Consolidated Financial Results
for the Fiscal Year Ended December 31, 2015
[Japanese GAAP]

February 15, 2016

Company name: FUJITA KANKO INC.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9722
URL: http://www.fujita-kanko.co.jp/
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Scheduled date of Ordinary General Meeting of Shareholders: March 29, 2016
Scheduled date of filing annual securities report: March 29, 2016
Scheduled date of commencing dividend payments: March 30, 2016
Availability of supplementary briefing material on annual financial results: Available
Schedule of annual financial results briefing session: Scheduled (for institutional investors and securities analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2015 (January 1, 2015 to December 31, 2015)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2015	63,981	(0.4)	39	(97.1)	(172)	-	32	(93.8)
Fiscal year ended December 31, 2014	64,250	3.4	1,365	13.3	1,390	18.9	531	(39.6)

(Note) Comprehensive income: Fiscal year ended December 31, 2015: ¥268 million [(40.4)%]
Fiscal year ended December 31, 2014: ¥449 million [(93.6)%]

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2015	0.27	-	0.1	(0.2)	0.1
Fiscal year ended December 31, 2014	4.43	-	1.9	1.4	2.1

(Reference) Profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2015: ¥50 million
Fiscal year ended December 31, 2014: ¥81 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2015	104,732	27,012	25.6	223.85
As of December 31, 2014	100,881	27,774	27.3	230.04

(Reference) Equity: As of December 31, 2015: ¥26,826 million
As of December 31, 2014: ¥27,570 million

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended December 31, 2015	(415)	(8,184)	6,748	4,063
Fiscal year ended December 31, 2014	3,663	1,901	(4,671)	5,925

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2014	-	0.00	-	4.00	4.00	479	90.3	1.7
Fiscal year ended December 31, 2015	-	0.00	-	4.00	4.00	479	1,463.0	1.8
Fiscal year ending December 31, 2016 (Forecast)	-	0.00	-	4.00	4.00		-	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	32,500	7.4	(1,200)	-	(1,200)	-	(1,000)	-	(8.34)
Full year	70,000	9.4	1,000	-	800	-	300	815.1	2.50

(Note) Change from the previous corresponding period in operating income for the consolidated financial results forecast of the full year of the fiscal year ending December 31, 2016 is listed as "-," since it exceeds 1,000%.

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: Yes
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

(3) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
December 31, 2015: 122,074,243 shares
December 31, 2014: 122,074,243 shares

2) Total number of treasury shares at the end of the period:
December 31, 2015: 2,232,854 shares
December 31, 2014: 2,223,421 shares

3) Average number of shares during the period:
Fiscal Year ended December 31, 2015: 119,847,782 shares
Fiscal Year ended December 31, 2014: 119,853,035 shares

(Note) For the number of shares that form the basis for the calculation of net income per share (consolidated), please see “Per Share Information” on page 48.

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2015 (January 1, 2015 to December 31, 2015)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2015	47,204	(3.6)	(729)	-	(827)	-	(280)	-
Fiscal year ended December 31, 2014	48,964	4.0	792	(9.8)	935	(0.6)	512	7.9

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended December 31, 2015	(2.34)	-
Fiscal year ended December 31, 2014	4.27	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2015	100,463	25,558	25.4	213.17
As of December 31, 2014	96,943	26,606	27.4	221.88

(Reference) Equity: As of December 31, 2015: ¥25,558 million
As of December 31, 2014: ¥26,606 million

* Presentation regarding implementation status of audit procedures

These financial results are outside the scope of audit procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, audit procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of the proper use of financial results forecast and other notes

The financial results forecasts and other forward-looking statements herein are made based on currently available information and include a number of uncertainties. Accordingly, actual results may differ materially due to various factors. For the assumptions underlying the financial results forecasts, please see “Analysis of Operating Results” on page 2 of the attached material.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

(Operating Results for the Fiscal Year Ended December 31, 2015)

The Japanese economy during the fiscal year ended December 31, 2015 was on a moderate recovery trend, as corporate earnings as well as employment and income improving as a result of the growth strategy and financial and economic measures of the government. Meanwhile, the outlook for overseas economies, including the future impact on the Japanese economy remains uncertain, due to rising geopolitical risk in Europe and the Middle East in addition to the slowing Chinese economy and the decline of the stock market.

In the tourism industry, domestic consumption by foreign visitors to Japan such as accommodation significantly increased, with the number of foreign visitors to Japan reaching near 20 million of 19.73 million during the fiscal year 2015, far surpassing the previous record high of13.41 million achieved in fiscal year 2014. This was backed by factors such as an increase in the number of flights, the relaxed requirements for visa issuance, and the depreciated yen. Meanwhile, tourists largely decreased mainly during the busy summer season in Hakone Town (Kanagawa Prefecture), where Hakone Hotel Kowakien, the leading operating facility of the Resort Business of FUJITA KANKO INC. (the "Company") and its group companies (collectively, the "Group") and other facilities are located, since the volcanic alert level for Owakudani was raised in phases from May following the increased volcanic activity, although returning to the normal alert level in November.

Under such circumstances, the Group has steadily taken actions such as new openings and strengthening the quality of existing businesses in accordance with the five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015 ~Our goal: to be Japan's leading tourism company~ announced in February of last year, with the current fiscal year (fiscal year ended December 31, 2015) as the first year of this plan.

In January, we acquired all the shares of Kawano Co., Ltd., which owns two guest houses and produces original weddings in Hiroshima, and we newly opened Hotel Gracery Shinjuku in April, as a large-scale hotel with 970 rooms at the site of the former Shinjuku Kabukicho Koma Theater in Tokyo. The hotel, crowned with a life-size "Godzilla Head" through collaboration with Toho Co., Ltd., started its operation fairly smoothly, having already become a hot topic of conversation as the symbol of Kabukicho and is well received by our guests.

In addition, since April we are implementing the large-scale renovation of the main building of Shinjuku Washington Hotel located at the west exit of Shinjuku station, which is the largest in the Group with 1,297 rooms. We will gradually renovate all guest rooms over one year up to March 2016 to further strengthen our competitiveness.

In addition to implementing renovation of guest rooms at multiple facilities, we are aggressively making investment with an eye toward the future, by undertaking preparations for "Hotel Gracery Naha (Okinawa)" to open in April 2016, "Hotel Gracery Kyoto Sanjyo" to open in July the same year, and a new accommodation facility, "Hakone Kowakien Ten-yu" to open in Hakone (Kanagawa Prefecture) in spring, 2017.

In overseas development, we opened new overseas representative offices in Bangkok (Thailand) and Jakarta (Indonesia) in June, and established a local subsidiary in Taipei (Taiwan) in October where we carried out preparation activities to open a Japanese restaurant produced by Hotel Chinzanso Tokyo, "KINSUI TAIPEI by HOTEL CHINZANSO TOKYO" (opened on January 21, 2016), in an effort to attract more foreign guests visiting Japan, while preparing to open restaurants overseas.

During the fiscal year ended December 31, 2015, the Group's sales were led by the accommodations business backed by increased use by foreign guests and the year-on-year increase of more than ¥1,000 in unit price per guest room due to factors including the opening of Hotel Gracery Shinjuku and the effect of investment in renovation of rooms at existing hotels.

Meanwhile, affected by factors such as decreased income due to decline in occupancy resulting from the large-scale renovation of Shinjuku Washington Hotel and a significant decrease in the number of guests at Hakone Hotel Kowakien and Hakone Kowakien Yunessun due to the elevation of the volcanic alert level for Hakone Owakudani and the closing of Kyoto Kokusai Hotel, etc., last year, net sales for the entire Group amounted to ¥63,981 million, a decrease of ¥268 million year on year.

On the income front, as a result of upfront expenses for new projects such as preparation expenses for Hotel Gracery Shinjuku and expenses associated with the acquisition of the shares of Kawano Co., Ltd., in addition to decreased income due to renovation of guest rooms of Shinjuku Washington Hotel, operating income decreased by ¥1,326 million year on year to ¥39 million.

Operating income before depreciation, which the Group has established as a key indicator, decreased by ¥853 million year on year to ¥5,141 million, ordinary loss deteriorated by ¥1,563 million year on year to ¥172 million, and net income decreased by ¥498 million year on year to ¥32 million.

Fiscal year 2015, the first year of the medium-term management plan, is the period of upfront investment and we expected a temporary downturn in revenue in the plan. However, the results of incomes of the current fiscal year all exceeded the business results forecast with increases in operating income of ¥1,339 million and ordinary income of ¥1,327 million.

An overview of business results for the current consolidated fiscal year is as follows.

(Million yen)

	Fiscal year ended December 31, 2015	YoY change	Difference from forecasts	Numerical Forecasts (Disclosed on February 13, 2015)
Net sales	63,981	(268)	(218)	64,200
Operating income before depreciation	5,141	(853)	1,141	4,000
Operating income	39	(1,326)	1,339	(1,300)
Ordinary income	(172)	(1,563)	1,327	(1,500)
Net income	32	(498)	532	(500)

1) WHG Business

(Washington Hotels in Asahikawa, Sendai, Urawa, Akihabara, Shinjuku, Tokyo Bay Ariake, Yokohama Isezakicho, Yokohama Sakuragicho, Kansai Airport, Hiroshima, Canal City・Fukuoka, and Nagasaki; Hotels Gracery in Sapporo, Ginza, Tamachi, and Shinjuku; Hotels Fujita in Fukui and Nara)

We are aggressively accelerating expansion of the segment as the key driver for company growth as well as strengthening the competitiveness of existing facilities. In April, we newly opened Hotel Gracery Shinjuku (970 rooms), as well as commenced the large-scale renovation in phases over one year of all 1,297 rooms of the main building of Shinjuku Washington Hotel. Rooms completed with renovation are put for sale as they become available. (The renovation of all rooms is planned to be completed at the end of March 2016.)

Also in October, we opened a training center reproducing a real front desk and guest rooms inside Yokohama Isezakicho Washington Hotel. We will improve service level, quality and customer satisfaction through enhanced personnel training quality and speed through the unified training program at this center, instead of trainings at each hotel as in the past.

In the accommodations business, average sales per room rose for the business overall, due to the effects of strong attraction of visitors from overseas, mainly Asia, despite a decrease in revenue resulting from the renovation of Shinjuku Washington Hotel. The occupancy rate also maintained a high level, and the number of guests increased by 149,000 year on year to 3,201,000 and sales increased by ¥2,896 million year on year to ¥22,344 million.

As a result, net sales for this segment increased by ¥2,111 million year on year to ¥27,979 million; however, segment income (operating income) decreased by ¥290 million year on year to ¥811 million due to the effects of temporary costs such as preparation expenses for the opening of Hotel Gracery Shinjuku and a decline in the occupancy rate resulting from the large-scale renovation of Shinjuku Washington Hotel.

2) Resort Business

(Hakone Hotel Kowakien, Hakone Kowakien Yunessun, B & B Pension Hakone, Ito Kowakien, Hotel Toba Kowakien, Shimoda Aquarium, Yufuin Ryokuyu)

In the accommodations business, our mainstay Hakone Hotel Kowakien showed strong performance for the period from January through April, with the sales exceeding those of the same period of the previous fiscal year. However, after May, the number of guests largely declined, due to the volcanic alert level for Hakone Owakudani, being raised in phases. Although the recent business performance is recovering after the alert level returned to the normal level in November, the business was substantially affected mainly in the busy summer season. Sales for the accommodations business overall decreased by ¥550 million year on year to ¥4,587 million partly affected by the shutdown of Hakone Kowakien Yunessun Inn in October of the previous year for the construction of the new accommodation facility, “Hakone Kowakien Ten-yu” to open in spring 2017.

In the leisure business, as in the accommodations business, the number of guests at Hakone Kowakien

Yunessun declined mainly among families due to the effects of the elevation of the volcanic alert level for Owakudani. Owing to these and other factors, sales for the leisure business overall decreased by ¥538 million year on year to ¥1,614 million.

As a result, net sales for this segment decreased by ¥1,098 million year on year to ¥6,494 million, and segment loss (operating loss) deteriorated by ¥678 million year on year to ¥301 million.

3) Luxury & Banquet Business
(Hotel Chinzanso Tokyo, Taiko-en, Hotel Azur Takeshiba, The South Harbor Resort, Remercier Motoujina, Marryaid, Minami Aoyama CONVIVION, Camellia Hills Country Club, Noto Country Club, Fujita Kanko Kouei Inc., Visualife Co., Ltd.)

In the wedding business, sales increased by ¥481 million year on year to ¥12,384 million due mainly to the revenue increase by Kawano Co., Ltd., for which shares were acquired in January, despite the decline in the number of customers of Hotel Chinzanso Tokyo. In July, we newly opened Hotel Chinzanso Tokyo For wedding GINZA as our first outside wedding salon located in Ginza 4-chome in Tokyo. Through these initiatives, we will enhance convenience and functionality in order to respond to customer needs.

In the accommodations business, as part of the four-year plan to renovate all 260 guest rooms of Hotel Chinzanso beginning October last year, we newly built and started the sales of prime classic rooms with novel classical tone with historical atmosphere, following the first phase of renovation completed last year. Owing to this renovation of guest rooms, average sales per customer rose, but sales for the accommodations business decreased by ¥707 million year on year to ¥2,439 million, substantially affected by the closing of business of Kyoto Kokusai Hotel in December last year. After excluding the effect of the closing of Kyoto Kokusai Hotel, sales increased by ¥262 million year on year.

In the restaurants business, sales decreased by ¥752 million year on year to ¥4,186 million due to the above effects of the closing of business of Kyoto Kokusai Hotel.

As a result, net sales for this segment decreased by ¥1,343 million year on year to ¥26,241 million, and segment income (operating income) decreased by ¥61 million year on year to ¥107 million.

An overview of business results by segment for the current consolidated fiscal year is as follows.

Sales and operating income by segment

(Million yen)

	Net sales		Operating income	
	Actual	YoY change	Actual	YoY change
WHG Business	27,979	2,111	811	(290)
Resort Business	6,494	(1,098)	(301)	(678)
Luxury & Banquet Business	26,241	(1,343)	107	(61)
Other (including adjustment amounts)	3,266	62	(577)	(296)
Total	63,981	(268)	39	(1,326)

The adjustment amounts refers to the elimination of inter-segment transactions.

(Outlook for Next Fiscal Year)

The second year of the medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015 continues to be the period of aggressive upfront investment, following the previous fiscal year, and it is the period of recovery to stabilize and expand revenues.

This year, Hotel Gracery Shinjuku, which opened in April last year (2015), will begin its year-round operation, and the large-scale renovation of the main building of Shinjuku Washington Hotel, which also started in April 2015, will be completed at the end of March to fully resume its operation. We also plan to open new hotels, “Hotel Gracery Naha (to open in April 2016)” and “Hotel Gracery Kyoto Sanjyo (to open in July 2016),” and we forecast that the number of guests in the Hakone area will gradually recover as the volcanic activity in Hakone Owakudani, which substantially affected our business in the previous fiscal year, subdued.

Based on such circumstances, net sales are expected to increase by ¥6,000 million, approximately 10% year on year, to ¥70,000 million for the next fiscal year. However, on the income front, we forecast year-on-year increase of approximately ¥1,000 million in income, with operating income of ¥1,000 million and ordinary income of ¥800 million, due mainly to the continued effect of the decline in occupancy resulting from the renovation of Shinjuku Washington Hotel until the end of March and costs for opening new hotels. Net income attributable to owners of parent is expected to be ¥300 million, due to approximately ¥200 million of reversal of deferred tax assets accompanying a reduction in income tax rate.

Operating income before depreciation, which the Group has established as a key indicator, is expected to increase by ¥1,800 million year on year to ¥7,000 million.

Forecast for the consolidated business results and business results by segment is as follows.

(Million yen)

	First half (total)				Full year			
	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent
Consolidated total	32,500	(1,200)	(1,200)	(1,000)	70,000	1,000	800	300
WHG Business	15,000	(300)	-	-	32,800	1,450	-	-
Resort Business	3,000	(500)	-	-	7,200	(50)	-	-
L&B Business (*1)	13,000	0	-	-	26,800	300	-	-
Total	31,000	(800)	-	-	66,800	1,700	-	-
Other	2,850	(400)	-	-	5,900	(700)	-	-
Adjustment amounts (*2)	(1,350)	0	-	-	(2,700)	0	-	-

*1 L&B Business: Luxury & Banquet Business

*2 Adjustment amounts: Refers to the elimination of inter-segment transactions.

(2) Analysis of Financial Position

(Analysis of Assets, Liabilities, Net Assets and Cash Flows)

Total assets as of December 31, 2015 increased by ¥3,851 million from the end of the previous fiscal year to ¥104,732 million. This is attributable to the increase in non-current assets by ¥4,180 million due to an increase in acquired assets, accompanying the capital investment including the opening of Hotel Gracery Shinjuku and the large-scale renovation of Shinjuku Washington Hotel, in addition to the inclusion of assets of Kawano Co., Ltd., a newly consolidated subsidiary, despite the decrease in current assets by ¥328 million resulting from decreased cash and deposits that were maintained at a sufficient level at the beginning of the period prior to the acquisition of all shares of Kawano Co., Ltd. in January 2015.

Liabilities increased by ¥4,613 million from the end of the previous fiscal year to ¥77,719 million. Income taxes payable decreased due to payments of income taxes, while loans payable increased. The total amount of loans payable as of December 31, 2015 was ¥44,813 million, an increase of ¥7,349 million from the end of the previous fiscal year.

Net assets decreased by ¥762 million from the end of the previous fiscal year to ¥27,012 million. This was mainly due to an increase of ¥224 million in valuation difference on available-for-sale securities and decrease of ¥948 million due to cash dividends paid and revision of the Accounting Standard for Retirement Benefits.

(Historical Cash Flow Indicators)

Cash and cash equivalents as of the end of the fiscal year ended December 31, 2015 amounted to ¥4,063 million, down ¥1,861 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash used in operating activities decreased by ¥4,079 million from the previous fiscal year to ¥415 million. This was mainly due to temporary out-flows including ordinary loss of ¥172 million, down ¥1,563 million year on year, led by the profit plan taking into account a temporary downturn in revenue during fiscal year 2015 as the period of upfront investment, income tax payment of ¥1,739 million for the current fiscal year, up ¥1,261 million year on year, and non-current assets removal cost of ¥327 million.

2) Cash flows from investing activities

Net cash used in investing activities was ¥8,184 million. This was mainly due to aggressive forward-looking capital investment of ¥8,160 million, mainly for Hotel Gracery Shinjuku as proposed in the medium-term management plan.

3) Cash flows from financing activities

Net cash provided by financing activities was ¥6,748 million. This was mainly due to proceeds from loans payable of ¥7,319 million, and cash dividends paid of ¥487 million.

(Reference) Historical cash flow indicators

	FY2011	FY2012	FY2013	FY2014	FY2015
Years of debt redemption (years)	13.3	10.6	9.6	10.3	-
Interest coverage ratio (times)	4.4	5.8	6.8	6.1	-

*Years of debt redemption: Interest-bearing debt / Operating cash flow
*Interest coverage ratio: Operating cash flow / Interest expenses

(3) Basic Dividend Policy and Dividend Payments for Current Fiscal Year and Next Fiscal Year

Regarding dividends of surplus, the Company has a basic policy to fully consider passing its profits on to shareholders, and pay dividends in proportion to the results of its business in consideration of further reinforcement of corporate structure and accumulation of internal reserves to be utilized to promote businesses.

Taking into comprehensive consideration of business performance during the term, future business environment, financial conditions, payout ratio, etc., the Company will pay a dividend of ¥4 per share of the Company's common stock, same as the previous year. The dividend for the next fiscal year is planned to be ¥4 per share of the Company's common stock.

(4) Risks Related to Business

Major risk factors involving the Group's business activities and other aspects of operations that may have a significant effect on investor decisions are described as follows. The Group takes into consideration the possibility of such risks materializing and intends to take every measure to avoid occurrence of any risks, as well as to minimize their impact should they occur.

The following risk factors include foreseen items based on our judgment as of the announcement of the financial results on February 15, 2016, and risk factors related to business are not limited to these items.

1) Stock price fluctuations

The Group owns ¥20,200 million of marketable securities mainly of its business partners and affiliated companies and is subject to risk of stock price fluctuations. As of the end of the current fiscal year, the valuation based on the market price yielded an unrealized gain on marketable securities; however, this may affect the operating results and financial position, depending on the future trend of stock prices.

2) Recording of impairment loss

The Group owns ¥58,800 million of property, plant and equipment such as hotel properties as of the end of the current fiscal year. The future fall in real estate prices exceeding a certain range or deteriorating business income may lead to an impairment loss in a part of property, plant and equipment.

3) Continued use or earlier termination of leased property

In the hotels business, such as the Washington Hotels, some of the hotel properties are on long-term lease. In case any owner of such properties is forced into bankruptcy, etc., making continued use difficult, it may negatively affect our operating results. Additionally, if the Group may intentionally choose to cancel a long-term lease contract before its expiration for whatever reason, it may be required to assume obligation to pay the rent or compensate for part of the lease payment, which is ¥65,800 million for the remaining portion of the lease period.

4) Natural disaster and pandemic outbreak

In the case of natural disasters including a massive earthquake, volcanic eruption, typhoon, or extraordinary weather conditions occur, or a pandemic such as new strains of influenza breaks out, temporary suspension of business operations or cancellation of trips are expected, and may negatively affect the Group's business.

5) Loss from withdrawal of real estate-related businesses

The Group was once actively involved in property sales business, and currently continues with peripheral businesses such as infrastructure including road and water, and property management. Many of them are low profit or non-profitable, and if we decide to exit from these businesses, a considerable amount of loss may be temporarily incurred.

6) Deferred tax assets

The Group recorded ¥2,300 million of deferred tax assets for deductible temporary differences. Deferred tax assets are recorded through evaluation of recoverability based on a forecast of future taxable income, etc.; however, in cases where the actual taxable income would be much lower than the forecast, the recoverability would be revised, and deferred tax assets may be reversed to the recoverable amount, negatively affecting the Group's operating results and financial position.

7) Incidents including food poisoning, etc.

We pay close attention to safety and hygiene; however, if by any chance food poisoning does occur, it would damage our customer confidence and may lead to temporary suspension of business operations.

8) Fluctuation in Japanese yen interest rate

Among ¥44,800 million of loans payable as of the end of the current fiscal year, ¥5,200 million is loans with floating interest rates, which may result in increased interest payments if the yen interest rate rises due to recovery of Japanese economy in the future.

(5) Important Information about Going Concern Assumption

Not applicable.

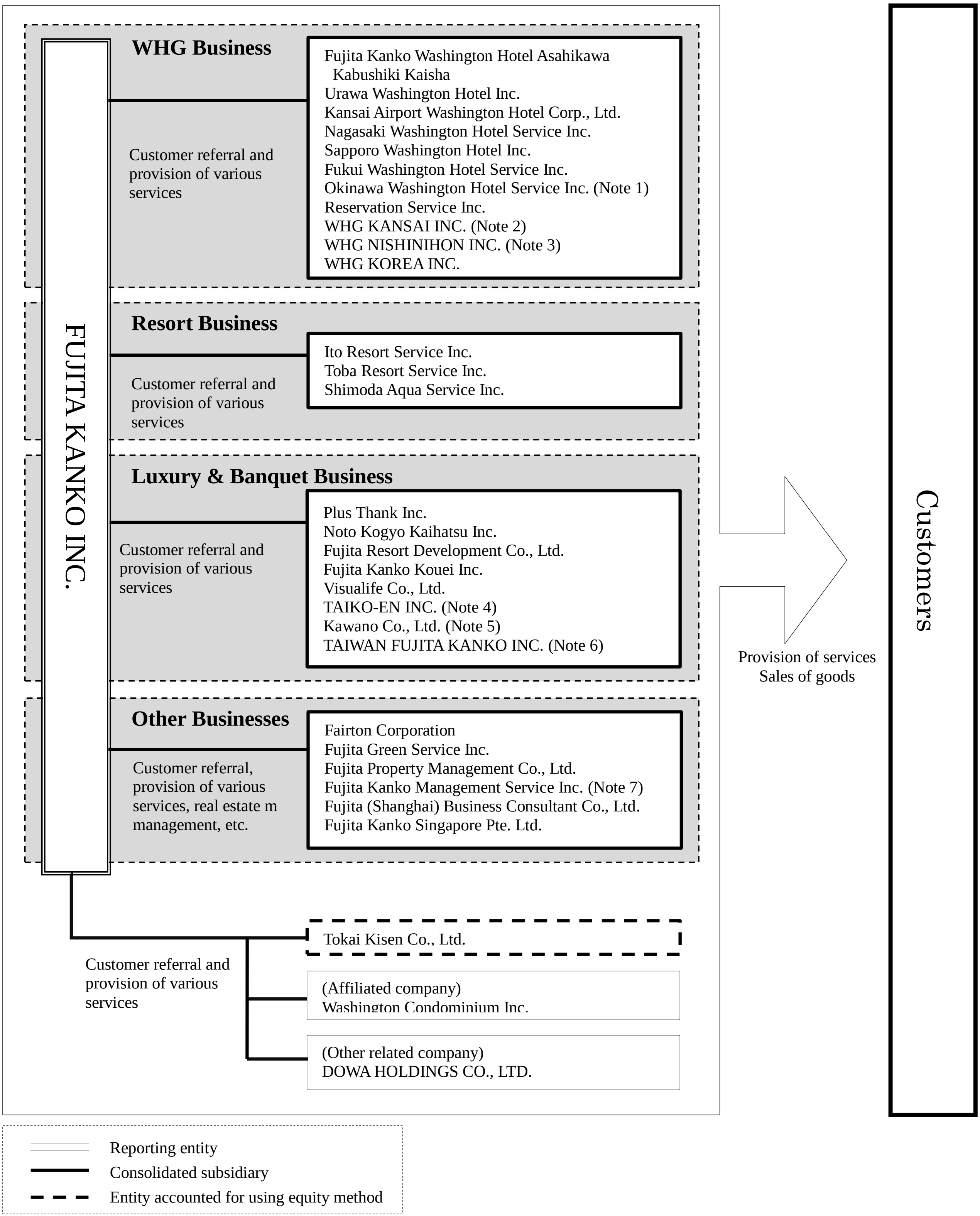
2. Overview of the Corporate Group

The Group consists of FUJITA KANKO INC., 28 consolidated subsidiaries, 2 affiliated companies, and 1 other related company. The Group engages in WHG Business, Resort Business, and Luxury & Banquet Business as the main businesses and provides various services related to each business.

The position of businesses operating in each segment is as follows.

WHG Business:	In addition to each Washington Hotel in Sendai, Akihabara, Shinjuku, Tokyo Bay Ariake, Yokohama Isezakicho, Yokohama Sakuragicho, and Hiroshima, each Hotel Gracery in Shinjuku, Ginza, and Tamachi operated by the Company, there are 11 subsidiaries operating each Washington Hotel in Asahikawa, Urawa, Kansai Airport, Canal City・Fukuoka, and Nagasaki, Hotel Gracery Sapporo and Hotel Fujita Fukui.
Resort Business:	In addition to Hakone Kowakien, Hakone Kowakien Yunessun, B & B Pension Hakone, and Yufuin Ryokuyu operated by the Company, there are 3 subsidiaries operating Ito Kowakien, Hotel Toba Kowakien, and Shimoda Aquarium.
Luxury & Banquet Business:	In addition to Hotel Chinzanso Tokyo, Hotel Azur Takeshiba, and Camellia Hills Country Club operated by the Company, there are 8 subsidiaries including TAIKO-EN INC. and Kawano Co., Ltd.
Other Businesses:	In addition to the real estate peripheral business operated by the Company, there are 6 subsidiaries, including Fairton Corporation, Fujita Green Service Inc., and Fujita (Shanghai) Business Consultant Co., Ltd.

The following diagram illustrates the business structure.



(Notes)

1. Okinawa Washington Hotel Service Inc. discontinued its hotel operation on May 31, 2008, and is inactive as of the end of the current fiscal year.
2. The tradename “Fujita Hotel Management Inc.” was changed to “WHG KANSAI INC.” due to the group reorganization.
3. The tradename “Canal City・Fukuoka Washington Hotel Kabushiki Kaisha” was changed to “WHG NISHINIHON INC.” due to the group reorganization.
4. TAIKO-EN INC. was established during the current fiscal year.
5. We acquired all the shares of Kawano Co., Ltd. during the current fiscal year.
6. TAIWAN FUJITA KANKO INC. was established during the current fiscal year.
7. Fujita Kanko Management Service Inc. is inactive as of the end of the current fiscal year.

3. Management Policies

(1) Basic Management Policies of the Company

The FUJITA KANKO Group sets its goal to "contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize," and has defined its management guidelines and code of conduct that establish a specific guideline based on this philosophy.

(2) Targeted Management Indicators

The Group will aggressively make various investments to enhance its business, for which we defined operating income before deducting depreciation as the important management indicator to expand actual profit.

(3) Medium- and Long-Term Business Strategies

The Group has been working on a five-year medium-term management plan "FUJITA PREMIUM VALUE CREATION 2015" since last year. We will aim to "strengthen the business base" by adapting to the changing environment, and get the Group on a "growth" track. By ensuring the implementation of the medium-term management plan, we strive to achieve ordinary income of ¥4,800 million, ROA of 4% or more, and ROE of 10% or more by 2019, which will be the last year of the plan.

(4) Issues to be Addressed

As we enter the second year of the medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015, we position this year to be the period of aggressive upfront investment following the previous year, and also the recovery period to stabilize and expand revenues. In the business environment surrounding the Group during the fiscal year 2016, while an increase in the number of foreign visitors to Japan is having a positive impact, overseas environment remains unpredictable due mainly to changes in the Chinese economy, interest rate hike in the U.S., political tension among the neighboring nations, and increasing sense of cautions for terrorism.

The Group recognizes the further improvement of the quality of facilities, foods, and services to be an important issue, based on our philosophy to "contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize," to receive continued support from our customers even under the ever-changing business environment, and will vigorously continue to advance the measures in the medium-term management plan.

I. Improvement and expansion of added value of existing businesses capturing various customer needs

1) WHG Business

With the reopening in April this year of all rooms of the main building of Shinjuku Washington Hotel, for which large-scale renovation was ongoing since April last year, and this year's start of year-round operation of Hotel Gracery Shinjuku, which was opened in April last year, we have accomplished to operate approximately 2,600 guest rooms in the Shinjuku area, strongly contributing to earnings of the Group.

We will also expand the WHG Business network by opening "Hotel Gracery Naha" (198 guest rooms) in April this year and "Hotel Gracery Kyoto Sanjyo" (97 guest rooms; 128 guest rooms to be added in May 2017) in July.

Furthermore, we will start deploying the tradename of "WHG HOTELS" from April to improve the brand awareness of "WHG," the collective name bridging the two brand names of "Washington Hotel" and "Hotel Gracery." On the service front, we will strive to improve customer satisfaction through serving handmade dishes and freshly-made dishes over a face-to-face counter at breakfasts in Washington Hotel and Hotel Gracery. We will strive to become a hotel chain better supported by our customers by modifying "Fujita Kanko Group Members Card WAON," the Group's common member's card, to an easier-to-use member's program that fits the customers' needs and gradually promoting the introduction of priority room reservations for the members.

2) Resort Business

We expect the number of domestic tourists visiting the Hakone area to recover gradually this year, as the volcanic activity in Hakone Owakudani has settled. In the Hakone area, which is very popular in and out of Japan as one of the greatest tourist spots in the Tokyo metropolitan area, we will steadily advance with the preparation of the opening of a new accommodation facility, “Hakone Kowakien Ten-yu” (150 guest rooms) to open in Spring next year at the site of the former Hakone Kowakien Yunessun Inn, for which reconstruction began in October 2014. In addition, we plan to enhance the soft side through offering tasty foods as well carry out measures centering on the keywords of “nature,” “health,” “Japanese-style,” and “friends.” Through these, we plan to offer multi-faceted pleasure to our customers.

Further, we are operating the luxury inn “Ryokuyu,” which comes with private open-air baths in all rooms based on the theme of “nature” and “Japanese-style,” in Ito (Shizuoka) and Yufuin (Oita). This year, we will offer our highly creative hospitality services exclusive at “Ryokuyu” through sales of “all-inclusive” package, where almost all the services such as foods and drinks, spa, and massage during the stay are included in the package price, as a special plan to celebrate the one year anniversary of “Yufuin Ryokuyu,” and by offering our original green tea exclusive at each facility, developed in collaboration with specialty stores. We will continue to suggest and provide products and services which our customers will value, such as cuisines cooked from local products and pleasant hospitality, while striving to expand the business base of “Ryokuyu,” which is positioned as the driving force for the higher quality of our Resort Business.

We will further focus on new development to deploy our Resort Business in various forms to fully capture opportunities, such as increasing foreign visitors to Japan and a rising demand from the seniors in domestic tourisms.

3) Luxury & Banquet Business

Hotel Chinzanso Tokyo will enter its third year of the guest room renovation plan spanning over four fiscal periods, which reflects its belief in respecting tradition through the theme of “treasuring the feeling of passing down tradition and history to the next generations.” Last year, the second year of this plan, we increased the number of rooms by seven to 267 rooms by converting the space used as a wedding facility to guest rooms in order to respond to the rising demand for accommodations.

In the wedding business, we will respond to diversifying customer needs through implementing renovation to further enhance attractiveness of the wedding facilities that is highly popular among our customers, as well as proposal of a new non-religious ceremony, “Camellia and Butterflies for Eternity,” which is a first ever wedding collaboration in the bridal industry with the digital art group “teamLab.”

Hotel Chinzanso Tokyo continues to receive the Five Red Pavilion Award, the highest ranking in the “Michelin Guide 2016,” and we will therefore continue to improve the quality of food and services to achieve hospitality with higher quality.

In Taiko-en, we renewed the banquet room in the annex as a temple “Hoseiden” overlooking the garden, which is the prime attraction of Taiko-en, to further enhance its signature Japanese-style weddings. While Shinto-style weddings in Taiko-en accounts for about 40% of all the weddings and has gained appraisal from many customers, we will further provide new values of Japanese-style weddings with strong originality.

In the restaurants business, we opened a Japanese restaurant, “KINSUI TAIPEI by HOTEL CHINZANSO TOKYO” in Taipei in January this year. We will welcome our Taiwanese guests with the genuine Japanese food produced by Hotel Chinzanso Tokyo and a delicate spirit of hospitality unique to Japan.

II. Attracting more guests among the increasing number of foreign visitors to Japan, and overseas development

Targeting largely-increasing foreign visitors to Japan, we will further improve awareness of the Group through holding of local workshop inviting overseas travel agencies this year, as we did in the last year, and the sales activities at “KINSUI TAIPEI by HOTEL CHINZANSO TOKYO” for more guests to choose our facilities,.

Overseas, we will strive to look for possibilities for developing business mainly in Asia to build business bases at an early stage, following the opening of a hotel in Seoul, Korea in 2018.

III. Nurturing diversified human resources and creating fulfilling workplaces

We will make efforts in building systems, workplaces, and training systems, where each employee can fully demonstrate their abilities, regardless of their nationality, gender, and age in order to respond to ever-diversifying needs of our customers, at the same time responding to the increasingly aging society with a low birth rate, the increase in the number of foreign visitors to Japan, and changes in labor law.

In the recent employment environment, response to labor shortage has become a major issue in terms of business growth in many industries. Thus, we will further gain support from our customers by continuing to offer always-warm services to our guests through becoming a “Company with friendly working environment for employees/Company worth working for” by establishing a framework where employees can work at the company for a long period of time, formulating a new employment system, and promoting the use of Information and Communication Technology (ICT) and Internet of Things (IoT).

4. Basic Policy on Selecting Accounting Standard

The Group will continue to prepare consolidated financial statements based on Japanese GAAP for the time being, taking into consideration comparability of consolidated financial statements in terms of periods and companies.

In the future, we will take appropriate actions in accordance with various conditions in Japan and overseas.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	As of December 31, 2014	As of December 31, 2015
Assets		
Current assets		
Cash and deposits	5,944	4,142
Notes and accounts receivable - trade	3,651	3,875
Merchandise and finished goods	79	83
Work in process	35	32
Raw materials and supplies	456	443
Deferred tax assets	436	1,178
Other	1,484	2,014
Allowance for doubtful accounts	(36)	(47)
Total current assets	12,051	11,722
Non-current assets		
Property, plant and equipment		
Buildings and structures	93,315	92,219
Accumulated depreciation	(58,279)	(56,907)
Buildings and structures, net	35,036	35,312
Tools, furniture and fixtures	16,304	17,254
Accumulated depreciation	(12,642)	(11,740)
Tools, furniture and fixtures, net	3,661	5,513
Land	12,302	12,983
Construction in progress	242	1,151
Golf courses	2,773	2,773
Other	5,031	4,870
Accumulated depreciation	(3,936)	(3,799)
Other, net	1,094	1,070
Total property, plant and equipment	55,112	58,805
Intangible assets		
Software	802	667
Goodwill	–	360
Other	137	127
Total intangible assets	939	1,154
Investments and other assets		
Investment securities	21,942	21,472
Guarantee deposits	9,339	9,990
Deferred tax assets	716	1,134
Other	798	469
Allowance for doubtful accounts	(17)	(17)
Total investments and other assets	32,778	33,049
Total non-current assets	88,829	93,010
Total assets	100,881	104,732

(Million yen)

	As of December 31, 2014	As of December 31, 2015
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,737	1,583
Short-term loans payable	2,885	4,725
Current portion of long-term loans payable	8,436	7,931
Income taxes payable	807	450
Accrued consumption taxes	664	307
Provision for bonuses	143	157
Provision for directors’ bonuses	11	12
Provision for point card certificates	89	92
Provision for noncurrent assets removal cost	406	79
Other	7,106	6,017
Total current liabilities	22,288	21,356
Non-current liabilities		
Long-term loans payable	26,141	32,157
Provision for directors’ retirement benefits	108	101
Provision for loss on contract	298	–
Provision for loss on business withdrawal	1,130	563
Net defined benefit liability	8,385	8,953
Deposits received from members	13,122	12,807
Other	1,630	1,780
Total non-current liabilities	50,817	56,363
Total liabilities	73,106	77,719
Net assets		
Shareholders’ equity		
Capital stock	12,081	12,081
Capital surplus	5,431	5,432
Retained earnings	5,305	4,356
Treasury shares	(916)	(921)
Total shareholders’ equity	21,902	20,949
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,728	5,952
Foreign currency translation adjustment	17	6
Remeasurements of defined benefit plans	(78)	(82)
Total accumulated other comprehensive income	5,668	5,877
Minority interests	204	186
Total net assets	27,774	27,012
Total liabilities and net assets	100,881	104,732

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Net sales	64,250	63,981
Cost of sales	58,674	59,534
Gross profit	5,576	4,446
Selling, general and administrative expenses	4,210	4,407
Operating income	1,365	39
Non-operating income		
Interest income	5	5
Dividend income	359	381
Share of profit of entities accounted for using equity method	81	50
Other	408	334
Total non-operating income	853	771
Non-operating expenses		
Interest expenses	597	567
Commission for syndicate loan	–	167
Other	231	248
Total non-operating expenses	828	983
Ordinary income (loss)	1,390	(172)
Extraordinary income		
Gain on sales of investment securities	1,009	556
Reversal of provision for loss on contract	–	265
Release from memberships deposits obligation	57	52
State subsidy	–	37
Gain on sales of non-current assets	672	7
Gain on reversal of provision for loss on business withdrawal	34	–
Other	21	–
Total extraordinary income	1,794	919
Extraordinary losses		
Provision for loss on business withdrawal	7	141
Loss on retirement of non-current assets	14	42
Impairment loss	1,248	36
Special maintenance repairs of idle equipment	19	3
Provision for removal expenses of noncurrent assets	406	–
Other	20	12
Total extraordinary losses	1,715	237
Income before income taxes and minority interests	1,469	509
Income taxes - current	944	209
Income taxes - deferred	(33)	(588)
Income taxes for prior periods	–	828
Total income taxes	911	450
Income before minority interests	558	58
Minority interests in income	27	26
Net income	531	32

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Income before minority interests	558	58
Other comprehensive income		
Valuation difference on available-for-sale securities	(116)	219
Foreign currency translation adjustment	4	(10)
Remeasurements of defined benefit plans, net of tax	–	(21)
Share of other comprehensive income of entities accounted for using equity method	2	22
Total other comprehensive income	(108)	209
Comprehensive income	449	268
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	422	242
Comprehensive income attributable to minority interests	27	26

(3) Consolidated Statements of Changes in Net Assets
For the fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,081	5,431	5,253	(914)	21,852
Cumulative effects of changes in accounting policies					
Restated balance	12,081	5,431	5,253	(914)	21,852
Changes of items during period					
Dividends of surplus			(479)		(479)
Net income			531		531
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares					–
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	–	51	(1)	49
Balance at end of current period	12,081	5,431	5,305	(916)	21,902

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,842	12	–	5,854	187	27,894
Cumulative effects of changes in accounting policies						
Restated balance	5,842	12	–	5,854	187	27,894
Changes of items during period						
Dividends of surplus						(479)
Net income						531
Purchase of treasury shares						(1)
Disposal of treasury shares						–
Net changes of items other than shareholders' equity	(113)	4	(78)	(186)	17	(169)
Total changes of items during period	(113)	4	(78)	(186)	17	(119)
Balance at end of current period	5,728	17	(78)	5,668	204	27,774

For the fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,081	5,431	5,305	(916)	21,902
Cumulative effects of changes in accounting policies			(502)		(502)
Restated balance	12,081	5,431	4,803	(916)	21,399
Changes of items during period					
Dividends of surplus			(479)		(479)
Net income			32		32
Purchase of treasury shares		0		(7)	(7)
Disposal of treasury shares		0		3	3
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	0	(446)	(4)	(450)
Balance at end of current period	12,081	5,432	4,356	(921)	20,949

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,728	17	(78)	5,668	204	27,774
Cumulative effects of changes in accounting policies						(502)
Restated balance	5,728	17	(78)	5,668	204	27,272
Changes of items during period						
Dividends of surplus						(479)
Net income						32
Purchase of treasury shares						(7)
Disposal of treasury shares						3
Net changes of items other than shareholders' equity	224	(10)	(3)	209	(18)	190
Total changes of items during period	224	(10)	(3)	209	(18)	(260)
Balance at end of current period	5,952	6	(82)	5,877	186	27,012

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Cash flows from operating activities		
Income before income taxes and minority interests	1,469	509
Depreciation	3,773	3,998
Impairment loss	1,248	36
Amortization of goodwill	–	40
Increase (decrease) in allowance for doubtful accounts	2	10
Increase (decrease) in provision for directors' retirement benefits	11	(6)
Increase (decrease) in provision for bonuses	11	3
Increase (decrease) in provision for directors' bonuses	7	0
Increase (decrease) in provision for point card certificates	(19)	2
Increase (decrease) in provision for loss on contract	(55)	(298)
Increase (decrease) in provision for loss on business withdrawal	(822)	(566)
Increase (decrease) in provision of non-current assets removal	406	(327)
Increase (decrease) in net defined benefit liability	165	(212)
Interest and dividend income	(364)	(386)
Interest expenses	597	567
Foreign exchange losses (gains)	(0)	17
Share of (profit) loss of entities accounted for using equity method	(81)	(50)
Loss (gain) on sales of non-current assets	(672)	(7)
Loss on retirement of non-current assets	191	156
Loss (gain) on sales of short-term and long-term investment securities	(1,009)	(556)
Release from memberships deposits obligation	(57)	(52)
Decrease (increase) in notes and accounts receivable - trade	(157)	(207)
Decrease (increase) in inventories	4	20
Increase (decrease) in notes and accounts payable - trade	(34)	(203)
Increase (decrease) in accrued consumption taxes	402	(371)
Other, net	(644)	(615)
Subtotal	4,374	1,502
Interest and dividend income received	373	394
Interest expenses paid	(605)	(573)
Income taxes paid	(478)	(1,739)
Net cash provided by (used in) operating activities	3,663	(415)

(Million yen)

	For the fiscal year ended December 31, 2014	For the fiscal year ended December 31, 2015
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(3,609)	(8,160)
Proceeds from sales of property, plant and equipment and intangible assets	3,881	14
Purchase of investment securities	(23)	(16)
Proceeds from sales of investment securities	1,731	1,018
Payments into time deposits	(1)	–
Proceeds from withdrawal of time deposits	–	16
Collection of long-term loans receivable	6	–
Payments for guarantee deposits	(48)	(1,198)
Proceeds from collection of guarantee deposits	22	978
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(746)
Other, net	(56)	(89)
Net cash provided by (used in) investing activities	1,901	(8,184)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,390)	1,839
Proceeds from long-term loans payable	6,192	13,950
Repayments of long-term loans payable	(7,952)	(8,470)
Proceeds from sales of treasury shares	–	3
Purchase of treasury shares	(1)	(7)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(36)
Cash dividends paid	(479)	(479)
Cash dividends paid to minority shareholders	(9)	(8)
Repayments of finance lease obligations	(30)	(32)
Other, net	–	(11)
Net cash provided by (used in) financing activities	(4,671)	6,748
Effect of exchange rate change on cash and cash equivalents	5	(9)
Net increase (decrease) in cash and cash equivalents	899	(1,861)
Cash and cash equivalents at beginning of period	5,026	5,925
Cash and cash equivalents at end of period	5,925	4,063