



JAPAN CASH/MACHINE CO., LTD.

Annual Report 2019

Year ended March 31, 2019



JAPAN CASH/MACHINE CO., LTD.

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Dedicated to becoming a truly global company, continually creating markets and value in the circulation of cash

Company Profile

Established in 1955, Japan Cash Machine Co., Ltd. (JCM) is an integrated manufacturer of money-handling machines. Today JCM and the Group companies use advanced technology and expertise to supply a wide range of superior products to users across a broad spectrum of industries, including gaming, amusement, financial, retail and other service industries. The JCM Group has built an excellent reputation among casinos and financial institutions worldwide by developing high-performance units for use with the US dollar, the euro and more than 100 other currencies. In all business activities, JCM is determined to maximize the benefit to people by reducing the effort required for currency distribution and storage, including the identification, sorting, delivery and quantity management of currency, and by maintaining the high standards of accuracy required to ensure that people can have confidence in their currency.

The JCM Group is determined to enhance corporate value and maximize returns to shareholders through the appropriate and efficient management of business operations, while maintaining excellent relations with all stakeholders, including shareholders, investors, suppliers, local communities and employees.

Forward-Looking Statements

This report contains forward-looking statements regarding the JCM Group plans, forecasts, strategies, business results and other items. These forward-looking statements are based on judgments made using the information available at the time. Actual business results will be affected by various risk factors and uncertainties, and readers are advised that these may differ substantially from the projections presented here. Factors affecting future projections include, but are not limited to, the economic conditions under which the JCM Group operates, competitive pressures, laws and regulations, the status of product development programs, and fluctuations in exchange rates.

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Net sales

¥31,270
million

Up **4.7%** year on year

Operating income

¥1,974
million

Up **43.9%** year on year

Net income attributable to owners of parent

¥1,289
million

Up **39.5%** year on year

It is our great pleasure to present the JCM Annual Report 2019

(covering the period from April 1, 2018 to March 31, 2019)

We are sincerely grateful for your avid interest and support.

The global gaming business was a driving force for operating results during the fiscal year ended March 31, 2019, enabling us to achieve both increases in sales and profits thanks to thriving demand in overseas markets. Additionally, we paid out a commemorative dividend to celebrate our 25th year since listing and to repay our shareholders for their generous support.

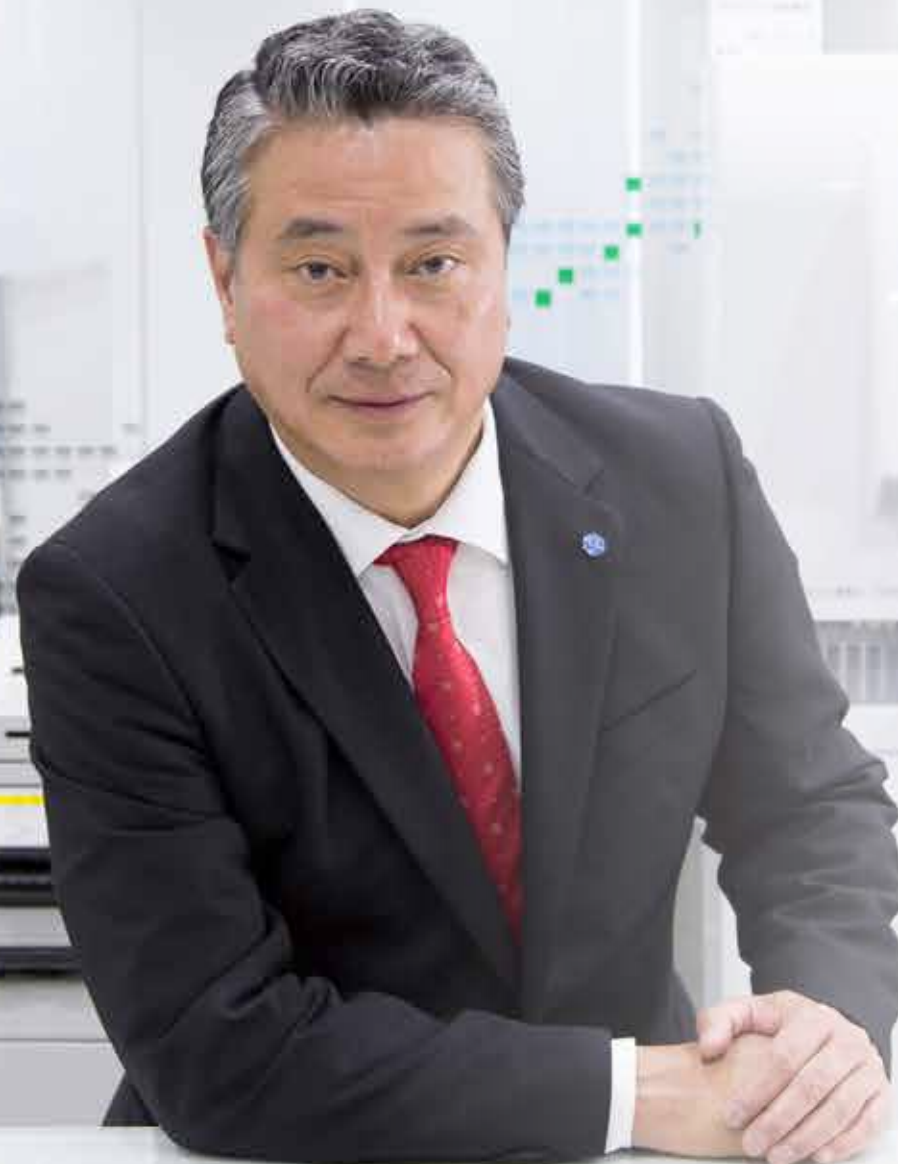
In the fiscal year in progress, the JCM Group plans to launch a full-scale initiative to achieve the final numerical targets, earlier than expected, of the New Medium-Term Management Plan: Rolling Plan IV, announced in May 2019.

I humbly ask that you, our valued shareholders, continue to offer your support and encouragement as we move forward.

June 2019



Yojiro Kamihigashi
President



Building Business Foundations That Allow Us to Adapt to a New Era



Q Please summarize the results for the period under review (the 66th fiscal year).

A The Company achieved both higher sales and profits.

Net sales increased during the fiscal year ended March 31, 2019, despite sluggish performance in the Overseas Commercial segment (finance, distribution, transportation, etc.) and the Equipment for the Amusement Industry segment, thanks to strong results in the Global Gaming segment, which includes the printer business. The boost in sales from the Global Gaming segment also largely contributed to the increase in profits.

Q Please tell us about initiatives for the (67th) fiscal year ending on March 31, 2020 that are based on the New Medium-Term Management Plan: Rolling Plan IV, announced in May 2019.

A The theme of these initiatives is building business foundations that allow us to adapt to changes in the current era.

For the period covered by the New Medium-Term Management Plan: Rolling Plan IV, we project that progress in technological innovation related to settlement functions and the diversification of demand in the commercial market will pick up speed, while the exceptional demand from overseas gaming markets during the fiscal year ended March 31, 2019 will slow down. In addition, we predict demand for equipment for the amusement industry market will remain challenging. The

equipment market will continue to be tough.

Based on these market projections, we are aiming to build business foundations that will allow us to adapt to a new era through our New Medium-Term Management Plan. Relevant initiatives include strengthening our capacity to make technological improvements; proactively developing and investing in products that meet the needs of all regions and markets; and cultivating new markets. In addition, we will respond to changes expected to occur several years from now, including the creation of integrated resorts (IRs) in Japan and changes to Japan's paper currency, while we work to secure earnings by proposing products and services based on the needs of all of our markets and customers.

During the fiscal year ending March 31, 2020, the first year of the New Medium-Term Management Plan, the JCM Group will use every possible method to increase sales of newly launched products in the commercial market. In addition, we will work to reach numerical targets for the final year of the plan earlier than expected by focusing on a variety of financial factors, including reducing both fixed costs and inventories.

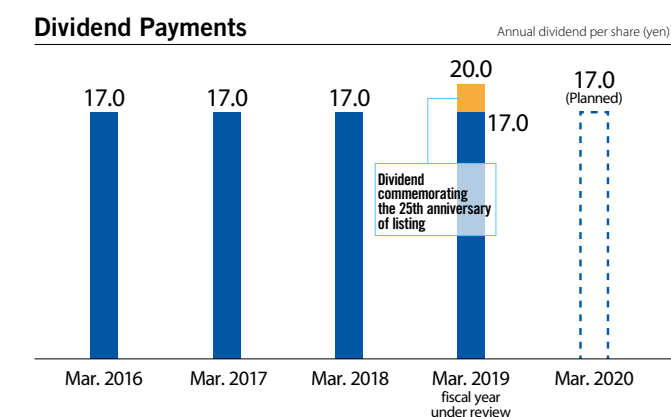
Q Finally, please explain your policy of returning profits.

A We paid a dividend commemorating the 25th anniversary of our listing.

For our basic policy of returning profits, we consider several points when determining specific dividend amounts. First, we intend to increase dividend amounts as profits increase when we achieve our growth targets. Second, we strive to return profits to our shareholders through the consistent payment of

dividends. Finally, we also consider our dividend on equity (DOE) ratio, based on a fundamental principle of achieving a consolidated dividend payout ratio of 30% or more after evaluating our dividend on equity ratio. In accordance with this basic policy, in the fiscal year ended March 31, 2019, we paid ¥20 per share in dividends: a regular year-end dividend of ¥8.5 per share, an interim dividend of ¥8.5 per share, and a commemorative dividend of ¥3 per share issued in September 2018 to celebrate the 25th anniversary of our initial stock offering. For the fiscal year ending March 31, 2020, we plan to pay ¥17 per share in dividends.

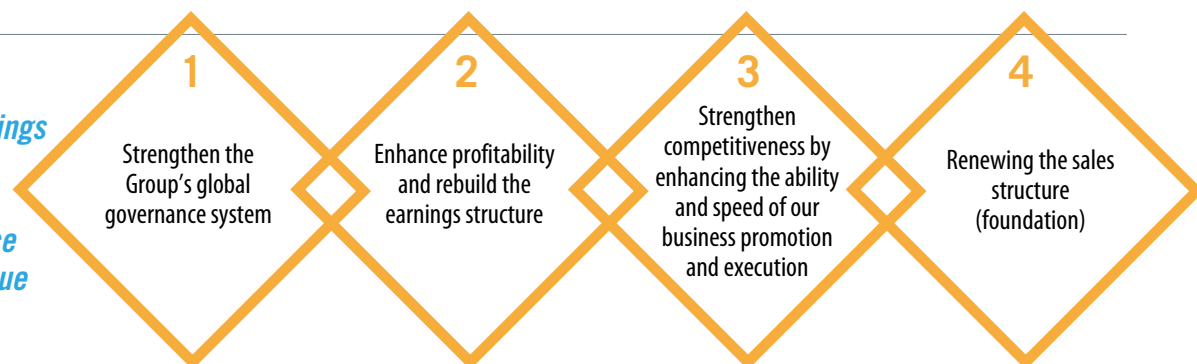
I respectfully ask for the continued support and encouragement of our shareholders as we move forward.



The JCM Group made full-scale revisions to the Medium-Term Management Plan: Rolling Plan III because the period between the 67th fiscal year and the 69th is considered an important bridge toward the new pathway for growth that will start taking effect in fiscal 2022.

Basic Policy

Improve the earnings structure and management culture to enhance our corporate value

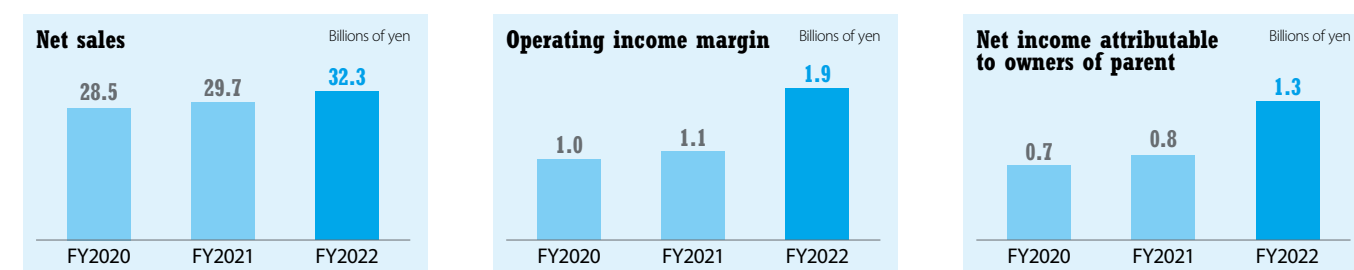


Priority Measures

1. Expand new businesses
2. Improve the profitability of existing businesses
3. Create a fourth business segment
4. Regarding measures 1–3, we will invest in optimizing corporate resources primarily through financial and personnel strategies.

Note: We intend to create a new business segment in addition our existing business segments: global casinos/gaming, other commercial equipment, and equipment for the amusement industry.

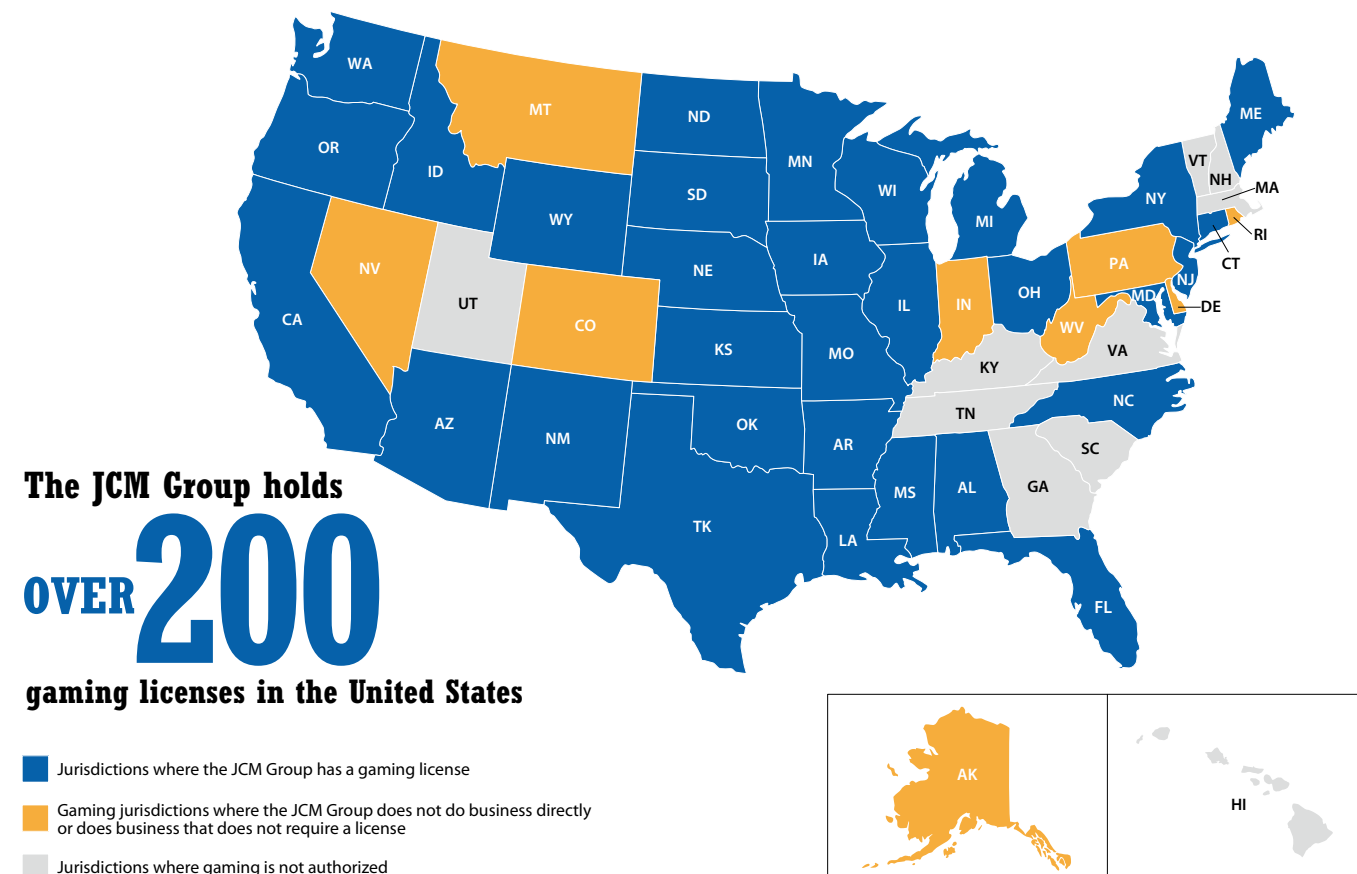
Numerical Targets of the New Medium-Term Management Plan: Rolling Plan IV



Primary numerical objectives for the final fiscal year of the plan

Operating income margin **6%** ROE **4%**

Acquisition of Gaming Licenses



US Gaming Regulations

In casinos and the gaming industry, strict legal regulations are imposed on casino management and the manufacture and sales of gaming machines to ensure that persons unconnected with criminal organizations operate honestly using bona fide gaming machines and components. These legal regulations not only require that authorization be obtained from the appropriate authority to sell bill validation units fitted to gaming machines, but in most US states and jurisdictions bill validation units are also regarded as a type of gaming machine, and their testing, approval and sale requires the same authorization as that for gaming machines themselves. For this reason, the JCM Group has not only swiftly obtained authorization for sales of bill validation units when this is required, but also responded in a timely fashion when the regulations governing slot machines and other gaming machines change, even

if bill validation units are not themselves subject to regulation. The JCM Group has never been denied a license, nor has one ever been suspended or revoked.

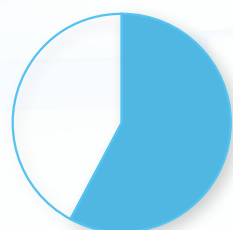
When obtaining gaming licenses, not only the JCM Group itself but also individual directors undergo rigorous screening. At present, the JCM Group holds over 200 gaming licenses in the United States, as well as gaming licenses in Canada, Puerto Rico and Macau. In the future, the JCM Group will not only renew existing licenses but also obtain the new ones required for manufacturing and sales of products where market potential and revenue justify the costs of such new or renewal processes.

Global Gaming

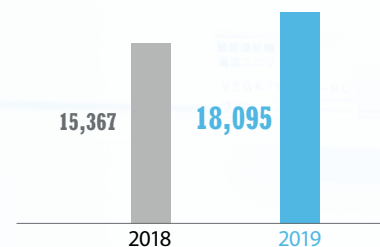


Net sales
¥18,095 million
 Up 17.8% YoY

Net sales composition
57.9%



Net sales (Millions of yen)



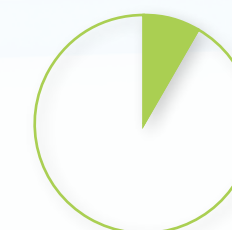
- Sales of bill validator units and other items were strong thanks to a favorable market environment in the North American region.
- Sales of bill-recycling units were robust in the European region, particularly in Germany.

Domestic Commercial

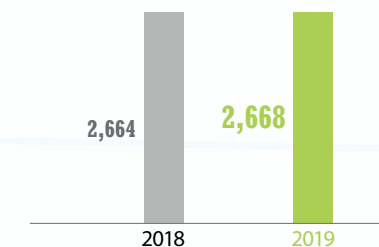


Net sales
¥2,668 million
 Up 0.2% YoY

Net sales composition
8.5%



Net sales (Millions of yen)



- Sales were strong for currency-handling equipment and bill-recycling units to OEM customers.
- Demand for ticket vending machines and other items for OEM customers fell.

Overseas Commercial

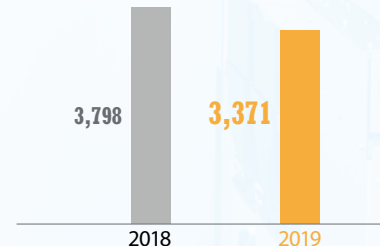


Net sales
¥3,371 million
 Down 11.2% YoY

Net sales composition
10.8%



Net sales (Millions of yen)



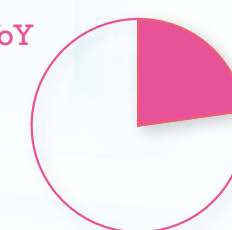
- Sales of printer products for medical use and for parking lots fell in the North American region.
- Sales of all product varieties in this category were impacted by tough business conditions in the Asian region, primarily in China and India.

Equipment for Amusement Industry

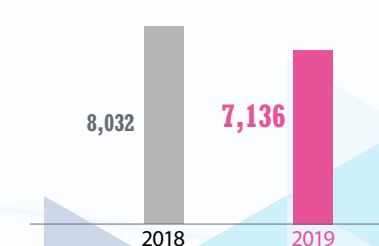


Net sales
¥7,136 million
 Down 11.2% YoY

Net sales composition
22.8%



Net sales (Millions of yen)



- Sales fell for key products, including automatic token dispensing systems and pachinko ball dispensing machines.
- Sales fell due to our discontinuation of the amusement business during the previous fiscal year.

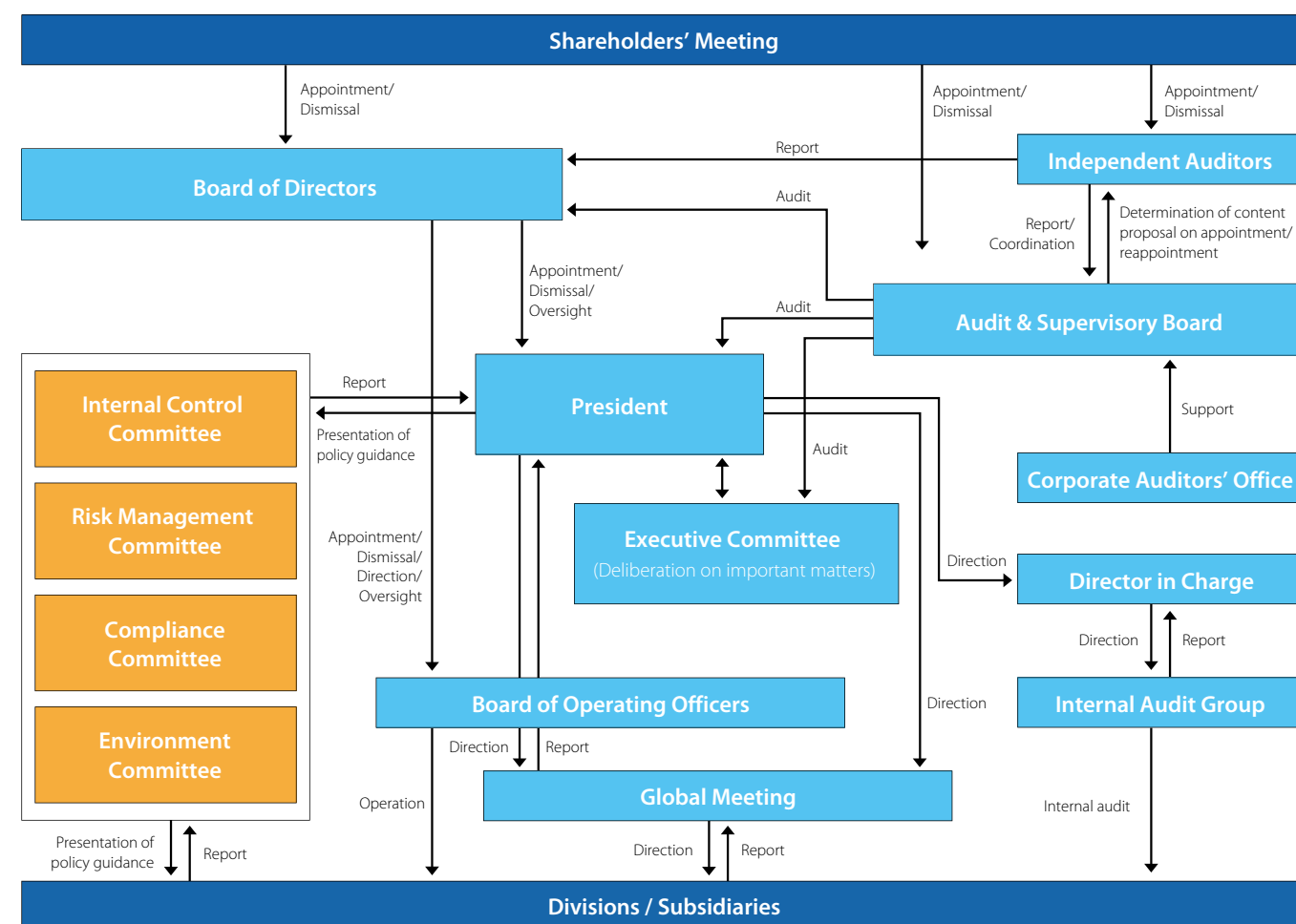
We regard the development of relationships of trust with all stakeholders as an important management priority and an essential foundation for sustainable corporate growth. We are continually working to strengthen our bonds of trust with stakeholders by enhancing our internal control systems, by ensuring that management decisions are transparent and in keeping with the public importance of our products, and by building structures to support a timely response to changes in the business environment.

By keeping the membership of our Board of Directors to the minimum number required, we ensure timely and appropriate decision-making by reducing the time required for members to reach appropriate decisions on matters put before the Board. We have also introduced an operating officer system to provide a clear demarcation between management and supervisory roles and business execution.

The Audit & Supervisory Board members make an extremely important contribution to the reinforcement of corporate governance. By holding regular meetings between the representative director and the Audit & Supervisory Board members, we have created a mechanism that fosters better mutual understanding.

The Internal Audit Group strengthens and enhances internal control structures by developing and maintaining systems to support detailed scrutiny of the administration of those structures. It also works to improve the transparency of financial reporting by restructuring operational processes and improving checking systems.

These measures to strengthen corporate governance are not limited to the parent company but are applied across the entire JCM Group, including overseas companies.



As of June 26, 2019

Directors

Chairperson	Koichiro Kamihigashi
President and Representative Director	Yojiro Kamihigashi
Executive Director	Tsuyoshi Takagaki
Directors	Yasuhiko Yoshimura
	Yoshihiro Iuchi
	Mitsuhiro Ueno
	Norihito Nakatani
External Director	Koji Yoshikawa

Audit & Supervisory Board Members

Audit & Supervisory Board Member (full-time)	Shigeru Yamazawa
	Michimasa Teraoka
External Audit & Supervisory Board Members	Hideyuki Koizumi
	Hiroshi Morimoto

Operating Officers

Senior Operating Officers	Haruaki Nakao
	Takatomo Imai
Operating Officers	Ichiro Iwai
	Makoto Hasegawa
	Takayuki Takeda
	Yasuyuki Fujiwara
	Noriyuki Kanno
	Toshi Yamasaki

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Assets			
Current assets:			
Cash and deposits (Notes 6, 9 and 19)	¥ 11,368	¥ 8,909	\$ 102,405
Trade receivables (Note 19):			
Notes	1,348	1,177	12,143
Accounts	4,323	5,196	38,942
	5,671	6,373	51,085
Securities (Notes 7 and 19)	90	91	811
Inventories (Note 8)	10,079	11,159	90,794
Prepaid expenses and other current assets	647	845	5,828
Less allowance for doubtful accounts	(164)	(195)	(1,477)
Total current assets	27,691	27,182	249,446
Property, plant and equipment, at cost:			
Land (Note 22)	1,809	1,809	16,296
Buildings and structures	3,809	3,765	34,312
Machinery, equipment and vehicles	614	541	5,531
Leased assets	9	9	81
Other	5,928	6,037	53,401
	12,169	12,161	109,621
Less accumulated depreciation	(7,160)	(7,194)	(64,499)
Property, plant and equipment, net (Note 21)	5,009	4,967	45,122
Investments and other assets:			
Investments in securities (Notes 7 and 19)	996	1,258	8,972
Intangible assets	87	130	784
Goodwill (Note 21)	1,812	2,052	16,323
Technical-based assets	213	301	1,919
Customer-related assets	2,666	3,012	24,016
Trademark (Note 22)	–	404	–
Asset for retirement benefits (Note 11)	535	538	4,819
Deferred income taxes (Notes 4 and 15)	357	238	3,216
Other assets	360	350	3,243
Less allowance for doubtful accounts	(58)	(55)	(523)
Total investments and other assets	6,968	8,228	62,769
Total assets (Note 21)	¥ 39,668	¥ 40,377	\$ 357,337

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Liabilities and Net Assets			
Current liabilities:			
Trade payables (Notes 9 and 19):			
Notes	¥ 13	¥ 9	\$ 117
Accounts	2,973	3,283	26,781
	2,986	3,292	26,898
Lease obligations (Note 10)	6	29	54
Accrued income taxes (Note 15)	658	776	5,928
Accrued bonuses for employees	403	391	3,630
Accrued bonuses for directors and corporate auditors	18	12	162
Provision for business structure improvement	–	134	–
Other current liabilities	2,185	2,302	19,683
Total current liabilities	6,256	6,936	56,355
Long-term liabilities:			
Lease obligations (Note 10)	4	14	36
Deferred income taxes (Notes 4 and 15)	320	289	2,883
Other long-term liabilities	195	264	1,756
Total long-term liabilities	519	567	4,675
Contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock:			
Authorized – 118,000,000 shares			
Issued – 29,662,851 shares in 2019 and 2018	2,217	2,217	19,971
Capital surplus	2,759	2,759	24,854
Retained earnings (Note 23)	28,300	27,515	254,932
Less treasury stock, at cost:			
21,155 shares in 2019 and 21,056 shares in 2018	(19)	(19)	(171)
Total shareholders' equity	33,257	32,472	299,586
Accumulated other comprehensive (loss) income:			
Net unrealized holding gain on securities (Note 7)	263	444	2,369
Translation adjustments	(627)	(56)	(5,648)
Total accumulated other comprehensive (loss) income	(364)	388	(3,279)
Share subscription rights (Note 13)	–	14	–
Total net assets	32,893	32,874	296,307
Total liabilities and net assets	¥ 39,668	¥ 40,377	\$ 357,337

The accompanying notes are an integral part of these statements.

▶ Consolidated Statement of Income

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Net sales (Note 21)	¥ 31,270	¥ 29,861	\$ 281,686
Cost of sales (Notes 8 and 14)	19,054	18,426	171,642
Gross profit on sales	12,216	11,435	110,044
Realized gross profit on installment sales	48	53	432
Deferred gross profit on installment sales	(8)	(12)	(72)
Gross profit	12,256	11,476	110,404
Selling, general and administrative expenses (Note 14)	10,282	10,104	92,622
Operating income (Note 21)	1,974	1,372	17,782
Other income:			
Interest income	11	6	99
Dividend income	28	17	252
Gain on sales of investments in securities (Note 7)	12	4	108
Settlement received	–	2,241	–
Foreign exchange gains, net	184	–	1,658
Gain on reversal of share acquisition rights (Note 13)	14	–	126
Other	75	44	676
	324	2,312	2,919
Other expenses:			
Interest expense	5	30	45
Foreign exchange losses, net	–	255	–
Loss on sales or disposal of property and equipment, net	4	8	36
Loss on impairment of fixed assets (Notes 21 and 22)	366	14	3,297
Loss on litigation	–	484	–
Loss on liquidation of business	–	235	–
Business structure improvement expenses	–	134	–
Other	3	2	27
	378	1,162	3,405
Income before income taxes	1,920	2,522	17,296
Income taxes (Note 15):			
Current	638	1,260	5,747
Deferred	(7)	338	(63)
	631	1,598	5,684
Net income	1,289	924	11,612
Net income attributable to:			
Owners of parent (Note 18)	¥ 1,289	¥ 924	\$ 11,612

The accompanying notes are an integral part of these statements.

▶ Consolidated Statement of Comprehensive Income

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Net income	¥ 1,289	¥ 924	\$ 11,612
Other comprehensive (loss) income (Note 17):			
Net unrealized holding (loss) gain on securities	(181)	240	(1,631)
Translation adjustments	(571)	(33)	(5,144)
Total other comprehensive (loss) income	(752)	207	(6,775)
Comprehensive income	¥ 537	¥ 1,131	\$ 4,837
Total comprehensive income attributable to:			
Owners of parent	¥ 537	¥ 1,131	\$ 4,837

The accompanying notes are an integral part of these statements.

▶ Consolidated Statement of Changes in Net Assets

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2019

Millions of yen										
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost (Note 13)	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Share subscription rights (Note 13)	Total net assets
Balance at April 1, 2017	29,662,851	¥ 2,217	¥ 2,069	¥ 27,070	¥ (2,630)	¥ 28,726	¥ 204	¥ (23)	¥ 31	¥ 28,938
Net income attributable to owners of parent for the year	-	-	-	924	-	924	-	-	-	924
Cash dividends	-	-	-	(479)	-	(479)	-	-	-	(479)
Increase in treasury stock	-	-	-	-	(0)	(0)	-	-	-	(0)
Decrease in treasury stock	-	-	690	-	2,611	3,301	-	-	-	3,301
Other changes	-	-	-	-	-	-	240	(33)	(17)	190
Balance at March 31, 2018	29,662,851	¥ 2,217	¥ 2,759	¥ 27,515	¥ (19)	¥ 32,472	¥ 444	¥ (56)	¥ 14	¥ 32,874
Net income attributable to owners of parent for the year	-	-	-	1,289	-	1,289	-	-	-	1,289
Cash dividends	-	-	-	(504)	-	(504)	-	-	-	(504)
Increase in treasury stock	-	-	-	-	(0)	(0)	-	-	-	(0)
Decrease in treasury stock	-	-	0	-	0	0	-	-	-	0
Other changes	-	-	-	-	-	-	(181)	(571)	(14)	(766)
Balance at March 31, 2019	29,662,851	¥ 2,217	¥ 2,759	¥ 28,300	¥ (19)	¥ 33,257	¥ 263	¥ (627)	¥ -	¥ 32,893

Thousands of U.S. dollars (Note 5)										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost (Note 13)	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Share subscription rights (Note 13)	Total net assets	
Balance at April 1, 2018	\$ 19,971	\$ 24,854	\$ 247,861	\$ (171)	\$ 292,515	\$ 4,000	\$ (504)	\$ 126	\$ 296,137	
Net income attributable to owners of parent for the year	-	-	11,612	-	11,612	-	-	-	11,612	
Cash dividends	-	-	(4,541)	-	(4,541)	-	-	-	(4,541)	
Increase in treasury stock	-	-	-	(0)	(0)	-	-	-	(0)	
Decrease in treasury stock	-	0	-	0	0	-	-	-	0	
Other changes	-	-	-	-	-	(1,631)	(5,144)	(126)	(6,901)	
Balance at March 31, 2019	\$ 19,971	\$ 24,854	\$ 254,932	\$ (171)	\$ 299,586	\$ 2,369	\$ (5,648)	\$ -	\$ 296,307	

The accompanying notes are an integral part of these statements.

▶ Consolidated Statement of Cash Flows

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2019

		Millions of yen		Thousands of U.S. dollars (Note 5)
		2019	2018	2019
Operating activities:				
Income before income taxes		¥ 1,920	¥ 2,522	\$ 17,296
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization		942	951	8,486
Amortization of goodwill		187	190	1,685
(Decrease) increase in provision for allowances and accruals		(139)	73	(1,252)
Interest and dividend income		(39)	(23)	(351)
Interest expense		5	30	45
Foreign exchange (gains) losses, net		(159)	214	(1,432)
Gain on reversal of share acquisition rights		(14)	-	(126)
Gain on sales of investments in securities		(12)	(4)	(108)
Loss on sales or disposal of property, plant and equipment, net		3	8	27
Settlement received		-	(2,241)	-
Litigation expenses		-	484	-
Loss on liquidation of business		-	235	-
Business structure improvement expenses		-	134	-
Loss on impairment of fixed assets		366	14	3,297
Changes in operating assets and liabilities:				
Trade receivables		557	(401)	5,017
Inventories		854	276	7,693
Trade payables		(199)	145	(1,794)
Consumption taxes		163	(108)	1,468
Other operating assets and liabilities		86	(115)	775
Subtotal		4,521	2,384	40,726
Interest and dividends received		38	23	342
Interest paid		(5)	(30)	(45)
Settlement package received		-	2,241	-
Litigation expenses paid		-	(484)	-
Income taxes paid		(952)	(673)	(8,575)
Net cash provided by operating activities		3,602	3,461	32,448
Investing activities:				
Payments into time deposits		¥ (111)	¥ -	\$ (1,000)
Proceeds from withdrawal of time deposits		111	-	1,000
Purchases of property and equipment		(539)	(678)	(4,856)
Proceeds from sales of property and equipment		1	9	9
Net (increase) decrease in securities		(1)	0	(9)
Purchases of investments in securities		(3)	(2)	(27)
Proceeds from sales of investments in securities (Note 7)		15	13	135
Purchases of other assets		(30)	(36)	(270)
Other		-	(0)	-
Net cash used in investing activities		(557)	(694)	(5,018)
Financing activities:				
Repayment of short-term loans payable		-	(3,655)	-
Proceeds from lease transactions		-	2	-
Repayment of lease obligations		(33)	(88)	(297)
Proceeds from sales of treasury stock		0	-	0
Purchases of treasury stock		(0)	(0)	(0)
Proceeds from disposal of treasury shares from exercise of subscription rights		-	3,279	-
Cash dividends paid		(502)	(478)	(4,522)
Net cash used in financing activities		(535)	(940)	(4,819)
Effect of exchange rate changes on cash and cash equivalents		(51)	(85)	(460)
Net increase in cash and cash equivalents		2,459	1,742	22,151
Cash and cash equivalents at beginning of year		8,889	7,147	80,074
Cash and cash equivalents at end of year (Note 6)		¥ 11,348	¥ 8,889	\$ 102,225

The accompanying notes are an integral part of these statements.

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of Japan Cash Machine Co., Ltd. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. However, no adjustments have been made which would change the financial position or the results of operations as presented in the original consolidated financial statements.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany items have been eliminated in consolidation.

The overseas subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant transactions which took place during the period between the year end of these overseas subsidiaries and that of the Company.

(b) Foreign Currency Translation

Foreign currency transactions

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on the transactions is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

Financial statements of overseas subsidiaries

The financial statements of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the revenue and expense accounts are translated at the average exchange rates in effect during the fiscal year and the components of net assets are translated at their historical rates.

Differences resulting from translating the financial statements of the overseas subsidiaries are not included in the determination of net income, but are presented as translation adjustments in a component of accumulated other comprehensive income in the accompanying consolidated balance sheet.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in banks which can be withdrawal at any time and short-term investments with maturities of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(d) Inventories

Inventories of the Company and its domestic subsidiaries are stated at the lower of cost or net selling value, cost being determined by the first-in, first-out method. Inventories of the overseas subsidiaries are stated at the lower of cost or market, the cost of inventories at JCM American Corporation being determined by the first-in, first-out method, and the cost of inventories at JCM Europe GmbH. and JCM Gold (HK) Ltd. being determined by the moving-average method.

(e) Securities

Securities are classified into two categories: held-to-maturity debt securities, and other securities. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(f) Derivatives and Hedging Activities

Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

The Company evaluates effectiveness of its hedging activities by comparing cumulative changes in fair value of the hedged items with the corresponding changes in the hedging instruments.

(g) Property, Plant and Equipment (except for leased assets)

Property, plant and equipment is stated on the basis of cost. The Company and its domestic subsidiaries calculate depreciation by the declining-balance method based on the estimated useful lives of the

respective assets and the respective residual value determined by the Company and its domestic subsidiaries, except for buildings (exclusive of any structures attached to the buildings) acquired on or after April 1, 1998 and structures attached to the buildings and other structures acquired on or after April 1, 2016 which are depreciated by the straight-line method. The overseas subsidiaries calculate depreciation principally by the straight-line method over the estimated useful lives of the respective assets.

The principal useful lives of property, plant and equipment are 3 to 50 years for buildings and structures and 4 to 12 years for machinery, equipment and vehicles.

(h) Intangible Assets (except for leased assets)

Intangible assets are amortized by the straight-line method over the estimated useful lives of the respective assets. Expenditures relating to computer software developed for internal use are charged to income when incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, a period of 5 years. Computer software to be sold is amortized by the straight-line method over its expected sellable period of 3 years.

(i) Research and Development Costs

Research and development costs are charged to income when incurred.

(j) Leased assets

Capitalized leased assets are depreciated by the straight-line method based over the lease term with no residual value.

(k) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries provide allowances for doubtful receivables based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

The allowance for doubtful accounts of the overseas subsidiaries was principally provided at the estimated amount of their probable bad debts.

(l) Accrued Bonuses for Employees

The Company and its domestic subsidiaries provide accrued bonuses for employees at the estimated amount of bonuses to be paid to the employees in the following year. Its overseas subsidiaries do not provide accrued bonuses for employees.

(m) Accrued Bonuses for Directors and Corporate Auditors

The Company and its domestic subsidiaries provide accrued bonuses for directors and corporate auditors at the estimated amount of bonuses to be paid to the directors and corporate auditors in the following year. Its overseas subsidiaries do not provide accrued bonuses for directors and corporate auditors.

(n) Provision for business structure improvement

Provision for business structure improvement is provided at a reasonably estimated amount for possible restructuring costs to be incurred in the future.

(o) Retirement Benefits

Retirement benefits are provided based on the amount of the retirement benefit obligation reduced by the plan assets at fair value as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Actuarial differences and prior service cost are credited or charged to income as incurred.

(p) Goodwill

Goodwill is amortized by the straight-line method over the estimated period of benefit (14 years).

(q) Revenue Recognition of Installment Sales

The Company and certain subsidiaries recognize both sales and costs of sales in the period of the installment sales and defer the related gross profit to the periods in which they collect the related cash.

(r) Income Taxes

Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred income taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

(s) Distribution of Retained Earnings

Distribution of retained earnings with respect to a given financial period is made by resolution of the Board of Directors at a meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distribution (please refer to Note 23).

3. Accounting Standards Issued but Not Yet Effective

Accounting Standard and Implementation Guidance on Revenue Recognition

(1) Overview

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30). The International Accounting Standards Board (hereinafter referred to as the "IASB") and the Financial Accounting Standards Board (hereinafter referred to as the "FASB") in the United States co-developed comprehensive accounting standards for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on fact that IFRS 15 is applied from fiscal years starting on or after January 1, 2018 and Topic 606 is applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting in practices, etc. common in Japan.

(2) Scheduled date of adoption

The timing of adoption is currently under consideration.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidated financial statements.

4. Changes in Presentation Methods

Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.

As a result, deferred income taxes under current assets decreased ¥436 million and deferred income taxes under investments and other assets increased ¥238 million in the consolidated balance sheet as of March 31, 2018. In addition, deferred income taxes under current liabilities decreased ¥20 million and deferred income taxes under long-term liabilities decreased ¥177 million.

Each of deferred income taxes relating to the same taxation authority were offset, and total assets decreased ¥197 million compared to the balance prior to this change.

Also, "Note 15 Income Taxes" in the notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in Note 15 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

5. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥111.01= U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2019. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

6. Cash and Deposits

A reconciliation between cash and deposits in the accompanying consolidated balance sheets as of March 31, 2019 and 2018 and cash and cash equivalents in the accompanying consolidated statements of

cash flows for the years ended March 31, 2019 and 2018 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and deposits	¥ 11,368	¥ 8,909	\$ 102,405
Time deposits over a period of 3 months	(20)	(20)	(180)
Cash and cash equivalents	¥ 11,348	¥ 8,889	\$ 102,225

7. Securities and Investments in Securities

(1) Securities and investments in securities classified as held-to-maturity debt securities at March 31, 2019 and 2018 were as follows:

	Millions of yen		
	2019	2018	2017
Held-to-maturity debt securities whose fair value does not exceed their carrying value:			
Bonds	¥ -	¥ -	¥ -
Other	90	90	-
Total	¥ 90	¥ 90	¥ -

	Millions of yen		
	2018	2017	2016
Held-to-maturity debt securities whose fair value does not exceed their carrying value:			
Bonds	¥ -	¥ -	¥ -
Other	91	91	-
Total	¥ 91	¥ 91	¥ -

	Thousands of U.S. dollars		
	2019	2018	2017
Held-to-maturity debt securities whose fair value does not exceed their carrying value:			
Bonds	\$ -	\$ -	\$ -
Other	811	811	-
Total	\$ 811	\$ 811	\$ -

(2) Securities and investments in securities classified as other securities at March 31, 2019 and 2018 were as follows:

	Millions of yen		
	2019	2018	2017
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 905	¥ 542	¥ 363
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	67	75	(8)
Total	¥ 972	¥ 617	¥ 355

	Millions of yen		
	2018	2017	2016
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 1,170	¥ 544	¥ 626
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	62	73	(11)
Total	¥ 1,232	¥ 617	¥ 615

	Thousands of U.S. dollars		
	2019	2018	2017
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 8,152	\$ 4,882	\$ 3,270
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	604	676	(72)
Total	\$ 8,756	\$ 5,558	\$ 3,198

(3) The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Proceeds from sales:			
Equity securities	¥ 15	¥ 5	\$ 135
Gross realized gain:			
Equity securities	¥ 12	¥ 4	\$ 108

(4) For the years ended March 31, 2019 and 2018, the Group did not recognize any loss on devaluation of other securities.

8. Inventories

Inventories at March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Finished goods	¥ 6,872	¥ 7,644	\$ 61,904
Work in process	530	558	4,775
Raw materials and supplies	2,677	2,957	24,115
	¥ 10,079	¥ 11,159	\$ 90,794

Loss on devaluation of inventories included in cost of sales for the years ended March 31, 2019 and 2018 amounted to ¥123 million (\$1,108 thousand) and ¥109 million, respectively.

9. Pledged Assets

The assets pledged as collateral of trade payables of ¥4 million (\$36 thousand) as of March 31, 2019 and ¥2 million as of March 31, 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and deposits	¥ 20	¥ 20	\$ 180

10. Lease Obligations

Lease obligations at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Lease obligations due from 2019 through 2024	¥ 10	¥ 43	\$ 90
Less current portion	(6)	(29)	(54)
	¥ 4	¥ 14	\$ 36

The aggregate annual maturities of lease obligations subsequent to March 31, 2019 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 6	\$ 54
2021	2	18
2022	1	9
2023	1	9
2024	0	0
	¥ 10	\$ 90

11. Retirement Benefits

The Company and certain domestic subsidiaries have funded defined benefit plans and defined contribution plans for employees. Under these defined benefit plans, lump-sum or annuity payments are made, the amounts of which are determined by reference to lengths of service, qualifications and positions of the employees. Overseas subsidiaries have no retirement benefit plans.

Certain domestic subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount of the liability for the pension fund reserve required under the funding policy as of the most recent valuation date (the "Simplified Method").

Defined benefit plans

The changes in the retirement benefit obligation during the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligation at beginning of year	¥ 958	¥ 902	\$ 8,629
Service cost	92	91	829
Interest cost	2	2	18
Actuarial differences	(7)	5	(63)
Retirement benefit paid	(50)	(42)	(450)
Retirement benefit obligation at end of year	¥ 995	¥ 958	\$ 8,963

The changes in plan assets during the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at beginning of year	¥ 1,496	¥ 1,396	\$ 13,476
Expected return on plan assets	18	5	162
Actuarial differences	(7)	39	(63)
Contributions paid by the Company and domestic subsidiaries	73	98	658
Retirement benefit paid	(50)	(42)	(450)
Plan assets at end of year	¥ 1,530	¥ 1,496	\$ 13,783

The following table sets forth funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ (995)	¥ (958)	\$ (8,963)
Plan assets at fair value	1,530	1,496	13,782
Net asset for retirement benefits in the balance sheet	¥ 535	¥ 538	\$ 4,819

The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 92	¥ 90	\$ 829
Interest cost	2	3	18
Expected return on plan assets	(18)	(5)	(162)
Amortization of actuarial differences	(0)	(34)	(0)
Retirement benefit expenses	¥ 76	¥ 54	\$ 685

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 is as follows:

	2019	2018
Debt securities	38%	42%
Equity securities	24	28
General accounts at insurance companies	18	17
Other	20	13
Total	100%	100%

The expected rate of return on plan assets is determined considering the allocation of the plan assets expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

The assumptions used in accounting for the above plans were as follows:

	2019	2018
Discount rate	0.1%	0.2%
Expected rate of return on plan assets	1.0%	1.0%

Defined contribution pension plans

Contributions by the Company and certain domestic subsidiaries to the defined contribution pension plans for the years ended March 31, 2019 and 2018 amounted to ¥26 million (\$234 thousand) and ¥28 million, respectively.

12. Contingent Liabilities

At March 31, 2019, the Company and certain subsidiaries were contingently liable as guarantors of accounts payable of third parties in the amount of ¥112 million (\$1,009 thousand).

13. Shareholders' Equity

The Company Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The Company's capital reserve included in capital surplus at March 31, 2019 and 2018 amounted to ¥2,064 million (\$18,593 thousand). In addition, the Company's legal reserve included in retained earnings at March 31, 2019 and 2018 amounted to ¥274 million (\$2,468 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital.

Treasury stock

Movements in treasury stock for the years ended March 31, 2019 and 2018 are summarized as follows:

	Number of shares			
	2019			
	April 1, 2018	Increase	Decrease	March 31, 2019
Treasury stock	21,056	165 (*1)	66 (*2)	21,155

	Number of shares			
	2018			
	April 1, 2017	Increase	Decrease	March 31, 2018
Treasury stock	2,920,750	306(*3)	2,900,000 (*4)	21,056

- (*1) Increase due to purchase of shares of less than one voting unit: 165 shares
- (*2) Decrease due to sales of share at requests of shareholders who own less than voting unit: 66 shares
- (*3) Increase due to purchase of shares of less than one voting unit: 306 shares
- (*4) Decrease due to exercise of share subscription rights: 2,900,000 shares

Share subscription rights

Movements in share subscription rights for the year ended March 31, 2019 are summarized as follows:

Classification	Breakdown	Type	Number of shares subject to share subscription rights			
			April 1, 2018	Increase	Decrease	March 31, 2019
Parent company	Share subscription rights as stock options	Common stock	-	-	-	-
Total			-	-	-	-

Classification	Breakdown	Type	2019	
			Millions of yen	Thousands of U.S. dollars
Parent company	Share subscription rights as stock options	Common stock	¥ -	\$ -
Total			¥ -	\$ -

Stock Options

The Company has a stock option plan for its directors. Stock option expense included in selling, general and administrative expenses amounted to nil and ¥5 million for the years ended March 31, 2019 and 2018, respectively. Gain on reversal of share acquisition rights amounted to ¥14 million (\$126 thousand) for the year ended March 31, 2019.

The stock option plan of the Company as of March 31, 2019 is summarized as follows:

	The 2015 plan
Individuals covered by the plan	5 Directors
Class of stock and number of options granted (*1)	Common stock: 14,700 shares
Grant date	September 4, 2015
Vesting conditions	(*2)
Eligible service period	From September 4, 2015 to the date of the 65th annual general meeting of shareholders
Exercise period	From September 5, 2015 to September 4, 2045

(*1) **Number of options granted converted to number of shares.**

The number of shares corresponding to the stock acquisition rights (hereinafter referred to as "authorized number of shares") shall be 100 shares per unit.

However, in the event that the Company carries out a share split (including gratis allotment of the Company's common stock) or share consolidation after the date of allotting stock acquisition rights (hereinafter referred to as "the allotment date"), the authorized number of shares for stock acquisition rights which have not yet been exercised as of the date of such share split or share consolidation shall be adjusted based on the following formula:

Authorized number of shares after adjustment = Authorized number of shares before adjustment x Ratio of split or consolidation

Furthermore, aside from the cases above, in the event that the authorized number of shares must be adjusted for any unavoidable reason, the Company may make adjustments to the authorized number of shares as deemed necessary with the approval of the Company's Board of Directors.

In addition, any fractions less than one share resulting from such adjustments above shall be rounded down.

(*2) **Exercise conditions**

- (A) During the period specified above, the holders of the stock acquisition rights shall exercise in a lump sum only during the period from the day following the date when they have ceased to be a director until the following 10th day (if the 10th day is a non-business day, the next business day).
- (B) The percentage of stock acquisition rights exercisable is conditional on achieving the target stipulated in the Company's mid-term management plan, which is to generate ¥6.3 billion in consolidated cumulative operating income for the three fiscal years from the 63rd (fiscal year ended March 31, 2016) to the 65th (fiscal year ended March 31, 2018) (hereinafter referred to as "cumulative consolidated operating income") as follows:
 - (a) Cumulative consolidated operating income of more than ¥6.3 billion
100% of the stock acquisition rights allotted to each holder of stock acquisition rights (hereinafter referred to as "stock acquisition rights allotted")
 - (b) Cumulative consolidated operating income of more than ¥6.0 billion
60% of the stock acquisition rights allotted
 - (c) Cumulative consolidated operating income of more than ¥5.7 billion
30% of the stock acquisition rights allotted
 - (d) Cumulative consolidated operating income of less than or equal to ¥5.7 billion
0% of the stock acquisition rights allotted
Any fraction of less than one stock acquisition right resulting from the calculation above shall be rounded down and unexercisable stock acquisition rights shall be forfeited.
- (C) The amount of cumulative consolidated operating income shall be determined based on the consolidated statement of income in the Company's consolidated financial statements. In the event that material changes are made to the concept of consolidated operating income due to changes in the adopting accounting standards or any other reasons, the Board of Directors of the Company determines appropriate measurement indicators to be referred alternatively within a reasonable extent.
- (D) In the event of the retirement of a director of the Company, the number of exercisable stock acquisition rights shall be determined in accordance with the criteria listed below:
 - (a) In the event of a director's retirement during the period

from the date of allotment to the day before the 63rd Annual General Shareholders' Meeting:

Said director shall not be able to exercise the stock acquisition rights allotted.

- (b) In the event of retirement during the period from the date of the 63rd Annual General Shareholders' Meeting to the day before the 64th Annual General Shareholders' Meeting, the number of exercisable options shall be determined in accordance with the criteria listed below:
 - i. Consolidated operating income for the 63rd fiscal year of more than ¥1.9 billion
100% of the stock acquisition rights allotted
 - ii. Consolidated operating income for the 63rd fiscal year of more than ¥1.8 billion
60% of the stock acquisition rights allotted
 - iii. Consolidated operating income for the 63rd fiscal year of more than ¥1.7 billion
30% of the stock acquisition rights allotted
 - iv. Consolidated operating income for the 63rd fiscal year of less than or equal to ¥1.7 billion
0% of the stock acquisition rights allotted
- (c) In the event of the retirement of a director during the period from the date of the 64th Annual General Shareholders' Meeting to the day before the 65th Annual General Shareholders' Meeting, the number of exercisable stock acquisition rights shall be determined in accordance with the criteria listed below:
 - i. Total consolidated operating income for the 63rd and 64th fiscal year of more than ¥3.9 billion
100% of the stock acquisition rights allotted
 - ii. Total consolidated operating income for the 63rd and 64th fiscal year of more than ¥3.7 billion
60% of the stock acquisition rights allotted
 - iii. Total consolidated operating income for the 63rd and 64th fiscal year of more than ¥3.5 billion
30% of the stock acquisition rights allotted
 - iv. Total consolidated operating income for the 63rd and 64th fiscal year of less than or equal to ¥3.5 billion
0% of the stock acquisition rights allotted
- (E) In the event of the death of the holders of the stock acquisition rights, their heirs may exercise the stock acquisition rights only in a lump sum.

(F) Other conditions shall be set forth in a stock acquisition rights allotment agreement to be entered into between the Company and the holders of the stock acquisition rights.

Movements in the number of non-vested and vested stock options for the 2015 plan of the Company during the year ended March 31, 2019 are as follows:

The 2015 plan	
(Non-vested)	(Number of stock options)
Outstanding at April 1, 2018	12,500
Granted	-
Forfeited	12,500
Vested	-
Outstanding at March 31, 2019	-

The 2015 plan	
(Vested)	(Number of stock options)
Outstanding at April 1, 2018	-
Vested	-
Exercised	-
Forfeited	-
Outstanding at March 31, 2019	-

The fair value of the non-vested stock options under the 2015 plan of the Company as of March 31, 2019 is as follows:

The 2015 plan		
	(Yen)	(U.S dollars)
Exercise price	¥ 1	\$ 0
Weighted average fair value per share at the exercise date	-	-
Fair value of stock options as of the grant date	¥ 122,700	\$ 1,105

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects only the actual number of forfeited stock options.

14. Research and Development Costs

Research and development costs included in general and administrative expenses and manufacturing costs for the years ended March 31, 2019 and 2018 amounted to ¥2,182 million (\$19,656 thousand) and ¥1,810 million, respectively.

15. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively.

Reconciliations of the statutory tax rates and the effective tax rates for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Statutory tax rates	30.6%	30.8%
Differences of tax rates between the Company and overseas subsidiaries	(5.6)	1.8
Non-deductible entertainment expenses and others	2.8	1.4
Non-taxable dividends revenues and others	(20.3)	(10.6)
Consolidation adjustment of dividend income from its subsidiaries	21.3	11.1
Valuation allowance	4.0	26.5
Inhabitants' per capita taxes	1.3	1.0
Undistributed profit of overseas subsidiaries	0.5	0.3
Income tax refund	-	(2.4)
Income tax credits	(1.9)	(0.2)
Effect of change in statutory tax rate in the U.S.	-	5.2
Other	0.2	(1.6)
Effective tax rates	32.9%	63.3%

Deferred income taxes reflect the net effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. The components 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:			
Unrealized profit	¥ 43	¥ 37	\$ 388
Retirement benefits payable to directors and corporate auditors	44	47	396
Write-downs of inventories	498	471	4,486
Accrued bonuses for employees	135	133	1,216
Net operating loss carry forwards	224	275	2,018
Business structure improvement expenses	-	46	-
Intangible assets acquired in a business combination	54	-	486
Non-deductible selling and administrative expenses	142	155	1,279
Non-deductible software expenses	228	169	2,054
Foreign tax credit	74	257	667
Other	245	258	2,207
Total gross deferred tax assets	1,687	1,848	15,197
Valuation allowance for net operating loss carryforwards (Note)	(212)	-	(1,910)
Valuation allowance for deductible temporary differences	(1,052)	-	(9,477)
Total valuation allowance	(1,264)	(1,346)	(11,387)
Total deferred tax assets	423	502	3,810
Deferred tax liabilities:			
Unrealized holding gain on securities	(105)	(185)	(946)
Undistributed profit of subsidiaries	(11)	(21)	(99)
Asset for retirement benefits	(161)	(163)	(1,451)
Intangible assets acquired in a business combination	(38)	(101)	(342)
Bargain purchase	(38)	(58)	(342)
Other	(33)	(25)	(297)
Total deferred tax liabilities	(386)	(553)	(3,477)
Net deferred tax assets (liabilities)	¥ 37	¥ (51)	\$ 333

Note: A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2019 is as follows:

	Millions of yen						
	2019						
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
Net operating loss carryforwards (a)	¥ -	¥ -	¥ 12	¥ -	¥ -	¥ 213	¥ 225
Valuation allowance	-	-	(12)	-	-	(200)	(212)
Deferred tax assets	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 13	¥ 13(b)

	Thousands of U.S. dollars						
	2019						
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
Net operating loss carryforwards (a)	\$ -	\$ -	\$ 108	\$ -	\$ -	\$ 1,919	\$ 2,027
Valuation allowance	-	-	(108)	-	-	(1,802)	(1,910)
Deferred tax assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 117	¥117(b)

(a) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

(b) The net operating loss carryforwards are considered to be partly recoverable due to the expected taxable income in the future.

16. Leases

Future minimum lease payments subsequent to March 31, 2019 for operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 67	\$ 603
2021 and thereafter	99	892
Total	¥ 166	\$ 1,495

17. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive (loss) income for the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (251)	¥ 367	\$ (2,261)
Reclassification adjustments for gain realized in the consolidated statement of income	(10)	(4)	(90)
Before tax effect	(261)	363	(2,351)
Tax effect	80	(123)	720
Net unrealized holding (loss) gain on securities	(181)	240	(1,631)
Translation adjustments:			
Amount arising during the year	(571)	(33)	(5,144)
Total other comprehensive (loss) income	¥ (752)	¥ 207	\$ (6,775)

18. Amounts per Share

Basic net income per share has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during the year ended March 31, 2019 after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options and share subscription rights.

Net assets per share have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

	Yen		U.S. dollars
	2019	2018	2019
Net income:			
Basic	¥ 43.48	¥ 31.58	\$ 0.39
Diluted	–	31.57	–
Net assets	1,109.70	1,108.57	10.00
Cash dividends	20.00	17.00	0.18

The financial data for the computation of basic and diluted net income per share for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥ 1,289	¥ 924	\$ 11,612
	(Thousands of shares)		
Weighted-average number of shares	29,641,768	29,266,954	
Increase in common stock	–	11,345	

There were no dilutive shares not included in the calculation of diluted net income per share for the years ended March 31, 2019 and 2018.

19. Financial Instruments

1. Overview

(1) Policy for financial instruments

The Group raises necessary funds based on the business plan through bank borrowings. The Group manages surplus funds mainly through high-liquidity and low-risk financial instruments.

The Group makes an effort to reduce credit risk arising from notes and accounts receivable in accordance with the credit exposure management rules of the Group. For securities and investments in securities, the Group holds held-to-maturity debt securities and equity securities. The fair values of listed equity securities are monitored every quarter and that of unlisted equity securities are calculated based on a rational valuation method.

In addition, the Group utilizes derivatives within the range of actual transactions in accordance with the internal control rules.

(2) Types of financial instruments and related risk

Trade receivables, notes receivable and accounts receivable, are exposed to credit risk. In addition, trade receivables denominated in foreign currencies and arising from the overseas business are exposed to foreign currency exchange risk. The Group monitors market trends and forward foreign exchange contracts are arranged to hedge the risk, if necessary.

Securities and investments in securities are principally composed of held-to-maturity debt securities and the equity securities of other companies with which the Company has business relationships. They are exposed to market risk. In addition, the Company has also long-term loans receivable from the companies with which the Company has business relationships.

Substantially all trade payables, notes payable and accounts payable, have payment due dates within five months. Some of them denominated in foreign currencies are exposed to foreign currency exchange risk. The Group monitors market trends and forward foreign exchange contracts are arranged to hedge the risk, if necessary.

Lease obligations arising from finance lease transactions are mainly for the purpose of financing investment for facilities, and the contract term is not longer than five years.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 2(f).

(3) Risk management for financial instruments

a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Company for managing credit risk arising from trade and long-term loan receivables, the credit risk management division periodically monitors credit worthiness of their main customers, monitors due dates and outstanding balances by individual customer and makes effort to identify at an early point and mitigate risks of bad debts from customers who are having financial difficulties. In addition, its consolidated subsidiaries also monitor the condition of accounts receivable and loans receivable under a similar management policy.

For investments in held-to-maturity debt securities, in accordance with the internal policies for asset management, the Group invests in held-to-maturity debt securities with high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is not material.

The Group also believes that the credit risk of derivatives is not material as it enters into derivative transactions only with financial institutions which have a sound credit profile.

b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency on a monthly basis and principally enters into forward foreign exchange contracts to hedge such risk.

For marketable securities and investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity should be maintained taking into account their fair values and relationships with the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions.

c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

The Company manages short-term liquidity risk mainly by maintaining liquidity on hand. In addition, the Company manages liquidity risk by preparing and updating cash flow plans in a timely manner.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

2. Estimated fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2019 and 2018, are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below).

	Millions of yen		
	2019		
	Carrying value	Fair value	Difference
Assets:			
(1) Cash and deposits	¥ 11,368	¥ 11,368	¥ -
(2) Trade notes and accounts receivable	5,671	5,660	(12)
(3) Securities and investments in securities:			
Held-to-maturity debt securities	90	90	-
Other securities	972	972	-
Total assets	¥ 18,101	¥ 18,090	¥ (12)
Liabilities:			
(4) Trade notes and accounts payable	¥ 2,986	¥ 2,986	¥ -
Total liabilities	¥ 2,986	¥ 2,986	¥ -

	Millions of yen		
	2018		
	Carrying value	Fair value	Difference
Assets:			
(1) Cash and deposits	¥ 8,909	¥ 8,909	¥ -
(2) Trade notes and accounts receivable	6,373	6,346	(27)
(3) Securities and investments in securities:			
Held-to-maturity debt securities	91	91	-
Other securities	1,232	1,232	-
Total assets	¥ 16,605	¥ 16,578	¥ (27)
Liabilities:			
(4) Trade notes and accounts payable	¥ 3,292	¥ 3,292	¥ -
Total liabilities	¥ 3,292	¥ 3,292	¥ -

	Thousands of U.S. dollars		
	2019		
	Carrying value	Fair value	Difference
Assets:			
(1) Cash and deposits	\$ 102,405	\$ 102,405	\$ -
(2) Trade notes and accounts receivable	51,085	50,986	(108)
(3) Securities and investments in securities:			
Held-to-maturity debt securities	811	811	-
Other securities	8,756	8,756	-
Total assets	\$ 163,057	\$ 162,958	\$ (108)
Liabilities:			
(4) Trade notes and accounts payable	\$ 26,898	\$ 26,898	\$ -
Total liabilities	\$ 26,898	\$ 26,898	\$ -

(Notes)

1. Method to determine the estimated fair value of financial instruments and other matters related to securities

(1) Cash and deposits

Since these items are settled in a short time period, their carrying value approximates fair value.

(2) Trade notes and accounts receivable

These fair values are the present value discounted at an interest rate determined considering their maturity dates and their credit risks by each receivable classified by aging status.

(3) Securities and investments in securities

The fair value of stocks and debt securities is based on quoted market prices.

(4) Trade notes and accounts payable

Since these items are settled in a short time period, fair value approximates their carrying value.

2. Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unlisted equity securities	¥ 24	¥ 26	\$ 216

Because no quoted market price is available and future cash flow cannot be estimated, it is extremely difficult to determine the fair value; therefore, the above financial instruments are not included in the preceding table.

3. Redemption schedule of monetary claims and securities and investments in securities with maturities subsequent to March 31, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥ 11,368	¥ -	¥ -	¥ -
Trade notes and accounts receivable	5,584	87	-	-
Securities and investments in securities:				
Held-to-maturity debt securities:				
Corporate bonds	-	-	-	-
Other	90	-	-	-
Total	¥ 17,042	¥ 87	¥ -	¥ -

	Millions of yen			
	2018			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥ 8,909	¥ -	¥ -	¥ -
Trade notes and accounts receivable	6,181	192	-	-
Securities and investments in securities:				
Held-to-maturity debt securities:				
Government bonds	-	-	-	-
Other	91	-	-	-
Total	¥ 15,181	¥ 192	¥ -	¥ -

	Thousands of U.S. dollars			
	2019			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	\$ 102,405	\$ -	\$ -	\$ -
Trade notes and accounts receivable	50,302	783	-	-
Securities and investments in securities:				
Held-to-maturity debt securities:				
Government bonds	-	-	-	-
Other	811	-	-	-
Total	\$ 153,518	\$ 783	\$ -	\$ -

20. Derivative Transactions

There were no derivative contracts outstanding at March 31, 2019 and 2018.

21. Segment Information

Overview of Reportable Segments

The Company's reportable segments are its structural units, for which separate financial information is available, and which are subject to periodic review by the Board of Directors in order to assist decision-making on the allocation of managerial resources and assessment of business performance.

The Group forms comprehensive strategies about each products and services and conducts business activities for each segment.

Therefore, the Company consists of four segments based on business unit and the reportable segments are as follows: "Global gaming", "Overseas commercial", "Domestic commercial", and "Equipment for amusement industry".

Global gaming includes the sales of bill validators, recyclers and printers for casinos and OEM customers.

Overseas commercial includes the sales of bill validators and recycler units for overseas financial, distribution and transportation markets.

Domestic commercial includes the sales of bill recycler units coin dispensers and foreign currency exchange machines for domestic financial, distribution and transportation markets.

Equipment for amusement industry includes the sales of equipment including ball and medal lending machines for pachinko and pachislot (slot-machine pachinko) gaming halls.

Basis for Calculating Sales, Income or Loss, Assets, Liabilities, and Other Items by Reportable Segment

The accounting treatment for each reportable business segment is almost same as that outlined in "Summary of Significant Accounting Policies".

Intersegment sales and transfers are recorded at the same prices used in actual market-based transactions.

Information on Sales, Income, Assets, Liabilities, and Other Items by Reportable Segments

	Millions of yen					
	2019					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Net sales:						
External customers	¥ 18,095	¥ 3,371	¥ 2,668	¥ 7,136	¥ -	¥ 31,270
Intersegment sales and transfers	-	-	-	-	-	-
Total	¥ 18,095	¥ 3,371	¥ 2,668	¥ 7,136	¥ -	¥ 31,270
Segment income (loss)	¥ 3,955	¥ (229)	¥ 249	¥ (228)	¥ (1,773) ^{(*)1}	¥ 1,974
Segment assets	¥ 17,017	¥ 2,939	¥ 2,309	¥ 4,946	¥ 12,457 ^{(*)2}	¥ 39,668
Other items:						
Depreciation and amortization	¥ 518	¥ 95	¥ 29	¥ 89	¥ 211 ^{(*)3}	¥ 942
Amortization of goodwill	¥ 187	¥ -	¥ -	¥ -	¥ -	¥ 187

	Millions of yen					
	2018					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Net sales:						
External customers	¥ 15,367	¥ 3,798	¥ 2,664	¥ 8,032	¥ -	¥ 29,861
Intersegment sales and transfers	-	-	-	-	-	-
Total	¥ 15,367	¥ 3,798	¥ 2,664	¥ 8,032	¥ -	¥ 29,861
Segment income (loss)	¥ 2,912	¥ 626	¥ 281	¥ (490)	¥ (1,957) ^{(*)1}	¥ 1,372
Segment assets	¥ 17,678	¥ 3,329	¥ 2,731	¥ 5,911	¥ 10,728 ^{(*)2}	¥ 40,377
Other items:						
Depreciation and amortization	¥ 527	¥ 99	¥ 27	¥ 119	¥ 179 ^{(*)3}	¥ 951
Amortization of goodwill	¥ 190	¥ -	¥ -	¥ -	¥ -	¥ 190

	Thousands of U.S. dollars					
	2019					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Net sales:						
External customers	\$ 163,003	\$ 30,367	\$ 24,034	\$ 64,282	\$ -	\$ 281,686
Intersegment sales and transfers	-	-	-	-	-	-
Total	\$ 163,003	\$ 30,367	\$ 24,034	\$ 64,282	\$ -	\$ 281,686
Segment income	\$ 35,628	\$ (2,063)	\$ 2,243	\$ (2,054)	\$ (15,972) ^{(*)1}	\$ 17,782
Segment income (loss)	\$ 153,292	\$ 26,475	\$ 20,800	\$ 44,555	\$ 112,215 ^{(*)2}	\$ 357,337
Other items:						
Depreciation and amortization	\$ 4,666	\$ 856	\$ 261	\$ 802	\$ 1,901 ^{(*)3}	\$ 8,486
Amortization of goodwill	\$ 1,685	\$ -	\$ -	\$ -	\$ -	\$ 1,685

(*1) The adjustments of segment income or loss include corporate expenses, which are not allocated to specific segment of ¥1,773 million (\$15,972 thousand) and ¥1,957 million for the years ended March 31, 2019 and 2018, respectively.

(*2) The adjustments of segment assets include corporate assets of the Company, which are not allocated to specific segment of ¥12,457 million (\$112,215 thousand) and ¥10,728 million for the years ended March 31, 2019 and 2018, respectively.

(*3) The adjustments of depreciation are related to corporate assets of the Company, which are not allocated to specific segment of ¥211 million (\$1,901 thousand) and ¥179 million for the years ended March 31, 2019 and 2018, respectively. In addition, such depreciation is included long-term prepaid expenses.

Related information

1. Information by products and services

As sales to external customers in one product or services segment represent of more than 90% of net sales in the consolidated statement of income, the disclosure of the information by products and services was omitted for the years ended March 31, 2019 and 2018.

2. Geographical information

	Millions of yen				
	2019				
	Japan	North America	Europe	Others	Total
Net sales	¥ 9,919	¥ 10,232	¥ 9,048	¥ 2,071	¥ 31,270
Property, plant and equipment	3,422	697	57	833	5,009

	Millions of yen				
	2018				
	Japan	North America	Europe	Others	Total
Net sales	¥ 10,696	¥ 8,448	¥ 8,687	¥ 2,030	¥ 29,861
Property, plant and equipment	3,490	707	48	722	4,967

	Thousands of U.S. dollars				
	2019				
	Japan	North America	Europe	Others	Total
Net sales	\$ 89,352	\$ 92,172	\$ 81,506	\$ 18,656	\$ 281,686
Property, plant and equipment	30,826	6,279	513	7,504	45,122

3. Information by major customers

As there is no major customer who contributes 10% or more of net sales in the consolidated statement of income, information by major customers is omitted for the years ended March 31, 2019 and 2018.

Information on impairment losses of assets by reportable segment

	Millions of yen					
	2019					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Impairment losses of assets	¥ 366	¥ -	¥ -	¥ -	¥ -	¥ 366

	Millions of yen					
	2018					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Impairment losses of assets	¥ -	¥ -	¥ -	¥ -	¥ 14	¥ 14

	Thousands of U.S. dollars					
	2019					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Impairment losses of assets	\$ 3,297	\$ -	\$ -	\$ -	\$ -	\$ 3,297

The amount of "Adjustments" is impairment loss on corporate assets not attributable to a specific segment.

Information on amortization of goodwill and balance by reportable segment

The following table presents amortization and the balance of goodwill as of and for the years ended March 31, 2019 and 2018.

	Millions of yen				
	2019				
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Consolidated
Amortization of goodwill	¥ 187	¥ -	¥ -	¥ -	¥ 187
Balance as of March 31, 2019	1,812	-	-	-	1,812

	Millions of yen				
	2018				
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Consolidated
Amortization of goodwill	¥ 190	¥ -	¥ -	¥ -	¥ 190
Balance as of March 31, 2018	2,052	-	-	-	2,052

	Thousands of U.S. dollars				
	2019				
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Consolidated
Amortization of goodwill	\$ 1,685	\$ -	\$ -	\$ -	\$ 1,685
Balance as of March 31, 2019	16,323	-	-	-	16,323

22. Loss on Impairment of Fixed Assets

The following table presents loss on impairment of fixed assets for the years ended March 31, 2019 and 2018.

Asset group	Location	Impaired assets	Millions of yen	Thousands of U.S. dollars
			2019	
Business property	-	Trademark	¥ 366	\$3,297

Asset group	Location	Impaired assets	Millions of yen	
			2018	
Idle assets	Nagano-shi, Nagano	Land	¥ 4	
Idle assets	Nasu-cho, Tochigi	Land	5	
Idle assets	Oshima-cho, Tokyo	Land	5	
Total			¥ 14	

Background on recognition of impairment losses

For the year ended March 31, 2019, the printer business has been performing steadily since the acquisition of FutureLogic Group LLC. in the U.S., and use of the FutureLogic Group corporate logo. The Company has decided to implement a sales strategy by integrating it into the "JCM Global" brand, which is used for JCM products including overseas products such as those for casinos in the U.S. As a result, an impairment loss on the trademark of the FutureLogic Group company logo was recognized.

For the year ended March 31, 2018, impairment losses were recognized on idle assets that will not be used in the future, and the book value of the assets was reduced to the recoverable amount.

Amount of impairment losses

Impairment losses amounted to ¥366 million (\$3,297 thousand) for trademark and ¥14 million for land for the years ended March 31, 2019 and 2018, respectively.

Method of grouping assets

Assets are grouped on the basis of the smallest asset units that generate cash flows independently of the cash flows from other assets or asset groups. As for idle assets, they are grouped individually.

Method for computing recoverable amounts

For the year ended March 31, 2019, the recoverable amounts of the assets were measured at the estimated value in use based on future cash flow. The recoverable amount of trademark was estimated at zero because it will not be used in the future.

For the year ended March 31, 2018, the recoverable amounts of the assets were calculated using estimates of the net sales value based on a valuation that is considered to reflect the market price appropriately.

23. Subsequent Events

Distribution of Retained Earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2019, was approved at a Board of Directors' meeting held on May 28, 2019:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥11.5 = U.S.\$0.10 per share)	¥ 341	\$ 3,072

The Board of Directors
Japan Cash Machine Co., Ltd.

We have audited the accompanying consolidated financial statements of Japan Cash Machine Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the consolidated financial position of Japan Cash Machine Co., Ltd. and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

June 26, 2019
Osaka, Japan

Ernst & Young Shin Nihon LLC

Outline

Name: Japan Cash Machine Co., Ltd.

Established: January 11, 1955

Headquarters:

2-3-15, Nishiwaki, Hirano-ku, Osaka 547-0035, Japan
Tel: +81-6-6703-8400 Fax: +81-6-6707-0348

Tokyo Headquarters:

2-23-2, Higashi-Nihonbashi, Chuo-ku, Tokyo 103-0004, Japan
Tel: +81-3-5962-3730 Fax: +81-3-5962-3736

Plants: Nagahama, Hong Kong, Shenzhen

Laboratories: Osaka, Tokyo, Bangkok

Primary Business Activities:

Manufacture, sales and marketing of money-handling machines (bill acceptors, coin and bill counting and processing machines, OEM terminals for sports and track facilities, and other equipment for the financial industry), and equipment for the amusement industry

Capital (As of March 31, 2019): ¥2,217 million

Principal Banks:

Resona Bank, Limited
Sumitomo Mitsui Banking Corporation
Sumitomo Mitsui Trust Bank, Limited

Fiscal Year-End: March 31

URL: <http://www.jcm-hq.co.jp/english/>

Investor Email Inquiries: ir@jcm-hq.co.jp

JCM Group Network

» Overseas

A JCM American Corporation

925 Pilot Road, Las Vegas, Nevada, 89119 USA
Tel: +1-702-651-0000
Business: Sales of money-handling machines

B JCM Europe GmbH

Mündelheimer Weg 60, D-40472 Düsseldorf, Germany
Tel: +49-211-530645-0
Business: Sales of money-handling machines

C JCM Europe (UK) Ltd.

Unit B, Denbigh West Business Park, 25 Third Avenue, Bletchley, Milton Keynes, MK1 1DH United Kingdom
Tel: +44 (0)1908 377 331
Business: Sales of money-handling machines

D JCM Gold (H.K.) Ltd.

Unit 1-7, 3F, Favor Industrial Centre, 2-6 Kin Hong St., Kwai Chung, N.T., Hong Kong
Tel: +852-2429-7187
Business: Manufacture and sales of money-handling machines and electronic cash registers

E Shafty Co., Ltd.

Unit 1-7, 3F, Favor Industrial Centre, 2-6 Kin Hong St., Kwai Chung, N.T., Hong Kong
Tel: +852-2429-7187
Business: Leasing of real estate to JCM Gold (H.K.) Ltd.

F JCM China Co., Ltd.

806, East Tower, Coastal Building, Haide 3 Road, Nanshan District, Shenzhen, Guangdong, P.R. China
Tel: +86-755-2669-0271
Business: Support for manufacturing and sales of bill validators

G J-Cash Machine (Thailand) Co., Ltd.

46/161 MU 12, Klongkoom, Bungkoom, Bangkok 10230, Thailand
Tel: +66-2363-7509
Business: Software development

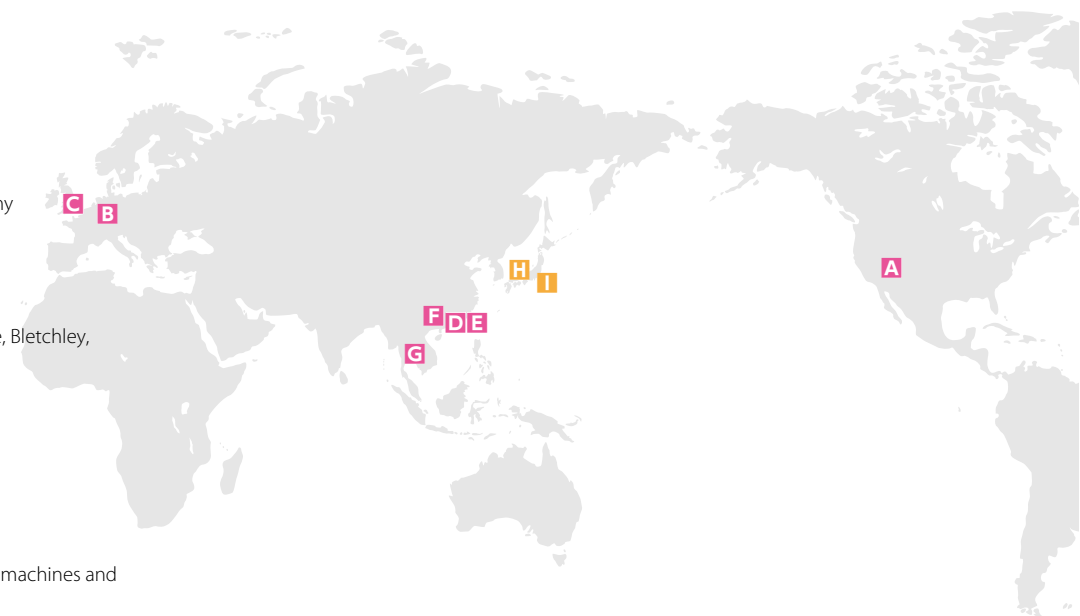
» Japan

H JCM Systems Co., Ltd.

2-23-2, Higashi-Nihonbashi, Chuo-ku, Tokyo 103-0004, Japan
Tel: +81-3-5962-3750
Business: Sales, installation, maintenance, checking and repair of amusement equipment

I JCM Meiho Co., Ltd.

3F, Seika Bldg., 2-20-1, Higashi-Ueno, Taito-ku, Tokyo 110-0015, Japan
Tel: +81-3-3833-4891
Business: Sales of pachinko (pinball) and related machines



Share Overview

Total number of shares authorized to be issued	118,000,000
Total number of issued shares	29,662,851
Share unit	100
Number of shareholders	18,729

Major Shareholders

Name	Number of shares held (thousands)	Percentage of outstanding shares (%)
Johto Investment and Development, Inc.	4,661	15.73
Koichiro Kamihigashi	2,707	9.13
Yojiro Kamihigashi	1,458	4.92
The Master Trust Bank of Japan, Ltd. (Trust Account)	726	2.45
Yoshiko Kamihigashi	638	2.15
Resona Bank, Limited	563	1.90
Sumitomo Mitsui Banking Corporation	503	1.70
Japan Trustee Services Bank, Ltd. (Trust Account)	472	1.59
Totor Engineering Co., Ltd.	432	1.46
Japan Trustee Services Bank, Ltd. (Trust Account 5)	431	1.46

Note: Apart from the above, the Company holds 21,155 shares as treasury stock. The amount of treasury stock is excluded in calculating the shareholding ratio.

Breakdown by Type of Shareholder

