Financial Section

Consolidated Financial Statement

The accompanying consolidated financial statements in this section have been translated from the consolidated financial statements included in the Securities Report of FIELDS CORPORATION issued and submitted in Japan.

In translating the consolidated financial statements, certain modifications and reclassifications have been made for the convenience of readers.
The consolidated financial statements for the year ended March 31, 2016 were audited by an independent auditor (BDO Sanyu & Co.) whose report expressed an unqualified opinion on those statements.

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Consolidated Financial Statement

Consolidated Balance Sheets

FIELDS CORPORATION and its Consolidated Subsidiaries At March 31, 2015 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2015	2016	2016
Current assets:			
Cash and cash equivalents	¥ 15,823	¥ 32,200	$ 285,764
Notes and accounts receivable–trade	45,888	8,562	75,985
Electronically recorded monetary claims	—	1,142	10,134
Inventories	1,736	3,020	26,801
Merchandising rights advances	3,061	2,121	18,823
Deferred tax assets	568	724	6,425
Other current assets	3,959	5,181	45,979
Allowance for doubtful accounts	(25)	(20)	(177)
Total current assets	71,014	52,934	469,772
Property and equipment:			
Land	7,737	7,550	67,003
Buildings and structures	6,513	6,325	56,132
Tools and furniture	4,590	4,520	40,113
Machinery and vehicles	54	86	763
Construction in progress	59	70	621
Total	18,953	18,551	164,634
Less: Accumulated depreciation	(6,758)	(7,104)	(63,045)
Property and equipment, net	12,197	11,447	101,588
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	8,505	4,180	37,096
Investment securities	6,059	5,536	49,130
Goodwill	1,618	1,298	11,519
Long-term loans receivable	3,770	9,729	86,341
Deferred tax assets	840	1,618	14,359
Other assets	7,340	6,925	61,457
Allowance for doubtful accounts	(1,029)	(1,193)	(10,587)
Total investments and other assets	27,104	28,094	249,325
Total assets	¥ 110,316	¥ 92,478	$ 820,713

See accompanying notes to the consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND NET ASSETS	2015	2016	2016
Current liabilities:			
Notes and accounts payable–trade	¥ 33,850	¥ 12,749	$ 113,143
Short-term bank loans	4,014	11,414	101,295
Current portion of long-term debt	42	8	70
Income taxes payable	2,345	690	6,123
Accrued bonuses	378	375	3,328
Accrued bonuses to directors and corporate auditors	282	214	1,899
Other current liabilities	4,859	4,355	38,649
Total current liabilities	45,773	29,809	264,545
Long-term liabilities:			
Long-term debt, less current portion	8	—	—
Net defined benefit liability	521	643	5,706
Other long-term liabilities	3,766	3,732	33,120
Total long-term liabilities	4,296	4,376	38,835
Net assets:			
Common stock:			
Authorized; 138,800,000 shares at March 31, 2015 and 2016			
Issued; 34,700,000 shares at March 31, 2015 and 2016	7,948	7,948	70,536
Capital surplus:			
Additional paid-in capital	7,994	7,994	70,944
Retained earnings	46,049	44,177	392,057
Treasury stock; 1,516,200 shares at March 31, 2015 and 2016	(1,821)	(1,821)	(16,160)
Accumulated other comprehensive loss:			
Unrealized loss on available-for-sale securities	(567)	(862)	(7,649)
Foreign currency translation adjustments	(1)	(2)	(17)
Remeasurements of defined benefit plans	(109)	(130)	(1,153)
Total accumulated other comprehensive loss	(679)	(994)	(8,821)
Non-controlling interests	753	987	8,759
Total net assets	60,246	58,291	517,314
Total liabilities and net assets	¥ 110,316	¥ 92,478	$ 820,713

Consolidated Statements of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2016	2016
Net sales	¥ 99,554	¥ 94,476	$ 838,445
Cost of sales	71,086	68,995	612,309
Gross profit	28,468	25,480	226,127
Selling, general and administrative expenses	23,707	24,069	213,604
Operating income	4,760	1,411	12,522
Other income(expenses):			
Interest and dividend income	272	245	2,174
Interest expenses	(12)	(30)	(266)
Equity in earnings (losses) of affiliates	187	(962)	(8,537)
Impairment loss	(12)	(79)	(701)
Gain on sale of investment securities	467	198	1,757
Purchase discount	289	485	4,304
Invest income from investment securities	—	183	1,624
Distributions from investments	135	101	896
Amortization of investments in capital	(254)	(138)	(1,224)
Loss on waiver of receivables from affiliates	—	(161)	(1,428)
Write-down of investments in affiliates	—	(144)	(1,277)
Provision for doubtful receivables from affiliates	—	(175)	(1,553)
Other, net	(79)	(31)	(275)
Other income (expenses), net	995	(510)	(4,526)
Income before income taxes	5,754	901	7,996
Income taxes:			
Current	2,425	1,243	11,031
Deferred	4	(816)	(7,241)
Total income taxes	2,430	427	3,789
Net income	¥ 3,324	¥ 474	$ 4,206
Attributable to:			
Owners of the parent	¥ 3,018	¥ 118	$ 1,047
Non-controlling interests	305	356	3,159

	Yen		U.S. Dollars (Note 1)
Earnings per share:			
Basic earnings per share	¥ 90.97	¥ 3.58	$ 0.03

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2016	2016
Net income	¥ 3,324	¥ 474	$ 4,206
Other comprehensive income (loss):			
Net unrealized loss on available-for-sale securities	(307)	(293)	(2,600)
Foreign currency translation adjustments	(0)	(0)	(0)
Remeasurements of defined benefit plans	17	(20)	(177)
Total other comprehensive loss	(290)	(314)	(2,786)
Total comprehensive income	¥ 3,034	¥ 159	$ 1,411
Attributable to:			
Owners of the parent	¥ 2,730	¥ (196)	$ (1,739)
Non-controlling interests	304	356	3,159

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

	Shares				Millions of Yen
	Number of Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at April 1, 2014	34,700,000	¥ 7,948	¥ 7,994	¥ 44,548	¥ (1,821)
Cumulative effect of accounting change	—	—	—	142	—
Adjusted beginning balance	34,700,000	7,948	7,994	44,690	(1,821)
Net income attributable to owners of the parent	—	—	—	3,018	—
Cash dividends paid	—	—	—	(1,659)	—
Net change of item other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2015	34,700,000	7,948	7,994	46,049	(1,821)
Net income attributable to owners of the parent	—	—	—	118	—
Cash dividends paid	—	—	—	(1,991)	—
Additional acquisition of a consolidated subsidiary's stocks	—	—	(0)	—	—
Net change of item other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2016	34,700,000	¥ 7,948	¥ 7,994	¥ 44,177	¥ (1,821)

Millions of Yen

	Other Comprehensive Income (Loss)				
	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Non-controlling Interests	Total Net Assets
Balance at April 1, 2014	¥ (262)	¥ (1)	¥ (126)	¥ 473	¥ 58,753
Cumulative effect of accounting change	—	—	—	—	142
Adjusted beginning balance	(262)	(1)	(126)	473	58,895
Net income attributable to owners of the parent	—	—	—	—	3,018
Cash dividends paid	—	—	—	—	(1,659)
Net change of item other than shareholders' equity	(305)	(0)	17	280	(8)
Balance at March 31, 2015	(567)	(1)	(109)	753	60,246
Net income attributable to owners of the parent	—	—	—	—	118
Cash dividends paid	—	—	—	—	(1,991)
Additional acquisition of a consolidated subsidiary's stocks	—	—	—	—	(0)
Net change of item other than shareholders' equity	(294)	(0)	(20)	233	(81)
Balance at March 31, 2016	¥ (862)	¥ (2)	¥ (130)	¥ 987	¥ 58,291

Thousands of U.S. Dollars (Note 1)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at March 31, 2015	$ 70,536	$ 70,944	$ 408,670	$ (16,160)
Net income attributable to owners of the parent	—	—	1,047	—
Cash dividends paid	—	—	(17,669)	—
Additional acquisition of a consolidated subsidiary's stocks	—	(0)	—	—
Net change of item other than shareholders' equity	—	—	—	—
Balance at March 31, 2016	$ 70,536	$ 70,944	$ 392,057	$ (16,160)

Thousands of U.S. Dollars (Note 1)

	Other Comprehensive Income (Loss)				
	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Non-controlling Interests	Total Net Assets
Balance at March 31, 2015	$ (5,031)	$ (8)	$ (967)	$ 6,682	$ 534,664
Net income attributable to owners of the parent	—	—	—	—	1,047
Cash dividends paid	—	—	—	—	(17,669)
Additional acquisition of a consolidated subsidiary's stocks	—	—	—	—	(0)
Net change of item other than shareholders' equity	(2,609)	(0)	(177)	2,067	(718)
Balance at March 31, 2016	$ (7,649)	$ (17)	$ (1,153)	$ 8,759	$ 517,314

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2016	2016
Operating activities:			
Income before income taxes	¥ 5,754	¥ 901	$ 7,996
Adjustments:			
Depreciation and amortization	2,137	2,273	20,172
Impairment loss	12	79	701
Amortization of goodwill	325	326	2,893
Purchase discount	(289)	(485)	(4,304)
Equity in losses (earnings) of affiliates	(187)	962	8,537
Amortization of investments in capital	454	264	2,342
Gain on sale of investment securities	(467)	(198)	(1,757)
Notes and accounts receivable–trade	(17,232)	36,663	325,372
Inventories	1,396	86	763
Merchandising rights advances	(966)	939	8,333
Accounts payable–trade	1,317	(22,828)	(202,591)
Other	370	(2,472)	(21,938)
Subtotal	(7,369)	16,509	146,512
Interest and dividends received	246	257	2,280
Interest paid	(12)	(30)	(266)
Income taxes paid	(1,951)	(3,382)	(30,014)
Net cash provided by (used in) operating activities	(9,086)	13,353	118,503
Investing activities:			
Purchases of property and equipment	(1,587)	(946)	(8,395)
Proceeds from sale of property and equipment	380	638	5,662
Purchases of intangible assets	(1,665)	(848)	(7,525)
Proceeds from sale of investment securities	828	216	1,916
Increase in loans receivable	(4,221)	(7,121)	(63,196)
Collection on loans	788	2,502	22,204
Proceeds from purchase of newly consolidated subsidiaries' stocks	—	652	5,786
Proceeds from refund of investments in an unconsolidated subsidiary	—	3,110	27,600
Other	(819)	(394)	(3,496)
Net cash used in investing activities	(6,297)	(2,191)	(19,444)
Financing activities:			
Increase in short-term bank loans, net	3,380	7,400	65,672
Cash dividends paid	(1,658)	(1,990)	(17,660)
Other	(96)	(193)	(1,712)
Net cash provided by financing activities	1,624	5,214	46,272
Foreign currency translation adjustments on cash and cash equivalents	—	0	0
Net increase (decrease) in cash and cash equivalents	(13,760)	16,377	145,340
Cash and cash equivalents at beginning of the year	29,583	15,823	140,424
Cash and cash equivalents at end of the year	¥ 15,823	¥ 32,200	$ 285,764

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis Of Presentation Of Consolidated Financial Statements

FIELDS CORPORATION (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different from International Financial Reporting Standards ("IFRS") and accounting standards generally accepted in the United States of America as to accounting and disclosure requirements.

The accompanying consolidated financial statements are translated into English from the consolidated financial statements issued domestically in Japan. Certain modifications and reclassifications have been made for the convenience of readers unfamiliar with Japanese GAAP presentation rules and methods. In addition, certain rearrangements have been made to the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at that or any other rate.

The Japanese yen amounts in millions are rounded down to the nearest million, by which the translations into U.S. dollar amounts are computed. U.S. dollar amounts in thousands are also rounded down to the nearest thousand.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries (collectively, the "Group") that are controlled by the Company. Under the effective control approach, all majority-owned companies and companies effectively controlled by the Company are consolidated. Additionally, those companies over which the Company is able to directly or indirectly exercise control are to be consolidated even if the holding ratio equals to 50% or less.

All significant inter-company balances and transactions are eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated. In eliminating investments in subsidiaries, the assets and liabilities, including the portion attributable to non-controlling interests, are evaluated at fair value at the time the Company acquired control over the respective subsidiaries. The closing date of the consolidated subsidiaries is the same as that of the Company.

The difference between total acquisition costs and underlying fair value of the acquired company is recognized as goodwill, and is amortized on a straight-line basis over an estimated period of no more than 10 years.

Under the control concept, companies over which the Company has the ability to exercise significant influence through investment, personnel, financing, technology, or other relationships are accounted for under the equity method. Investments in companies other than those consolidated or accounted for under the equity method are accounted for under the cost method. If the equity method had been applied to the investments in those companies, the effect on the consolidated financial statements would not have been significant.

Scope of Consolidation and Application of the Equity Method

Numbers of subsidiaries and affiliates at March 31, 2015 and 2016 are as follows:

	Number of Companies	
	2015	2016
Consolidated subsidiaries	15	16
Unconsolidated subsidiaries not accounted for under the equity method	5	6
Affiliates accounted for under the equity method	9	9
Affiliates not accounted for under the equity method	2	2

The consolidated subsidiaries and holding ratio of the Company at March 31, 2015 and 2016 are as follows:

	Holding Ratio	
	2015	2016
Fields Jr. Corporation	100.0 %	100.0 %
Shinnichi Technology Co., Ltd.	100.0	100.0
MICROCABIN CORP.	100.0	100.0
Lucent Pictures Entertainment, Inc.	100.0	100.0
Total Workout premium management Inc.	95.0	95.0
FutureScope Corp.	87.7	94.4
Digital Frontier Inc.	86.9	86.9
Digital Frontier (Taiwan) Inc.	86.9	86.9
Fly Studio Sdn, Bhd	80.0	84.3
GEMBA Inc.	73.9	73.9
NEX ENTERTAINMENT CO., LTD.	69.8	69.8
BOOOM Corporation	51.0	51.0
Tsuburaya Productions Co., Ltd.	51.0	51.0
XAAX Inc.	51.0	51.0
K.K. CROSSALPHA	—	100.0
Spiky Corporation	—	100.0

Note:

Year ended March 31, 2015

There were no changes in the scope of consolidation.

Year ended March 31, 2016

The Company acquired 100% shares of K.K. CROSSALPHA (formerly known as KK Aristocrat Technologies, renamed on October 1, 2015). As a result, K.K. CROSSALPHA and Spiky Corporation, its subsidiary, became consolidated subsidiaries of the Company.

IP Bros. Inc., a former consolidated subsidiary, was absorbed into FutureScope Corp., a consolidated subsidiary, through a merger.

The following table summarizes proceeds from purchase of newly consolidated subsidiaries' stocks and fair value of assets and liabilities at the time of initiating consolidation:
(K.K. CROSSALPHA and Spiky Corporation)

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 2,952	$ 26,198
Non-current assets	523	4,641
Goodwill	5	44
Current liabilities	(2,859)	(25,372)
Long-term liabilities	(607)	(5,386)
Acquisition cost	15	133
Cash and cash equivalents held by K.K. CROSSALPHA and Spiky Corporation	667	5,919
Proceeds from purchase of newly consolidated subsidiary's stocks	¥ 652	$ 5,786

Cash Equivalents

Cash equivalents are defined as low-risk, highly-liquid, short-term investments with an initial maturity of three months or less that are readily convertible to cash.

Valuation of Inventories

Inventories are stated at cost, determined by the following methods:

Merchandise	The Company	Used machines: the specific identification method
		Other: the moving-average method
	Consolidated subsidiaries	the gross-average method
Work in process	Consolidated subsidiaries	the specific identification method
Raw materials	The Company and consolidated subsidiaries	the moving-average method
Supplies	The Company and consolidated subsidiaries	the last purchase price method

If acquisition cost of an inventory exceeds its net selling value, the carrying amount of such inventory would be written down to its net selling value and the difference would be charged to income.

Investment Securities

Investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity securities, which are expected to be held to maturity with a positive intent and an ability to hold to maturity are reported at amortized cost; and (2) available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets. Available-for-sale securities whose fair value is not readily determinable are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value and charged to income.

Property and Equipment

Property and equipment are stated at cost determined principally by the declining-balance method, whereas the straight-line method is applied to buildings acquired on or after April 1, 1998.

The ranges of useful lives of depreciable assets are as follows:

Buildings and structures	2–50 years
Tools and furniture	2–20 years
Machinery and vehicles	2–12 years

ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets" (revised on May17, 2012), requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted future cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. Acquisition costs of impaired long-lived assets are directly deducted in recognizing impairment losses.

Intangible Assets

Software for internal use is amortized over a period of no more than five years by the straight-line method.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at an amount based on past collection experience and evaluation of potential losses in the receivables outstanding.

Accrued Bonuses

Bonuses to employees are accrued at the estimated amount which the Group is obligated to pay to employees after the balance sheet date, based on services provided during the period.

Bonuses to Directors and Corporate Auditors

Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

Retirement Benefits

The Company and certain consolidated subsidiaries have an unfunded defined benefit retirement plan with lump-sum payments, as well as defined contribution retirement plans.

Effective April 1, 2014, the Company applied ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" (issued on May 17, 2012), and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits" (issued on March 26, 2015), in accordance with Section 35 of the aforementioned standard and Section 67 of the aforementioned guidance. In applying the new standard and guidance, the Company reviewed the determination method of retirement benefit obligations and current service costs, and changed: (1) the method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis; and (2) the method to determine the discount rate under which a single weighted average discount rate reflecting the estimated timing and amount of benefit payment is used.

In applying the new standard and guidance, the effects of amendments in the determination method of retirement benefit obligations and current service costs were recognized as an adjustment of the opening balance of retained earnings as of April 1, 2014 in accordance with the tentative treatment stipulated in Section 37 of the new standard.

As a result, the effects of applying the new standard and guidance were to decrease net defined benefit liability by ¥220 million ($1,830 thousand) and to increase retained earnings by ¥142 million ($1,181 thousand) as of April 1, 2014. The effects on operating income, ordinary income, and income before income taxes and minority interests were to increase each by ¥13 million ($108 thousand). The effect on per share figures is to increase basic earnings per share ("EPS") by ¥0.42 ($0.00).

Translation of Foreign Currencies

Current and non-current monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates at the balance sheet date. Gains and losses arising from translations are charged to income in the year they are incurred.

The Company translates the revenue and expense accounts of its overseas consolidated subsidiaries at the average rates of exchange of the year. The balance sheet accounts, except for net assets accounts, are translated into yen at the exchange rates of the balance sheet date. Net asset accounts are translated at their historical exchange rates. The differences arising from translations are included in foreign currency translation adjustments.

Derivative Financial Instruments and Hedging Accounting

Japanese GAAP for derivative financial instruments:

Derivative financial instruments are stated at fair value at the balance sheet date and changes in fair value are recognized as gains or losses. If derivative financial instruments are used as hedges and meet certain hedging criteria, a company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on the hedged items are realized.

Group's management policy for derivative transactions:

The Company utilizes financial instruments with embedded derivative instruments for effective use of surplus funds. The Company does not enter into derivative transactions unless they are considered secure with underlying low risks. The Group does not enter into derivative transactions for speculative purposes.

Risk management for derivative transactions:

The Group enters into derivative transactions only with major financial institutions with favorable credit ratings, thereby reducing credit risk exposure for non-performance. The Accounting and Finance Department is engaged in managing derivative transactions, and all derivative transactions are executed, monitored, and managed in accordance with internal authorization policies.

Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company adopted ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." The accounting standard requires legal obligations associated with the retirement of long-lived assets to be recognized as the sum of the discounted cash flows required for future asset retirement at the time that the obligations are incurred. If the asset retirement obligation cannot be reasonably estimated, such obligation should be recognized as a liability in the period when it becomes reasonably estimated. Upon initial recognition of a liability, the cost is capitalized as part of the related long-lived assets and depreciated over the remaining estimated useful life of the related asset. The Company did not have any material asset retirement obligations at March 31, 2014 and 2015.

Income Taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are determined by applying currently enacted tax laws to the temporary differences. Change in the statutory tax rate is recognized as income or loss in the period the new tax rate is enacted. A valuation allowance is provided for deferred tax assets when considered tax benefit would not be realized.

Revenue Recognition

Revenue of the Group primarily consists of distribution sales and agency sales.

For distribution sales:

The Group purchases pachinko and pachislot machines from manufacturers and sells them to pachinko halls. The Group recognizes revenue when merchandise is shipped to the halls.

For agency sales:

The Group acts as an agent between manufacturers and pachinko halls to provide various services related to the distribution of pachinko and pachislot machines. The Group receives commissions from the manufacturers for this agency service. The services are completed when the Group collects sales proceeds from pachinko halls, and remits the proceeds to the manufacturers. Revenue is recognized when services are completed.

Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that deemed to transfer ownership of the leased property to the lessee were to be capitalized; however, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company adopted this revised accounting standard as of April 1, 2008, applying the permission discussed above to leases which existed at the transition date and do not transfer ownership of the leased property to the lessee.

Consumption Tax

Consumption tax is imposed on all domestic consumption of goods and services (with certain exemptions). The consumption tax imposed on the Group's sales to customers is withheld by the customers at the time of sale and is subsequently paid to the Japanese government. Consumption tax withheld upon sale is not included in "Sales" and consumption tax payable by the Group on the purchases of goods and services from vendors is not included in costs or expenses. The net balance of consumption tax withheld and payable is included in "Other current assets" or "Other current liabilities" in the accompanying consolidated balance sheets.

Earnings Per Share ("EPS")

Basic EPS is computed based on the average number of shares of common stock outstanding during the period. Diluted EPS reflects all of the potential dilution that could occur if securities or other contracts to issue common stock were exercised.

Diluted EPS for the years ended March 31, 2015 and 2016 is not presented because the Company did not have any kind of securities with potential dilutive effect.

Accounting Changes

Effective April 1, 2015, the Company applied "Revised Accounting Standard for Business combinations" (Statement No. 21, issued by Accounting Standards Board of Japan ("ASBJ") on September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (Statement No. 22, issued by ASBJ on September 13, 2013) and "Revised Accounting Standard for Business Divestitures" (Statement No. 7, issued by ASBJ on September 13, 2013). In applying the new standards, the Company recognized the difference associated with changes in equity in subsidiaries remaining under the control of the Company as additional paid-in capital, and changed the accounting treatment of acquisition-related costs to the method under which such costs are recorded as expenses for the fiscal year they are incurred. For business combinations implemented on or after April 1, 2015, the accounting method has been changed to reflect the adjustments to the allocated amount of acquisition costs on the finalization of the provisional accounting treatment in the consolidated financial statements for the year containing the date of the business combinations. In addition, the Company changed the presentation manner of net income and other items. In the new presentation manner, minority interests are presented as non-controlling interests. To reflect these changes, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2015.

The Company applied the new standards prospectively from the beginning of the year ended March 31, 2016 in accordance with the transitional treatments as prescribed in article 58-2 (4) of Revised Accounting Standard for Business combinations, article 44-5 (4) of Revised Accounting Standard for Consolidated Financial Statements, and article 57-4 (4) of Revised Accounting Standard for Business Divestitures.

As a result, the effect of applying the new standard was to decrease operating income and income before income taxes for the year ended March 31, 2016 each by ¥105 million ($931 thousand). The effect on the amount of earnings per share was to decrease basic earnings per share for the year ended March 31, 2016 by ¥3.16 ($0.02). The effect on the amount of additional paid-in capital as of March 31, 2016 was not significant.

In the consolidated statements of cash flows for the year ended March 31, 2016, cash flows from additional purchase or partial sale of a subsidiary's shares are included in cash flows from financing activities, whereas cash flows from related costs of acquisition of a new subsidiary or related costs of additional purchase or partial sale of a subsidiary's shares are included in cash flows from operating activities.

The effect on the amount of additional paid-in capital in the consolidated statements of changes in net assets for the year ended March 31, 2016 was not significant.

Changes in Presentation

Prior to April 1, 2015, commission income received from affiliates was recorded in "other" of "other income" in the consolidated statements of income. Effective April 1, 2015, the Company changed the accounting treatment of commission income to record it as a deduction of selling, general and administrative expense in order to clarify the burden of costs and to classify profit and loss more appropriately. As a result, ¥16 million of such commission income recorded in other of other income in the consolidated statement of income for the year ended March 31, 2015 was reclassified to a deduction of selling, general and administrative expenses.

Use of Estimates

The accompanying consolidated financial statements include amounts based on certain estimates and assumptions. The actual results may differ from those estimates and assumptions.

3. Inventories

Inventories at March 31, 2015 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Merchandise	¥ 239	¥ 346	$ 3,070
Work in process	1,414	2,596	23,038
Raw materials and supplies	83	78	692
Total	¥ 1,736	¥ 3,020	$ 26,801

The Group provides for anticipated losses arising from software development contracts. Allowance for losses arising from software development contracts, which is included in other current liabilities , as of March 31, 2016 was ¥77 million ($683 thousand).

4. Financial Instruments And Related Disclosures

(1) Policy for financial instruments

Basically, the Group's use of its surplus funds is limited to low-risk financial assets. The Group finances its working capital by short-term bank loans. For mid- or long-term cash demands, the way of raising funds is determined after considering the market environment and its purposes. The Group utilizes derivative financial instruments only for hedging risks and does not enter into derivative transactions for speculative purposes.

(2)Nature, risks arising from financial instruments, and risk management

Notes and accounts receivable and electronically recorded monetary claims arise during the ordinary course of business and are subject to the credit risks of customers. Each division controls these risks by reviewing outstanding balances and due dates of each customer in accordance with internal rules for controlling receivables, as well as by monitoring customers' financial conditions to promptly obtain information about possible bad debts.

Most investment securities are related to capital and/or operating alliances with business partners, and are subject to market value volatility risks. In order to control these risks, fair value, the financial condition of investees, and related business relationships are periodically reviewed by the Planning and Administration Division in accordance with internal rules for controlling investment securities.

The Group utilizes forward exchange contracts to hedge currency risk arising from forecasted transactions denominated in foreign currencies. The Group enters into derivative contracts only with highly trustworthy financial institutions to reduce credit risk. The Planning and Administration Division controls these risks in accordance with internal rules for controlling derivative transactions.

Notes and accounts payable arise during the ordinary course of business and are payable within one year. Income taxes payable include corporation tax, inhabitants' tax, and enterprise tax and are payable within one year. These items are subject to liquidity risks of default. To control these risks, the Planning and Administration Division prepares and updates cash-flow plans and maintains appropriate amounts of ready liquidity based on reports from internal sections.

Fair value of financial instruments is based on quoted prices in active markets. If quoted price is not available, other rational valuation techniques are used instead. Because such valuation techniques include certain assumptions, results may differ if different assumptions are used in the valuation.

Financial instruments whose fair values are readily determinable at March 31, 2015 are as follows:

			Millions of Yen
	Carrying Amount	Fair Value	Difference
Assets:			
(1) Cash and cash equivalents	¥ 15,823	¥ 15,823	—
(2) Notes and accounts receivable	45,888		
Less: Allowance for doubtful accounts	(24)		
Net amount	45,863	45,863	
(3) Investment securities			
(a) Held-to-maturity securities	200	207	7
(b) Available-for-sale securities	5,520	5,520	—
(4) Long-term loans receivable	3,770		
Less: Allowance for doubtful accounts	(935)		
Net amount	2,835	2,846	11
Total	¥ 70,242	¥ 70,261	¥ 18
Liabilities:			
(5) Notes and accounts payable	33,850	33,850	
(6) Short-term bank loans	4,014	4,014	—
(7) Current portion of long-term debt	42	42	0
(8) Income taxes payable	2,345	2,345	—
(9) Long-term debt	8	8	(0)
Total	¥ 40,261	¥ 40,261	¥ 0

Notes:
(1), (2), (5), (6), and (8)—As these items are settled within a year and have fair values approximately equal to their carrying amounts, they are stated at the carrying amounts.
(3)—Fair value of equity securities is stated at market price whereas that of debt securities is stated at amount obtained from financial institutions. Fair value information categorized by holding purposes of investment securities is discussed in Note 5.
(4)—Fair value of long-term loans receivable is stated at present value of future cash flows. Discount rate is computed by adding spreads to appropriate indices, such as yield of Japanese government bonds.
(7) and (9)—Long-term debt comprises bank loans. Fair value of bank loans is stated at present value of the total amount of its principal and interest discounted by an assumed rate that would be applicable to bank loans financed under the same conditions.

Financial instruments which do not have quoted market prices and whose fair value is not reliably determinable are not included in the tables above. Such financial instruments at March 31, 2015 are as follows:

	Millions of Yen
Balance included in the consolidated balance sheet	
Investment securities	¥ 338
Investments in unconsolidated subsidiaries	70
Investments in affiliates	8,434
Total	¥ 8,843

Detailed information about investment securities is discussed in Note 5.

Financial instruments whose fair values are readily determinable at March 31, 2016 are as follows:

	Millions of Yen		
	Carrying Amount	Fair Value	Difference
Assets:			
(1) Cash and cash equivalents	¥ 32,200	¥ 32,200	¥ —
(2) Notes and accounts receivable	8,562		
Less: Allowance for doubtful accounts	(19)		
Net amount	8,542	8,542	—
(3) Electronically recorded monetary claims	1,142		
Less: Allowance for doubtful accounts	(0)		
Net amount	1,142	1,142	—
(4) Investment securities			
(a) Held-to-maturity securities	200	200	0
(b) Available-for-sale securities	5,006	5,006	—
(5) Long-term loans receivable	9,729		
Less: Allowance for doubtful accounts	(1,109)		
Net amount	8,619	8,629	10
Total	¥ 55,711	¥ 55,721	¥ 10
Liabilities:			
(6) Notes and accounts payable	12,749	12,749	—
(7) Short-term bank loans	11,414	11,414	—
(8) Current portion of long-term debt	8	8	0
(9) Income taxes payable	690	690	—
Total	¥ 24,863	¥ 24,863	¥ 0
Derivative transactions	¥ (13)	¥ (13)	¥ —

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
Assets:			
(1) Cash and cash equivalents	$ 285,764	$ 285,764	$ —
(2) Notes and accounts receivable	75,985		
Less: Allowance for doubtful accounts	(168)		
Net amount	75,807	75,807	
(3) Electronically recorded monetary claims	10,134		
Less: Allowance for doubtful accounts	(0)		
Net amount	10,134	10,134	—
(4) Investment securities			
(a) Held-to-maturity securities	1,774	1,774	0
(b) Available-for-sale securities	44,426	44,426	—
(5) Long-term loans receivable	86,341		
Less: Allowance for doubtful accounts	(9,842)		
Net amount	76,490	76,579	88
Total	$ 494,417	$ 494,506	$ 88
Liabilities:			
(6) Notes and accounts payable	113,143	113,143	—
(7) Short-term bank loans	101,295	101,295	—
(8) Current portion of long-term debt	70	70	0
(9) Income taxes payable	6,123	6,123	—
Total	$ 220,651	$ 220,651	$ 0
Derivative transactions	$ (115)	$ (115)	$ —

Notes:

(1), (2), (3), (6), (7) and (9)—As these items are settled within a year and have fair values approximately equal to their carrying amounts, they are stated at the carrying amounts.

(4)—Fair value of equity securities is stated at market price whereas that of debt securities is stated at amount obtained from financial institutions. Fair value information categorized by holding purposes of investment securities is discussed in Note 5.

(5)—Fair value of long-term loans receivable is stated at present value of future cash flows. Discount rate is computed by adding spreads to appropriate indices, such as yield of Japanese government bonds.

(8)—Current portion of long-term debt comprises bank loans. Fair value of bank loans is stated at present value of the total amount of its principal and interest discounted by an assumed rate that would be applicable to bank loans financed under the same conditions.

Derivative transactions are calculated based on the prices provided by the counterparty financial institutions and stated at a net amount of derivative assets and liabilities.

Financial instruments which do not have quoted market prices and whose fair value is not reliably determinable are not included in the tables above. Such financial instruments at March 31, 2016 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance included in the consolidated balance sheet		
Investment securities	¥ 330	$ 2,928
Investments in unconsolidated subsidiaries	26	230
Investments in affiliates	4,154	36,865
Total	¥ 4,510	$ 40,024

Detailed information about investment securities is discussed in Note 5.

Maturity analysis for financial assets at March 31, 2016 is as follows:

	Millions of Yen			
	Due within One Year	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
(1) Cash and cash equivalents	¥ 32,200	¥ —	¥ —	¥ —
(2) Notes and accounts receivable	8,562	—	—	—
(3) Electronically recorded monetary claims	1,142	—	—	—
(4) Investment securities				
Held-to-maturity securities	—	—	—	200
(5) Long-term loans receivable	—	9,156	—	—
Total	¥ 41,905	¥ 9,156	¥ —	¥ 200

	Thousands of U.S. Dollars			
	Due within One Year	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
(1) Cash and cash equivalents	$ 285,764	$ —	$ —	$ —
(2) Notes and accounts receivable	75,985	—	—	—
(3) Electronically recorded monetary claims	10,134	—	—	—
(4) Investment securities				
Held-to-maturity securities	—	—	—	1,774
(5) Long-term loans receivable	—	81,256	—	—
Total	$ 371,893	$ 81,256	$ —	$ 1,774

Notes:

(1) Long-term loans receivable in the tables above are stated after deducting the allowance for doubtful accounts of ¥1,476 million ($13,099 thousand).

(2) Long-term loans receivable in the consolidated balance sheet are stated after deducting ¥903 million ($8,013 thousand) because of applying the equity method.

5. Investment Securities

(a) The following table summarizes information of held-to-maturity securities and available-for-sale securities with available fair values at March 31, 2015 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Held-to-maturity securities:			
Balance included in the consolidated balance sheets	¥ 200	¥ 200	$ 1,774
Fair value	207	200	1,774
Net unrealized gain (loss)	7	0	0
Available-for-sale securities:			
― Equity securities			
Acquisition cost	6,263	6,252	55,484
Fair value	5,420	5,006	44,426
Net unrealized loss	(844)	(1,246)	(11,057)
― Debt securities			
Acquisition cost	71	―	―
Fair value	100	―	―
Net unrealized gain	28	―	―

(b) The following table summarizes carrying value of available-for-sale securities whose fair value is not readily determinable at March 31, 2015 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Stocks	¥ 338	¥ 330	$ 2,928

(c) The following table summarizes information of available-for-sale securities sold during the years ended March 31, 2015 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
― Other			
Proceeds	¥ 828	¥ 216	$ 1,916
Realized gains	467	198	1,757

6. Fair Value Of Derivative Transactions

Fair values of the Group's derivative financial instruments at March 31, 2015 and 2016 are as follows:

	Millions of Yen			
	2015			
	Contract Amount			
	Within One Year	Over One Year	Fair Value	Valuation Gain
Financial instruments with embedded derivative instruments (Non-listed)	¥ ―	¥ 71	¥ 100	¥ 28

Notes:
(1) The fair value in the table above is stated at an amount obtained from financial institutions, which are the counterparties of the derivative transactions.
(2) The valuation gain and loss in the table above are computed based on the fair value of the financial instruments with embedded derivative instruments taken as a whole because they cannot be reasonably bifurcated and remeasured.
(3) Contract amounts in the table above are stated at the book value as of the beginning of the fiscal year.
(4) Financial instruments with embedded derivative instruments (non-listed) of ¥71 million as of March 31, 2015 will be redeemed within a year through an early redemption.

Millions of Yen

	2016			
	Contract Amount			
	Within One Year	Over One Year	Fair Value	Valuation Gain (Loss)
Foreign currency forward contract (Non-listed) Long position: U.S. dollar	¥ 160	¥ —	¥ (13)	¥ (13)

Thousands of U.S. Dollars

	2016			
	Contract Amount			
	Within One Year	Over One Year	Fair Value	Valuation Gain (Loss)
Foreign currency forward contract (Non-listed) Long position: U.S. dollar	$ 1,419	$ —	$ (115)	$ (115)

Notes:
The fair values in the table above are stated at an amount obtained from financial institutions, which are the counterparties of the derivative transactions.

7. Long-Lived Assets

The Group reviewed its long-lived assets for impairment at March 31, 2015 and 2016 and, as a result, recognized impairment loss of ¥12 million and ¥79 million ($701 thousand), respectively.

For the year ended March 31, 2015, ¥1 million of tools and furniture for a restaurant facility was written down to zero because the Company decided to discontinue the facility. In addition, ¥10 million of buildings and structures of an office space was written down to zero because the Company decided to relocate.

For the year ended March 31, 2016, ¥18 million ($159 thousand) of buildings and structures and ¥9 million ($79 thousand) of tools and furniture for a restaurant facility were written down to zero because the Company decided to discontinue the facility. In addition, ¥50 million ($443 thousand) of buildings and structures and ¥1 million ($8 thousand) of tools and furniture for an office space was written down to zero because the Company decided to relocate.

8. Leases

The Group leases certain tools and furniture under operating lease contracts. The minimum rental commitments under noncancelable operating leases at March 31, 2015 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Due within one year	¥ 364	¥ 1,013	$ 8,990
Due after one year	583	488	4,330
Total	¥ 947	¥ 1,501	$ 13,320

9. Short-term Bank Loans and Long-term Debt

The average interest rates applicable to the short-term bank loans were 0.45% and 0.34% at March 31, 2015 and 2016, respectively.

The following table summarizes the Group's long-term debt at March 31, 2015 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Long-term debt:			
Long-term bank loans due October 20, 2016			
Current portion with weighted average interest rate of 1.43% in 2015 and 1.32% in 2016	¥ 42	¥ 8	$ 70
Non-current portion with weighted average interest rate of 1.32% in 2015	8	—	—
Total	¥ 50	¥ 8	$ 70

No assets were pledged as collateral for the long-term debts at March 31, 2016.

10. Credit Lines

The Group entered into line of credit and overdraft agreements with banks for the purpose of efficient management of operation funds. The following is the summary of the line of credit at March 31, 2015 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Total amount of the line of credit	¥ 32,000	¥ 32,000	$ 283,990
Outstanding balance	(3,800)	(11,320)	(100,461)
Remaining amount of the line of credit	¥ 28,200	¥ 20,680	$ 183,528

11. Retirement Benefits

Changes in defined benefit obligation for the years ended March 31, 2015 and 2016, except for plans to which the simplified method is applied, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Beginning balance:	¥ 610	¥ 454	$ 4,029
Cumulative effect of accounting change	(220)	—	—
Adjusted beginning balance:	390	454	4,029
Current service cost	61	69	612
Interest cost	3	4	35
Actuarial gains and losses	9	70	621
Benefits paid	(10)	(33)	(292)
Ending balance	¥ 454	¥ 565	$ 5,014

Changes in net defined benefit liability of the plans under the simplified method for the years ended March 31, 2015 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Beginning balance:	¥ 64	¥ 67	$ 594
Net periodic benefit costs	11	18	159
Benefits paid	(9)	(9)	(79)
Net defined benefit liability of newly consolidated subsidiaries	—	2	17
Ending balance	¥ 67	¥ 78	$ 692

Reconciliation between the net defined benefit liability in the consolidated balance sheets and the balances of defined benefit obligation and plan assets as of March 31, 2015 and 2016 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Unfunded defined benefit obligation	¥ 521	¥ 643	$ 5,706
Net defined benefit liability on the consolidated balance sheets	521	643	5,706
Net defined benefit liability	521	643	5,706
Net defined benefit liability on the consolidated balance sheets	¥ 521	¥ 643	$ 5,706

Note: The table above includes the plans to which the simplified method is applied.

Components of net periodic benefit costs for the years ended March 31, 2015 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Service cost	¥ 61	¥ 69	$ 612
Interest cost	3	4	35
Recognized actuarial gains and losses	44	44	390
Net periodic benefit costs under the simplified method	11	18	159
Net periodic benefit costs for the year	¥ 121	¥ 137	$ 1,215

Other comprehensive income on defined retirement benefit plans for the years ended March 31, 2015 and 2016 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Actuarial gains and losses	¥ 35	¥ 25	$ 221
Total	¥ 35	¥ 25	$ 221

Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2015 and 2016 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Unrecognized actuarial gains and losses	¥ 162	¥ 187	$ 1,659
Total	¥ 162	¥ 187	$ 1,659

Assumptions used for the above plans for the years ended March 31, 2015 and 2016 are as follows:

	2015	2016
Discount rate	1.0%	0.09%

Amounts of required contributions to defined contribution pension plans including the welfare pension plan as discussed in Note 2 for the years ended March 31, 2015 and 2016 were ¥45 million and ¥48 million ($425 thousand), respectively.

12. Contingencies

In its agency services, the Company guarantees payments of customers (pachinko halls) to the sellers, manufacturers of pachinko and pachislot machines. The total amount of such guarantees at March 31, 2016 was ¥336 million ($2,981 thousand).

13. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2015 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Deferred tax assets:			
Retirement benefits for employees	¥ 168	¥ 197	$ 1,748
Allowance for doubtful accounts	337	371	3,292
Accrued bonuses	125	121	1,073
Accrued bonuses to directors and corporate auditors	—	66	585
Write-down of investment securities	—	26	230
Write-down of investments in affiliates	100	124	1,100
Loss on devaluation of advances	80	77	683
Loss on devaluation of merchandising rights advances	116	88	780
Unrealized loss on available-for-sale securities	272	383	3,399
Enterprise taxes	179	49	434
Depreciation and amortization	309	360	3,194
Asset retirement obligations	125	142	1,260
Tax loss carryforwards	999	1,522	13,507
Other	472	786	6,975
Gross deferred tax assets	3,287	4,318	38,320
Valuation allowances	(1,877)	(1,954)	(17,341)
Total deferred tax assets	1,409	2,364	20,979
Deferred tax liabilities	1	25	221
Net deferred tax assets	¥ 1,408	¥ 2,338	$ 20,749

Balances of deferred tax assets and liabilities included in the consolidated balance sheets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Deferred tax assets—current	¥ 568	¥ 724	$ 6,425
Deferred tax assets—non-current	840	1,618	14,359
Deferred tax liabilities—non-current (included in other long-term liabilities)	1	4	35
Net deferred tax assets	¥ 1,408	¥ 2,338	$ 20,749

Income taxes in Japan consist of corporation tax, inhabitants' taxes, and enterprise taxes. Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2015 and 2016 is as follows:

	2015	2016
Statutory tax rate	35.6 %	33.1%
Adjustments:		
Per capita levy of inhabitants' taxes	0.8	4.9
Expenses not deductible for tax purposes	1.9	9.3
Income not taxable for tax purposes	(0.6)	(4.9)
Equity in earnings or losses of affiliates	(1.2)	35.3
Accrued bonuses to directors and corporate auditors	1.7	—
Change in valuation allowance	(3.8)	(72.8)
Amortization of goodwill	2.0	12.0
Change in the statutory income tax rate	6.7	29.2
Other	(1.0)	1.3
Effective income tax rate	42.2 %	47.3%

On March 29, 2016, the Act on the Partial Revision of the Income Tax Act (Article 15, 2016) and the Act on the Partial Revision of the Local Tax Act (Article 13, 2016) were passed by the Diet in Japan. In accordance with these changes, deferred tax assets and liabilities are determined by using the new statutory tax rates. The effective tax rate used to determine deferred tax assets and liabilities for which the timing of the recovery or settlement of the related temporary difference is expected during the fiscal years ending March 31, 2017 and 2018 is changed from 32.3% to 30.86%, and to 30.62% for those whose timing expected is on April 1, 2018 and thereafter. The effect of this change was not significant.

The effect of this change was to decrease net deferred tax assets by ¥127 million ($1,127 thousand), to increase income taxes–deferred by ¥102 million ($905 thousand), to increase unrealized loss on available-for-sale securities by ¥21 million ($186 thousand), and to decrease cumulative effects of remeasurements of defined benefit plans by ¥3 million ($26 thousand).

14. Net Assets

Under the Companies Act of Japan (the "Companies Act"), the entire amount of the issuance price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one half of the issue price of new shares as additional paid-in capital, which is one component of capital surplus. The Companies Act also provides that when a company makes cash appropriations such as cash dividends from capital surplus or earnings surplus, the company has to set aside at least of 10% of the total amount of the cash payments as earnings reserve or additional paid-in capital until the total amount of capital surplus and earnings surplus equals 25% of common stock. The total amount of the Company's capital surplus and earnings surplus has reached 25% of common stock and, therefore, the Company is no longer required to provide for the earnings surplus.

Year-end dividends are to be approved by the shareholders at a shareholders' meeting held subsequent to the fiscal year to which the dividends are applicable. Under the Companies Act, interim dividends may also be paid anytime upon resolution of the Board of Directors, subject to certain limitations imposed by the Companies Act. The maximum amount that a company can distribute as dividends is calculated based on the non-consolidated financial statements of the company in accordance with the Companies Act.

15. Related-party Transactions

Transactions with and balances due to or due from related parties as of and for the years ended March 31, 2015 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
(Unconsolidated subsidiary)			
Nishiazabu 2-chome Kaihatsu Project, LLC			
Transactions during the year:			
Refund of investments	¥ —	¥ 3,110	$ 27,600
(Affiliate)			
Rodeo Co., Ltd.			
Outstanding balances at year-end:			
Accounts payable–trade	10	—	—
Transactions during the year:			
Purchase of merchandise	11,024	—	—
Purchase discount	—	—	—
Bisty Co., Ltd.			
Outstanding balances at year-end:			
Accounts receivable–trade	383	—	—
Accounts payable–trade	32	3,660	32,481
Advance received	36	—	—
Transactions during the year:			
Commissions received	6,857	—	—
Sales of merchandising rights	1,023	—	—
Purchase of merchandise	440	15,770	139,953
NANASHOW Corporation			
Outstanding balances at year-end:			
Short-term loans receivable	2,300	—	—
Long-term loans receivable	1,050	5,750	51,029
Accounts receivable–trade	110	—	
Other receivable	—	1,962	17,412
Accounts payable–trade	4,528	3,328	29,534
Transactions during the year:			
Loans	3,350	2,400	21,299
Purchase of merchandise	5,824	4,634	41,125
Sales of merchandising rights	102	—	—
Transfer of materials	—	1,802	15,992
MIZUHO CORP.			
Outstanding balances at year-end:			
Long-term loans receivable	—	2,725	24,183
Transactions during the year:			
Loans	—	1,975	17,527

Notes:
(1) Terms and conditions of the above transactions have been determined based on the arm's length and normal market price levels.
(2) Transactions during the year figures do not include consumption taxes, whereas outstanding balances at year-end figures do.
(3) Bisty Co., Ltd. is a wholly owned subsidiary of SANKYO Co., Ltd., a major shareholder of the Company.

16. Comprehensive Income (Loss)

Reclassification adjustments and tax effects on other comprehensive income (loss) for the years ended March 31, 2015 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Net unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 37	¥ (204)	$ (1,810)
Reclassification adjustments	(467)	(198)	(1,757)
Amount before income tax effect	(429)	(403)	(3,576)
Income tax effect	(122)	(109)	(967)
Other comprehensive income (loss)—net unrealized gain (loss) on available-for-sale securities	¥ (307)	¥ (293)	$ (2,600)
Foreign currency translation adjustments:			
Losses arising during the year	¥ (0)	¥ (0)	$ (0)
Reclassification adjustments	—	—	—
Amount before income tax effect	(0)	(0)	(0)
Income tax effect	—	—	—
Other comprehensive income (loss)—foreign currency translation adjustments	¥ (0)	¥ (0)	$ (0)
Remeasurements of defined benefit plans:			
Losses arising during the year	¥ (9)	¥ (70)	$ (621)
Reclassification adjustments	44	44	390
Amount before income tax effect	35	(25)	(221)
Income tax effect	17	(5)	(44)
Other comprehensive income (loss)—remeasurements of defined benefit plans	¥ 17	¥ (20)	$ (177)
Total other comprehensive income (loss)	¥ (290)	¥ (314)	$ (2,786)

17. Business Combination

No significant business combinations occurred during the year ended March 31, 2015.

On May 29, 2015, the Company acquired 100% shares of KK Aristocrat Technologies ("KK Aristocrat"), a wholly owned subsidiary of Aristocrat International Pty Ltd. ("Aristocrat International"), an Australian company. KK Aristocrat was engaged in development, manufacturing and sales of pachislot machines in Japan. In response to Aristocrat International's withdrawal from Japan, the Company executed the acquisition in order to carry out product development by utilizing Aristocrat International's hardware, software and other assets. Deemed acquisition date of this business combination was June 30, 2015. Period of the acquiree's operating results incorporated in the consolidated financial statements was from July 1, 2015 to March 31, 2016. On October 1, 2015, KK Aristocrat was renamed K.K. CROSSALPHA.

Acquisition cost and consideration were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Consideration: cash	¥ 15	$ 133
Acquisition cost	¥ 15	$ 133

Significant acquisition-related cost was ¥105 million ($931 thousand) of advisory fees. Goodwill arising from this business combination was ¥5 million ($44 thousand) and charged to income immediately.

Assets acquired and liabilities assumed at the date of acquisition were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 2,952	$ 26,198
Non-current assets	523	4,641
Total assets	¥ 3,476	$ 30,848
Current liabilities	¥ 2,859	$ 25,372
Long-term liabilities	607	5,386
Total liabilities	¥ 3,466	$ 30,759

The estimated amounts of effect on the consolidated statement of income for the year ended March 31, 2016, assuming that the business combination above was completed as of April 1, 2015 (unaudited), was as follows:

	Millions of Yen	Thousands of U.S. Dollars
(Unaudited)		
Net sales	¥ 441	$ 3,913
Operating loss	(420)	(3,727)
Income before income taxes	354	3,141
Net loss attributable to owners of the parent	(153)	(1,357)
Net loss per share (Yen) (U.S. Dollars)	(4.64)	(0.04)

The estimated amounts of effect on the consolidated statement of income for the year ended March 31, 2016 (unaudited) was determined based on the difference between (a) net sales and other operating results assuming that the business combination above was completed as of April 1, 2015 and (b) net sales and other operating results on the acquiree's consolidated statement of income.

18. Subsequent Event

Year-end dividends
At the General Meeting of Shareholders held on June 22, 2016, the shareholders approved the payment of year-end cash dividends totaling ¥829 million ($7,357 thousand), or ¥25.00 ($0.22) per share.

19. Segment Information

Segment information for the years ended March 31, 2015 and 2016 is not presented because of the single segmentation.

Independent Auditor's Report

We have audited the accompanying consolidated balance sheets of FIELDS CORPORATION and its consolidated subsidiaries as of March 31, 2015 and 2016, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, 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 audits. We conducted our audits 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. In making 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FIELDS CORPORATION. and its consolidated subsidiaries as of March 31, 2015 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for the convenience of readers outside Japan. Our audit also included the translation of yen amounts into the U.S. dollar amounts and, in our opinion, such translation has been made on the basis set forth in Note 1 to the consolidated financial statements.

BDO Sanyu & Co.

BDO Sanyu & Co.
Tokyo, Japan
October 26, 2016