Consolidated Financial Results
for the Fiscal Year Ended December 31, 2018
[Japanese GAAP]

February 14, 2019

Company name: FUJITA KANKO INC.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9722
URL: https://www.fujita-kanko.co.jp/
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Scheduled date of Ordinary General Meeting of Shareholders: March 27, 2019
Scheduled date of filing annual securities report: March 27, 2019
Scheduled date of commencing dividend payments: March 28, 2019
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, 2018 (January 1, 2018 to December 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2018	69,285	(1.9)	1,099	(44.9)	1,105	(46.0)	556	(66.7)
Fiscal year ended December 31, 2017	70,624	2.7	1,995	16.5	2,048	20.6	1,672	94.7

(Note) Comprehensive income: Fiscal year ended December 31, 2018: ¥(2,426) million [-%]
Fiscal year ended December 31, 2017: ¥1,602 million [-%]

	Profit per share	Diluted profit per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2018	46.46	-	2.1	1.1	1.6
Fiscal year ended December 31, 2017	139.54	-	6.2	1.9	2.8

(Note) Profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2018: ¥30 million
Fiscal year ended December 31, 2017: ¥78 million

Change from the previous corresponding period in comprehensive income for the fiscal year ended December 31, 2017 is stated as "-," since it exceeds 1,000%.
The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Profit per share is calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2017.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2018	102,045	24,724	24.0	2,045.65
As of December 31, 2017	107,362	27,637	25.5	2,289.13

(Reference) Equity: As of December 31, 2018: ¥24,509 million
As of December 31, 2017: ¥27,428 million

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Net assets per share is calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2017.

(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, 2018	5,428	(4,324)	(1,880)	3,388
Fiscal year ended December 31, 2017	5,538	(6,667)	736	4,304

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, 2017	-	0.00	-	40.00	40.00	479	28.7	1.8
Fiscal year ended December 31, 2018	-	0.00	-	40.00	40.00	479	86.1	1.9
Fiscal year ending December 31, 2019 (Forecast)	-	0.00	-	40.00	40.00		159.8	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	34,200	1.8	(400)	-	(400)	-	(200)	-	(16.69)
Full year	72,000	3.9	900	(18.2)	900	(18.6)	300	(46.1)	25.04

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: 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: No
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, 2018: 12,207,424 shares
December 31, 2017: 12,207,424 shares

2) Total number of treasury shares at the end of the period:
December 31, 2018: 226,108 shares
December 31, 2017: 225,555 shares

3) Average number of shares during the period:
Fiscal year ended December 31, 2018: 11,981,630 shares
Fiscal year ended December 31, 2017: 11,982,767 shares

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Total number of issued shares at the end of the period, total number of treasury shares at the end of the period, and average number of shares during the period are calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2017.

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (January 1, 2018 to December 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2018	49,179	(4.0)	112	(80.5)	538	(42.3)	587	(46.1)
Fiscal year ended December 31, 2017	51,222	2.5	579	(20.5)	933	7.4	1,090	218.9

	Profit per share	Diluted profit per share
	Yen	Yen
Fiscal year ended December 31, 2018	49.03	-
Fiscal year ended December 31, 2017	90.98	-

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Profit per share is calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2017.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2018	99,091	22,425	22.6	1,870.80
As of December 31, 2017	104,086	25,100	24.1	2,093.85

(Reference) Equity: As of December 31, 2018: ¥22,425 million
As of December 31, 2017: ¥25,100 million

The Company implemented a share consolidation at a ratio of 10 shares of the Company's common stock to 1 share, effective July 1, 2017. Net assets per share are calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2017.

* Financial results are outside the scope of audit by a certified public accountant or an audit corporation.

* 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 "Overview of Operating Results for Current Fiscal Year" on page 2 of the attached material.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for Current Fiscal Year

The Japanese economy during the fiscal year ended December 31, 2018 continued on a moderate recovery trend, as corporate earnings and the employment situation improved, but the uncertainty in the future outlook continued due to the need to be cautious about trade friction between the U.S. and China and fluctuations in the financial capital markets.

According to the Japan National Tourism Organization (JNTO), the number of foreign visitors to Japan increased 8.7% year on year to reach a record high of 31.19 million in fiscal year 2018, despite a slowdown in the second half of the year due to the impact of natural disasters, and the number is expected to continue growing favorably for the time being, with a view toward achievement of the government’s target of 40.00 million by the year 2020.

The Group advanced its five-year medium-term management plan, which started in 2015, while reexamining the progress of the measures by each segment and changes in the business environment.

As for overview of the Group’s business, the Group further expanded business of the WHG Hotels in order to capture the strong demand for accommodation, while focusing on attracting foreign individual travelers (FITs) (*1), who stay for longer periods and generate higher sales per room compared to group travelers. As a result, the number of inbound guests increased 7.7% year on year to about 1,870,000, despite some temporary impact from natural disasters. Furthermore, the Group also worked to enhance the “Fujita Kanko Group Members Card WAON,” a membership organization for Group customers, in order to capture repeat guests from Japan and overseas.

The Group also worked to support increasingly diverse inbound guests, including opening two glamping (*2) style accommodation facilities—Fujino Kirameki Fuji Gotemba (Shizuoka Prefecture) and Nordisk Village Goto Islands (Nagasaki Prefecture)—and opening the Japanese Restaurant Origami Asakusa (Tokyo), which offers halal (*3) cuisine mainly targeting Muslim (*4) customers.

(*1) “FITs” stands for “Foreign Individual Travelers,” and refers to individual travelers, as opposed to tours and group travelers.

(*2) “Glamping” is coined from the words “glamorous” and “camping,” and refers to comfortable and luxury camping in nature using hotel-like facilities and services.

(*3) “Halal” refers to items permissible in Islamic law (including foods and ingredients).

(*4) “Muslim” refers to a follower of Islam.

■Facilities that opened, started operation, terminated operation or underwent major renovations from fiscal year 2017 to fiscal year 2018

2017	March	Termination of the management contract for Hotel Azur Takeshiba (122 rooms)
	April	Opened Hakone Kowakien Ten-yu (150 rooms)
	May	Opened Hotel Gracery Kyoto Sanjo South (128 rooms)
		Started operation of Maricolle Wedding Resort and Sayagatani Garden Aglass
	June	Completed renovation of all rooms of Yokohama Sakuragicho Washington Hotel (553 rooms)
	August	Completed renovation of the Grand Hall TSUBAKI (formerly Orion) banquet hall at Hotel Chinzanso Tokyo
	October	Opened Kisarazu Washington Hotel (146 rooms)
	November	Opened Garden Shrine Mori-no-Miya at Hotel Chinzanso Tokyo
2018	January	Terminated operation of Hakone Hotel Kowakien (224 rooms)
	March	Terminated operation of B&B Pension Hakone (224 rooms)
		Completed renovation of all rooms of Kansai Airport Washington Hotel (504 rooms)
	April	Opened Fujino Kirameki Fuji Gotemba (20 buildings)
		Started operation of OPERA DOMAINE KOURAIBASHI
	May	Completed renovation of some rooms of Akihabara Washington Hotel (241 rooms)
		Completed renovation of all rooms of Hotel Gracery Tamachi (216 rooms)
	July	Opened Japanese restaurant Origami Asakusa
	August	Opened Hotel Gracery Seoul (336 rooms)
	September	Terminated operation of Fujita Kanko Washington Hotel Asahikawa (260 rooms)
		Opened Nordisk Village Goto Islands (11 rooms)
	October	Opened Hotel Gracery Asakusa (125 rooms)

Duting the fiscal year ended December 31, 2018, Hakone Kowakien Ten-yu, which opened in April 2017, and Hotel Gracery Kyoto Sanjo South, which opened in May 2017, operated for a full year, contributing to the Group's performance.

However, the management contract for Hotel Azur Takeshiba terminated in March 2017, and Hakone Hotel Kowakien ceased operation in January 2018. In addition to the impact of these events, natural disasters caused a temporary major decline in the number of guests. The wedding and leisure businesses were unable to make up for these declines, and accordingly, the Group revised its initial consolidated performance forecast for the fiscal year downward. As a result, consolidated performance for the fiscal year exceeded the revised numerical targets in the plan, but net sales for the entire Group fell by ¥1,339 million year on year to ¥69,285 million.

Partly due to expenses for renovations of existing facilities as well as expenses for opening new hotels and businesses, operating profit decreased ¥895 million year on year to ¥1,099 million, ordinary profit decreased ¥942 million year on year to ¥1,105 million, and profit attributable to owners of parent decreased ¥1,115 million year on year to ¥556 million. Operating profit before depreciation, which the Group has established as a key indicator, decreased by ¥913 million year on year to ¥6,763 million.

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

Overview of business results

(Million yen)

	Actual results for the current period	YoY change	Change
Net sales	69,285	(1,339)	(1.9)%
Operating profit	1,099	(895)	(44.9)%
Ordinary profit	1,105	(942)	(46.0)%
Profit attributable to owners of parent	556	(1,115)	(66.7)%

Operating profit before depreciation	6,763	(913)	(11.9)%

Sales and operating profit by segment

(Million yen)

	Net sales		Operating profit	
	Actual	YoY change	Actual	YoY change
WHG Business	36,936	1,334	2,842	(35)
Resort Business	5,728	(1,836)	(896)	(207)
Luxury & Banquet Business	23,982	(761)	54	(391)
Other (including adjustment amounts)	2,637	(76)	(900)	(261)
Total	69,285	(1,339)	1,099	(895)

Note: Adjustment amounts refers to eliminations of inter-segment transactions, and corporate expenses not allocated to any particular segment.

1) WHG Business

The WHG Business strived to maximize sales by focusing on attracting customers from Europe, the U.S. and Australia in addition to East Asia and Southeast Asia, leading to increased use by FITs, and also by striving to gain repeat guests from Japan and overseas. In August 2018, the Group opened Hotel Gracery Seoul (South Korea), the first overseas hotel directly operated by the WHG Business, striving to lock in customers in Japan and other countries by leveraging the benefits of a hotel chain, as well as to increase the recognition of the Hotel Gracery brand in South Korea. Additionally, in October 2018 the Group opened Hotel Gracery Asakusa (Tokyo) in Asakusa, a highly popular destination for tourists from both Japan and abroad.

Although the accommodation business suffered from adverse effects, including temporary declines in the number of guests due to repeated natural disasters, Hotel Gracery Kyoto Sanjo South, which opened in May 2017, operated for a full year, and Shinjuku Washington Hotel and Hotel Gracery Shinjuku, the flagship facilities of the WHG Business, posted strong results, which boosted the Business's performance. Additionally, sales per room in the entire WHG Business were strong, with 2.0% year on year growth overall (with a 1.4% year- on-year growth in hotels in the Tokyo metropolitan area, and a 3.1% year-on-year growth in regional hotels).

As a result, net sales for this segment increased by ¥1,334 million year on year to ¥36,936 million but operating profit (segment income) decreased by ¥35 million year on year to ¥2,842 million, due to expenses associated with the opening of Hotel Gracery Seoul and the renovation of existing hotels.

2) Resort Business

In the Resort Business, Hakone Kowakien Ten-yu used to control room occupancy to attach more weight to stabilizing operations since its opening, but having stabilized operations, it was able to improve customer satisfaction and its room occupancy in 2018.

Although net sales in the accommodation business as a whole decreased ¥1,646 million year on year to ¥3,947 million due to the impact from Hakone Hotel Kowakien, which terminated operation in January 2018, operating profit before depreciation was on par with the previous year, as Hakone Kowakien Ten-yu made up for the decrease in profit from terminating operation of Hakone Hotel Kowakien.

Net sales in the leisure business decreased ¥197 million year on year to ¥1,442 million, owing to delays in implementation of sales measures and insufficient advertisement of events at the Hakone Kowakien Yunessun day-trip hot spring facility, as well as a substantial drop in the number of guests due to the termination of operation of the adjacent Hakone Hotel Kowakien.

As a result, net sales for this segment decreased by ¥1,836 million year on year to ¥5,728 million, and operating loss (segment loss) deteriorated by ¥207 million to ¥896 million.

3) Luxury & Banquet Business

In the Luxury & Banquet Business, the wedding business strived to capture demand for Japanese-style weddings primarily at the Garden Shrine Mori-no-Miya, which was opened at Hotel Chinzanso Tokyo in November 2017, as well as improving product quality, including reconsidering the menu of dishes. Although these efforts resulted in an increase in sales per customer, they were not sufficient to halt the declining trend in the numbers of weddings and guests. Additionally, guest house Maricolle Wedding Resort and Sayagatani Garden Aglass (both in Fukuoka Prefecture), both of which started operations in May 2017, leveraged the wedding production capability that is successful in Hiroshima Prefecture to proceed with initiatives to make a strategic shift and improve business performance. Furthermore, in April 2018, the Group launched a wedding business at OPERA DOMAINE KOURAIBASHI (Osaka Prefecture), a historic building that is more than 100 years old, after the Group acquired the business. In both cases, however, time will be required until they can contribute to the performance of the business. Due to the factors above, net sales in the wedding business decreased by ¥438 million year on year to ¥11,003 million.

In the banquet business, although the Group strived to capture demand at Hotel Chinzanso Tokyo with a focus on MICE, including utilization of the Grand Hall TSUBAKI (formerly Orion), a large banquet hall renovated in August 2017, it has not yet contributed to performance, and net sales decreased by ¥97 million year on year to ¥5,081 million.

As a result, net sales for this segment, including the golf business, decreased by ¥761 million year on year to ¥23,982 million, and operating profit (segment income) decreased by ¥391 million year on year to ¥54 million, partly due to the impact from Hotel Azur Takeshiba, whose management contract terminated in March 2017.

(Outlook for Next Fiscal Year)

In the WGH Business, Hotel Gracery Seoul and Hotel Gracery Asakusa, both of which opened in 2018, will operate for the full year starting in 2019. In addition to the opening of Hotel Gracery Osaka Namba (170 rooms) scheduled for July 2019, the WGH Business will conduct multi-brand operations, with two new brands in 2019─: TAVINOS and ISORAS. TAVINOS targets young inbound guests and plans to open HOTEL TAVINOS HAMAMATSUCHO (188 rooms) in August. Meanwhile, ISORAS, an overseas service apartment business, targets Japanese employees on short and long-term assignment overseas and plans to open an accommodation facility in Cikarang (near Jakarta, Indonesia) this fall. The WHG Business will continue to expand in Japan and overseas, steadily capturing the growing demand for accommodation with its new and existing facilities. This segment will open some new hotels, while operating other hotels for the full year, with new openings and the new brand strategy incurring expenses. As a result, we forecast a year-on-year increase in revenue and a decrease in profit.

In the Resort Business, the new flagship facility Hakone Kowakien Ten-yu expects high occupancy rate as it has stabilized operations. Consequently, it will capture customers by focusing on high value-added products. Furthermore, it will strive to increase productivity through enabling multi-tasking by staff. Hakone Kowakien Yunessun will strive to recover the number of guests by focusing on creating new campaigns and actively communicating information, expanding partnership with nearby accommodation facilities, and strengthening sales activities targeting group day trips.

In the Luxury & Banquet Business, the flagship facility Hotel Chinzanso Tokyo is producing results from the initiatives of its accommodation business to capture guests who generate high unit sales, but the initiatives have not produced sales large enough to make up for the loss in revenue from the wedding business. It, therefore, recognizes the need to strengthen the sales structures of its non-wedding businesses, and is advancing several initiatives, including reorganization and staff increases. Although this effort is currently in the stage of up-front costs, this segment will continue to strengthen its sales in Japan and overseas, to recover profitability by restructuring its business to reduce dependence on weddings. Although this segment will focus on strengthening sales to make up for the loss in revenue from the wedding business, we forecast year-on-year decreases in revenue and profit as it is still in the stage of up-front costs.

As a result of the above circumstances, net sales are expected to increase by ¥2,700 million year on year to ¥72,000 million, owing mainly to hotels that opened in 2018 and new businesses that will operate throughout the full year. However, operating profit and ordinary profit are both expected to decrease by ¥200 million year on year to ¥900 million, owing mainly to expenses from opening new hotels and brands. Profit attributable to owners of parent is expected to decrease by ¥200 million year on year to ¥300 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 profit	Ordinary profit	Profit attributable to owners of parent	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Consolidated total	34,200	(400)	(400)	(200)	72,000	900	900	300
WHG Business	18,700	900	-	-	39,300	2,600	-	-
Resort Business	2,600	(600)	-	-	5,900	(650)	-	-
Luxury & Banquet Business	11,600	(200)	-	-	23,800	0	-	-
Total	32,900	100	-	-	69,000	1,950	-	-
Other	2,600	(450)	-	-	5,700	(950)	-	-
Adjustment amounts (*)	(1,300)	(50)	-	-	(2,700)	(100)	-	-

* Adjustment amounts: refers to eliminations of inter-segment transactions, and corporate expenses not allocated to any reportable segment.

(2) Overview of Financial Position for Current Fiscal Year

Total assets as of December 31, 2018 decreased by ¥5,316 million from the end of the previous fiscal year to ¥102,045 million. Current assets decreased by ¥586 million mainly due to a decrease of ¥917 million in cash and deposits, and non-current assets decreased by ¥4,729 million, reflecting a decrease in investments and other assets due to a fall in market prices of investment securities.

Liabilities decreased by ¥2,403 million from the end of the previous fiscal year to ¥77,321 million. This was mainly due to a decrease in income taxes payable of ¥839 million and a decrease in loans payable of ¥1,324 million. The total amount of loans payable as of December 31, 2018 was ¥45,374 million.

Net assets decreased by ¥2,912 million from the end of the previous fiscal year to ¥24,724 million. Valuation difference on available-for-sale securities decreased by ¥2,790 million.

(3) Overview of Cash Flows for Current Fiscal Year

Cash and cash equivalents as of December 31, 2018 amounted to ¥3,388 million, down ¥915 million from the end of the previous fiscal year.

i) Cash flows from operating activities

Net cash provided by operating activities was ¥5,428 million, a decrease of ¥109 million compared with the previous fiscal year. This was mainly due to a decrease in operating profit by ¥895 million, despite receiving a consumption tax refund.

ii) Cash flows from investing activities

Net cash used in investing activities was ¥4,324 million, a decrease of ¥2,343 million compared with the previous fiscal year, despite cash outflows of ¥4,391 million for purchase of property, plant, equipment and intangible assets as a result of opening new hotels such as Hotel Gracery Seoul, investments for new businesses such as Fujino Kirameki Fuji Gotemba, and investments for improving the quality of rooms and banquet halls of existing facilities through renovations.

iii) Cash flows from financing activities

Net cash used in financing activities was ¥1,880 million, an increase of ¥2,616 million compared with the previous fiscal year. This was mainly due to repayments of loans payable of ¥1,324 million, and cash dividends paid of ¥484 million.

(Reference) Historical cash flow indicators

	FY2014	FY2015	FY2016	FY2017	FY2018
Years of debt redemption (years)	10.3	-	7.4	8.5	8.4
Interest coverage ratio (times)	6.1	-	11.0	10.0	10.2

1. "Operating cash flow" uses cash flows from operating activities in the consolidated statements of cash flows. "Interest-bearing debt" includes all liabilities bearing interest posted in the consolidated balance sheets. "Interest expenses" uses interest expenses paid in the consolidated statements of cash flows.
2. For the fiscal year ended December 31, 2015, the years of debt redemption and interest coverage ratio are not stated as operating cash flow was negative.

(4) 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 ¥40 per share of the Company's common stock. The dividend for the next fiscal year is planned to be ¥40 per share of the Company's common stock.

(5) 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 14, 2019, and risk factors related to business are not limited to these items.

1) Stock price fluctuations

The Group owns ¥15,200 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 ¥62,800 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 ¥64,500 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 ¥45,300 million of loans payable as of the end of the current fiscal year, ¥8,900 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.

9) Fluctuation in exchange rate

The revenues and expenses as well as debts and liabilities from operating activities of the Group’s overseas businesses are denominated in foreign currencies. Consequently, the results could be affected by exchange rate fluctuations when converting financial results of overseas subsidiaries to yen amount.

(6) Important Information about Going Concern Assumption

Not applicable.

2. Overview of the Corporate Group

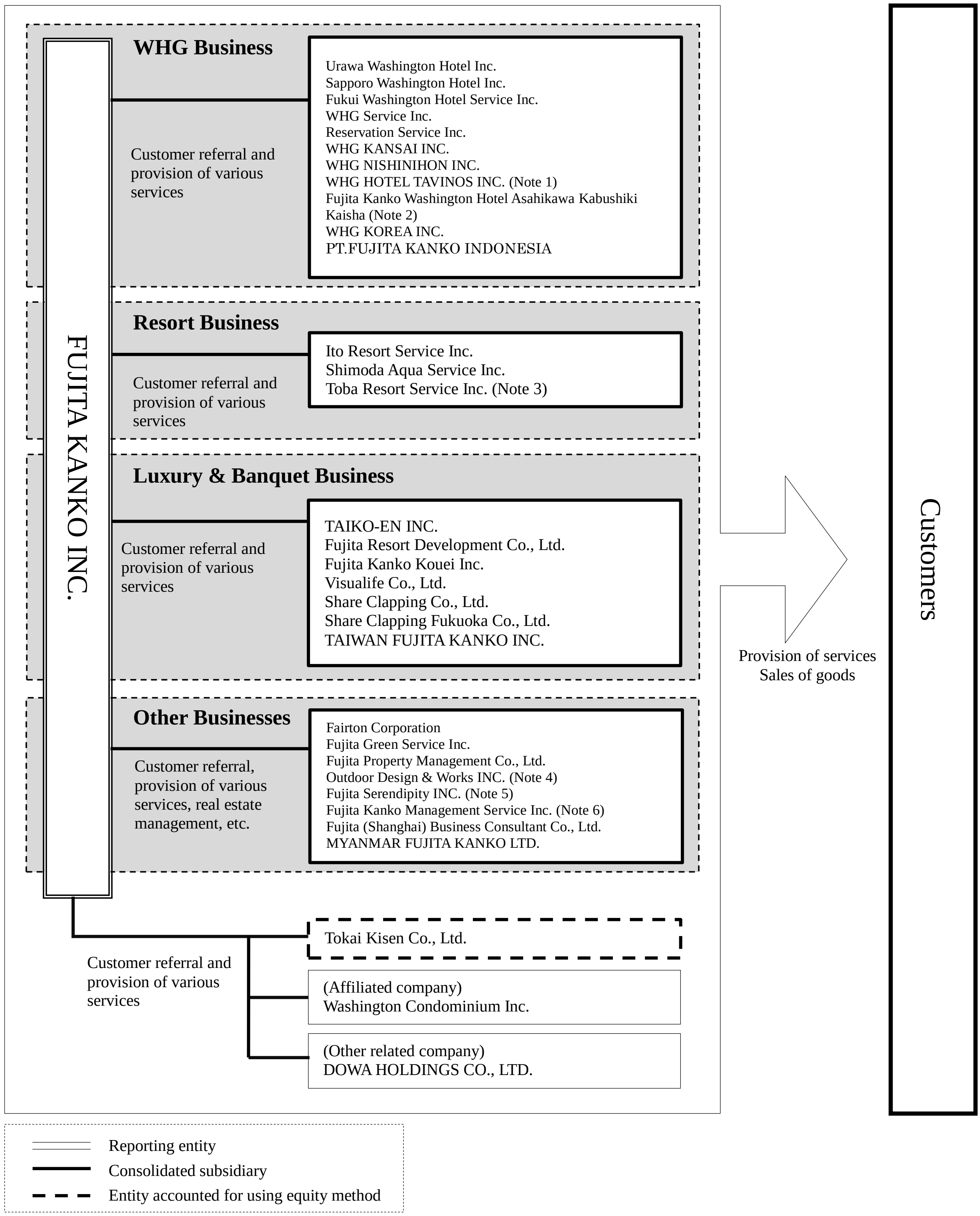
The Group consists of FUJITA KANKO INC., 29 consolidated subsidiaries, 2 affiliated companies, and 1 other related company. The Group engages in WHG Business, Resort Business, and Luxury & Banquet Business as the main businesses and provides various services related to each business.

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

<table>
<tr><th colspan="2"></th><th>Main businesses</th><th>Major affiliates, etc. (Note)</th></tr>
<tr><td rowspan="3">Reportable segment</td><td>WHG Business</td><td>Hotel business emphasis on accommodations</td><td>Total of 11 companies including FUJITA KANKO INC. (the Company) and Urawa Washington Hotel Inc.</td></tr>
<tr><td>Resort Business</td><td>Resort hotel/leisure business</td><td>Total of 3 companies including FUJITA KANKO INC. (the Company) and Ito Resort Service Inc.</td></tr>
<tr><td>Luxury & Banquet Business</td><td>Wedding/banquet/restaurant/hotel/golf/flower arrangement/garden management/imaging businesses</td><td>Total of 7 companies including FUJITA KANKO INC. (the Company) and TAIKO-EN INC.</td></tr>
<tr><td colspan="2">Other Businesses</td><td>Cleaning and maintenance/real estate management/management contract businesses</td><td>Total of 8 companies including FUJITA KANKO INC. (the Company) and Fairton Corporation</td></tr>
</table>

(Note) With the exception of the Company, company names and numbers of companies listed under “Major affiliates, etc.” are all consolidated subsidiaries of the Company.

The following diagram illustrates the business structure.



(Notes)

1. WHG HOTEL TAVINOS INC. was established during the current fiscal year.
2. Fujita Kanko Washington Hotel Asahikawa Kabushiki Kaisha is inactive as of the end of the current fiscal year.
3. Toba Resort Service Inc. is inactive as of the end of the current fiscal year.
4. Outdoor Design & Works INC. was established during the current fiscal year.
5. Fujita Serendipity INC. was established during the current fiscal year.
6. 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) Issues to be Addressed

In the business environment surrounding the Group, while the number of foreign visitors to Japan continues to grow at a strong rate, there are concerns over the impact of large-scale natural disasters and international political issues on the economy, and an increasingly serious labor shortage in Japan. The Group recognizes that it needs to build a strong management structure to minimize the effects of these external factors.

In 2015, the Group launched its five-year medium-term management plan, FUJITA PREMIUM VALUE CREATION 2015. In 2017, the third year of the plan, we reexamined the measures by segment according to the progress status of the measures and changes in the environment and revised the numerical targets, even though there were no major changes to the three overall strategies stated below.

<Overall strategies>

I. Improvement and expansion of added value of existing businesses capturing various customer needs
II. Attracting more customers among increasing inbound visitors, and overseas development
III. Creating fulfilling workplaces where diversified human resources can play an active role

Although we are confident that these measures and initiatives will lead to future growth, our performance in fiscal year 2018 showed sharp differences among segments, and as a result, we failed to meet the Group’s numerical targets by a substantial margin. We believe that insufficient thoroughness and speed in the implementation phase of these measures were a main cause for the major deviation from the numerical targets, and we have set out the following key initiatives for each segment based on an awareness of this issue.

WHG Business

The WGH Business is positioned as the core of the Group’s profitability. It is expanding strongly both in Japan and abroad, including the opening of Hotel Gracery Osaka Namba scheduled for July 2019, and is steadily capturing the growing demand for accommodation at existing and new facilities.

As a new initiative, it is also expanding into multi-brand operations, adding two new brands, TAVINOS and ISORAS, in 2019.

TAVINOS aims to capture young inbound customers who want to enjoy active travel at reasonable prices, by realizing low-cost operation with the concepts of “Active & Relax.” The business plans to open a hotel in Hamamatsucho in August 2019 and another in Asakusa in May 2020 (both in Tokyo), and is currently considering expansion in Tokyo and other cities that many foreign accommodation guests visit.

Meanwhile, the overseas service apartments business ISORAS aims to offer living arrangements that are the same as Japan, to provide peace of mind to residents on long or short-term assignment from Japan, even in an environment with different language or culture, with the concept of “the same lifestyle as always, even if you look up to a different sky.” The business plans to open apartments in Cikarang (near Jakarta, Indonesia) in the fall of 2019.

The WGH Business will further enhance its earning capabilities by ensuring success in its multi-brand rollout including these two brands, and striving to improve customer satisfaction and productivity.

Resort Business

After stabilizing operations, the Resort Business’ new flagship facility Hakone Kowakien Ten-yu has also succeeded at stabilizing the room occupancy rate. In terms of profits as well, its operating profit before depreciation, which the Group has established as a key indicator, has exceeded the level of Hakone Hotel Kowakien, which terminated operation in January 2018.

Meanwhile, the facility has fixed costs unique to resort areas, such as costs for maintaining hot spring supply and other infrastructure, and efforts must be made to strengthen earnings to absorb these expenses. As such, Hakone Kowakien Ten-yu will focus on capturing repeat guests to enable guests to make reservation with the facility directly, aggressively market special suites, which are popular despite their high unit price, and strengthen ancillary divisions such as spa and beauty treatment. Additionally, as the next step after stabilizing operations, it will strive to improve productivity through means such as enabling multi-tasking by staff.

Hakone Kowakien Yunessun was unable to break out of a rut in the events and campaigns that are the cornerstone of attracting guests, and was unable to swiftly or adequately carry out measures in preparation for the termination of operations of Hakone Hotel Kowakien. Moving forward, it will strive to recover the number of guests by focusing on creating new campaigns and actively communicating information, expanding partnerships with nearby accommodation facilities, and strengthening sales activities targeting group day trips.

The Hakone area redevelopment plan, including the site of Hakone Hotel Kowakien and adjacent land for Hourai-en, which is currently under consideration, will be taken up and promoted as a key issue to be addressed in the next medium-term management plan.

Luxury & Banquet Business

Hotel Chinzanso Tokyo, the flagship facility of the Luxury & Banquet Business, is seeing results from its initiatives to capture high unit-price guests in its accommodation business, through means such as utilization of the Preferred Hotels & Resorts network that it joined in 2017, but this has not been sufficient to make up for the decrease in profits in the wedding business. It therefore recognizes the need to strengthen the sales structures of its non-wedding businesses—accommodation, banquet, and restaurant—and it is reorganizing and increasing staff, and working to improve sales skills. However, it is currently in the stage of up-front costs, and it will take time for major results to appear. Going forward, it will be essential for Hotel Chinzanso Tokyo to reduce its dependence on weddings if the hotel aims to recover profitability. This segment will continue to strengthen sales in Japan and abroad by communicating its historical and cultural value and uniqueness of its facilities with abundant nature.

In April 2019, Taiko-en will mark its 60th anniversary. In addition to Japanese-style weddings, which are its strengths, it will enhance cooperation with OPERA DOMAINE KOURAIBASHI, also located in Osaka, to strengthen its Western-style wedding proposal capabilities as well. Additionally, the Bureau International des Expositions (BIE) World Expo selection committee, which assessed Japan’s bid to organize an Expo, selected Japanese Restaurant Yodogawa-Tei located in Taiko-en for its dinner venue in March 2018. Partly for this reason, as we head into the Osaka-Kansai Japan Expo 2025, Taiko-en will strive to communicate Japanese food culture, which has gained strong international attention, and will focus on leveraging this opportunity to capture MICE.

In addition to these main businesses, we will open “Hakujukan, Shinzen-no-yado, Eihei-ji Temple” in front of Eihei-ji Temple in Fukui Prefecture in July 2019 as a facility combining the features of a traditional inn and pilgrims’ stays. This is another example of the new businesses that will come after glamping-style accommodation facilities and a restaurant offering Halal cuisine, all of which opened in 2018.

We also recognize that strengthening sales capability is a vital and pressing issue for improving the profitability of each business, and we will create a new organization that crosses business boundaries to support sales across businesses.

■ Businesses to Open in fiscal year 2019 and Beyond (As of December 31, 2018)

2019	July	Hotel Gracery Osaka Namba (170 rooms)
		Hakujukan, Shinzen-no-yado, Eihei-ji Temple (18 rooms)
	August	HOTEL TAVINOS HAMAMATSUCHO (188 rooms)
	Fall	ISORAS CIKARANG (214 rooms)
2020	May	HOTEL TAVINOS ASAKUSA (278 rooms)
2021	-	Hotel Gracery Taipei (248 rooms)

The Group has advanced “promotion of diversity & inclusion” and “reform of work styles” to enable diverse human resources to realize their full potential by building workplaces that do not discriminate based on nationality, gender, age, or other characteristics, and building systems that enable employees to have long careers in the Group. We believe that these initiatives meet the demands of new social challenges targeting sustainable growth (ESG), which have grown in importance in recent years. We also believe that striving for ESG is the manifestation of our goal to “contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize,” and we will fulfill our social responsibilities through our businesses, while building a strong management base and responding to changes in our external environment.

Additionally, the Group already has several Outside Directors, and will strengthen both its management structure and governance by inviting more outside experts with wide experience in management into the Group.

In addition to the abovementioned Hakone-area redevelopment plan, we will create a new medium-term management plan starting in 2020 that will respond to medium- and long-term challenges, including business restructuring of Hotel Chinzanso Tokyo, and establish a trajectory for sustainable growth. The plan will be announced together with our financial results for fiscal year 2019.

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, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	4,381	3,464
Notes and accounts receivable - trade	4,959	5,304
Merchandise and finished goods	62	52
Work in process	132	48
Raw materials and supplies	526	512
Deferred tax assets	330	419
Other	2,322	2,313
Allowance for doubtful accounts	(38)	(25)
Total current assets	12,678	12,091
Non-current assets		
Property, plant and equipment		
Buildings and structures	101,336	102,667
Accumulated depreciation	(59,209)	(61,370)
Buildings and structures, net	42,126	41,297
Tools, furniture and fixtures	20,362	21,380
Accumulated depreciation	(14,206)	(15,688)
Tools, furniture and fixtures, net	6,155	5,692
Land	11,946	12,283
Construction in progress	425	206
Golf courses	2,416	2,419
Other	4,678	4,713
Accumulated depreciation	(3,708)	(3,773)
Other, net	969	939
Total property, plant and equipment	64,041	62,838
Intangible assets		
Goodwill	280	240
Software	507	438
Other	119	122
Total intangible assets	906	801
Investments and other assets		
Investment securities	19,538	15,540
Guarantee deposits	8,412	8,508
Deferred tax assets	1,207	1,895
Other	602	392
Allowance for doubtful accounts	(24)	(23)
Total investments and other assets	29,735	26,314
Total non-current assets	94,684	89,954
Total assets	107,362	102,045

(Million yen)

	As of December 31, 2017	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,660	1,592
Short-term loans payable	2,985	4,440
Current portion of long-term loans payable	8,907	8,675
Income taxes payable	1,071	231
Accrued consumption taxes	214	1,170
Provision for bonuses	197	196
Provision for directors’ bonuses	7	8
Provision for point card certificates	121	139
Provision for loss on business withdrawal	–	5
Other	6,822	5,865
Total current liabilities	21,988	22,326
Non-current liabilities		
Long-term loans payable	34,805	32,257
Provision for directors’ retirement benefits	117	111
Provision for loss on business withdrawal	530	–
Net defined benefit liability	9,425	9,859
Deposits received from members	10,838	10,799
Other	2,018	1,966
Total non-current liabilities	57,736	54,995
Total liabilities	79,724	77,321
Net assets		
Shareholders’ equity		
Capital stock	12,081	12,081
Capital surplus	5,431	5,431
Retained earnings	5,927	6,004
Treasury shares	(929)	(930)
Total shareholders’ equity	22,511	22,587
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,113	2,322
Deferred gains or losses on hedges	(78)	(73)
Foreign currency translation adjustment	(19)	(139)
Remeasurements of defined benefit plans	(99)	(187)
Total accumulated other comprehensive income	4,916	1,922
Non-controlling interests	209	215
Total net assets	27,637	24,724
Total liabilities and net assets	107,362	102,045

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Net sales	70,624	69,285
Cost of sales	63,973	63,540
Gross profit	6,651	5,744
Selling, general and administrative expenses	4,655	4,645
Operating profit	1,995	1,099
Non-operating income		
Interest income	3	4
Dividend income	391	399
Share of profit of entities accounted for using equity method	78	30
Dividend income of life insurance	78	79
Land and house rent received	54	89
Other	205	184
Total non-operating income	813	786
Non-operating expenses		
Interest expenses	555	529
Loss on retirement of non-current assets	67	113
Foreign exchange losses	–	86
Other	137	52
Total non-operating expenses	760	780
Ordinary profit	2,048	1,105
Extraordinary income		
Gain on reversal of provision for loss on business withdrawal	–	242
Compensation income	314	140
Release from memberships deposits obligation	38	28
Gain on sales of non-current assets	1,814	3
State subsidy	–	3
Gain on sales of shares of subsidiaries and associates	199	–
Gain on sales of investment securities	165	–
Total extraordinary income	2,531	418
Extraordinary losses		
Impairment loss	1,370	110
Loss on business withdrawal	–	66
Provision for loss on business withdrawal	15	41
Special maintenance repairs of idle equipment	2	12
Loss on valuation of investment securities	16	–
Loss on sales of non-current assets	3	–
Other	–	0
Total extraordinary losses	1,408	231
Profit before income taxes	3,171	1,292
Income taxes - current	1,049	240
Income taxes - deferred	433	484
Total income taxes	1,483	725
Profit	1,688	567
Profit attributable to non-controlling interests	16	10
Profit attributable to owners of parent	1,672	556

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Profit	1,688	567
Other comprehensive income		
Valuation difference on available-for-sale securities	10	(2,786)
Deferred gains or losses on hedges	(78)	4
Foreign currency translation adjustment	(10)	(120)
Remeasurements of defined benefit plans, net of tax	(14)	(87)
Share of other comprehensive income of entities accounted for using equity method	7	(4)
Total other comprehensive income	(85)	(2,993)
Comprehensive income	1,602	(2,426)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,586	(2,437)
Comprehensive income attributable to non-controlling interests	16	10

(3) Consolidated Statements of Changes in Net Assets
For the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	12,081	5,432	4,735	(924)	21,325
Changes of items during period					
Dividends of surplus			(479)		(479)
Profit attributable to owners of parent			1,672		1,672
Purchase of treasury shares				(7)	(7)
Disposal of treasury shares		(0)		2	1
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	(0)	1,192	(5)	1,186
Balance at end of current period	12,081	5,431	5,927	(929)	22,511

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,095	–	(8)	(85)	5,001	199	26,526
Changes of items during period							
Dividends of surplus							(479)
Profit attributable to owners of parent							1,672
Purchase of treasury shares							(7)
Disposal of treasury shares							1
Net changes of items other than shareholders' equity	17	(78)	(10)	(14)	(85)	9	(75)
Total changes of items during period	17	(78)	(10)	(14)	(85)	9	1,110
Balance at end of current period	5,113	(78)	(19)	(99)	4,916	209	27,637

For the fiscal year ended December 31, 2018 (January 1, 2018 to December 31, 2018)

(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	5,927	(929)	22,511
Changes of items during period					
Dividends of surplus			(479)		(479)
Profit attributable to owners of parent			556		556
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		(0)		0	0
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	(0)	77	(1)	75
Balance at end of current period	12,081	5,431	6,004	(930)	22,587

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,113	(78)	(19)	(99)	4,916	209	27,637
Changes of items during period							
Dividends of surplus							(479)
Profit attributable to owners of parent							556
Purchase of treasury shares							(2)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	(2,790)	4	(120)	(87)	(2,993)	5	(2,987)
Total changes of items during period	(2,790)	4	(120)	(87)	(2,993)	5	(2,912)
Balance at end of current period	2,322	(73)	(139)	(187)	1,922	215	24,724

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Cash flows from operating activities		
Profit before income taxes	3,171	1,292
Depreciation	4,759	4,864
Impairment loss	1,370	110
Amortization of goodwill	40	43
Increase (decrease) in allowance for doubtful accounts	1	(13)
Increase (decrease) in provision for directors' retirement benefits	4	(5)
Increase (decrease) in provision for bonuses	26	(0)
Increase (decrease) in provision for directors' bonuses	(3)	0
Increase (decrease) in provision for point card certificates	28	17
Increase (decrease) in provision for loss on business withdrawal	(72)	(524)
Increase (decrease) in net defined benefit liability	267	307
Interest and dividend income	(395)	(403)
Interest expenses	555	529
Foreign exchange losses (gains)	(13)	86
Share of loss (profit) of entities accounted for using equity method	(78)	(30)
Loss (gain) on sales of non-current assets	(1,810)	(3)
Loss on retirement of non-current assets	67	113
Loss (gain) on sales of short-term and long-term investment securities	(165)	–
Loss (gain) on valuation of investment securities	16	–
Compensation income	(314)	(140)
Release from memberships deposits obligation	(38)	(28)
Decrease (increase) in notes and accounts receivable - trade	(386)	(346)
Decrease (increase) in inventories	(104)	109
Increase (decrease) in notes and accounts payable - trade	(0)	(67)
Loss (gain) on sales of shares of subsidiaries and associates	(199)	–
Increase (decrease) in accrued consumption taxes	(544)	956
Other, net	(418)	(39)
Subtotal	5,763	6,825
Interest and dividend income received	404	412
Interest expenses paid	(559)	(533)
Income taxes paid	(384)	(1,416)
Proceeds from compensation	314	140
Net cash provided by (used in) operating activities	5,538	5,428

(Million yen)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(8,589)	(4,391)
Proceeds from sales of property, plant and equipment and intangible assets	1,815	3
Purchase of investment securities	(1)	–
Proceeds from sales of investment securities	290	–
Payments into time deposits	(0)	(0)
Payments for guarantee deposits	(33)	(179)
Proceeds from collection of guarantee deposits	99	308
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(77)	–
Other, net	(171)	(66)
Net cash provided by (used in) investing activities	(6,667)	(4,324)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	660	1,455
Proceeds from long-term loans payable	8,059	6,127
Repayments of long-term loans payable	(7,453)	(8,907)
Proceeds from sales of treasury shares	0	0
Purchase of treasury shares	(6)	(2)
Cash dividends paid	(479)	(479)
Dividends paid to non-controlling interests	(6)	(4)
Repayments of finance lease obligations	(30)	(28)
Other, net	(8)	(41)
Net cash provided by (used in) financing activities	736	(1,880)
Effect of exchange rate change on cash and cash equivalents	(7)	(139)
Net increase (decrease) in cash and cash equivalents	(400)	(915)
Cash and cash equivalents at beginning of period	4,704	4,304
Cash and cash equivalents at end of period	4,304	3,388