

# Consolidated Financial Statements

November 6, 2009

(For the year ended September 30, 2009)

Name of Company Listed: CMIC Co., Ltd.

Stock Listing: First Section of Tokyo Stock Exchange

Code Number: 2309

URL: <http://www.cmic.co.jp>

Representative: Position: Chairman and CEO

Name: Kazuo Nakamura

Name of Contact Person: Position: Managing Director Chief Disclosure Officer

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Scheduled Date of Annual Meeting of Stockholders: December 15, 2009

Scheduled Date of Filing of Securities Report: December 15, 2009

Scheduled Date of Commencement of Dividend Payments: December 16, 2009

## 1. Results of FY 2009 (October 1, 2008 through September 30, 2009)

### (1) Consolidated financial results

(Amounts less than one million yen are omitted)

(% indicates rate of gain or loss compared with the previous FY)

	Net sales		Operating income		Ordinary profits		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended September 2009	28,784	11.7	2,514	10.5	2,400	9.7	1,059	27.7
FY ended September 2008	25,777	19.2	2,275	5.3	2,187	1.6	829	(30.7)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profits/total capital	Operating income/net sales
	Yen	Yen	%	%	%
FY ended September 2009	1,205.63	-	8.0	10.6	8.7
FY ended September 2008	1,003.94	-	7.1	11.1	8.8

Reference: Equity in earnings of affiliates in FY ended September 2009: 1 million yen, FY ended September 2008: 1 million yen

### (2) Consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
September 2009	23,355	14,486	57.8	15,369.33
September 2008	22,073	14,051	59.5	14,693.16

Reference: Shareholders' equity: September 2009: 13,508 million yen, September 2008: 13,135 million yen

### (3) Consolidated cash flows

(Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY ended September 2009	1,468	(1,360)	(632)	5,512
FY ended September 2008	1,632	(1,572)	(733)	6,070

## 2. Dividend Status

(Base date)	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of first quarter	End of second quarter	End of third quarter	End of FY	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended September 2008	-	133.00	-	133.00	266.00	219	26.5	1.9
FY ended September 2009	-	167.00	-	167.00	334.00	293	27.7	2.2
FY ending September 2010 (Estimated)	-	190.00	-	190.00	380.00	-	27.8	-

### 3. Estimation of Business Results for the Fiscal Year Ending September 2010 (October 1, 2009 through September 30, 2010)

(Percentages presented refer to changes compared with the previous full-year and interim period results, respectively)

	Net sales		Operating income		Ordinary profits		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending March 2010	15,000	5.5	1,350	0.3	1,100	(14.7)	500	(19.2)	568.86
FY ending September 2010	34,000	18.1	3,000	19.3	2,600	8.3	1,200	13.2	1,365.27

#### 4. Other

- (1) Changes in major subsidiaries during the FY (Change in specific subsidiaries as a result of a change in the scope of consolidation): No  
New: - Eliminated: -
- (2) Changes in accounting principles, procedures or reporting methods used in preparation of financial statements (changes in important items concerning preparation of financial statements)  
(i) Changes accompanying revision of accounting standards, etc.: Yes  
(ii) Changes other than (i) above: None  
Note: For details, please refer to "Significant Matters that Serve as the Basis for Preparation of Consolidated Financial Statements" on page 23.
- (3) Total number of outstanding shares (common stock)  
(i) Total number of outstanding shares at the end of the FY (including treasury stock)  
FY ended September 2009: 894,957 shares, FY ended September 2008: 894,957 shares  
(ii) Total treasury stock at the end of the FY  
FY ended September 2009: 16,013 shares, FY ended September 2008: 1,002 shares  
Note: For details on the basis for calculation of net income per share (consolidated), please refer to "Per Share Information" on page 26.

#### (Reference) Summary of Non-Consolidated Financial Statements

##### 1. Results of FY 2009 (October 1, 2008 through September 30, 2009)

###### (1) Non-consolidated financial results

(Amounts less than one million yen are omitted)

(% indicates rate of gain or loss compared with the previous FY)

	Net sales		Operating income		Ordinary profits		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended September 2009	14,301	9.6	642	(48.7)	585	(57.0)	292	(60.3)
FY ended September 2008	13,048	14.3	1,251	7.4	1,360	16.8	735	37.7

	Net income per share	Diluted net income per share
	Yen	Yen
FY ended September 2009	332.30	-
FY ended September 2008	890.50	-

###### (2) Non-consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
September 2009	16,855	11,710	69.5	13,322.96
September 2008	16,435	12,063	73.4	13,494.39

Reference: Shareholders' equity: September 2009: 11,710 million yen, September 2008: 12,063 million yen

Note on the proper use of the business forecasts contained in this report, and other disclaimers.

- (1) Earnings forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions that the Company has judged to be reasonable. Actual results may vary significantly from forecasts due to a variety of factors. For assumptions underpinning earnings forecasts and notes on the use of earnings forecasts, see page 4-5, "operating results forecast for the fiscal year ending September 30, 2010"

## 1. Business Results and Financial Position

### (1) Business Results

#### i. Summary of business results for the fiscal year under review

In the fiscal year ended September 30, 2009, the Japanese economy remained in a downturn triggered by the global financial and economic crisis, with any recovery likely to be protracted. In the pharmaceutical industry, against a background of continued government policy to curb medical expenditures and the imminent expiry of patents on certain major pharmaceutical products, pharmaceuticals companies adapted their product development activities to the changing operating environment by tightening their focus on priority products. Pharmaceuticals companies also moved to strengthen their new-drug development capabilities, through acquisitions of bio-ventures and reinforcement of global development systems. Meanwhile, the CRO (drug development support) industry and the SMO (site management organization) industry—in which the CMIC Group operates—maintained a moderate rate of market growth. This was underpinned by such factors as shortened drug development cycles and increasing use of outsourcing as a means of enhancing efficiency.

In this environment, the CMIC Group pursued its unique business model as a Pharmaceutical Value Creator (PVC) contributing to the enhancement of pharmaceuticals companies' added value. In the Group's five business segments comprising the CRO business, the contract manufacturing organization (CMO) business, the contract sales organization (CSO) business, the Healthcare business and Other business, the Group comprehensively supported pharmaceuticals companies' value chain, from development and manufacturing to sales and marketing.

In the fiscal year under review, the CMIC Group steadily carried out new-drug development support services related to project orders received from clients in Japan and overseas. In addition, to further develop its PVC business model, the Group implemented a range of strategies designed to bolster the profitability and operational capabilities of each of its businesses. Significant moves during the fiscal year under review included the acquisition of SMO service provider Medical Trials, Inc., and the acquisition of a large pharmaceutical formulations manufacturing plant in Shizuoka, Japan.

As a result, on a consolidated basis, business results for the fiscal year ended September 30, 2009, were as follows. Net sales increased 11.7% compared with the previous fiscal year, to ¥28,784 million, operating income rose 10.5%, to ¥2,514 million, ordinary profits grew 9.7%, to ¥2,400 million, and net income increased 27.7%, to ¥1,059 million.

From the fiscal year under review, classifications for consolidated business segments have been changed. Consequently, results for the previous fiscal year have been restated in line with the new segment classifications for comparison purposes. Information relating to comparisons with the corresponding period of the previous fiscal year is included for reference purposes.

#### ii. Summary of business results by business segment

Increase/decrease percentages are in comparison with the previous fiscal year.

##### CRO Business

Sales	¥16,806 million (3.3% increase)
Operating income	¥1,945 million (16.0% decrease)

The CRO business principally comprises services provided to pharmaceuticals companies related to support for drug development.

Sales from monitoring services decreased slightly compared with the previous fiscal year. Although the Group was involved in the ongoing implementation of large-scale, global clinical trials, which were launched in the previous fiscal year; saw the continuation of existing projects; and won new projects, certain clients delayed the start of projects and reduced the number of products under development, leading to an overall decline in monitoring services sales.

In data management services, sales were in line with the level achieved in the previous fiscal year. Although overall there were few projects contributing to sales in the fiscal year under review, electronic data capture (EDC)-related sales increased and services related to the provision of drug safety information also recorded steady sales growth.

In pre-clinical work, the Institute of Applied Medicine, Inc., implemented measures to enhance the quality of its testing, such as carrying out investment in testing equipment and IT infrastructure. The Institute of Applied Medicine achieved an increase in sales compared with the previous fiscal year by winning new customers and gaining increased orders and larger orders from existing customers.

In pharmaceutical affairs consulting services, sales grew significantly owing to such factors as the winning of new project orders in the healthcare field.

As a result, sales by the CRO business increased ¥529 million, or 3.3%, to ¥16,806 million. Operating income for the segment decreased ¥369 million, or 16.0%, to ¥1,945 million. This fall in operating income was attributable to such factors as a decline in the capacity utilization ratio in data management services and certain clients delaying the start of projects in monitoring services.

##### CMO Business

Sales	¥2,762 million (12.5% increase)
Operating loss	¥59 million (previous fiscal year: operating loss of ¥62 million)

The CMO business principally comprises services provided to pharmaceuticals companies related to support for drug manufacturing. CMIC SS CMO Co., Ltd., and CMIC CMO Korea Co., Ltd., undertake contract manufacturing of ethical drugs, over-the-counter (OTC)

drugs and other products. CMIC-VPS Corporation of the United States manufactures ethical drugs under contract. In the fiscal year under review, CMIC-VPS Corporation commenced a large contract for the manufacture of ethical drugs, leading to an increase in sales. In the second year since CMIC-VPS Corporation was included in the scope of consolidation, the Company achieved an operating income. However, owing to an increase in head office personnel aimed at strengthening CMO business infrastructure in Japan, the CMO business as a whole posted an operating loss similar to the previous fiscal year. As a result, sales by the CMO business increased ¥307 million, or 12.5%, to ¥2,762 million, and operating loss amounted to ¥59 million, compared with an operating loss of ¥62 million in the previous fiscal year.

#### CSO Business

Sales	¥1,962 million (3.2% increase)
Operating income	¥22 million (66.4% increase)

The CSO business principally comprises services provided to pharmaceuticals companies related to support for drug sales and marketing. In the fiscal year under review, sales at MDS Co., Ltd., declined owing to the impact of cost cutting by clients. MDS mainly carries out medical communication services (planning and production of promotional materials). However, steady growth in medical representative (MR) dispatch services conducted by CMIC MPSS Co., Ltd., led to an increase in sales for the CSO business overall. Consequently, sales in this segment increased ¥60 million, or 3.2%, to ¥1,962 million, and operating income grew ¥8 million, or 66.4%, to ¥22 million.

#### Healthcare Business

Sales	¥6,580 million (52.0% increase)
Operating income	¥908 million (251.4% increase)

The Healthcare business comprises medical services provided to medical institutions and pharmaceuticals companies (for clinical trials, etc.), and services to support health maintenance and enhancement provided to patients and consumers. In the fiscal year under review, sales grew significantly owing to the addition of full-year operating results from Site Support Institute Co., Ltd. (SSI), which was converted into a consolidated subsidiary in April 2008. SSI completed the integration of its operations with CMIC-CRC Co., Ltd., at the start of the fiscal year under review, and in June 2009 SSI integrated its operations with Medical Trials, Inc., which it acquired with the aim of reinforcing SSI's network of medical institutions in the Kanto region. Furthermore, through aggressive business expansion, including the opening of new sales offices, SSI steadily strengthened its business infrastructure. Sales in the healthcare information service operated by Healthclick Co., Ltd., declined as falling sales in the Company's existing operations were not offset by new orders. As a result, sales by the Healthcare business increased ¥2,251 million, or 52.0%, to ¥6,580 million, and operating income grew ¥650 million, or 251.4%, to ¥908 million.

#### Other Business

Sales	¥1,094 million (7.1% decrease)
Operating loss	¥313 million (previous fiscal year: operating loss of ¥249 million)

Other business mainly comprises new businesses and R&D-related services. In the fiscal year under review, sales increased at new businesses driven by the growth of such businesses. The Company also reinforced its R&D activities and the sales infrastructure of its overseas subsidiaries. Specifically, the Company carried out development work on a diagnostic drug and commenced preparations for the clinical development in Japan for Normosang®, a drug not yet approved in Japan for the treatment of the rare condition acute porphyria. Consequently, sales by the Other business segment declined ¥84 million, or 7.1%, to ¥1,094 million, and operating loss amounted to ¥313 million compared with an operating loss of ¥249 million in the previous fiscal year.

The segment sales and operating income (loss) presented above include internal Group transactions. Total consolidated results excluding internal Group transactions were net sales of ¥28,784 million (up 11.7% compared with the previous fiscal year), operating income of ¥2,514 million (up 10.5%), ordinary profits of ¥2,400 million (up 9.7%), and net income of ¥1,059 million (up 27.7%).

### iii. Consolidated operating results forecast for the fiscal year ending September 30, 2010

In the pharmaceutical industry, harsh business conditions are expected to persist as the government continues its policy of curbing medical expenditures and patents relating to a number of major products are due to expire in the near future. Against this background, we anticipate an increasingly severe environment for winning orders as pharmaceuticals companies focus their development resources on more tightly focused ranges of products, the average size of development projects becomes smaller and competition intensifies owing to the growth of competitors. Nevertheless, we expect the overall level of R&D expenditures by the pharmaceutical industry to continue growing at a modest pace and anticipate that the use of outsourcing and divestiture of manufacturing operations (fables model) as strategies to speed up—and bolster the efficiency of—development and production will become more prevalent among pharmaceuticals companies.

In light of the conditions outlined above, the Group will work to further reinforce the infrastructure of each of its business segments and bolster individual service offerings based on its unique PVC business model. The Group will also aim to increase business

profitability and productivity through expeditious decision-making and rapid implementation made possible by its autonomous business-unit structure.

In our forecasts for the fiscal year ending September 30, 2010, we are projecting a continuation of growth in existing businesses, and, in the CMO business, expect the operating results from the large manufacturing plant in Shizuoka to contribute to consolidated results from the second half of the fiscal year. Overall operating results forecasts are as follows.

Net sales	¥34,000 million (18.1% increase)
Operating income	¥3,000 million (19.3% increase)
Ordinary profits	¥2,600 million (8.3% increase)
Net income	¥1,200 million (13.2% increase)

(Increase/decrease percentages are in comparison with the previous fiscal year.)

The outlook for each business segment for the fiscal year ending September 30, 2010, is as follows.

#### CRO Business

Sales ¥17,200 million (2.3% increase)

In monitoring services, we are projecting a continuation of brisk new-drug clinical trials and post-marketing clinical trials and surveillance by pharmaceuticals companies. Based on this outlook, we are aiming to bolster our monitor numbers to enhance the service speed of our clinical trial support and increase productivity by pursuing synergies with the SMO business. We will also work to steadily carry out global clinical trial projects, such as Asian studies.

In data management services, we will work to increase operational productivity and strive to bolster capabilities for winning new contracts by proposing the use of EDC solutions for global clinical trials. We also plan to continue promoting eClinical Trials (clinical data digitization) through the introduction of such technologies as electronic Patient-Reported Outcome (ePRO). In pre-clinical work, we will aim to expand sales of quality assurance services by working to win larger projects and new domestic and overseas-based clients. We will also work to expand orders by winning increased orders relating to biotechnology-based drugs and winning orders for pharmaceutical analysis clinical trials. In pharmacokinetics services, we will work to expand orders from domestic and overseas-based generic drug manufacturers through direct sales activities and by utilizing marketing synergies within the Group. In this area we will also strive to win orders for drug concentration tests on biological samples, which are conducted as part of new-drug clinical trials.

In pharmaceutical affairs consulting services, we will work to reinforce our capabilities for undertaking comprehensive consulting projects on behalf of overseas pharmaceuticals companies and medical manufacturers that do not have their own presence in Japan. Such projects may encompass all aspects from feasibility studies to development, approval applications and marketing. In overseas operations, in the area of support services for global clinical trials, including Asian studies, we will steadily implement existing projects and strive to strengthen our capabilities for winning new contracts.

#### CMO Business

Sales ¥7,000 million (153.4% increase)

In the CMO business, while working to manufacture high-quality products with a high level of production efficiency, we will aim to win new contracts. At the large-scale pharmaceutical formulations manufacturing plant in Shizuoka that we are acquiring from the DAIICHI SANKYO Group, we will commence contract manufacturing operations for the DAIICHI SANKYO Group and strengthen sales activities aimed at winning new contracts from other pharmaceuticals companies.

#### CSO Business

Sales ¥2,300 million (17.2% increase)

In the medical communication services business, we anticipate a continuation of cost-cutting measures by clients. While working to reinforce our sales system we will strive to develop relationships with existing clients, win larger project orders and win new contracts. In the dispatch of MR, we are focusing on increasing MR numbers, winning new contracts and expanding our lineup of services to increase differentiation from competitors and thereby bolster operating results.

#### Healthcare Business

Sales ¥6,900 million (4.9% increase)

In the SMO business, we are working to strengthen our competitive capabilities for winning new orders by increasing the number of medical institutions with whom we collaborate. In healthcare information services, we are striving to improve our cost structure through more tightly focused operations.

#### Other Business

Sales ¥1,100 million (0.5% increase)

We are working to receive early regulatory approval for the domestic manufacture and marketing of the chronic kidney disease (CKD) diagnostic drug L-FABP and subsequently yield profits from this product. We also plan to continue domestic clinical development of the acute porphyria drug Normosang® for the Japanese market.

The consolidated sales amounts presented above for each business segment include inter-segment sales within the Group.

## (2) Financial Position

### i) Analysis of the Company's Assets, Liabilities and Net Assets

Total assets as of the end of the fiscal year under review stood at ¥23,355 million, up ¥1,282 million compared with the end of the previous fiscal year. This increase was mainly attributable to the purchase of property and equipment.

Total liabilities increased ¥846 million compared with the end of the previous fiscal year, to ¥8,868 million. This was mainly owing to an increase in short-term loans.

Net assets increased ¥435 million compared with the end of the previous fiscal year, to ¥14,486 million. This was largely due to an increase in retained earnings and the purchase of treasury stock.

### ii) Cash Flows

Cash and cash equivalents at end of the fiscal year under review amounted to ¥5,512 million, a decrease of ¥557 million compared with the previous fiscal year-end.

Cash flows during the fiscal year under review are summarized as follows.

#### Cash flows from operating activities

Net cash provided by operating activities amounted to ¥1,468 million, compared with ¥1,632 million during the previous fiscal year. This result was mainly attributable to income before income taxes and minority interests.

#### Cash flows from investing activities

Net cash used in investing activities totaled ¥1,360 million, compared with ¥1,572 million during the previous fiscal year. This was mainly attributable to the purchase of property and equipment and the purchase of intangible assets.

#### Cash flows from financing activities

Net cash used in financing activities amounted to ¥632 million compared with ¥733 million during the previous fiscal year. The major items within this total were repayment of short-term loans and long-term debt, and dividends paid.

#### (Reference) Cash Flow-related Indicators

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Equity ratio (%)	73.2	55.9	58.8	59.5	57.8
Market price-based equity ratio (%)	280.2	145.9	118.6	111.5	93.2
Ratio of cash flow to interest-bearing liabilities (%)	78.3	712.5	121.0	114.9	163.9
Interest coverage ratio (times)	57.7	48.8	43.1	40.5	34.9

Notes: Equity ratio: Shareholders' equity divided by total assets

Market price-based equity ratio: Market capitalization divided by total assets

Ratio of cash flow to interest-bearing liabilities: Interest-bearing liabilities divided by cash flows

Interest coverage ratio: Cash flows divided by interest payments

\* All figures are calculated based on consolidated financial data.

\* Market capitalization is calculated as the share price at the end of the interim period multiplied by the number of shares outstanding at the end of the fiscal year (excluding treasury stock).

\* Cash flows above refer to net cash provided by operating activities.

\* Interest-bearing liabilities are all liabilities presented on the Consolidated Balance Sheets that are subject to interest payments.

## (3) Fundamental Policy regarding Distribution of Profits and Dividends Applicable to the Fiscal Year under Review and the Fiscal Year Ending September 30, 2010

The Company aims to strengthen its financial base and corporate structure so that it is well positioned to respond to changes in the operating environment and industry realignment. The Company also sees the distribution of profits to shareholders as a key management issue. With regards to dividends, our fundamental policy is to base distribution on operating performance. Our annual dividend payout ratio target was set at 30% on a consolidated basis. Retained profits are principally used to strengthen our corporate structure, to nurture new business domains, and for investments of an appropriate level that are effective in expanding the Company's business.

In the fiscal year under review, we made two dividend payments. The interim dividend was ¥167 per share of common stock

compared with ¥133 for the corresponding interim period of the previous fiscal year. The year-end dividend is set at ¥167 per share of common stock compared with a year-end dividend of ¥133 for the previous fiscal year. Consequently, the total dividend applicable to the fiscal year under review is ¥334 per share of common stock, compared with ¥266 per share for the previous fiscal year. The planned dividend payout ratio is 27.7%.

For dividends applicable to the fiscal year ending September 30, 2010, we plan to increase the total dividend by ¥46 per share compared with the previous fiscal year, to ¥380 per share of common stock. The interim dividend and year-end dividend are each forecast to be ¥190 per share.

#### (4) Business Risk Factors

The following are risk factors contained within the material presented in this consolidated results announcement, which may significantly affect decisions by investors.

Forward-looking statements contained within this announcement are based on judgments made by the Company as of the date of this results release.

##### 1. Possibility of a decrease in the number of clinical trials conducted in Japan

The CMIC Group principally provides CRO services to Japanese and foreign pharmaceuticals companies. For this reason, the operating performance of the Group is substantially affected by trends in the pharmaceutical industry. Particular aspects that may affect the Group's operating performance are as follows.

- A. Based on the adoption of ICH-GCP guidelines, it is possible to use overseas clinical data for application in Japan. Consequently, there is the risk that clinical trials in Japan may be significantly scaled back in the future.
- B. It is possible that Japanese pharmaceuticals companies may lag the global trend toward large-scale research and development (R&D). Consequently, there is the risk that Japanese companies' R&D capabilities may become weak or the volume of R&D they undertake may shrink in the future, leading to a decrease in the number of domestic clinical trials.
- C. If Japanese pharmaceuticals companies were to fall behind in innovation relating to the two main areas expected to drive next-generation growth—biotechnology and genome-related technology—there is the risk that their drug development capabilities may deteriorate.

##### 2. Possibility of a decrease in outsourcing of clinical trials to CROs

In recent years, there has been a global trend—including Japan—toward very large-scale pharmaceuticals companies through large corporate mergers and acquisitions (M&A) in the industry. In the future, further consolidation and integration may occur among pharmaceuticals companies. Consequently, if the number of products being developed were to further narrow, pharmaceuticals companies may be able to conduct clinical trials using their own internal resources. This would lead to a reduction in clinical trial outsourcing and may adversely affect the Group's operating performance.

##### 3. Possibility of intensified competition in the CRO market

###### A. Realignment within the CRO sector leading to intensified competition

In Japan's CRO sector, it is anticipated that new market entrants will be attracted by the sector's growth potential, which may lead to intensified competition. If this were to eventuate, the Group may lose existing customers or may be forced to lower its service prices in order to keep or win customers, which may adversely affect the Group's operating performance.

###### B. The possibility of foreign CROs gaining a competitive advantage in Japan owing to the acquisition of Japanese pharmaceuticals companies by overseas pharmaceuticals companies

There is the possibility that Japanese pharmaceuticals companies—customers of the Group—may be acquired by overseas pharmaceuticals companies, leading those companies so acquired to switch their clinical trial outsourcing contracts to foreign CROs used by the overseas parent company. Furthermore, in such a scenario these foreign CROs may then acquire Japanese CROs that are in direct competition with the Group to increase their competitiveness in Japan. If such a scenario were to eventuate, it may adversely affect the Group's operating performance.

##### 4. Problems arising from clinical trials

###### A. The possibility that a participant or participants in a clinical trial conducted by the Group either died or suffered from severe adverse effects to the trial, leading to a loss of credibility by the Group or significant difficulties in conducting normal business operations, or, in the case of the Group being subject to legal action which was not fully covered by insurance leading to monetary losses by the Group

If, as the result of a clinical trial, a participant or participants of the trial suffered from an accident and the Group were unable to respond adequately to such an occurrence, the Group would lose credibility within the CRO sector. Such a scenario may adversely affect the Group's operating performance.

The Group conducts in-country clinical caretaker (ICCC) services. In the event of a trial subject's death or severe side effects, the Group would be required to submit a report to the Ministry of Health, Labour and Welfare as the representative of the overseas pharmaceuticals company. If such an incident to occur, it is possible that the Group would be unable to carry on normal operations.

Furthermore, in the event that a participant or participants in clinical trials conducted by one of the Group's competitor

CROs were to suffer death or severe adverse effects, this may lead to deep mistrust of the CRO sector as a whole, which may also adversely affect the Group's operating performance.

- B. The possibility of a leak of confidential information relating to services conducted by the Group under contract  
Information handled by the Group relating to the clinical trials it conducts is managed appropriately. However, in the event of a leak of such medical information, the credibility of the Group may be damaged and it may significantly affect the Group's receipt of future service contracts.

5. Future business growth limited by the Group's ability to secure sufficient human resources

In order to expand its business, it is necessary for the Group to secure a large number of personnel with specialist knowledge and technical skills in such fields as medicine, pharmacology and nursing. At the same time, the Group also requires highly capable personnel with expertise in statistical analysis, information technology (IT) and management. In the event that securing or training of such human resources did not proceed smoothly, or a large number of such personnel trained by the Group were to be recruited by its competitors, this may adversely affect the Group's operating performance.

6. Possibility of fluctuation in operating performance owing to heavy dependence on specific industries or customers

The revenues of the Group are very highly dependent on R&D expenditures in the pharmaceutical industry. The operating performance of the Group may be adversely affected by such events as a deterioration in the general economic environment affecting the pharmaceutical industry or the curtailment of R&D expenditures relating to pharmaceuticals.

With regard to dependence on specific customers, if a customer of the Group that accounted for a large percentage of net sales were to decrease its number of products in development owing to a slump in operating performance, or change its outsourcing policies owing to a corporate consolidation or restructuring, or if such a customer were to go out of business, this may adversely affect the Group's operating performance.

7. Possibility of the termination of large contracts or several contracts

A large number of the contracts undertaken by the Group may be terminated by the customer by means of 2–3 months' prior notice of termination. Ordinarily, service contracts specify a set amount as termination payment, however if a large contract or several contracts were terminated at the same time, this may adversely affect the Group's operating performance.

8. Impact on operating performance of changes in regulations or laws

The Group's business is regulated by the Pharmaceutical Affairs Law and ordinances of the Ministry of Health, Labour and Welfare. The Group's operating performance may be significantly affected by whether this regulatory regime moves in the direction of future tightening or future relaxation. In the event of deregulation, new entrants may enter the market from other sectors. However, to conduct a CRO business, it is necessary to recruit, train and maintain a workforce of specialist professionals. This and other factors mean that several hurdles would still exist even if deregulation encouraged the entry of new firms. Therefore, a regulatory relaxation is only likely to see a limited entry of new firms in its immediate aftermath. Despite this, if such a scenario were to eventuate, it is not possible to rule out a deterioration in the competitive environment due to an increase in new market entrants. As a result, the Group's operating performance may be adversely affected. Furthermore, the Group's operating performance may be significantly affected by trends among its main customers—pharmaceuticals companies—which are also principally regulated by the Pharmaceutical Affairs Law. Therefore, any changes in the regulatory regime affecting pharmaceuticals companies may indirectly affect the Group's operating performance.

At present, there are no reasons of which the Group is aware that lead to the withdrawal of permits held by the Group in relation to its business operations.

## 2. Outline of the Corporate Group

### (1) Description of the Business

The CMIC Group comprises a total of 15 companies—CMIC Co., Ltd., its 13 consolidated subsidiaries, and one affiliated company. The Group principally provides support services to pharmaceuticals companies, centering on support for pharmaceuticals development but also extending to manufacturing and marketing.

Based on the Group's unique business model as a Pharmaceutical Value Creator (PVC)—aimed at contributing to the enhancement of pharmaceuticals companies' added value—the CMIC Group provides services in five areas: the CRO business (drug development support), the contract manufacturing organization (CMO) business, the contract sales organization (CSO) business, the healthcare business and other business.

The principal business activities of the Group are as follows.

#### (i) CRO Business

The Group's core CRO business provides a wide range of specialized services based on contract research agreements, including the operation and management of clinical trials and post-marketing surveillance (PMS).

##### Monitoring services

In monitoring services, monitors designated by the client (pharmaceuticals companies, etc.) monitor the progress of clinical trials (therapeutics trials). As necessary, they check that the trial is being conducted and data is being recorded and reported in accordance with good clinical practice (GCP)—the international standard for clinical trials—and that it is following the therapeutics trial (post-marketing clinical trial) protocols and standard operating procedures (SOP). As well as collecting this data, the monitors prepare and keep a record of related actions in order to conform to drug regulatory agency pre-approval inspection requirements.

##### Data management services

In data management services, monitors or MR input the data recorded on clinical trial case report forms (CRF), which they receive from clinical investigators, into a computer database and perform statistical analysis.

Statistical analysis involves the statistical examination of the database produced during the clinical trials regarding drug efficacy and safety. This statistical examination is conducted in compliance with the notice from the section head of the Ministry of Health and Welfare entitled "Statistical Principles for Clinical Trials" (ICH E9) issued in 1998.

Epidemiological surveys involve the examination of data from a pharmacoepidemiological perspective (the study of the use and effects of drugs in populations) within the drug development process.

Pharmacovigilance involves the collection of drug safety data relating to drug side effects and other issues at both the drug development stage and post-marketing stage. This data is prepared on CRF as prescribed by the regulatory agency and is also input into a database.

##### Pharmaceutical affairs consulting

Pharmaceutical affairs consulting services include support for submitting drug development application documentation, and consulting services relating to the development, approval and marketing of drugs, medical devices, cosmetics and specific health foods. In addition, we provide clinical support services in overseas operations.

##### Pre-clinical work

We undertake pre-clinical work, which precedes clinical trials, on behalf of pharmaceuticals companies. Pre-clinical work includes drug quality assurance-related services (physical, chemical and microbial stability tests) and pharmacokinetic services (drug concentration tests). Physical, chemical and microbial stability tests, in the case of drugs, include long-term storage tests, acceleration tests, severe tests, light stability tests and relative comparison tests.

#### (ii) CMO Business

The CMO business involves the manufacture of drugs and other items under contract from pharmaceuticals companies.

#### (iii) CSO Business

The CSO business principally involves the provision of support services to pharmaceuticals companies relating to pharmaceutical sales and marketing. This includes promotion (promotional materials planning and production) and the dispatch and training of MR.

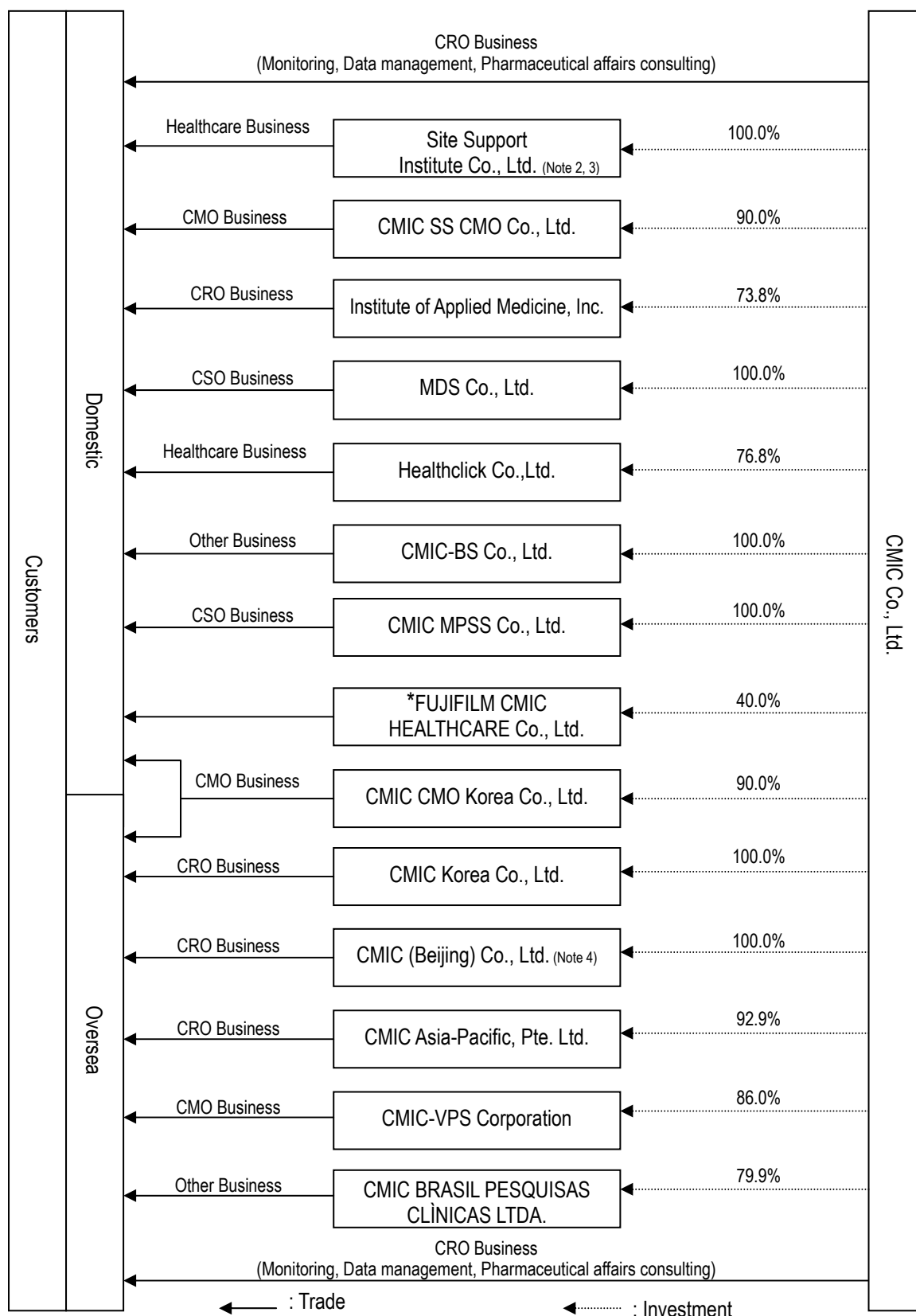
#### (iv) Healthcare Business

The Healthcare business mainly comprises medical services provided to medical institutions and pharmaceutical companies (for clinical trials, etc.), and services to support health maintenance and enhancement provided to patients and consumers.

#### (v) Other Business

Other business mainly comprises operations relating to new businesses and R&D.

The Group's business structure is as follows.



- Notes: 1. Those companies shown in the table with no asterisk are consolidated subsidiaries. The Company shown with an asterisk is an affiliated company accounted for by the equity method.  
 2. Consolidated subsidiaries CMIC-CRC Co., Ltd., and Site Support Institute Co., Ltd. (SSI), were merged in October 2008 (after the end of the fiscal year under review). SSI is the surviving company after this merger.  
 3. In March 2009, consolidated subsidiary Site Support Institute Co., Ltd. (SSI), acquired the stock of Medical Trials, Inc., which became a subsidiary of SSI. Subsequently, in June 2009, SSI merged with Medical Trials. SSI is the surviving company after this merger.  
 4. In October 2009, the segment classification of CMIC (Beijing) Co., Ltd., was changed from Other business to CRO business.

**(2) Related Companies**

In the fiscal year under review, consolidated subsidiaries Site Support Institute Co., Ltd. (SSI), and CMIC-CRC Co., Ltd., were merged in October 2008. SSI is the surviving company after this merger.

In March 2009, consolidated subsidiary SSI acquired the stock of Medical Trials, Inc., which became a subsidiary of SSI. Subsequently, in June 2009, SSI merged with Medical Trials. SSI is the surviving company after this merger.

### 3. Management Policies

#### (1) Fundamental Management Policies

The CMIC Group utilizes a unique business model as a PVC contributing to the enhancement of pharmaceutical companies' added value. In its five business segments—CRO, CMO, CSO, Healthcare and Other—the Group comprehensively supports pharmaceutical companies' value chain, from development and manufacturing to sales and marketing.

The Group will continue working to further reinforce its core CRO business, while at the same time strengthening its CMO, CSO and other businesses. The Group will strive to create new businesses that broadly support wellness. The CMIC Group's fundamental management policies aim to build a new business model through which it can expand its customer base from pharmaceuticals companies to the overall healthcare sector. We believe that this will increase our ability to contribute to society.

#### (2) Target Management Indicator

In business fields that have high growth potential, the Group works to continually increase sales share, while in business fields that serve established markets, the Group focuses on the ongoing improvement of profit margins. The CMIC Group aims to achieve an operating income ratio (operating income/net sales) of 10% or more, on a consolidated basis.

#### (3) Medium- to Long-term Management Strategy

The Group's operating environment is undergoing significant changes owing to a range of factors. These include curbs on medical expenditure, the globalization of the pharmaceutical industry, amendments to the Japanese Pharmaceutical Affairs Law, and the establishment of pharmaceutical ventures based on new technologies. We believe that it is essential for the Group to leverage its experience as a PVC, providing a comprehensive suite of value-chain support services—from drug development to manufacturing, sales and marketing. Furthermore, we aim to build a portfolio of businesses to broadly support wellness by pursuing the following management strategies.

##### 1. Improving the quality of healthcare—The Pharmaceutical Value Creator (PVC) model

Based on its business model as a PVC that contributes to the enhancement of pharmaceuticals companies' added value, the CMIC Group provides a full range of support services to overseas-based pharmaceuticals companies aiming to enter the Japanese market and companies looking to enter the pharmaceuticals field from other industries. These services include support for drug development, manufacture, sales and marketing. In addition, for Japanese companies wanting to develop or manufacture drugs overseas, by leveraging our value chain, we are able to provide full support to such pharmaceuticals companies.

Business expansion based on its unique PVC model creates an environment that allows for the use of safer and more effective drugs, including for rare disorders. Further, by covering from prevention to diagnosis and treatment, it contributes to the prevention of illness (maintaining health) and improved health for people.

##### 2. Building a competitive advantage in our core business

The Group has successfully expanded its business domain centered on the CRO business, which is currently the Group's core business. By continuing to pursue further strengthening of its business model as a PVC, we aim to maintain and enhance our competitive advantage.

Through the following strategies, the Group will strive to further reinforce its competitiveness in this area.

- (i) Strengthen Group capabilities to enable it to move from undertaking contracts involving one part of a client's requirements to contracts covering a client's entire requirements
- (ii) Reinforce capabilities enabling the Group to undertake Asian clinical trials and global studies
- (iii) Enhance specialization and quality through an upgraded training system
- (iv) Strengthen the foundations for each of its business segments including the CMO business
- (v) Based on the unique PVC business model, pursue the establishment of an environment for clinical trials that realizes synergies among the Group's business segments and enhances productivity

##### 3. International business development

The following problems exist in Japan's new drug development and approval process.

- (i) Owing to the amount of time necessary for therapeutic trials and approval inspections within Japan's new drug approval process, Japan suffers from a "drug lag" compared to other countries in getting new drugs to market as well as higher development costs owing to the long approval process.
- (ii) Securing a large number of case subjects sufficient to conduct PMS and trials, which are mandatory under additional conditions attached to new drug approvals, is often problematic.

For these reasons, in order to supplement clinical data collected in Japan, many pharmaceuticals companies are applying international standards and looking toward clinical trials being performed in South Korea and China, where case subjects may be secured rapidly. In this way, Japan's regulatory regime may be seen as promoting joint clinical trials with other parts of Asia. Another relevant factor is that Japan's large pharmaceuticals companies are increasingly looking to achieve new drug approvals and marketing launches simultaneously in Japan and other markets. For this reason, such companies are commencing overseas new drug development at an early stage and strengthening efforts in the area of global clinical trials.

Based on such trends, the Group has pursued a strategy of building its international business capabilities. In the Asia region, we have established subsidiaries CMIC Korea in South Korea, CMIC (Beijing) in China and CMIC Asia-Pacific in Singapore. In the

United States, CMIC-VPS CORPORATION, which CMIC acquired in 2007, has strengthened its structure for the contract manufacturing of ethical drugs, and has begun making shipments.

By drawing on this business structure, together with our experience and track record in global clinical trials (simultaneous development in the United States, Europe and Asia), CMIC will further expand the CRO business in Asia. We will also utilize EDC (Electronic Data Capture: a system that uses the internet to collect clinical data) and other means to offer services that support Japanese companies expanding into the U.S. and European market, as well as foreign corporation entering the Japanese market. We will further aggressively market directly to foreign pharmaceutical companies expanding internationally.

4. Encouragement of the intellectual property development (IPD)

The Group aims to accumulate intellectual property and build a new profit model through in-house and joint development of orphan drugs, diagnostics and other products. At present, we are conducting in-house development of a diagnostic application of L-FABP to predict kidney disease progression. We submitted an application for its approval as an in vitro diagnostic (IVD) in September 2006. If it is approved after inspection, this product will become our first successful IPD project, opening the way to development of a royalty-based business model.

CMIC is also conducting clinical development in Japan for Normosang®, a drug not yet approved in Japan for the treatment of the rare condition acute porphyria, and will make the application for approval itself.

5. Utilization of M&A

The Group is pursuing alliances with companies that have potential synergies with its businesses.

(4) Key Management Issues

Under the Revised Pharmaceutical Affairs Law, which came into force in 2005, the new drug approval system changed from the one based on manufacturing approval to the one based on marketing approval. Under this new regulatory framework, pharmaceuticals companies are aiming to increase their management efficiency through the aggressive adoption of outsourcing strategies. For example, in the area of drug discovery, we anticipate pharmaceutical ventures will become more widely used. In the development and approval process, we think there will be greater utilization of CRO. In manufacturing, we foresee increased use of CMO, and in sales and marketing, we anticipate the aggressive use of CSO.

Issues to be addressed by the Group are as follows.

1. Increasing the efficiency of clinical trials

To achieve further efficiency and productivity in clinical trials, we will aim to increase the productivity of our monitoring services by strengthen our links to medical institutions. We will also promote the use of IT for clinical trials.

2. Reinforcing capabilities in early-stage drug development and development management, including evaluation of drug discovery seeds

Evaluation of projects to find new drug candidate substances is an extremely difficult area or work. However, based on the Group's extensive experience related to drug development, we will provide comprehensive support services for the evaluation of new drug candidate substances as well as development and licensing to established pharmaceuticals companies, pharmaceutical ventures and companies newly entering the pharmaceutical field.

3. Building infrastructure necessary for international expansion

To support Japanese and overseas-based pharmaceuticals companies' simultaneous development projects in the United States, Europe and Asia, we will use a range of strategies for market development and to support clinical trials. For example, in North America, we will utilize alliances with CRO. In Asia, we will develop operations centering on CMIC Asia-Pacific, and encompassing China, South Korea and Taiwan. Based on these strategies, in addition to supporting Japanese pharmaceuticals companies, we will expand support services for European and U.S. pharmaceuticals companies.

4. Strengthening the CMO business

CMIC plans to acquire the Shizuoka production facility of DAIICHI SANKYO PROPHARMA CO., LTD. in April 2010, adding to its existing facilities of CMIC SS CMO Co., Ltd., CMIC CMO Korea., Ltd., and CMIC-VPS Corporation. With this acquisition the CMIC Group will be one of Japan's largest CMOs, with the capability to handle consignment production contracts for just about any drug formulation. With drug manufacturing becoming progressively more fables and pharmaceutical clients increase outsourcing, CMIC will continue to expand this business in order to respond flexibly and promptly to increasingly diverse needs.

5. Realizing synergies in Group operations and enhancing productivity

CMIC is strengthening its business support functions, including clinical trial support, pre-clinical services, drug sales and marketing support, as well as contract production, and enhancing coordination among Group companies in order to be a strategic partner for pharmaceutical companies, drug discovery ventures and other firms. We will also enhance the productivity of shared operations among Group companies.

(5) Other Significant Matters Affecting the Company's Management

There are no items.

#### 4. Production, Orders and Sales

##### (1) Production Results

Production results classified by business segment for the previous fiscal year and the fiscal year under review are as follows.

(Thousands of yen)

Business segment name	FY 2008	FY 2009	Change
	(October 1, 2007– September 30, 2008)	(October 1, 2008– September 30, 2009)	
CRO Business	16,536,098	16,366,163	99.0%
CMO Business	2,419,878	2,734,188	113.0%
CSO Business	1,897,373	1,962,822	103.4%
Healthcare Business	4,236,899	6,844,830	161.6%
Other Business	894,323	1,019,892	114.0%
Total	25,984,573	28,927,897	111.3%

Notes: 1. The amounts presented above are based on selling prices.

2. Inter-segment sales are excluded from the amounts shown above.

3. The amounts shown above do not include consumption tax, etc.

##### (2) Orders Results

Order results classified by business segment for the previous fiscal year and the fiscal year under review are as follows.

(Thousands of yen)

Business segment name	FY 2008		FY 2009			
	(October 1, 2007– September 30, 2008)		(October 1, 2008– September 30, 2009)			
	Orders	Order balance	Orders	Change	Order balance	Change
CRO Business	20,397,767	16,914,268	18,053,229	88.5%	18,272,703	108.0%
CMO Business	2,485,435	260,831	2,783,220	112.0%	299,819	114.9%
CSO Business	2,210,683	519,340	2,503,764	113.3%	1,082,302	208.4%
Healthcare Business	9,221,389	6,981,917	7,373,076	80.0%	7,893,054	113.0%
Other Business	862,364	807,071	1,053,754	122.2%	917,765	113.7%
Total	35,177,641	25,483,428	31,767,045	90.3%	28,465,645	111.7%

Notes: 1. The amounts presented above are based on selling prices.

2. Inter-segment sales are excluded from the amounts shown above.

3. The order balance for the CMO business includes only those orders that have been formally received. CMIC does calculate annual production estimates as a target figure, but since these differ from formalized orders, they are not included in the order balance.

4. The amounts shown above do not include consumption tax, etc.

### (3) Sales Results

Sales results classified by business segment for the previous fiscal year and the fiscal year under review are as follows.

(Thousands of yen)

Business segment name	FY 2008 (October 1, 2007– September 30, 2008)	FY 2009 (October 1, 2008– September 30, 2009)	Change
CRO Business	16,262,732	16,694,793	102.7%
CMO Business	2,434,158	2,744,233	112.7%
CSO Business	1,901,891	1,940,802	102.0%
Healthcare Business	4,139,549	6,461,939	156.1%
Other Business	1,038,964	943,060	90.8%
Total	25,777,297	28,784,828	111.7%

Notes: 1. Inter-segment sales are excluded from the amounts shown above.

2. Sales results for major customers and the proportion of total sales those customers account for in the previous fiscal year and the fiscal year under review are as follows.

(Thousands of yen)

Customer	FY 2008 (October 1, 2007–September 30, 2008)		FY 2009 (October 1, 2008–September 30, 2009)	
Otsuka Pharmaceutical Co., Ltd.	—	—	3,369,473	11.7%

3. The amounts shown above do not include consumption tax, etc.

## 1. Consolidated Balance Sheets

(Thousands of yen)

	FY 2008 (September 30, 2008)	FY 2009 (September 30, 2009)
<Assets>		
<b>I Current assets</b>		
Cash on hand and in banks	6,631,528	5,953,343
Trade notes and accounts receivables	5,164,862	5,931,046
Inventories	1,520,628	—
Merchandise and finished goods	—	18,904
Work in process	—	1,440,757
Raw materials and supplies	—	216,119
Deferred tax assets	551,137	646,550
Other current assets	492,844	595,849
Allowance for doubtful accounts	(8,181)	(1,644)
<b>Total current assets</b>	<b>14,352,818</b>	<b>14,800,925</b>
<b>II Fixed assets</b>		
<b>1. Property, plant and equipment</b>		
Buildings and structures	4,845,158	5,315,736
Accumulated depreciation	(2,962,518)	(3,044,146)
Buildings and structures, net	1,882,640	2,271,590
Machinery and equipment	2,546,323	2,660,754
Accumulated depreciation	(2,108,564)	(2,194,390)
Machinery and equipment, net	437,758	466,364
Tools, furniture and fixtures	868,518	909,466
Accumulated depreciation	(700,586)	(734,985)
Tools, furniture and fixtures, net	167,932	174,481
Land	1,734,320	1,716,675
Leased assets	—	313,726
Accumulated depreciation	—	(38,322)
Leased assets, net	—	275,404
Construction in progress	288,424	97,545
Other property, plant and equipment	2,616	—
<b>Net property, plant and equipment</b>	<b>4,513,693</b>	<b>5,002,061</b>
<b>2. Intangible assets</b>		
(1) Goodwill	617,613	672,291
(2) Other intangible assets	578,376	620,343
<b>Total intangible assets</b>	<b>1,195,989</b>	<b>1,292,634</b>
<b>3. Investments and other assets</b>		
(1) Investment securities	529,724	464,726
(2) Deferred tax assets	406,453	565,260
(3) Leasehold deposits	1,027,681	1,178,715
(4) Other investments	47,083	55,583
(5) Allowance for doubtful accounts	(287)	(4,737)
<b>Total investments and other assets</b>	<b>2,010,656</b>	<b>2,259,548</b>
<b>Total fixed assets</b>	<b>7,720,340</b>	<b>8,554,244</b>
<b>Total assets</b>	<b>22,073,159</b>	<b>23,355,170</b>

(Thousands of yen)

	FY 2008 (September 30, 2008)	FY 2009 (September 30, 2009)
<b>&lt;Liabilities&gt;</b>		
<b>I Current liabilities</b>		
Trade notes and accounts payable	602,462	536,240
Short-term loans	—	749,000
Current portion of long-term debt	629,600	679,600
Accounts payable—other	704,486	501,810
Accrued expenses	598,339	273,381
Accrued income taxes	1,032,868	931,871
Advances from customers	978,890	1,291,303
Reserve for employees' bonus	830,011	1,080,928
Reserve for directors' bonus	66,317	80,489
Allowance for losses on orders	8,426	115,152
Deferred income taxes	8,984	19,637
Other current liabilities	333,491	470,343
<b>Total current liabilities</b>	<b>5,793,878</b>	<b>6,729,759</b>
<b>II Long-term liabilities</b>		
Long-term debt	1,245,900	691,300
Deferred income taxes	31,354	27,452
Employees' severance and retirement benefits	913,006	1,186,635
Negative goodwill	35,837	—
Other long-term liabilities	2,068	233,183
<b>Total long-term liabilities</b>	<b>2,228,167</b>	<b>2,138,571</b>
<b>Total liabilities</b>	<b>8,022,046</b>	<b>8,868,330</b>
<b>&lt;Net assets&gt;</b>		
<b>I Owners' equity</b>		
Common stock	3,087,750	3,087,750
Capital surplus	5,960,881	5,960,881
Retained earnings	4,254,539	5,082,406
Treasury stock	(36,650)	(416,285)
<b>Total owners' equity</b>	<b>13,266,520</b>	<b>13,714,752</b>
<b>II Accumulated gains from valuation and translation adjustments</b>		
Foreign currency translation adjustments	(131,493)	(205,974)
<b>Total accumulated gains from valuation and translation adjustments</b>	<b>(131,493)</b>	<b>(205,974)</b>
<b>III Minority interests</b>		
	916,085	978,061
<b>Total net assets</b>	<b>14,051,112</b>	<b>14,486,839</b>
<b>Total liabilities and net assets</b>	<b>22,073,159</b>	<b>23,355,170</b>

## 2. Consolidated Statements in Income

(Thousands of yen)

	FY 2008 (October 1, 2007– September 30, 2008)	FY 2009 (October 1, 2008– September 30, 2009)
I Net sales	25,777,297	28,784,828
II Cost of sales	18,612,767	20,927,192
Gross profit	7,164,530	7,857,636
III Selling, general and administrative expenses	4,889,449	5,343,404
Operating income	2,275,080	2,514,231
IV Non-operating income		
Interest and dividend income	26,089	14,588
Received commission	884	1,287
Received rents	22,395	21,316
Amortization of negative goodwill	79,311	35,837
Equity in earnings of an affiliated company	1,461	1,862
Other non-operating income	29,845	33,537
Total	159,988	108,431
V Non-operating expenses		
Interest expenses	39,678	41,050
Foreign exchange losses	121,080	78,527
Write-down of investment securities	62,471	79,486
Other non-operating expenses	24,244	23,437
Total	247,475	222,503
Ordinary income	2,187,594	2,400,160
VI Extraordinary income		
Gain on sales of fixed assets	623	—
Gain on sales of investment securities	—	1,200
Gain on sales of investment in subsidiary	265	—
Total	889	1,200
VII Extraordinary losses		
Loss on disposal of fixed assets	25,725	35,913
Loss on sales of fixed assets	2,017	—
Loss on devaluation of investment securities	22,896	80,288
Amortization of prior service cost	—	29,328
Office transfer expenses	17,904	19,676
Loss on cancellation of lease contracts	14,539	—
Total	83,083	165,206
Income before income taxes and minority interests	2,105,400	2,236,153
Income taxes		
Current	1,367,276	1,333,660
Deferred	(201,494)	(251,766)
Total	1,165,782	1,081,894
Minority interests	109,918	94,573
Net income	829,699	1,059,684

### 3. Consolidated Statements of Changes in Net Assets

(Thousands of yen)

	FY 2008 (October 1, 2007– September 30, 2008)	FY 2009 (October 1, 2008– September 30, 2009)
<b>I Owners' equity</b>		
<b>Common stock</b>		
Balance at September 30, 2008	3,087,750	3,087,750
Changes in items during the period		
Total changes in items during the period	—	—
Balance at September 30, 2009	3,087,750	3,087,750
<b>Capital surplus</b>		
Balance at September 30, 2008	3,332,990	5,960,881
Changes in items during the period		
Disposal of treasury stock	0	(0)
Net changes owing to share exchange	2,627,891	—
Total changes in items during the period	2,627,891	(0)
Balance at September 30, 2009	5,960,881	5,960,881
<b>Retained earnings</b>		
Balance at September 30, 2008	3,687,873	4,254,539
Net changes owing to changes in accounting policies applied to foreign subsidiaries	—	33,861
Changes in items during the period		
Cash dividends paid	(162,139)	(118,896)
Cash dividends paid (interim)	(100,893)	(146,783)
Net income	829,699	1,059,684
Total changes in items during the period	566,666	794,005
Balance at September 30, 2009	4,254,539	5,082,406
<b>Treasury stock</b>		
Balance at September 30, 2008	—	(36,650)
Changes in items during the period		
Acquisition of treasury stock	(36,687)	(379,790)
Disposal of treasury stock	36	155
Total changes in items during the period	(36,650)	(379,634)
Balance at September 30, 2009	(36,650)	(416,285)
<b>Total owners' equity</b>		
Balance at September 30, 2008	10,108,613	13,266,520
Net changes owing to changes in accounting policies applied to foreign subsidiaries	—	33,861
Changes in items during the period		
Cash dividends paid	(162,139)	(118,896)
Cash dividends paid (interim)	(100,893)	(146,783)
Net income	829,699	1,059,684
Acquisition of treasury stock	(36,687)	(379,790)
Disposal of treasury stock	36	155
Net changes owing to share exchange	2,627,891	—
Total changes in items during the period	3,157,907	414,370
Balance at September 30, 2009	13,266,520	13,714,752

Note: The decrease of ¥162,139 thousand in retained earnings resulting from cash dividends paid in the previous fiscal year includes ¥80,210 thousand in dividends paid to former shareholders of Site Support Institute Co., Ltd., which was made a wholly-owned subsidiary of the Company through a stock swap.

(Thousands of yen)

	FY 2008 (October 1, 2007– September 30, 2008)	FY 2009 (October 1, 2008– September 30, 2009)
<b>II Accumulated gains from valuation and translation adjustments</b>		
Foreign currency translation adjustments		
Balance at September 30, 2008	70,197	(131,493)
Changes in items during the period		
Net changes in items other than owners' equity	(201,691)	(74,481)
Total changes in items during the period	(201,691)	(74,481)
Balance at September 30, 2009	(131,493)	(205,974)
<b>Total accumulated gains from valuation and translation adjustments</b>		
Balance at September 30, 2008	70,197	(131,493)
Changes in items during the period		
Net changes in items other than owners' equity	(201,691)	(74,481)
Total changes in items during the period	(201,691)	(74,481)
Balance at September 30, 2009	(131,493)	(205,974)
<b>III Minority interests</b>		
Balance at September 30, 2008	787,812	916,085
Changes in items during the period		
Net changes in items other than owners' equity	128,273	61,976
Total changes in items during the period	128,273	61,976
Balance at September 30, 2009	916,085	978,061
<b>IV Total net assets</b>		
Balance at September 30, 2008	10,966,623	14,051,112
Net changes owing to changes in accounting policies applied to foreign subsidiaries	—	33,861
Changes in items during the period		
Cash dividends paid	(162,139)	(118,896)
Cash dividends paid (interim)	(100,893)	(146,783)
Net income	829,699	1,059,684
Acquisition of treasury stock	(36,687)	(379,790)
Disposal of treasury stock	36	155
Net changes owing to share exchange	2,627,891	—
Net changes in items other than owners' equity	(73,418)	(12,505)
Total changes in items during the period	3,084,488	401,865
Balance at September 30, 2009	14,051,112	14,486,839

#### 4. Consolidated Statements of Cash Flows

(Thousands of yen)

	FY 2008 (October 1, 2007– September 30, 2008)	FY 2009 (October 1, 2008– September 30, 2009)
<b>I Cash flows from operating activities</b>		
Income before income taxes and minority interests	2,105,400	2,236,153
Depreciation and amortization	473,089	703,496
Amortization of goodwill	92,859	114,998
Amortization of negative goodwill	(79,311)	(35,837)
Increase (decrease) in employees' severance and retirement benefits	172,328	270,817
Increase (decrease) in reserve for employees' bonus	830,011	241,937
Increase (decrease) in reserve for directors' bonus	(76,342)	14,171
Increase (decrease) in allowance for doubtful accounts	5,748	(1,272)
Increase (decrease) in allowance for losses on orders	(4,573)	106,725
Interest and dividend income	(26,089)	(14,588)
Interest expenses	39,678	41,050
Equity in losses (earnings) of an affiliated company	(1,461)	(1,862)
Foreign exchange loss (gain)	109,291	96,586
Loss (gain) on sales of investment securities	—	(1,200)
Loss (gain) on devaluation of investment securities	22,896	80,288
Loss (gain) on sales of investment in subsidiary	(265)	—
Valuation loss of investment securities	62,471	79,486
Loss on disposal of fixed assets	25,725	35,913
Gain on sales of fixed assets	(623)	—
Loss on sales of fixed assets	2,017	—
Decrease (increase) in trade receivable	83,819	(742,628)
Decrease (increase) in inventories assets	(445,387)	(164,996)
Increase (decrease) in purchase liabilities	(76,978)	(47,229)
Increase (decrease) in accrued expenses	(586,036)	(320,433)
Increase (decrease) in advances from customers	193,874	310,439
Increase (decrease) in deposits received	58,117	(418)
Other, net	(106,424)	(59,342)
Subtotal	2,873,836	2,942,256
Interest and dividends received	26,634	21,971
Interest paid	(40,275)	(42,094)
Income taxes paid	(1,227,775)	(1,453,430)
<b>Net cash provided by operating activities</b>	<b>1,632,419</b>	<b>1,468,702</b>

(Thousands of yen)

	FY 2008 (October 1, 2007– September 30, 2008)	FY 2009 (October 1, 2008– September 30, 2009)
<b>II Cash flows from investing activities</b>		
Payments of time deposits	(592,598)	(468,049)
Withdrawal of time deposits	518,526	636,349
Purchase of property and equipment	(623,134)	(802,187)
Proceeds from sales of property and equipment	14,907	–
Purchase of intangible assets	(299,440)	(316,744)
Pledge of leasehold deposits	(101,338)	(206,218)
Reversal of leasehold deposits	11,685	46,926
Purchase of investment securities	(286,322)	(134,048)
Proceeds from sales of investment securities	–	4,587
Purchase of subsidiaries' stock accompanying a change in the scope of consolidation	(265,858)	(143,670)
Proceeds from sales of investment in subsidiaries	4,075	–
Proceeds from collection of loans	43,586	22,430
Other	3,150	–
<b>Net cash used in investing activities</b>	<b>(1,572,761)</b>	<b>(1,360,625)</b>
<b>III Cash flows from financing activities</b>		
Increase (decrease) in short-term loans	–	649,000
Proceeds from long-term debt	270,000	150,000
Repayment of long-term debt	(685,165)	(701,104)
Repayment of lease obligations	(8,740)	(61,181)
Dividends paid	(179,762)	(266,625)
Dividends paid to minority interests	(12,510)	(22,488)
Dividends paid to former shareholders of newly consolidated subsidiary	(80,210)	–
Proceeds from disposal of treasury stock	36	155
Payment for purchases of treasury stock	(36,687)	(379,790)
<b>Net cash used in financing activities</b>	<b>(733,039)</b>	<b>(632,033)</b>
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	<b>(79,260)</b>	<b>(33,773)</b>
<b>V Net increase (decrease) in cash and cash equivalents</b>	<b>(752,642)</b>	<b>(557,729)</b>
<b>VI Cash and cash equivalents at beginning of the period</b>	<b>4,505,932</b>	<b>6,070,677</b>
<b>VII Cash and cash equivalents from newly consolidated subsidiaries</b>	<b>2,317,387</b>	<b>–</b>
<b>VIII Cash and cash equivalents at end of the period</b>	<b>6,070,677</b>	<b>5,512,948</b>

## Significant Matters that Serve as the Basis for Preparation of Consolidated Financial Statements

### 1. Application of Accounting Standard for Measurement of Inventories

Previously, the Company stated inventories held for sale in the ordinary course of business mainly at cost determined principally by the specific identification method. However, commencing from the three-month period under review, the Company has adopted the Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 5, 2006). Accordingly, inventories are stated at cost determined principally by the specific identification method whereby the book value (balance sheet amounts) of inventory is marked down in line with any decrease in profitability of an asset. Application of this new standard caused no material impact on earnings compared with the previous method.

### 2. Application of Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Commencing from the three-month period under review, the Company has applied Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statement (ASBJ Practical Issues Task Force (PITF) Report No.18, May 17, 2006) and has, accordingly, made any necessary revisions to its consolidated financial statements. As a result of this change, retained earnings increased ¥33,861 thousand compared with the previous method, but there was no material impact on earnings.

### 3. Application of Accounting Standard for Lease Transactions

Previously, the Company recognized lease transactions under finance leases that do not involve the transfer of ownership of the leased asset as operating leases. However, in accordance with Accounting Standard for Lease Transactions (ASBJ Statement No.13, revised March 30, 2007, based on Business Accounting Council Committee No. 1, June 17, 1993) and Guidance on Accounting Standard for Lease Transaction (ASBJ Guidance No. 16, revised March 30, 2007, based on Japan Institute of Certified Public Accountants (JICPA) Auditing Standards Committee, January 18, 1994), which became applicable for quarterly financial statements in fiscal years beginning on or after April 1, 2008, the Company has applied these accounting standards commencing from the three-month period under review. Accordingly, the finance lease transactions mentioned above have been recognized as normal sale and purchase transactions. With regard to the method of depreciation of leased assets under finance

## Segment Information

### a. Segment information by business category

FY 2008 (October 1, 2007 through September 30, 2008)

(Thousands of yen)

	CRO	CMO	CSO	Healthcare	Other	Total	Eliminations/ Headquarters	Consolidated
I Net sales and operating income (loss)								
Net sales								
(1) Outside customers	16,262,732	2,434,158	1,901,891	4,139,549	1,038,964	25,777,297	—	25,777,297
(2) Inter-segment	14,531	20,022	—	189,605	139,977	364,137	(364,137)	—
Total	16,277,264	2,454,181	1,901,891	4,329,155	1,178,942	26,141,435	(364,137)	25,777,297
Operating expenses	13,962,593	2,516,489	1,888,528	4,070,576	1,428,167	23,866,354	(364,137)	23,502,217
Operating income (loss)	2,314,670	(62,307)	13,363	258,579	(249,225)	2,275,080	—	2,275,080
II Assets, depreciation, and capital expenditures								
Assets	11,735,922	4,097,264	1,188,609	4,714,826	527,520	22,264,142	(190,983)	22,073,159
Depreciation	255,874	223,821	16,030	65,756	4,465	565,949	—	565,949
Capital expenditures	973,462	173,099	1,317	74,458	138	1,222,477	—	1,222,477

Notes: 1. Business segments have been reclassified from the subject fiscal year. Figures for the previous fiscal year have been recalculated in line with the revised segments for easier comparison.

2. Within operating expenses, there are no unallocated operating expenses included in eliminations/headquarters.

3. Within assets, under the eliminations/headquarters classification, there is no amount for assets assigned to headquarters.

4. As stated in "Additional Information" on page 27, from the subject fiscal year the Company and its domestic consolidated subsidiaries (excluding one subsidiary included in the scope of consolidation in the previous fiscal year), in accordance with the revised Corporation Tax Act, amortizes equally over a five-year period the book value of property, plant and equipment acquired prior to March 31, 2007 that have been depreciated to the allowable limit. The impact of this on segment operating performance during the subject fiscal year is minimal.

FY 2009 (October 1, 2008 through September 30, 2009)

(Thousands of yen)

	CRO	CMO	CSO	Healthcare	Other	Total	Eliminations/ Headquarters	Consolidated
I Net sales and operating income (loss)								
Net sales								
(1) Outside customers	16,694,793	2,744,233	1,940,802	6,461,939	943,060	28,784,828	—	28,784,828
(2) Inter-segment	112,186	17,923	21,409	118,870	151,614	422,004	(422,004)	—
Total	16,806,980	2,762,156	1,962,211	6,580,809	1,094,674	29,206,833	(422,004)	28,784,828
Operating expenses	14,861,809	2,821,973	1,939,979	5,672,129	1,408,422	26,704,314	(433,717)	26,270,596
Operating income (loss)	1,945,171	(59,816)	22,232	908,679	(313,747)	2,502,518	11,713	2,514,231
II Assets, depreciation, and capital expenditures								
Assets	12,139,311	4,312,904	1,019,982	5,924,311	630,993	24,027,503	(672,333)	23,355,170
Depreciation	355,152	286,582	22,485	142,609	11,665	818,495	—	818,495
Capital expenditures	640,837	388,833	1,576	336,117	100,412	1,467,778	—	1,467,778

## Notes: 1. Method for classifying business segments

Businesses are classified by taking into account products and service groupings and market similarities.

## 2. Principal services included within each business segment

CRO: Monitoring services, data management services, pharmaceutical affairs consulting services, pre-clinical work

CMO: Contract manufacturing organization services

CSO: Pharmaceutical marketing support and MR dispatch

Healthcare: SMO services, provision of healthcare information via the internet

Other: Human resources organizational support, diagnostic drug development, new businesses

## 3. Within operating expenses, there are no unallocated operating expenses included in eliminations/headquarters.

## 4. Within assets, under the eliminations/headquarters classification, there is no amount for assets assigned to headquarters.

## 5. Change in business segment classifications

Previously, the Company's business segment information was based on the following classifications: CRO business; CMO business; and CSO and other businesses. However, from the fiscal year ending September 30, 2009, this has been changed to five classifications: CRO business; CMO business; CSO business; Healthcare business; and Other business.

This change is aimed at unifying decision-making, expediting the execution of operations and enhancing efficiency. With the aim of building a structure capable of increasing earnings potential and productivity, the Board of Directors passed a resolution on September 17, 2008, to establish Group-wide internal companies on October 1, 2008. These internal companies are: CRO Company, CMO Company, CSO Company and Healthcare Company. The new business segments are designed to more accurately reflect the development of the Company's businesses and the state of these businesses than the previous classifications.

## b. Segment information by geographic region

FY 2008 (October 1, 2007 through September 30, 2008) and FY 2009 (October 1, 2008 through September 30, 2009)

Due to the fact that sales in Japan exceeded 90% of net sales, segment information by geographic region is not included in this report.

## c. Overseas sales

FY 2008 (October 1, 2007 through September 30, 2008) and FY 2009 (October 1, 2008 through September 30, 2009)

Due to the fact that overseas sales were less than 10% of consolidated net sales, overseas sales information is not included in this report.

Per Share Information

(Yen)

FY 2008 (October 1, 2007–September 30, 2008)		FY 2009 (October 1, 2008–September 30, 2009)	
Net assets per share	14,693.16	Net assets per share	15,369.33
Net income per share	1,003.94	Net income per share	1,205.63
In the fiscal year under review, diluted net income per share is not shown due to there being no dilutive shares outstanding.		Same as on the left.	

Notes: The basis for calculation of net income per share and diluted net income per share is as follows.

(Thousands of yen)

	FY 2008 (October 1, 2007– September 30, 2008)	FY 2009 (October 1, 2008– September 30, 2009)
Net income per share		
Net income	829,699	1,059,684
Amount not attributable to common stockholders	—	—
Net income relating to common stock	829,699	1,059,684
Average number of shares during the period (shares)	826,411	878,948
Diluted net income per share		
Adjusted net income	—	—
Increase in the number of shares of common stock (shares)	—	—
(Stock subscription rights issued pursuant to Article 280-19 of the former Commercial Code)	(—)	(—)
Description of securities excluded from the computation of diluted net income per share because they do not have dilutive effect	—	—

## Additional Information

On July 31, 2009, the Board of Directors of CMIC passed a resolution to enter into a memorandum of understanding (MOU) with DAIICHI SANKYO CO., LTD. ("DAIICHI SANKYO") relating to the acquisition of the assets of the Shizuoka Plant of DAIICHI SANKYO subsidiary DAIICHI SANKYO PROPHARMA CO., LTD. (Head Office: Chuo-ku, Tokyo; President: Masahiro Okabe). This acquisition includes the aforementioned plant's land, structures and equipment. The MOU also specifies that CMIC will manufacture the plant's existing products under a contract manufacturing organization (CMO) relationship with DAIICHI SANKYO following the acquisition. The MOU with DAIICHI SANKYO was signed the same day (July 31, 2009).

### 1. Reasons for the Acquisition

The CMIC Group has built a system to support the pharmaceutical development, manufacturing and marketing activities of pharmaceutical companies. Based on its unique business model as a PVC, CMIC strives to help pharmaceutical companies maximize their value. At present, CMIC is working to strengthen and enhance its support services and further expand its earnings base.

Through the plant acquisition announced this time, as the CMO market steadily expands, the CMIC Group's CMO business will become one of the largest CMOs in Japan, capable of manufacturing almost all formulation types domestically. A key trend among the CMIC Group's clients is toward divestiture of manufacturing operations fables model and greater use of outsourcing. The CMIC Group is responding to this trend by working to meet the diverse needs of its clients even more flexibly and swiftly.

### 2. Overview of the DAIICHI SANKYO PROPHARMA Shizuoka Plant

Location	1-588, Kanaya-azuma, Shimada, Shizuoka
Area	210,000 square meters
Commencement of operations	1965
Number of employees (as of July 2009)	387
Manufacturing capacity	Tablet formulations: 1.5 billion/year Capsule formulations: 500 million capsules/year Granule/powder formulations: 200 tons/year Injectable formulations: 3.0 million units/year
Principal products	Ethical drugs Cravit® tablets, Transamin capsules, Pantethine powder, Omnipaque® in syringes, etc.

### 3. Method of Transfer

DAIICHI SANKYO will establish a new wholly owned subsidiary (name to be decided; hereafter "the new Shizuoka company"), which will assume the assets of the business to be transferred through an absorption-type company split.

### 4. Schedule

October 2009	Establishment of new Shizuoka company
November 2009	Signing of definitive agreement
April 2010	Transfer of shares; commencement of operations