

Japan Transcity Corporation
Consolidated Financial Statements
March 31, 2019 and 2018



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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 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 of the Notes to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2019
Nagoya, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current assets:			
Cash and cash equivalents (Note 3)	¥ 12,010	¥ 9,526	\$ 109,182
Short-term investments (Notes 3 and 4)	826	760	7,509
Trade receivables (Note 3)	15,672	14,970	142,473
Allowance for doubtful accounts	(30)	(28)	(273)
	<u>15,642</u>	<u>14,942</u>	<u>142,200</u>
Inventories	186	89	1,691
Other current assets	1,966	3,288	17,873
Total current assets	<u>30,630</u>	<u>28,605</u>	<u>278,455</u>
Property and equipment:			
Land	32,233	32,420	293,027
Buildings and structures (Note 5)	73,103	72,967	664,573
Machinery and equipment	14,575	14,654	132,500
Vehicles and vessels	7,876	7,561	71,600
Construction in progress	1,539	174	13,991
Total property and equipment	<u>129,326</u>	<u>127,776</u>	<u>1,175,691</u>
Less accumulated depreciation	<u>(59,364)</u>	<u>(57,386)</u>	<u>(539,673)</u>
Net property and equipment	<u>69,962</u>	<u>70,390</u>	<u>636,018</u>
Investments and other assets:			
Investment securities (Notes 3 and 4)	7,893	8,741	71,755
Investments in unconsolidated subsidiaries and affiliates (Note 3)	6,846	6,699	62,236
Employee retirement benefit asset (Note 6)	2,910	3,495	26,455
Deferred tax assets (Note 10)	862	738	7,836
Other assets	2,598	2,346	23,618
Allowance for doubtful accounts	(19)	(19)	(173)
Total investments and other assets	<u>21,090</u>	<u>22,000</u>	<u>191,727</u>
Total assets	<u>¥ 121,682</u>	<u>¥ 120,995</u>	<u>\$ 1,106,200</u>

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥ 2,275	¥ 2,361	\$ 20,682
Current maturities of long-term debt (Notes 3 and 5)	7,785	4,757	70,773
Trade payables (Note 3)	9,053	8,907	82,300
Accrued expenses	1,812	1,810	16,473
Income taxes payable	884	217	8,036
Other current liabilities (Note 5)	4,607	2,632	41,882
Total current liabilities	<u>26,416</u>	<u>20,684</u>	<u>240,146</u>
Long-term liabilities:			
Long-term debt (Notes 3 and 5)	24,018	29,403	218,345
Employee retirement benefit liability (Note 6)	2,044	1,980	18,582
Guarantee deposits received (Note 3)	2,523	2,655	22,936
Deferred tax liabilities for revaluation	3,706	3,773	33,691
Deferred tax liabilities (Note 10)	2,224	2,704	20,218
Other long-term liabilities (Note 5)	1,126	1,204	10,237
Total long-term liabilities	<u>35,641</u>	<u>41,719</u>	<u>324,009</u>
Total liabilities	<u>62,057</u>	<u>62,403</u>	<u>564,155</u>
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	76,618
Capital surplus	6,765	6,764	61,500
Retained earnings	42,512	40,341	386,473
Less treasury stock, at cost: 3,031,371 shares in			
2019 and 3,030,650 shares in 2018	(1,190)	(1,190)	(10,818)
Total shareholders' equity	<u>56,515</u>	<u>54,343</u>	<u>513,773</u>
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale			
securities	2,122	2,743	19,291
Land revaluation decrement	(1,339)	(1,184)	(12,173)
Foreign currency translation adjustments	155	235	1,409
Retirement benefit adjustment (Note 6)	140	547	1,273
Total accumulated other			
comprehensive income	<u>1,078</u>	<u>2,341</u>	<u>9,800</u>
Noncontrolling interests	2,032	1,908	18,472
Total net assets	<u>59,625</u>	<u>58,592</u>	<u>542,045</u>
Total liabilities and net assets	<u>¥ 121,682</u>	<u>¥ 120,995</u>	<u>\$ 1,106,200</u>

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating revenue (Note 13)	¥ 100,095	¥ 95,609	\$ 909,954
Operating costs and expenses (Notes 6 and 9)	96,747	93,264	879,518
Operating income	3,348	2,345	30,436
Other income (expenses):			
Interest and dividend income	635	403	5,773
Interest expense	(165)	(171)	(1,500)
Equity in net earnings of unconsolidated subsidiaries and affiliates	470	495	4,273
Loss on sale or disposal of property and equipment, net	(100)	(30)	(909)
Others, net	(120)	83	(1,091)
	720	780	6,546
Income before income taxes	4,068	3,125	36,982
Income taxes (Note 10):			
Current	1,459	1,029	13,263
Deferred	(213)	(123)	(1,936)
Total income taxes	1,246	906	11,327
Net income	2,822	2,219	25,655
Net income attributable to noncontrolling interests	165	135	1,500
Net income attributable to owners of the Company	¥ 2,657	¥ 2,084	\$ 24,155
Per share:			
Net income	¥ 41.45	¥ 32.55	\$ 0.38
Cash dividends (Note 7)	10.00	10.00	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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥ 2,822	¥ 2,219	\$ 25,655
Other comprehensive income (Note 11):			
Net unrealized gains on available-for-sale securities	(632)	424	(5,745)
Foreign currency translation adjustments	(97)	47	(882)
Retirement benefit adjustment	(407)	473	(3,700)
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method	(8)	10	(73)
Total other comprehensive income	(1,144)	954	(10,400)
Comprehensive income	¥ 1,678	¥ 3,173	\$ 15,255
Comprehensive income attributable to:			
Owners of the Company	¥ 1,549	¥ 2,979	\$ 14,082
Noncontrolling interests	129	194	1,173

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, 2019 and 2018

	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Minority interests	Total net assets	
		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 adjustments	Retirement benefit adjustment	Total accumulated other comprehensive income			
		Millions of yen												
Balance at April 1, 2017	67,142,417	¥ 8,428	¥ 6,753	¥ 38,847	¥ (1,270)	¥ 52,758	¥ 2,325	¥ (1,182)	¥ 256	¥ 74	¥ 1,473	¥ 1,717	¥ 55,948	
Net income attributable to owners of the Company	-	-	-	2,084	-	2,084	-	-	-	-	-	-	2,084	
Cash dividends	-	-	-	(640)	-	(640)	-	-	-	-	-	-	(640)	
Change in scope of consolidation	-	-	-	48	-	48	-	-	-	-	-	-	48	
Disposal of treasury stock and fractional shares, net of purchase	-	-	9	-	80	89	-	-	-	-	-	-	89	
Purchase of additional shares of consolidated subsidiaries	-	-	2	-	-	2	-	-	-	-	-	-	2	
Reversal of land revaluation decrement	-	-	-	2	-	2	-	-	-	-	-	-	2	
Net changes other than changes in shareholders' equity	-	-	-	-	-	-	418	(2)	(21)	473	868	191	1,059	
Balance at March 31, 2018	67,142,417	8,428	6,764	40,341	(1,190)	54,343	2,743	(1,184)	235	547	2,341	1,908	58,592	
Net income attributable to owners of the Company	-	-	-	2,657	-	2,657	-	-	-	-	-	-	2,657	
Cash dividends	-	-	-	(641)	-	(641)	-	-	-	-	-	-	(641)	
Purchase of additional shares of consolidated subsidiaries	-	-	1	-	-	1	-	-	-	-	-	-	1	
Reversal of land revaluation decrement	-	-	-	155	-	155	-	-	-	-	-	-	155	
Net changes other than changes in shareholders' equity	-	-	-	-	-	-	(621)	(155)	(80)	(407)	(1,263)	124	(1,139)	
Balance at March 31, 2019	67,142,417	¥ 8,428	¥ 6,765	¥ 42,512	¥ (1,190)	¥ 56,515	¥ 2,122	¥ (1,339)	¥ 155	¥ 140	¥ 1,078	¥ 2,032	¥ 59,625	
		Thousands of U.S. dollars												
Balance at March 31, 2018		\$ 76,618	\$ 61,491	\$ 366,736	\$ (10,818)	\$ 494,027	\$ 24,937	\$ (10,764)	\$ 2,136	\$ 4,973	\$ 21,282	\$ 17,345	\$ 532,654	
Net income attributable to owners of the Company		-	-	24,155	-	24,155	-	-	-	-	-	-	24,155	
Cash dividends		-	-	(5,827)	-	(5,827)	-	-	-	-	-	-	(5,827)	
Purchase of additional shares of consolidated subsidiaries		-	9	-	-	9	-	-	-	-	-	-	9	
Reversal of land revaluation decrement		-	-	1,409	-	1,409	-	-	-	-	-	-	1,409	
Net changes other than changes in shareholders' equity		-	-	-	-	-	(5,646)	(1,409)	(727)	(3,700)	(11,482)	1,127	(10,355)	
Balance at March 31, 2019		\$ 76,618	\$ 61,500	\$ 386,473	\$ (10,818)	\$ 513,773	\$ 19,291	\$ (12,173)	\$ 1,409	\$ 1,273	\$ 9,800	\$ 18,472	\$ 542,045	

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥ 4,068	¥ 3,125	\$ 36,982
Adjustments for:			
Depreciation	3,550	3,365	32,273
Net change in employee retirement benefit asset/liability	66	342	600
Loss on sale or disposal of property and equipment, net	100	30	909
Increase in trade receivables	(741)	(2,045)	(6,736)
(Increase) decrease in inventories	(97)	13	(882)
Increase in trade payables	169	618	1,536
Others, net	913	(970)	8,300
Subtotal	8,028	4,478	72,982
Interest and dividends received	949	655	8,627
Interest paid	(170)	(164)	(1,546)
Income taxes paid	(772)	(2,075)	(7,018)
Net cash provided by operating activities	8,035	2,894	73,045
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(2,131)	(11,795)	(19,373)
Decrease in property and equipment and intangible assets	391	78	3,555
Increase in short-term investments	(76)	(200)	(691)
Others, net	(450)	29	(4,091)
Net cash used in investing activities	(2,266)	(11,888)	(20,600)
Cash flows from financing activities:			
Increase in long-term debt	2,400	9,800	21,818
Repayment of long-term debt	(4,757)	(1,237)	(43,245)
Decrease in short-term borrowings	(83)	(34)	(755)
Dividends paid	(641)	(640)	(5,827)
Others, net	(177)	(184)	(1,609)
Net cash (used in) provided by financing activities	(3,258)	7,705	(29,618)
Effect of exchange rate changes on cash and cash equivalents	(27)	(25)	(245)
Net increase (decrease) in cash and cash equivalents	2,484	(1,314)	22,582
Cash and cash equivalents at beginning of year	9,526	10,746	86,600
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	-	94	-
Cash and cash equivalents at end of year	¥ 12,010	¥ 9,526	\$ 109,182

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 (“IFRS”).

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, 2019, which was approximately ¥110 to US\$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, 2019 and 2018 were as follows.

	2019	2018
Consolidated subsidiaries:		
Domestic	25	25
Overseas	9	8
Unconsolidated subsidiaries and affiliates accounted for using the equity method	9	9
Unconsolidated subsidiaries stated at cost	10	10
Affiliates stated at cost	6	6

All intercompany accounts and transactions have been eliminated on consolidation.

The accompanying consolidated financial statements include the accounts of the overseas consolidated subsidiaries (nine subsidiaries in 2019 and eight subsidiaries in 2018). These overseas consolidated subsidiaries close their books at December 31, which is three months earlier than the closing of the books of the Company and 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 (GAAP). 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

For the consolidation purposes of the Company, the accounts of the Company's overseas consolidated subsidiaries have been 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 highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(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 and losses on these securities, net of applicable income taxes, are reported as accumulated other comprehensive income. Gains and losses on the disposition of available-for-sale securities are computed using the moving average method. Nonmarketable available-for-sale securities without available market quotations are carried at cost determined by the moving average method. Adjustments in the 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 when there is no hedging designation, and gains and 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. Inventories are stated at the lower of cost, determined by the moving average method, or net realizable value.

(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 using straight-line method over 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 at March 31, 2019 and 2018 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Building	¥ 100	¥ 100	\$ 909
Land	100	100	909

(h) Accounting for leases

Assets of finance leases that transfer ownership of the leased property to the lessee are depreciated using the same method used for nonlease property. Assets of finance leases that do not transfer ownership of the leased property to the lessee are capitalized and 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.

(i) Accounting standard for impairment of fixed assets

The Company and its domestic consolidated subsidiaries have 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 the asset may not be recoverable. Impairment loss is to be recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, measured at the higher of net selling price or value in use. Fixed assets include intangible assets as well as land, buildings and other forms of property 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 grouped principally into cash generating units such as regional business divisions.

While no impairment loss was recorded for the year ended March 31, 2019, the Japan Transcity Group recognized impairment loss for the following idle properties, which was included in other expenses in the accompanying consolidated statements of income, for the year ended March 31, 2018.

	<u>Millions of yen</u>	
Buildings and structures	¥	44
Land		<u>7</u>
	<u>¥</u>	<u>51</u>

(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 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 a land revaluation decrement account included in accumulated other comprehensive income in the accompanying consolidated balance sheets. At March 31, 2019 and 2018, 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 ¥8,843 million (\$80,391 thousand) and ¥8,931 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.

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 costs 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 the employees, from the year in which such costs arise. Actuarial differences and past service costs that are yet to be recognized in profit or loss have been recognized as retirement benefit adjustment under a component of accumulated other comprehensive income within the net assets section, after adjusting for tax effects, and the difference between retirement benefit obligations and plan assets has been recognized as employee retirement benefit liability or asset, without any adjustments, in the accompanying consolidated balance sheets.

(l) 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 and losses are included in current earnings.

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

(m) Income taxes

Income taxes are accounted for by the asset-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 carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(n) 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 includes such taxes in operating costs and expenses.

(o) 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.

(p) 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, 2019 or 2018 due to the lack of any dilutive shares.

(q) Accounting standards and guidance not yet adopted

The following standard and guidance have been issued but not yet adopted:

ASBJ Statement No. 29, “Accounting Standard on Revenue Recognition,” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard on Revenue Recognition,” both issued by ASBJ on March 30, 2018.

① Overview:

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and issued “Revenue from Contracts with Customers” in May 2014 (IFRS No. 15 by IASB, Topic 606 by FASB). Considering IFRS No. 15 application from the fiscal years beginning January 1, 2018 and Topic 606 from the fiscal years beginning December 15, 2017, ASBJ developed comprehensive standards on revenue recognition in order to converge with IFRS 15 and published them. Under the standard, to provide for matters that may arise in actual practice in Japan that require alternative handling, special treatments have been added within a range that ensures financial statement comparability.

② Effective date:

The Company and its domestic consolidated subsidiaries will apply the standards effective from the beginning of the fiscal year ending March 31, 2022.

③ Impact of application on the standards:

The Company and its domestic consolidated subsidiaries are currently in the process of determining the impact of the new standard and implementation 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 Company limits the use of excess funds to short-term deposits and raises funds through bank loans and bond issuances. Derivative instruments are used mainly to hedge against variable interest rate risk and to compensate loss when an earthquake occurs and are not used for speculative purposes.

② Details of financial instruments, risks and risk management system

Trade notes and accounts receivable carry credit risk of the Company's trading partners. To manage such risk and pursuant to internal regulations of the Company, the due dates and balances of the receivables are managed for each counterparty, and the credit risks of the Company's main trading partners are identified every half year.

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

Trade notes and accounts payable are due within one year.

Loans payable and short-term borrowings are used mainly to fund operating activities, and long-term debt is used to 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 in the normal course of business to reduce its exposure to fluctuations in interest rates. Evaluating hedge effectiveness has not been required because of the exceptional treatment of interest rate swaps. The Company enters into derivative contracts with financial institutions of high creditworthiness to reduce credit risk.

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

The Japan Transcity Group controls liquidity risk associated with operating payables and loans by its cash management systems, which control the funds 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 of the derivatives themselves.

(b) Fair values of financial instruments:

The carrying values of financial instruments included in the consolidated balance sheets and their fair values at March 31, 2019 and 2018 are set forth in the table below. 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, 2019:			
(1) Cash and cash equivalents	¥ 12,010	¥ 12,010	¥ -
(2) Short-term investments	826	826	-
(3) Trade receivables	15,672	15,672	-
(4) Investment securities:			
Marketable securities	7,398	7,398	-
Total assets	¥ 35,906	¥ 35,906	¥ -
(1) Trade payables	¥ 9,053	¥ 9,053	¥ -
(2) Short-term borrowings	2,275	2,275	-
(3) Long-term debt	31,803	31,901	98
Total liabilities	¥ 43,131	¥ 43,229	¥ 98

At March 31, 2018:			
(1) Cash and cash equivalents	¥ 9,526	¥ 9,526	¥ -
(2) Short-term investments	760	760	-
(3) Trade receivables	14,970	14,970	-
(4) Investment securities:			
Marketable securities	8,244	8,244	-
Total assets	¥ 33,500	¥ 33,500	¥ -
(1) Trade payables	¥ 8,907	¥ 8,907	¥ -
(2) Short-term borrowings	2,361	2,361	-
(3) Long-term debt	34,160	34,136	(24)
Total liabilities	¥ 45,428	¥ 45,404	¥ (24)

	Carrying value	Fair value	Difference
	Thousands of U.S. dollars		
At March 31, 2019:			
(1) Cash and cash equivalents	\$ 109,182	\$ 109,182	\$ -
(2) Short-term investments	7,509	7,509	-
(3) Trade receivables	142,473	142,473	-
(4) Investment securities:			
Marketable securities	67,255	67,255	-
Total assets	\$ 326,419	\$ 326,419	\$ -
(1) Trade payables	\$ 82,300	\$ 82,300	\$ -
(2) Short-term borrowings	20,682	20,682	-
(3) Long-term debt	289,118	290,009	891
Total liabilities	\$ 392,100	\$ 392,991	\$ 891

Note 1. Methods used to calculate 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 receivables 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 classified by the purpose for which they are held, see Note 4, Investments.

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: a derivative related to earthquakes with an outstanding contract amount of ¥300 million (\$2,727 thousand) at both March 31, 2019 and 2018. As the fair value for the contract was not considered determinable, the contract was not accounted for at fair value.

② Derivative transactions to which hedge accounting was applied and for which 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
	2019	2018	2019
Contract amount (*1)	¥ 2,000	¥ 2,000	\$ 18,182
Contract amount due after one year included in (*1)	2,000	2,000	18,182
Fair value	(18)	(27)	(164)

(*1) Method of hedge accounting applied: exceptional treatment for interest rate swaps

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 institution.

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Nonmarketable securities (*1)	¥ 495	¥ 497	\$ 4,500
Stocks of nonconsolidated subsidiaries and affiliates (*1)	6,846	6,699	62,236
Guarantee deposits received (*2)	2,523	2,655	22,936
Derivative related to earthquakes (*3)	17	19	155

(*1) It is extremely difficult to determine the fair values of nonmarketable 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," in the table 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 years ended March 31, 2019 and 2018, the Company entered into a derivative contract related to earthquakes for hedging purposes. The outstanding contract amount was ¥300 million (\$2,727 thousand) at both March 31, 2019 and 2018. As the fair value for the contract was not considered determinable, the contract was not 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	
	Millions of yen				Thousands of U.S. dollars			
	2019		2018		2019			
Cash and cash equivalents	¥ 12,010	¥ -	¥ 9,526	¥ -	\$ 109,182	\$ -		
Short-term investments	826	-	760	-	7,509	-		
Trade receivables	15,672	-	14,970	-	142,473	-		
Total	¥ 28,508	¥ -	¥ 25,256	¥ -	\$ 259,164	\$ -		

4. Investments

At March 31, 2019 and 2018, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2019 and 2018, investment securities consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Marketable securities:			
Equity securities	¥ 7,388	¥ 8,235	\$ 67,164
Other	10	9	91
	7,398	8,244	67,255
Other nonmarketable securities	495	497	4,500
	¥ 7,893	¥ 8,741	\$ 71,755

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 a net amount within net assets until realized. At March 31, 2019 and 2018, 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, 2019:				
Equity securities	¥ 4,265	¥ 3,177	¥ (54)	¥ 7,388
Other	9	1	-	10
	<u>¥ 4,274</u>	<u>¥ 3,178</u>	<u>¥ (54)</u>	<u>¥ 7,398</u>
Available-for-sale securities at March 31, 2018:				
Equity securities	¥ 4,197	¥ 4,182	¥ (144)	¥ 8,235
Other	8	1	-	9
	<u>¥ 4,205</u>	<u>¥ 4,183</u>	<u>¥ (144)</u>	<u>¥ 8,244</u>
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. dollars			
Available-for-sale securities at March 31, 2019:				
Equity securities	\$ 38,773	\$ 28,882	\$ (491)	\$ 67,164
Other	82	9	-	91
	<u>\$ 38,855</u>	<u>\$ 28,891</u>	<u>\$ (491)</u>	<u>\$ 67,255</u>

Impairment loss on marketable investment securities in the amount of ¥216 million (\$1,964 thousand) and none was recorded for the years ended March 31, 2019 and 2018, respectively.

Finding an impairment loss with respect to a marketable investment security depends on decline in value. If the fair value of an individual marketable investment security declines by more than 50% of the acquisition cost, impairment loss will be recognized and if the fair value declines to between 30% and 50% of the acquisition cost, the recoverability of the security will be determined in order to recognize impairment loss.

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

At March 31, 2019 and 2018, short-term borrowings consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unsecured short-term bank loans and bank overdrafts with interest rates ranging from 0.13% to 4.4% per annum at March 31, 2019	¥ 2,275	¥ 2,361	\$ 20,682

At March 31, 2019 and 2018, long-term debt consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unsecured long-term loans from banks and other financial institutions due through 2027 with interest rates ranging from 0.09% to 2.5% per annum at March 31, 2019	31,803	34,160	289,118
Less portions with current maturities	(7,785)	(4,757)	(70,773)
	<u>¥ 24,018</u>	<u>¥ 29,403</u>	<u>\$ 218,345</u>

The aggregate amounts of long-term debt due annually at March 31, 2019 were as follows.

<u>Year ending March 31,</u>	Millions of yen	Thousands of U.S. dollars
2020	¥ 7,785	\$ 70,773
2021	5,677	51,609
2022	3,016	27,418
2023	7,525	68,409
2024	3,950	35,909
2025 and thereafter	3,850	35,000
	<u>¥ 31,803</u>	<u>\$ 289,118</u>

At March 31, 2019, aggregate amounts of long-term lease obligations included in other current liabilities and other long-term liabilities due annually were as follows.

<u>Year ending March 31,</u>	Millions of yen	Thousands of U.S. dollars
2020	¥ 78	\$ 709
2021	43	391
2022	25	227
2023	14	127
2024	11	100
	<u>¥ 171</u>	<u>\$ 1,554</u>

At March 31, 2019 and 2018, the following assets were pledged as collateral for current and noncurrent payables.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings	¥ 5,451	¥ 5,701	\$ 49,555

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 or 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 received any such request. The general agreements further provide that the banks have the right, as indebtedness matures or becomes due prematurely by reason of default, to offset any deposits at the banks against any indebtedness due.

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 defined contribution pension plans under certain pension funds organized by third parties.

The following tables reconcile the retirement benefit liability (asset) and retirement benefit costs as at and for the years ended March 31, 2019 and 2018.

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

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Movement in retirement benefit obligations:			2019
Balance at beginning of year	¥ 8,157	¥ 7,986	\$ 74,155
Service cost	406	406	3,691
Interest cost	12	19	109
Actuarial differences	124	90	1,127
Benefits paid	(315)	(343)	(2,864)
Other	(3)	(1)	(27)
Balance at end of year	¥ 8,381	¥ 8,157	\$ 76,191

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Movement in plan assets:			2019
Balance at beginning of year	¥ 10,650	¥ 10,130	\$ 96,818
Expected return on plan assets	108	103	982
Actuarial differences	(501)	497	(4,555)
Contributions paid by the employer	260	253	2,364
Benefits paid	(296)	(332)	(2,691)
Other	(2)	(1)	(18)
Balance at end of year	¥ 10,219	¥ 10,650	\$ 92,900

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 7,349	¥ 7,200	\$ 66,809
Plan assets	(10,219)	(10,650)	(92,900)
	¥ (2,870)	¥ (3,450)	\$ (26,091)
Unfunded retirement benefit obligations	1,032	957	9,382
Total net liability (asset) for employee retirement benefits at end of year	¥ (1,838)	¥ (2,493)	\$ (16,709)
Employee retirement benefit liability	1,046	975	9,509
Employee retirement benefit asset	(2,884)	(3,468)	(26,218)
Total net liability (asset) for retirement benefits at end of year	¥ (1,838)	¥ (2,493)	\$ (16,709)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit costs:			
Service cost	¥ 406	¥ 406	\$ 3,691
Interest cost	12	19	109
Expected return on plan assets	(108)	(103)	(982)
Actuarial differences amortization	55	288	500
Past service costs amortization	(13)	(18)	(118)
Total retirement benefit costs for the year	¥ 352	¥ 592	\$ 3,200

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit adjustment, before taxes, included in other comprehensive income:			
Actuarial differences	¥ 570	¥ (695)	\$ 5,182
Past service costs	13	18	118
Total balance at end of year	¥ 583	¥ (677)	\$ 5,300

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit adjustment, before taxes, included in accumulated other comprehensive income:			
Actuarial differences that are yet to be recognized	¥ (200)	¥ (770)	\$ (1,818)
Past service costs that are yet to be recognized	-	(13)	-
Total balance at end of year	¥ (200)	¥ (783)	\$ (1,818)

Plan assets:

	2019	2018
(1) Plan assets:		
Bonds	22%	20%
Equity securities	26%	29%
General account	4%	5%
Commingled funds	32%	31%
Other	16%	15%
Total	<u>100%</u>	<u>100%</u>

At March 31, 2019 and 2018, assets under the retirement benefit trust set up for corporate pension plans accounted for 25% and 27% of the total plan assets, respectively.

Commingled funds consisted of bonds (68%) and equity securities (32%) at March 31, 2019 and consisted of bonds (66%) and equity securities (34%) at March 31, 2018.

(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, 2019 and 2018 expressed as weighted averages.

	2019	2018
Discount rate	0.0%	0.1%
Long-term expected rate of return	1.0%	1.0%

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Movement in liability for retirement benefits:			
Balance at beginning of year	¥ 978	¥ 964	\$ 8,891
Retirement benefit costs	176	175	1,600
Benefits paid	(86)	(71)	(782)
Contributions paid by the employer	(96)	(91)	(873)
Other	-	1	-
Balance at end of year	<u>¥ 972</u>	<u>¥ 978</u>	<u>\$ 8,836</u>

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 2,146	¥ 2,122	\$ 19,509
Plan assets	<u>(1,375)</u>	<u>(1,349)</u>	<u>(12,500)</u>
	¥ 771	¥ 773	\$ 7,009
Unfunded retirement benefit obligations	<u>201</u>	<u>205</u>	<u>1,827</u>
Total net liability (asset) for employee retirement benefits at end of year	<u>¥ 972</u>	<u>¥ 978</u>	<u>\$ 8,836</u>
Employee retirement benefit liability	998	1,005	9,073
Employee retirement benefit asset	<u>(26)</u>	<u>(27)</u>	<u>(237)</u>
Total net liability (asset) for retirement benefit at end of year	<u>¥ 972</u>	<u>¥ 978</u>	<u>\$ 8,836</u>

Total retirement benefit costs for the fiscal years ended March 31, 2019 and 2018 based on the simplified method were as follows:

Millions of yen		Thousands of U.S. dollars
2019	2018	2019
¥ 176	¥ 175	\$ 1,600

Defined contribution plan:

For the years ended March 31, 2019 and 2018, the required contribution of the consolidated subsidiaries to the defined contribution plan amounted to ¥43 million (\$391 thousand) and ¥42 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 price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law, in cases in which 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, 2019 and 2018, 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 (\$10,909 thousand) at both March 31, 2019 and 2018.

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

During the year ended March 31, 2019, the Company paid interim dividends of ¥5.0 per share amounting to ¥321 million (\$2,918 thousand). In addition, at the annual shareholders' meeting held on June 27, 2019, the shareholders approved cash dividends of ¥5.0 per share amounting to ¥321 million (\$2,918 thousand). These appropriations had not been accrued in the consolidated financial statements as of March 31, 2019 as such appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent Liabilities

At March 31, 2019 and 2018, the Japan Transcity Group was contingently liable for reserved guarantees of indebtedness of a certain unconsolidated subsidiary in the amount of ¥195 million (\$1,773 thousand) and ¥172 million, respectively.

9. Lease Commitments

As lessee the Japan Transcity Group leases land and buildings to be used for office spaces and warehouses principally under long-term cancelable and noncancelable operating lease agreements. The Japan Transcity Group also leases computer equipment, other equipment and vehicles under leases which are generally noncancelable.

For the year ended March 31, 2019 and 2018, lease expenses under noncancelable lease agreements which were categorized as finance leases entered into before March 31, 2008 amounted to none and ¥82 million, respectively.

The aggregate future minimum payments for noncancelable operating leases at March 31, 2019 and 2018 were as follows.

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Operating leases:			2019
Due within one year	¥ 1,578	¥ 1,175	\$ 14,345
Due after one year	2,637	1,323	23,973
	<u>¥ 4,215</u>	<u>¥ 2,498</u>	<u>\$ 38,318</u>

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, 2019 and 2018 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Enterprise tax accruals	¥ 65	¥ 28	\$ 591
Accrued bonuses to employees	343	334	3,118
Employee retirement benefit liability	453	333	4,118
Intercompany capital gains	242	243	2,200
Tax loss carryforwards (Note 1)	324	290	2,946
Impairment loss on fixed assets	1,191	1,196	10,827
Others	570	469	5,182
Subtotal	3,188	2,893	28,982
Valuation allowance for tax loss carryforwards (Note 1)	(280)	-	(2,546)
Valuation allowance for deductible temporary differences	(1,358)	-	(12,345)
Less valuation allowance	(1,638)	(1,588)	(14,891)
Deferred tax assets	1,550	1,305	14,091
Deferred tax liabilities:			
Employee retirement benefit asset	-	(89)	-
Deferred capital gain	(1,281)	(1,291)	(11,645)
Unrealized gains on available-for-sale securities	(953)	(1,236)	(8,664)
Others	(678)	(655)	(6,164)
Deferred tax liabilities	(2,912)	(3,271)	(26,473)
Net deferred tax liabilities	¥ (1,362)	¥ (1,966)	\$ (12,382)

(Note 1) Details of deferred tax assets for tax loss carryforwards by respective expiration periods at March 31, 2019 were as follows:

	2020	2021	2022	2023	2024	2025 and thereafter	Total
	(Millions of yen)						
Tax loss carryforwards (*1)	¥ 53	¥ 28	¥ 35	¥ 24	¥ 17	¥ 167	¥ 324
Valuation allowance	(53)	(28)	(35)	(24)	(17)	(123)	(280)
Net deferred tax assets	-	-	-	-	-	44	44
	Thousands of U.S. dollars						
Tax loss carryforwards (*1)	\$ 482	\$ 255	\$ 318	\$ 218	\$ 155	\$ 1,518	\$ 2,946
Valuation allowance	(482)	(255)	(318)	(218)	(155)	(1,118)	(2,546)
Net deferred tax assets	-	-	-	-	-	400	400

(*1) Tax loss carryforwards shown in the table above represent the amount of deferred tax assets after multiplying the statutory tax rate.

At March 31, 2019 and 2018, deferred tax assets and liabilities were as follows.

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Deferred tax assets	¥ 862	¥ 738	\$ 7,836
Deferred tax liabilities:	2,224	2,704	20,218
Net deferred tax liabilities	¥ (1,362)	¥ (1,966)	\$ (12,382)

Upon the change of the presentation for the deferred tax assets and liabilities effective from the current year, comparative figures from the previous year were reclassified to conform to the current year's presentation.

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, 2019 and 2018, a valuation reserve was provided to reduce the deferred tax assets to amounts management believed would be realizable.

Reconciliation of the difference between the Japanese statutory tax rate and the effective income tax rate on pretax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2019 and 2018 were not disclosed because the differences were immaterial.

11. Comprehensive Income

The amounts reclassified to profit (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, 2019 and 2018 were as follows.

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Net unrealized gains on available-for-sale securities:			
(Decrease) increase during the year	¥ (1,130)	¥ 613	\$ (10,273)
Reclassification adjustments to profit or loss	216	-	1,964
Subtotal, before tax	(914)	613	(8,309)
Tax benefit or (expense)	282	(189)	2,564
Subtotal, net of tax	(632)	424	(5,745)
Foreign currency translation adjustments:			
(Decrease) increase during the year	(97)	47	(882)
Retirement benefit adjustment:			
(Decrease) increase during the year	(625)	407	(5,682)
Reclassification adjustments to profit or loss	42	270	382
Subtotal, before tax	(583)	677	(5,300)
Tax benefit or (expense)	176	(204)	1,600
Subtotal, net of tax	(407)	473	(3,700)
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method:			
(Decrease) increase during the year	(8)	10	(73)
Total other comprehensive income	¥ (1,144)	¥ 954	\$ (10,400)

12. Related Party Transactions

ASBJ Statement No. 11, “Accounting Standard for Related Party Disclosures,” and ASBJ Guidance No. 13, “Guidance on Accounting Standard for Related Party Disclosures,” both issued by ASBJ on October 17, 2006, require certain additional related party disclosures. Pursuant to the statement and guidance, information on a material affiliate, Chubu Coal Center Co., Ltd., has been disclosed for the years ended March 31, 2019 and 2018.

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Total current assets	¥ 718	¥ 844	\$ 6,527
Total fixed assets	8,762	8,942	79,655
Total current liabilities	¥ 841	¥ 1,324	\$ 7,645
Total fixed liabilities	60	280	546
Total net assets	8,579	8,182	77,991
Operating revenue	¥ 3,370	¥ 3,445	\$ 30,636
Income before income taxes	1,061	1,120	9,645
Net income	739	778	6,718

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 examined regularly by the Board of Directors to evaluate 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 "Integrated Logistics Services."

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

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

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

Information by segment as at or for the years ended March 31, 2019 and 2018 is as follows.

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Millions of yen				
For the year ended March 31, 2019:					
Operating revenue:					
External customers	¥ 99,081	¥ 1,014	¥ 100,095	¥ -	¥ 100,095
Intersegment sales	25	1,443	1,468	(1,468)	-
Total operating revenue	99,106	2,457	101,563	(1,468)	100,095
Operating income	¥ 3,254	¥ 119	¥ 3,373	¥ (25)	¥ 3,348
Identifiable assets	¥ 121,737	¥ 2,371	¥ 124,108	¥ (2,426)	¥ 121,682
Depreciation	3,491	59	3,550	-	3,550
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	6,532	-	6,532	-	6,532
Capital expenditures	3,707	33	3,740	-	3,740
Impairment loss on fixed assets	-	-	-	-	-
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	-	-	-	-	-
For the year ended March 31, 2018:					
Operating revenue:					
External customers	¥ 94,513	¥ 1,096	¥ 95,609	¥ -	¥ 95,609
Intersegment sales	26	2,179	2,205	(2,205)	-
Total operating revenue	94,539	3,275	97,814	(2,205)	95,609
Operating income	¥ 2,218	¥ 179	¥ 2,397	¥ (52)	¥ 2,345
Identifiable assets	¥ 120,844	¥ 2,516	¥ 123,360	¥ (2,365)	¥ 120,995
Depreciation	3,300	65	3,365	-	3,365
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	6,386	-	6,386	-	6,386
Capital expenditures	8,878	50	8,928	-	8,928
Impairment loss on fixed assets	51	-	51	-	51
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	14	-	14	-	14

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Thousands of U.S. dollars				
For the year ended March 31, 2019:					
Operating revenue:					
External customers	\$ 900,736	\$ 9,218	\$ 909,954	\$ -	\$ 909,954
Intersegment sales	228	13,118	13,346	(13,346)	-
Total operating revenue	900,964	22,336	923,300	(13,346)	909,954
Operating income	\$ 29,582	\$ 1,082	\$ 30,664	\$ (228)	\$ 30,436
Identifiable assets	\$ 1,106,700	\$ 21,555	\$ 1,128,255	\$ (22,055)	\$ 1,106,200
Depreciation	31,737	536	32,273	-	32,273
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	59,382	-	59,382	-	59,382
Capital expenditures	33,700	300	34,000	-	34,000
Impairment loss on fixed assets	-	-	-	-	-
Amortization of goodwill	127	-	127	-	127
Balance of goodwill	-	-	-	-	-

(Related information)

1. Information about products and services of “Integrated Logistic Services”

	Warehousing	Coastal shipping	Trucking	International multimodal transportation	Total
	Millions of yen				
Operating revenue to external customers:					
For the year ended March 31, 2019	¥ 39,799	¥ 21,896	¥ 19,174	¥ 18,212	¥ 99,081
For the year ended March 31, 2018	37,377	20,931	18,396	17,809	94,513
Thousands of U.S. dollars					
Operating revenue to external customers:					
For the year ended March 31, 2019	\$ 361,809	\$ 199,054	\$ 174,309	\$ 165,564	\$ 900,736

2. Information about geographic areas

(1) Operating revenue

For the year ended March 31, 2019, the Company 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, while for the year ended March 31, 2018 operating revenue of ¥95,609 million consisted of ¥85,702 million from external customers in Japan and ¥9,907 million from external customers in other areas.

(2) Property and equipment

Both at March 31, 2019 and 2018, the Company 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

For the year ended March 31, 2019, the Company 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, while for the year ended March 31, 2018, the Japan Transcity Group recorded a revenue from one certain customer, Aeon Global SCM Co., Ltd., of ¥9,634 million, which accounted for more than 10% of operating revenue in the consolidated statements of income.

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
	2019	2018	2019
Current assets:			
Cash and cash equivalents	¥ 9,497	¥ 6,932	\$ 86,336
Short-term investments	7	7	64
Trade receivables, net of allowance for doubtful accounts	14,485	13,848	131,682
Inventories	82	21	745
Other current assets	1,451	2,296	13,191
Total current assets	25,522	23,104	232,018
Property and equipment, at cost	97,947	96,194	890,427
Less accumulated depreciation	(42,037)	(40,483)	(382,154)
Net property and equipment	55,910	55,711	508,273
Investments and other assets:			
Investment securities	7,219	7,880	65,627
Investments in and long-term loans to subsidiaries and affiliates	5,584	5,427	50,764
Prepaid pension cost	2,539	2,505	23,082
Other assets	2,488	2,189	22,618
Allowance for doubtful accounts	(1,559)	(1,334)	(14,173)
Total investments and other assets	16,271	16,667	147,918
Total assets	¥ 97,703	¥ 95,482	\$ 888,209

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current liabilities:			
Short-term borrowings	¥ 9,386	¥ 9,003	\$ 85,327
Current maturities of long-term debt	7,340	3,715	66,727
Trade payables	7,018	6,781	63,800
Accrued expenses	881	874	6,346
Income taxes payable	698	50	8,009
Other current liabilities	3,451	1,639	31,373
Total current liabilities	28,774	22,062	261,582
Long-term liabilities:			
Long-term debt	18,643	23,582	169,482
Employee retirement benefit liability	884	780	8,036
Deferred tax liabilities for revaluation	3,706	3,773	33,691
Provision for loss on business of subsidiaries	1,247	1,469	11,336
Deferred tax liabilities	1,805	2,113	16,410
Other long-term liabilities	341	319	3,100
Total long-term liabilities	26,626	32,036	242,055
Total liabilities	55,400	54,098	503,637
Net assets:			
Shareholders' equity:			
Common stock	8,428	8,428	76,618
Capital surplus	6,742	6,742	61,291
Retained earnings	27,655	26,078	251,409
Less treasury stock, at cost	(1,190)	(1,190)	(10,818)
Total shareholders' equity	41,635	40,058	378,500
Accumulated gains (losses) from valuation adjustment:			
Net unrealized gains on available-for-sale securities	2,007	2,510	18,245
Land revaluation decrement	(1,339)	(1,184)	(12,173)
Total accumulated gains from valuation adjustment	668	1,326	6,072
Total net assets	42,303	41,384	384,572
Total liabilities and net assets	¥ 97,703	¥ 95,482	\$ 888,209

Nonconsolidated Statements of Income
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2019 and 2018

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Operating revenue	¥ 87,452	¥ 83,457	\$ 795,018
Operating costs and expenses	85,056	81,933	773,236
Operating income	2,396	1,524	21,782
Other income (expenses):			
Interest and dividend income	931	704	8,463
Interest expense	(144)	(140)	(1,309)
(Loss) gain on sale or disposal of property and equipment, net	(127)	(55)	(1,154)
Miscellaneous, net	(62)	73	(564)
	598	582	5,436
Income before income taxes	2,994	2,106	27,218
Income taxes:			
Current	1,088	738	9,891
Deferred	(157)	(121)	(1,427)
Total income taxes	931	617	8,464
Net income	¥ 2,063	¥ 1,489	\$ 18,754
Per share:			
Net income	¥ 32.19	¥ 23.26	\$ 0.29
Cash dividends	10.00	10.00	0.09

Nonconsolidated Statements of Changes in Net Assets
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2019 and 2018

	Shareholders' equity					Accumulated gains (losses) from valuation adjustment				Total net assets
	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 from valuation adjustment		
Millions of yen										
Balance at April 1, 2017	¥ 8,428	¥ 6,733	¥ 25,227	¥ (1,270)	¥ 39,118	¥ 2,162	¥ (1,182)	¥ 980		¥ 40,098
Net income for the year	-	-	1,489	-	1,489	-	-	-		1,489
Cash dividends	-	-	(640)	-	(640)	-	-	-		(640)
Disposal of treasury stock and fractional shares, net of purchase	-	9	-	80	89	-	-	-		89
Reversal of land revaluation decrement	-	-	2	-	2	-	-	-		2
Net changes other than shareholders' equity	-	-	-	-	-	348	(2)	346		346
Balance at March 31, 2018	¥ 8,428	¥ 6,742	¥ 26,078	¥ (1,190)	¥ 40,058	¥ 2,510	¥ (1,184)	¥ 1,326		¥ 41,384
Net income for the year	-	-	2,063	-	2,063	-	-	-		2,063
Cash dividends	-	-	(641)	-	(641)	-	-	-		(641)
Reversal of land revaluation decrement	-	-	155	-	155	-	-	-		155
Net changes other than changes in shareholders' equity	-	-	-	-	-	(503)	(155)	(658)		(658)
Balance at March 31, 2019	¥ 8,428	¥ 6,742	¥ 27,655	¥ (1,190)	¥ 41,635	¥ 2,007	¥ (1,339)	¥ 668		¥ 42,303
Thousands of U.S. dollars										
Balance at March 31, 2018	\$ 76,618	\$ 61,291	\$ 237,073	\$ (10,818)	\$ 364,164	\$ 22,818	\$ (10,764)	\$ 12,054		\$ 376,218
Net income for the year	-	-	18,754	-	18,754	-	-	-		18,754
Cash dividends	-	-	(5,827)	-	(5,827)	-	-	-		(5,827)
Reversal of land revaluation decrement	-	-	1,409	-	1,409	-	-	-		1,409
Net changes other than changes in shareholders' equity	-	-	-	-	-	(4,573)	(1,409)	(5,982)		(5,982)
Balance at March 31, 2019	\$ 76,618	\$ 61,291	\$ 251,409	\$ (10,818)	\$ 378,500	\$ 18,245	\$ (12,173)	\$ 6,072		\$ 384,572