
IMV CORPORATION

*Consolidated Financial Statements for the
Year Ended September 30, 2018, and
Independent Auditor's Report*

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, 2018, 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, 2018, 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 21, 2018

IMV CORPORATION and Subsidiaries

Consolidated Balance Sheet
September 30, 2018

ASSETS	Thousands of Yen		Thousands of Pounds (Note 1)	Thousands of Yen		Thousands of Pounds (Note 1)
	2018	2017		2018	2017	
CURRENT ASSETS:						
Cash and cash equivalents (Note 11)	¥ 1,374,292	¥ 1,757,905	£ 9,253	¥ 2,870,000	¥ 1,570,000	£ 19,324
Receivables (Note 11):				381,572	383,528	2,569
Trade notes	1,089,259	1,018,581	7,334	1,106,515	1,002,027	7,450
Trade accounts	3,002,128	2,429,639	20,214	618,561	618,837	4,165
Electronically recorded monetary claims	256,648	84,891	1,728	960,456	805,310	6,467
Allowance for doubtful receivables	(8,613)	(13,994)	(58)	436,411	283,126	2,938
Inventories (Note 4)	2,585,364	2,229,203	17,408	326,728	381,344	2,200
Deferred tax assets (Note 8)	159,804	148,834	1,076	108,524	273,185	731
Prepaid expenses and other current assets	630,544	535,081	4,245	90,000	114,917	606
Total current assets	9,089,426	8,190,140	61,200	340,694	212,030	2,294
PROPERTY, PLANT AND EQUIPMENT:						
Land (Note 5)	1,944,324	1,624,965	13,091	7,239,461	5,644,304	48,744
Buildings and structures (Note 5)	4,055,293	3,221,733	27,305	1,332,550	918,283	8,972
Machinery and equipment	496,083	525,833	3,340	192,169	192,169	1,294
Furniture and fixtures	2,377,947	1,828,473	16,011	12,396	37,412	83
Lease assets	3,888	3,888	26	48,409	44,763	326
Construction in progress	235,334	149,195	1,585	23,576	-	159
Total	9,112,869	7,354,087	61,358	112,303	283,135	756
Accumulated depreciation	(3,599,799)	(3,164,210)	(24,238)			
Net property, plant and equipment	5,513,070	4,189,877	37,120	1,721,403	1,475,762	11,590
INVESTMENTS AND OTHER ASSETS:						
Investment securities (Notes 3, 5 and 11)	254,964	243,235	1,717	464,817	464,817	3,130
Goodwill	303,686	348,497	2,045	563,438	557,563	3,794
Software	56,527	22,912	381	5,308,745	4,892,648	35,744
Deferred tax assets (Note 8)	20,648	12,211	139			
Long-term deposits	42,190	37,656	284	(159,282)	(161,707)	(1,072)
Other assets	88,030	72,035	592			
Total investments and other assets	766,045	736,546	5,158			
TOTAL	¥ 15,368,541	¥ 13,116,563	£ 103,478	¥ 15,368,541	¥ 13,116,563	£ 103,478

See notes to consolidated financial statements.

IMV CORPORATION and Subsidiaries

Consolidated Statement of Income Year Ended September 30, 2018

	Thousands of Yen		Thousands of Pounds (Note 1)
	<u>2018</u>	<u>2017</u>	<u>2018</u>
NET SALES (Note 15)	¥ 11,044,926	¥ 10,898,346	£ 74,367
COST OF SALES	<u>7,348,141</u>	<u>7,225,890</u>	<u>49,476</u>
Gross profit	3,696,785	3,672,456	24,891
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	<u>2,838,201</u>	<u>2,513,565</u>	<u>19,110</u>
Operating income	<u>858,584</u>	<u>1,158,891</u>	<u>5,781</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	6,419	5,985	43
Interest expense	(17,151)	(15,573)	(115)
Rental income	40,598	40,615	273
Foreign currency exchange gain—net	15,572	183,410	105
Loss on disaster	(51,975)	-	(350)
Other—net	<u>14,019</u>	<u>11,041</u>	<u>94</u>
Other income—net	<u>7,482</u>	<u>225,478</u>	<u>50</u>
INCOME BEFORE INCOME TAXES	<u>866,066</u>	<u>1,384,369</u>	<u>5,831</u>
INCOME TAXES (Note 8):			
Current	324,193	419,213	2,183
Deferred	<u>(41,940)</u>	<u>22,318</u>	<u>(283)</u>
Total income taxes	<u>282,253</u>	<u>441,531</u>	<u>1,900</u>
NET INCOME	583,813	942,838	3,931
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>5,630</u>	<u>163</u>	<u>38</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 578,183</u>	<u>¥ 942,675</u>	<u>£ 3,893</u>
	Yen		Pounds
	<u>2018</u>	<u>2017</u>	<u>2018</u>
PER SHARE OF COMMON STOCK (Note 2.s):			
Basic net income	¥35.65	¥58.02	£0.24
Cash dividends applicable to the year	8.00	10.00	0.05

See notes to consolidated financial statements.

IMV CORPORATION and Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended September 30, 2018

	Thousands of Yen		Thousands of Pounds (Note 1)
	2018	2017	2018
NET INCOME	¥ 583,813	¥ 942,838	£ 3,931
OTHER COMPREHENSIVE INCOME (LOSS) (Note 13):			
Unrealized (loss) gain on available-for-sale securities	(3,990)	63,892	(27)
Foreign currency translation adjustments	(14,856)	(65,178)	(100)
Total other comprehensive loss	(18,846)	(1,286)	(127)
COMPREHENSIVE INCOME	¥ 564,967	¥ 941,552	£ 3,804
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥561,503	¥942,075	£3,781
Noncontrolling interests	3,464	(523)	23

See notes to consolidated financial statements.

IMV CORPORATION and Subsidiaries

**Consolidated Statement of Changes in Equity
Year Ended September 30, 2018**

	Thousands of Yen										
	Number of Shares of Common Stock Issued	Accumulated Other Comprehensive Income								Noncontrolling Interest	Total Equity
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Total			
BALANCE, OCTOBER 1, 2016	16,957,016	¥ 464,817	¥ 557,563	¥ 4,064,368	¥ (110,660)	¥ 32,352	¥ 63,749	¥ 5,072,189	¥ -	¥ 5,072,189	
Changes during the year:											
Net income attributable to owners of the parent			942,675					942,675		942,675	
Cash dividends, ¥7 per share			(114,395)					(114,395)		(114,395)	
Purchase of treasury stock				(51,047)				(51,047)		(51,047)	
Net change the year						63,892	(64,492)	(600)	147,675	147,075	
BALANCE, SEPTEMBER 30, 2017	16,957,016	464,817	557,563	4,892,648	(161,707)	96,244	(743)	5,848,822	147,675	5,996,497	
Net income attributable to owners of the parent			578,183					578,183		578,183	
Cash dividends, ¥10 per share			(162,086)					(162,086)		(162,086)	
Purchase of treasury stock				(583)				(583)		(583)	
Disposal of treasury stock			5,875		3,008			8,883		8,883	
Net change the year						(3,990)	(12,691)	(16,681)	3,464	(13,217)	
BALANCE, SEPTEMBER 30, 2018	16,957,016	464,817	563,438	5,308,745	(159,282)	92,254	(13,434)	6,256,538	151,139	6,407,677	
	Thousands of Pounds (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Total	Noncontrolling Interest	Total Equity		
BALANCE, SEPTEMBER 30, 2017	£ 3,130	£ 3,754	£ 32,943	£ (1,089)	£ 648	£ (5)	£ 39,381	£ 994	£ 40,375		
Net income attributable to owners of the parent			3,893				3,893		3,893		
Cash dividends, £0.07 per share			(1,092)				(1,092)		(1,092)		
Purchase of treasury stock				(3)			(3)		(3)		
Disposal of treasury stock		40		20			60		60		
Net change the year					(27)	(85)	(112)	23	(89)		
BALANCE, SEPTEMBER 30, 2018	£ 3,130	£ 3,794	£ 35,744	£ (1,072)	£ 621	£ (90)	£ 42,127	£ 1,017	£ 43,144		

See notes to consolidated financial statements.

IMV CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows Year Ended September 30, 2018

	Thousands of Yen		Thousands of Pounds (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Net income before income taxes	¥ 866,066	¥ 1,384,369	£ 5,831
Adjustments for:			
Depreciation and amortization	517,960	392,837	3,487
Interest and dividend income	(6,419)	(5,985)	(43)
Interest expense	17,151	15,573	115
(Decrease) increase in allowance for doubtful receivables	(5,381)	1,846	(36)
(Decrease) increase in provision for product warranty	(24,917)	3,642	(168)
Increase in provision for stock-based compensation	23,576	-	159
Foreign currency exchange gain—net	(11,774)	(7,295)	(79)
Loss on disaster	51,975	-	350
Changes in assets and liabilities, net of effects from newly-consolidated subsidiaries:			
(Increase) decrease in trade receivables	(807,782)	56,939	(5,439)
Increase in inventories	(408,402)	(235,333)	(2,750)
Decrease in trade payables	219,127	46,036	1,476
Other—net	28,862	(72,051)	195
Subtotal	460,042	1,580,578	3,098
Interest and dividends received	6,425	6,001	43
Income tax paid	(17,651)	(15,434)	(119)
Income tax refund	(486,003)	(382,432)	(3,272)
Income tax refund	3,147	12,537	21
Net cash provided by (used in) operating activities	<u>(34,020)</u>	<u>1,201,250</u>	<u>(229)</u>
INVESTING ACTIVITIES:			
Purchases of investment securities	(18,193)	(15,957)	(122)
Purchases of property, plant and equipment	(1,772,353)	(582,928)	(11,933)
Proceeds from sale of property, plant and equipment	440	1,530	3
Purchase of intangible fixed assets	(23,850)	(4,963)	(161)
Purchase of time deposits	(22,550)	(13,507)	(152)
Purchase of shares of subsidiaries resulting from change in scope of consolidation (Note 12)	(121,524)	(120,044)	(818)
Other	40,486	39,398	272
Net cash used in investing activities	<u>(1,917,544)</u>	<u>(696,471)</u>	<u>(12,911)</u>
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	1,300,000	55,000	8,753
Proceeds from long-term debt	850,000	270,000	5,723
Repayments of long-term debt	(437,689)	(394,139)	(2,947)
Repayment of finance lease obligations	(933)	(1,380)	(6)
Purchase of treasury stock	(583)	(51,047)	(4)
Dividends paid	(161,985)	(114,098)	(1,091)
Net cash provided by (used in) financing activities	<u>1,548,810</u>	<u>(235,664)</u>	<u>10,428</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	19,141	44,106	129
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(383,613)</u>	<u>313,221</u>	<u>(2,583)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,757,905	1,444,684	11,836
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 1,374,292</u>	<u>¥ 1,757,905</u>	<u>£ 9,253</u>

See notes to consolidated financial statements.

IMV CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements Year Ended September 30, 2018

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.

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 ¥148.52 to £1, the approximate rate of exchange at September 30, 2018. 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, 2018 and 2017 include the accounts of the Company and its subsidiaries (12 in 2018 and 11 in 2017) (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 principal 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 deposit 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 primary 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 primary 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 these 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 estimated useful life of 5 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 3 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. Research and Development Costs** – Research and development costs are charged to income as incurred.

- n. 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.
- o. 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 anticipated amount considering individual product warranty.
- p. Income Taxes* – The provision for income taxes is computed based on the income before income tax 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.
- q. 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.
- r. 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.
- s. 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 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.

- t. 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.

- u. **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, 2018 and 2017 are as follows:

	Thousands of Yen		
	2018		
	Carrying Value	Acquisition Cost	Unrealized Gain (Loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 236,348	¥ 110,781	¥ 125,567
Other	11,105	10,664	441
Subtotal	<u>247,453</u>	<u>121,445</u>	<u>126,008</u>
Securities whose acquisition cost exceeds their carrying value:			
Other	7,311	7,340	(29)
Total	<u>¥ 254,764</u>	<u>¥ 128,785</u>	<u>¥ 125,979</u>
	Thousands of Yen		
	2017		
	Carrying Value	Acquisition Cost	Unrealized Gain (Loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 224,196	¥ 92,421	¥ 131,775
Other	18,631	18,004	627
Subtotal	<u>242,827</u>	<u>110,425</u>	<u>132,402</u>
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	208	216	(9)
Total	<u>¥ 243,035</u>	<u>¥ 110,641</u>	<u>¥ 132,393</u>

	Thousands of Pounds		
	2018		
	Carrying Value	Acquisition Cost	Unrealized Gain (Loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	£ 1,591	£ 746	£ 845
Other	75	72	3
Subtotal	<u>1,666</u>	<u>818</u>	<u>848</u>
Securities whose acquisition cost exceeds their carrying value:			
Other	49	49	(0)
Total	<u>£ 1,715</u>	<u>£ 867</u>	<u>£ 848</u>

4. INVENTORIES

Inventories at September 30, 2018 and 2017, consisted of the following:

	Thousands of Yen		Thousands of Pounds
	2018	2017	2018
Finished products	¥ 252,560	¥ 236,072	£ 1,701
Work in process	1,565,559	1,354,659	10,541
Raw materials and supplies	<u>767,245</u>	<u>638,472</u>	<u>5,166</u>
Total	<u>¥ 2,585,364</u>	<u>¥ 2,229,203</u>	<u>£ 17,408</u>

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at September 30, 2018 and 2017, consisted of bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.21% to 0.37% in 2018 and 0.18% to 0.45% at September 30, 2018 and 2017, respectively.

Long-term debt at September 30, 2018 and 2017, consisted of the following:

	Thousands of Yen		Thousands of Pounds
	2018	2017	2018
Secured loans from banks due serially to 2024 with interest rates ranging from 0.22% to 0.67% in 2018 and from 0.50% to 0.68% in 2017	¥ 1,513,245	¥ 1,077,206	£ 10,189
Unsecured loans from banks due serially to 2024 with interest rates ranging from 0.45% to 0.55% in 2018 and from 0.47% to 0.65% in 2017	200,877	224,605	1,352
Total	<u>1,714,122</u>	<u>1,301,811</u>	<u>11,541</u>
Less current portion	<u>(381,572)</u>	<u>(383,528)</u>	<u>(2,569)</u>
Long-term debt, less current portion	<u>¥ 1,332,550</u>	<u>¥ 918,283</u>	<u>£ 8,972</u>

Annual maturities of long-term debt, excluding finance lease obligations, at September 30, 2018, were as follows:

<u>Year Ending September 30</u>	<u>Thousands of Yen</u>	<u>Thousands of Pounds</u>
2019	¥ 381,572	£ 2,569
2020	363,190	2,445
2021	301,428	2,030
2022	256,981	1,730
2023	335,951	2,262
2024 and thereafter	<u>75,000</u>	<u>505</u>
Total	<u>¥ 1,714,122</u>	<u>£ 11,541</u>

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥1,640,000 thousand (£11,042 thousand) and the above secured long-term debt at September 30, 2018, were as follows:

	<u>Thousands of Yen</u>	<u>Thousands of Pounds</u>
Buildings and structures—net of accumulated depreciation	¥ 1,064,910	£ 7,170
Land	1,518,135	10,222
Investment securities	<u>793</u>	<u>5</u>
Total	<u>¥ 2,583,838</u>	<u>£ 17,397</u>

The Group has concluded commitment line agreement with banks in order to achieve more efficient and flexible financing. The status of these at September 30, 2018 were as follows:

	<u>Thousands of Yen</u>	<u>Thousands of Pounds</u>
Amount of commitment line	¥ 100,000	£ 673
Commitment line used	<u>60,000</u>	<u>404</u>
Available commitment line	<u>¥ 40,000</u>	<u>£ 269</u>

6. 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, 2018 and 2017 are as follows:

	<u>Thousands of Yen</u>		<u>Thousands of Pounds</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Contribution to a defined contribution pension plan	¥ 47,110	¥ 46,269	£ 317
Contribution to the Small and Medium Enterprises' Retirement Allowance Mutual Aid Plan	<u>12,737</u>	<u>12,463</u>	<u>86</u>
Total	<u>¥ 59,847</u>	<u>¥ 58,732</u>	<u>£ 403</u>

7. 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.

8. 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 rate of approximately 31% for the years ended September 30, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at September 30, 2018 and 2017, are as follows:

	Thousands of Yen		Thousands of Pounds
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Deferred tax assets:			
Inventories	¥ 49,690	¥ 39,280	£ 335
Allowance for doubtful receivables	1,919	2,101	13
Accrued bonuses	54,885	64,101	370
Accrued welfare expense	8,669	11,197	58
Accrued enterprise tax	10,391	13,933	70
Accrued business office tax	4,143	4,153	28
Provision for product warranty	27,960	35,583	188
Accounts payable – other	2,975	2,840	20
Land	10,859	10,859	73
Investment securities	5,877	5,877	40
Property, plant and equipment	84,933	61,903	572
Impairment loss	2,664	2,664	18
Long-term payables	53,361	53,361	359
Asset retirement obligations	11,523	11,218	78
Provision for stock-based compensation	7,167	-	48
Tax loss carryforwards	148,480	181,442	1,000
Other	14,661	15,755	98
Subtotal	<u>500,157</u>	<u>516,267</u>	<u>3,368</u>
Less: Valuation allowance	<u>(224,999)</u>	<u>(268,762)</u>	<u>(1,515)</u>
Total	<u>¥ 275,158</u>	<u>¥ 247,505</u>	<u>£ 1,853</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (33,738)	¥ (36,162)	£ (227)
Deferred revenue on sales of properties	(57,771)	(57,771)	(389)
Asset retirement obligations	(3,064)	(3,309)	(21)
Foreign currency exchange	(1,919)	(25,450)	(13)
Other	<u>(10,610)</u>	<u>(1,180)</u>	<u>(71)</u>
Total	<u>¥ (107,102)</u>	<u>¥ (123,872)</u>	<u>£ (721)</u>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended September 30, 2018 was as follows:

	<u>2018</u>
Normal effective statutory tax rate	30.6%
Expenses not deductible for tax purposes	2.9
Valuation allowance	0.5
Inhabitants' per capita taxes	0.9
Amortization of goodwill	0.9
Tax credit for research and development costs	(3.8)
Difference in tax rates in subsidiaries	0.1
Other	<u>0.5</u>
Actual effective tax rate	<u><u>32.6%</u></u>

The difference between the normal effective statutory tax rate and the actual effective tax rate for the year ended September 30, 2017 reflected in the consolidated statement of income was less than 5.0%, and therefore, no reconciliation has been disclosed.

At September 30, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥148,480 thousand (£1,000 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:

<u>Year Ending September 30</u>	<u>Thousands of Yen</u>	<u>Thousands of Pounds</u>
2019	¥ 14,869	£ 100
2020	36,795	248
2021	87,310	588
2022	-	-
2023	15,301	103
2024 and thereafter	<u>579,247</u>	<u>3,900</u>
Total	<u><u>¥ 733,522</u></u>	<u><u>£ 4,939</u></u>

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥437,179 thousand (£2,494 thousand) and ¥511,559 thousand for the years ended September 30, 2018 and 2017, respectively.

10. LEASES

The Group leases vibration and simulation system equipment and other assets.

Future minimum payments subsequent to September 30, 2017 under noncancelable operating leases was as follows:

<u>Year Ended September 30</u>	<u>Thousands of Yen</u>
2018	¥ 55,478
2019 and thereafter	-
Total	<u>¥ 55,478</u>

There was no future minimum payment subsequent to September 30, 2018.

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

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

The Group operate funds limiting cash and deposits and other and raises funds by mainly 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 condition of the issuers are periodically reviewed.

Payment term 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 are utilized for the purpose of making capital expenditures. They are also raised for the purpose of maintaining stable cash balance.

(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 value of financial instruments*

<u>September 30, 2018</u>	Thousands of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain</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	256,648	256,648	-
Investment securities	254,764	254,764	-
Total	¥ 5,977,091	¥ 5,977,091	¥ -
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	960,456	960,456	-
Long-term debt	1,332,550	1,345,225	12,675
Total	¥ 7,269,654	¥ 7,283,388	¥ 13,734

<u>September 30, 2017</u>	Thousands of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Cash and cash equivalents	¥ 1,757,905	¥ 1,757,905	¥ -
Trade notes and accounts receivable	3,448,220	3,448,220	-
Electronically recorded monetary claims	84,891	84,891	-
Investment securities	243,035	243,035	-
Total	¥ 5,534,051	¥ 5,534,051	¥ -
Short-term bank loans	¥ 1,570,000	¥ 1,570,000	¥ -
Current portion of long-term debt	383,528	384,553	1,025
Trade notes and accounts payable	1,620,864	1,620,864	-
Electronically recorded obligations	805,310	805,310	-
Long-term debt	918,283	926,152	7,869
Total	¥ 5,297,985	¥ 5,306,879	¥ 8,894

September 30, 2018	Thousands of Pounds		
	Carrying Amount	Fair Value	Unrealized Gain
Cash and cash equivalents	£ 9,253	£ 9,253	£ -
Trade notes and accounts receivable	27,548	27,548	-
Electronically recorded monetary claims	1,728	1,728	-
Investment securities	1,715	1,715	-
Total	£ 40,245	£ 40,245	£ -
Short-term bank loans	£ 19,324	£ 19,324	£ -
Current portion of long-term debt	2,569	2,576	7
Trade notes and accounts payable	11,615	11,615	-
Electronically recorded obligations	6,467	6,467	-
Long-term debt	8,972	9,058	86
Total	£ 48,947	£ 49,040	£ 93

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

The carrying values 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 the 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 values 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 amount of financial instruments for which it is extremely difficult to determine the fair value at September 30, 2018 and 2017 are as follows:

	Thousands of Yen		Thousands of Pounds
	2018	2017	2018
Unlisted equity securities	¥200	¥200	£2

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

The redemption schedule of monetary assets as of September 30, 2018 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, 2018</u>				
Cash and cash equivalents	¥ 372,731	¥ -	¥ -	¥ -
Trade notes and accounts receivable	4,091,387	-	-	-
Electronically recorded monetary claims	256,648	-	-	-
Total	<u>¥ 4,720,766</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, 2018</u>				
Cash and cash equivalents	£ 2,509	£ -	£ -	£ -
Trade notes and accounts receivable	27,548	-	-	-
Electronically recorded monetary claims	1,728	-	-	-
Total	<u>£ 31,785</u>	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>

Please see Note 5 for annual maturities of long-term debt.

12. **SUPPLEMENTAL INFORMATION ON CONSOLIDATED STATEMENT OF CASH FLOWS**

In July 2017, the Company purchased shares of IG DYNAMICS LIMITED and other 4 companies and initially consolidated the accounts of these companies for the year ended September 30, 2017. The following summarizes the assets and liabilities included in consolidation and presents information on the related acquisition costs and cash disbursement:

	Thousands of Yen
	<u>Unrealized Gain/Loss</u>
Current assets	¥ 373,088
Noncurrent assets	18,242
Goodwill	319,652
Current liabilities	(133,989)
Noncurrent liabilities	<u>(163,077)</u>
Acquisition cost	413,916
Amount of shares issued for share exchange	(143,970)
Acquisition costs prior to the date of the establishment of the parent-subsidiaries relationship	(20,334)
Cash and cash equivalents	(62,169)
Accounts payable in acquisition costs	(62,403)
Exchange gain relating to purchases of subsidiaries' shares	<u>(4,996)</u>
Cash disbursements	<u>¥ (120,044)</u>

During the year ended September 30, 2018, the Company settled accounts payable of ¥121,524 thousand (£818 thousand) related to acquisition of shares outlined above.

13. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended September 30, 2018 and 2017, were as follows:

	Thousands of Yen		Thousands of Pounds
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
(Loss) gains arising during the year	¥ (6,414)	¥ 90,594	£ (43)
Reclassification adjustments to income or loss	-	-	-
Amount before income tax effect	(6,414)	90,594	(43)
Income tax effect	2,424	(26,702)	16
Total	¥ (3,990)	¥ 63,892	£ (27)
Foreign currency translation adjustments:			
Amounts arising during the year	¥ (14,856)	¥ (65,178)	£ (100)
Total	¥ (18,846)	¥ (1,286)	£ (127)

14. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at September 30, 2018, was approved at the Company's shareholders' meeting held on December 21, 2018:

	Thousands of Yen	Thousands of Pounds
Year-end cash dividends, ¥8 (£0.05) per share	¥129,771	£874

15. 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 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, 2018 and 2017 has been omitted. Detail of the products of the vibration business is as follows:

1) Dynamic simulation system

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

2) Test and solution service

In addition to manufacturing and sale of products above, the Group provides testing service. Based on request for vibration test and analysis from customers, the Group performs environmental testing including vibration tests for specimens and analyzes based on the result of the test.

3) Measuring system

The Group manufactures and sells measuring system (including vibration testing system, vibration monitoring system, seismic monitoring system, and environmental reliability evaluation system) and provide repair and maintenance service for those products. Those system sense earthquake and abnormal vibrations resulting from the deterioration and abrasion of industrial machineries and are used in area of prevention of secondary disasters from earthquakes and in the area of predictive maintenance.

(1) Information on Products and Services

Information on each products and services for the years ended September 30, 2018 and 2017 is as follows:

	Thousands of Yen			
	2018			
	Vibration Simulation System	Test and Solution Service	Measuring System	Total
Sales to external customers	¥8,096,851	¥1,734,746	¥1,213,329	¥11,044,926
	Thousands of Yen			
	2017			
	Vibration Simulation System	Test and Solution Service	Measuring System	Total
Sales to external customers	¥8,261,350	¥1,586,419	¥1,050,577	¥10,898,346
	Thousands of Pounds			
	2018			
	Vibration Simulation System	Test and Solution Service	Measuring System	Total
Sales to external customers	£54,517	£11,680	£8,170	£74,367

(2) Information on Geographical Areas

Information on geographical areas for the years ended September 30, 2018 and 2017 is as follows:

(a) Sales

Thousands of Yen			
2018			
Japan	Asia	Other	Total
¥7,021,927	¥2,166,019	¥1,856,980	¥11,044,926

Thousands of Yen			
2017			
Japan	Asia	Other	Total
¥7,674,439	¥2,140,035	¥1,083,872	¥10,898,346

Thousands of Pounds			
2018			
Japan	Asia	Other	Total
£47,279	£14,584	£12,504	£74,367

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, 2018 and 2017 has been omitted.

(3) Information on Goodwill

Amortization expense of goodwill amounted to ¥40,756 thousand (£274 thousand) and ¥15,861 thousand for the years ended September 30, 2018 and 2017, respectively. Remaining balance of goodwill amounted to ¥303,686 thousand (£2,045 thousand) and ¥348,497 thousand as of September 30, 2018 and 2017, respectively.

16. RELATED PARTY TRANSACTIONS

Principal transactions between the Company and its related party for the years ended September 30, 2018 and 2017 are as follows:

	Thousands of Yen		Thousands of Pounds
	2018	2017	2018
Kura Corporation:			
Purchase of finished goods	¥63,724	¥51,980	£429
Rent of factory	16,320	16,320	110

Balances due to its related party at September 30, 2018 and 2017 are as follows:

	<u>Thousands of Yen</u>		<u>Thousands of Pounds</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Due to:			
Kura Corporation	¥8,671	¥2,865	£58

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

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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