Japan Transcity Corporation

Consolidated Financial Statements

March 31, 2014 and 2013

KPMG AZSA LLC

Independent Auditor's Report

To the Board of Directors of Japan Transcity Corporation:

We have audited the accompanying consolidated financial statements of Japan Transcity Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and 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 our judgement, 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, we consider 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, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of Japan Transcity Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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
July 30, 2014
Nagoya, Japan

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets:			
Cash and cash equivalents (Note 3)	¥ 12,648	¥ 9,875	$ 124,000
Short-term investments (Notes 3, 4 and 5)	48	136	471
Trade receivables (Note 3)	13,404	13,832	131,412
Allowance for doubtful accounts	(17)	(16)	(167)
	13,387	13,816	131,245
Inventories	99	123	970
Deferred tax assets (Note 10)	374	450	3,667
Other current assets	1,974	2,042	19,353
Total current assets	28,530	26,442	279,706
Property and equipment (Note 5):			
Land	30,065	29,656	294,755
Buildings and structures	47,609	49,155	466,755
Machinery and equipment	11,882	12,952	116,490
Vehicles and vessels	6,685	6,585	65,539
Construction in progress	2,353	75	23,069
Total property and equipment	98,594	98,423	966,608
Less accumulated depreciation	(49,263)	(50,897)	(482,971)
Net property and equipment	49,331	47,526	483,637
Investments and other assets:			
Investment securities (Notes 3, 4 and 5)	6,268	5,936	61,451
Investments in unconsolidated subsidiaries and affiliates	5,804	5,338	56,902
Employee retirement benefit asset (Note 6)	2,961	-	29,029
Deferred tax assets (Note 10)	653	658	6,402
Lease deposits	505	667	4,951
Other assets	1,512	4,311	14,824
Allowance for doubtful accounts	(16)	(17)	(157)
Total investments and other assets	17,687	16,893	173,402
Total assets	¥ 95,548	¥ 90,861	$ 936,745

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥ 2,594	¥ 2,741	$ 25,431
Current maturities of long-term debt (Notes 3 and 5)	1,278	4,374	12,529
Trade payables (Note 3)	7,728	7,374	75,765
Accrued expenses	1,594	1,602	15,627
Income taxes payable	734	373	7,196
Other current liabilities	3,277	2,019	32,128
Total current liabilities	17,205	18,483	168,676
Long-term debt (Notes 3 and 5)	21,062	17,788	206,490
Provision for employee retirement benefits (Note 6)	-	1,470	-
Employee retirement benefit liability (Note 6)	1,839	-	18,030
Guarantee deposits received (Note 3)	3,401	3,547	33,343
Deferred tax liabilities for revaluation	4,545	4,619	44,559
Deferred tax liabilities (Note 10)	1,607	1,410	15,755
Accrued severance indemnities for directors	19	14	186
Other long-term liabilities	764	697	7,490
Total liabilities	50,442	48,028	494,529
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	82,627
Capital surplus	6,733	6,733	66,010
Retained earnings	30,509	28,160	299,108
Less treasury stock, at cost: 2,817,101 shares in 2014 and 2,805,264 shares in 2013	(1,104)	(1,100)	(10,823)
Total shareholders' equity	44,566	42,221	436,922
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	1,198	930	11,745
Land revaluation decrement	(1,503)	(1,367)	(14,735)
Foreign currency translation adjustment	134	(95)	1,314
Retirement benefit adjustment (Note 6)	(362)	-	(3,549)
Total accumulated other comprehensive income	(533)	(532)	(5,225)
Minority interests	1,073	1,144	10,519
Total net assets	45,106	42,833	442,216
Total liabilities and net assets	¥ 95,548	¥ 90,861	$ 936,745

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Operating revenue (Note 13)	¥ 88,607	¥ 84,698	$ 868,696
Operating costs and expenses (Notes 6 and 9)	84,969	81,582	833,029
Operating income	3,638	3,116	35,667
Other income (expenses):			
Interest and dividend income	353	465	3,461
Interest expenses	(257)	(298)	(2,520)
Equity in net earnings of unconsolidated subsidiaries and affiliates	493	510	4,833
Loss on sale or disposal of property and equipment	17	(17)	167
Impairment loss on fixed assets (Note 2(i))	-	(648)	-
Others, net	157	185	1,539
	763	197	7,480
Income before income taxes and minority interests	4,401	3,313	43,147
Income taxes:			
Current	1,371	1,133	13,441
Deferred	256	186	2,510
Total income taxes	1,627	1,319	15,951
Income before minority interests	2,774	1,994	27,196
Less minority interests in net income of consolidated subsidiaries	88	88	863
Net income	¥ 2,686	¥ 1,906	$ 26,333

	Yen		U.S. dollars
Per share:			
Net income	¥ 41.75	¥ 29.63	$ 0.41
Cash dividends	9.00	9.00	0.09

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended March 31, 2014 and 2013

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		2014	
Income before minority interests	¥	2,774	¥	1,994	$	27,196
Other comprehensive income (Note 11):						
Net unrealized gains on available-for-sale securities		270		668		2,647
Foreign currency translation adjustment		302		181		2,961
Share of other comprehensive income of associates accounted for using equity method		13		12		127
Total other comprehensive income		585		861		5,735
Comprehensive income	¥	3,359	¥	2,855	$	32,931
Comprehensive income attributable to:						
Owners of the Company	¥	3,200	¥	2,694	$	31,372
Minority interests		159		161		1,559

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, 2014 and 2013

		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	Retirement benefit adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
		Millions of yen											
Balance at April 1, 2012	67,142,417	¥ 8,428	¥ 6,733	¥ 26,833	¥ (1,099)	¥ 40,895	¥ 270	¥ (1,367)	¥ (223)	¥ -	¥ (1,320)	¥ 1,088	¥ 40,663
Net income for the year	-	-	-	1,906	-	1,906	-	-	-	-	-	-	1,906
Cash dividends	-	-	-	(579)	-	(579)	-	-	-	-	-	-	(579)
Change of scope of equity method	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury stock and fractional shares, net	-	-	-	-	(1)	(1)	-	-	-	-	-	-	(1)
Net changes other than shareholders' equity	-	-	-	-	-	-	660	-	128	-	788	56	844
Balance at March 31, 2013	67,142,417	8,428	6,733	28,160	(1,100)	42,221	930	(1,367)	(95)	-	(532)	1,144	42,833
Net income for the year	-	-	-	2,686	-	2,686	-	-	-	-	-	-	2,686
Cash dividends	-	-	-	(579)	-	(579)	-	-	-	-	-	-	(579)
Change of scope of consolidation	-	-	-	106	-	106	-	-	-	-	-	-	106
Purchase of treasury stock and fractional shares, net	-	-	-	-	(4)	(4)	-	-	-	-	-	-	(4)
Reversal of land revaluation decrement	-	-	-	136	-	136	-	-	-	-	-	-	136
Net changes other than shareholders' equity	-	-	-	-	-	-	268	(136)	229	(362)	(1)	(71)	(72)
Balance at March 31, 2014	67,142,417	¥ 8,428	¥ 6,733	¥ 30,509	¥ (1,104)	¥ 44,566	¥ 1,198	¥ (1,503)	¥ 134	¥ (362)	¥ (533)	¥ 1,073	¥ 45,106
		Thousands of U.S. dollars											
Balance at March 31, 2013		$ 82,627	$ 66,010	$ 276,079	$ (10,784)	$ 413,932	$ 9,118	$ (13,402)	$ (931)	$ -	$ (5,215)	$ 11,215	$ 419,932
Net income for the year		-	-	26,333	-	26,333	-	-	-	-	-	-	26,333
Cash dividends		-	-	(5,676)	-	(5,676)	-	-	-	-	-	-	(5,676)
Change of scope of consolidation		-	-	1,039	-	1,039	-	-	-	-	-	-	1,039
Purchase of treasury stock and fractional shares, net		-	-	-	(39)	(39)	-	-	-	-	-	-	(39)
Reversal of land revaluation decrement		-	-	1,333	-	1,333	-	-	-	-	-	-	1,333
Net changes other than shareholders' equity		-	-	-	-	-	2,627	(1,333)	2,245	(3,549)	(10)	(696)	(706)
Balance at March 31, 2014		$ 82,627	$ 66,010	$ 299,108	$ (10,823)	$ 436,922	$ 11,745	$ (14,735)	$ 1,314	$ (3,549)	$ (5,225)	$ 10,519	$ 442,216

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,401	¥ 3,313	$ 43,147
Adjustments for:			
Depreciation	2,661	2,638	26,088
Net change in employee retirement benefit asset/liability	(779)	(720)	(7,637)
Gain (loss) on sale or disposal of property and equipment	(17)	17	(167)
Impairment loss on fixed assets	-	648	-
Decrease in trade receivables	694	274	6,804
(Increase) decrease in inventories	(11)	8	(108)
Increase (decrease) in trade payables	171	(655)	1,676
Others, net	(472)	(1,342)	(4,627)
Sub-total	6,648	4,181	65,176
Interest and dividend received	532	604	5,216
Interest paid	(275)	(297)	(2,696)
Income taxes paid	(1,012)	(1,597)	(9,922)
Net cash provided by operating activities	5,893	2,891	57,774
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(3,412)	(2,624)	(33,451)
Decrease in property and equipment and intangible assets	301	147	2,951
Decrease in short-term investments	278	185	2,725
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(96)	-	(941)
Others, net	241	133	2,363
Net cash used in investing activities	(2,688)	(2,159)	(26,353)
Cash flows from financing activities:			
Increase in long-term debt	4,550	6,900	44,608
Repayment of long-term debt	(4,376)	(7,722)	(42,902)
Decrease in short-term borrowings	(223)	(100)	(2,187)
Purchase of treasury stock and fractional shares, net	(4)	(1)	(39)
Dividends paid	(579)	(579)	(5,676)
Others, net	(246)	(318)	(2,412)
Net cash used in financing activities	(878)	(1,820)	(8,608)
Effect of exchange rate changes on cash and cash equivalents	267	174	2,618
Net increase (decrease) in cash and cash equivalents	2,594	(914)	25,431
Cash and cash equivalents at beginning of year	9,875	10,789	96,814
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	179	-	1,755
Cash and cash equivalents at end of year	¥ 12,648	¥ 9,875	$ 124,000

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 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, has not been 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, 2014, which was approximately ¥102 to U.S. $1.00. Such 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 certain unconsolidated subsidiaries and significant affiliates are accounted for using the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for using 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 numbers of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2014 and 2013 were as follows.

	2014	2013
Consolidated subsidiaries:		
Domestic	23	24
Overseas	5	3
Unconsolidated subsidiaries and affiliates accounted for using the equity method	9	8
Unconsolidated subsidiaries stated at cost	12	14
Affiliates stated at cost	4	4

All intercompany accounts and transactions have been eliminated on consolidation.

The accompanying consolidated financial statements include the accounts of overseas consolidated subsidiaries (five subsidiaries in 2014). These overseas consolidated subsidiaries close their books at December 31, which is three months earlier than the closing of the books of the Company or its domestic consolidated subsidiaries. The Company consolidated its overseas subsidiaries' financial statements as of their year-end date. Significant transactions for the period between the subsidiaries' year-end date and the Company's year-end date have been adjusted 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" issued by the Accounting Standards Board of Japan ("ASBJ") (Practical Issues Task Force ("PITF") No. 18) generally requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances be unified for the preparation of the consolidated financial statements. As a tentative measure, however, PITF No. 18 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 five items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP, unless such 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) Accounting for net income attributable to minority interests

The accounts of the Company's overseas consolidated subsidiaries were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments having been made for the five items specified above as needed.

(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" securities for the purpose of determining the applicable accounting method as stipulated by the accounting standard for financial instruments. Marketable available-for-sale securities with available market quotations 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 or losses on the disposition of available-for-sale securities are computed based on the moving-average method. Non-marketable available-for-sale securities without available market quotations 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 gains or losses on the derivatives are recognized in current earnings. Under 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 consist of supplies and others. Supplies are stated at cost using the moving-average method.

(f) Allowance for doubtful accounts

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

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

Property and equipment, including significant renewals and additions, are stated at cost, and are depreciated principally using the declining-balance method at rates based on the estimated useful life of the asset. Buildings acquired on or after April 1, 1998 are depreciated using the straight-line method.
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 ($980 thousand) for the years ended March 31,2014 and 2013.

(Change in accounting policies with amendment of respective law or regulation that is not distinguishable from change in accounting estimates)
From the year ending March 31, 2013, in accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries have changed its depreciation method for property and equipment. Assets acquired on or after April 1, 2012 have been depreciated using the method prescribed in the amended Corporate Tax Law of Japan. Such change did not have a material effect on operating income or income before taxes and minority interests.

(h) Accounting for leases

Assets of finance leases that transfer ownership of the leased property to the lessee are depreciated using the same method for property.
Assets of finance leases that do not transfer ownership of the leased property to lessee are depreciated over the lease term using the straight-line method with the assumption that the residual value (or guaranteed residual value when set by agreement) is zero.
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, provided they disclosed certain “as if capitalized” information in the notes to the consolidated financial statements.
The Company and its domestic consolidated subsidiaries have adopted ASBJ Statement No. 13, entitled the “Accounting Standard for Lease Transactions,” and ASBJ Guidance No. 16, entitled the “Guidance on Accounting Standard for Lease Transactions.” The accounting standard requires that all finance lease transactions be treated as capital leases. As permitted, finance leases which do not transfer ownership of leased property to the lessee that commenced prior to April 1, 2008

and have been accounted for as operating leases continue to be accounted for as such provided that certain “as if capitalized” information thereof have been disclosed.

(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 related practical guidance issued by ASBJ. The standard requires that a fixed asset be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. Impairment loss is to be recognized in the income statement by reducing the carrying amount of an impaired asset or group of assets to the recoverable amount, measured at the higher of the 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 separate from those of other groups of assets. For the purpose of recognition and measurement of impairment loss, fixed assets other than idle or unused property are principally grouped into cash-generating units such as regional business divisions and the like. With respect to a certain golf club, the recoverable amount was measured based on the value in use calculated using discounted future cash flows by an interest rate of 3.67%. While the Japan Transcity Group recognized no impairment loss for the year ended March 31, 2014, the Japan Transcity Group recognized impairment loss on a certain golf club for the year ended March 31, 2013 as follows.

	Millions of Yen
Buildings and structures	¥ 199
Land	449
	¥ 648

(j) Revaluation of land

In accordance with the Law Concerning Revaluation of Land (the “Revaluation Law”), the Company elected a 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. In accordance with the Revaluation Law, an amount equivalent to the tax effect on the difference between the original book value and the reassessed value was recorded as deferred tax liability under the revaluation account. The remaining difference, net of the tax effect and minority interests’ portions, was recorded as a component of the net assets under land revaluation decrement account in the accompanying consolidated balance sheets. At March 31, 2014 and 2013, the differences of the carrying value of land used for the Company’s business after reassessment over the current market value at the fiscal year-end amounted to ¥8,898 million ($87,235 thousand) and ¥8,842 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 has occurred.

In accordance with the accounting standard for employee retirement benefits, the Japan Transcity Group recognizes retirement benefits for employees, including pension costs and related liabilities, based on the actuarial present value of retirement benefit obligation using the actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-end.
Actuarial differences arising from changes in the retirement benefit obligation or pension plan

assets not anticipated under previous assumptions or from changes in the assumptions themselves are amortized on a straight-line basis over 10 years, a period within the remaining service years of the employees, measured from the year after such differences arise. Past service cost is amortized using the straight-line method over 10 years, measured from the year in which such cost arises.
Some consolidated subsidiaries provide accrued retirement benefits for their employees mainly at the amounts of the projected benefit obligations calculated by the simplified method.

Effective from the year ended March 31, 2014, the Company and its domestic consolidated subsidiaries have applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 ("Statement No. 26")) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012 ("Guidance No. 25")), with the exceptions of Article 35 of Statement No. 26 and Article 67 of Guidance No. 25, and, accordingly, actuarial differences and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as employee retirement benefit liability.
In accordance with Article 37 of Statement No. 26, this accounting change has not been retrospectively applied to the consolidated financial statements in prior years, and the effect of the change in accounting policies arising from initial application has been recognized in retirement benefit adjustment in accumulated other comprehensive income.
As a result of the application, employee retirement benefit asset in the amount of ¥2,961 million ($29,029 thousand) and employee retirement benefit liability in the amount of ¥1,839 million ($18,030 thousand) have been recognized and a credit balance of accumulated other comprehensive income of ¥362 million ($3,549 thousand) was recorded at March 31, 2014.

(l) Accrued severance indemnities for directors

Some domestic consolidated subsidiaries may pay severance indemnities to directors, which are subject to the approval of the shareholders. Some domestic consolidated subsidiaries have provided for the full amounts of liabilities for directors' 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 assets and liabilities 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 have been reported as foreign currency translation adjustments under 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 as future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. 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 promulgation 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, and such taxes are included in operating costs and expenses.

(p) Appropriation 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

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. 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 was not presented as of March 31, 2014 or 2013 due to the lack of any dilutive shares.

(r) Yet to be applied accounting standard

The following standards and guidance have been issued but not yet adopted under the accompanying consolidated financial statements.

(Accounting standard for retirement benefits)
ASBJ issued Statement No. 26 and Guidance No. 25 on May 17, 2012, which will replace the current standards and related practical guidance. The revised standards amend the determination of retirement benefit obligations and current service costs and enhancement of disclosures from the viewpoint of improvements to financial reporting and international convergence. The Japan Transcity Group will adopt the revised standard in relation to the method for calculating retirement benefit obligation and current service costs effective from the beginning of the fiscal year ending March 31, 2015. As a result of the application, operating income and income before income tax and minority interests will decrease by ¥51 million ($500 thousand) for the year ending March 31, 2015.

(Accounting standard for business combination)
ASBJ issued revised ASBJ Statement No. 21, entitled the “Accounting Standard for Business Combinations,” revised ASBJ Guidance No. 10, entitled the “Guidance on Accounting Standard for Business Combinations and Business Divestitures,” and revised ASBJ Statement No. 22, entitled the “Accounting Standard for Consolidated Financial Statements,” on September 13, 2013.
Under these revised accounting standards, the accounting treatment for changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary through additional acquisition of shares therein and for acquisition-related costs were amended. In addition, the presentation method of net income was amended, “minority interests” was amended to “non-controlling interest,” and transitional provisions for accounting treatments were defined.
The Company expects to apply these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016. However, the transitional provisions for accounting treatments will be applied for business combination performed on or after the beginning of the fiscal year ending March 31, 2016.
The Company is currently in the process of assessing the impact of these standards on the consolidated financial statements.

3. Fair values of financial instruments

(a) Qualitative information on financial instruments

① Policies for using financial instruments

The fund operation of the Company is limited to short-term deposits, and the Company raises fund through bank loans and bond issuances. Derivative instruments are mainly used to hedge against variable interest rate risk and to compensate a loss when an earthquake occurs, and are not used for speculative purpose.

② Details of financial instruments, risks and risk management system

Trade receivables (notes and accounts) carry a credit risk of trading partners. In response to such risk, pursuant to internal regulations of the Company, the due dates and balances of such receivables are managed appropriately for each counterparty and the credit risks of main trading partners are identified every half year.

Although investments in securities are exposed to market price fluctuation risk, the Company stays abreast of the fair values of shares of companies with which the Company has business relationships on a regular basis.

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 operational dealings and long-term debt fund capital investment.

Loans with variable interest rates 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 and the like, in the normal course of business to reduce its own exposure to fluctuations in interest rates. Evaluating the effectiveness of the hedge has not been required because of the exceptional treatment of interest rate swaps.

Guarantee deposits received consist mainly of deposit money for golf club memberships.

The Company enters into derivative contracts 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 fund of the Japan Transcity Group as a whole.

③ Supplemental information on fair values

The contract amounts of derivative instruments under Note 3 (Fair Values of Financial Instruments) do not necessarily represent the market risk in themselves.

(b) Fair values of financial instruments

The carrying values of financial instruments included in the consolidated balance sheet and their fair values at March 31, 2014 and 2013 were as follows. Some financial instruments were excluded because it was extremely difficult to identify their fair values.

	Carrying value		Fair value		Difference	
			Millions of yen			
At March 31, 2014:						
(1) Cash and cash equivalents	¥	12,648	¥	12,648	¥	-
(2) Short-term investments		48		48		-
(3) Trade receivables		13,404		13,404		-
(4) Investment securities						
Marketable securities		5,894		5,894		-
Total assets	¥	31,994	¥	31,994	¥	-
(1) Trade payables	¥	7,728	¥	7,728	¥	-
(2) Short-term borrowings		2,594		2,594		-
(3) Long-term debt		22,340		22,156		(184)
Total liabilities	¥	32,662	¥	32,478	¥	(184)
At March 31, 2013:						
(1) Cash and cash equivalents	¥	9,875	¥	9,875	¥	-
(2) Short-term investments		136		136		-
(3) Trade receivables		13,832		13,832		-
(4) Investment securities						
Marketable securities		5,469		5,469		-
Total assets	¥	29,312	¥	29,312	¥	-
(1) Trade payables	¥	7,374	¥	7,374	¥	-
(2) Short-term borrowings		2,741		2,741		-
(3) Long-term debt		22,162		22,103		(59)
Total liabilities	¥	32,277	¥	32,218	¥	(59)

	Carrying value		Fair value		Difference	
			Thousands of U.S. dollars			
At March 31, 2014:						
(1) Cash and cash equivalents	$	124,000	$	124,000	$	-
(2) Short-term investments		471		471		-
(3) Trade receivables		131,412		131,412		-
(4) Investment securities						
Marketable securities		57,784		57,784		-
Total assets	$	313,667	$	313,667	$	-
(1) Trade payables	$	75,765	$	75,765	$	-
(2) Short-term borrowings		25,431		25,431		-
(3) Long-term debt		219,019		217,216		(1,803)
Total liabilities	$	320,215	$	318,412	$	(1,803)

Note 1. Method of calculating the fair values 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 approximate their 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, see Note 4.

Liabilities

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

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

(3) Long-term debt

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

Derivatives

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

② Derivative transactions to which hedge accounting was applied: the contract amounts or amounts equivalent to the principal set forth in the contracts as of the fiscal year-end date were as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Contract amount	¥ 10,066	¥ 10,274	$ 98,686
Contract amount due after one year	9,500	8,236	93,137
Fair value	(97)	(147)	(951)

Method of hedge accounting applied: exceptional treatment for interest rate swap

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

Hedged item: long-term debt

The Company used prices presented by the applicable financial institutions.

Note 2. Financial instruments whose fair values could not be reliably determined

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Non-marketable securities (*1)	¥ 374	¥ 467	$ 3,667
Guarantee deposits received (*2)	¥ 3,401	¥ 3,547	$ 33,343
Derivative relating to earthquakes (*3)	¥ 17	¥ 17	$ 167

(*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 flows cannot be estimated. Therefore, they were excluded from item (4) (Investment securities) above.

(*2) It is extremely difficult to determine the fair values of guarantee deposits received because their scheduled redemption amounts 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 ($2,941 thousand) at both March 31, 2014 and 2013. As the fair value for such a contract was not considered determinable, such contract has not been accounted for at fair value.

Note 3. Scheduled redemption amounts after the fiscal year-end date for monetary claims and securities with maturity periods

	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	
	2014		2013		2014	
Cash and cash equivalents	¥ 12,648	¥ -	¥ 9,875	¥ -	$ 124,000	$ -
Short-term investments	48	-	136	-	471	-
Trade receivables	13,404	-	13,832	-	131,412	-
Total	¥ 26,100	¥ -	¥ 23,843	¥ -	$ 255,883	$ -

4. Investments

At March 31, 2014 and 2013, short-term investments consisted of time deposits with an original maturity of more than three months.
At March 31, 2014 and 2013, investment securities consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Marketable securities:			
Equity securities	¥ 5,885	¥ 5,460	$ 57,696
Other	9	9	88
	5,894	5,469	57,784
Other non-marketable securities	374	467	3,667
	¥ 6,268	¥ 5,936	$ 61,451

Marketable investment securities classified as available-for-sale securities are stated at fair value with unrealized gains and losses excluded from current earnings and reported as net amount within net assets until realized. At March 31, 2014 and 2013, gross unrealized gains and losses for marketable securities classified as available-for-sale securities were as follows.

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of yen			
Available-for-sale securities at March 31, 2014:				
Equity securities	¥ 3,957	¥ 2,095	¥ (167)	¥ 5,885
Other	9	0	-	9
	¥ 3,966	¥ 2,095	¥ (167)	¥ 5,894
Available-for-sale securities at March 31, 2013:				
Equity securities	¥ 3,945	¥ 1,740	¥ (225)	¥ 5,460
Other	9	-	(0)	9
	¥ 3,954	¥ 1,740	¥ (225)	¥ 5,469

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. dollars			
Available-for-sale securities at March 31, 2014:				
Equity securities	$ 38,794	$ 20,539	$ (1,637)	$ 57,696
Other	88	0	-	88
	$ 38,882	$ 20,539	$ (1,637)	$ 57,784

5. Short-term Borrowings and Long-term Debt

At March 31, 2014 and 2013, short-term borrowings consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term bank loans and bank overdrafts with interest rates ranging from 0.30% to 5.60% per annum at March 31, 2014:			
Unsecured	¥ 2,594	¥ 2,741	$ 25,431

At March 31, 2014 and 2013, long-term debt consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Long-term loans from banks and other financial institutions due through 2022 with interest rates ranging from 0.21% to 6.50% per annum at March 31, 2014:			
Collateralized	¥ 257	¥ 287	$ 2,519
Unsecured	22,083	21,875	216,500
	22,340	22,162	219,019
Less portions with current maturities	(1,278)	(4,374)	(12,529)
	¥ 21,062	¥ 17,788	$ 206,490

The aggregate amounts of long-term debt due annually at March 31, 2014 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 1,278	$ 12,529
2016	8,113	79,539
2017	1,612	15,804
2018	462	4,529
2019	612	6,000
2020 and thereafter	10,263	100,618
	¥ 22,340	$ 219,019

The aggregate amounts of long-term lease obligations, which were other current liabilities and other long-term liabilities, due annually at March 31, 2014 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 268	$ 2,627
2016	238	2,333
2017	203	1,990
2018	120	1,177
2019	42	412
2020 and thereafter	7	69
	¥ 878	$ 8,608

At March 31, 2014 and 2013, the following assets were pledged as collateral.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Time deposits included in short-term investments	¥ -	¥ 13	$ -
Buildings and structures	509	556	4,990

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 guarantees (and additional collateral or guarantees, as appropriate) with respect to loans and that all assets pledged as collateral under such agreements will be used as collateral for all present and future indebtedness to the bank concerned. The Japan Transcity Group has not yet 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 such banks against indebtedness due to such banks.

6. Employee Retirement Benefits

The Company has defined benefit retirement plans. Some of the consolidated subsidiaries have defined benefit plans to which the simplified method is applied. In addition, two consolidated subsidiaries have a defined contribution pension plan under certain pension funds organized by third parties.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at and for the year ended March 31, 2013.

	Millions of yen
Reconciliation of benefit liability:	
Retirement benefit obligation	¥ 10,247
Less fair values of pension plan assets at end of year	(10,029)
	218
Unrecognized actuarial differences (losses)	(1,294)
Unrecognized past service cost of retroactive benefits granted by the pension plan amendment	177
Accrued retirement and severance benefits	(899)
Prepaid pension cost	2,369
Provision for employee retirement benefits recognized in the consolidated balance sheets	¥ 1,470

Note: Retirement benefit obligations of certain consolidated subsidiaries were calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

	Millions of yen
Components of net periodic retirement benefit expense:	
Service cost	¥ 428
Interest cost	172
Expected return on pension plan assets	(166)
Amortization of actuarial differences	165
Amortization of past service cost	(60)
Net periodic retirement benefit expense	¥ 539

Major assumptions used in the calculation of the above information for the year ended March 31, 2013 were as follows.

Method to attribute projected benefits to periods of service	Straight-line method
Discount rate	1.4%
Expected rate of return on pension plan assets	2.0%
Amortization of actuarial differences	10 years
Amortization of past service cost	10 years

The following table reconciles the benefit liability (assets) and net periodic retirement benefit expense as at and for the year ended March 31, 2014.

Defined benefit plans excepting those to which the simplified method has been applied:

	Millions of yen	Thousands of U.S. dollars
Movement in retirement benefit obligations		
Balance at April 1, 2013	¥ 8,277	$ 81,147
Service cost	305	2,990
Interest cost	117	1,147
Actuarial differences	39	383
Benefits paid	(876)	(8,588)
Other	(1)	(10)
Balance at March 31, 2014	¥ 7,861	$ 77,069
Movement in plan assets		
Balance at April 1, 2013	¥ 9,009	$ 88,323
Expected return on plan assets	127	1,245
Actuarial differences	679	6,657
Contributions paid by the employer	920	9,020
Benefits paid	(783)	(7,676)
Other	(1)	(10)
Balance at March 31, 2014	¥ 9,951	$ 97,559

	Millions of yen	Thousands of U.S. dollars
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits		
Funded retirement benefit obligations	¥ 7,022	$ 68,843
Plan assets	(9,951)	(97,559)
	¥ (2,929)	$ (28,716)
Unfunded retirement benefit obligations	839	8,226
Total net liability (asset) for employee retirement benefit at March 31, 2014	¥ (2,090)	$ (20,490)
Employee retirement benefit liability	849	8,324
Employee retirement benefit asset	(2,939)	(28,814)
Total net liability (asset) for retirement benefits at March 31, 2014	¥ (2,090)	$ (20,490)

	Millions of yen	Thousands of U.S. dollars
Retirement benefit costs		
Service cost	¥ 305	$ 2,990
Interest cost	117	1,147
Expected return on plan assets	(127)	(1,245)
Actuarial differences amortization	(20)	(196)
Past service costs amortization	(60)	(588)
Total retirement benefit costs for fiscal year ended March 31, 2014	¥ 215	$ 2,108

	Millions of yen		Thousands of U.S. dollars	
Accumulated adjustments for retirement benefit				
Actuarial differences that are yet to be recognized	¥	(118)	$	(1,157)
Past service costs that are yet to be recognized		672		6,588
Total balance at March 31, 2014	¥	554	$	5,431

Plan assets

(1) Plan assets

Bonds	9%
Equity securities	35%
General account	15%
Commingled funds	29%
Other	12%
Total	100%

Assets under the retirement benefit trust set up for corporate pension plans account for 35% of the total plan assets.

Commingled funds consist of bonds (65%) and equity securities (35%).

(2) Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Principal actuarial assumptions at March 31, 2014 (expressed as weighed averages)

Discount rate	1.4%
Long-term expected rate of return	1.4%

Defined benefit plans to which the simplified method has been applied:

	Millions of yen		Thousands of U.S. dollars	
Movement in liability for retirement benefits				
Balance at April 1, 2013	¥	947	$	9,284
Retirement benefit costs		157		1,539
Benefits paid		(42)		(412)
Contributions paid by employer		(96)		(941)
Other		1		10
Balance at March 31, 2014	¥	967	$	9,480

	Millions of yen		Thousands of U.S. dollars	
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits				
Funded retirement benefit obligations	¥	1,884	$	18,471
Plan assets		(1,104)		(10,824)
	¥	780	$	7,647
Unfunded retirement benefit obligations		187		1,833
Total net liability (asset) for employee retirement benefit at March 31, 2014	¥	967	$	9,480
Employee retirement benefit liability		990		9,706
Employee retirement benefit asset		(23)		(226)
Total net liability (asset) for retirement benefit at March 31, 2014	¥	967	$	9,480

Total retirement benefit costs for the fiscal year ended March 31, 2014 based on the simplified method	¥	157	$	1,539

7. Net Assets

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 prices of the new shares as additional paid-in capital, which is included in capital surplus.
Under the Corporate Law, in cases where a dividend distribution of surplus is made, the smaller of the 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. The legal earnings reserve has been included in retained earnings in the accompanying consolidated balance sheets.

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

At both March 31, 2014 and 2013, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included the legal earnings reserve of the Company in the amount of ¥1,200 million ($11,765 thousand) at both March 31, 2014 and 2013.

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, 2014, the Company paid interim dividends of ¥4.00 per share. In addition, at the annual shareholders' meeting held on June 27, 2014, the shareholders approved cash dividends of ¥5.00 per share amounting to ¥322 million ($3,157 thousand). These appropriations have not yet been accrued in the consolidated financial statements as of March 31, 2014 as such appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent Liabilities

At March 31, 2014 and 2013, the Japan Transcity Group was contingently liable for guarantees of indebtedness of others in the amounts of ¥306 million ($3,000 thousand) and ¥467 million, respectively. Such amounts included reserved guarantees of unconsolidated subsidiaries in the amounts of ¥279 million ($2,735 thousand) and ¥306 million at March 31, 2014 and 2013, 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.

For the years ended March 31, 2014 and 2013, lease expenses under non-cancelable lease agreements which were categorized as finance leases entered into before March 31, 2008 amounted to ¥271 million ($2,657 thousand) and ¥317 million, respectively.

The aggregate future minimum payments for non-cancelable operating leases and finance leases, including imputed interest, at March 31, 2014 and 2013 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Operating leases:			
Due within one year	¥ 1,016	¥ 1,032	$ 9,961
Due after one year	1,840	2,797	18,039
	¥ 2,856	¥ 3,829	$ 28,000
Finance leases, which were entered into before March 31, 2008 and not capitalized :			
Due within one year	¥ 218	¥ 271	$ 2,137
Due after one year	316	534	3,098
	¥ 534	¥ 805	$ 5,235

10. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Enterprise tax accruals	¥ 54	¥ 32	$ 529
Accrued bonuses to employees	353	369	3,461
Provision for employee retirement benefits	-	564	-
Employee retirement benefit liability	479	-	4,696
Accrued severance indemnities for directors	7	5	68
Long-term accounts payable	27	40	265
Intercompany capital gains	265	275	2,598
Net operating loss carry-forwards	262	244	2,569
Impairment loss on fixed assets	1,286	1,288	12,608
Others	432	373	4,235
	3,165	3,190	31,029
Less valuation allowance	(1,651)	(1,598)	(16,186)
Deferred tax assets	1,514	1,592	14,843
Deferred tax liabilities:			
Deferred capital gain	910	952	8,921
Unrealized gains on available-for-sale securities	679	535	6,657
Others	505	407	4,951
Deferred tax liabilities	2,094	1,894	20,529
Net deferred tax liabilities	¥ (580)	¥ (302)	$ (5,686)

At March 31, 2014 and 2013, deferred tax assets and liabilities were as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Current	¥ 374	¥ 450	$ 3,667
Non-current	653	658	6,402
Deferred tax liabilities:			
Non-current	1,607	1,410	15,755

In assessing the realizability of deferred tax assets, management of the Japan Transcity Group considers whether part or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At March 31, 2014 and 2013, a valuation allowance was provided to reduce the deferred tax assets to amounts management believed would be realizable.

Reconciliations for the differences 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 years ended March 31, 2013 were as follows.

	Percentage of pre-tax income
Japanese statutory effective tax rate	37.5%
Increase (decrease) due to:	
Permanently non-deductible expenses	1.6
Tax exempt income	(3.9)
Local minimum taxes per capita levy	1.2
Equity in net earnings of unconsolidated subsidiaries and affiliates	(5.8)
Valuation allowance	(7.0)
Others	2.2
Actual effective income tax rate	39.8%

Reconciliation for the year ended March 31, 2014 was not disclosed because the difference was immaterial.

Adjustment of deferred tax assets and liabilities due to change in income tax rate
The "Act on Partial Amendment to the Income Tax Act" (Act No. 10 of 2014) was promulgated on March 31, 2014, and, accordingly, the special corporate tax for reconstruction has been abolished from the fiscal year beginning on or after April 1, 2014.
Due to this change, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities for temporary differences expected to expire or be deducted or taxed in the fiscal year beginning on April 1, 2014 has been revised from the previous rate of 37.5% to 35.1%.
Such change did not have a material effect on operating income or income before taxes and minority interests for the year ended March 31, 2014.

11. Comprehensive income

The amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized gains on available-for-sale securities			
Increase (decrease) during the year	¥ 417	¥ 1,031	$ 4,088
Reclassification adjustments to profit or loss	¥ 0	¥ -	$ 0
Sub-total, before tax	¥ 417	¥ 1,031	$ 4,088
Tax (expense) or benefit	¥ (147)	¥ (363)	$ (1,441)
Sub-total, net of tax	¥ 270	¥ 668	$ 2,647
Foreign currency translation adjustment			
Increase (decrease) during the year	¥ 302	¥ 181	$ 2,961
Share of other comprehensive income of affiliates accounted for using equity method			
Increase (decrease) during the year	¥ 13	¥ 12	$ 127
Total other comprehensive income	¥ 585	¥ 861	$ 5,735

12. Related Party Transaction

ASBJ Statement No. 11, entitled the “Accounting Standard for Related Party Disclosures,” and ASBJ Guidance No. 13, entitled the “Guidance on Accounting Standard for Related Party Disclosures,” both issued by ASBJ on October 17, 2006, require certain additional related party disclosures. Pursuant thereto, information on Chubu Coal Center Co., Ltd. has been disclosed for the year ended March 31, 2013.

	Millions of yen
Total current assets	¥ 665
Total fixed assets	¥ 10,225
Total current liabilities	¥ 2,680
Total fixed liabilities	¥ 1,938
Total net assets	¥ 6,272
Operating revenue	¥ 3,102
Income before income taxes	¥ 850
Net income	¥ 530

The information for the year ended March 31, 2014 was not disclosed because the amount was immaterial.

13. 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 which are examined regularly by the board of directors to evaluate their business performance. The Japan Transcity Group provides mainly integrated logistics services that consist of warehousing, coastal shipping, trucking and international multimodal transportation. Therefore, the Japan Transcity Group's reported segment is of "Integrated Logistics Services."

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

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

As disclosed under Note 2(g) (Property and equipment, and depreciation (except for leases)), the Company and its domestic consolidated subsidiaries changed the depreciation method for property and equipment acquired on or after April 1, 2013 to the method provided under the amended Corporate Tax Law of Japan. This change did not have a material effect on operating income.

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

Information by segment for the years ended March 31, 2014 and 2013 are as follows.

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Millions of yen				
For the year ended March 31, 2014:					
Operating revenue:					
External customers	¥ 87,579	¥ 1,028	¥ 88,607	¥ -	¥ 88,607
Intersegment sales	27	1,047	1,074	(1,074)	-
Total operating revenue	87,606	2,075	89,681	(1,074)	88,607
Operating income	¥ 3,512	¥ 93	¥ 3,605	¥ 33	¥ 3,638
Identifiable assets	¥ 94,783	¥ 1,747	¥ 96,530	¥ (981)	¥ 95,549
Depreciation	2,611	50	2,661	-	2,661
Investments in affiliates accounted for using the equity method	5,480	-	5,480	-	5,480
Capital expenditures	4,761	33	4,794	-	4,794
Amortization of negative goodwill	7	-	7	-	7
Negative goodwill	-	-	-	-	-
For the year ended March 31, 2013:					
Operating revenue:					
External customers	¥ 83,653	¥ 1,045	¥ 84,698	¥ -	¥ 84,698
Intersegment sales	26	1,082	1,108	(1,108)	-
Total operating revenue	83,679	2,127	85,806	(1,108)	84,698
Operating income	¥ 3,027	¥ 99	¥ 3,126	¥ (10)	¥ 3,116
Identifiable assets	¥ 89,922	¥ 1,730	¥ 91,652	¥ (791)	¥ 90,861
Depreciation	2,586	52	2,638	-	2,638
Investments in affiliates accounted for using the equity method	4,869	-	4,869	-	4,869
Capital expenditures	3,126	147	3,273	-	3,273
Impairment loss on fixed assets	-	648	648	-	648
Amortization of negative goodwill	7	-	7	-	7
Negative goodwill	7	-	7	-	7

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Thousands of U.S. dollars				
For the year ended March 31, 2014:					
Operating revenue:					
External customers	$ 858,618	$ 10,078	$ 868,696	$ -	$ 868,696
Intersegment sales	264	10,265	10,529	(10,529)	-
Total operating revenue	858,882	20,343	879,225	(10,529)	868,696
Operating income	$ 34,431	$ 912	$ 35,343	$ 324	$ 35,667
Identifiable assets	$ 929,245	$ 17,127	$ 946,372	$ (9,617)	$ 936,755
Depreciation	25,598	490	26,088	-	26,088
Investments in affiliates accounted for using the equity method	53,725	-	53,725	-	53,725
Capital expenditures	46,676	324	47,000	-	47,000
Amortization of negative goodwill	69	-	69	-	69
Negative goodwill	-	-	-	-	-

Note: For the year ended March 31, 2013, impairment loss on fixed assets arose with respect to the golf club business. This amount was included in “Others” in the above table.

(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, 2014:					
Operating revenue to external customers	¥ 34,597	¥ 21,103	¥ 17,164	¥ 14,715	¥ 87,579
For the year ended March 31, 2013					
Operating revenue to external customers	¥ 33,958	¥ 21,122	¥ 16,722	¥ 11,851	¥ 83,653
	Thousands of U.S. dollars				
For the year ended March 31, 2014					
Operating revenue to external customers	$ 339,186	$ 206,892	$ 168,275	$ 144,265	$ 858,618

2. Information about geographic areas

(1) Operating revenue

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

(2) Property, plant and equipment

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

3. Information about major customers

Information on operating revenue from major customers for the years ended March 31, 2014 and 2013 are as follows.

Customer's name	Relevant reportable segment	Millions of Yen		Thousands of U.S. Dollars
		2014	2013	2014
Aeon Global SCM Co., Ltd.	Integrated logistics services	¥ 10,015	¥ 9,182	$ 98,186

(Gains arising from negative goodwill)

The Company has omitted information by segment on gains arising from negative goodwill due to the negligible importance of such information.