goods or services at the point in time when the control of the promised goods or services are transferred to a customer. Accordingly, the Companies determine that certain parts of service revenues that are recognized when all obligations are satisfied are recognized over a period of time in contracts which the Companies have the right to receive the portion of the performance of certain services. In addition, some expenses such as travel expenses incurred in connection with the provision of services has been changed to a method of recognizing it on a gross basis from the method of recognizing revenue on a net amount of consideration received from customers less amounts paid to third parties because they are determined to be parts of the consideration for the provided services and the role of the Companies are determined to be the principal. In accordance with the transitional treatment prescribed in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, the Companies adjusted the beginning balance of retained earnings for the cumulative effect of retroactive application of this new accounting policy prior to the beginning of the fiscal year ended September 30, 2022, and then have applied this new accounting policy from the beginning of the fiscal year ended September 30, 2022.

As a result, Net sales for the fiscal year ended September 30, 2022 increased by 3,293 million yen, cost of sales increased by 3,090 million yen, and operating income, ordinary income, and profit before income taxes each increased by 203 million yen. In addition, the beginning of the fiscal year ended September 30, 2022 balance of retained earnings increased by 67 million yen.

The effect on amounts per share information is described in "28 Amounts per share".

From the year ended September 30, 2022 ,"Notes and accounts receivable-trade", which was shown in "Current assets" in the consolidated balance sheet for the year ended September 30, 2021, have been changed to "Notes and accounts receivable-trade, and contract assets" , and "Advance received" , which was shown in "Current liabilities" in the consolidated balance sheet for the year ended September 30, 2021, have been changed to "Contract liabilities". In accordance with the transitional treatment stipulated in paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassifications have been made for the previous consolidated fiscal year using the new presentation method.

Furthermore, in accordance with the transitional treatment prescribed in paragraph 89-3 of the Accounting Standard for Revenue Recognition, Note "25 Revenue Recognition" for the year ended September 30,2021 was not stated.

(Application of Accounting Standard for Fair Value Measurement)

Effective from the beginning of the year ended September 30, 2022, the Companies have applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter, the "Accounting Standard for FVM"), etc. In accordance with the transitional treatments prescribed in paragraph 19 of the Accounting Standard for FVM and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Companies have applied the new accounting policy prospectively. There is no effect on the consolidated financial statements for the year ended September 30,2022, from this change.

In addition, the fair value hierarchy of financial instruments is disclosed in Note "17 Financial Instruments." In accordance with the transitional treatment prescribed in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, July 4, 2019), relevant information for the year ended September 2021 was not stated.

(Additional information)

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, 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, 2021 and 2022 were ¥184 million and ¥184 million.

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, 2021 and 2022 were 166 thousands shares and 166 thousands shares and the average number of stocks within the trust for the years ended September 30, 2021 and 2022 were 168 thousands shares and 166 thousands 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.

Accounting estimates relating to the spread of the novel coronavirus (COVID-19)-The Company prepared its accounting estimates based on the assumption that the impact of the spread of COVID-19 on the companies’ business results would be limited as of September 30, 2022.

3 The amounts of receivables and contract assets arising from contracts with customers

Of notes and accounts receivable - trade and contract assets, the amounts of receivables and contract assets arising from contracts with customers are as follows.

	Millions of yen
	2022
Notes receivable - trade	**¥ —**
Accounts receivable-trade	**18,779**
Contract assets	**5,852**

4 Reduction entry

Reduction entry amounts have been deducted from the acquisition cost of fixed assets by the national subsidies as of September 30, 2021 and 2022 are as follows:

	Millions of yen	
	2021	**2022**
Reduction entry	¥ 272	**¥ 276**
(breakdown)		
Property, plant and equipment		
Buildings and structures	44	**44**
Machinery, equipment and vehicles	199	**199**
Tools, furniture and fixtures	28	**32**

5 Shares of subsidiaries and associates

Shares of subsidiaries and associates as of September 30, 2021 and 2022 are as follows:

	Millions of yen	
	2021	**2022**
Investment securities	¥ 60	**¥ 129**
"Other" investments and other assets	0	**13**
Total	60	**143**
(The investment amount for Jointly Controlled Entities included in the above)	—	**13**

6 Commitment line

In order to efficiently finance business funds, the Company established commitment line contracts with three banks.
Commitment lines as of September 30, 2021 and 2022 are as follows.

	Millions of yen			
	2021		**2022**	
Commitment lines	¥	5,000	**¥**	**5,000**
Used portion of Commitment lines		—		—
Unused portion of Commitment lines	¥	5,000	**¥**	**5,000**

In the commitment line contracts, there are Financial covenants based on “the net asset value in the consolidated balance sheet”, “the operating profit / loss and the ordinary profit / loss in the consolidated statements of income” and so on.

7 Revenue from contracts with customers

Revenue from contracts with customers and other revenue are not separately presented at the net sales. Amounts of revenue from contracts with customers are stated in Note 25 Revenue Recognition - 1. Information on disaggregated revenue from contracts with customers.

8 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 included in cost of sales (Brackets are the gain on valuation of included in cost of sales) for the years ended September 30, 2021 and 2022, are as follows:

	Millions of yen			
	2021		**2022**	
Loss on valuation of inventories	¥	489	**¥**	**(477)**

9 Selling, General and Administrative Expenses

The main components of "Selling, General and Administrative Expenses" for the years ended September 30, 2021 and 2022, are as follows:

	Millions of yen	
	2021	**2022**
Provision for directors' bonuses	¥ 89	**¥ 92**
Salaries and allowances	4,456	**4,652**
Bonuses and provision for bonuses	1,259	**1,904**
Retirement benefit expenses	389	**221**
Provision for doubtful accounts	0	**1**

10 Research and development expenses

	Millions of yen	
	2021	**2022**
Research and development expenses	¥ 422	**¥ 304**

11 Impairment loss on non-current assets

Impairment loss on non-current assets for the year ended September 30, 2021, is as follows:

Company Name	Use	Location	Classification	Millions of yen
				2021
CMIC CMO Co., Ltd.	CDMO Business facilities	Ashikaga, Tochigi, Japan	Buildings and structures, Machinery, equipment and vehicles, Tools, furniture and fixtures,	¥ 2,102

To calculate impairment loss on non-current 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 Co., Ltd. have embarked on a drastic improvement plan aimed at establishing the future stable manufacturing , due to a drop in the production volume of our mainstay products and the deterioration of facilities on the non-current assets of the Ashikaga Plant(excluding the new sterile injectable production facility) . As a result, the book value of Ashikaga Plant (excluding the new sterile injectable production facility) has been reduced to the recoverable amount and the difference has been recognized as impairment loss on non-current assets.

The recoverable amount is measured based on the value in use. The value in use is calculated based on the estimated future cash flows generated from the continued use of the asset group based on the business plan approved by the Board of Directors, and the net realized value as of period with the remaining economic lives of the major assets based on the real estate appraisal value. The discount rate of the future cash flows is 5.69%.

Impairment loss on non-current assets for the year ended September 30, 2022, is as follows:

Company Name	Use	Location	Classification	Millions of yen
				2022
CMIC CMO USA Corporation	CDMO Business facilities	Cranberry, New Jersey , USA	Buildings and structures, Machinery, equipment and vehicles, Tools, furniture and fixtures, Construction in progress	**¥ 1,386**

To calculate impairment loss on non-current 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, the start of operation of the new facility of CMIC CMO USA Corporation has been significantly delayed from the original plan due to the novel coronavirus (COVID-19) and other factors, making it difficult to recover the amount in the current fiscal year within the originally expected period.
As a result, the book value of the new facility of CMIC CMO USA Corporation has been reduced to the fair value and the difference has been recognized as impairment loss on non-current assets.
The fair value is measured by net selling price.

12 Loss on retirement of non-current assets

Loss on retirement of non-current assets for the years ended September 30, 2021 and 2022, are as follows:

	Millions of yen	
	2021	**2022**
Buildings and structures	¥ 46	**¥ 74**
Machinery, equipment and vehicles	33	**50**
Tools, furniture and fixtures	6	**5**
Other	20	**25**
Total	¥ 107	**¥ 155**

13 Other comprehensive income

The components of other comprehensive income including reclassification adjustments and tax effects income for the years ended September 30, 2021 and 2022, are as follows:

	Millions of yen	
	2021	**2022**
Unrealized gain (loss) on securities:		
Amount arising during the year	¥ (434)	**¥ (433)**
Reclassification adjustments	(567)	**577**
Amount before tax effect	(1,001)	**144**
Tax effects	306	**(44)**
Sub-total, net of tax	(694)	**99**
Foreign currency translation adjustments:		
Amount arising during the year	7	**(828)**
Remeasurements of defined benefit plans:		
Amount arising during the year	271	**(101)**
Reclassification adjustments	572	**(156)**
Amount before tax effect	843	**(258)**
Tax effects	(281)	**84**
Sub-total, net of tax	561	**(173)**
Share of other comprehensive income of entities accounted for using equity method		
Amount arising during the year	(1)	**—**
Total other comprehensive income	¥ (127)	**¥ (902)**

14 Net assets

Information regarding changes in net assets for the years ended September 30, 2021 and 2022, are as follows:

1. Shares issued and outstanding / Treasury stock

For the year ended September 30, 2021

Type of Shares	Number of shares at October 1, 2020	Increase	Decrease	Number of shares at September 30, 2021
Shares issued:				
Common Stock	18,923,569	—	—	18,923,569
Treasury stock				
Common Stock (Notes 1 and 2)	833,145	145	—	833,290

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

Increase due to purchase of shares of less than one unit	145

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

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

Number of shares at October 1, 2020	166,000
Number of shares at September 30, 2021	166,000

For the year ended September 30, 2022

Type of Shares	Number of shares at October 1, 2021	Increase	Decrease	Number of shares at September 30, 2022
Shares issued:				
Common Stock	18,923,569	—	—	18,923,569
Treasury stock				
Common Stock (Notes 1 and 2)	833,290	534,050	—	1,367,340

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

Increase due to acquire of treasury stock by resolution of the Board of Directors	532,500
Increase due to free acquisition due to retirement of rights recipients (Restricted stock compensation plan)	1,320
Increase due to purchase of shares of less than one unit	230

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

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

Number of shares at October 1, 2021	166,000
Number of shares at September 30, 2022	166,000

2. Dividends

(1) Dividends paid

For the year ended September 30, 2021

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Meeting of the Board of Directors on November 16, 2020	Common stock	*1 365	20.00	September 30, 2020	December 2, 2020
Meeting of the Board of Directors on April 28, 2021	Common stock	*2 91	5.00	March 31, 2021	June 15, 2021

*1 The total dividends includes dividends of ¥ 3 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, 2022

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Meeting of the Board of Directors on November 15, 2021	Common stock	*1 520	28.50	September 30, 2021	December 1, 2021
Meeting of the Board of Directors on April 28, 2022	Common stock	*2 90	5.00	March 31, 2021	June 15, 2022

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

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

(2) Dividends with the cut-off date in the year ended September 30, 2021 and the effective date in the year ended September 30, 2022

Resolution	Type of shares	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Cut-off date	Effective date
Meeting of the Board of Directors on November 15, 2021	Common stock	* 520	Retained earnings	28.50	September 30, 2021	December 1, 2021

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

Dividends with the cut-off date in the year ended September 30, 2022 and the effective date in the year ending September 30, 2023

Resolution	Type of shares	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Cut-off date	Effective date
Meeting of the Board of Directors on November 15, 2022	Common stock	* 797	Retained earnings	45.00	September 30, 2022	December 1, 2022

* The total dividends includes dividends of ¥ 7 million for the Stock Granting Trust (J-ESOP).

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

15 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, 2021 and 2022 are as follows:

	Millions of yen	
	2021	**2022**
Cash and deposits	¥ 9,381	¥ **11,806**
Less:		
Time deposits over three months	(1)	**(103)**
Cash and cash equivalents	¥ 9,379	¥ **11,703**

16 Leases

Lessees' accounting

1-1. Finance lease transactions that transfer ownership

(1) Details of leased assets

Property, plant and equipment

Production facility and warehouse equipment

(2) Depreciation method for leased assets

As described in "Lease assets" of "2. Significant accounting policies" forming the basis for preparing consolidated financial statements.

1-2. Finance lease transactions that do not transfer ownership

(1) Details of leased assets

① Property, plant and equipment

Mainly manufacturing plant, test & measurement instrument and production facility

② Intangible assets

Software

(2) Depreciation method for leased assets

As described in "Lease assets" of "2. Significant accounting policies" forming the basis for preparing consolidated financial statements.

Overseas subsidiaries that adopt IFRS or US GAAP have applied IFRS No. 16 "Leases" or US - GAAP ASU2016-02 "Leases"

Details of "leased assets" recorded as assets and depreciation method for "leased assets" are described in 1-2(1) and (2) above.

2. Operating leases

Obligations for future minimum payment under non-cancelable operating leases as of September 30, 2021 and 2022, are as follows:

	Millions of yen	
	2021	**2022**
Due within one year	¥ 383	**¥ 571**
Due after one year	736	**525**
Total	¥ 1,119	**¥ 1,097**

17 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, and contract assets are exposed to customer credit risk. Notes and accounts receivable-trade, and contract assets denominated in foreign currencies are exposed to risk from fluctuations in foreign exchange rates.

Investment securities are composed of shares of 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

In order to optimize capital efficiency, the Company promotes cash control through a centralized cash management way for each applicable subsidiary, and the company has credit line for commercial paper, overdraft and commitment line to secure cash flexibility.

(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, 2021, are as follows:

	Millions of yen		
	Book value	Fair value	Difference
Assets			
Investment securities(*2)	¥ 995	¥ 995	¥ —
Total assets	¥ 995	¥ 995	¥ —
Liabilities			
Long-term debt (*3)	¥ 16,121	¥ 16,123	¥ 2
Total liabilities	¥ 16,121	¥ 16,123	¥ 2

*1. Regarding cash and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, short-term borrowings, the disclosure is omitted because they are cash in nature and their carrying value approximates fair value since they are settled in a short period of time.

*2. Financial instruments for which it is extremely difficult to determine the fair value are not included in "Investment securities" in the above table. The book values of these financial instruments are as follows.

	Millions of yen
Book value in consolidated balance sheet	
Unlisted shares	¥ 1,758
Stocks of shares of subsidiaries and affiliates	60
Total	¥ 1,818

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

The book value, fair value and the difference as of September 30, 2022, are as follows:

	Millions of yen		
	Book value	Fair value	Difference
Assets			
Investment securities(*2)	**¥ 671**	**¥ 671**	**¥ —**
Total assets	**¥ 671**	**¥ 671**	**¥ —**
Liabilities			
Long-term debt (*3)	**¥ 17,136**	**¥ 17,082**	**¥ (54)**
Total liabilities	**¥ 17,136**	**¥ 17,082**	**¥ (54)**

*1. Regarding cash and deposits, notes and accounts receivable-trade, and contract assets, notes and accounts payable - trade, short-term borrowings, the disclosure is omitted because they are cash in nature and their carrying value approximates fair value since they are settled in a short period of time.

*2. Non-marketable securities are not included in “Investment securities” in the above table. The book values of these financial instruments are as follows.

	Millions of yen
Book value in consolidated balance sheet	
Unlisted shares	**¥ 2,238**
Stocks of shares of subsidiaries and affiliates	**129**
Total	**¥ 2,368**

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

3. Redemption schedule for monetary claims and marketable securities with maturities subsequent

September 30, 2021.

	Millions of yen	
	2021	2022 and thereafter
Cash and deposits	¥ 9,378	¥ —
Notes and accounts receivable-trade	18,065	—
	¥ 27,444	¥ —

September 30, 2022.

	Millions of yen	
	2022	2023 and thereafter
Cash and deposits	**¥ 11,804**	**¥** —
Notes and accounts receivable-trade, and contract assets	**24,632**	—
	¥ 36,436	**¥** —

Note : Redemption schedule for long-term debt subsequent to September 30, 2022 .
Please refer to “18. Short-term borrowings and long-term debt”.

4. Regarding fair value hierarchy of financial instruments

The Companies classify the fair values of financial instruments into three categories depending on whether inputs for their value measurements are observable or significant.

Level 1 fair value : Fair value measured by using quoted market prices of applicable assets or liabilities formed in active markets as observable inputs for fair value measurement.

Level 2 fair value: Fair value measured by using observable inputs other than those for Level 1

Level 3 fair value: Fair value measured by using unobservable inputs

When multiple inputs that have a significant influence on the fair value calculation are used, the fair value is classified into the lowest priority level in the fair value calculation among the levels to which those inputs belong.

(1) Financial instruments measured at fair value in the consolidated balance sheet

For the year ended September 30, 2022

	Fair value（Millions of yen）			
	Level 1	Level 2	Level 3	Total
Investment securities	¥ **671**	¥ －	¥ －	¥ **671**
Total assets	¥ **671**	¥ －	¥ －	¥ **671**

(2) Financial instruments other than those measured at fair value in the consolidated balance sheet

For the year ended September 30, 2022

	Fair value（Millions of yen）			
	Level 1	Level 2	Level 3	Total
Long-term debt	¥ －	¥ **17,082**	¥ －	¥ **17,082**
Total liabilities	¥ －	¥ **17,082**	¥ －	¥ **17,082**

Notes

Explanation of valuation techniques and inputs used for fair value measurement

Investment securities

The fair value of listed shares is measured based on quoted market price. Since they are traded in active markets, the fair value is classified into Level 1.

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. The fair value of long-term debt with floating interest rates is measured by using book value, as the fair value of such debt is almost identical to the book value because it reflects the market interest 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. The fair value is classified into Level 2.

18 Short-term borrowings and long-term debt

(1) Short-term borrowings at September 30, 2021 and 2022, are as follows:

	Millions of yen	
	2021	**2022**
Short-term borrowings:		
Weighted average interest rate of 0.26% and 0.00% at September 30, 2021 and 2022, respectively	¥ 918	**¥ —**

(2) Long-term debt at September 30, 2021 and 2022 are as follows:

	Millions of yen	
	2021	**2022**
Long-term debt:		
Due 2022 to 2031 with weighted average interest rates of 0.73% and 0.85% at September 30,2021 and 2022, respectively	¥ 16,121	**¥ 17,136**
Less:		
Current portion of long-term debt:		
Weighted average interest rates of 0.68% and 0.69% at September 30, 2021 and 2022, respectively	3,652	**3,602**
	¥ 12,469	**¥ 13,534**

(3)Annual maturities of long-term debt at September 30, 2021, are as follows:

Years ending September 30,	Millions of Yen
	2021
2022	¥ 3,652
2023	3,260
2024	3,064
2025	2,157
2026	1,597
2027 and thereafter	2,389
	¥ 16,121

(4) Annual maturities of long-term debt at September 30, 2022, are as follows:

Years ending September 30,	Millions of Yen	
	2022	
2023	**¥**	**3,602**
2024		**3,563**
2025		**2,665**
2026		**2,105**
2027		**1,214**
2028 and thereafter		**3,985**
	¥	**17,136**

(5) Lease obligations at September 30, 2021 and 2022, are as follows:

	Millions of yen			
	2021		**2022**	
Lease obligations:				
Due 2022 to 2031 with weighted average interest rates of 1.67% and 1.61% at September 30, 2021 and 2022, respectively	¥	3,077	**¥**	**4,157**
Less:				
Current portion of long-term debt:				
Weighted average interest rates of 2.08% and 1.60% at September 30, 2021 and 2022, respectively		387		**530**
	¥	2,689	**¥**	**3,627**

(6) Annual maturities of lease obligations at September 30, 2022, are as follows:

Years ending September 30,	Millions of Yen	
	2022	
2023	**¥**	**530**
2024		**629**
2025		**500**
2026		**359**
2027		**374**
2028 and thereafter		**1,763**
	¥	**4,157**

19 Securities

(1) The Companies did not hold any trading securities as of September 30, 2021 and 2022.
(2) The Companies did not hold any held-to-maturity securities as of September 30, 2021 and 2022.
(3) The Companies held shares of other securities as of September 30, 2021 and 2022.
The book value, the acquisition cost and the unrealized gain or loss as of September 30, 2021 and 2022, are as follows:

	Millions of yen							
	2021				**2022**			
		Book value	Acquisition cost	Unrealized gain(loss)		Book value	Acquisition cost	Unrealized gain(loss)
Securities with book value exceeding acquisition cost:								
Stock	¥	989	24	965	**¥**	**666**	**24**	**642**
Securities with book value not exceeding acquisition cost:								
Stock		5	6	(1)		**4**	**7**	**(2)**
Total	¥	995	30	964	**¥**	**671**	**31**	**639**

Unlisted shares are not included in the above table because they have no market price .Their book values are ¥ 1,758 million and ¥ 2,238 million as of September 30, 2021 and 2022, respectively.

(4) The Company had the gain on the sale of ¥ 577 million by selling other securities in ¥588 million for the year ended September 30, 2021.
There is no applicable matter for the year ended September 30, 2022.
(5) The amount of impairment loss recognized on the stock in other securities was ¥122 million and ¥ 8 million for the year ended September 30, 2021 and 2022, respectively.
If the market value of securities with fair market value other than trading securities declines to less than 50% of the acquisition cost, the difference is recognized as impairment loss, in principle. If the market value drops by between 30% and 50%, the impairment loss is calculated based on the possibility of recovery in market value. If the value of non-marketable securities 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.

20 Derivative financial instruments

(1) The following table summarizes the derivative transactions as of September 30, 2021 and 2022, for which hedge accounting has not been applied:
There was no derivative transaction for which hedge accounting has not been applied on September 30, 2021 and 2022.

(2) The following table summarizes the derivative transactions as of September 30, 2021 and 2022, for which hedge accounting has been applied:

Interest related:

			Millions of yen					
			2021			2022		
			Contract amount			Contract amount		
Hedge accounting method	Classification	Hedged 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	¥ 357	64	(*)	¥ **64**	**—**	**(*)**

* 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.

21 Retirement benefits

1. Overview of the retirement benefit plan adopted
   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.
   Two of the consolidated subsidiaries have defined contribution pension plan. Another has a risk sharing pension plan. Another has an unfunded lump-sum payment plan and a defined benefit pension plan. In the risk sharing pension plan, contributions by the “Companies” to the pension fund are defined in advance in the constitution for the pension plan, and the risk of asset management of the pension is shared between the “Companies” and their employees by increase or decrease of the amount of benefits paid to the employees according to the financial status of the corporate pension fund.

2. Defined benefit plans (except the plans to which the simplified method has been applied)
   (1) Movement in retirement benefit obligation

	Millions of yen	
	2021	**2022**
Balance at the beginning of the year	¥ 9,684	**¥ 10,037**
Service cost	1,028	**1,037**
Interest cost	26	**28**
Actuarial losses (gains) arising during the year	(175)	**18**
Retirement benefits paid	(463)	**(432)**
Prior service cost	(161)	**84**
Transfers regarding changes in calculation from simplified method to principle method	66	**—**
Effect of changes in calculation from simplified method to principle method	46	**—**
Other	(16)	**7**
Balance at the end of the year	¥ 10,037	**¥ 10,781**

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

	Millions of yen	
	2021	**2022**
Retirement benefit obligation under the unfunded plans	¥ 10,037	**¥ 10,781**
Net defined benefit liability	¥ 10,037	**¥ 10,781**

(3) Retirement benefit cost

	Millions of yen			
		2021		**2022**
Service cost	¥	1,028	**¥**	**1,037**
Interest cost		26		**28**
Amortization of actuarial losses (gains)		506		**(139)**
Amortization of prior service cost		0		**(16)**
Effect of changes in calculation from simplified method to principle method		46		**—**
Total retirement benefit costs	¥	1,609	**¥**	**910**

(4) Remeasurements of defined benefit plans before tax effects

	Millions of yen			
		2021		**2022**
Prior service cost	¥	(161)	**¥**	**100**
Actuarial loss		(682)		**158**
Total	¥	(843)	**¥**	**258**

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

	Millions of yen			
		2021		**2022**
Unrecognized prior service cost	¥	(141)	**¥**	**(40)**
Unrecognized actuarial losses (gains)		(130)		**27**
Total	¥	(271)	**¥**	**(12)**

(6) Actuarial assumptions

The principal actuarial assumption at September 30, 2020 and 2021 are as follows:

	2021	**2022**
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, 2021 and 2022, as the expected rate of future salary increases.

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

(1) Movement in net defined benefit liability

	Millions of yen			
	2021		**2022**	
Balance at the beginning of the year	¥	247	**¥**	**220**
Retirement benefit cost		83		**123**
Retirement benefit paid		(64)		**(127)**
Transfers regarding changes in calculation from simplified method to principle method		(66)		**—**
Other		20		**1**
Balance at the end of the year	¥	220	**¥**	**218**

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

	Millions of yen			
	2021		**2022**	
Retirement benefit obligation under the funded plans	¥	**88**	**¥**	**60**
Plan assets		**(4)**		**(5)**
Retirement benefit obligation under the unfunded plans		**137**		**163**
Net defined benefit liability	¥	**220**	**¥**	**218**

(3) Retirement benefit cost

	Millions of yen			
	2021		**2022**	
Retirement benefit cost	¥	83	**¥**	**123**

4. Defined contribution plans

Contribution obligations to the defined contribution pension plans are ¥130 million as of September 30, 2021, and ¥150 million as of September 30, 2022.

The total amount of future contribution in preparation for the shared risk of asset management after the next fiscal year is ¥137 million and the remaining years for the payment are 15 years and 11 months.

The accumulated amount of contribution payable for the employees' past services at the time of transition is ¥132 million , and is recognized as accounts payable-other (current liabilities) and other long-term liabilities (non-current liabilities) as of September 30, 2022.

22 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 30.62% for the year ended September 30, 2021 and 2022 respectively.
The reconciliation of the difference between the statutory income tax rates and the actual effective income tax rates for the years ended September 30, 2021 and 2022 is as follows:

	2021	**2022**
Statutory income tax rate	30.62 %	**30.62 %**
Permanently non-deductible expenses	0.55	**0.56**
Tax Credits for Salary Growth	—	**(2.11)**
Per capita inhabitants tax	2.29	**0.65**
Amortization of goodwill	0.22	**0.06**
Equity in losses of affiliates	0.29	**—**
Change in valuation allowance	26.51	**(12.94)**
Statutory tax rate difference between the Company and certain subsidiaries	7.81	**5.30**
Other	0.71	**2.73**
Actual effective income tax rates	69.00 %	**24.87 %**

(2) Significant components of deferred tax assets and liabilities as of September 30, 2021 and 2022, are as follows:

	Millions of yen	
	2021	**2022**
Deferred tax assets:		
Provision for bonuses	¥ 1,265	**¥ 2,393**
Provision for loss on orders received	444	**412**
Allowance for doubtful accounts	160	**194**
Enterprise tax payable	259	**300**
Loss on valuation of inventories	358	**135**
Asset retirement obligations	149	**78**
Accounts payable-other	139	**13**
Long-term accounts payable-other	114	**105**
Net defined benefit liability	3,389	**3,697**
Net operating loss carry-forwards*2	1,066	**681**
Loss on valuation of investment securities	108	**109**
Accumulated depreciation	934	**1,318**
Long-term unearned revenue	871	**1,125**
Other	395	**482**
Total deferred tax assets	9,657	**11,049**
Valuation allowance for net operating loss carry-forwards*2	(1,066)	**(681)**
Valuation allowance for total deductible temporary differences*1	(2,281)	**(1,048)**
Total Valuation allowance	(3,347)	**(1,729)**
Net deferred tax assets	6,310	**9,320**
Deferred tax liabilities:		
Gain on revaluation of fixed assets	(79)	**(79)**
Removal expenses associated with asset retirement obligations	(73)	**(37)**
Unrealized gain (loss) on securities	(270)	**(314)**
Liability adjustment account	(477)	**(358)**
Other	(32)	**(70)**
Total deferred tax liabilities	(932)	**(860)**
Net deferred tax assets	¥ 5,377	**¥ 8,459**

*1 For the year ended September 30, 2022, the valuation allowance decreased by ¥1,618 million. This is mainly due to change in company classification when judging recoverability of deferred tax assets at some consolidated subsidiaries.

*2 A breakdown of net operating loss carry-forwards and valuation allowance by expiry date as of September 30, 2021 and 2022, are as follows:

As of the year ended September 30, 2021

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Operating loss carry-forward(a)	―	89	182	131	162	500	1,066
Valuation allowance	―	(89)	(182)	(131)	(162)	(500)	(1,066)
Deferred tax assets(b)	―	―	―	―	―	―	―

(a) The amount is determined by multiplying the corresponding net operating loss carry-forwards by the effective statutory tax rate.

As of the year ended September 30, 2022

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Operating loss carry-forward(a)	**28**	**31**	**31**	**26**	―	**564**	**681**
Valuation allowance	**(28)**	**(31)**	**(31)**	**(26)**	―	**(564)**	**(681)**
Deferred tax assets	―	―	―	―	―	―	―

(a) The amount is determined by multiplying the corresponding net operating loss carry-forwards by the effective statutory tax rate.

23 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 35 years and discounted by rates ranging from 0.0% to 2.3%.

Movement of asset retirement obligations for the year ended September 30, 2021 and 2022, are as follows:

	Millions of yen	
	2021	**2022**
Balance at the beginning of the year	¥ 585	**¥ 577**
Liabilities incurred due to the acquisition of property, plant and equipment	—	**37**
Accretion adjustment	4	**4**
Settlement of obligations	(17)	**(8)**
Decrease due to release from restoration obligations	—	**(266)**
Other	4	**25**
Balance at the end of the year	¥ 577	**¥ 370**

24 Investment and rental property

There is no material investment and rental property to be reported as of September 30, 2021 and 2022 respectively.

25 Revenue Recognition

1. Information on disaggregated revenue from contracts with customers

For the year ended September 30, 2022

		Millions of yen
		2022
Net Sales		
CRO	¥	**39,667**
CDMO		**24,672**
Market Solutions		**13,594**
Pharmaceutical Solutions	¥	**77,934**
Healthcare Solutions	¥	**30,526**
Revenue from contracts with customers	¥	**108,461**
Revenue from others		—
Sales to external customers	¥	**108,461**

2. Basic information for understanding revenue from contracts with customers

Basic information for understanding revenue from contracts with customers is stated in “2 Significant accounting policies”, Basis for recognition of significant revenue and expenses

3. Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in subsequent periods from contracts with customers that existed at the end of the current fiscal year

(1) Balances of contract assets and contract liabilities

	Millions of yen
	2022
Receivables from contracts with customers at beginning of period	¥ **14,558**
Receivables from contracts with customers at end of period	**18,779**
Contract assets at beginning of period	**3,506**
Contract assets at end of period	**5,852**
Contract liabilities at beginning of period	**1,944**
Contract liabilities at end of period	**4,470**

"Contract assets" is mainly the rights of the Companies, under contracts with customers (pharmaceutical companies, etc.) for pharmaceutical development support, to the consideration for the provision of services that have been completed but not yet invoiced as of the end of consolidated fiscal year "Contract assets" is transferred to receivable-trade from contracts with customers when the Companies' rights to the consideration become unconditional. Consideration for pharmaceutical development support, etc. with pharmaceutical companies, etc. is requested within approximately three months and received within approximately five months, in accordance with the contracts.
“Contract liabilities” is mainly equivalent to the portion of the amount received in advance which does not satisfy performance obligations in contracts with customers for pharmaceutical development support and pharmaceutical manufacturing support with pharmaceutical companies. "Contract liabilities" is reversed with the recognition of revenue.
The revenues recognized in the ended year September 30, 2022, included in the contract liabilities balance at the beginning of this period, are 1,158 million yen.

(2) Transaction prices allocated to remaining performance obligations

The total amount of transaction prices allocated to remaining performance obligations and the period in which revenues are expected be recognized are as follows.

	Millions of yen
	2022
Due within one year	¥ **51,203**
Due after one year	**39,679**
Total	¥ **90,882**

26 Segment information

1. General Information about Reportable Segments

CMIC Group has two reportable segments, “Pharmaceutical Solutions”, “Healthcare Solutions”, which have been summarized business segments and classified under the similarity of the service content and the customers who the services are provided for. "Pharmaceutical Solutions" develops the original business model, PVC (Pharmaceutical Value Creator), that contributes to increasing the added value of pharmaceutical companies, and "Healthcare Solutions" contributes to personal health through medical institutions and local governments.

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.

The Companies have changed segment classification from the five reportable segments of CRO business, CDMO business, CSO business, Healthcare business and IPM business since the current consolidated fiscal year. The segment information of the previous consolidated fiscal year is recalculated in accordance with current segment classification.

Each segment consists of the companies and its affiliates as follows;

Segment	Products/Services	CMIC Group Companies (as of September 30, 2022)
Pharmaceutical Solutions	Services related to pharmaceutical development support, analytical chemistry services, pharmaceutical formulation development, and manufacturing support. Pharmaceutical sales support. Development, manufacturing, sales and distribution of orphan drugs, etc.	CMIC HOLDINGS Co., Ltd. CMIC 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 Asia-Pacific (PHILIPPINES) , INC. CMIC ASIA-PACIFIC (AUSTRALIA) PTY LTD CMIC ASIA-PACIFIC (THAILAND) LIMITED CMIC ASIA-PACIFIC (VIETNAM) COMPANY LIMITED CMIC (Beijing) Co., Ltd. CMIC DATA SCIENCE VIETNAM COMPANY LIMITED CMIC Pharma Science Co., Ltd. CMIC, INC. CMIC CMO Co., Ltd. CMIC CMO Korea Co., Ltd. CMIC CMO USA Corporation CMIC BIO Co., Ltd. CMIC Ashfield Co., Ltd. OrphanPacific, Inc.
Healthcare Solutions	Comprehensive support for healthcare-related facilities and healthcare professionals. Provides solutions using a new ecosystem for healthcare to individuals and local governments.	CMIC HOLDINGS Co., Ltd. CMIC Healthcare Institute Co., Ltd. CMIC Solutions Co., Ltd. CMIC Well Co., Ltd. harmo Co.,Ltd

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 the same as those described in "Significant accounting policies" except valuation bases of inventories. Segment profit is based on operating income. Inter-segment sales and transfers between segments are based on market prices.

From the current consolidated fiscal year, the Companies have revised the allocation method of unallocated corporate expenses and changed the method of measuring segment profit or loss to more appropriately reflect the performance of each reportable segment. The segment information of the previous consolidated fiscal year is recalculated in accordance with the revised method.

As described in (Application of Accounting Standard for Revenue Recognition), the Companies have changed the method for calculation of segment profit (loss).

For changed the method for calculation, in Pharmaceutical Solutions, net sales increased by 2,819 million yen, and segment profit increased by ¥242 million, in Healthcare Solutions increased by ¥474 million, segment profit decreased by 39 million yen.

3. Financial information by reportable segment

For the year ended September 30, 2021

(Millions of yen)

	Pharmaceutical Solutions	Healthcare Solutions	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales					
External customers	¥ 68,250	¥ 17,537	¥ 85,788	¥ —	¥ 85,788
Inter-segment	141	420	562	(562)	—
Total	68,392	17,958	86,350	(562)	85,788
Segment profit (loss)	3,127	3,159	6,286	(1,365)	4,920
Segment assets	86,243	13,428	99,671	(8,478)	91,192
Others					
Depreciation	¥ 5,050	¥ 110	¥ 5,161	¥ —	¥ 5,161
Amortization of goodwill	—	21	21	—	21
Increase in fixed assets	6,382	353	6,735	234	6,969

Notes: 1. The adjustment amount of ¥ (1,365) million in segment profit (loss) is unallocated corporate expenses and expenses related to the company (the holding company).

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

3. The adjustment amount of ¥ (8,478) million in segment assets includes unallocated corporate assets of ¥18,405 million and intersegment elimination and others of ¥(26,883) million. Depreciation and amortization included in corporate assets were allocated to each of the reporting segments.

For the year ended September 30, 2022

(Millions of yen)

	Pharmaceutical Solutions	Healthcare Solutions	Total	Adjustment Notes 1 and 3	Consolidated Note 2
Net sales					
External customers	**¥ 77,934**	**¥ 30,526**	**¥ 108,461**	**¥ —**	**¥ 108,461**
Inter-segment	**254**	**480**	**735**	**(735)**	**—**
Total	**78,188**	**31,007**	**109,196**	**(735)**	**108,461**
Segment profit (loss)	**4,752**	**8,660**	**13,412**	**(1,566)**	**11,845**
Segment assets	**97,818**	**21,521**	**119,340**	**(11,750)**	**107,590**
Others					
Depreciation	**¥ 5,048**	**¥ 178**	**¥ 5,227**	**¥ —**	**¥ 5,227**
Amortization of goodwill	**—**	**21**	**21**	**—**	**21**
Increase in fixed assets	**7,620**	**673**	**8,293**	**552**	**8,846**

Notes: 1. The adjustment amount of ¥ (1,566) million in segment profit (loss) is unallocated corporate expenses and expenses related to the company (the holding company).

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

3. The adjustment amount of ¥ (11,750) million in segment assets includes unallocated corporate assets of ¥23,556 million and intersegment elimination and others of ¥ (35,306) million. 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

For the year ended September 30, 2021

(Millions of yen)

	Japan	North America	Others	Total
Net sales	¥ 76,164	¥ 5,392	¥ 4,232	¥ 85,788
Percentage of the consolidated net sales	88.8%	6.3%	4.9%	100.0%

For the year ended September 30, 2022

(Millions of yen)

	Japan	North America	Others	Total
Net sales	**¥ 97,032**	**¥ 6,896**	**¥ 4,532**	**¥ 108,461**
Percentage of the consolidated net sales	**89.5%**	**6.4%**	**4.1%**	**100.0%**

(2) Tangible fixed assets

For the year ended September 30, 2021

(Millions of yen)

Japan	North America	Others	Total
¥ 35,912	¥ 3,737	¥ 439	¥ 40,089

For the year ended September 30, 2022

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

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

(Information about impairment loss for non-current assets)

For the year ended September 30, 2021

(Millions of yen)

	Pharmaceutical Solutions	Healthcare Solutions	Total	Adjustment	Consolidated
Impairment loss	¥ 2,102	¥ —	¥ 2,102	¥ —	¥ 2,102

For the year ended September 30, 2022

(Millions of yen)

	Pharmaceutical Solutions	Healthcare Solutions	Total	Adjustment	Consolidated
Impairment loss	**¥ 1,386**	**¥ —**	**¥ 1,386**	**¥ —**	**¥ 1,386**

(Information about amortization of goodwill and unamortized balance)

For the year ended September 30, 2021

(Millions of yen)

	Pharmaceutical Solutions	Healthcare Solutions	Total	Adjustment	Consolidated
Amortization of goodwill	¥ —	¥ 21	¥ 21	¥ —	¥ 21
Unamortized balance	—	54	54	—	54

For the year ended September 30, 2022

(Millions of yen)

	Pharmaceutical Solutions	Healthcare Solutions	Total	Adjustment	Consolidated
Amortization of goodwill	¥ —	¥ **21**	¥ **21**	¥ —	¥ **21**
Unamortized balance	—	**32**	**32**	—	**32**

(Information about amount of gain on negative goodwill)

For the year ended September 30, 2021

There was no gain on negative goodwill for the year ended September 30, 2021

For the year ended September 30, 2022

There was no gain on negative goodwill for the year ended September 30, 2022.

27 Transactions with related parties

1. Transactions between the Company and related parties for the years ended September 30, 2021 and 2022, are as follows:

(1) Company directors, shareholders (Individual only), etc.

As of and for the year ended September 30, 2021

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 1)	Shibuya-ku,Tokyo	¥11	Asset management Management of the museum and accommodation	(22.0) owned, directly	Land purchase Administrative service Rent of accommodation facilities for training	¥100 ¥42 ¥31	Accounts receivable - other Accounts payable-other	¥1 ¥7

Note 1. Chairman & CEO of CMIC HOLDINGS Co., Ltd. Kazuo Nakamura, President & COO of CMIC HOLDINGS Co., Ltd. Keiko Oishi and their family indirectly holds 100% of the voting rights.

2. Information on transaction terms and policy for determining the terms.
Transactions with related parties are based on consideration of normal transaction conditions and market prices.
We determine the purchase price of land by referring to the appraisal of a real estate appraiser.

As of and for the year ended September 30, 2022

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 1)	Shibuya-ku,Tokyo	¥11	Asset management Management of the museum and accommodation	(22.7) owned, directly	Administrative service	¥31	Accounts receivable - other Accounts payable-other	¥0 ¥12

Note 1. Chairman & CEO of CMIC HOLDINGS Co., Ltd. Kazuo Nakamura, President & COO of CMIC HOLDINGS Co., Ltd. Keiko Oishi and their family indirectly holds 100% of the voting rights.

2. Information on transaction terms and policy for determining the terms
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 years ended September 30, 2021 and 2022, are as follows:

Company directors, shareholders (Individual only), etc.

As of and for the year ended September 30,2021

There is no applicable matter.

As of and for the year ended September 30, 2022

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 1)	Shibuya-ku,Tokyo	¥11	Asset management Management of the museum and accommodation	(22.7) owned, directly	Administrative service Rent of accommodation facilities for training	¥21 ¥18	Accounts receivable - other Accounts payable-other	¥0 ¥2

Note 1. Chairman & CEO of CMIC HOLDINGS Co., Ltd. Kazuo Nakamura, President & COO of CMIC HOLDINGS Co., Ltd. Keiko Oishi and their family indirectly holds 100% of the voting rights.

2. Information on transaction terms and policy for determining the terms

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

28 Amounts per share

Net assets and profit attributable to owners of parent per share as of and for the years ended September 30, 2021 and 2022, are as follows:

	Yen	
	2021	**2022**
Net assets per share	¥ 1,385.55	**¥ 1,801.31**
Profit attributable to owners of parent per share (Note)	111.85	**469.44**

Diluted profit attributable to owners of parent per share for the years ended September 30, 2021 and 2022 is not presented, since no potential shares that could have had a dilutive effect exist.
As described in (Changes in Accounting Policies), from the beginning of the fiscal year, the Companies have applied the accounting standards for revenue recognition, etc., and have followed the transitional treatment stipulated in the proviso of paragraph 84 of the Accounting Standards for Revenue Recognition. The impact of this change is minor.

Note: The following is the basis for calculating the basic and diluted net income per share:

	Millions of yen	
	2021	**2022**
Profit attributable to owners of parent	¥ 2,023	**¥ 8,387**
Amount not attributable to common shareholders	—	**—**
Profit attributable to owners of parent of common stock	¥ 2,023	**¥ 8,387**
Weighted average number of shares outstanding (thousands of shares)	18,090	**17,867**

29 Subsequent event

(Sale of Investment Securities).
At the Board of Directors meeting held on February 6, 2023, the Company made the decision to sell unlisted securities held by itself.
(1) Reason for sale of investment securities
To efficiently utilize the Company's management resources as funds for business expansion and other initiatives aimed at increasing corporate value.
(2) Details of gain on sale of investment securities
① Share to be sold : 1 unlisted securities held by the Company
② Date of sale of investment securities : February 13, 2023
③ Gain on sales of investment securities : 3.3 billion yen