Japan Transcity Corporation

Consolidated Financial Statements

March 31, 2020 and 2019

KPMG AZSA LLC

© 2020 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. All rights reserved.

KPMG

Independent auditor's report

To the Board of Directors of Japan Transcity Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Japan Transcity Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Hideki Okano

Designated Engagement Partner

Certified Public Accountant

Noriko Shinke

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Nagoya Office, Japan

July 31, 2020

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current assets:			
Cash and cash equivalents (Note 3)	¥ 10,641	¥ 12,010	$ 98,528
Short-term investments (Notes 3 and 4)	986	826	9,130
Trade receivables (Note 3)	14,304	15,672	132,444
Allowance for doubtful accounts	(35)	(30)	(324)
	14,269	15,642	132,120
Inventories	159	186	1,472
Other current assets	2,161	1,966	20,009
Total current assets	28,216	30,630	261,259
Property and equipment:			
Land	32,240	32,231	298,519
Buildings and structures (Note 5)	77,837	73,103	720,713
Machinery and equipment	8,687	8,452	80,435
Vehicles and vessels	8,085	7,876	74,861
Construction in progress	160	1,539	1,482
Other	8,271	6,125	76,583
Total property and equipment	135,280	129,326	1,252,593
Less accumulated depreciation	(62,058)	(59,364)	(574,611)
Net property and equipment	73,222	69,962	677,982
Investments and other assets:			
Investment securities (Notes 3 and 4)	6,753	7,893	62,528
Investments in unconsolidated subsidiaries and affiliates (Note 3)	7,024	6,846	65,037
Employee retirement benefit asset (Note 6)	2,377	2,910	22,009
Deferred tax assets (Note 10)	850	862	7,870
Other assets	2,750	2,598	25,463
Allowance for doubtful accounts	(16)	(19)	(148)
Total investments and other assets	19,738	21,090	182,759
Total assets	¥ 121,176	¥ 121,682	$ 1,122,000

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥ 2,270	¥ 2,275	$ 21,019
Current maturities of long-term debt (Notes 3 and 5)	6,021	7,785	55,750
Trade payables (Note 3)	9,122	9,053	84,463
Accrued expenses	1,764	1,812	16,333
Income taxes payable	397	884	3,676
Other current liabilities (Note 5)	2,879	4,607	26,657
Total current liabilities	22,453	26,416	207,898
Long-term liabilities:			
Long-term debt (Notes 3 and 5)	26,133	24,018	241,972
Employee retirement benefit liability (Note 6)	2,051	2,044	18,991
Guarantee deposits received (Note 3)	2,386	2,523	22,092
Deferred tax liabilities for revaluation	3,706	3,706	34,315
Deferred tax liabilities (Note 10)	1,740	2,224	16,111
Other long-term liabilities (Note 5)	1,708	1,126	15,815
Total long-term liabilities	37,724	35,641	349,296
Total liabilities	60,177	62,057	557,194
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	78,037
Capital surplus	6,786	6,765	62,833
Retained earnings	44,919	42,512	415,917
Less treasury stock, at cost: 3,007,366 shares in 2020 and 3,031,371 shares in 2019	(1,186)	(1,190)	(10,981)
Total shareholders' equity	58,947	56,515	545,806
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	1,330	2,122	12,315
Land revaluation decrement	(1,339)	(1,339)	(12,398)
Foreign currency translation adjustments	215	155	1,991
Retirement benefit adjustment (Note 6)	(384)	140	(3,556)
Total accumulated other comprehensive income	(178)	1,078	(1,648)
Noncontrolling interests	2,230	2,032	20,648
Total net assets	60,999	59,625	564,806
Total liabilities and net assets	¥ 121,176	¥ 121,682	$ 1,122,000

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Operating revenue (Note 13)	¥ 101,621	¥ 100,095	$ 940,935
Operating costs and expenses (Notes 6 and 9)	98,284	96,747	910,037
Operating income	3,337	3,348	30,898
Other income (expenses):			
Interest and dividend income	567	635	5,250
Interest expense	(160)	(165)	(1,481)
Equity in net earnings of unconsolidated subsidiaries and affiliates	543	470	5,028
Loss on sale or disposal of property and equipment, net	(100)	(100)	(926)
Others, net	136	(120)	1,259
	986	720	9,130
Income before income taxes	4,323	4,068	40,028
Income taxes (Note 10):			
Current	1,051	1,459	9,731
Deferred	101	(213)	935
Total income taxes	1,152	1,246	10,666
Net income	3,171	2,822	29,362
Net income attributable to noncontrolling interests	137	165	1,269
Net income attributable to owners of the Company	¥ 3,034	¥ 2,657	$ 28,093

	Yen		U.S. dollars
Per share:			
Net income	¥ 47.32	¥ 41.45	$ 0.44
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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income	¥ 3,171	¥ 2,822	$ 29,362
Other comprehensive income (Note 11):			
Net unrealized gains on available-for-sale securities	(794)	(632)	(7,352)
Foreign currency translation adjustments	132	(97)	1,222
Retirement benefit adjustment	(524)	(407)	(4,852)
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method	(3)	(8)	(28)
Total other comprehensive income	(1,189)	(1,144)	(11,010)
Comprehensive income	¥ 1,982	¥ 1,678	$ 18,352
Comprehensive income attributable to:			
Owners of the Company	¥ 1,779	¥ 1,549	$ 16,472
Noncontrolling interests	203	129	1,880

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, 2020 and 2019

		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 adjustments	Retirement benefit adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
		Millions of yen											
Balance at April 1, 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
Cumulative effects of changes in accounting policies	-	-	-	14	-	14	-	-	-	-	-	-	14
Restated balance	-	8,428	6,765	42,526	(1,190)	56,529	2,122	(1,339)	155	140	1,078	2,032	59,639
Net income attributable to owners of the Company	-	-	-	3,034	-	3,034	-	-	-	-	-	-	3,034
Cash dividends	-	-	-	(641)	-	(641)	-	-	-	-	-	-	(641)
Disposal of treasury stock and fractional shares, net of purchase	-	-	21	-	4	25	-	-	-	-	-	-	25
Net changes other than changes in shareholders' equity	-	-	-	-	-	-	(792)	-	60	(524)	(1,256)	198	(1,058)
Balance at March 31, 2020	67,142,417	¥ 8,428	¥ 6,786	¥ 44,919	¥ (1,186)	¥ 58,947	¥ 1,330	¥ (1,339)	¥ 215	¥ (384)	¥ (178)	¥ 2,230	¥ 60,999
		Thousands of U.S. dollars											
Balance at March 31, 2019		$ 78,037	$ 62,639	$ 393,629	$ (11,018)	$ 523,287	$ 19,648	$ (12,398)	$ 1,435	$ 1,296	$ 9,981	$ 18,815	$ 552,083
Cumulative effects of changes in accounting policies		-	-	130	-	130	-	-	-	-	-	-	130
Restated balance		78,037	62,639	393,759	(11,018)	523,417	19,648	(12,398)	1,435	1,296	9,981	18,815	552,213
Net income attributable to owners of the Company		-	-	28,093	-	28,093	-	-	-	-	-	-	28,093
Cash dividends		-	-	(5,935)	-	(5,935)	-	-	-	-	-	-	(5,935)
Disposal of treasury stock and fractional shares, net of purchase		-	194	-	37	231	-	-	-	-	-	-	231
Net changes other than changes in shareholders' equity		-	-	-	-	-	(7,333)	-	556	(4,852)	(11,629)	1,833	(9,796)
Balance at March 31, 2020		$ 78,037	$ 62,833	$ 415,917	$ (10,981)	$ 545,806	$ 12,315	$ (12,398)	$ 1,991	$ (3,556)	$ (1,648)	$ 20,648	$ 564,806

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes	¥ 4,323	¥ 4,068	$ 40,028
Adjustments for:			
Depreciation	4,129	3,550	38,231
Net change in employee retirement benefit asset/liability	(212)	66	(1,963)
Loss on sale or disposal of property and equipment, net	100	100	926
Decrease (increase) in trade receivables	1,383	(741)	12,806
Decrease (increase) in inventories	27	(97)	250
Increase in trade payables	67	169	620
Others, net	(1,876)	913	(17,370)
Subtotal	7,941	8,028	73,528
Interest and dividends received	871	949	8,064
Interest paid	(162)	(170)	(1,500)
Income taxes paid	(1,551)	(772)	(14,361)
Net cash provided by operating activities	7,099	8,035	65,731
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(7,290)	(2,131)	(67,500)
Decrease in property and equipment and intangible assets	36	391	334
Increase in short-term investments	(104)	(76)	(963)
Others, net	(111)	(450)	(1,028)
Net cash used in investing activities	(7,469)	(2,266)	(69,157)
Cash flows from financing activities:			
Increase in long-term debt	8,200	2,400	75,926
Repayment of long-term debt	(7,849)	(4,757)	(72,676)
Decrease in short-term borrowings	(5)	(83)	(46)
Dividends paid	(641)	(641)	(5,935)
Others, net	(729)	(177)	(6,750)
Net cash used in financing activities	(1,024)	(3,258)	(9,481)
Effect of exchange rate changes on cash and cash equivalents	25	(27)	231
Net (decrease) increase in cash and cash equivalents	(1,369)	2,484	(12,676)
Cash and cash equivalents at beginning of year	12,010	9,526	111,204
Cash and cash equivalents at end of year	¥ 10,641	¥ 12,010	$ 98,528

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, 2020, which was approximately ¥108 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, 2020 and 2019 were as follows.

	2020	2019
Consolidated subsidiaries:		
Domestic	25	25
Overseas	9	9
Unconsolidated subsidiaries and affiliates accounted for using the equity method	9	9
Unconsolidated subsidiaries stated at cost	9	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 2020 and 2019, 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 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
(e) Financial instruments to reclassify amounts equivalent to gains or losses on disposal or losses on impairment of the equity instruments to profit or loss for the period as a reclassification adjustment on consolidation.

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, 2020 and 2019 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Building	¥ 100	¥ 100	$ 926
Land	100	100	926

Upon the change of the presentation for the property and equipment from the current year, comparative figures from the previous year were reclassified to conform to the current year's presentation.

(h) Accounting for leases

Assets under finance leases that transfer ownership of the leased property to the lessee are depreciated using the same method used for nonlease property. Assets under 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.

(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, 2020 and 2019, 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 ¥8,858 million ($82,019 thousand) and ¥8,843 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, 2020 or 2019 due to the lack of any dilutive shares.

(q) Change in accounting policy

(a) Revenue from Contracts with Customers

At foreign subsidiaries that apply US GAAP, ASC 606, Revenue from Contracts with Customers has been adopted from the current fiscal year. In line with this adoption, revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which they expect to be entitled in exchange for those goods or services. In adopting the accounting standards, in accordance with the transitional treatment, the cumulative effect of adoption of the standards was recognized on the date of adoption and was added to or subtracted from retained earnings at the beginning of the current fiscal year. As a result, the impact on the balance of retained earnings and the consolidated statement of income for the current fiscal year is immaterial.

(b) IFRS No.16 Lease

Subsidiaries using International Financial Reporting Standards started to apply IFRS No. 16 Lease (hereinafter referred to as “IFRS 16”) from the current fiscal year. In accordance with IFRS 16, lessees are required to recognize almost all leases as assets or liabilities in the balance sheet. Having followed the transitional treatment regarding the application of IFRS 16, the cumulative effects of the changes in the accounting policies were added to (subtracted from) the opening balance of retained earnings for the current consolidated fiscal year. As a result, in the consolidated balance sheet of the current consolidated fiscal year, “Property, Plant and Equipment” increased by ¥344 million. In addition, “Others” classified as current and noncurrent liabilities increased by ¥167 million and ¥180 million, respectively. The effects on the consolidated statement of income and earnings per share information for the current consolidated fiscal year were inconsequential. Having reflected the cumulative effects on the opening balance of net assets for the current consolidated fiscal year, the opening balance of retained earnings in the consolidated statement of changes in net assets and noncontrolling interests decreased by ¥2 million and ¥1 million, respectively.

(r) Accounting standards and guidance not yet adopted

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

“Accounting Standard on Revenue Recognition” (ASBJ Statement No. 29) and ”Implementation Guidance on Accounting Standard on Revenue Recognition” (ASBJ Guidance No. 30) both issued by ASBJ on March 31, 2020.

(a) 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.

(b) 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.

(c) Impact of application:
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.

“Implementation Guidance on Disclosures about Faire Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(a) Overview
In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in “Accounting Standard for Financial Instruments”; and
- Inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

(b) Effective date
Fair Value Accounting Standards and guidance will be effective from the beginning of the consolidated fiscal year ending March 31, 2022.

“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(a) Overview
The purpose of this accounting standard is to disclose the information that contribute to the understanding of financial statement users regarding the accounting estimates of items that have risk of materially affecting the financial statement of the following consolidated fiscal year among items recorded by accounting estimates in the financial statements of the current consolidated fiscal year.

(b) Effective date
Effective from the end of the consolidated fiscal year ending March 31, 2021.

“Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

(a) Overview
The purpose of this accounting standard is to provide an outline of the accounting principles and procedures adopted for cases in which the provision of the relevant accounting standards are not clear.

(b) Effective date
Effective from the end of the consolidated fiscal year ending March 31, 2021.

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, 2020 and 2019 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, 2020:						
(1) Cash and cash equivalents	¥	10,641	¥	10,641	¥	-
(2) Short-term investments		986		986		-
(3) Trade receivables		14,304		14,304		-
(4) Investment securities:						
Marketable securities		6,258		6,258		-
Total assets	¥	32,189	¥	32,189	¥	-
(1) Trade payables	¥	9,122	¥	9,122	¥	-
(2) Short-term borrowings		2,270		2,270		-
(3) Long-term debt		32,154		32,178		24
Total liabilities	¥	43,546	¥	43,570	¥	24
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

	Carrying value		Fair value		Difference	
	Thousands of U.S. dollars					
At March 31, 2020:						
(1) Cash and cash equivalents	$	98,528	$	98,528	$	-
(2) Short-term investments		9,130		9,130		-
(3) Trade receivables		132,444		132,444		-
(4) Investment securities:						
Marketable securities		57,944		57,944		-
Total assets	$	298,046	$	298,046	$	-
(1) Trade payables	$	84,463	$	84,463	$	-
(2) Short-term borrowings		21,019		21,019		-
(3) Long-term debt		297,722		297,944		222
Total liabilities	$	403,204	$	403,426	$	222

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 ($2,778 thousand) at both March 31, 2020 and 2019. 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
	2020	2019	2020
Contract amount *(*1)*	¥ 2,000	¥ 2,000	$ 18,519
Contract amount due after one year included in *(*1)*	-	2,000	-
Fair value	(5)	(18)	(46)

*(*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
	2020	2019	2020
Nonmarketable securities *(*1)*	¥ 495	¥ 495	$ 4,584
Stocks of nonconsolidated subsidiaries and affiliates *(*1)*	7,024	6,846	65,037
Guarantee deposits received *(*2)*	2,386	2,523	22,092
Derivative related to earthquakes *(*3)*	17	17	157

*(*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, 2020 and 2019, the Company entered into a derivative contract related to earthquakes for hedging purposes. The outstanding contract amount was ¥300 million ($2,778 thousand) at both March 31, 2020 and 2019. 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	Due in one year or less	Due after one year
	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Cash and cash equivalents	¥ 10,641	¥ -	¥ 12,010	¥ -	$ 98,528	$ -
Short-term investments	986	-	826	-	9,130	-
Trade receivables	14,304	-	15,672	-	132,444	-
Total	¥ 25,931	¥ -	¥ 28,508	¥ -	$ 240,102	$ -

4. Investments

At March 31, 2020 and 2019, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2020 and 2019, investment securities consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Marketable securities:			
Equity securities	¥ 6,249	¥ 7,388	$ 57,861
Other	9	10	83
	6,258	7,398	57,944
Other nonmarketable securities	495	495	4,584
	¥ 6,753	¥ 7,893	$ 62,528

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, 2020 and 2019, 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, 2020:				
Equity securities	¥ 4,267	¥ 2,245	¥ (263)	¥ 6,249
Other	9	-	-	9
	¥ 4,276	¥ 2,245	¥ (263)	¥ 6,258
Available-for-sale securities at March 31, 2019:				
Equity securities	¥ 4,265	¥ 3,177	¥ (54)	¥ 7,388
Other	9	1	-	10
	¥ 4,274	¥ 3,178	¥ (54)	¥ 7,398

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. dollars			
Available-for-sale securities at March 31, 2020:				
Equity securities	$ 39,509	$ 20,787	$ (2,435)	$ 57,861
Other	83	-	-	83
	$ 39,592	$ 20,787	$ (2,435)	$ 57,944

Impairment loss on marketable investment securities in the amount of ¥24 million ($222 thousand) and ¥216 million was recorded for the years ended March 31, 2020 and 2019, 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, 2020 and 2019, short-term borrowings consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unsecured short-term bank loans and bank overdrafts with interest rates ranging from 0.13% to 0.22% per annum at March 31, 2020	¥ 2,270	¥ 2,275	$ 21,019

At March 31, 2020 and 2019, long-term debt consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
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, 2020	32,154	31,803	297,722
Less portions with current maturities	(6,021)	(7,785)	(55,750)
	¥ 26,133	¥ 24,018	$ 241,972

The aggregate amounts of long-term debt due annually at March 31, 2020 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 6,021	$ 55,750
2022	3,360	31,111
2023	7,869	72,861
2024	4,294	39,759
2025	994	9,204
2026 and thereafter	9,616	89,037
	¥ 32,154	$ 297,722

At March 31, 2020, aggregate amounts of long-term lease obligations included in other current liabilities and other long-term liabilities due annually were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 518	$ 4,796
2022	400	3,704
2023	164	1,519
2024	94	870
2025	41	380
2026 and thereafter	27	250
	¥ 1,244	$ 11,519

At March 31, 2020 and 2019, the following assets were pledged as collateral for current and noncurrent payables.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings	¥ 5,221	¥ 5,451	$ 48,343

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, 2020 and 2019.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Movement in retirement benefit obligations:			
Balance at beginning of year	¥ 8,381	¥ 8,157	$ 77,602
Service cost	423	406	3,917
Interest cost	2	12	18
Actuarial differences	21	124	194
Benefits paid	(467)	(315)	(4,324)
Other	1	(3)	10
Balance at end of year	¥ 8,361	¥ 8,381	$ 77,417

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Movement in plan assets:			
Balance at beginning of year	¥ 10,219	¥ 10,650	$ 94,620
Expected return on plan assets	205	108	1,898
Actuarial differences	(613)	(501)	(5,676)
Contributions paid by the employer	266	260	2,463
Benefits paid	(426)	(296)	(3,944)
Other	1	(2)	9
Balance at end of year	¥ 9,652	¥ 10,219	$ 89,370

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 7,317	¥ 7,349	$ 67,750
Plan assets	(9,652)	(10,219)	(89,370)
	¥ (2,335)	¥ (2,870)	$ (21,620)
Unfunded retirement benefit obligations	1,044	1,032	9,667
Total net liability (asset) for employee retirement benefits at end of year	¥ (1,291)	¥ (1,838)	$ (11,953)
Employee retirement benefit liability	1,060	1,046	9,815
Employee retirement benefit asset	(2,351)	(2,884)	(21,768)
Total net liability (asset) for retirement benefits at end of year	¥ (1,291)	¥ (1,838)	$ (11,953)

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit costs:			
Service cost	¥ 423	¥ 406	$ 3,917
Interest cost	2	12	18
Expected return on plan assets	(205)	(108)	(1,898)
Actuarial differences amortization	(116)	55	(1,074)
Past service costs amortization	-	(13)	-
Total retirement benefit costs for the year	¥ 104	¥ 352	$ 963

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit adjustment, before taxes, included in other comprehensive income:			
Actuarial differences	¥ 750	¥ 570	$ 6,944
Past service costs	-	13	-
Total balance at end of year	¥ 750	¥ 583	$ 6,944

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit adjustment, before taxes, included in accumulated other comprehensive income:			
Actuarial differences that are yet to be recognized	¥ 550	¥ (200)	$ 5,093
Total balance at end of year	¥ 550	¥ (200)	$ 5,093

Plan assets:

	2020	2019
(1) Plan assets:		
Bonds	23%	22%
Equity securities	23%	26%
General account	4%	4%
Commingled funds	30%	32%
Other	20%	16%
Total	100%	100%

At March 31, 2020 and 2019, assets under the retirement benefit trust set up for corporate pension plans accounted for 23% and 25% of the total plan assets, respectively.

Commingled funds consisted of bonds (67%) and equity securities (33%) at March 31, 2020 and consisted of bonds (68%) and equity securities (32%) at March 31, 2019.

(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, 2020 and 2019 expressed as weighted averages.

	2020	2019
Discount rate	0.1%	0.0%
Long-term expected rate of return	2.0%	1.0%

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Movement in liability for retirement benefits:			
Balance at beginning of year	¥ 972	¥ 978	$ 9,000
Retirement benefit costs	174	176	1,611
Benefits paid	(84)	(86)	(778)
Contributions paid by the employer	(98)	(96)	(907)
Other	1	-	9
Balance at end of year	¥ 965	¥ 972	$ 8,935

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 2,180	¥ 2,146	$ 20,185
Plan assets	(1,438)	(1,375)	(13,315)
	¥ 742	¥ 771	$ 6,870
Unfunded retirement benefit obligations	223	201	2,065
Total net liability (asset) for employee retirement benefits at end of year	¥ 965	¥ 972	$ 8,935
Employee retirement benefit liability	991	998	9,176
Employee retirement benefit asset	(26)	(26)	(241)
Total net liability (asset) for retirement benefit at end of year	¥ 965	¥ 972	$ 8,935

Total retirement benefit costs for the fiscal years ended March 31, 2020 and 2019 based on the simplified method were as follows:

Millions of yen		Thousands of U.S. dollars
2020	2019	2020
¥ 174	¥ 176	$ 1,611

Defined contribution plan:
For the years ended March 31, 2020 and 2019, the required contribution of the consolidated subsidiaries to the defined contribution plan amounted to ¥38 million ($352 thousand) and ¥43 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, 2020 and 2019, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included the legal earnings reserve of the Company in the amount of ¥1,200 million ($11,111 thousand) at both March 31, 2020 and 2019.

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, 2020, the Company paid interim dividends of ¥5.0 per share amounting to ¥321 million ($2,972 thousand). In addition, at the annual shareholders' meeting held on June 26, 2020, the shareholders approved cash dividends of ¥5.0 per share amounting to ¥321 million ($2,972 thousand). These appropriations had not been accrued in the consolidated financial statements as of March 31, 2020 as such appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent Liabilities

At March 31, 2020 and 2019, the Japan Transcity Group was contingently liable for reserved guarantees of indebtedness of a certain unconsolidated subsidiary in the amount of ¥559 million ($5,176 thousand) and ¥195 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.

The aggregate future minimum payments for noncancelable operating leases at March 31, 2020 and 2019 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Operating leases:			
Due within one year	¥ 1,715	¥ 1,578	$ 15,880
Due after one year	2,504	2,637	23,185
	¥ 4,219	¥ 4,215	$ 39,065

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, 2020 and 2019 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Enterprise tax accruals	¥ 39	¥ 65	$ 361
Accrued bonuses to employees	351	343	3,250
Employee retirement benefit liability	630	453	5,833
Intercompany capital gains	248	242	2,296
Tax loss carryforwads (Note 1)	259	324	2,398
Impairment loss on fixed assets	1,175	1,191	10,880
Others	527	570	4,880
Subtotal	3,229	3,188	29,898
Valuation allowance for tax loss carryforwards (Note 1)	(259)	(280)	(2,398)
Valuation allowance for deductible temporary differences	(1,307)	(1,358)	(12,102)
Less valuation allowance	(1,566)	(1,638)	(14,500)
Deferred tax assets	1,663	1,550	15,398
Deferred tax liabilities:			
Deferred capital gain	(1,234)	(1,281)	(11,426)
Unrealized gains on available-for-sale securities	(607)	(953)	(5,620)
Others	(712)	(678)	(6,593)
Deferred tax liabilities	(2,553)	(2,912)	(23,639)
Net deferred tax liabilities	¥ (890)	¥ (1,362)	$ (8,241)

(Note 1) Details of deferred tax assets for tax loss carryforwards by respective expiration periods at March 31, 2020 and 2019 were as follows:

	2021	2022	2023	2024	2025	2026 and thereafter	Total
For the year ended March 31, 2020:							
	(Millions of yen)						
Tax loss carryforwards *(*1)*	¥ 28	¥ 35	¥ 24	¥ 15	¥ 22	¥ 135	¥ 259
Valuation allowance	(28)	(35)	(24)	(15)	(22)	(135)	(259)
Net deferred tax assets	-	-	-	-	-	-	-
	Thousands of U.S. dollars						
Tax loss carryforwards *(*1)*	$ 259	$ 324	$ 222	$ 139	$ 204	$ 1,250	$ 2,398
Valuation allowance	(259)	(324)	(222)	(139)	(204)	(1,250)	(2,398)
Net deferred tax assets	-	-	-	-	-	-	-

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

	2020	2021	2022	2023	2024	2025 and thereafter	Total
For the year ended March 31, 2019:							
	(Millions of yen)						
Tax loss carryforwards *(*2)*	¥ 53	¥ 28	¥ 35	¥ 24	¥ 17	¥ 167	¥ 324
Valuation allowance	(53)	(28)	(35)	(24)	(17)	(123)	(280)
Net deferred tax assets	-	-	-	-	-	44	44

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

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, 2020 and 2019, 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 year ended March 31, 2020 was as follows.

	Percentage of pretax income
	2020
Japanese statutory tax rate	30.2%
Increase (decrease) due to:	
Permanently nondeductible expenses	0.9
Tax exempt income	(3.0)
Local minimum taxes per capita levy	0.9
Effect of elimination of dividend income from subsidiaries for consolidation purposes	2.4
Equity in net earnings of unconsolidated subsidiaries and affiliates	(3.8)
Valuation allowance	(1.3)
Others	0.4
Effective income tax rate	26.7%

Reconciliation for the year ended March 31, 2019 was not disclosed because the difference was 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, 2020 and 2019 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized gains on available-for-sale securities:			
(Decrease) during the year	¥ (1,165)	¥ (1,130)	$ (10,787)
Reclassification adjustments to profit or loss	24	216	222
Subtotal, before tax	(1,141)	(914)	(10,565)
Tax benefit	347	282	3,213
Subtotal, net of tax	(794)	(632)	(7,352)
Foreign currency translation adjustments:			
Increase (decrease) during the year	132	(97)	1,222
Retirement benefit adjustment:			
(Decrease) during the year	(634)	(625)	(5,870)
Reclassification adjustments to profit or loss	(116)	42	(1,074)
Subtotal, before tax	(750)	(583)	(6,944)
Tax benefit	226	176	2,092
Subtotal, net of tax	(524)	(407)	(4,852)
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method:			
(Decrease) during the year	(3)	(8)	(28)
Total other comprehensive income	¥ (1,189)	¥ (1,144)	$ (11,010)

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, 2020 and 2019.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total current assets	¥ 1,423	¥ 718	$ 13,176
Total fixed assets	8,637	8,762	79,972
Total current liabilities	¥ 871	¥ 841	$ 8,065
Total fixed liabilities	32	60	296
Total net assets	9,157	8,579	84,787
Operating revenue	¥ 3,501	¥ 3,370	$ 32,417
Income before income taxes	1,330	1,061	12,315
Net income	927	739	8,583

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, 2020 and 2019 is as follows.

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Millions of yen				
For the year ended March 31, 2020:					
Operating revenue:					
External customers	¥ 100,534	¥ 1,087	¥ 101,621	¥ -	¥ 101,621
Intersegment sales	26	2,021	2,047	(2,047)	-
Total operating revenue	100,560	3,108	103,668	(2,047)	101,621
Operating income	¥ 3,207	¥ 166	¥ 3,373	¥ (36)	¥ 3,337
Identifiable assets	¥ 121,581	¥ 2,568	¥ 124,149	¥ (2,973)	¥ 121,176
Depreciation	4,072	57	4,129	-	4,129
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	6,762	-	6,762	-	6,762
Capital expenditures	7,205	80	7,285	-	7,285
Amortization of goodwill	-	-	-	-	-
Balance of goodwill	-	-	-	-	-
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
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	-	-	-	-	-

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Thousands of U.S. dollars				
For the year ended March 31, 2020:					
Operating revenue:					
External customers	$ 930,870	$ 10,065	$ 940,935	$ -	$ 940,935
Intersegment sales	241	18,713	18,954	(18,954)	-
Total operating revenue	931,111	28,778	959,889	(18,954)	940,935
Operating income	$ 29,694	$ 1,537	$ 31,231	$ (333)	$ 30,898
Identifiable assets	$ 1,125,750	$ 23,778	$ 1,149,528	$ (27,528)	$ 1,122,000
Depreciation	37,703	528	38,231	-	38,231
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	62,611	-	62,611	-	62,611
Capital expenditures	66,713	741	67,454	-	67,454
Amortization of goodwill	-	-	-	-	-
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, 2020	¥ 41,902	¥ 21,527	¥ 18,997	¥ 18,108	¥ 100,534
For the year ended March 31, 2019	39,799	21,896	19,174	18,212	99,081
	Thousands of U.S. dollars				
Operating revenue to external customers:					
For the year ended March 31, 2020	$ 387,981	$ 199,324	$ 175,898	$ 167,667	$ 930,870

2. Information about geographic areas

(1) Operating revenue

Both at March 31, 2020 and 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.

(2) Property and equipment

Both at March 31, 2020 and 2019, 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

Both at March 31, 2020 and 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.

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
	2020	2019	2020
Current assets:			
Cash and cash equivalents	¥ 7,738	¥ 9,497	$ 71,648
Short-term investments	6	7	56
Trade receivables, net of allowance for doubtful accounts	13,263	14,485	122,805
Inventories	42	82	389
Other current assets	1,910	1,451	17,685
Total current assets	22,959	25,522	212,583
Property and equipment, at cost	101,751	97,947	942,139
Less accumulated depreciation	(43,616)	(42,037)	(403,852)
Net property and equipment	58,135	55,910	538,287
Investments and other assets:			
Investment securities	6,138	7,219	56,833
Investments in and long-term loans to subsidiaries and affiliates	6,448	5,584	59,704
Prepaid pension cost	2,800	2,539	25,926
Other assets	2,520	2,488	23,333
Allowance for doubtful accounts	(1,756)	(1,559)	(16,259)
Total investments and other assets	16,150	16,271	149,537
Total assets	¥ 97,244	¥ 97,703	$ 900,407

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current liabilities:			
Short-term borrowings	¥ 9,892	¥ 9,386	$ 91,592
Current maturities of long-term debt	5,609	7,340	51,935
Trade payables	7,282	7,018	67,426
Accrued expenses	866	881	8,019
Income taxes payable	233	698	2,157
Other current liabilities	1,549	3,451	14,343
Total current liabilities	25,431	28,774	235,472
Long-term liabilities:			
Long-term debt	21,169	18,643	196,009
Employee retirement benefit liability	942	884	8,722
Deferred tax liabilities for revaluation	3,706	3,706	34,315
Provision for loss on business of subsidiaries	1,047	1,247	9,695
Deferred tax liabilities	1,521	1,805	14,083
Other long-term liabilities	296	341	2,741
Total long-term liabilities	28,681	26,626	265,565
Total liabilities	54,112	55,400	501,037
Net assets:			
Shareholders’ equity:			
Common stock	8,428	8,428	78,037
Capital surplus	6,762	6,742	62,611
Retained earnings	29,208	27,655	270,444
Less treasury stock, at cost	(1,186)	(1,190)	(10,981)
Total shareholders' equity	43,212	41,635	400,111
Accumulated gains (losses) from valuation adjustment:			
Net unrealized gains on available-for-sale securities	1,259	2,007	11,657
Land revaluation decrement	(1,339)	(1,339)	(12,398)
Total accumulated gains (losses) from valuation adjustment	(80)	668	(741)
Total net assets	43,132	42,303	399,370
Total liabilities and net assets	¥ 97,244	¥ 97,703	$ 900,407

Nonconsolidated Statements of Income
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Operating revenue	¥ 88,855	¥ 87,452	$ 822,732
Operating costs and expenses	86,631	85,056	802,139
Operating income	2,224	2,396	20,593
Other income (expenses):			
Interest and dividend income	872	931	8,074
Interest expense	(130)	(144)	(1,204)
(Loss) gain on sale or disposal of property and equipment, net	(109)	(127)	(1,009)
Miscellaneous, net	150	(62)	1,389
	783	598	7,250
Income before income taxes	3,007	2,994	27,843
Income taxes:			
Current	774	1,088	7,167
Deferred	39	(157)	361
Total income taxes	813	931	7,528
Net income	¥ 2,194	¥ 2,063	$ 20,315

	Yen		U.S. dollars
Per share:			
Net income	¥ 34.21	¥ 32.19	$ 0.32
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, 2020 and 2019

	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, 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 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
Net income for the year	-	-	2,194	-	2,194	-	-	-	2,194
Cash dividends	-	-	(641)	-	(641)	-	-	-	(641)
Disposal of treasury stock and fractional shares, net of purchase	-	20	-	4	24	-	-	-	24
Net changes other than changes in shareholders' equity	-	-	-	-	-	(748)	-	(748)	(748)
Balance at March 31, 2020	¥ 8,428	¥ 6,762	¥ 29,208	¥ (1,186)	¥ 43,212	¥ 1,259	¥ (1,339)	¥ (80)	¥ 43,132
	Thousands of U.S. dollars								
Balance at March 31, 2019	$ 78,037	$ 62,426	$ 256,064	$ (11,018)	$ 385,509	$ 18,583	$ (12,398)	$ 6,185	$ 391,694
Net income for the year	-	-	20,315	-	20,315	-	-	-	20,315
Cash dividends	-	-	(5,935)	-	(5,935)	-	-	-	(5,935)
Disposal of treasury stock and fractional shares, net of purchase	-	185	-	37	222	-	-	-	222
Net changes other than changes in shareholders' equity	-	-	-	-	-	(6,926)	-	(6,926)	(6,926)
Balance at March 31, 2020	$ 78,037	$ 62,611	$ 270,444	$ (10,981)	$ 400,111	$ 11,657	$ (12,398)	$ (741)	$ 399,370