Japan Transcity Corporation

Consolidated Financial Statements

March 31, 2016 and 2015

KPMG

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, 2016 and 2015, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2016 and 2015, 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, 2016 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 29, 2016
Nagoya, Japan

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets:			
Cash and cash equivalents (Note 3)	¥ 10,660	¥ 11,653	$ 95,179
Short-term investments (Notes 3 and 4)	369	40	3,295
Trade receivables (Note 3)	13,505	13,767	120,580
Allowance for doubtful accounts	(14)	(15)	(125)
	13,491	13,752	120,455
Inventories	88	90	786
Deferred tax assets (Note 10)	374	411	3,339
Other current assets	1,826	2,109	16,303
Total current assets	26,808	28,055	239,357
Property and equipment:			
Land (Note 5)	31,008	31,234	276,857
Buildings and structures	53,434	52,862	477,089
Machinery and equipment	13,098	12,889	116,946
Vehicles and vessels	6,905	6,694	61,652
Construction in progress	1,681	270	15,009
Total property and equipment	106,126	103,949	947,553
Less accumulated depreciation	(54,851)	(52,865)	(489,741)
Net property and equipment	51,275	51,084	457,812
Investments and other assets:			
Investment securities (Notes 3 and 4)	8,023	7,930	71,634
Investments in unconsolidated subsidiaries and affiliates (Note 3)	6,300	6,236	56,250
Employee retirement benefit asset (Note 6)	2,440	4,254	21,786
Deferred tax assets (Note 10)	618	602	5,518
Lease deposits	630	551	5,625
Other assets	1,609	1,507	14,366
Allowance for doubtful accounts	(15)	(16)	(134)
Total investments and other assets	19,605	21,064	175,045
Total assets	¥ 97,688	¥ 100,203	$ 872,214

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥ 2,457	¥ 2,467	$ 21,937
Current maturities of long-term debt (Notes 3 and 5)	1,742	8,242	15,554
Trade payables (Note 3)	8,113	8,234	72,437
Accrued expenses	1,662	1,649	14,839
Income taxes payable	687	311	6,134
Other current liabilities	3,185	2,382	28,438
Total current liabilities	17,846	23,285	159,339
Long-term liabilities:			
Long-term debt (Notes 3 and 5)	17,698	14,440	158,018
Employee retirement benefit liability (Note 6)	1,860	1,811	16,607
Guarantee deposits received (Notes 3 and 5)	2,949	3,148	26,330
Deferred tax liabilities for revaluation	3,850	4,118	34,375
Deferred tax liabilities (Note 10)	1,967	2,615	17,562
Accrued severance indemnities for directors	18	14	161
Other long-term liabilities	508	696	4,536
Total long-term liabilities	28,850	26,842	257,589
Total liabilities	46,696	50,127	416,928
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	75,250
Capital surplus	6,751	6,733	60,277
Retained earnings	35,324	32,771	315,393
Less treasury stock, at cost: 3,031,834 shares in 2016 and 2,824,885 shares in 2015	(1,198)	(1,107)	(10,697)
Total shareholders' equity	49,305	46,825	440,223
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	1,410	2,335	12,589
Land revaluation decrement	(1,009)	(1,075)	(9,009)
Foreign currency translation adjustment	332	434	2,964
Retirement benefit adjustment (Note 6)	(620)	73	(5,535)
Total accumulated other comprehensive income	113	1,767	1,009
Non-controlling interests	1,574	1,484	14,054
Total net assets	50,992	50,076	455,286
Total liabilities and net assets	¥ 97,688	¥ 100,203	$ 872,214

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Operating revenue (Note 12)	¥ 93,218	¥ 92,497	$ 832,304
Operating costs and expenses (Notes 6 and 9)	89,436	89,390	798,536
Operating income	3,782	3,107	33,768
Other income (expenses):			
Interest and dividend income	444	401	3,964
Interest expenses	(197)	(241)	(1,759)
Equity in net earnings of unconsolidated subsidiaries and affiliates	386	543	3,446
Gain (loss) on sale or disposal of property and equipment	34	(3)	304
Others, net	103	243	920
	770	943	6,875
Income before income taxes	4,552	4,050	40,643
Income taxes:			
Current	1,308	1,044	11,679
Deferred	100	98	893
Total income taxes	1,408	1,142	12,572
Net income	3,144	2,908	28,071
Net income attributable to non-controlling interests	180	118	1,607
Net income attributable to owners of the Company	¥ 2,964	¥ 2,790	$ 26,464

	Yen		U.S. dollars
Per share:			
Net income	¥ 46.13	¥ 43.37	$ 0.41
Cash dividends (Note 7)	10.00	9.50	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, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net income	¥ 3,144	¥ 2,908	$ 28,071
Other comprehensive income (Note 11):			
Net unrealized gains on available-for-sale securities	(935)	1,142	(8,348)
Land revaluation decrement	204	427	1,822
Foreign currency translation adjustment	(188)	395	(1,679)
Retirement benefit adjustment	(693)	435	(6,188)
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method	(25)	12	(223)
Total other comprehensive income	(1,637)	2,411	(14,616)
Comprehensive income	¥ 1,507	¥ 5,319	$ 13,455
Comprehensive income attributable to:			
Owners of the Company	¥ 1,424	¥ 5,090	$ 12,714
Non-controlling interests	83	229	741

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, 2016 and 2015

		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, 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
Cumulative effects of changes in accounting policies	-	-	-	51	-	51	-	-	-	-	-	-	51
Restated balance	-	8,428	6,733	30,560	(1,104)	44,617	1,198	(1,503)	134	(362)	(533)	1,073	45,157
Net income attributable to owners of the Company	-	-	-	2,790	-	2,790	-	-	-	-	-	-	2,790
Cash dividends	-	-	-	(579)	-	(579)	-	-	-	-	-	-	(579)
Purchase of treasury stock and fractional shares, net	-	-	-	-	(3)	(3)	-	-	-	-	-	-	(3)
Net changes other than shareholders' equity	-	-	-	-	-	-	1,137	428	300	435	2,300	411	2,711
Balance at March 31, 2015	67,142,417	8,428	6,733	32,771	(1,107)	46,825	2,335	(1,075)	434	73	1,767	1,484	50,076
Net income attributable to owners of the Company	-	-	-	2,964	-	2,964	-	-	-	-	-	-	2,964
Cash dividends	-	-	-	(643)	-	(643)	-	-	-	-	-	-	(643)
Change of scope of consolidation	-	-	-	94	-	94	-	-	-	-	-	-	94
Purchase of treasury stock and fractional shares, net	-	-	0	-	(91)	(91)	-	-	-	-	-	-	(91)
Purchase of additional shares of consolidated subsidiaries	-	-	18	-	-	18	-	-	-	-	-	-	18
Reversal of land revaluation decrement	-	-	-	138	-	138	-	-	-	-	-	-	138
Net changes other than shareholders' equity	-	-	-	-	-	-	(925)	66	(102)	(693)	(1,654)	90	(1,564)
Balance at March 31, 2016	67,142,417	¥ 8,428	¥ 6,751	¥ 35,324	¥ (1,198)	¥ 49,305	¥ 1,410	¥ (1,009)	¥ 332	¥ (620)	¥ 113	¥ 1,574	¥ 50,992

	Thousands of U.S. dollars											
	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
Balance at March 31, 2015	$ 75,250	$ 60,116	$ 292,598	$ (9,884)	$ 418,080	$ 20,848	$ (9,598)	$ 3,875	$ 652	$ 15,777	$ 13,250	$ 447,107
Net income attributable to owners of the Company	-	-	26,464	-	26,464	-	-	-	-	-	-	26,464
Cash dividends	-	-	(5,741)	-	(5,741)	-	-	-	-	-	-	(5,741)
Change of scope of consolidation	-	-	840	-	840	-	-	-	-	-	-	840
Purchase of treasury stock and fractional shares, net	-	0	-	(813)	(813)	-	-	-	-	-	-	(813)
Purchase of additional shares of consolidated subsidiaries	-	161	-	-	161	-	-	-	-	-	-	161
Reversal of land revaluation decrement	-	-	1,232	-	1,232	-	-	-	-	-	-	1,232
Net changes other than shareholders' equity	-	-	-	-	-	(8,259)	589	(911)	(6,187)	(14,768)	804	(13,964)
Balance at March 31, 2016	$ 75,250	$ 60,277	$ 315,393	$ (10,697)	$ 440,223	$ 12,589	$ (9,009)	$ 2,964	$ (5,535)	$ 1,009	$ 14,054	$ 455,286

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥ 4,552	¥ 4,050	$ 40,643
Adjustments for:			
Depreciation	2,400	2,834	21,429
Net change in employee retirement benefit asset/liability	(296)	(595)	(2,643)
(Gain) loss on sale or disposal of property and equipment	(34)	3	(304)
Decrease in trade receivables	259	431	2,313
Decrease in inventories	1	10	9
Decrease in trade payables	(100)	(308)	(893)
Others, net	(1,012)	(1,094)	(9,036)
Sub-total	5,770	5,331	51,518
Interest and dividend received	654	607	5,839
Interest paid	(200)	(241)	(1,786)
Income taxes paid	(948)	(1,528)	(8,464)
Net cash provided by operating activities	5,276	4,169	47,107
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(2,122)	(3,979)	(18,946)
Decrease in property and equipment and intangible assets	416	32	3,714
(Increase) decrease in short-term investments	(350)	12	(3,125)
Others, net	(40)	(195)	(357)
Net cash used in investing activities	(2,096)	(4,130)	(18,714)
Cash flows from financing activities:			
Increase in long-term debt	5,000	1,100	44,643
Repayment of long-term debt	(8,242)	(1,409)	(73,589)
Decrease in short-term borrowings	-	(147)	-
Purchase of treasury stock and fractional shares, net	(91)	(3)	(813)
Dividends paid	(643)	(579)	(5,741)
Purchase of stocks of subsidiaries not resulting in change in scope of consolidation	(118)	-	(1,054)
Others, net	(288)	(268)	(2,571)
Net cash used in financing activities	(4,382)	(1,306)	(39,125)
Effect of exchange rate changes on cash and cash equivalents	(47)	272	(420)
Net decrease in cash and cash equivalents	(1,249)	(995)	(11,152)
Cash and cash equivalents at beginning of year	11,653	12,648	104,045
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	256	-	2,286
Cash and cash equivalents at end of year	¥ 10,660	¥ 11,653	$ 95,179

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, 2016, which was approximately ¥112 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, 2016 and 2015 were as follows.

	2016	2015
Consolidated subsidiaries:		
Domestic	25	24
Overseas	6	5
Unconsolidated subsidiaries and affiliates accounted for using the equity method	9	9
Unconsolidated subsidiaries stated at cost	11	13
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 (six subsidiaries in 2016 and five subsidiaries in 2015, respectively). 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 four 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 and equipment, and intangible assets

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 four 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, net of applicable income taxes, are reported as accumulated other comprehensive income. 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 depreciated based on the estimated useful life of the asset.
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 amounted to ¥100 million ($893 thousand) and ¥100 million at March 31, 2016 and 2015, respectively.

(Changes in accounting policy difficult to distinguish from changes in accounting estimates)
Until the year ended March 31, 2015, the Company and its domestic consolidated subsidiaries depreciated property and equipment, except for buildings acquired on or after April 1, 1998 that are depreciated using the straight-line method, using the declining-balance method. Effective from the year ended March 31, 2016, the Company and its domestics consolidated subsidiaries have changed their depreciation method for all properties to the straight-line method. This change is based on the Japan Transcity Group's judgment that employing the depreciation method as a cost allocation of property and equipment equally over the useful life would be more appropriate in response to the steady contributions for investment and earnings as a result of a reassessment of a recent actual use of the properties associated with a detailed construction plan of distribution center in Saitama prefecture under the medium-term management plan.
As a result, operating income and income before income taxes for the year ended March 31, 2016 were ¥431million ($3,848 thousand) and ¥434 million ($3,875 thousand) more, respectively, than the amounts that would have been reported without the change.

(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's domestic consolidated subsidiary 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.

(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 effects, was recorded as land revaluation decrement account included in accumulated other comprehensive income in the accompanying consolidated balance sheets. At March 31, 2016 and 2015, the differences in 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 ¥8,883 million ($79,313 thousand) and ¥8,868 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. In calculating retirement benefit obligations, the Company has adopted the benefit formula basis as the method for attributing the expected retirement benefits to accounting periods. Some consolidated subsidiaries provide accrued retirement benefits for their employees mainly at the amounts of the projected benefit obligations calculated using the simplified method as permitted by the accounting standard for retirement benefits.

Effective from the year ended March 31, 2015, the Company and its domestic consolidated subsidiaries adopted Article 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, revised on May 17, 2012 (“Statement No. 26”)) and Article 67 of the “Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, revised on May 17, 2012 ("Guidance No. 25")) and have changed the determination of retirement benefit obligations and current service costs. Then, the Company and its domestic consolidated subsidiaries have changed the method of attributing expected retirement benefits to periods from the straight-line basis to the benefit formula basis and the method of determining the discount rate from a method determined based on the period approximate to the expected average remaining service years of the eligible employees to a method determined using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment. 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 as an adjustment to the beginning balance of retained earnings as of April 1, 2014. As a result of the application, employee retirement benefit asset was ¥32 million less and employee retirement benefit liability ¥110 million less, and retained earnings were ¥51 million more than the amounts that would have been reported without the change at the beginning of the current fiscal year. In addition, operating income and income before income taxes were ¥51 million less, respectively, for the year ended March 31, 2015 than the amounts that would have been reported without the change.

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 that are yet to be recognized are amortized on a straight-line basis over ten years, a period not exceeding the average remaining service period of employees, from the year following the year in which they arise. Past service cost that is yet to be recognized is amortized on a straight-line basis over ten years, a period not exceeding the average remaining service period of the employees, from the year in which such cost arises. 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.

(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 accumulated other comprehensive income 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 in the year ended March 31, 2015 and the enactment date in the year ended March 31, 2016.

(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, 2016 or 2015 due to the lack of any dilutive shares.

(r) Change in accounting policy

The Company and its domestic consolidated subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the current year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current year ended March 31, 2016 prospectively.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

The effect of these changes on the consolidated financial statements for the year ended March 31, 2016 was not material.

(s) Yet to be applied accounting standard

The following guidance has been issued but not yet adopted and has not been early adopted in these consolidated financial statements.

(Implementation guidance for recoverability of deferred tax assets)
ASBJ issued ASBJ Implementation Guidance No.26 "Implementation Guidance on Recoverability of Deferred Tax Assets" on December 28, 2015, which replaced the Japanese Institute of Certified Public Accountants ("JICPA") Auditing Guidance No. 66. "Auditing Treatment for Judgment of Recoverability of Deferred Tax Assets." ASBJ Implementation Guidance basically continues to apply the framework used in JICPA guidance where recoverability of deferred tax assets is assessed based on entities' categories, with certain changes of accounting treatments which include certain criteria for entities' categories used for the assessment and recoverability of deferred tax assets for unscheduled deductible temporary differences when certain criteria are met. The Company expects to apply this implementation guidance from the beginning of the year ending March 31, 2017. The Company is currently in the process of assessing the impact of this guidance 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, 2016 and 2015 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, 2016:			
(1) Cash and cash equivalents	¥ 10,660	¥ 10,660	¥ -
(2) Short-term investments	369	369	-
(3) Trade receivables	13,505	13,505	-
(4) Investment securities			
Marketable securities	7,529	7,529	-
Total assets	¥ 32,063	¥ 32,063	¥ -
(1) Trade payables	¥ 8,113	¥ 8,113	¥ -
(2) Short-term borrowings	2,457	2,457	-
(3) Long-term debt	19,440	19,651	211
Total liabilities	¥ 30,010	¥ 30,221	¥ 211
At March 31, 2015:			
(1) Cash and cash equivalents	¥ 11,653	¥ 11,653	¥ -
(2) Short-term investments	40	40	-
(3) Trade receivables	13,767	13,767	-
(4) Investment securities			
Marketable securities	7,517	7,517	-
Total assets	¥ 32,977	¥ 32,977	¥ -
(1) Trade payables	¥ 8,234	¥ 8,234	¥ -
(2) Short-term borrowings	2,467	2,467	-
(3) Long-term debt	22,682	22,698	16
Total liabilities	¥ 33,383	¥ 33,399	¥ 16

	Carrying value	Fair value	Difference
		Thousands of U.S. dollars	
At March 31, 2016:			
(1) Cash and cash equivalents	$ 95,179	$ 95,179	$ -
(2) Short-term investments	3,295	3,295	-
(3) Trade receivables	120,580	120,580	-
(4) Investment securities			
Marketable securities	67,223	67,223	-
Total assets	$ 286,277	$ 286,277	$ -
(1) Trade payables	$ 72,437	$ 72,437	$ -
(2) Short-term borrowings	21,937	21,937	-
(3) Long-term debt	173,572	175,456	1,884
Total liabilities	$ 267,946	$ 269,830	$ 1,884

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
	2016	2015	2016
Contract amount (*1)	¥ 2,000	¥ 9,500	$ 17,857
Contract amount due after one year included in (*1)	2,000	2,000	17,857
Fair value	(55)	(60)	(491)

(Note) 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 fair value is measured in reference to the price obtained from the applicable financial institutions.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Non-marketable securities (*1)	¥ 494	¥ 413	$ 4,411
Stocks of non-consolidated subsidiaries and affiliates (*1)	6,300	6,236	56,250
Guarantee deposits received (*2)	2,949	3,148	26,330
Derivative relating to earthquakes (*3)	17	17	152

(*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 ($2,679 thousand) at both March 31, 2016 and 2015. 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	
	2016		2015		2016	
Cash and cash equivalents	¥ 10,660	¥ -	¥ 11,653	¥ -	$ 95,179	$ -
Short-term investments	369	-	40	-	3,295	-
Trade receivables	13,505	-	13,767	-	120,580	-
Total	¥ 24,534	¥ -	¥ 25,460	¥ -	$ 219,054	$ -

4. Investments

At March 31, 2016 and 2015, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2016 and 2015, investment securities consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Marketable securities:			
Equity securities	¥ 7,519	¥ 7,507	$ 67,134
Other	10	10	89
	7,529	7,517	67,223
Other non-marketable securities	494	413	4,411
	¥ 8,023	¥ 7,930	$ 71,634

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, 2016 and 2015, 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, 2016:				
Equity securities	¥ 5,428	¥ 2,338	¥ (247)	¥ 7,519
Other	9	1	-	10
	¥ 5,437	¥ 2,339	¥ (247)	¥ 7,529
Available-for-sale securities at March 31, 2015:				
Equity securities	¥ 3,992	¥ 3,607	¥ (92)	¥ 7,507
Other	9	1	-	10
	¥ 4,001	¥ 3,608	¥ (92)	¥ 7,517

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. dollars			
Available-for-sale securities at March 31, 2016:				
Equity securities	$ 48,464	$ 20,875	$ (2,205)	$ 67,134
Other	80	9	-	89
	$ 48,544	$ 20,884	$ (2,205)	$ 67,223

5. Short-term Borrowings, Long-term Debt and Collateral

At March 31, 2016 and 2015, short-term borrowings consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term bank loans and bank overdrafts with interest rates ranging from 0.101% to 5.10% per annum at March 31, 2016:			
Unsecured	¥ 2,457	¥ 2,467	$ 21,937

At March 31, 2016 and 2015, long-term debt consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unsecured long-term loans from banks and other financial institutions due through 2023 with interest rates ranging from 0.21% to 2.0% per annum at March 31, 2016:	19,440	22,682	173,572
Less portions with current maturities	(1,742)	(8,242)	(15,554)
	¥ 17,698	¥ 14,440	$ 158,018

The aggregate amounts of long-term debt due annually at March 31, 2016 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 1,742	$ 15,554
2018	560	5,000
2019	1,742	15,554
2020	6,070	54,196
2021	3,862	34,482
2022 and thereafter	5,464	48,786
	¥ 19,440	$ 173,572

The aggregate amounts of long-term lease obligations, which were other current liabilities and other long-term liabilities, due annually at March 31, 2016 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 279	$ 2,491
2018	190	1,696
2019	102	911
2020	50	446
2021	18	161
2022 and thereafter	6	54
	¥ 645	$ 5,759

Land of ¥795 million ($7,098 thousand) was ready for the pledges subject to the security of the guarantee deposits received of ¥40 million ($357 thousand) and ¥100 million at March 31, 2016 and 2015, respectively.

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, some consolidated subsidiaries have a defined contribution pension plan under certain pension funds organized by third parties.
The following table reconciles the benefit liability (asset) and net periodic retirement benefit expense as at and for the years ended March 31, 2016 and 2015.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Movement in retirement benefit obligations:			
Balance at beginning of the year	¥ 7,959	¥ 7,861	$ 71,063
Cumulative effects of changes in accounting policies	-	(78)	-
Restated balance	7,959	7,783	71,063
Service cost	364	346	3,250
Interest cost	51	65	455
Actuarial differences	430	220	3,839
Benefits paid	(573)	(458)	(5,116)
Other	(3)	3	(27)
Balance at end of the year	¥ 8,228	¥ 7,959	$ 73,464

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Movement in plan assets:			
Balance at beginning of the year	¥ 11,357	¥ 9,951	$ 101,402
Expected return on plan assets	104	80	929
Actuarial differences	(471)	845	(4,205)
Contributions paid by the employer	543	927	4,848
Benefits paid	(514)	(447)	(4,589)
Partial return of assets from retirement benefits trust	(1,267)	-	(11,314)
Other	(1)	1	(9)
Balance at end of the year	¥ 9,751	¥ 11,357	$ 87,062

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 7,346	¥ 7,140	$ 65,589
Plan assets	(9,751)	(11,357)	(87,062)
	¥ (2,405)	¥ (4,217)	$ (21,473)
Unfunded retirement benefit obligations	882	819	7,875
Total net liability (asset) for employee retirement benefit at end of the year	¥ (1,523)	¥ (3,398)	$ (13,598)
Employee retirement benefit liability	892	832	7,964
Employee retirement benefit asset	(2,415)	(4,230)	(21,562)
Total net liability (asset) for retirement benefits at end of the year	¥ (1,523)	¥ (3,398)	$ (13,598)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit costs:			
Service cost	¥ 364	¥ 346	$ 3,250
Interest cost	51	65	455
Expected return on plan assets	(104)	(80)	(929)
Actuarial differences amortization	24	90	214
Past service costs amortization	(18)	(49)	(160)
Effect on partial return of assets from retirement benefits trust	(253)	-	(2,259)
Total retirement benefit costs for the year	¥ 64	¥ 372	$ 571

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit adjustment, before taxes, included in other comprehensive income:			
Actuarial differences	¥ 978	¥ (715)	$ 8,732
Past service costs	18	50	161
Total balance at end of the year	¥ 996	¥ (665)	$ 8,893

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit adjustment, before taxes, included in accumulated other comprehensive income:			
Actuarial differences that are yet to be recognized	¥ 938	¥ (43)	$ 8,375
Past service costs that are yet to be recognized	(50)	(68)	(446)
Total balance at end of the year	¥ 888	¥ (111)	$ 7,929

Plan assets

	2016	2015
(1) Plan assets:		
Bonds	14%	13%
Equity securities	23%	35%
General account	11%	9%
Commingled funds	35%	30%
Other	17%	13%
Total	100%	100%

At March 31, 2016 and 2015, assets under the retirement benefit trust set up for corporate pension plans accounted for 22% and 34% of the total plan assets, respectively.

Commingled funds consisted of bonds (66%) and equity securities (34%) at March 31, 2016 and consisted of bonds (65%) and equity securities (35%) at March 31, 2015.

(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, 2016 and 2015 (expressed as weighed averages)

	2016	2015
Discount rate	0.1%	0.6%
Long-term expected rate of return	1.0%	0.8%

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Movement in liability for retirement benefits:			
Balance at beginning of the year	¥ 955	¥ 967	$ 8,526
Retirement benefit costs	192	158	1,714
Benefits paid	(109)	(91)	(973)
Contributions paid by employer	(94)	(96)	(839)
Other	(1)	17	(9)
Balance at end of the year	¥ 943	¥ 955	$ 8,419

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 1,964	¥ 1,934	$ 17,536
Plan assets	(1,223)	(1,182)	(10,920)
	¥ 741	¥ 752	$ 6,616
Unfunded retirement benefit obligations	202	203	1,803
Total net liability (asset) for employee retirement benefit at end of the year	¥ 943	¥ 955	$ 8,419
Employee retirement benefit liability	968	979	8,643
Employee retirement benefit asset	(25)	(24)	(224)
Total net liability (asset) for retirement benefit at end of the year	¥ 943	¥ 955	$ 8,419

Total retirement benefit costs for the fiscal year ended March 31, 2016 and 2015 based on the simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
	¥ 192	¥ 158	$ 1,714

Defined contribution plan:
For the years ended March 31, 2016 and 2015, the required contribution amount of the consolidated subsidiaries to the defined contribution plan was ¥53 million ($473 thousand) and ¥49 million, respectively.

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, 2016 and 2015, 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 ($10,714 thousand) at both March 31, 2016 and 2015.

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, 2016, the Company paid interim dividends of ¥4.50 per share amounting to ¥289 million ($2,580 thousand). In addition, at the annual shareholders' meeting held on June 29, 2016, the shareholders approved cash dividends of ¥5.50 per share amounting to ¥353 million ($3,152 thousand). These appropriations have not yet been accrued in the consolidated financial statements as of March 31, 2016 as such appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent Liabilities

At March 31, 2016 and 2015, the Japan Transcity Group was contingently liable for reserved guarantees of indebtedness of a certain unconsolidated subsidiary in the amounts of ¥226 million ($2,018 thousand) and ¥253 million, 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, 2016 and 2015, lease expenses under non-cancelable lease agreements which were categorized as finance leases entered into before March 31, 2008 amounted to ¥117 million ($1,045 thousand) and ¥219 million, respectively.

The aggregate future minimum payments for non-cancelable operating leases and finance leases, including imputed interest, at March 31, 2016 and 2015 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Operating leases:			
Due within one year	¥ 1,125	¥ 1,056	$ 10,045
Due after one year	1,571	1,990	14,027
	¥ 2,696	¥ 3,046	$ 24,072
Finance leases which were entered into before March 31, 2008 and not capitalized:			
Due within one year	¥ 117	¥ 117	$ 1,045
Due after one year	82	199	732
	¥ 199	¥ 316	$ 1,777

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, 2016 and 2015 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Enterprise tax accruals	¥ 52	¥ 30	$ 464
Accrued bonuses to employees	326	343	2,911
Employee retirement benefit liability	319	332	2,848
Intercompany capital gains	236	259	2,107
Net operating loss carry-forwards	244	250	2,178
Impairment loss on fixed assets	1,194	1,224	10,661
Others	612	453	5,465
	2,983	2,891	26,634
Less valuation allowance	(1,526)	(1,565)	(13,625)
Deferred tax assets	1,457	1,326	13,009
Deferred tax liabilities:			
Employee retirement benefit asset	-	(307)	-
Deferred capital gain	(773)	(845)	(6,902)
Unrealized gains on available-for-sale securities	(636)	(1,126)	(5,678)
Others	(1,023)	(650)	(9,134)
Deferred tax liabilities	(2,432)	(2,928)	(21,714)
Net deferred tax liabilities	¥ (975)	¥ (1,602)	$ (8,705)

At March 31, 2016 and 2015, deferred tax assets and liabilities were as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Current	¥ 374	¥ 411	$ 3,339
Non-current	618	602	5,518
Deferred tax liabilities:			
Non-current	1,967	2,615	17,562

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, 2016 and 2015, 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 year ended March 31, 2016 were as follows.

	Percentage of pre-tax income	
	2016	2015
Japanese statutory effective tax rate	32.6%	35.1%
Increase (decrease) due to:		
Permanently non-deductible expenses	0.8	1.0
Tax exempt income	(2.1)	(4.6)
Local minimum taxes per capita levy	0.9	1.0
Effect of elimination of dividend income from subsidiaries for consolidation purpose	1.6	3.1
Equity in net earnings of unconsolidated subsidiaries and affiliates	(2.8)	(4.7)
Valuation allowance	(0.8)	(2.1)
Others	0.7	(0.6)
Actual effective income tax rate	30.9%	28.2%

Following the promulgation on March 31, 2015 of the "Act for Partial Revision of Income Tax Act" and "Act for Partial Revision of Local Tax Act", the effective statutory tax rate used to measure deferred tax assets and liabilities (excepted to be settled or realized on or after April 1, 2015) in the fiscal year was changed from the previous fiscal year’s rate of 35.1% to 32.6% for temporary differences expected to be resolved during the period from April 1, 2015 to March 31, 2016, and to 31.8% for temporary differences expected to be resolved on or after April 1, 2016. As a result of the change, deferred tax liabilities, net of deferred tax assets, were ¥213 million less, net unrealized gains on available-for-sale securities ¥112 million more, and retirement benefit adjustment ¥3 million more at March 31, 2015 than the amounts that would have been reported without the change. Deferred income taxes for the year ended March 31, 2015 were ¥98 million less than the amounts that would have been reported without the change. Deferred tax liabilities for revaluation were ¥427 million less and land revaluation decrement was the same amount more at March 31, 2015 than the amounts that would have been reported without the change.

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the effective statutory tax rate used to measure deferred tax assets and liabilities (excepted to be settled or realized on or after April 1, 2016) in the fiscal year was changed from the previous rate of 31.8% to 30.4% for temporary differences expected to be resolved during the period from April 1, 2016 to March 31, 2018, and to 30.2% for temporary differences expected to be resolved on or after April 1, 2018. As a result of the change, deferred tax liabilities, net of deferred tax assets, were ¥74 million ($661 thousand) less, net unrealized gains on available-for-sale securities ¥33 million ($295 thousand) more, and retirement benefit adjustment ¥14 million ($125 thousand) less at March 31, 2016 than the amounts that would have been reported without the change.
Deferred income taxes for the year ended March 31, 2016 were ¥55 million ($491 thousand) less than the amounts that would have been reported without the change. Deferred tax liabilities for revaluation were ¥204 million ($1,821 thousand) less and land revaluation decrement was the same amount more at March 31, 2016 than the amounts that would have been reported without the change.

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, 2016 and 2015 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized gains on available-for-sale securities			
(Decrease) increase during the year	¥ (1,426)	¥ 1,588	$ (12,732)
Reclassification adjustments to profit or loss	2	-	18
Sub-total, before tax	(1,424)	1,588	(12,714)
Tax (expense) or benefit	489	(446)	4,366
Sub-total, net of tax	(935)	1,142	(8,348)
Land revaluation decrement			
Tax (expense) or benefit	204	427	1,822
Foreign currency translation adjustment			
(Decrease) increase during the year	(188)	395	(1,679)
Retirement benefit adjustment			
(Decrease) increase during the year	(900)	624	(8,036)
Reclassification adjustments to profit or loss	(96)	41	(857)
Sub-total, before tax	(996)	665	(8,893)
Tax (expense) or benefit	303	(230)	2,705
Sub-total, net of tax	(693)	435	(6,188)
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method:			
(Decrease) increase during the year	(25)	12	(223)
Total other comprehensive income	¥ (1,637)	¥ 2,411	$ (14,616)

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 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.

(Changes in accounting policies for depreciation method of property and equipment)

As disclosed in Note 2(g), until the year ended March 31,2015, the Company and its domestic consolidated subsidiaries depreciated property and equipment, except for buildings acquired on or after April 1, 1998 and lease assets, using the declining-balance method. From the year ended March 31, 2016, the Company and its domestics consolidated subsidiaries changed their depreciation method for all properties to the straight-line method. As a result, for the year ended March 31, 2016, operating income in the "Integrated Logistics Services" and the "Others" segment was ¥421 million ($3,759 thousand) and ¥10 million ($89 thousand) more, respectively, compared with the amounts that would have been recorded without the change.

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

Information by segment for the years ended March 31, 2016 and 2015 are as follows.

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
			Millions of yen		
For the year ended March 31, 2016:					
Operating revenue:					
External customers	¥ 92,074	¥ 1,144	¥ 93,218	¥ -	¥ 93,218
Intersegment sales	25	1,213	1,238	(1,238)	-
Total operating revenue	92,099	2,357	94,456	(1,238)	93,218
Operating income	¥ 3,601	¥ 184	¥ 3,785	¥ (3)	¥ 3,782
Identifiable assets	¥ 97,233	¥ 1,950	¥ 99,183	¥ (1,495)	¥ 97,688
Depreciation	2,332	68	2,400	-	2,400
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	5,973	-	5,973	-	5,973
Capital expenditures	3,055	28	3,083	-	3,083
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	42	-	42	-	42
For the year ended March 31, 2015:					
Operating revenue:					
External customers	¥ 91,452	¥ 1,045	¥ 92,497	¥ -	¥ 92,497
Intersegment sales	26	1,134	1,160	(1,160)	-
Total operating revenue	91,478	2,179	93,657	(1,160)	92,497
Operating income	¥ 2,936	¥ 127	¥ 3,063	¥ 44	¥ 3,107
Identifiable assets	¥ 99,596	¥ 1,799	¥ 101,395	¥ (1,192)	¥ 100,203
Depreciation	2,754	80	2,834	-	2,834
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	5,827	-	5,827	-	5,827
Capital expenditures	2,934	29	2,963	-	2,963
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	56	-	56	-	56
	Integrated				

	Logistics Services	Others	Total	Adjustment	Consolidated
	Thousands of U.S. dollars				
For the year ended March 31, 2016:					
Operating revenue:					
External customers	$ 822,090	$ 10,214	$ 832,304	$ -	$ 832,304
Intersegment sales	223	10,831	11,054	(11,054)	-
Total operating revenue	822,313	21,045	843,358	(11,054)	832,304
Operating income	$ 32,152	$ 1,643	$ 33,795	$ (27)	$ 33,768
Identifiable assets	$ 868,151	$ 17,411	$ 885,562	$ (13,348)	$ 872,214
Depreciation	20,822	607	21,429	-	21,429
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	53,330	-	53,330	-	53,330
Capital expenditures	27,277	250	27,527	-	27,527
Amortization of goodwill	125	-	125	-	125
Balance of goodwill	375	-	375	-	375

(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, 2016:					
Operating revenue to external customers	¥ 34,605	¥ 19,155	¥ 17,518	¥ 20,796	¥ 92,074
For the year ended March 31, 2015:					
Operating revenue to external customers	¥ 34,594	¥ 20,362	¥ 18,033	¥ 18,463	¥ 91,452
	Thousands of U.S. dollars				
For the year ended March 31, 2016:					
Operating revenue to external customers	$ 308,973	$ 171,027	$ 156,412	$ 185,678	$ 822,090

2. Information about geographic areas

(1) Operating revenue

The information about geographic areas for the years ended March 31, 2016 and 2015 are as follows.

	Millions of Yen		Thousands of U.S. Dollars
Operating revenue	2016	2015	2016
Japan	¥ 81,093	¥ 82,810	$ 724,045
Other	12,125	9,687	108,259
	¥ 93,218	¥ 92,497	$ 832,304

(2) Property and equipment

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

3. Information about major customers

Information on operating revenue from major customers for the year ended March 31, 2015 is as follows.

Customer's name	Relevant reportable segment	Millions of Yen
Aeon Global SCM Co., Ltd.	Integrated logistics services	¥ 9,256

For the year ended March 31, 2016, the Company has omitted the disclosure of information about major customers because no customer had contributed 10% or more to operating revenue in the consolidated statements of income.

13. Subsequent Event

On July 27, 2016, the Company assigned the Company's land located in Nagoya city, Aichi prefecture, and used as rental property with a carrying value of ¥303 million ($2,705 thousand) to a third party, AIPHONE CO., LTD. for the consideration of ¥2,322 million ($20,732 thousand) based on the resolution of the Board of Directors held on May 12, 2016. The Company expects to record a gain of sale of this land of ¥1,961 million ($17,509 thousand) for the year ending March 31, 2017.

14. 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
	2016	2015	2016
Current assets:			
Cash and cash equivalents	¥ 8,113	¥ 9,407	$ 72,438
Short-term investments	3	5	27
Trade receivables, net of allowance for doubtful accounts	12,048	12,540	107,571
Inventories	16	17	143
Deferred tax assets	192	221	1,714
Other current assets	1,464	1,845	13,071
Total current assets	21,836	24,035	194,964
Property and equipment, at cost	80,918	79,905	722,482
Less accumulated depreciation	(38,081)	(37,322)	(340,009)
Net property and equipment	42,837	42,583	382,473
Investments and other assets:			
Investment securities	7,510	7,317	67,053
Investments in and long-term loans to subsidiaries and affiliates	5,031	4,867	44,920
Prepaid pension cost	2,987	3,805	26,670
Lease deposits	460	418	4,107
Other assets	1,585	1,386	14,152
Allowance for doubtful accounts	(1,240)	(1,092)	(11,071)
Total investments and other assets	16,333	16,701	145,831
Total assets	¥ 81,006	¥ 83,319	$ 723,268

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current liabilities:			
Short-term borrowings	¥ 8,295	¥ 8,423	$ 74,063
Current maturities of long-term debt	1,450	7,950	12,946
Trade payables	6,236	6,428	55,679
Accrued expenses	805	799	7,188
Income taxes payable	482	182	4,303
Other current liabilities	2,157	1,302	19,259
Total current liabilities	19,425	25,084	173,438
Long-term liabilities:			
Long-term debt	16,625	13,075	148,437
Employee retirement benefit liability	563	503	5,027
Deferred tax liabilities for revaluation	1,897	2,235	16,938
Provision for loss on business of subsidiaries	1,567	1,717	13,991
Deferred tax liabilities	3,849	4,118	34,366
Other long-term liabilities	331	473	2,955
Total long-term liabilities	24,832	22,121	221,714
Total liabilities	44,257	47,205	395,152
Net assets:			
Shareholder’s equity:			
Common stock	8,428	8,428	75,250
Capital surplus	6,733	6,733	60,116
Retained earnings	22,427	20,925	200,242
Less treasury stock, at cost	(1,198)	(1,107)	(10,697)
Total shareholders' equity	36,390	34,979	324,911
Accumulated gains (losses) from valuation adjustment:			
Net unrealized gains on available-for-sale securities	1,368	2,210	12,214
Land revaluation decrement	(1,009)	(1,075)	(9,009)
Total accumulated gains (losses) from valuation adjustment	359	1,135	3,205
Total net assets	36,749	36,114	328,116
Total liabilities and net assets	¥ 81,006	¥ 83,319	$ 723,268

Nonconsolidated Statements of Income (Unaudited)
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2016 and 2015

	Millions of yen				Thousands of U.S. dollars	
	2016		2015		2016	
Operating revenue	¥	79,379	¥	81,363	$	708,741
Operating costs and expenses		77,116		79,472		688,536
Operating income		2,263		1,891		20,205
Other income (expenses):						
Interest and dividend income		657		756		5,866
Interest expenses		(177)		(221)		(1,580)
Miscellaneous, net		123		238		1,098
		603		773		5,384
Income before income taxes		2,866		2,664		25,589
Income taxes:						
Current		793		639		7,080
Deferred		66		64		589
Total income taxes		859		703		7,669
Net income	¥	2,007	¥	1,961	$	17,920

	Yen				U.S. dollars	
Per share:						
Net income	¥	31.24	¥	30.48	$	0.28
Cash dividends		10.00		9.50		0.09

Nonconsolidated Statements of Changes in Net Assets (Unaudited)
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2016 and 2015

	Shareholders' equity					Accumulated gains (losses) from valuation adjustment			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Land revaluation decrement	Total accumulated gains (losses) from valuation adjustment	Total net assets
	Millions of yen								
Balance at April 1, 2014	¥ 8,428	¥ 6,733	¥ 19,492	¥ (1,104)	¥ 33,549	¥ 1,123	¥ (1,503)	¥ (380)	¥ 33,169
Cumulative effects of changes in accounting policies	-	-	51	-	51	-	-	-	51
Restated balance	8,428	6,733	19,543	(1,104)	33,600	1,123	(1,503)	(380)	33,220
Net income for the year	-	-	1,961	-	1,961	-	-	-	1,961
Cash dividends	-	-	(579)	-	(579)	-	-	-	(579)
Purchase of treasury stock and fractional shares, net	-	-	-	(3)	(3)	-	-	-	(3)
Reversal of land revaluation decrement	-	-	-	-	-	-	-	-	-
Net changes other than shareholders' equity	-	-	-	-	-	1,087	428	1,515	1,515
Balance at March 31, 2015	¥ 8,428	¥ 6,733	¥ 20,925	¥ (1,107)	¥ 34,979	¥ 2,210	¥ (1,075)	¥ 1,135	¥ 36,114
Net income for the year	-	-	2,007	-	2,007	-	-	-	2,007
Cash dividends	-	-	(643)	-	(643)	-	-	-	(643)
Purchase of treasury stock and fractional shares, net	-	0	-	(91)	(91)	-	-	-	(91)
Reversal of land revaluation decrement	-	-	138	-	138	-	-	-	138
Net changes other than shareholders' equity	-	-	-	-	-	(842)	66	(776)	(776)
Balance at March 31, 2016	¥ 8,428	¥ 6,733	¥ 22,427	¥ (1,198)	¥ 36,390	¥ 1,368	¥ (1,009)	¥ 359	¥ 36,749
	Thousands of U.S. dollars								
Balance at March 31, 2015	$ 75,250	$ 60,116	$ 186,831	$ (9,884)	$ 312,313	$ 19,732	$ (9,598)	$ 10,134	$ 322,447
Net income for the year	-	-	17,920	-	17,920	-	-	-	17,920
Cash dividends	-	-	(5,741)	-	(5,741)	-	-	-	(5,741)
Purchase of treasury stock and fractional shares, net	-	0	-	(813)	(813)		-	-	(813)
Reversal of land revaluation decrement	-	-	1,232	-	1,232	-	-	-	1,232
Net changes other than shareholders' equity	-	-	-	-	-	(7,518)	589	(6,929)	(6,929)
Balance at March 31, 2016	$ 75,250	$ 60,116	$ 200,242	$ (10,697)	$ 324,911	$ 12,214	$ (9,009)	$ 3,205	$ 328,116