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# **IMV CORPORATION**

*Consolidated Financial Statements for the  
Year Ended September 30, 2019, and  
Independent Auditor's Report*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of IMV CORPORATION:

We have audited the accompanying consolidated balance sheet of IMV CORPORATION and its subsidiaries as of September 30, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for 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.

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IMV CORPORATION and its subsidiaries as of September 30, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into British pound amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such British pound amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

December 20, 2019

**IMV CORPORATION and Subsidiaries**
**Consolidated Balance Sheet  
September 30, 2019**

ASSETS	Thousands of Yen		Thousands of Pounds (Note 1)	LIABILITIES AND EQUITY	Thousands of Yen		Thousands of Pounds (Note 1)
	2019	2018	2019		2019	2018	2019
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents (Note 11)	¥ 970,730	¥ 1,374,292	£ 7,316	Short-term bank loans (Notes 6 and 11)	¥ 2,125,000	¥ 2,870,000	£ 16,017
Receivables (Note 11):				Current portion of long-term debt (Notes 6 and 11)	361,404	381,572	2,724
Trade notes	678,565	1,089,259	5,114	Payables (Note 11):			
Trade accounts	3,546,157	3,002,128	26,729	Trade notes	986,138	1,106,515	7,433
Electronically recorded monetary claims	600,599	256,647	4,527	Trade accounts	728,077	618,561	5,487
Allowance for doubtful receivables	(3,441)	(8,613)	(25)	Electronically recorded obligations	1,027,968	960,455	7,748
Inventories (Note 4)	2,725,011	2,585,363	20,539	Other	427,759	436,410	3,224
Prepaid expenses and other current assets	365,457	630,544	2,754	Accrued expenses	346,595	326,728	2,612
				Income taxes payable	212,058	108,524	1,598
Total current assets	8,883,079	8,929,622	66,956	Provision for product warranty	89,000	90,000	670
				Provision for stock-based compensation	37,129	-	279
<b>PROPERTY, PLANT AND EQUIPMENT:</b>				Provision for loss related to lawsuit	17,844	-	134
Land (Note 6)	1,935,656	1,944,323	14,590	Other current liabilities	325,255	340,693	2,451
Buildings and structures (Note 6)	4,238,399	4,055,293	31,946				
Machinery and equipment	504,095	496,082	3,799	Total current liabilities	6,684,231	7,239,460	50,382
Furniture and fixtures	2,999,950	2,377,947	22,612				
Lease assets	3,888	3,888	29	<b>LONG-TERM LIABILITIES:</b>			
Construction in progress	104,406	235,334	786	Long-term debt (Notes 6 and 11)	1,669,480	1,332,550	12,583
Total	9,786,396	9,112,869	73,764	Long-term payables	192,169	192,169	1,448
Accumulated depreciation	(4,114,028)	(3,599,799)	(31,009)	Asset retirement obligations	47,043	48,408	354
Net property, plant and equipment	5,672,367	5,513,069	42,755	Provision for stock-based compensation	-	23,576	-
				Other long-term liabilities	104,265	112,302	785
				Total long-term liabilities	2,012,958	1,709,006	15,172
<b>INVESTMENTS AND OTHER ASSETS:</b>				<b>EQUITY:</b>			
Investment securities (Notes 3 and 11)	206,224	254,964	1,554	Common stock—authorized, 67,820,000 shares; issued, 16,957,016 shares in 2019 and 2018	464,817	464,817	3,503
Goodwill (Note 5)	12,555	303,685	94	Capital surplus	563,437	563,437	4,246
Software	55,430	56,526	417	Retained earnings (Note 13)	5,545,845	5,308,745	41,801
Deferred tax assets (Note 9)	239,979	168,055	1,808	Treasury stock—at cost, 735,798 shares in 2019 and 735,598 shares in 2018	(159,410)	(159,282)	(1,201)
Long-term deposits	37,662	42,189	283	Accumulated other comprehensive income:			
Other assets	93,403	88,031	704	Unrealized gain on available-for-sale securities	60,975	92,253	459
Total investments and other assets	645,254	913,452	4,863	Foreign currency translation adjustments	26,050	(13,433)	196
				Total	6,501,715	6,256,538	49,006
				Noncontrolling interests	1,796	151,139	13
				Total equity	6,503,512	6,407,677	49,020
<b>TOTAL</b>	<b>¥ 15,200,702</b>	<b>¥ 15,356,145</b>	<b>£ 114,575</b>	<b>TOTAL</b>	<b>¥ 15,200,702</b>	<b>¥ 15,356,145</b>	<b>£ 114,575</b>

See notes to consolidated financial statements.

## IMV CORPORATION and Subsidiaries

### Consolidated Statement of Income Year Ended September 30, 2019

	Thousands of Yen		Thousands of Pounds (Note 1)
	2019	2018	2019
NET SALES (Note 14)	¥ 12,348,007	¥ 11,044,926	£ 93,073
COST OF SALES	<u>8,790,235</u>	<u>7,348,141</u>	<u>66,256</u>
Gross profit	3,557,771	3,696,785	26,816
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	<u>2,827,446</u>	<u>2,838,201</u>	<u>21,311</u>
Operating income	<u>730,325</u>	<u>858,584</u>	<u>5,504</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	8,947	6,418	67
Interest expense	(19,271)	(17,151)	(145)
Rental income	40,608	40,597	306
Gain on sales of investment securities	4,616	-	34
Foreign currency exchange (loss) gain—net	(128,701)	15,572	(970)
Loss on disaster	-	(51,974)	-
Insurance income	85,663	-	645
Loss on impairment of goodwill (Note 5)	(238,445)	-	(1,797)
Other—net	<u>(8,277)</u>	<u>14,019</u>	<u>(62)</u>
Other (loss) income—net	<u>(254,860)</u>	<u>7,481</u>	<u>(1,921)</u>
INCOME BEFORE INCOME TAXES	<u>475,465</u>	<u>866,065</u>	<u>3,583</u>
INCOME TAXES (Note 9):			
Current	310,440	324,193	2,339
Deferred	<u>(60,793)</u>	<u>(41,940)</u>	<u>(458)</u>
Total income taxes	<u>249,647</u>	<u>282,253</u>	<u>1,881</u>
NET INCOME	225,818	583,812	1,702
NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(141,053)</u>	<u>5,629</u>	<u>(1,063)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 366,871</u>	<u>¥ 578,183</u>	<u>£ 2,765</u>
	Yen		Pounds
	<u>2019</u>	<u>2018</u>	<u>2019</u>
PER SHARE OF COMMON STOCK (Note 2.t):			
Basic net income	¥22.62	¥35.65	£0.17
Cash dividends applicable to the year	8.50	8.00	0.06

See notes to consolidated financial statements.

## IMV CORPORATION and Subsidiaries

### Consolidated Statement of Comprehensive Income Year Ended September 30, 2019

	Thousands of Yen		Thousands of Pounds (Note 1)
	2019	2018	2019
NET INCOME	<u>¥ 225,818</u>	<u>¥ 583,812</u>	<u>£ 1,702</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 12):			
Unrealized loss on available-for-sale securities	(31,278)	(3,990)	(235)
Foreign currency translation adjustments	<u>33,359</u>	<u>(14,855)</u>	<u>251</u>
Total other comprehensive income (loss)	<u>2,081</u>	<u>(18,845)</u>	<u>15</u>
COMPREHENSIVE INCOME	<u>¥ 227,899</u>	<u>¥ 564,966</u>	<u>£ 1,717</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ 375,076	¥ 561,502	£ 2,827
Noncontrolling interests	(147,177)	3,464	(1,109)

See notes to consolidated financial statements.

**IMV CORPORATION and Subsidiaries**
**Consolidated Statement of Changes in Equity  
Year Ended September 30, 2019**

	Thousands	Thousands of Yen								
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income		Total	Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments			
BALANCE, OCTOBER 1, 2017	16,957,016	¥ 464,817	¥ 557,563	¥ 4,892,647	¥ (161,707)	¥ 96,243	¥ (743)	¥ 5,848,821	¥ 147,675	¥ 5,996,496
Net income attributable to owners of the parent				578,183				578,183		578,183
Cash dividends, ¥8 per share				(162,085)				(162,085)		(162,085)
Purchase of treasury stock					(582)			(582)		(582)
Disposal of treasury stock			5,874		3,007			8,882		8,882
Net change during the year						(3,990)	(12,690)	(16,680)	3,464	(13,216)
BALANCE, SEPTEMBER 30, 2018	16,957,016	464,817	563,437	5,308,745	(159,282)	92,253	(13,433)	6,256,538	151,139	6,407,677
Net income attributable to owners of the parent				366,871				366,871		366,871
Cash dividends, ¥8.5 per share				(129,771)				(129,771)		(129,771)
Purchase of treasury stock					(127)			(127)		(127)
Net change during the year						(31,278)	39,483	8,205	(149,342)	(141,137)
BALANCE, SEPTEMBER 30, 2019	<u>16,957,016</u>	<u>¥ 464,817</u>	<u>¥ 563,437</u>	<u>¥ 5,545,845</u>	<u>¥ (159,410)</u>	<u>¥ 60,975</u>	<u>¥ 26,050</u>	<u>¥ 6,501,715</u>	<u>¥ 1,796</u>	<u>¥ 6,503,512</u>
		Thousands of Pounds (Note 1)								
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income		Total	Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments			
BALANCE, SEPTEMBER 30, 2018		£ 3,503	£ 4,246	£ 40,014	£ (1,200)	£ 695	£ (101)	£ 47,158	£ 1,139	£ 48,297
Net income attributable to owners of the parent				2,765				2,765		2,765
Cash dividends, £0.06 per share				(978)				(978)		(978)
Purchase of treasury stock					(0)			(0)		(0)
Net change during the year						(235)	297	61	(1,125)	(1,063)
BALANCE, SEPTEMBER 30, 2019		<u>£ 3,503</u>	<u>£ 4,246</u>	<u>£ 41,801</u>	<u>£ (1,201)</u>	<u>£ 459</u>	<u>£ 196</u>	<u>£ 49,006</u>	<u>£ 13</u>	<u>£ 49,020</u>

See notes to consolidated financial statements.

**IMV CORPORATION and Subsidiaries**
**Consolidated Statement of Cash Flows**  
**Year Ended September 30, 2019**

	Thousands of Yen		Thousands of Pounds
	2019	2018	(Note 1)
<b>OPERATING ACTIVITIES:</b>			
Net income before income taxes	¥ 475,465	¥ 866,065	£ 3,583
Adjustments for:			
Depreciation and amortization	646,229	517,960	4,870
Loss on impairment of goodwill	238,445	-	1,797
Gain on sales of investment securities	(4,616)	-	(34)
Interest and dividend income	(8,947)	(6,418)	(67)
Interest expense	19,271	17,151	145
Decrease in allowance for doubtful receivables	(5,171)	(5,381)	(38)
Decrease in provision for product warranty	(1,000)	(24,917)	(7)
Increase in provision for stock-based compensation	13,553	23,576	102
Foreign currency exchange loss (gain)—net	39,508	(11,773)	297
Loss on disaster	-	51,974	-
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Increase in trade receivables	(506,871)	(807,782)	(3,820)
Increase in inventories	(182,330)	(408,402)	(1,374)
Decrease in trade payables	149,619	219,126	1,127
Other—net	169,089	28,862	1,274
Subtotal	<u>1,042,244</u>	<u>460,042</u>	<u>7,856</u>
Interest and dividends received	8,965	6,425	67
Interest paid	(18,722)	(17,631)	(141)
Income taxes paid	(234,191)	(486,002)	(1,765)
Income taxes refunded	-	3,146	-
Net cash provided by (used in) operating activities	<u>798,296</u>	<u>(34,020)</u>	<u>6,017</u>
<b>INVESTING ACTIVITIES:</b>			
Purchases of investment securities	(19,396)	(18,192)	(146)
Proceeds from sale of investment securities	30,337	-	229
Purchases of property, plant and equipment	(804,966)	(1,772,352)	(6,067)
Proceeds from sale of property, plant and equipment	11,310	440	85
Purchase of intangible fixed assets	(46,539)	(23,849)	(351)
Purchase of time deposits	(9)	(22,549)	(0)
Decrease in time deposits	129,672	-	977
Purchase of shares of subsidiaries resulting from change in scope of consolidation (Note 12)	-	(121,524)	-
Other	46,373	40,485	349
Net cash used in investing activities	<u>(653,218)</u>	<u>(1,917,544)</u>	<u>(4,923)</u>
<b>FINANCING ACTIVITIES:</b>			
(Decrease) increase in short-term bank loans—net	(745,000)	1,300,000	(5,615)
Proceeds from long-term debt	700,000	850,000	5,276
Repayments of long-term debt	(383,238)	(437,689)	(2,888)
Repayment of finance lease obligations	(839)	(933)	(6)
Purchase of treasury stock	(127)	(582)	(0)
Dividends paid	(127,517)	(161,984)	(961)
Net cash (used in) provided by financing activities	<u>(556,722)</u>	<u>1,548,810</u>	<u>(4,196)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>8,083</u>	<u>19,140</u>	<u>60</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(403,561)</u>	<u>(383,613)</u>	<u>(3,041)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,374,292</u>	<u>1,757,905</u>	<u>10,358</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>¥ 970,730</u>	<u>¥ 1,374,292</u>	<u>£ 7,316</u>

See notes to consolidated financial statements.

# IMV CORPORATION and Subsidiaries

## Notes to Consolidated Financial Statements Year Ended September 30, 2019

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### 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of IMV CORPORATION (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Amounts less than one thousand yen and one thousand pounds are rounded down, except for per share data. Therefore, total amounts may not correspond with the aggregation of such account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into British pound amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥132.67 to £1, the approximate rate of exchange at September 30, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into British pounds at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Consolidation** – The consolidated financial statements for the years ended September 30, 2019 and 2018 include the accounts of the Company and its subsidiaries (8 in 2019 and 12 in 2018) (together, the "Group").

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period ranging from 5 to 10 years by the straight-line method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

- b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.



c. **Business Combinations** – Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. **Cash Equivalents** – Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits which mature within three months of the date of acquisition.

e. **Inventories** – Finished goods and work in process are stated at the lower of cost, determined by the specific identification method, or net selling value. Raw materials are stated at the lower of cost, determined by the moving-average method, or net selling value (see Note 4).

f. **Allowance for Doubtful Receivables** – Allowance for doubtful receivables is calculated based on the actual historical ratio of bad debt on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

g. **Marketable and Investment Securities** – Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities for which there is a positive intent and ability to hold to maturity are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Cost of securities sold is determined by the moving-average method.

All securities held by the Group are classified as available-for-sale securities.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h. **Property, Plant and Equipment** – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed primarily by the declining-balance method based on the estimated useful lives of the respective assets except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired subsequent to April 1, 1998 and structures acquired subsequent to April 1, 2016. The straight-line method is primarily applied to property, plant and equipment of foreign subsidiaries. The range of useful lives is principally from 30 to 50 years for buildings, from 8 to 18 years for structures, from 5 to 11 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.

- i. Software* – Expenditures relating to development of software intended for internal use are charged to income when incurred except for those that are deemed to contribute to the generation of future income or cost saving. Such expenditures are capitalized as assets and amortized by the straight-line method over an estimated useful life of five years. Costs relating to development of software for sales are capitalized and amortized at the greater of an amount determined with reference to total estimated sales quantities which are expected to be generated by the product, or an amount computed by a straight-line method with reference to the product's expected life cycle of three years.
- j. Long-Lived Assets* – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- k. Asset Retirement Obligations* – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- l. Provision for Stock-Based Compensation* – Provision for stock-based compensation is calculated at an estimated amount based on the attainment of the performance targets and service requirement stipulated in the Company's stock-based compensation plan in order to provide delivery of the shares to directors.
- m. Provision for Loss Related to Lawsuit* – Provision for loss related to lawsuit is calculated at an estimated amount by considering current circumstances in its lawsuit to provide for loss against a domestic subsidiary.
- n. Research and Development Costs* – Research and development costs are charged to income as incurred.
- o. Leases* – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet. Lease assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the terms of the transactions as the useful life.
- p. Provision for Product Warranty* – Provision for product warranty is calculated at an estimated amount of the total costs which are expected to be incurred subsequent to the balance sheet date based on the actual historical ratio of the cost of repair and the anticipated amount considering individual product warranties.

- q. Income Taxes** – The provision for income taxes is computed based on the income before income taxes included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective October 1, 2018, and deferred tax assets of ¥159,803 thousand and deferred tax liabilities of ¥12,395 thousand which were previously classified as current assets and long-term liabilities, respectively, as of September 30, 2018, have been reclassified as investments and other assets in the amount of ¥168,055 thousand in the accompanying consolidated balance sheet at September 30, 2018.

In addition, "Note 9. Income Taxes" has been expanded in accordance with Note 8 (excluding the total amount of valuation allowance) and Note 9 of Interpretive Notes to Accounting Standard for Tax Effect Accounting as provided in Paragraphs 3 through 5 of the Partial Amendments. However, comparative information for the year ended September 30, 2018 has not been disclosed in Note 9 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

- r. Foreign Currency Transactions** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.
- s. Foreign Currency Financial Statements** – The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except that the components of equity excluding noncontrolling interest are translated at historical rate. Revenue and expense accounts of foreign subsidiaries are translated into yen at the average exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.
- t. Per Share Information** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the year.

Diluted net income per share is not presented since no potentially dilutive securities have been issued.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

- u. Accounting Changes and Error Corrections** – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.
- v. New Accounting Pronouncements** – On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after October 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

### 3. INVESTMENT SECURITIES

Investment securities with available market value at September 31, 2019 and 2018 are as follows:

	Thousands of Yen		
	2019	2019	2019
	Carrying Value	Acquisition Cost	Unrealized Gain (Loss)
Securities whose carrying values exceed their acquisition costs:			
Equity securities	¥ 205,189	¥ 121,420	¥ 83,769
Securities whose acquisition costs exceed their carrying values	835	1,037	(202)
Total	<u>¥ 206,024</u>	<u>¥ 122,458</u>	<u>¥ 83,567</u>

Thousands of Yen			
2018			
	Carrying Value	Acquisition Cost	Unrealized Gain (Loss)
Securities whose carrying values exceed their acquisition costs:			
Equity securities	¥ 236,348	¥ 110,780	¥ 125,567
Other	11,104	10,663	441
Subtotal	<u>247,453</u>	<u>121,444</u>	<u>126,008</u>
Securities whose acquisition costs exceed their carrying values:			
Other	7,310	7,340	(29)
Total	<u>¥ 254,764</u>	<u>¥ 128,784</u>	<u>¥ 125,979</u>

Thousands of Pounds			
2019			
	Carrying Value	Acquisition Cost	Unrealized Gain (Loss)
Securities whose carrying values exceed their acquisition costs:			
Equity securities	£ 1,546	£ 915	£ 631
Securities whose acquisition costs exceed their carrying values	6	7	(1)
Total	<u>£ 1,552</u>	<u>£ 923</u>	<u>£ 629</u>

The proceeds from sales of, and gross realized gain and loss on, available-for-sale securities for the year ended September 30, 2019 are as follows:

Thousands of Yen			
2019			
	Proceeds from Sale	Aggregate Gain	Aggregate Loss
Equity securities	¥ 12,275	¥ 4,613	¥ -
Bonds	18,061	296	293
Total	<u>¥ 30,337</u>	<u>¥ 4,909</u>	<u>¥ 293</u>

  

Thousands of Pounds			
2019			
	Proceeds from Sale	Aggregate Gain	Aggregate Loss
Equity securities	£ 92	£ 34	£ -
Bonds	136	2	2
Total	<u>£ 228</u>	<u>£ 37</u>	<u>£ 2</u>

There were no sales of available-for-sale securities for the year ended September 30, 2018.

#### 4. INVENTORIES

Inventories at September 30, 2019 and 2018, consisted of the following:

	Thousands of Yen		Thousands of Pounds
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Finished products	¥ 555,634	¥ 252,559	£ 4,188
Work in process	1,312,827	1,565,558	9,895
Raw materials and supplies	<u>856,548</u>	<u>767,244</u>	<u>6,456</u>
Total	<u>¥ 2,725,011</u>	<u>¥ 2,585,363</u>	<u>£ 20,539</u>

#### 5. LOSS ON IMPAIRMENT OF GOODWILL

For the year ended September 30, 2019, the Group recognized loss on impairment for carrying value of goodwill arising from 1G DYNAMICS LIMITED (United Kingdom), a consolidated subsidiary, as initially planned revenue is no longer expected.

#### 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at September 30, 2019 and 2018 consisted of bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.28% to 0.68% in 2019 and 0.21% to 0.67% in 2018 at September 30, 2019 and 2018, respectively.

Long-term debt at September 30, 2019 and 2018 consisted of the following:

	Thousands of Yen		Thousands of Pounds
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Secured loans from banks due serially to 2024 with interest rates ranging from 0.30% to 0.60% in 2019 and from 0.22% to 0.67% in 2018	¥ 1,213,427	¥ 1,513,245	£ 9,146
Unsecured loans from banks due serially to 2024 with interest rates ranging from 0.22% to 0.60% in 2019 and from 0.45% to 0.55% in 2018	<u>817,457</u>	<u>200,877</u>	<u>6,161</u>
Total	<u>2,030,884</u>	<u>1,714,122</u>	<u>15,307</u>
Less current portion	<u>(361,404)</u>	<u>(381,572)</u>	<u>(2,724)</u>
Long-term debt, less current portion	<u>¥ 1,669,480</u>	<u>¥ 1,332,550</u>	<u>£ 12,583</u>

Annual maturities of long-term debt, excluding finance lease obligations, at September 30, 2019 were as follows:

<u>Year Ending September 30</u>	<u>Thousands of Yen</u>	<u>Thousands of Pounds</u>
2020	¥ 361,404	£ 2,724
2021	701,548	5,287
2022	556,981	4,198
2023	335,951	2,532
2024	60,000	452
2025 and thereafter	<u>15,000</u>	<u>113</u>
Total	<u>¥ 2,030,884</u>	<u>£ 15,307</u>

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥835,000 thousand (£6,293 thousand) and long-term debt of ¥1,213,427 thousand (£9,146 thousand) at September 30, 2019 were as follows:

	<u>Thousands of Yen</u>	<u>Thousands of Pounds</u>
Buildings and structures—net of accumulated depreciation	¥ 875,825	£ 6,601
Land	<u>1,518,134</u>	<u>11,442</u>
Total	<u>¥ 2,393,960</u>	<u>£ 18,044</u>

The Group has concluded commitment line agreements with banks in order to achieve more efficient and flexible financing. The status of these at September 30, 2019 was as follows:

	<u>Thousands of Yen</u>	<u>Thousands of Pounds</u>
Amount of commitment line	¥ 1,400,000	£ 10,552
Commitment line used	<u>15,000</u>	<u>113</u>
Available commitment line	<u>¥ 1,385,000</u>	<u>£ 10,439</u>

#### Financial covenants

The Company entered into commitment line agreements of ¥1,300,000 thousand (£9,798 thousand) in March 2019. The following financial covenants are included in these agreements:

Total net assets in the non-consolidated balance sheet at the end of each fiscal year shall be equal to or exceed 70% of those at the end of the prior fiscal year.

There shall not be operating loss in the non-consolidated statement of income for two consecutive years at the end of each fiscal year.

## 7. RETIREMENT AND PENSION PLANS

The Company has a defined contribution pension plan. In addition, the Company participates in the Small and Medium Enterprises' Retirement Allowance Mutual Aid Plan. Certain subsidiaries also participates in the Small and Medium Enterprises' Retirement Allowance Mutual Aid Plan.

Total contributions paid by the Company and certain subsidiaries for the years ended September 30, 2019 and 2018 are as follows:

	Thousands of Yen		Thousands of Pounds
	2019	2018	2019
Contribution to a defined contribution pension plan	¥47,228	¥47,110	£355
Contribution to the Small and Medium Enterprises' Retirement Allowance Mutual Aid Plan	12,857	12,736	96
Total	¥60,085	¥59,846	£452

## 8. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

### c. Treasury Stock

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.



## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 31% for each of the years ended September 30, 2019 and 2018.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at September 30, 2019 and 2018 are as follows:

	Thousands of Yen		Thousands of Pounds
	2019	2018	2019
<b>Deferred tax assets:</b>			
Inventories	¥ 45,028	¥ 49,689	£ 339
Allowance for doubtful receivables	343	1,919	2
Accrued bonuses	64,609	54,885	486
Accrued welfare expense	8,622	8,668	64
Accrued enterprise tax	14,789	10,391	111
Accrued business office tax	4,249	4,143	32
Provision for product warranty	27,474	27,960	207
Accounts payable – other	3,252	2,974	24
Land	10,858	10,858	81
Investment securities	3,151	5,877	23
Property, plant and equipment	113,946	84,933	858
Impairment loss	-	2,663	-
Long-term payables	53,360	53,360	402
Asset retirement obligations	11,830	11,522	89
Provision for stock-based compensation	11,287	7,167	85
Tax loss carryforwards	137,604	148,479	1,037
Foreign currency exchange loss	8,017	-	60
Other	19,843	14,661	149
Total of tax loss carryforwards and temporary differences	538,270	500,157	4,057
Less valuation allowance for tax loss carryforwards	(136,069)	-	(1,025)
Less valuation allowance for temporary differences	(79,083)	-	(596)
Total valuation allowance	(215,153)	(225,000)	(1,621)
Deferred tax assets	323,116	275,157	2,435
<b>Deferred tax liabilities:</b>			
Foreign currency exchange gain	-	(1,918)	-
Unrealized gain on available-for-sale securities	(22,544)	(33,738)	(169)
Deferred revenue on sales of properties	(57,771)	(57,771)	(435)
Asset retirement obligations	(2,821)	(3,064)	(21)
Other	-	(10,609)	-
Deferred tax liabilities	(83,136)	(107,101)	(626)
Net deferred tax assets	¥ 239,979	¥ 168,055	£ 1,808

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended September 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Normal effective statutory tax rates	30.4%	30.6%
Expenses not deductible for tax purposes	5.2	2.9
Valuation allowance	17.1	0.5
Inhabitants' per capita taxes	1.7	0.9
Amortization of goodwill	2.3	0.9
Tax credit for research and development costs	(7.6)	(3.8)
Income taxes of prior years	1.6	-
Difference in tax rates in subsidiaries	0.4	0.1
Other	<u>1.4</u>	<u>0.5</u>
Actual effective tax rates	<u>52.5%</u>	<u>32.6%</u>

At September 30, 2019, certain subsidiaries have tax loss carryforwards aggregating approximately ¥137,604 thousand (£1,037 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

	Thousands of Yen		
	Deferred Tax Assets Relating to Tax Loss Carryforwards	Less Valuation Allowance for Tax Loss Carryforwards	Net Deferred Tax Assets Relating to Tax Loss Carryforwards
<u>Year Ending September 30</u>			
2020	¥ 7,421	¥ (7,421)	¥ -
2021	17,611	(17,611)	-
2022	-	-	-
2023	1,534	-	1,534
2024	-	-	-
2025 and thereafter	<u>111,036</u>	<u>(111,036)</u>	<u>-</u>
Total	<u>¥ 137,604</u>	<u>¥ (136,069)</u>	<u>¥ 1,534</u>

	Thousands of Pounds		
	Deferred Tax Assets Relating to Tax Loss Carryforwards	Less Valuation Allowance for Tax Loss Carryforwards	Net Deferred Tax Assets Relating to Tax Loss Carryforwards
<u>Year Ending September 30</u>			
2020	£ 55	£ (55)	£ -
2021	132	(132)	-
2022	-	-	-
2023	11	-	11
2024	-	-	-
2025 and thereafter	<u>836</u>	<u>(836)</u>	<u>-</u>
Total	<u>£ 1,037</u>	<u>£ (1,025)</u>	<u>£ 11</u>

#### 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥447,304 thousand (£3,371 thousand) and ¥437,178 thousand for the years ended September 30, 2019 and 2018, respectively.

## 11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group Policy for Financial Instruments

The Group manages cash surplus primarily by investing only in short-term deposits, and primarily raises funds by borrowing from banks.

The Group operates funds limiting cash and deposits and others and mainly raises funds through bank loans. The Group does not enter into derivatives.

### (2) Nature and Extent of Risks Arising from Financial Instruments

Trade receivables, such as notes and accounts receivable, and electronically recorded monetary claims are exposed to customer credit risk. In accordance with the internal policy for managing credit risk, the Group monitors outstanding balances periodically by setting credit amount by customers based on the amount of transactions. Investment securities which are exposed to the risk of market price fluctuations are mainly shares of listed companies which the Group has business with. The fair values of these securities and financial conditions of the issuers are periodically reviewed.

Payment terms of payables, such as notes and account payable, and electronically recorded obligations are less than one year. Among interest bearing debt, short-term bank loans are utilized for business operation and long-term debt is utilized for the purpose of making capital expenditures.

### (3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Financial instruments for which it is extremely difficult to determine the fair value are not included in the following table.

#### (a) Fair values of financial instruments

September 30, 2019	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 970,730	¥ 970,730	¥ -
Trade notes and accounts receivable	4,224,722	4,224,722	-
Electronically recorded monetary claims	600,599	600,599	-
Investment securities	206,024	206,024	-
<b>Total</b>	<b>¥ 6,002,076</b>	<b>¥ 6,002,076</b>	<b>¥ -</b>
Short-term bank loans	¥ 2,125,000	¥ 2,125,000	¥ -
Current portion of long-term debt	361,404	362,711	1,307
Trade notes and accounts payable	1,714,216	1,714,216	-
Electronically recorded obligations	1,027,968	1,027,968	-
Long-term debt	1,669,480	1,681,334	11,854
<b>Total</b>	<b>¥ 6,898,068</b>	<b>¥ 6,911,230</b>	<b>¥ 13,161</b>

<u>September 30, 2018</u>	Thousands of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Cash and cash equivalents	¥ 1,374,292	¥ 1,374,292	¥ -
Trade notes and accounts receivable	4,091,387	4,091,387	-
Electronically recorded monetary claims	256,647	256,647	-
Investment securities	254,764	254,764	-
<b>Total</b>	<b>¥ 5,977,091</b>	<b>¥ 5,977,091</b>	<b>¥ -</b>
Short-term bank loans	¥ 2,870,000	¥ 2,870,000	¥ -
Current portion of long-term debt	381,572	382,631	1,059
Trade notes and accounts payable	1,725,076	1,725,076	-
Electronically recorded obligations	960,455	960,455	-
Long-term debt	1,332,550	1,345,224	12,674
<b>Total</b>	<b>¥ 7,269,654</b>	<b>¥ 7,283,388</b>	<b>¥ 13,734</b>

<u>September 30, 2019</u>	Thousands of Pounds		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Cash and cash equivalents	£ 7,316	£ 7,316	£ -
Trade notes and accounts receivable	31,843	31,843	-
Electronically recorded monetary claims	4,527	4,527	-
Investment securities	1,552	1,552	-
<b>Total</b>	<b>£ 45,240</b>	<b>£ 45,240</b>	<b>£ -</b>
Short-term bank loans	£ 16,017	£ 16,017	£ -
Current portion of long-term debt	2,724	2,733	9
Trade notes and accounts payable	12,920	12,920	-
Electronically recorded obligations	7,748	7,748	-
Long-term debt	12,583	12,673	89
<b>Total</b>	<b>£ 51,994</b>	<b>£ 52,093</b>	<b>£ 99</b>

Cash and Cash Equivalents, Trade Notes and Accounts Receivable, and Electronically Recorded Monetary Claims

The carrying amounts of cash and cash equivalents, trade notes and accounts receivable, and electronically recorded monetary claims approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity securities, and at the quoted price obtained from the financial institution for certain debt securities. Fair value information for investment securities by classification is included in Note 3.

Trade Notes and Accounts Payable, Electronically Recorded Obligations, and Short-Term Bank Loans

The carrying amounts of trade notes and accounts payable, electronically recorded obligations, and short-term bank loans approximate fair value because of their short maturities.

Current Portion of Long-Term Debt and Long-Term Debt

The fair value of long-term debt, inclusive of current portion, is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

- (b) Carrying amounts of financial instruments for which it is extremely difficult to determine the fair value at September 30, 2019 and 2018 are as follows:

	Thousands of Yen		Thousands of Pounds
	2019	2018	2019
Unlisted equity securities	¥200	¥200	£1

**(4) Maturity Analysis for Monetary Assets with Contractual Maturities**

The redemption schedule of monetary assets as of September 30, 2019 is as follows:

	Thousands of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>September 30, 2019</u>				
Cash and cash equivalents	¥ 172,678	¥ -	¥ -	¥ -
Trade notes and accounts receivable	4,224,722	-	-	-
Electronically recorded monetary claims	600,599	-	-	-
Total	<u>¥ 4,998,000</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>
	Thousands of Pounds			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>September 30, 2019</u>				
Cash and cash equivalents	£ 1,301	£ -	£ -	£ -
Trade notes and accounts receivable	31,843	-	-	-
Electronically recorded monetary claims	4,527	-	-	-
Total	<u>£ 37,672</u>	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>

Please see Note 6 for annual maturities of long-term debt.

## 12. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended September 30, 2019 and 2018 were as follows:

	Thousands of Yen		Thousands of Pounds
	2019	2018	2019
Unrealized loss on available-for-sale securities:			
Loss arising during the year	¥(37,886)	¥ (6,413)	£(285)
Reclassification adjustments to income or loss	<u>(4,616)</u>	<u>-</u>	<u>(34)</u>
Amount before income tax effect	(42,503)	(6,413)	(320)
Income tax effect	<u>11,224</u>	<u>2,423</u>	<u>84</u>
Total	<u>¥(31,278)</u>	<u>¥ (3,990)</u>	<u>£(235)</u>
Foreign currency translation adjustments:			
Amounts arising during the year	¥ 33,359	¥(14,855)	£ 251
Total	<u>¥ 2,081</u>	<u>¥(18,845)</u>	<u>£ 15</u>

## 13. SUBSEQUENT EVENT

### *Appropriation of Retained Earnings*

The following appropriation of retained earnings at September 30, 2019 was approved at the Company's shareholders' meeting held on December 20, 2019:

	Thousands of Yen	Thousands of Pounds
Year-end cash dividends, ¥8.5 (£0.06) per share	¥137,880	£1,039

## 14. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

The Group is primarily engaged in manufacturing and sales of simulation systems related to vibration and measuring systems, and provides vibration testing outsourced by clients. Therefore, there is only one reportable segment, and the disclosure of segment information for the years ended September 30, 2019 and 2018 has been omitted. Details on the products of the vibration business are as follows:

### 1) Dynamic simulation system

The Group manufactures and sells dynamic simulation systems and all-weather simulation system (vibration combined environmental simulation systems) and provides repair and maintenance services for those products.

2) Test and solution service

In addition to manufacturing and sales of the preceding products, the Group provides testing services. Based on requests for vibration tests and analysis from customers, the Group performs environmental testing, including vibration tests for specimens, and performs analyses based on the results of the tests.

3) Measuring system

The Group manufactures and sells measuring systems (including vibration testing systems, vibration monitoring systems, seismic monitoring systems, and environmental reliability evaluation systems) and provides repair and maintenance services for those products. Those systems sense earthquakes and abnormal vibrations resulting from the deterioration and abrasion of industrial machinery and are used to prevent of secondary disasters from earthquakes and in predictive maintenance.

**(1) Information on Products and Services**

Information on each product and service for the years ended September 30, 2019 and 2018 is as follows:

	Thousands of Yen			
	2019			
	Vibration Simulation System	Test and Solution Service	Measuring System	Total
Sales to external customers	¥8,864,972	¥2,266,675	¥1,216,359	¥12,348,007
	Thousands of Yen			
	2018			
	Vibration Simulation System	Test and Solution Service	Measuring System	Total
Sales to external customers	¥8,096,850	¥1,734,746	¥1,213,328	¥11,044,926
	Thousands of Pounds			
	2019			
	Vibration Simulation System	Test and Solution Service	Measuring System	Total
Sales to external customers	£66,819	£17,085	£9,168	£93,073

**(2) Information on Geographical Areas**

Information on geographical areas for the years ended September 30, 2019 and 2018 is as follows:

(a) Sales

	Thousands of Yen			
	2019			
	Japan	Asia	Other	Total
	¥8,074,998	¥1,760,672	¥2,512,336	¥12,348,007

Thousands of Yen			
2018			
Japan	Asia	Other	Total
¥7,021,927	¥2,166,018	¥1,856,980	¥11,044,926

  

Thousands of Pounds			
2019			
Japan	Asia	Other	Total
£60,865	£13,271	£18,936	£93,073

Note: Sales are classified by country or region based on the location of customers.

(b) *Property, plant and equipment*

As the balances of property, plant and equipment in Japan account for more than 90% of those in the consolidated financial statements, disclosure of property, plant and equipment as of September 30, 2019 and 2018 has been omitted.

(3) *Information on Goodwill*

Amortization expense of goodwill amounted to ¥36,340 thousand (£273 thousand) and ¥40,755 thousand for the years ended September 30, 2019 and 2018, respectively. Remaining balance of goodwill amounted to ¥12,555 thousand (£94 thousand) and ¥303,685 thousand as of September 30, 2019 and 2018, respectively.

For the year ended September 30, 2019, the Group recognized loss on impairment for carrying value of goodwill arising from 1G DYNAMICS LIMITED, a consolidated subsidiary, as initially planned revenue is no longer expected.

**15. RELATED-PARTY TRANSACTIONS**

Principal transactions between the Company and its related party for the years ended September 30, 2019 and 2018 are as follows:

	Thousands of Yen		Thousands of Pounds
	2019	2018	2019
Kura Corporation:			
Purchase of finished goods	¥57,439	¥63,724	£432
Rent of factory	16,320	16,320	123

Balances due to the related party at September 30, 2019 and 2018 are as follows:

	Thousands of Yen		Thousands of Pounds
	2019	2018	2019
Due to:			
Kura Corporation	¥6,220	¥8,670	£46

Applicable consumption taxes are not included in the transaction amounts but are included in the balances in the table above.

The transaction price was determined using the same method as for the third-party transaction.

Rental fee is determined in reference to market value.

Kura Corporation is wholly owned by the relatives of Kenya Kusano, a director of the Company.

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