

ANNUAL REPORT 2019

Year ended October 31, 2019



PARK24 CO.,LTD.

Consolidated Six-year Summary

Consolidated Six-year Summary
For the years ended October 31

Results	Millions of yen						Thousands of U.S. dollars*
	2014	2015	2016	2017	2018	2019	2019
For the year:							
Net sales	¥167,022	¥179,699	¥194,398	¥232,957	¥298,517	¥317,439	\$2,915,760
Gross profit	44,092	46,707	53,049	60,189	72,283	78,092	717,300
Operating profit	17,555	18,731	21,453	20,506	22,540	22,322	205,035
Recurring profit	17,509	18,589	21,164	20,281	22,532	21,566	198,089
Profit attributable to owners of parent	10,388	11,549	13,964	13,440	13,852	12,348	113,424
Capital investment	26,008	27,932	30,266	38,470	46,564	54,270	498,484
Depreciation and amortization	18,470	20,383	21,779	24,418	28,091	31,016	284,890
At year-end:							
Total net assets	¥60,190	¥65,882	¥73,271	¥78,805	¥94,848	¥90,792	\$833,947
Total assets	135,294	145,462	152,939	259,853	283,172	293,097	2,692,175
Interest-bearing debt	46,460	51,208	48,939	121,637	124,284	139,380	1,280,242
Per share data (yen and U.S. dollars):							
Profit—Basic	¥71.66	¥79.45	¥95.75	¥91.67	¥91.88	¥79.79	\$0.73
—Diluted	67.63	75.01	90.36	86.87	84.44	75.28	0.69
Cash dividends, historical	50.00	55.00	65.00	70.00	70.00	70.00	0.64
Net assets	411.86	449.33	497.87	532.39	610.01	585.37	5.38
Management indexes (%):							
Recurring profit year on year	89.8	106.2	113.9	95.8	111.1	95.7	
Operating profit margin	10.5	10.4	11.0	8.8	7.6	7.0	
Recurring profit margin	10.5	10.3	10.9	8.7	7.5	6.8	
Return on assets	7.9	8.2	9.4	6.5	5.2	4.4	
Return on equity	17.8	18.1	19.8	17.6	16.2	13.0	
Equity ratio	45.1	45.7	48.7	30.3	34.1	33.3	
Dividend payout ratio	69.8	69.2	67.9	76.4	76.2	87.7	
Other data (number):							
Employees	2,010	2,248	2,448	4,577	4,899	5,490	
Times PARKING sites	13,994	14,987	15,792	16,845	17,597	18,908	
Times PARKING spaces	470,675	499,473	531,135	551,422	580,751	604,413	
Time CAR vehicles	36,317	39,020	42,943	48,989	54,593	57,716	

Results by Segment	Millions of yen						Thousands of U.S. dollars*
	2014	2015	2016	2017	2018	2019	2019
Net sales							
Net sales	¥167,022	¥179,699	¥194,398	¥232,957	¥298,517	¥317,439	\$2,915,760
Parking Business Japan	127,619	134,348	140,304	148,399	157,007	165,997	1,524,730
Parking Business Overseas	—	—	1,938	23,671	68,290	65,976	606,010
Mobility Business	39,537	45,507	52,301	61,061	73,506	85,848	788,532
Adjustment	(134)	(156)	(145)	(174)	(285)	(382)	(3,512)
Operating profit							
Operating profit	¥17,555	¥18,731	¥21,453	¥20,506	¥22,540	¥22,322	\$205,035
Parking Business Japan	23,615	23,044	24,899	25,359	26,906	27,300	250,760
Parking Business Overseas	—	—	82	116	(880)	(993)	(9,117)
Mobility Business	1,054	2,843	4,458	5,113	6,859	9,113	83,704
Adjustment	(7,114)	(7,156)	(7,986)	(10,082)	(10,345)	(13,098)	(120,313)

* The U.S. dollar amounts represent translations of yen amounts at the rate of ¥108.87=U.S.\$1.00, the approximate rate of exchange prevailing on October 31, 2019.

* Recurring profit is operating profit plus or minus other income or expenses of a recurring nature. Such other income or expenses, therefore, do not include one-time charges.

Management's Discussion and Analysis

Overview of the Fiscal Year Ended October 31, 2019

Management environment and business results for the fiscal year ended October 31, 2019

During the consolidated fiscal year ended October 31, 2019, although the Japanese economy maintained a high level of corporate earnings and employment conditions, it is showing some signs of weakness recently. Overseas, the economic outlook became increasingly uncertain, given concerns over the direction of trade friction due to US trade and monetary policies and the Brexit issue, among other matters.

In this environment, the PARK24 GROUP companies (the "Group") redefined and renewed its corporate identity (corporate philosophy and slogan, etc.) and brand identity before celebrating the 50th anniversary of its founding in 2021 and relocated in May 2019 its head office to Gotanda (Tokyo), where its business started. The Group reaffirmed the spirit of taking on challenges and made a new step toward sustainable growth.

In all its services, the Group sought to expand the four networks of people (members), cars (mobility), communities (destinations) and parking in pursuit of the new Group philosophy, "We create new forms of comfort and convenience by responding to the needs of today and anticipating the needs of tomorrow," and sought to create new services that connect those networks seamlessly, while simultaneously taking steps to develop its business foundation in Japan and abroad.

While the Group's parking facilities and vehicles, etc. suffered slight damage as a result of natural disasters such as Typhoon No. 19, the impact of this damage was limited.

As a result, during the fiscal year under review, the Group recorded net sales of 317,439 million yen (up 6.3% year on year), operating profit of 22,322 million yen (down 1.0%), profit before income taxes of 19,345 million yen (down 11.1%), and profit attributable to owners of parent of 12,348 million yen (down 10.9%).

New Group Philosophy

We create new forms of comfort and convenience by responding to the needs of today and anticipating the needs of tomorrow.

PARK24 GROUP provides comfort and convenience in forms both familiar and entirely new. We help to make urban environments and the lives of people living and working in them richer and pleasanter. We listen carefully to our customers to create services that meet the needs of the times and enhance sustainability. This thinking underpins all our interactions with all our stakeholders.

In response to the consumption tax hike that took effect on October 1, 2019, the Group took the latest consumption tax hike as an opportunity to clarify the service fees and consumption tax in the Parking Business and unified the concept and display of prices as a combination of the fee and consumption tax. This is in contrast to the past, when the Group absorbed part of the tax increase through corporate efforts while maintaining parking rates in units of 100 yen. The Group began to revise the parking rates on October 1.

In the Mobility Business, with the start of Times CAR on a full scale basis on October 1, 2019, the Group established a Times CAR fee structure for Times CAR and car sharing services are shifting to the Times CAR fee structure. Rent a car services will also gradually shift to the Times Car fee structure, but part of the services will remain based on the current fee structure.

Outline of Business Results by Segment

1. Parking Business in Japan

The Group sought an expansion in scale by developing highly profitable parking through operation proposal marketing and community based attentive marketing activities to companies that hold parking facilities while at the same time seeking to achieve early profitability at newly developing parking facilities. The Group also worked to strengthen the profit base and improve the profitability of parking by focusing on the expansion and promotion of use of Times BUSINESS CARD (credit card for exclusive use by corporate customers), improving the convenience of Times CLUB members and other users, promoting the installation of new Times TOWER payment machines that support diverse payment methods and promoting the diverse payment methods and promoting the establishment of community networks through expansion in the scale of the Times PAY cashless payment service, which is part of the business that supports stores operating around Times PARKING sites from the perspectives of customer attraction and business. The Group is also gradually replacing Times PARKING signboards with ones featuring the new service logo as a result of the corporate identity renewal. Its response to the consumption tax hike from October 1, 2019 is as described earlier and, as of October 31, 2019, parking rates had been changed at around one third of Times PARKING sites and the changes are expected to be more or less completed by the end of December 2019.

As a result, the number of Times PARKING sites and parking spaces managed in Japan was 18,908 (107.5% of that at the end of the previous fiscal year) and 604,413 (104.1% of that at the end of the previous fiscal year), and the total number of parking spaces managed in Japan, including monthly parking and facility management services, was 20,337 (107.1% of that at the end of the previous fiscal year), and the total number of parking spaces managed in all parking services were 755,809 (104.3% of that at the end of the previous fiscal year).

Net sales of this segment (including intersegment net sales) was 165,997 million yen (up 5.7% year on year) and operating profit was 27,300 million yen million (up 1.5% year on year).

2. Parking Business Overseas

The Group strengthened its business foundation to establish a new system that enables it to implement growth strategies, not only by improving the governance system and IT environment in each country and region, but also through other initiatives such as the strengthening of sales personnel and improvement of the parking operation system. In addition, the Group is in the process of gradually integrating technologies and know how related to parking facility management cultivated in Japan with those of other countries and working to maximize the profitability of its overseas parking facilities.

As a result, the total number of parking sites operated at the end of the fiscal year under review was 2,631 (107.1% of that at the end of the previous fiscal year) and the total number of parking sites operated was 665,774 (102.8% of that at the end of the previous fiscal year). The total number of parking sites operated worldwide, including Japan, was 22,968 (107.1% of that at the

end of the previous fiscal year) and the total number of parking sites operated was 1,421,583 (103.6% of that at the end of the previous fiscal year).

Net sales of this segment (including intersegment net sales) was 65,976 million yen (down 3.4% year on year) and operating loss was 993 million yen (compared with an operating loss of 880 million yen one year earlier).

3. Mobility Business

In its rent a car services, the Group rationalized the deployment of vehicles to tap into growing private demand while at the same time strengthening services, including renewing foreign language based reservation websites to meet growing inbound demand.

In its car sharing services, the Group aggressively deployed vehicles and sought to expand services for corporate customers. In addition, the Group has been creating an environment where people can move without stress through a range of initiatives including an increase in the placement of vehicles in transport hubs such as stations served by the shinkansen and major stations in a variety of regions, and development of tourism promotion oriented car sharing in collaboration with governments and railway companies.

In addition, starting from this fiscal year, the Group stepped up expansion of Times CAR, a new form of mobility service that will make the mobility environment more convenient and comfortable and that can meet all mobility needs. Times CAR is a new kind of mobility service that combines the strengths of the unattended car sharing service with the manned rent a car service and it will help develop an environment for achieving travel via optimal means that suits the purposes of customers. In connection with this initiative, the Group established a Times CAR fee structure as explained earlier and Times CAR services are now also available at many rent a car stores.

Since November 1, 2019, TIMES MOBILITY CO., LTD., a new company formed through the integration of rent a car service business entities and car sharing service business entities, has been operating the Mobility Business in order to promptly provide customers with high quality services that are more convenient and easier to use. This will further drive the development of the Times CAR.

As a result, the station of car sharing services at the end of the fiscal year under review was 12,643 stations (111.8% of that at the end of the previous fiscal year), the number of vehicles deployed was 27,096 (115.6% of that at the end of the previous fiscal year), and the number of car sharing members was 1,305,324 (118.8% of that at the end of the previous fiscal year).

As mentioned above, the total number of vehicles in the Mobility Business as a whole at the end of the fiscal year under review was 57,716 units, up 105.7% from the end of the previous fiscal year (of which, the number of vehicles in the rent a car service was 30,620 units). Net sales of this business (including intersegment net sales) was 85,848 million yen, up 16.8% from the end of the previous fiscal year, and operating profit was 9,113 million yen, up 32.9% from the end of the previous fiscal year.

Analysis of Operating Results

Net sales and operating profit

In the fiscal year ended October 31, 2019, net sales increased by ¥18,922 million, or 6.3%, over the previous year's result to ¥317,439 million, while operating profit was ¥218 million, or 1.0%, lower at ¥22,322 million. The growth of net sales was primarily the result of increases in the number of spaces managed in parking facilities in Japan, in the number of vehicles distributed in Japan, and in the membership of car sharing services. The ratio of operating profit to sales decreased by 0.6 percentage points to 7.0%, compared with 7.6% in the previous fiscal year. Reasons for the lower ratio included the amortization of goodwill.

Other expenses, net of other income, and profit attributable to owners of parent

Other expenses, net of other income, increased by ¥2,205 million over the previous fiscal year's result to ¥2,977 million. This increase was caused by incurrences of head office transfer cost and expense for changing brand and a year-on-year decrease in penalty income charged to customers for cancellation of parking facilities.

As a result, income before income taxes decreased by ¥2,423 million, or 11.1%, year on year to ¥19,345 million. Profit attributable to owners of parent was ¥1,503 million, or 10.9%, lower at ¥12,348 million.

Analysis of Financial Position

Assets

Total assets at the end of the fiscal year under review amounted to 293,097 million yen, an increase of 9,925 million yen from the end of the previous fiscal year. This is primarily a result of an increase in property, plant and equipment including buildings and structures net of 14,998 million yen, an increase in current assets including accounts receivable trade of 2,300 million yen, a decrease in goodwill of 4,954 million yen and a decrease in contract-related intangible assets of 4,409 million yen.

Liabilities

Total liabilities increased 13,981 million yen from the end of the previous fiscal year, to 202,305 million yen. Major contributing factors included an increase in current liabilities including short-term loans payable of 7,314 million yen and increase in noncurrent liabilities including long-term loans payable of 6,667 million yen.

Net assets

Net assets decreased 4,056 million yen, to 90,792 million yen, mainly as a result of an increase of 12,348 million yen due to the posting of profit attributable to owners of parent, a decrease in foreign currency translation adjustment of 4,735 million yen and a decrease of 10,823 million yen due to dividend payments from retained earnings.

Analysis of Cash Flows

Cash and cash equivalents at the end of the fiscal year under review amounted to 24,665 million yen, a decrease of 5,121 million yen from the end of the previous fiscal year.

Cash flow from operating activities

Net cash provided by operating activities decreased 7,781 million yen year on year, to 45,695 million yen. This primarily reflected the total of depreciation and profit before income taxes of 50,361 million yen and income taxes paid of 9,107 million yen.

Cash flow from investing activities

Net cash used in investing activities was 49,454 million yen (cash outflow increased 6,358 million yen year on year). This was chiefly attributable to the expenditure of 42,846 million yen for the acquisition of property, plant and equipment associated with construction expenses of the new head office, the opening of Times PARKING facilities and the purchase of vehicles for service, and the payments of long-term prepaid expenses of 4,314 million yen.

Cash flow from financing activities

Net cash used in financing activities was 782 million yen (cash outflow increased 2,536 million yen year on year). This was largely a result of proceeds from long-term debt of 15,128 million yen, a net increase in short-term borrowings of 4,335 million yen, repayments of lease obligations of 5,806 million yen and dividend payments of 10,821 million yen.

Capital policy

The Group secures funds for operating activities out of cash flow from operating activities, financial institution borrowings, and issuance of bonds with subscription rights to shares. Our basic finance arrangement policy seeks a low cost and stable finance arrangement.

Therefore, the Group actively uses directed credits from institutions, such as Bank of Japan, to arrange finance while maximizing efficient use of capital by unifying management of capital within the Group.

Dividend Policy and Distribution of Dividends in the Current and Next Fiscal Years

The Group puts its first priority on improving corporate value through profit growth. Our basic policy is to provide internal reserves to fund investments required for sustainable growth, and to distribute the remaining earned surplus to shareholders, primarily in the form of dividends.

In principle, we pay dividends annually at the end of each fiscal year. The amount of the year-end dividend is determined by the general meeting of shareholders.

Internal reserves are allocated to capital expenditure, research and development, M&A, business alliance, and other initiatives required for the Group to expand its business as well as to enhance and expand the services it offers. By doing so, the Group believes that it can create new forms of comfort and convenience by responding to the needs of today. In accordance with the above policies, we paid no interim dividend and set the year-end dividend at ¥70 per share.

It is noted that the Company has stipulated in its Article of Incorporation that it may pay interim dividends to shareholders with the record date of April 30 each year upon a resolution by the Board of Directors.

Fiscal 2020 Forecast

While corporate earnings and employment conditions are expected to remain buoyant, uncertainty about economic conditions abroad, fluctuations in the financial and capital markets, and other downside risks to the world's economy are a cause for concern.

In this environment, the Group will work to strengthen the profit base and improve profitability in the Parking Business in Japan by expanding its parking sites through proposal based sales to corporate customers and community based, attentive marketing activities and by enhancing and expanding the services it offers. In the Parking Business Overseas, the Group will continue to focus on developing and strengthening its business base and on improving and increasing profitability through business expansion. In addition, the Group will continue to expand the scale of its Mobility Business while promoting the use of the services by corporate customers and boosting sales to raise its earning power and service levels. Meanwhile, in the Mobility Business, the Group will seek to strengthen profitability and improve the level of service by powerfully promoting its new mobility service "Times CAR."

Through such efforts, the Group expects that, at the end of October 2020, the number of Times PARKING spaces in operation will be 634,513 and that the number of Times CAR vehicles will be 61,000 (including 30,000 vehicles for the car sharing service). In the fiscal year ending October 31, 2020, the Group projects gains in sales and profits, with net sales of 333,000 million yen, operating profit of 26,700 million yen, and profit attributable to owners of parent of 16,500 million yen.

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
For the years ended October 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2019	2019
Net sales	¥ 298,517	¥ 317,439	\$ 2,915,760
Cost of sales	226,234	239,346	2,198,461
Gross profit	72,283	78,092	717,300
Selling, general and administrative expenses (Note 20)	49,743	55,770	512,265
Operating profit	22,540	22,322	205,035
Other expenses (income):			
Interest expense	814	759	6,973
Interest and dividend income	(23)	(20)	(186)
Foreign exchange loss (gain), net	(9)	(8)	(76)
Expenses incurred for evacuation of parking facilities	424	419	3,850
Loss on disposal of property and equipment	17	114	1,051
Void parking ticket income	(204)	(196)	(1,802)
Impairment loss on fixed assets (Note 14)	63	187	1,715
Equity in loss (earnings) of associates	19	(10)	(89)
Loss on valuation of investment securities	559	192	1,764
Head office transfer cost (Note 15)	-	696	6,397
Loss on disaster	126	-	-
Expense for changing brand (Note 16)	-	1,031	9,472
Penalty income charged to customers for cancellation of parking facilities	(728)	(16)	(143)
Subsidy income	-	(92)	(849)
Other, net	(286)	(80)	(735)
	772	2,977	27,343
Profit before income taxes	21,768	19,345	177,692
Income taxes (Note 11):			
Current	8,082	7,488	68,775
Deferred	(478)	(713)	(6,550)
	7,604	6,775	62,226
Profit	14,164	12,571	115,466
Profit attributable to:			
Non-controlling interests	312	222	2,042
Shareholders of PARK24 Co., Ltd.	¥ 13,852	¥ 12,348	\$ 113,424
	Yen		U.S. dollars (Note 3)
Per share of common stock:			
Profit (Note 23):			
Basic	¥ 91.88	¥ 79.79	\$ 0.73
Diluted	84.44	75.28	0.69
Cash dividends	70.00	70.00	0.64
Net assets	610.01	585.37	5.38

The accompanying notes are an integral part of these statements.

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended October 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2019	2019
Profit	¥ 14,164	¥ 12,571	\$ 115,466
Other comprehensive income (Note 18):			
Net unrealized gains (losses) on securities	(32)	30	274
Deferred gains (losses) on hedges	24	(91)	(837)
Adjustments for retirement benefit	(786)	(54)	(495)
Foreign currency translation adjustments	(841)	(4,838)	(44,439)
Share of other comprehensive income of associates accounted for using the equity method	13	103	944
Total other comprehensive income	(1,622)	(4,850)	(44,552)
Comprehensive income	<u>¥ 12,542</u>	<u>¥ 7,720</u>	<u>\$ 70,914</u>
Comprehensive income attributable to:			
Non-controlling interests	307	222	2,042
Shareholders of PARK24 Co., Ltd.	¥ 12,235	¥ 7,498	\$ 68,872

The accompanying notes are an integral part of these statements.

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS
As of October 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2019	2019
ASSETS			
Current assets:			
Cash on hand and in banks (Notes 4 and 7)	¥ 30,081	¥ 24,881	\$ 228,542
Notes and accounts receivable, trade (Note 7)	15,585	18,176	166,947
Less: allowance for doubtful accounts	(218)	(198)	(1,823)
Inventories (Note 25)	1,592	1,590	14,607
Prepaid expenses	16,326	16,192	148,730
Other	8,946	13,971	128,326
Total current assets	72,312	74,612	685,328
Property, plant and equipment:			
Buildings and structures	36,434	52,813	485,101
Machinery and vehicles (Note 25)	84,716	87,087	799,913
Equipment, furniture and fixtures	43,637	41,838	384,296
Leased assets	51,807	56,956	523,156
Land (Note 13)	24,765	25,888	237,792
Construction in progress	8,245	1,810	16,626
	249,604	266,392	2,446,883
Less: accumulated depreciation	(121,987)	(123,777)	(1,136,925)
Total property, plant and equipment, net	127,617	142,615	1,309,958
Intangible assets:			
Goodwill	42,332	37,378	343,323
Contract-related intangible assets	18,148	13,740	126,202
Other	2,947	3,624	33,288
Total intangible assets	63,427	54,741	502,813
Investments and other assets:			
Investment securities (Notes 5 and 7)	1,906	1,866	17,142
Long-term prepaid expenses	8,810	9,332	85,715
Lease deposits	5,328	5,335	49,001
Deferred tax assets (Note 11)	3,134	3,658	33,600
Other	652	940	8,632
Less: allowance for doubtful accounts	(14)	(1)	(13)
Total investments and other assets	19,816	21,129	194,077
Total assets	¥ 283,172	¥ 293,097	\$ 2,692,175

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS
As of October 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2019	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable, trade	¥ 519	¥ 820	\$ 7,530
Short-term borrowings (Notes 6 and 7)	5,824	9,611	88,275
Current portion of long-term debt (Notes 6 and 7)	2,731	8,468	77,782
Current portion of lease obligations (Notes 6 and 7)	5,578	5,386	49,472
Notes payable, other	6,064	4,767	43,785
Accounts payable, other	9,538	11,985	110,082
Accrued expenses	14,465	14,231	130,712
Provision for bonuses	2,283	2,318	21,295
Provision for directors' bonuses	90	160	1,472
Accrued income taxes	5,642	4,396	40,375
Other current liabilities	11,174	9,082	83,418
Total current liabilities	63,908	71,222	654,198
Long-term liabilities:			
Convertible bonds	35,000	35,000	321,484
Long-term debt (Notes 6 and 7)	64,849	70,699	649,386
Lease obligations (Notes 6 and 7)	10,302	10,217	93,846
Net defined benefit liability (Note 9)	202	386	3,545
Asset retirement obligations (Note 17)	5,665	8,779	80,642
Deferred tax liabilities	3,339	2,393	21,985
Other long-term liabilities	5,059	3,608	33,143
Total long-term liabilities	124,416	131,083	1,204,031
Net assets:			
Shareholders' equity (Note 24):			
Common stock	19,754	20,087	184,505
Authorized:			
2018 and 2019—283,680,000 shares			
Issued:			
2018—154,623,769 shares,			
2019—154,974,269 shares			
Capital surplus	15,342	15,674	143,972
Retained earnings	61,480	63,005	578,717
Treasury stock, at cost (2018—1,323 shares, 2019—528,203 shares)	(2)	(1,255)	(11,530)
	96,574	97,511	895,665
Accumulated other comprehensive income:			
Net unrealized gains on securities	111	140	1,286
Revaluation reserve for land (Note 13)	(1,053)	(1,052)	(9,667)
Deferred losses on hedges	(52)	(143)	(1,316)
Foreign currency translation adjustments	(148)	(4,884)	(44,857)
Accumulated adjustments for retirement benefits	(1,110)	(1,164)	(10,691)
Total accumulated other comprehensive income	(2,252)	(7,103)	(65,244)
Stock acquisition rights (Note 10)	251	163	1,498
Net assets attributable to owners of the parent	94,573	90,571	831,919
Non-controlling interests	275	221	2,028
Total net assets	94,848	90,792	833,947
Total liabilities and net assets	¥ 283,172	¥ 293,097	\$ 2,692,175

The accompanying notes are an integral part of these statements.

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the years ended October 31, 2018 and 2019

	Millions of yen					
	Number of common shares	Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at October 31, 2017	146,722,835	¥9,550	¥11,302	¥57,899	¥(2)	¥78,749
Exercise of stock options	254,000	219	219	-	-	438
Conversion of convertible bonds	7,646,934	9,985	9,985	-	-	19,970
Profit attributable to owners of parent	-	-	-	13,852	-	13,852
Cash dividends	-	-	-	(10,271)	-	(10,271)
Purchase of treasury stock	-	-	-	-	(0)	(0)
Acquisition of additional share of subsidiaries	-	-	(6,081)	-	-	(6,081)
Changes in shareholders' equity of the Company related to transactions with non-controlling shareholders	-	-	(83)	-	-	(83)
Net changes of items other than shareholders' equity	-	-	-	-	-	-
Balance at October 31, 2018	154,623,769	¥19,754	¥15,342	¥61,480	¥(2)	¥96,574
Exercise of stock options	350,500	333	332	-	-	665
Profit attributable to owners of parent	-	-	-	12,348	-	12,348
Cash dividends	-	-	-	(10,823)	-	(10,823)
Purchase of treasury stock	-	-	-	-	(1,253)	(1,253)
Net changes of items other than shareholders' equity	-	-	-	-	-	-
Balance at October 31, 2019	154,974,269	¥20,087	¥15,674	¥63,005	¥(1,255)	¥97,511

	Millions of yen								
	Accumulated other comprehensive income						Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains on securities	Revaluation reserve for land	Deferred losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income			
Balance at October 31, 2017	¥142	¥(1,053)	¥(76)	¥675	¥(324)	¥(636)	¥299	¥393	¥78,805
Exercise of stock options	-	-	-	-	-	-	-	-	438
Conversion of convertible bonds	-	-	-	-	-	-	-	-	19,970
Profit attributable to owners of parent	-	-	-	-	-	-	-	-	13,852
Cash dividends	-	-	-	-	-	-	-	-	(10,271)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(0)
Acquisition of additional share of subsidiaries	-	-	-	-	-	-	-	-	(6,081)
Changes in shareholders' equity of the Company related to transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	(83)
Net changes of items other than shareholders' equity	(31)	-	24	(823)	(786)	(1,616)	(48)	(118)	(1,782)
Balance at October 31, 2018	¥111	¥(1,053)	¥(52)	¥(148)	¥(1,110)	¥(2,252)	¥251	¥275	¥94,848
Exercise of stock options	-	-	-	-	-	-	-	-	665
Profit attributable to owners of parent	-	-	-	-	-	-	-	-	12,348
Cash dividends	-	-	-	-	-	-	-	-	(10,823)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(1,253)
Net changes of items other than shareholders' equity	30	-	(91)	(4,736)	(54)	(4,850)	(88)	(54)	(4,992)
Balance at October 31, 2019	¥140	¥(1,053)	¥(143)	¥(4,884)	¥(1,164)	¥(7,102)	¥163	¥221	¥90,792

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the years ended October 31, 2018 and 2019

	Number of common shares	Thousands of U.S. dollars				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at October 31, 2018	154,623,769	\$181,449	\$140,916	\$564,711	\$(22)	\$887,055
Exercise of stock options	350,500	3,056	3,056	-	-	6,112
Profit attributable to owners of parent	-	-	-	113,424	-	113,424
Cash dividends	-	-	-	(99,418)	-	(99,418)
Purchase of treasury stock	-	-	-	-	(11,508)	(11,508)
Net changes of items other than shareholders' equity	-	-	-	-	-	-
Balance at October 31, 2019	154,974,269	\$184,505	\$143,972	\$578,717	\$(11,530)	\$895,665

	Thousands of U.S. dollars								
	Accumulated other comprehensive income						Stock acquisition rights	Non- controlling interests	Total net assets
	Net unrealized gains on securities	Revaluation reserve for land	Deferred losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income			
Balance at October 31, 2018	\$1,012	\$(9,667)	\$(479)	\$(1,361)	\$(10,196)	\$(20,690)	\$2,307	\$2,528	\$871,200
Exercise of stock options	-	-	-	-	-	-	-	-	6,112
Profit attributable to owners of parent	-	-	-	-	-	-	-	-	113,424
Cash dividends	-	-	-	-	-	-	-	-	(99,418)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(11,508)
Net changes of items other than shareholders' equity	274	-	(837)	(43,496)	(495)	(44,554)	(809)	(500)	(45,863)
Balance at October 31, 2019	\$1,286	\$(9,667)	\$(1,316)	\$(44,857)	\$(10,691)	\$(65,244)	\$1,498	\$2,028	\$833,947

The accompanying notes are an integral part of these statements.

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended October 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2019	2019
Cash flows from operating activities:			
Profit before income taxes	¥ 21,768	¥ 19,345	\$ 177,692
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	28,091	31,016	284,891
Impairment loss on fixed assets	63	187	1,715
Amortization of goodwill	2,545	2,430	22,317
Increase (decrease) in net defined benefit liabilities	(49)	117	1,078
Interest and dividend income	(23)	(20)	(186)
Interest expense	814	759	6,973
Loss on disposal of property and equipment	17	114	1,051
Loss on valuation of investment securities	559	192	1,764
Head office transfer cost	-	696	6,397
Expense for changing brand	-	1,031	9,472
Changes in assets and liabilities:			
Notes and accounts receivable, trade	10	(2,868)	(26,346)
Inventories	5,632	7,677	70,514
Prepaid expenses	(1,334)	(516)	(4,742)
Notes and accounts payable, trade	(658)	307	2,818
Notes payable, other	(642)	1,236	11,353
Accounts payable, other	1,778	609	5,593
Accrued expenses	1,939	676	6,208
Notes receivable, other	(499)	(3,285)	(30,177)
Other	1,119	(4,162)	(38,225)
Subtotal	61,130	55,541	510,160
Interest and dividend income received	22	20	186
Interest expense paid	(812)	(759)	(6,972)
Income taxes paid	(6,863)	(9,107)	(83,651)
Net cash provided by operating activities	53,477	45,695	419,723
Cash flows from investing activities:			
Increase in time deposits due over three months	(6)	(6)	(55)
Decrease in time deposits due over three months	6	6	55
Payments for purchase of property, plant and equipment	(37,882)	(42,846)	(393,552)
Proceeds from sale of property, plant and equipment	14	13	121
Payments for purchase of intangible assets	(877)	(1,760)	(16,169)
Payments for purchase of investment securities	(200)	-	-
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation)	(19)	-	-
Payments of long-term prepaid expenses	(3,673)	(4,314)	(39,624)
Payments for asset retirement obligations	(275)	(243)	(2,228)
Payments for investments in capital	-	(296)	(2,717)
Other	(184)	(9)	(80)
Net cash used in investing activities	(43,096)	(49,454)	(454,248)

PARK24 Co., Ltd. and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended October 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2019	2019
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	(33,547)	4,335	39,815
Proceeds from long-term debt	27,000	15,128	138,954
Repayment of long-term debt	(4,372)	(2,665)	(24,476)
Repayment of lease obligations	(5,802)	(5,806)	(53,332)
Proceeds from issuance of additional shares of common stock	340	549	5,046
Dividends paid to shareholders of PARK24 Co., Ltd.	(10,275)	(10,821)	(99,397)
Dividends paid to non-controlling interests	(238)	(249)	(2,286)
Payments for purchase of shares of subsidiaries that do not result in change in scope of consolidation	(6,352)	-	-
Proceeds from issuance of convertible bonds	35,000	-	-
Purchases of treasury stock	(0)	(1,253)	(11,508)
Net cash provided by financing activities	1,754	(782)	(7,185)
Effect of exchange rate changes on cash and cash equivalents	(125)	(580)	(5,324)
Net increase (decrease) in cash and cash equivalents	12,010	(5,121)	(47,034)
Cash and cash equivalents at beginning of year	17,775	29,785	273,587
Cash and cash equivalents at end of year (Note 4)	<u>¥ 29,785</u>	<u>¥ 24,665</u>	<u>\$ 226,552</u>

The accompanying notes are an integral part of these statements.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of PARK24 Co., Ltd. (the “Company”) and its consolidated 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 Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of significant accounting policies

(1) Basis of consolidation

a) Scope of consolidation

The consolidated financial statements as of October 31, 2019 include the accounts of the Company and all of its 94 significant (93 in 2018) subsidiaries (collectively, the “Companies”). One associate (one in 2018) over which the Companies have the ability to exercise significant influence is accounted for using the equity method.

Under the control or influence concept, those companies in which the Company and/or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations are fully consolidated, and those companies over which the Company and/or its consolidated subsidiaries have the ability to exercise significant influence are accounted for using the equity method.

Major consolidated subsidiaries as of October 31, 2019 were as follows:

- Times24 Co., Ltd.
- Times Service Co., Ltd.
- Times Communication Co., Ltd.
- Times Mobility Networks Co., Ltd.
- National Car Parks Limited
- Secure Parking Pty Ltd.

Changes in the scope of consolidation during the year ended October 31, 2019 were as follows:

- Newly included due to establishment (1)
 - TIC Asset Management LLC.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

b) Goodwill

The excess of the cost of an acquisition over the fair value of the net assets of the acquired consolidated subsidiary at the date of acquisition is being amortized over reasonably estimated periods, in which economic benefits are expected to be realized.

c) Consolidation and elimination

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated.

d) Fiscal periods of consolidated subsidiaries

The consolidated subsidiaries whose fiscal year ends are different from the date of consolidated financial statements are as follows:

<u>Company Name</u>	<u>Fiscal year end</u>	<u>Note</u>
TFI Co., Ltd.	March 31	*1
Park24 Singapore Pte. Ltd.	March 31	*2
Secure Parking Singapore Pte. Ltd.	March 31	*2
Park24 Taiwan Parking Co., Ltd.	September 30	*3, 4
Park24 Australia Pty Ltd	September 30	*3, 5
Periman Pty. Ltd.	September 30	*3, 5
Auspark Holdings Pty. Ltd	September 30	*3, 6
Secure Parking Pty Ltd and its 4 subsidiaries	September 30	*3, 5
Park24 UK Limited	September 30	*3
MEIF II CP Holdings 2 Limited	September 30	*3
MEIF II CP Holdings 3 Limited and its 66 subsidiaries	September 30	*3
National Car Parks (EUK) Limited	December 31	*2
Park24 Malaysia Sdn. Bhd.	December 31	*2
Secure Parking Corporation and its 2 subsidiaries	December 31	*2

*1 Provisional financial statements as of the closing date of the consolidated financial statements are used in consolidation.

*2 Provisional financial statements as of September 30 are used in consolidation with adjustments made for significant transactions that occurred during the period between the closing date of the provisional financial statements and that of the consolidated financial statements.

*3 Financial statements as of their fiscal year end are used with adjustments made for significant transactions that occurred during the period from the closing date of the financial statements and that of the consolidated financial statements.

*4 Taiwan Park24 Parking Co., Ltd. was renamed to Park24 Taiwan Co., Ltd. on November 1, 2019.

*5 The fiscal year end was changed from June 30 to September 30. Accordingly, their accounting period for the current fiscal year covers 15 months.

*6 The fiscal year end was changed from December 31 to September 30. Accordingly, their accounting period for the current fiscal year covers nine months.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

e) Investments in associates

The Company had one associate as of October 31, 2019. The associate was accounted for using the equity method. The fiscal year-end of this associate differs from that of the Company. Provisional financial statements as of October 31 were used in the preparation of the consolidated financial statements.

f) Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

The accounting standard for unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements stipulates that (1) the accounting policies and procedures applied to a parent and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, and (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process; provided, however, that the following items should be adjusted in the consolidation process so that profit is accounted for in accordance with Japanese GAAP unless they are not material:

- 1) Amortization of goodwill
- 2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity
- 3) Expensing of capitalized development costs of R&D
- 4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
- 5) Exclusion of non-controlling interests from profit, if contained

(2) Revenue recognition

Revenue from parking fees are recorded at the time billings are made to customers based on seconds of use, on a monthly billing cycle basis.

(3) Cash and cash equivalents

Cash and cash equivalents are composed of cash on hand, bank deposits that are able to be withdrawn on demand and short-term investments with original maturities of three months or less which represent a minor risk of fluctuations in value.

(4) Financial instruments

“Other securities” for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

“Other securities” for which market quotations are unavailable are stated at cost, except in cases where they have declined significantly and such impairment of the value is not deemed temporary. Such securities are written down to fair value and the resulting losses are included in the profit or loss for the period.

(5) Inventories

Merchandise is stated at cost, cost being determined by the specific identification method or net realizable value. Supplies are stated at cost, cost being determined by the last-purchase-price method or net realizable value.

The accounting standard for measurement of inventories requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

(6) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals, additions and betterments, are carried at cost. When retired or otherwise disposed of, the cost and the related depreciation are cleared from the respective accounts and the net difference, less the amount of any proceeds, is charged to income. Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Except for buildings acquired on or after April 1, 1998, lease assets, rent-a-car and structures acquired on or after April 1, 2016, depreciation is computed using the declining-balance method over the estimated useful lives of which the range is principally from 10 to 46 years. Depreciation of buildings acquired on or after April 1, 1998, rent-a-car and structures acquired on or after April 1, 2016, is computed by the straight-line method over the estimated useful lives of which the range is principally from 6 to 50 years. Depreciation of leased assets is computed by the straight-line method over the lease term.

(7) Long-lived assets

The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or cash-generating unit (CGU) may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or CGU exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or CGU. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

(8) Asset retirement obligations

The accounting standard for asset retirement obligations defines an asset retirement obligation as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such a tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period.

(9) Intangible assets and amortization

Intangible assets are carried at cost and amortized on a straight-line basis.

Expenditures related to computer software development for internal use are capitalized as an intangible asset and amortized on a straight-line basis over the estimated useful life of the software (5 years). Contract-related intangible assets are amortized on a straight-line basis over each contract period (2 to 57 years).

(10) Allowance for doubtful accounts

An allowance for doubtful accounts is provided for based on the amount deemed necessary to cover possible losses estimated by the management of the Companies, based on a ratio founded on past experience, plus specifically identified uncollectible receivables.

(11) Retirement benefits for employees

The Companies have primarily a defined benefit pension plan covering substantially all of the employees. The defined benefit plan provides for a lump-sum payment and, in certain cases, an annuity payment to terminated employees. In calculating retirement benefit obligation, the benefit formula basis method is used to attribute expected benefit to the period extending up to the end of fiscal year. Actuarial differences are amortized on a straight-line basis over a period of 5 years from the year following the year in which they arise. Prior service cost is charged to income when incurred.

(12) Stock options

The accounting standard for stock options requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights and treated as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

(13) Leases

Noncancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance lease. All other lease transactions are accounted for as operating lease and related payments are charged to profit as incurred.

(14) Deferred charges

Stock issuance costs and bond issuance costs are charged to income as incurred.

(15) Income taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred income taxes are provided for in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(16) Consumption taxes

Consumption taxes are excluded from net sales, cost of sales and expenses.

(17) Reclassifications

The following reclassifications of previously reported amounts have been made to conform with the current year's presentation.

a) Consolidated balance sheets

Effective from the beginning of the current year ended October 31, 2019, the Company applied the *Partial Amendments to Accounting Standard for Tax Effect Accounting* (ASBJ Statement No. 28 issued on February 16, 2018). Accordingly, the Company reclassified deferred tax assets and deferred tax liabilities to be presented under the investments and other assets section and the long-term liabilities section, respectively, and revised the notes on income taxes.

As a result, "Deferred tax assets" of ¥1,690 million that had been presented under the current assets section of the consolidated balance sheet as of October 31, 2018 were included and presented as "Deferred tax assets" of ¥3,134 million under the investments and other assets section.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

b) Consolidated statements of cash flows

Starting from the current year ended October 31, 2019, “Payments for asset retirement obligations,” which were included and presented as “Other” under the cash flows from investing activities section in the previous year ended October 31, 2018, is separately presented due to an increase in its quantitative materiality. To reflect this change in presentation, a reclassification has been made in the consolidated statement of cash flows for the previous year.

As a result, negative ¥459 million that had been presented in “Other” under the cash flows from investing activities section for the previous year was reclassified to “Payments for asset retirement obligations” of negative ¥275 million and “Other” of negative ¥184 million.

c) Notes on income taxes

Starting from the current year ended October 31, 2019, “Tax credit,” which was included and presented in “Other” in the previous year ended October 31, 2018, is separately presented due to an increase in its quantitative materiality. To reflect this change in presentation, a reclassification has been made in the reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the previous year.

As a result, 0.3% that had been presented in “Other” in the previous year was reclassified to “Tax credit” of negative 0.2% and “Other” of 0.5%.

(18) Accounting standards issued but not yet adopted

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).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company has not decided the date of adoption for this accounting standard and implementation guidance.

(3) Impact of the adoption of accounting standard

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

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

On January 13, 2016, the International Accounting Standards Board (IASB) issued International Financial Reporting Standard (IFRS) 16 *Leases*.

(1) Overview

This standard requires a lessee to recognize all leases on the balance sheet as assets and liabilities in principle.

(2) Scheduled date of adoption

The Company is scheduled to apply this accounting standard to certain overseas consolidated subsidiaries that have adopted IFRS from the beginning of the fiscal year ending October 31, 2020.

(3) Impact of the adoption of accounting standard

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

On July 4, 2019, the ASBJ issued *Accounting Standard for Fair Value Measurement* (ASBJ Statement No. 30) and *Implementation Guidance on Accounting Standard for Fair Value Measurement* (ASBJ Guidance No. 31), and revised *Accounting Standard for Measurement of Inventories* (ASBJ Statement No. 9) and *Accounting Standard for Financial Instruments* (ASBJ Statement No. 10).

(1) Overview

The ASBJ has developed Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement (hereinafter collectively “Standards for Fair Value Measurement”) and set the guidance for fair value measurement in order to improve the comparability with the provisions of internationally recognized accounting standards. Standards for Fair Value Measurement are applied to the fair value of the following items:

- Financial instruments defined in *Accounting Standard for Financial Instruments*, and
- Inventories held for trading purposes defined in *Accounting Standard for Measurement of Inventories*.

(2) Scheduled date of adoption

The Company is scheduled to adopt these accounting standards and implementation guidance from the beginning of the fiscal year ending October 31, 2022.

(3) Impact of the adoption of accounting standards

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

3. U.S. dollar amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥108.87 = U.S. \$1, the rate of exchange on October 31, 2019, has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

4. Cash and cash equivalents

Reconciliations of cash on hand and in banks to cash and cash equivalents in the consolidated balance sheet as of October 31, 2018 and 2019 were as follows:

October 31	Millions of yen		Thousands of U.S. dollars	
	2018	2019	2019	
Cash on hand and in banks	¥ 30,081	¥ 24,881	\$ 228,539	
Time deposits due over three months	(6)	(6)	(55)	
Compulsory deposits	(290)	(210)	(1,929)	
Cash and cash equivalents	<u>¥ 29,785</u>	<u>¥ 24,664</u>	<u>\$ 226,545</u>	

5. Investment securities

Investment securities classified as “other securities” at October 31, 2018 and 2019 were as follows:

(1) Other securities for which market quotations are available

October 31	Millions of yen						Thousands of U.S. dollars		
	2018			2019			2019		
	Fair value			Fair value			Fair value		
	(Carrying amount)			(Carrying amount)			(Carrying amount)		
	Cost		Difference	Cost		Difference	Cost		Difference
Securities for which market value exceeds cost:									
Equity securities	¥ 113	272	158	¥ 113	315	201	\$ 1,038	\$ 2,893	\$ 1,846
Debt securities	10	10	0	10	10	0	92	92	0
	123	282	158	123	325	201	1,130	2,985	1,846
Securities for which market value does not exceed cost:									
Equity securities	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Total	<u>¥ 123</u>	<u>282</u>	<u>158</u>	<u>¥ 123</u>	<u>325</u>	<u>201</u>	<u>\$ 1,130</u>	<u>2,985</u>	<u>1,846</u>

(2) Debt securities with maturity

October 31	Millions of yen						Thousands of U.S. dollars		
	2018			2019			2019		
	Within 1 year	1-5 years	More than 5 years	Within 1 year	1-5 years	More than 5 years	Within 1 year	1-5 years	More than 5 years
Government bonds	¥ -	¥ 10	¥ -	¥ -	¥ 10	¥ -	\$ -	\$ 92	\$ -

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

6. Short-term borrowings, long-term debt and lease obligations

Short-term borrowings at October 31, 2018 and 2019 comprised the following:

October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Loans from banks with weighted average interest rates of 1.30% for the years ended October 31, 2018 and 2019:			
- Unsecured	¥ 5,824	¥ 9,610	\$ 88,270
	¥ 5,824	¥ 9,610	\$ 88,270

Long-term debt and lease obligations at October 31, 2018 and 2019 comprised the following:

October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unsecured zero coupon convertible bonds due 2025	¥ 35,000	¥ 35,000	\$ 321,484
Unsecured loans, principally from banks, with weighted average interest rates of 0.45% due 2020 – 2027	67,581	79,166	727,161
Lease obligations	15,880	15,603	143,318
	118,461	129,769	1,191,963
Less current portion	(8,309)	(13,853)	(127,244)
Total	¥ 101,152	¥ 115,916	\$ 1,064,719

The aggregate annual maturities of long-term debt and lease obligations at October 31, 2019 were as follows:

Years ending October 31	Millions of yen	Thousands of U.S. dollars
2021	¥ 9,683	\$ 88,941
2022	33,798	310,444
2023	17,110	157,160
2024	1,492	13,704
2025 and thereafter	53,833	494,470
Total	¥ 115,916	\$ 1,064,719

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

7. Financial instruments

(1) Policy for financial instruments

With respect to cash management, temporary surplus funds are invested in short-term, low-risk financial instruments only. The Companies have a policy to procure the funds for capital expenditures by using bond issuances and borrowings from financial institutions. Fund procurement for operating funds is financed by short-term borrowings from financial institutions. Derivative transactions are undertaken only for the purpose of hedging risks of fluctuations in interest rates and foreign currency exchange rates. As a matter of policy, the Companies do not undertake derivative transactions for speculative purposes.

(2) Nature and risks of financial instruments and risk management

Short-term borrowings, long-term debt and lease obligations are mainly used for capital expenditures. Debt with floating interest rates is subject to interest-rate fluctuation risk.

(3) Supplemental explanation regarding fair value of financial instruments

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, other reasonably assessed values are used. Fair values of financial instruments of which the quoted price is not available are calculated based on certain assumptions, and the fair values might differ if different assumptions are used.

The carrying amount, fair value and unrealized gain or loss on financial instruments as of October 31, 2018 and 2019 were as follows:

	Millions of yen		
	2018		
	Carrying amount	Fair Value	Unrealized gain (loss)
Cash on hand and in banks	¥ 30,081	30,081	-
Notes and accounts receivables, trade	15,584	15,584	-
Other securities in investment securities	282	282	-
Short-term borrowings	5,824	5,824	-
Convertible bonds	35,000	35,892	(892)
Long-term debt (including current portion)	67,581	67,488	92
Lease obligations (including current portion)	15,880	15,961	(81)
	Millions of yen		
	2019		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash on hand and in banks	¥ 24,881	24,881	-
Notes and accounts receivables, trade	18,175	18,175	-
Other securities in investment securities	325	325	-
Short-term borrowings	9,610	9,610	-
Convertible bonds	35,000	35,647	(647)
Long-term debt (including current portion)	79,166	79,807	(640)
Lease obligations (including current portion)	15,603	15,734	(131)

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

	Thousands of U.S. dollars		
	Carrying amount	2019 Fair Value	Unrealized gain (loss)
Cash on hand and in banks	\$ 228,539	\$ 228,539	\$ -
Notes and accounts receivables, trade	166,942	166,942	-
Other securities in investment securities	2,985	2,985	-
Short-term borrowings	88,270	88,270	-
Convertible bonds	321,484	327,427	(5,943)
Long-term debt (including current portion)	727,161	733,049	(5,879)
Lease obligations (including current portion)	143,318	144,521	(1,203)

Cash on hand and in banks

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

Notes and accounts receivables

The carrying value of notes and accounts receivable approximates fair value because of their short maturities.

Other securities in investment securities

The fair value of investment securities is based on quoted market prices.

Short-term borrowings

Since short-term borrowings are settled in a short period of time, their carrying value approximates fair value.

Convertible bonds

The fair value of convertible bonds is based on the quoted market price, if available. Otherwise the fair value of the bonds is the present value of the discounted cash flows using the interest rate determined by the remaining period and current credit risk.

Long-term debt (including current portion)

The fair value of long-term borrowings is measured based on the current total amount of principal and interest, discounted by the expected interest rate if the borrowings were refinanced at present.

Lease obligations (including current portion)

The fair value of lease obligations is measured based on the current total amount of future payments, discounted by the average interest rate for long-term borrowings.

The carrying amounts of financial instruments whose fair value cannot be reliably determined as of October 31, 2018 and 2019 were as follows:

October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unlisted stocks	¥ 1,623	¥ 1,540	\$ 14,145

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

Maturities of financial assets and securities held as of October 31, 2019 were as follows:

	Millions of yen			
	Within 1 year	1-5 years	5-10 Years	More than 10 years
Time deposits	¥ 6	¥ -	¥ -	¥ -
Notes and accounts receivables, trade	18,175	-	-	-
Other securities with contractual maturities	-	10	-	-
	<u>¥ 18,181</u>	<u>¥ 10</u>	<u>¥ -</u>	<u>¥ -</u>

	Thousands of U.S. dollars			
	Within 1 year	1-5 years	5-10 Years	More than 10 years
Time deposits	\$ 55	\$ -	\$ -	\$ -
Notes and accounts receivables, trade	166,942	-	-	-
Other securities with contractual maturities	-	92	-	-
	<u>\$ 166,997</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ -</u>

8. Derivatives and hedging activities

Derivative transactions as of October 31, 2018 and 2019 for which hedge accounting was applied were as follows:

(1) Currency related transactions

October 31, 2018

Type of transaction	Hedged item	Millions of yen		
Interest rate and currency swap contracts	Long-term debt	Notional Amount	Due after One Year	Fair Value (Note 1)
Pay fixed and receive floating		¥ 10,619	¥ 10,619	-
Pay JPY and receive USD				

Note 1) Fair value is included in the fair value of the hedged long-term debt.

October 31, 2019

Type of transaction	Hedged item	Millions of yen		
Interest rate and currency swap contracts	Long-term debt	Notional Amount	Due after One Year	Fair Value (Note 1)
Pay fixed and receive floating		¥ 10,619	¥ 10,619	-
Pay JPY and receive USD				

Note 1) Fair value is included in the fair value of the hedged long-term debt.

October 31, 2019

Type of transaction	Hedged item	Thousands of U.S. dollars		
Interest rate and currency swap contracts	Long-term debt	Notional Amount	Due after One Year	Fair Value (Note 1)
Pay fixed and receive floating		\$ 97,538	\$ 97,538	-
Pay JPY and receive USD				

Note 1) Fair value is included in the fair value of the hedged long-term debt.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

(2) Interest related transactions

October 31, 2018

Type of transaction	Hedged item	Millions of yen		
		Notional Amount	Due after One Year	Fair Value (Note 2)
Interest rate swap contracts Pay fixed and receive floating	Long-term debt	¥ 7,080	¥ 7,080	¥ (75)

Note 2) Fair Value is calculated using prices provided by counterparty financial institutions.

October 31, 2019

Type of transaction	Hedged item	Millions of yen		
		Notional Amount	Due after One Year	Fair Value (Note 2)
Interest rate swap contracts Pay fixed and receive floating	Long-term debt	¥ 7,080	¥ 7,080	¥ (206)

Note 2) Fair Value is calculated using prices provided by counterparty financial institutions.

October 31, 2019

Type of transaction	Hedged item	Thousands of U.S. dollars		
		Notional Amount	Due after One Year	Fair Value (Note 2)
Interest rate swap contracts Pay fixed and receive floating	Long-term debt	\$ 65,032	\$ 65,032	\$ (1,892)

Note 2) Fair Value is calculated using prices provided by counterparty financial institutions.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

9. Retirement benefit plans

The Companies have funded pension plans or termination allowance plans as part of their defined benefit plans.

Additional employee retirement benefits, which are not included in the calculation of the projected benefit obligation, might be paid in certain circumstances.

Certain consolidated subsidiaries apply the simplified method for calculation of retirement benefits.

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Beginning balance of retirement benefit obligation	¥ 9,891	¥ 9,912	\$ 91,044
Service cost	537	581	5,337
Interest cost	185	170	1,561
Actuarial loss (gain)	(189)	357	3,279
Retirement benefits paid	(512)	(471)	(4,326)
Ending balance of retirement benefit obligation	¥ 9,912	¥ 10,549	\$ 96,895

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Beginning balance of plan assets	¥ 10,436	¥ 9,710	\$ 89,189
Expected return on plan assets	214	211	1,938
Actuarial gain (loss)	(1,120)	4	37
Contributions by the Company	692	709	6,512
Retirement benefits paid	(512)	(471)	(4,326)
Ending balance of plan assets	¥ 9,710	¥ 10,164	\$ 93,359

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Funded retirement benefit obligation	¥ 9,912	¥ 10,549	\$ 96,895
Plan assets at fair value	(9,710)	(10,164)	(93,359)
	201	385	3,536
Net (asset) liability for retirement benefits in the balance sheet	201	385	3,536
Net defined benefit liability	201	385	3,536
Net (asset) liability for retirement benefits in the balance sheet	¥ 201	¥ 385	\$ 3,536

The components of retirement benefit expense for the years ended October 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Service cost	¥ 537	¥ 581	\$ 5,337
Interest cost	185	170	1,561
Expected return on plan assets	(214)	(211)	(1,938)
Amortization of actuarial loss	136	129	1,185
Retirement benefit expense	¥ 645	¥ 669	\$ 6,145

Actuarial loss (gain) included in other comprehensive income (before tax effect) for the years ended October 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Actuarial loss (gain)	¥ (763)	¥ (66)	\$ (606)
Total	¥ (763)	¥ (66)	\$ (606)

Unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of October 31, 2018 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unrecognized actuarial loss	¥ 255	¥ 233	\$ 2,140
Total	¥ 255	¥ 233	\$ 2,140

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

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

	2018	2019
Life insurance company general accounts	70%	70%
Other	29%	30%
Total	100%	100%

The expected return on plan assets has been estimated based on the expected long-term returns on the minimum guarantees for the yield of life insurance company general accounts.

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

	2018	2019
Discount rates	0.3 - 2.9%	0.075 - 2.9%
Expected rates of return on plan assets	1.1 - 3.1%	3.1%

Contributions to defined contribution plans of a certain subsidiary for the years ended October 31, 2018 and 2019 were ¥103 million and ¥119 million (\$1,093 thousand), respectively.

10. Stock option plans

Summarized information on the stock options granted as of October 31, 2019 was as follows:

(1) Stock option plan approved by the Board of Directors on June 15, 2011

	Stock options granted on July 4, 2011
Number of shares for options granted	1,519,500
Number of shares for options outstanding	-
Exercise price	¥867 (\$7.96)
Exercisable period	December 1, 2013 - January 31, 2019

(2) Stock option plan approved by the Board of Directors on July 16, 2013

	Stock options granted on August 6, 2013
Number of shares for options granted	989,200
Number of shares for options outstanding	307,000
Exercise price	¥1,884 (\$17.31)
Exercisable period	December 1, 2015 - January 31, 2021

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

(3) Stock option plan approved by the Board of Directors on May 28, 2015

Stock options granted
on June 22, 2015

Number of shares for options granted	1,224,000
Number of shares for options outstanding	632,500
Exercise price	¥2,342 (\$21.51)
Exercisable period	February 1, 2018 - January 31, 2023

(4) Stock option plan approved by the Board of Directors on November 30, 2018

Stock options granted on
December 25, 2018

Number of shares for options granted	289,000
Number of shares for options outstanding	287,000
Exercise price	¥3,055 (\$28.06)
Exercisable period	January 1, 2021 - December 31, 2026

(5) Stock option plan approved by the Board of Directors on February 28, 2019

Stock options granted
on March 25, 2019

Number of shares for options granted	294,000
Number of shares for options outstanding	294,000
Exercise price	¥2,648 (\$24.32)
Exercisable period	April 1, 2021 - March 31, 2027

The number of shares of common stock to be newly issued or to be transferred from treasury stock of the Company, which had been approved by the shareholders in the previous years, increased by 350,500 shares due to the exercise of options.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

11. Income taxes

At October 31, 2018 and 2019, significant components of deferred tax assets and liabilities were as follows:

October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Deferred tax assets:			
Accrued enterprise taxes	¥ 462	¥ 426	\$ 3,913
Accrued bonuses	698	713	6,549
Depreciation	498	596	5,474
Revaluation of land	322	322	2,958
Asset retirement obligations	1,562	2,474	22,724
Other	1,329	1,686	15,486
Less: valuation allowance	(761)	(751)	(6,898)
Total deferred tax assets	4,112	5,468	50,225
Deferred tax liabilities:			
Unrealized gains on securities	48	61	560
Intangible assets	3,315	2,365	21,723
Asset retirement cost	862	1,703	15,643
Other	90	73	671
Total deferred tax liabilities	4,317	4,203	38,606
Net deferred tax assets (liabilities)	¥ (204)	¥ 1,264	\$ 11,610

For the years ended October 31, 2018 and 2019 reconciliations of the difference between the statutory income tax rates and the effective income tax rates were as follows:

Years ended October 31	2018	2019
Statutory income tax rates	30.9%	30.6%
Valuation allowance	0.5	0.5
Non-deductible expenses for tax purposes	0.2	0.2
Per capita levy of inhabitants' taxes	0.5	0.6
Amortization of goodwill	3.6	3.7
Difference in tax rates applied to foreign subsidiaries	(0.4)	(0.4)
Use of tax loss carried forward	(0.7)	-
Tax credit	(0.2)	(1.2)
Other	0.5	1.0
Effective income tax rates	34.9%	35.0%

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

12. Business combinations

Not applicable.

13. Revaluation of land

On October 31, 2000, the Company revalued its land held for business purposes in accordance with the “Law on Land Revaluation.” The method followed for this land revaluation was determined in accordance with the “Enforcement Act Concerning Land Revaluation.” Differences arising from the land revaluation have been accounted for as revaluation reserve for land under net assets.

The carrying value of this land after the revaluation was down from its fair value as of October 31, 2018 and 2019 by ¥216 million and ¥302 million (\$2,774 thousand), respectively.

14. Impairment loss on fixed assets

The Companies review their long-lived assets in operation for impairment by CGU. Asset grouping for the Company and its consolidated subsidiaries was made based on an area determined in accordance with administrative segmentation. Headquarters’ assets and leasing assets are grouped as corporate assets. When a CGU continues to incur losses in operation or is determined to be ceased its operation, the Companies reduce the carrying amount of the CGU to the recoverable amount by recording impairment losses.

The related assets which incurred impairment losses for the years ended October 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended October 31	2018	2019	2019
Related assets			
Buildings and structures	¥ 22	¥ 8	\$ 73
Other tangible fixed assets	1	161	1,479
Long-term prepaid expenses	39	17	156
Total	¥ 62	¥ 186	\$ 1,708

The recoverable amount of assets in the CGU was calculated using estimates of the value in use and the adjusted appraisal value, and future cash flows from these assets were discounted to the present using a discount rate of 5%.

15. Head office transfer cost

In the year ended October 31, 2019, following the completion of the new head office building, the Company recognized expenses incurred for the relocation of the head office as head office transfer cost under the other expenses (income) section of the consolidated statements of income.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

16. Expense for changing brand

The Company introduced a new corporate logo and renewed the concept and logo of the service brand *Times*. Accordingly, in the year ended October 31, 2019, the Company recognized expenses incurred for the replacement of signs at parking facilities and stores as expense for changing brand under the other expenses (income) section of the consolidated statements of income.

17. Asset retirement obligations

(1) General information about asset retirement obligations

Asset retirement obligations are recorded based upon estimated future restoration obligations pursuant to parking facilities rental agreements.

(2) Calculation method of the asset retirement obligations

Asset retirement obligations are calculated based upon the estimated period of use depending on the useful life of the relevant tangible fixed assets (mainly 15 years) and discounted by relevant discount rates which are estimated based upon the rate of return on government bonds with corresponding maturity periods.

(3) Changes in asset retirement obligations for the years ended October 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Beginning balance of asset retirement obligations	¥ 5,607	¥ 5,664	\$ 52,025
New obligations by acquisition of fixed assets	270	3,383	31,074
Accretion expense	61	105	964
Decrease due to the fulfilment of asset retirement obligations	(274)	(373)	(3,426)
Ending balance of asset retirement obligations	¥ 5,664	¥ 8,779	\$ 80,637

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

18. Other comprehensive income

The components of other comprehensive income for the years ended October 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Net unrealized gains on securities			
Gains (losses) arising during the year	¥ (45)	¥ 42	\$ 386
Reclassification adjustments to profit or loss	-	-	-
Amount before income tax effect	(45)	42	386
Income tax effect	13	(13)	(119)
Total	(31)	29	266
Deferred gains (losses) on hedges			
Gains (losses) arising during the year	34	(131)	(1,203)
Reclassification adjustments to profit or loss	-	-	-
Amount before income tax effect	34	(131)	(1,203)
Income tax effect	(10)	40	367
Total	23	(91)	(836)
Foreign currency translation adjustments			
Adjustments arising during the year	(841)	(4,838)	(44,438)
Reclassification adjustments to profit or loss	-	-	-
Amount before income tax effect	(841)	(4,838)	(44,438)
Income tax effect	-	-	-
Total	(841)	(4,838)	(44,438)
Share of other comprehensive income of associates accounted for using the equity method			
Gains (losses) arising during the year	12	102	937
Reclassification adjustments to profit or loss	-	-	-
Amount before income tax effect	12	102	937
Income tax effect	-	-	-
Total	12	102	937
Accumulated adjustments for retirement benefit			
Adjustments arising during the year	(899)	(196)	(1,800)
Reclassification adjustments to profit or loss	136	129	1,185
Amount before income tax effect	(763)	(66)	(606)
Income tax effect	(22)	13	119
Total	(785)	(53)	(487)
Total other comprehensive income	¥ (1,621)	¥ (4,850)	\$ (44,549)

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

19. Segment information

(1) Overview of reportable segments

The Company's reportable segments are components of the Group for which discrete financial information is available and which is regularly examined by the Board of Directors to determine the allocation of management resources and evaluate performance. The Company's three separate reportable segments are Parking business (Japan), Parking business (overseas) and Mobility business.

(2) Method of calculating net sales, profits or losses, assets, obligations and other flows by segment

The accounting treatment for reportable segments is generally similar to the descriptions under "Summary of significant accounting policies". Profits of reportable segments are the figures based on operating profit. The Company does not allocate assets and liabilities to reportable segments.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

(3) Information on operating revenues, operating profits and other flows by reportable segments for the years ended October 31, 2018 and 2019 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
I. Operating revenues and operating profit: (Note 4)			
Operating revenues			
(1) Outside customers			
Parking business (Japan)	¥ 156,818	¥ 165,734	\$ 1,522,309
Parking business (overseas)	68,290	65,976	606,010
Mobility business	73,409	85,729	787,441
Total	298,517	317,439	2,915,760
Adjustment	-	-	-
Consolidated	298,517	317,439	2,915,760
(2) Inter-segment			
Parking business (Japan)	188	264	2,421
Parking business (overseas)	-	-	-
Mobility business	97	119	1,091
Total	285	382	3,512
Adjustment	(285)	(382)	(3,512)
Consolidated	-	-	-
Total operating revenue			
Parking business (Japan)	157,007	165,997	1,524,730
Parking business (overseas)	68,290	65,976	606,010
Mobility business	73,506	85,848	788,532
Total	298,802	317,821	2,919,273
Adjustment	(285)	(382)	(3,512)
Consolidated	298,517	317,439	2,915,760
Operating expenses			
Parking business (Japan)	130,100	138,697	1,273,970
Parking business (overseas)	69,170	66,969	615,128
Mobility business	66,647	76,735	704,828
Total	265,917	282,401	2,593,925
Adjustment	10,061	12,716	116,800
Consolidated	275,978	295,117	2,710,726
Operating profit (loss)			
Parking business (Japan)	26,906	27,300	250,760
Parking business (overseas) (Note 2)	(880)	(993)	(9,117)
Mobility business	6,859	9,113	83,704
Total	32,885	35,421	325,347
Adjustment (Note 1)	(10,346)	(13,098)	(120,313)
Consolidated (Note 3)	¥ 22,540	¥ 22,322	\$ 205,035

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

II. Depreciation and amortization:

Parking business (Japan)	¥	9,189	¥	9,360	\$	85,970
Parking business (overseas)		3,638		4,500		41,333
Mobility business		14,364		15,833		145,432
Total		27,191		29,693		272,734
Adjustment		901		1,323		12,156
Consolidated	¥	28,091	¥	31,016	\$	284,891

Notes 1. Reconciliations of negative ¥13,098 million (negative ¥10,346 million in 2018) in operating profit include the amortization of goodwill of ¥78 million (unamortized balance: ¥1 million (¥79 million in 2018)) and company-wide expenses of ¥13,020 million (¥10,192 million in 2018). Company-wide expenses are mainly expenses that are not allocated to the reportable segments. Those expenses are relating to the administration division, including the general affairs department.

2. Operating loss of ¥993 million (¥880 million in 2018) in Parking business (overseas) includes the amortization of goodwill of ¥2,304 million (¥2,260 million in 2018) (unamortized balance: ¥37,376 million (¥42,252 million in 2018; the unamortized balance includes the amount related to the business combination conducted in the fourth quarter of the fiscal year ended October 31, 2018)).

3. Operating profit of ¥6,859 million in 2018 in Mobility business includes the amortization of goodwill of negative ¥131 million.

4. Operating profit is adjusted in accordance with operating profit in the consolidated statements of income.

5. Reportable segments and main services in each segment

Reportable Segment	Main Services
Parking business (Japan)	24-hour self-service parking lot ("Times") Parking facility management (Japan)
Parking business (overseas)	Parking facility management (overseas)
Mobility business	Lending and sales of automobiles Roadside assistance

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

(4) Geographical information

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Operating revenues			
Japan	¥ 230,227	¥ 251,462	\$ 2,309,746
Other regions	68,290	65,976	606,007
Total	298,517	317,438	2,915,753
Property, plant and equipment			
Japan	¥ 113,441	¥ 130,333	\$ 1,197,143
Other regions	14,175	12,282	112,813
Total	¥ 127,616	¥ 142,615	\$ 1,309,957

(5) Impairment loss on property, plant and equipment

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Impairment loss			
Parking business (Japan)	¥ 62	¥ 26	\$ 239
Parking business (overseas)	-	160	1,470
Mobility business	-	-	-
Total	¥ 62	¥ 186	\$ 1,708

20. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended October 31, 2018 and 2019 were principally as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Advertising and sales promotion	¥ 2,341	¥ 2,978	\$ 27,354
Transfer and transportation expenses	1,207	1,214	11,151
Salaries and bonuses	19,822	22,651	208,055
Retirement benefit expenses	798	674	6,191
Rental expenses	2,973	3,148	28,915
Remuneration and commission	4,950	5,532	50,813
Amortization of goodwill	2,545	2,429	22,311
Provision of allowance for doubtful accounts	27	53	487
Directors' and corporate auditors' compensations and salaries	499	505	4,639
Provision for bonuses	1,625	2,134	19,601
Provision for directors' and corporate auditors' bonuses	90	203	1,865
Legal welfare expenses	2,168	2,534	23,275
Depreciation and amortization	2,070	2,380	21,861

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

21. Lease transactions

Lessee's accounting

Future minimum lease payments for the years ended October 31, 2018 and 2019 for noncancelable operating lease were summarized as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars	
	2018	2019	2019	
2020	12,870	¥ 20,595	\$	189,171
2021 and thereafter	232,833	¥ 238,451	\$	2,190,236
Total	245,704	¥ 259,046	\$	2,379,407

22. Related party transactions

There were no material related party transactions for the years ended October 31, 2018 and 2019.

23. Per share amounts

The reconciliations of the difference between basic and diluted profit per share for the years ended October 31, 2018 and 2019 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Profit attributable to owners of parent	¥ 13,851	¥ 12,348	\$ 113,420
Effect of dilutive securities	-	-	-
Profit attributable to owners of parent for diluted profit per share	¥ 13,851	¥ 12,348	\$ 113,420

Years ended October 31	Thousands of shares	
	2018	2019
Weighted-average number of common shares	150,759	154,754
Increase in shares of common stock:		
Exercise of warrants	13,278	9,278
Weighted-average number of shares for diluted profit attributable to owners of parent	164,037	164,032

Years ended October 31	Yen		U.S. dollars
	2018	2019	2019
Basic profit per share	¥ 91.88	¥ 79.79	\$ 0.73
Diluted profit per share	¥ 84.44	¥ 75.28	\$ 0.69

There was no potential common stock upon the exercise of a common stock warrant excluded from the computation of diluted profit per share having an exercise price in excess of the average market value of the common stock during the years ended October 31, 2018 and 2019.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

24. Shareholders' equity

The Companies Act of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the legal capital surplus) and retained earnings (other than the legal retained earnings) be transferred to the legal capital surplus and the legal retained earnings, respectively, until the sum of the legal capital surplus and the legal retained earnings 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, but neither the legal capital surplus nor the legal retained earnings is available for distribution.

25. Change in purpose of holding vehicles

The Companies reclassified from Machinery and vehicles to Inventories on the consolidated balance sheets the vehicles held for sales in operation cycle of the rent-a-car business. The amount of reclassification was ¥5,768 million and ¥7,706 million (\$70,782 thousand) in the years ended October 31, 2018 and 2019, respectively. The balance of these inventories as of October 31, 2018 and 2019 were ¥126 million and ¥34 million (\$312 thousand), respectively.

26. Investments and rental properties

The Companies own properties for parking facilities including lands in Tokyo, Kanagawa and other areas. The carrying amount on the consolidated balance sheets, any increase or decrease during the year, as well as the market value of the properties as of October 31, 2018 and 2019 were as follows:

Millions of yen				
Amount on the consolidated balance sheet				Market value as of October 31, 2018
	November 1, 2017	Increase (Decrease)	October 31, 2018	
Rental properties	¥ 27,782	¥ 2,435	¥ 30,218	¥ 36,572

Millions of yen				
Amount on the consolidated balance sheet				Market value as of October 31, 2019
	November 1, 2018	Increase (Decrease)	October 31, 2019	
Rental properties	¥ 30,218	¥ (328)	¥ 29,889	¥ 45,646

Thousands of U.S. dollars				
Amount on the consolidated balance sheet				Market value as of October 31, 2019
	November 1, 2018	Increase (Decrease)	October 31, 2019	
Rental properties	\$ 277,560	\$ (3,013)	\$ 274,538	\$ 419,271

- (1) Amount on the consolidated balance sheet is calculated as acquisition cost net of accumulated depreciation and cumulative impairment losses.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

- (2) Market values as of October 31, 2018 and 2019 were principally established in accordance with the “Real estate evaluation standards,” and were adjusted using official indices.

Revenues and expenses related to investment and rental properties for the years ended October 31, 2018 and 2019 were as follows:

	Millions of yen		
	Revenues	Expenses	Difference
2018			
Rental properties	¥ 4,351	¥ 1,369	¥ 2,981

	Millions of yen		
	Revenues	Expenses	Difference
2019			
Rental properties	¥ 4,597	¥ 1,539	¥ 3,058

	Thousands of U.S. dollars		
	Revenues	Expenses	Difference
2019			
Rental properties	\$ 42,225	\$ 14,136	\$ 28,089

27. Subsequent events

Transactions under common control

Absorption-type company split between subsidiaries and change in trade name

(1) Outline of transaction

1. Name of absorbed business and its description

Name of the absorbed business: Car sharing service of Times24 Co., Ltd.

2. Date of business combination

November 1, 2019

3. Legal form of business combination

Absorption-type company split with Times24 Co., Ltd. as the split company and Times Mobility Co., Ltd. as the successor company

4. Company name after transaction

Times Mobility Co., Ltd. (The trade name was changed from Times Mobility Networks Co., Ltd. as of November 1, 2019.)

5. Other matters concerning the outline of this transaction

The purpose of this business combination through the succession of the car sharing service operated by Times24 Co., Ltd. to Times Mobility Co., Ltd. is to shift to a group structure that allows for agile decision making and business execution, in order to promptly provide customers with high-quality services that are more convenient and easier to use by allocating and assigning management resources in an optimal way.

PARK24 Co., Ltd. and Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended October 31, 2018 and 2019

The new company, Times Mobility Co., Ltd, was formed by integrating entities operating the rent-a-car service and the car sharing service within the Group, aiming to develop the Times CAR service, which has recently been launched in full-scale, as well as existing businesses, through the operation of its mobility business.

As a result of this absorption-type company split, some intersegment transactions are expected to occur between “Parking business (Japan)” and “Mobility business” segments. The Company is currently evaluating the effect of the intersegment transactions on operating profit and loss of these segments from the next fiscal year onwards.

(2) Outline of accounting treatment applied

Based on *Accounting Standard for Business Combinations* (ASBJ Statement No. 21 issued on January 16, 2019) and *Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures* (ASBJ Guidance No.10 issued on January 16, 2019), the business combination was accounted for as a transaction under common control.

Report of Independent Auditors



Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
ey.com

Independent Auditor's Report

The Board of Directors
PARK24 Co., Ltd.

We have audited the accompanying consolidated financial statements of PARK24 Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at October 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 PARK24 Co., Ltd. and its consolidated subsidiaries as at October 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 3.

Ernst & Young ShinNihon LLC

January 31, 2020
Tokyo, Japan

Company Information

Head Office	2-20-4 Nishigotanda, Shinagawa-ku, Tokyo 141-8924, Japan
Website	https://www.park24.co.jp/en/
E-mail	ir@park24.co.jp