# Japan Transcity Corporation

## Consolidated Financial Statements

March 31, 2011 and 2010

# Independent Auditors' Report

To the Board of Directors of Japan Transcity Corporation :

We have audited the accompanying consolidated balance sheets of Japan Transcity Corporation and its consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Japan Transcity Corporation and its consolidated subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC
Nagoya, Japan
June 29, 2011

**Japan Transcity Corporation and Consolidated Subsidiaries**
**Consolidated Balance Sheets**
March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Current assets:** | | | |
| Cash and cash equivalents (Note 3) | ¥ 11,457 | ¥ 10,878 | $ 138,036 |
| Short-term investments (Notes 3, 4 and 5) | 431 | 395 | 5,193 |
| Trade receivables (Note 3) : | | | |
| Notes | 508 | 545 | 6,121 |
| Accounts | 12,035 | 11,732 | 145,000 |
| Allowance for doubtful accounts | (17) | (23) | (205) |
| | 12,526 | 12,254 | 150,916 |
| Inventories | 96 | 96 | 1,156 |
| Deferred tax assets (Note 10) | 477 | 480 | 5,747 |
| Other current assets | 1,453 | 1,333 | 17,506 |
| Total current assets | 26,440 | 25,436 | 318,554 |
| **Property and equipment** (Note 5): | | | |
| Land | 30,138 | 30,150 | 363,108 |
| Buildings and structures | 47,714 | 47,070 | 574,868 |
| Machinery and equipment | 11,945 | 11,981 | 143,916 |
| Vehicles and vessels | 6,857 | 6,922 | 82,614 |
| Construction in progress | - | 34 | - |
| Total property and equipment | 96,654 | 96,157 | 1,164,506 |
| Less accumulated depreciation | (48,332) | (46,269) | (582,313) |
| Net property and equipment | 48,322 | 49,888 | 582,193 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 3, 4 and 5) | 5,104 | 5,728 | 61,494 |
| Investments in unconsolidated subsidiaries and affiliates | 4,396 | 3,937 | 52,964 |
| Deferred tax assets (Note 10) | 639 | 621 | 7,699 |
| Lease deposits | 956 | 931 | 11,518 |
| Other assets | 2,655 | 2,021 | 31,988 |
| Allowance for doubtful accounts | (14) | (16) | (169) |
| Total investments and other assets | 13,736 | 13,222 | 165,494 |
| Total assets | ¥ 88,498 | ¥ 88,546 | $ 1,066,241 |

See accompanying Notes to Consolidated Financial Statements.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Current liabilities:** | | | |
| Short-term borrowings (Notes 3 and 5) | ¥ 3,751 | ¥ 4,058 | $ 45,193 |
| Current maturities of long-term debt (Notes 3 and 5) | 885 | 3,599 | 10,663 |
| Trade payables (Note 3) : | | | |
| Notes | 1,293 | 1,135 | 15,578 |
| Accounts | 6,211 | 5,861 | 74,831 |
| | 7,504 | 6,996 | 90,409 |
| Accrued expenses | 1,612 | 1,530 | 19,422 |
| Income taxes payable | 705 | 844 | 8,494 |
| Other current liabilities | 1,429 | 1,552 | 17,217 |
| Total current liabilities | 15,886 | 18,579 | 191,398 |
| **Long-term debt** (Notes 3 and 5) | 22,833 | 21,220 | 275,096 |
| **Employee retirement benefit liability** (Note 6) | 1,666 | 1,853 | 20,072 |
| **Guarantee deposits received** (Note 3) | 3,807 | 3,935 | 45,868 |
| **Deferred tax liabilities for revaluation** | 5,277 | 5,281 | 63,578 |
| **Deferred tax liabilities** (Note 10) | 773 | 883 | 9,313 |
| **Accrued severance indemnities for directors and corporate auditors** | 40 | 43 | 482 |
| **Other long-term liabilities** | 579 | 540 | 6,976 |
| Total liabilities | 50,861 | 52,334 | 612,783 |
| **Commitments and contingent liabilities** (Notes 8 and 9) | | | |
| **Net assets** (Note 7): | | | |
| Shareholders' equity: | | | |
| Common stock: 240,000,000 shares authorized and 67,142,417 shares issued | 8,428 | 8,428 | 101,542 |
| Capital surplus | 6,734 | 6,735 | 81,133 |
| Retained earnings | 24,339 | 22,458 | 293,241 |
| Less treasury stock, at cost: 2,446,140 shares in 2011 and 2,179,265 shares in 2010 | (1,015) | (944) | (12,229) |
| Total shareholders' equity | 38,486 | 36,677 | 463,687 |
| Accumulated other comprehensive income: | | | |
| Net unrealized gains on available-for-sale securities | 267 | 642 | 3,217 |
| Land revaluation decrement | (2,024) | (2,019) | (24,385) |
| Foreign currency translation adjustment | (158) | (110) | (1,904) |
| Total accumulated other comprehensive income | (1,915) | (1,487) | (23,072) |
| Minority interests | 1,066 | 1,022 | 12,843 |
| Total net assets | 37,637 | 36,212 | 453,458 |
| Total liabilities and net assets | ¥ 88,498 | ¥ 88,546 | $ 1,066,241 |

**Japan Transcity Corporation and Consolidated Subsidiaries**
**Consolidated Statements of Income**
For the Years Ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Operating revenue** (Note 12) | ¥ 80,854 | ¥ 76,446 | $ 974,145 |
| **Operating costs and expenses** (Notes 6 and 9) | 77,001 | 73,079 | 927,723 |
| Operating income | 3,853 | 3,367 | 46,422 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 196 | 205 | 2,361 |
| Interest expenses | (378) | (388) | (4,554) |
| Equity in net earnings of unconsolidated subsidiaries and affiliates | 561 | 289 | 6,759 |
| Loss on sale or disposal of property and equipment | (179) | (89) | (2,156) |
| Impairment loss on fixed assets (Note 2(i)) | (79) | - | (952) |
| Other, net | (113) | 80 | (1,362) |
| | 8 | 97 | 96 |
| Income before income taxes and minority interests | 3,861 | 3,464 | 46,518 |
| **Income taxes**: | | | |
| Current | 1,241 | 1,074 | 14,952 |
| Deferred | 125 | 292 | 1,506 |
| Total income taxes | 1,366 | 1,366 | 16,458 |
| **Income before minority interests** | 2,495 | 2,098 | 30,060 |
| **Less minority interests in net income of consolidated subsidiaries** | 68 | 21 | 819 |
| Net income | ¥ 2,427 | ¥ 2,077 | $ 29,241 |

| | Yen | | U.S. dollars |
|---|---|---|---|
| **Per share:** | | | |
| Net income: | | | |
| -Basic | ¥ 37.43 | ¥ 31.98 | $ 0.45 |
| Cash dividends | 8.50 | 8.50 | 0.10 |

See accompanying Notes to Consolidated Financial Statements.

**Japan Transcity Corporation and Consolidated Subsidiaries**
**Consolidated Statements of Comprehensive Income**
For the Years Ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Income before minority interests** | ¥ 2,495 | ¥ 2,098 | $ 30,060 |
| **Other comprehensive income:** | | | |
| Net unrealized gains on available-for-sale securities | (378) | 200 | (4,554) |
| Foreign currency translation adjustment | (57) | 66 | (687) |
| Share of other comprehensive income of associates accounted for using equity method | (0) | 0 | (0) |
| Total other comprehensive income | (435) | 266 | (5,241) |
| **Comprehensive income** | ¥ 2,060 | ¥ 2,364 | $ 24,819 |
| **Comprehensive income attributable to**: | | | |
| Owners of the Company | ¥ 2,004 | ¥ 2,322 | $ 24,144 |
| Minority interests | 56 | 42 | 675 |

See accompanying Notes to Consolidated Financial Statements.

**Japan Transcity Corporation and Consolidated Subsidiaries**
**Consolidated Statements of Changes in Net Assets**
For the Years Ended March 31, 2011 and 2010

| | | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Net unrealized gains on available-for-sale securities | Land revaluation decrement | Foreign currency translation adjustment | Total accumulated other comprehensive income | Minority interests | Total net assets |
| | | Millions of yen | | | | | | | | | | |
| **Balance at March 31, 2009** | 67,142,417 | ¥ 8,428 | ¥ 6,735 | ¥ 20,933 | ¥ (941) | ¥ 35,155 | ¥ 444 | ¥ (2,019) | ¥ (156) | ¥ (1,731) | ¥ 1,021 | ¥ 34,445 |
| Net income for the year | - | - | - | 2,077 | - | 2,077 | - | - | - | - | - | 2,077 |
| Cash dividends | - | - | - | (552) | - | (552) | - | - | - | - | - | (552) |
| Purchase of treasury stock and fractional shares, net | - | - | - | - | (3) | (3) | - | - | - | - | - | (3) |
| Net changes other than shareholders' equity | - | - | - | - | - | - | 198 | - | 46 | 244 | 1 | 245 |
| **Balance at March 31, 2010** | 67,142,417 | 8,428 | 6,735 | 22,458 | (944) | 36,677 | 642 | (2,019) | (110) | (1,487) | 1,022 | 36,212 |
| Net income for the year | - | - | - | 2,427 | - | 2,427 | - | - | - | - | - | 2,427 |
| Cash dividends | - | - | - | (551) | - | (551) | - | - | - | - | - | (551) |
| Purchase of treasury stock and fractional shares, net | - | - | (1) | - | (71) | (72) | - | - | - | - | - | (72) |
| Reversal of land revaluation decrement | - | - | - | 5 | - | 5 | - | - | - | - | - | 5 |
| Net changes other than shareholders' equity | - | - | - | - | - | - | (375) | (5) | (48) | (428) | 44 | (384) |
| **Balance at March 31, 2011** | 67,142,417 | ¥ 8,428 | ¥ 6,734 | ¥ 24,339 | ¥ (1,015) | ¥ 38,486 | ¥ 267 | ¥ (2,024) | ¥ (158) | ¥ (1,915) | ¥ 1,066 | ¥ 37,637 |
| | | Thousands of U.S. dollars | | | | | | | | | | |
| **Balance at March 31, 2010** | | $ 101,542 | $ 81,145 | $ 270,579 | $ (11,374) | $ 441,892 | $ 7,735 | $ (24,325) | $ (1,326) | $ (17,916) | $ 12,313 | $ 436,289 |
| Net income for the year | | - | - | 29,241 | - | 29,241 | - | - | - | - | - | 29,241 |
| Cash dividends | | - | - | (6,639) | - | (6,639) | - | - | - | - | - | (6,639) |
| Purchase of treasury stock and fractional shares, net | | - | (12) | - | (855) | (867) | - | - | - | - | - | (867) |
| Reversal of land revaluation decrement | | - | - | 60 | - | 60 | - | - | - | - | - | 60 |
| Net changes other than shareholders' equity | | - | - | - | - | - | (4,518) | (60) | (578) | (5,156) | 530 | (4,626) |
| **Balance at March 31, 2011** | | $ 101,542 | $ 81,133 | $ 293,241 | $ (12,229) | $ 463,687 | $ 3,217 | $ (24,385) | $ (1,904) | $ (23,072) | $ 12,843 | $ 453,458 |

See accompanying Notes to Consolidated Financial Statements.

**Japan Transcity Corporation and Consolidated Subsidiaries**
**Consolidated Statements of Cash Flows**
For the Years Ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 3,861 | ¥ 3,464 | $ 46,518 |
| Adjustments for: | | | |
| Depreciation | 2,880 | 3,121 | 34,699 |
| Net reversal of employee retirement benefit liability | (186) | (164) | (2,241) |
| Loss on sale or disposal of property and equipment | 179 | 89 | 2,156 |
| Impairment loss on fixed assets | 79 | - | 952 |
| Increase in trade receivables | (315) | (1,281) | (3,795) |
| (Increase) decrease in inventories | (0) | 22 | (0) |
| Increase in trade payables | 435 | 852 | 5,241 |
| Increase in prepaid pension cost | (456) | (332) | (5,494) |
| Other, net | (831) | (189) | (10,012) |
| Sub-total | 5,646 | 5,582 | 68,024 |
| Interest and dividend received | 280 | 248 | 3,374 |
| Interest paid | (380) | (388) | (4,578) |
| Income taxes paid | (1,364) | (378) | (16,434) |
| Net cash provided by operating activities | 4,182 | 5,064 | 50,386 |
| **Cash flows from investing activities:** | | | |
| Increase in property and equipment and intangible assets | (1,360) | (2,771) | (16,385) |
| Decrease in property and equipment and intangible assets | 26 | 138 | 313 |
| Increase in investments in subsidiaries | (1) | (10) | (12) |
| Increase in short-term investments | (39) | (141) | (470) |
| Other, net | (57) | (325) | (687) |
| Net cash used in investing activities | (1,431) | (3,109) | (17,241) |
| **Cash flows from financing activities:** | | | |
| Increase in long-term debt | 2,500 | 2,000 | 30,120 |
| Repayment of long-term debt | (3,599) | (2,073) | (43,361) |
| Redemption of bonds | - | (1,500) | - |
| (Decrease) increase in short-term borrowings | (307) | 397 | (3,699) |
| Purchase of treasury stock and fractional shares, net | (72) | (3) | (867) |
| Dividends paid | (551) | (552) | (6,639) |
| Other, net | (112) | (83) | (1,349) |
| Net cash used in financing activities | (2,141) | (1,814) | (25,795) |
| **Effect of exchange rate changes on cash and cash equivalents** | (31) | 35 | (374) |
| **Net increase in cash and cash equivalents** | 579 | 176 | 6,976 |
| **Cash and cash equivalents at beginning of year** | 10,878 | 10,702 | 131,060 |
| **Cash and cash equivalents at end of year** | ¥ 11,457 | ¥ 10,878 | $ 138,036 |

See accompanying Notes to Consolidated Financial Statements.

**Japan Transcity Corporation and Consolidated Subsidiaries**
**Notes to Consolidated Financial Statements**

## 1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of Japan Transcity Corporation (the "Company") and its consolidated subsidiaries (together with the Company, the "Japan Transcity Group") have been prepared in accordance with the provisions set forth in the Financial Instrument and Exchange Law of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instrument and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Comparative figures have been reclassified to conform to the current year's presentation.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was approximately ¥83 to U.S. $1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant unconsolidated subsidiaries and affiliates are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost. Differences between the acquisition cost of investments in subsidiaries and the underlying equity in their net assets, adjusted based on the fair value at the time of acquisition, are principally deferred as goodwill and amortized over five years or recognized as gain on negative goodwill.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2011 and 2010 was as follows:

| | 2011 | 2010 |
|---|---|---|
| Consolidated subsidiaries: | | |
| Domestic | 24 | 24 |
| Overseas | 3 | 3 |
| Unconsolidated subsidiaries and affiliates accounted for by the equity method | 6 | 6 |
| Unconsolidated subsidiaries stated at cost | 14 | 14 |
| Affiliates stated at cost | 5 | 5 |

All intercompany accounts and transactions have been eliminated on consolidation.

The accompanying consolidated financial statements include the accounts of overseas consolidated subsidiaries (three subsidiaries in 2011 and 2010). These overseas consolidated subsidiaries close their books at December 31, three months earlier than the Company and the domestic consolidated subsidiaries. The Company consolidated the overseas subsidiaries' financial statements as of their year-end. Significant transactions for the period between the subsidiaries' year-end and the Company's year-end are adjusted for on consolidation.

(Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)
The "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force("PITF") No. 18) requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is immaterial.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
(e) Retrospective treatment of changes in accounting policies
(f) Accounting for net income attributable to minority interests

The accounts of overseas consolidated subsidiaries were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items.

(New accounting standard for equity method of accounting for investments)
Effective April 1, 2010, The Company adopted the "Accounting standard for Equity Method of Accounting for Investments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 16, March 10, 2008 and "Practical Solution on Unification of Accounting Policies Applied to Associates for Using the Equity Method" (PITF No. 24, March 10, 2008). In accordance with this application, the Company made necessary adjustments in preparing the consolidated financial statement. The adoption of this standard did not have a material effect on income or loss for the year ended March 31, 2011.

(New accounting standard for business combination)
Effective April 1, 2011 the Company adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

**(b) Cash equivalents**

The Japan Transcity Group considers cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

**(c) Investments and marketable securities**

The Japan Transcity Group classifies certain investments in debt and equity securities as "held-to-maturity", "trading" or "available-for-sale", the classification of which determines the respective accounting method as stipulated by the accounting standard for financial instruments. Marketable securities with available market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a component of net assets, net of applicable income taxes. Gains and losses on the disposition of available-for-sale securities are computed based on the moving-average method. Non-marketable securities without available market quotations for available-for-sale securities are carried at cost determined by the moving-average method. Adjustments in carrying values of individual securities are charged to income through write-downs when a decline in value is deemed other than temporary.

**(d) Accounting for derivatives**

Derivatives are valued at fair value, if hedge accounting is not appropriate or where there is no hedging designation, and the gains or losses on the derivatives are recognized in current earnings. According to the special treatment permitted by the accounting standard for financial instruments, hedging interest rate swaps are accounted for on an accrual basis and recorded net of interest expenses generated from the hedged borrowings if certain conditions are met.

**(e) Inventories**

Inventories consisted of supplies and other. Supplies are stated at cost, using the moving-average method.

**(f) Allowance for doubtful accounts**

An allowance for doubtful accounts is provided at the aggregate amount of estimated credit loss based on an individual financial review of certain doubtful or troubled receivables and a general reserve for other receivables calculated based on historical loss experience for a certain past period.

**(g) Property and equipment, and depreciation (except for leases)**

Property and equipment, including significant renewals and additions, are stated at cost, and depreciated principally by the declining-balance method at rates based on the estimated useful life of the asset. Buildings acquired on and after April 1, 1998 are depreciated by the straight-line method. Property with the cost of not less than ¥100,000 but below ¥200,000 each is capitalized and depreciated over three years on a straight-line basis.

Expenditures on maintenance and repairs are charged to operating income as incurred.

The capital gains directly offset against the acquisition costs of tangible fixed assets to obtain tax benefits were ¥100 million ($1,205 thousand) for the year ended March 31, 2011 and 2010.

**(h) Accounting for leases**

Prior to April 1, 2008, the Company and its domestic consolidated subsidiaries accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements.
On March 31, 2007, the ASBJ issued Statement No. 13, "Accounting Standard for Lease Transactions" and Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions". The new accounting standards require that all finance lease transactions be treated as capital

leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain “as if capitalized” information.

**(i) Accounting standard for impairment of fixed assets**

The Company and its domestic consolidated subsidiaries adopted the “Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Council of Japan and the related practical guidance issued by ASBJ. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment loss is to be recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, measured as the higher of the asset’s net selling price or value in use. Fixed assets include land, buildings and other forms of property as well as intangible assets, and are to be grouped at the lowest level for which there are identifiable cash flows. For the purpose of recognition and measurement of impairment loss, fixed assets are principally grouped into cash-generating units such as regional business divisions, other than idle or unused property. For the year ended March 31, 2011, the Japan Transcity Group recognized impairment loss as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Buildings and structures to be disposed | ¥ 4 | $ 48 |
| Machinery and equipment to be disposed | 75 | 904 |
| | ¥ 79 | $ 952 |

**(j) Revaluation of land**

In accordance with the Law Concerning Revaluation of Land (“Law”), the Company elected the one-time revaluation to restate the cost of land used for the Company’s business at values rationally reassessed effective on March 31, 2002, reflecting adjustments for land shape and other factors and based on municipal property tax bases. According to the Law, an amount equivalent to the tax effect on the difference between the original book value and the reassessed value is recorded as deferred tax liability for revaluation account. The rest of the difference, net of the tax effect and minority interests portion, is recorded as a component of the net assets section in the land revaluation decrement account in the accompanying consolidated balance sheets. At March 31, 2011 and 2010, the difference between the carrying value of land used for the Company’s business after reassessment and the current market value at the fiscal year-end amounted to ¥8,203 million ($98,831 thousand) and ¥7,826 million, respectively.

**(k) Employee retirement benefits**

Employees who terminate their service with the Japan Transcity Group are entitled to retirement benefits generally determined by current basic rates of pay, length of service and conditions under which the termination occurs.

In accordance with the accounting standard for employee retirement benefits, the Japan Transcity Group recognizes retirement benefits for employees, including pension cost and related liability, based on actuarial present value of projected benefit obligation using the actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-ends. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in the assumptions are amortized on a straight-line basis over ten years, a period within the remaining service years of the employees, from the year after which they arise. Unrecognized prior service cost is amortized using the straight-line method over ten years from the year in which it occurs.

**(l) Accrued severance indemnities for directors and corporate auditors**

Some domestic consolidated subsidiaries may pay severance indemnities to directors and corporate auditors, which are subject to the approval of the shareholders. Some domestic consolidated subsidiaries have provided for the full amount of the liabilities for directors' and corporate auditors' severance indemnities at the respective balance sheet dates.

**(m) Translation of foreign currency accounts**

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at year-end exchange rates. Transactions in foreign currencies are recorded at the prevailing exchange rates on the transaction dates. Resulting translation gains or losses are included in current earnings.

For financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese yen by applying the exchange rates in effect at the fiscal year-end. All income and expense accounts are translated at the average rates of exchange prevailing during the fiscal year. Translation differences are reported as foreign currency translation adjustment in a component of net assets in the accompanying consolidated balance sheets.

**(n) Income taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

**(o) Enterprise taxes**

The Japan Transcity Group records enterprise taxes based on the "added value" and "capital" amounts when levied as size-based corporate taxes for local government enterprise taxes, which are included in selling, general and administrative expenses.

**(p) Appropriations of retained earnings**

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

**(q) Per share data**

Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the fiscal year. Diluted net income per share is computed assuming convertible bonds were converted at the time of issue unless having anti-dilutive effects. Cash dividends per share for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective years. Diluted net income per share is not presented as of March 31, 2011 and 2010 due to not having any dilutive shares.

**(r) Accounting standard for asset retirement obligations**

In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations”, and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations” effective for years beginning on or after April 1, 2010. Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The adoption of this standard did not have a material effect on operating income, and income before income tax and minority interests decreased by ¥49 million ($590 thousand) for the year ended March 31, 2011.

**(s) Consolidated Statements of Comprehensive Income**

(Additional information)
Effective March 31, 2011, the Company adopted the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25 on June 30, 2010) and “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, revised on June 20, 2010).
As a result, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.
The consolidated balance sheets and the consolidated statements of changes in net assets for 2010 have been modified in conformity with the new presentation rules of 2011. In addition, the Company prepared the consolidated statements of comprehensive income for 2010 as well as that for 2011.

**(t) Consolidated Statements of income**

With the application of the “Cabinet Office Ordinance Revising the Regulations on Financial Statements” (Cabinet Office Ordinance No. 5 on March 24, 2009) under the “Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 on December 26, 2008),” the account item “Income before minority interests” was included from the fiscal year under review.

## 3. Fair values of financial instruments

(Additional information)
Effective from the fiscal year ended March 31, 2010, the Company and its domestic subsidiaries adopted the revised Accounting Standard, “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 revised on March 10, 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2011 and 2010 required pursuant to the revised accounting standards is as follows.

(a) Qualitative information on financial instruments

① Policies for using financial instruments
The capital operation of the Company is limited to short-term deposits and the Company raises capital through bank loans and bond issuances. Derivative instruments are mainly used for hedging against variable interest rate risk and to compensate a loss when an earthquake occurs, and not for speculation.

② Details of financial instruments, risks, and risk management system
Trade receivables (notes and accounts) carry a credit risk of trading partners. Regarding the said risk, pursuant to internal regulations of the Company, the due dates and balances are managed appropriately for each counterparty and the credit risks of the main trading partners are identified every half year.

Although investments in securities are exposed to market price fluctuation risk, the Company regularly understands the fair values of shares of companies with which the Company has business relationships.

Trade payables (notes and accounts) are due within one year.

With regard to loans payable, short-term borrowings are mainly used to raise capital for operating dealings and long-term debt fund capital investment.

Loans with a variable interest rate involve the risk of interest rate fluctuation. For hedging purposes, the Japan Transcity Group is a party to derivative instruments such as interest rate swap contracts in the normal course of business to reduce its own exposure to fluctuations in interest rates. The method of evaluating the effectiveness of the hedge is omitted because of the exceptional treatment of interest rate swaps.

Guarantee deposits received is mainly deposited money for golf club memberships.

The Company entered into a derivative contract with financial institutions of high creditworthiness to reduce credit risk.

The Japan Transcity Group controls liquidity risk associated with operating payables and loans by cash management systems which control the capital of the group unitary.

③ Supplemental information on fair values

Contract amounts of derivative instruments in “Fair value of financial instruments” do not show its own marketable price.

(b) Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their values at March 31, 2011 and 2010 are as follows. Some financial instruments are excluded because it is extremely difficult to identify their fair values.

| | Consolidated balance sheet amounts | Fair value | Difference |
|---|---|---|---|
| | | Millions of yen | |
| At March 31, 2011: | | | |
| (1) Cash and cash equivalents | ¥ 11,457 | ¥ 11,457 | ¥ - |
| (2) Short-term investments | 431 | 431 | - |
| (3) Trade receivables | 12,543 | 12,543 | - |
| (4) Investment securities | | | |
| Marketable securities | 4,302 | 4,302 | - |
| Total assets | ¥ 28,733 | ¥ 28,733 | ¥ - |
| (1) Trade payables | ¥ 7,504 | ¥ 7,504 | ¥ - |
| (2) Short-term borrowings | 3,751 | 3,751 | - |
| (3) Long-term debt | 23,718 | 23,718 | 0 |
| Total liabilities | ¥ 34,973 | ¥ 34,973 | ¥ 0 |
| At March 31, 2010: | | | |
| (1) Cash and cash equivalents | ¥ 10,878 | ¥ 10,878 | ¥ - |
| (2) Short-term investments | 395 | 395 | - |
| (3) Trade receivables | 12,277 | 12,277 | - |
| (4) Investment securities | | | |
| Marketable securities | 4,924 | 4,924 | - |
| Total assets | ¥ 28,474 | ¥ 28,474 | ¥ - |
| (1) Trade payables | ¥ 6,996 | ¥ 6,996 | ¥ - |
| (2) Short-term borrowings | 4,058 | 4,058 | - |
| (3) Long-term debt | 24,819 | 24,787 | (32) |
| Total liabilities | ¥ 35,873 | ¥ 35,841 | ¥ (32) |

| | Consolidated balance sheet amounts | | Fair value | | Difference | |
|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | |
| At March 31, 2011: | | | | | | |
| (1) Cash and cash equivalents | $ | 138,036 | $ | 138,036 | $ | - |
| (2) Short-term investments | | 5,193 | | 5,193 | | - |
| (3) Trade receivables | | 151,121 | | 151,121 | | - |
| (4) Investment securities | | | | | | |
| Marketable securities | | 51,831 | | 51,831 | | - |
| Total assets | $ | 346,181 | $ | 346,181 | $ | - |
| (1) Trade payables | $ | 90,409 | $ | 90,409 | $ | - |
| (2) Short-term borrowings | | 45,193 | | 45,193 | | - |
| (3) Long-term debt | | 285,759 | | 285,759 | | 0 |
| Total liabilities | $ | 421,361 | $ | 421,361 | $ | 0 |

Note 1. Method of calculating fair value of financial instruments and other matters concerning securities and derivatives.

Assets

(1) Cash and cash equivalents, (2) Short-term investments and (3) Trade receivables

The carrying values of cash and cash equivalents, short-term investments and trade receivable are approximate fair values because of their short maturities.

(4) Investment securities

The fair values of listed equity shares in investment securities are based on quoted market prices. For matters concerning securities according to the purpose for which they are held, please see Note 4.

Liabilities

(1) Trade payables and (2) Short-term borrowings

The carrying values of trade payables and short-term borrowings are approximate fair values because of their short maturities.

(3) Long-term debt

The fair value of long-term debt is computed on the basis of the total amount of principal and interest discounted at the interest rate applicable to new loans carrying the same conditions.

Derivatives

① Derivative transactions to which hedge accounting is not applied: Not applicable.

② Derivative transactions to which hedge accounting is applied: The contract amount or amount equivalent to the principal set forth in the contract as of the consolidated closing date are as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | |
| Contract amount | ¥ | 17,860 | ¥ | 18,189 | $ | 215,181 |
| Contract amount due after one year | | 17,844 | | 15,689 | | 214,988 |
| Fair value | | (263) | | (278) | | (3,169) |

Method of hedge accounting: Exceptional treatment of interest rate swap

Type of derivative transaction: Interest rate swap (fixed rate payment, floating rate receipt)

Hedged item: Long-term debt

The Company uses the price presented by financial institution.

Note 2. Financial instruments whose fair value cannot be reliably determined.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Non-marketable securities (*1) | ¥ 802 | ¥ 804 | $ 9,663 |
| Guarantee deposits received (*2) | ¥ 3,807 | ¥ 3,935 | $ 45,867 |
| Derivative relating to earthquakes (*3) | ¥ 14 | ¥ 14 | $ 169 |

(*1) It is extremely difficult to determine the fair values of non-marketable securities because they do not have quoted market prices and their future cash flow cannot be estimated. Therefore, they are excluded from (4) Investment securities.

(*2) It is extremely difficult to determine the fair values of guarantee deposits received because their scheduled redemption cannot be estimated.

(*3) During the year ended March 31, 2007, the Company entered into a derivative contract relating to earthquakes for hedging purposes. The outstanding contract amount was ¥300 million ($3,614 thousand) at March 31, 2011 and 2010, respectively. As the fair value for such a contract is not considered determinable, that derivative contract has not been accounted for at fair value.

Note 3. Scheduled redemption amounts after the consolidated closing date for monetary claims and securities with maturity period.

| | Due in one year or less | Due after one year | Due in one year or less | Due after one year | Due in one year or less | Due after one year |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | Thousands of U.S. dollars | |
| | 2011 | | 2010 | | 2011 | |
| Cash and cash equivalents | ¥ 11,457 | ¥ - | ¥ 10,878 | ¥ - | $ 138,036 | $ - |
| Short-term investments | 431 | - | 395 | - | 5,193 | - |
| Trade receivables | 12,543 | - | 12,277 | - | 151,121 | - |
| Total | ¥ 24,431 | ¥ - | ¥ 23,550 | ¥ - | $ 294,350 | $ - |

## 4. Investments

At March 31, 2011 and 2010, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2011 and 2010, investment securities consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Marketable securities: | | | |
| Equity securities | ¥ 4,282 | ¥ 4,916 | $ 51,590 |
| Other | 20 | 8 | 241 |
| | 4,302 | 4,924 | 51,831 |
| Other non-marketable securities | 802 | 804 | 9,663 |
| | ¥ 5,104 | ¥ 5,728 | $ 61,494 |

Marketable investment securities classified as available-for-sale are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the net assets account until realized. At March 31, 2011 and 2010, gross unrealized gains and losses for marketable securities classified as available-for-sale were as follows:

| | Cost | Gross unrealized gains | Gross unrealized losses | Fair and carrying value |
|---|---|---|---|---|
| | Millions of yen | | | |
| Available-for-sale securities at March 31, 2011: | | | | |
| Equity securities | ¥ 3,758 | ¥ 871 | ¥ (347) | ¥ 4,282 |
| Other | 22 | - | (2) | 20 |
| | ¥ 3,780 | ¥ 871 | ¥ (349) | ¥ 4,302 |
| Available-for-sale securities at March 31, 2010: | | | | |
| Equity securities | ¥ 3,762 | ¥ 1,373 | ¥ (219) | ¥ 4,916 |
| Other | 10 | - | (2) | 8 |
| | ¥ 3,772 | ¥ 1,373 | ¥ (221) | ¥ 4,924 |

| | Cost | Gross unrealized gains | Gross unrealized losses | Fair and carrying value |
|---|---|---|---|---|
| | Thousands of U.S. dollars | | | |
| Available-for-sale securities at March 31, 2011: | | | | |
| Equity securities | $ 45,277 | $ 10,494 | $ (4,181) | $ 51,590 |
| Other | 265 | - | (24) | 241 |
| | $ 45,542 | $ 10,494 | $ (4,205) | $ 51,831 |

## 5. Short-term Borrowings and Long-term Debt

At March 31, 2011 and 2010, short-term borrowings consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Short-term bank loans and bank overdrafts with interest rates ranging from 0.43% to 0.95% per annum at March 31, 2011: | | | |
| Unsecured | ¥ 3,751 | ¥ 4,058 | $ 45,193 |

At March 31, 2011 and 2010, long-term debt consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Long-term loans from banks and other financial institutions due through 2022 with interest rates ranging from 0.86% to 6.97% per annum at March 31, 2011: | | | |
| Collateralized | ¥ 348 | ¥ 378 | $ 4,193 |
| Unsecured | 23,370 | 24,441 | 281,566 |
| | 23,718 | 24,819 | 285,759 |
| Less current maturities | (885) | (3,599) | (10,663) |
| | ¥ 22,833 | ¥ 21,220 | $ 275,096 |

The aggregate annual maturities of long-term debt at March 31, 2011 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2012 | ¥ 885 | $ 10,663 |
| 2013 | 7,723 | 93,048 |
| 2014 | 4,073 | 49,072 |
| 2015 | 1,125 | 13,554 |
| 2016 | 7,962 | 95,928 |
| 2017 and thereafter | 1,950 | 23,494 |
| | ¥ 23,718 | $ 285,759 |

The aggregate annual maturities of long-term lease obligations at March 31, 2011 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2012 | ¥ 130 | $ 1,566 |
| 2013 | 116 | 1,398 |
| 2014 | 93 | 1,120 |
| 2015 | 48 | 578 |
| 2016 | 18 | 217 |
| 2017 and thereafter | 23 | 277 |
| | ¥ 428 | $ 5,156 |

At March 31, 2011 and 2010, the following assets were pledged as collateral:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Time deposits included in short-term investments | ¥ 32 | ¥ 32 | $ 386 |
| Buildings and structures | 649 | 696 | 7,819 |
| Investment securities | 12 | - | 145 |

As is customary in Japan, substantially all loans from banks (including short-term loans) are made under general agreements which provide that, at the request of the relevant bank, the Japan Transcity Group is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to the loans and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the bank concerned. The Japan Transcity Group has not received such requests. The general agreements further provide that the banks have the right, as indebtedness matures or becomes due prematurely by reason of default thereon, to offset deposits at the banks against indebtedness due to the banks.

## 6. Employee Retirement Benefits

The Company has defined benefit retirement plans. Some of the consolidated subsidiaries have similar retirement benefit plans. In addition, two consolidated subsidiaries have a defined contribution pension plan in certain pension funds organized by others.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended March 31, 2011 and 2010:

| | Millions of yen | | Thousands of U.S dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Reconciliation of benefit liability: | | | |
| Projected benefit obligation | ¥ 11,249 | ¥ 12,014 | $ 135,530 |
| Less fair value of pension plan assets at end of year | (9,411) | (9,565) | (113,385) |
| | 1,838 | 2,449 | 22,145 |
| Unrecognized actuarial differences (loss) | (1,695) | (1,723) | (20,422) |
| Unrecognized prior service cost of retroactive benefits granted by the pension plan amendment | 298 | 358 | 3,590 |
| Accrued retirement and severance benefits | 441 | 1,084 | 5,313 |
| Prepaid pension cost | 1,225 | 769 | 14,759 |
| Net amount of employee retirement benefit liability recognized on the consolidated balance sheets | ¥ 1,666 | ¥ 1,853 | $ 20,072 |

*Note: Projected benefit obligation of the consolidated subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.*

| | Millions of yen | | Thousands of U.S dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Components of net periodic retirement benefit expense: | | | |
| Service cost | ¥ 495 | ¥ 446 | $ 5,964 |
| Interest cost | 202 | 223 | 2,434 |
| Expected return on pension plan assets | (174) | (155) | (2,096) |
| Amortization of actuarial differences | (60) | (60) | (723) |
| Amortization of prior service cost | 319 | 437 | 3,843 |
| Net periodic retirement benefit expense | ¥ 782 | ¥ 891 | $ 9,422 |

Major assumptions used in the calculation of the above information for the years ended March 31, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|---|---|
| Method to attribute the projected benefits to the periods of service | Straight-line method | Straight-line method |
| Discount rate | 2.0% | 2.0% |
| Expected rate of return on pension plan assets | 2.0% | 2.0% |
| Amortization of actuarial differences | 10 years | 10 years |
| Amortization of prior service cost | 10 years | 10 years |

## 7. Net Assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the former Japanese Commercial Code. The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At March 31, 2011 and 2010, respectively, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal earnings reserve of the Company in the amount of ¥1,200 million ($14,458 thousand) at March 31, 2011 and 2010, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

During the year ended March 31, 2011, the Company paid interim dividends of ¥4.00 per share. In addition, at the annual shareholders' meeting held on June 29, 2011, the shareholders approved cash dividends of ¥4.50 per share, amounting to ¥291 million ($3,506 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2011 as such appropriations are recognized in the period in which they are approved by the shareholders.

## 8. Contingent Liabilities

At March 31, 2011 and 2010, the Japan Transcity Group was contingently liable for guarantees of indebtedness of others in the amounts of ¥803 million ($9,675 thousand) and ¥994 million, respectively. Such amounts included the guarantees of indebtedness of 50%owned affiliates in the amount of ¥438 million ($5,277 thousand) and ¥601 million at March 31, 2011 and 2010, respectively.

## 9. Lease Commitments

The Japan Transcity Group leases, as lessee, land and buildings to be used for office spaces and warehouses principally under long-term cancelable or non-cancelable operating lease agreements. The Japan Transcity Group also leases computer equipment, other equipment and vehicles under leases which are not generally cancelable.

Total rental and lease expenses, including cancelable and non-cancelable leases, for the years ended March 31, 2011 and 2010 were ¥6,512 million ($78,458 thousand) and ¥6,241 million, respectively. For the years ended March 31, 2011 and 2010, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥447 million ($5,386 thousand) and ¥491 million, respectively.

The aggregate future minimum payments for non-cancelable operating leases and financing leases, including the imputed interest, at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Operating leases: | | | |
| Due within one year | ¥ 705 | ¥ 742 | $ 8,494 |
| Due after one year | 1,784 | 2,591 | 21,494 |
| | ¥ 2,489 | ¥ 3,333 | $ 29,988 |
| Financing leases (Contracted before March 31, 2008): | | | |
| Due within one year | ¥ 376 | ¥ 448 | $ 4,530 |
| Due after one year | 1,130 | 1,506 | 13,615 |
| | ¥ 1,506 | ¥ 1,954 | $ 18,145 |

## 10. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Deferred tax assets: | | | |
| Enterprise tax accruals | ¥ 57 | ¥ 66 | $ 687 |
| Accrued bonuses to employees | 405 | 407 | 4,879 |
| Employee retirement benefit liability | 1,125 | 1,355 | 13,554 |
| Accrued severance indemnities for directors and corporate auditors | 17 | 18 | 205 |
| Long-term accounts payable | 77 | 72 | 928 |
| Intercompany capital gains | 272 | 275 | 3,277 |
| Net operating loss carryforwards | 204 | 196 | 2,458 |
| Impairment loss on fixed assets | 1,217 | 1,187 | 14,663 |
| Other | 370 | 330 | 4,458 |
| | 3,744 | 3,906 | 45,109 |
| Less valuation allowance | (1,585) | (1,582) | (19,097) |
| Deferred tax assets | 2,159 | 2,324 | 26,012 |
| Deferred tax liabilities: | | | |
| Deferred capital gain | 1,169 | 1,215 | 14,084 |
| Unrealized gains on available-for-sale securities | 212 | 466 | 2,554 |
| Other | 435 | 425 | 5,241 |
| Deferred tax liabilities | 1,816 | 2,106 | 21,879 |
| Net deferred tax assets | ¥ 343 | ¥ 218 | $ 4,133 |

At March 31, 2011 and 2010, deferred tax assets and liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Deferred tax assets: | | | |
| Current | ¥ 477 | ¥ 480 | $ 5,747 |
| Non-current | 639 | 621 | 7,699 |
| Deferred tax liabilities: | | | |
| Non-current | 773 | 883 | 9,313 |

In assessing the realizability of deferred tax assets, management of the Japan Transcity Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2011 and 2010 a valuation allowance was provided to reduce the deferred tax assets to the extent that management believes that the deferred tax assets were realizable.

A reconciliation of the difference between the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the year ended March 31, 2011 was as follows:

| | Percentage of pre-tax income |
|---|---|
| Japanese statutory effective tax rate | 40.1% |
| Increase (decrease) due to: | |
| Permanently non-deductible expenses | 1.2 |
| Tax exempt income | (1.9) |
| Local minimum taxes per capita levy | 1.0 |
| Equity in net earnings of unconsolidated subsidiaries and affiliates | (5.8) |
| Other | 0.8 |
| Actual effective income tax rate | 35.4% |

A reconciliation for the year ended March 31, 2010 was not disclosed because the difference was immaterial.

## 11. Related Party Transaction

ASBJ Statement No. 11, “Accounting Standard for Related Party Disclosures” and ASBJ Guidance No. 13, “Guidance on Accounting Standard for Related Party Disclosures” issued by the Accounting Standards Board of Japan on October 17, 2006, require certain additional related party disclosures. Pursuant to their accounting standards, information on Chubu Coal Center Co., Ltd. is disclosed for the year ended March 31, 2011 and 2010.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Total current assets | ¥ 711 | ¥ 739 | $ 8,566 |
| Total fixed assets | ¥ 10,209 | ¥ 10,494 | $ 123,000 |
| Total current liabilities | ¥ 2,618 | ¥ 2,842 | $ 31,542 |
| Total fixed liabilities | ¥ 2,877 | ¥ 3,422 | $ 34,663 |
| Total net assets | ¥ 5,425 | ¥ 4,969 | $ 65,361 |
| Operating revenue | ¥ 3,227 | ¥ 3,013 | $ 38,880 |
| Income before income taxes | ¥ 1,064 | ¥ 757 | $ 12,819 |
| Net income | ¥ 635 | ¥ 452 | $ 7,651 |

## 12. Segment Information

1. General information about reportable segments

The reportable segments are constituent business units of the Japan Transcity Group for which separate financial information is obtained, and they are examined regularly by the Board of Directors to evaluate business performance. The Japan Transcity group carry on mainly integrated logistics services that consist of warehousing, coastal shipping, trucking and international multimodal transportation. Therefore the Japan Transcity group's reported segment is "Integrated logistics services".

2. Basis of measurement about reported segment profit, segment assets and other material items

The principle of the accounting for the segment is presented on an operating income basis. Intersegment operating revenues or transfer amounts is based on the market price.

3. Information about reported segment profit, segment assets and other material items

Information by segment for years ended March 31, 2011 and 2010 was as follows:

| | Integrated logistics services | Others | Total | Adjustment | Consolidated |
|---|---|---|---|---|---|
| | | | Millions of yen | | |
| For the year ended March 31, 2011: | | | | | |
| Operating revenue: | | | | | |
| External customers | ¥ 79,784 | ¥ 1,070 | ¥ 80,854 | ¥ - | ¥ 80,854 |
| Intersegment sales | 25 | 1,194 | 1,219 | (1,219) | - |
| Total operating revenue | 79,809 | 2,264 | 82,073 | (1,219) | 80,854 |
| Operating income | ¥ 3,734 | ¥ 222 | ¥ 3,956 | ¥ (103) | ¥ 3,853 |
| Identifiable assets | ¥ 87,217 | ¥ 2,398 | ¥ 89,615 | ¥ (1,117) | ¥ 88,498 |
| Depreciation | 2,827 | 53 | 2,880 | - | 2,880 |
| Capital expenditures | 1,533 | 91 | 1,624 | - | 1,624 |
| Impairment loss on fixed assets | 79 | - | 79 | - | 79 |
| Amortization of negative goodwill | 22 | - | 22 | - | 22 |
| Negative goodwill | 33 | - | 33 | - | 33 |
| For the year ended March 31, 2010: | | | | | |
| Operating revenue: | | | | | |
| External customers | ¥ 75,006 | ¥ 1,440 | ¥ 76,446 | ¥ - | ¥ 76,446 |
| Intersegment sales | 24 | 1,016 | 1,040 | (1,040) | - |
| Total operating revenue | 75,030 | 2,456 | 77,486 | (1,040) | 76,446 |
| Operating income | ¥ 3,218 | ¥ 159 | ¥ 3,377 | ¥ (10) | ¥ 3,367 |
| Identifiable assets | ¥ 87,407 | ¥ 2,211 | ¥ 89,618 | ¥ (1,072) | ¥ 88,546 |
| Depreciation | 3,071 | 50 | 3,121 | - | 3,121 |
| Capital expenditures | 2,773 | 4 | 2,777 | - | 2,777 |
| Amortization of negative goodwill | 23 | - | 23 | - | 23 |
| Negative goodwill | 55 | - | 55 | - | 55 |

| | Integrated logistics services | Others | Total | Adjustment | Consolidated |
|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | |
| For the year ended March 31, 2011: | | | | | |
| Operating revenue: | | | | | |
| External customers | $ 961,253 | $ 12,892 | $ 974,145 | $ - | $ 974,145 |
| Intersegment sales | 301 | 14,385 | 14,686 | (14,686) | - |
| Total operating revenue | 961,554 | 27,277 | 988,831 | (14,686) | 974,145 |
| Operating income | $ 44,988 | $ 2,675 | $ 47,663 | $ (1,241) | $ 46,422 |
| Identifiable assets | $ 1,050,807 | $ 28,892 | $ 1,079,699 | $ (13,458) | $ 1,066,241 |
| Depreciation | 34,060 | 639 | 34,699 | - | 34,699 |
| Capital expenditures | 18,470 | 1,096 | 19,566 | - | 19,566 |
| Impairment loss on fixed assets | 952 | - | 952 | - | 952 |
| Amortization of negative goodwill | 265 | - | 265 | - | 265 |
| Negative goodwill | 398 | - | 398 | - | 398 |

(Additional information)

Effective April 1, 2010, the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, issued on March 21, 2008).

(Related information)

1. Information about product and service

| | Warehousing | Coastal shipping | Trucking | International multimodal transportation | Total |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| For the year ended March 31, 2011: | | | | | |
| Operating revenue to external customers: | ¥ 30,618 | ¥ 21,130 | ¥ 17,311 | ¥ 10,725 | ¥ 79,784 |
| | Thousands of U.S. dollars | | | | |
| For the year ended March 31, 2011: | | | | | |
| Operating revenue to external customers: | $ 368,892 | $ 254,578 | $ 208,566 | $ 129,217 | $ 961,253 |

2. Information about geographic areas

(1) Operating revenue

The Company has omitted disclosure of operating revenue because operating revenue to external customers in Japan account for more than 90% of the amount of operating revenue reported in the consolidated statements of income.

(2) Property, plant and equipment

The Company has omitted disclosure of property, plant and equipment because property, plant and equipment in Japan account for more than 90% of the amount of property, plant and equipment reported in the consolidated balance sheets.

3. Information about major customers

The Company has not disclosed information about major customers because no customer had contributed by 10% or more to operating revenue in the consolidated statements of income.

(Gains arising from negative goodwill)

Effective from the fiscal year ended March 31, 2011, the Company has omitted information by segment on gains arising from negative goodwill due to the negligible importance of this information.

## 13. Condensed Financial Statements of Japan Transcity Corporation (Parent)

Presented below are the condensed nonconsolidated balance sheets, nonconsolidated statements of income and changes in net assets of Japan Transcity Corporation, the parent company.

**Nonconsolidated Balance Sheets(Unaudited)**
**Japan Transcity Corporation (Parent)**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 9,466 | ¥ 9,054 | $ 114,048 |
| Short-term investments | 37 | 36 | 446 |
| Trade receivables, net of allowance for doubtful accounts | 11,953 | 11,625 | 144,012 |
| Inventories | 20 | 17 | 241 |
| Deferred tax assets | 275 | 269 | 3,313 |
| Other current assets | 1,371 | 1,361 | 16,518 |
| Total current assets | 23,122 | 22,362 | 278,578 |
| **Property and equipment, at cost** | 73,695 | 73,555 | 887,892 |
| Less accumulated depreciation | (33,231) | (31,951) | (400,374) |
| Net property and equipment | 40,464 | 41,604 | 487,518 |
| **Investments and other assets:** | | | |
| Investment securities | 4,686 | 5,298 | 56,458 |
| Investments in and long-term loans to subsidiaries and affiliates | 3,915 | 3,730 | 47,169 |
| Lease deposits | 921 | 893 | 11,096 |
| Other assets | 2,553 | 1,970 | 30,759 |
| Allowance for doubtful accounts | (254) | (15) | (3,060) |
| Total investments and other assets | 11,821 | 11,876 | 142,422 |
| Total assets | ¥ 75,407 | ¥ 75,842 | $ 908,518 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Current liabilities:** | | | |
| Short-term borrowings | ¥ 7,248 | ¥ 7,094 | $ 87,325 |
| Current maturities of long-term debt | 572 | 3,269 | 6,892 |
| Trade payables | 7,834 | 7,508 | 94,386 |
| Accrued expenses | 775 | 761 | 9,337 |
| Income taxes payable | 503 | 595 | 6,060 |
| Other current liabilities | 1,355 | 1,360 | 16,325 |
| Total current liabilities | 18,287 | 20,587 | 220,325 |
| **Long-term debt** | 19,603 | 17,675 | 236,181 |
| **Employee retirement benefit liability** | 664 | 776 | 8,000 |
| **Deferred tax liabilities for revaluation** | 5,277 | 5,281 | 63,578 |
| **Deferred tax liabilities** | 705 | 813 | 8,494 |
| **Other long-term liabilities** | 490 | 459 | 5,903 |
| Total liabilities | 45,026 | 45,591 | 542,481 |
| **Net assets:** | | | |
| Shareholder’s equity: | | | |
| Common stock | 8,428 | 8,428 | 101,542 |
| Capital surplus | 6,734 | 6,735 | 81,133 |
| Retained earnings | 17,996 | 17,430 | 216,819 |
| Less treasury stock, at cost | (1,015) | (944) | (12,229) |
| Total shareholders' equity | 32,143 | 31,649 | 387,265 |
| Accumulated losses from valuation adjustment: | | | |
| Net unrealized gains on available-for-sale securities | 262 | 621 | 3,157 |
| Land revaluation decrement | (2,024) | (2,019) | (24,385) |
| Total accumulated losses from valuation adjustment | (1,762) | (1,398) | (21,228) |
| Total net assets | 30,381 | 30,251 | 366,037 |
| Total liabilities and net assets | ¥ 75,407 | ¥ 75,842 | $ 908,518 |

**Nonconsolidated Statements of Income (Unaudited)**
**Japan Transcity Corporation (Parent)**
For the Years Ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Operating revenue** | ¥ 75,771 | ¥ 71,391 | $ 912,904 |
| **Operating costs and expenses** | 73,184 | 69,111 | 881,735 |
| Operating income | 2,587 | 2,280 | 31,169 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 307 | 278 | 3,698 |
| Interest expenses | (314) | (313) | (3,783) |
| Miscellaneous, net | (516) | (27) | (6,217) |
| | (523) | (62) | (6,302) |
| Income before income taxes | 2,064 | 2,218 | 24,867 |
| **Income taxes:** | | | |
| Current | 830 | 683 | 10,000 |
| Deferred | 122 | 216 | 1,469 |
| Total income taxes | 952 | 899 | 11,469 |
| Net income | ¥ 1,112 | ¥ 1,319 | $ 13,398 |

| | Yen | | U.S. dollars |
|---|---|---|---|
| **Per share:** | | | |
| Net income: | | | |
| -Basic | ¥ 17.15 | ¥ 20.31 | $ 0.21 |
| Cash dividends | 8.50 | 8.50 | 0.10 |

**Nonconsolidated Statements of Changes in Net Assets(Unaudited)**
**Japan Transcity Corporation (Parent)**
For the Years Ended March 31, 2011 and 2010

| | Shareholders' equity | | | | | Accumulated (losses) gains from valuation adjustment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained Earnings | Treasury stock | Total shareholder's equity | Net unrealized gains on available-for-sale securities | Land revaluation decrement | Total accumulated losses from valuation adjustment | Total net assets |
| | Millions of yen | | | | | | | | |
| **Balance at March 31, 2009** | ¥ 8,428 | ¥ 6,735 | ¥ 16,663 | ¥ (941) | ¥ 30,885 | ¥ 434 | ¥ (2,019) | ¥ (1,585) | ¥ 29,300 |
| Net income for the year | - | - | 1,319 | - | 1,319 | - | - | - | 1,319 |
| Cash dividends | - | - | (552) | - | (552) | - | - | - | (552) |
| Purchase of treasury stock and fractional shares, net | - | - | - | (3) | (3) | - | - | - | (3) |
| Net changes other than shareholders' equity | - | - | - | - | - | 187 | - | 187 | 187 |
| **Balance at March 31, 2010** | ¥ 8,428 | ¥ 6,735 | ¥ 17,430 | ¥ (944) | ¥ 31,649 | ¥ 621 | ¥ (2,019) | ¥ (1,398) | ¥ 30,251 |
| Net income for the year | - | - | 1,112 | - | 1,112 | - | - | - | 1,112 |
| Cash dividends | - | - | (551) | - | (551) | - | - | - | (551) |
| Purchase of treasury stock and fractional shares, net | - | (1) | - | (71) | (72) | - | - | - | (72) |
| Reversal of Land revaluation decrement | - | - | 5 | - | 5 | - | - | - | 5 |
| Net changes other than shareholders' equity | - | - | - | - | - | (359) | (5) | (364) | (364) |
| **Balance at March 31, 2011** | ¥ 8,428 | ¥ 6,734 | ¥ 17,996 | ¥ (1,015) | ¥ 32,143 | ¥ 262 | ¥ (2,024) | ¥ (1,762) | ¥ 30,381 |
| | Thousands of U.S. dollars | | | | | | | | |
| **Balance at March 31, 2010** | $ 101,542 | $ 81,145 | $ 210,000 | $ (11,374) | $ 381,313 | $ 7,482 | $ (24,325) | $ (16,843) | $ 364,470 |
| Net income for the year | - | - | 13,398 | - | 13,398 | - | - | - | 13,398 |
| Cash dividends | - | - | (6,639) | - | (6,639) | - | - | - | (6,639) |
| Purchase of treasury stock and fractional shares, net | - | (12) | - | (855) | (867) | - | - | - | (867) |
| Reversal of Land revaluation decrement | - | - | 60 | - | 60 | - | - | - | 60 |
| Net changes other than shareholders' equity | - | - | - | - | - | (4,325) | (60) | (4,385) | (4,385) |
| **Balance at March 31, 2011** | $ 101,542 | $ 81,133 | $ 216,819 | $ (12,229) | $ 387,265 | $ 3,157 | $ (24,385) | $ (21,228) | $ 366,037 |