Consolidated Financial Results
for the Six Months Ended June 30, 2018
[Japanese GAAP]

August 7, 2018

Company name: FUJITA KANKO INC.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9722
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Scheduled date of filing quarterly securities report: August 7, 2018
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly 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 Six Months Ended June 30, 2018 (January 1, 2018 to June 30, 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	%
Six months ended June 30, 2018	33,591	(0.7)	(64)	-	(29)	-	(32)	-
Six months ended June 30, 2017	33,818	4.9	158	-	255	-	(598)	-

(Note) Comprehensive income: Six months ended June 30, 2018: ¥(2,035) million [-%]
Six months ended June 30, 2017: ¥(1,416) million [-%]

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended June 30, 2018	(2.68)	-
Six months ended June 30, 2017	(49.94)	-

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
	Million yen	Million yen	%
As of June 30, 2018	103,267	25,116	24.1
As of December 31, 2017	107,362	27,637	25.5

(Reference) Equity:
As of June 30, 2018: ¥24,908 million
As of December 31, 2017: ¥27,428 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2017	-	0.00	-	40.00	40.00
Fiscal year ending December 31, 2018	-	0.00			
Fiscal year ending December 31, 2018 (Forecast)			-	40.00	40.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(% 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
Full year	72,000	1.9	2,300	15.3	2,300	12.3	1,300	(22.3)	108.50

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) 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

(4) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
June 30, 2018: 12,207,424 shares
December 31, 2017: 12,207,424 shares

2) Total number of treasury shares at the end of the period:
June 30, 2018: 225,765 shares
December 31, 2017: 225,555 shares

3) Average number of shares during the period:
Six months ended June 30, 2018: 11,981,725 shares
Six months ended June 30, 2017: 11,983,302 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. Average number of shares during the period is calculated based on the assumption that the share consolidation was implemented at the beginning of the fiscal year ended December 31, 2017.

* Quarterly financial results are outside the scope of quarterly review 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 "1. Qualitative Information on Quarterly Financial Results for the Period under Review, (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information" on page 5 of the attached material.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

The Japanese economy during the six months ended June 30, 2018 continued on a moderate recovery trend as seen by an improvement in corporate earnings and the employment situation, supported by factors such as the economic and employment policies by the government, despite continued uncertainty in the future outlook due to U.S. economic policies, political situations in Europe and the U.S., and concerns about geopolitical risks.

According to the Japan National Tourism Organization (JNTO), the number of foreign visitors to Japan increased 15.6% year on year and is expected to continue growing favorably. Meanwhile, owing to entry from other industries in addition to our competitors on the back of rising demand for accommodation, the competitive environment of the accommodation business is becoming more challenging.

Under such circumstances, the Group continued to strongly attract overseas customers mainly from Asian countries, and the number of inbound guests reached about 920,000, an increase of 11.8% year on year. In particular, the Group focused on attracting foreign individual travelers (FITs), who stay for longer periods and generate higher sales per room compared to group travelers. As a result of this effort, FITs accounted for approximately 80% of all inbound guests, and the accommodation business, mainly the WHG Business, continued a strong performance. In addition to the existing businesses, we newly started the glamping (*) business and opened Fujino Kirameki Fuji Gotemba (20 cabins) in Gotemba City, Shizuoka Prefecture on April 27.

During the six months ended June 30, 2018, Hakone Kowakien Ten-yu (150 rooms), which opened in April 2017, and Hotel Gracery Kyoto Sanjo South (128 rooms) operated for a full year. Meanwhile, affected by the closing of Hakone Hotel Kowakien on January 10, 2018 and Hotel Azur Takeshiba for which the management contract was terminated in March 2017, net sales for the entire Group amounted to ¥33,591 million, a decrease of ¥227 million year on year. Furthermore, operating loss deteriorated by ¥223 million year on year to ¥64 million, ordinary loss deteriorated by ¥285 million year on year to ¥29 million, and loss attributable to owners of parent improved by ¥566 million year on year to ¥32 million, partly due to anticipatory expenses incurred in connection with hotels scheduled to be opened this year and new businesses, in addition to expenses associated with the renovation of existing hotels. However, the profit levels were above initial projections. Operating profit before depreciation, which the Group has established as a key indicator, decreased by ¥174 million year on year to ¥2,754 million.

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

The overview of business results is as follows.

For details of comparison with business results forecast, please see “Notice Concerning Differences between Business Results Forecast and Actual Results for the Six Months Ended June 30, 2018” announced today (August 7, 2018).

(Million yen)

	Actual results for the current period	YoY change	Difference from forecasts
Net sales	33,591	(227)	(508)
Operating loss	(64)	(223)	135
Ordinary loss	(29)	(285)	170
Loss attributable to owners of parent	(32)	566	167

Operating profit before depreciation	2,754	(174)	(45)

The overview of business results by segment is as follows.

WHG Business

The WHG Business strived to maximize sales by attracting inbound guests and gaining repeat guests. With regard to inbound guests, the Group focused also on attracting guests from Europe, the U.S. and Australia in addition to East Asia and Southeast Asia. As a result of this effort, use by FITs increased. Regarding the “Fujita Kanko Group Members Card WAON,” a membership organization for Group customers, the number of members surpassed 480,000, including approximately 75,000 foreign customers while we pushed ahead with initiatives to gain repeat guests.

In the accommodation business, Hotel Gracery Kyoto Sanjo South, which opened in May 2017, operated for a full year and contributed to business results. In addition, with regard to existing hotels, room occupancy and sales per room were at high levels mainly in the Shinjuku area that strongly attracted inbound guests as well as at regional facilities that appropriately incorporated the trend of spreading out inbound customers. Sales per room was strong, increasing 2.0% year on year overall, 1.0% for hotels in the Tokyo metropolitan area, and 4.1% for regional hotels.

As a result, net sales for this segment increased by ¥659 million year on year to ¥17,743 million and operating profit (segment income) increased by ¥81 million year on year to ¥1,116 million as the rise in sales per room, among other things, offset the expenses associated with the renovation of existing hotels and anticipatory expenses associated with hotels that are scheduled to open this year.

Resort Business

In the Resort Business, while Hakone Kowakien Ten-yu, a new flagship facility which opened in April 2017 as part of the redevelopment of Hakone Kowakien, operated for a full year, Hakone Hotel Kowakien closed business in January of this year. Hakone Kowakien Ten-yu is shifting from the services for groups and families that were previously provided by Hakone Hotel Kowakien to a business model that provides high added value products and services to individual travelers from Japan and overseas.

In the accommodation business, at Hakone Kowakien Ten-yu, we conducted operation focused on enhancing customer satisfaction, and room occupancy also was higher than initially forecasted due to the attraction of customers from Japan and overseas. Although net sales in the accommodation business overall decreased by ¥328 million year on year to ¥1,920 million due to the impact from closing of business of Hakone Hotel Kowakien, operating profit before depreciation was higher than the previous-year level.

In the leisure business, at Hakone Kowakien Yunessun, given the larger-than-expected impact of the closing of business of Hakone Hotel Kowakien, net sales decreased by ¥90 million year on year to ¥547 million owing to a decrease in the number of visitors.

As a result, net sales for this segment decreased by ¥420 million year on year to ¥2,637 million, although operating loss (segment loss) improved by ¥37 million to ¥706 million due to the improvement of the profit structure of the accommodation business.

Luxury & Banquet Business

In the wedding business, at Hotel Chinzanso Tokyo and Taikoen in Osaka Prefecture, sales per service used improved owing to product enhancement including reconsidering the menu of dishes, in addition to capturing demand for Japanese-style weddings. The new shrine built within the garden of Hotel Chinzanso Tokyo in November 2017 is well received by customers but was unable to curb the downward trend in the number of weddings and the number of customers for the six months ended June 30, 2018. At Share Clapping Fukuoka, which commenced operation in May 2017 as a measure to develop the wedding business, we utilized the wedding production capability that is a success factor at Share Clapping in Hiroshima, and proceeded with initiatives to make a strategic shift in order to capture new customers who generate high unit sales. However, such initiatives currently constitute one of the factors behind the decrease in profit. In addition, in April of this year the Group started operation of a new wedding facility, OPERA DOMAINE KOURAIBASHI (Osaka Prefecture). Due to the factors above, net sales in the wedding business decreased by ¥113 million year on year to ¥5,282 million.

In the banquet business, although we strongly captured MICE accommodation demand at Hotel Chinzanso Tokyo mainly by utilizing the large banquet hall Orion, which was renovated in August 2017, there were few large-scale projects from overseas to be carried out in Japan this year. Domestic MICE accommodation demand compensated for this weakness, and net sales decreased by ¥97 million year on year to ¥2,681 million.

As a result, net sales for this segment, including the golf business, decreased by ¥469 million year on year to ¥11,909 million, and operating loss deteriorated by ¥217 million year on year to ¥39 million, partly due to the impact of the termination of the management contract for Hotel Azur Takeshiba.

(2) Explanation of Financial Position

1) Assets, liabilities and net assets

Total assets as of June 30, 2018 decreased by ¥4,094 million from the end of the previous fiscal year to ¥103,267 million. Current assets decreased by ¥1,782 million mainly due to a decrease of ¥1,111 million in cash and deposits, and non-current assets decreased by ¥2,311 million, reflecting a decrease in investments and other assets due to a fall in market prices of investment securities.

Liabilities decreased by ¥1,573 million from the end of the previous fiscal year to ¥78,151 million. This was mainly due to a decrease in income taxes payable of ¥859 million due to the payment of income taxes, and a decrease in accounts payable of ¥434 million due to the payment of construction expenses. The total amount of loans payable as of June 30, 2018 was ¥46,561 million, a decrease of ¥136 million from the end of the previous fiscal year.

Net assets decreased by ¥2,520 million from the end of the previous fiscal year to ¥25,116 million. Valuation difference on available-for-sale securities decreased by ¥2,026 million, while retained earnings decreased by ¥511 million due to recording of loss attributable to owners of parent and payment of dividends.

2) Cash flows

Cash and cash equivalents as of June 30, 2018 amounted to ¥3,193 million, down ¥1,110 million from the end of the previous fiscal year.

i) Cash flows from operating activities

Net cash provided by operating activities was ¥2,198 million, an increase of ¥1,322 million compared with the same period of the previous fiscal year. This was due to refunded consumption taxes, despite deterioration in operating profit of ¥223 million.

ii) Cash flows from investing activities

Net cash used in investing activities was ¥2,636 million, a decrease of ¥3,880 million compared with the same period of the previous fiscal year. This was due to cash outflows made last year associated with large-scale investments such as Hakone Kowakien Ten-yu and Hotel Gracery Kyoto Sanjo South, compared with cash outflows for room renovation of existing facilities and purchase of property, plant, equipment and intangible assets associated with new openings such as Fujino Kirameki Fuji Gotemba in the glamping business.

iii) Cash flows from financing activities

Net cash used in financing activities was ¥645 million, a decrease of ¥6,240 million compared with the same period of the previous fiscal year. As stated earlier, this was due to cash outflows associated with large-scale investments in the previous year.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The explanation of consolidated financial results forecast and other forward-looking information is as stated in "Notice Concerning Differences between Business Results Forecast and Actual Results for the Six Months Ended June 30, 2018, 3. Full-Year Results Forecast" announced today (August 7, 2018).

In the WHG Business, in addition to the scheduled opening of Hotel Gracery Seoul (335 rooms) and Hotel Gracery Asakusa (125 rooms) on August 31 and October 4, respectively, existing facilities, too, continued to perform well. In the Resort Business, we are attracting customers mainly by enhancing notification of events for the busy summer season, and expect a performance that is generally in line with the initial forecast.

Meanwhile, in the Luxury & Banquet Business, a downward revision from the initial forecast was made based on the weakness in the wedding business in the first half and the status of reservations in the second half. However, at Hotel Chinzanso Tokyo, the number of weddings in the second half was flat year on year, and partly as a result of efforts to capture demand for Japanese-style weddings using the new shrine built within the garden in November 2017, the downward trend in the number of weddings has recently been curbed. In the next fiscal year and thereafter, we will work to capture demand.

Consequently, although there are currently some variations in segments, on a consolidated basis there is no change to the forecast announced on February 13, 2018. If it becomes necessary to revise the forecast according to performance or changes in the situation in the future, the Company will announce such revisions promptly.

Forecast for the consolidated business results and business results by segment for the fiscal year ending December 31, 2018 is as follows.

(Million yen)

	First half Six months ended June 30, 2018 (January to June)		Second half (July to December)		Full year (January to December)	
	Actual (Announced on August 7)	Difference from initial forecast (Announced on February 13)	Revised forecast (Announced on August 7)	Difference from initial forecast (Announced on February 13)	Revised forecast (Announced on August 7)	Difference from initial forecast (Announced on February 13)
Net sales	33,591	(508)	38,409	508	72,000	-
WHG Business	17,743	293	20,077	587	37,820	880
Resort Business	2,637	(172)	3,613	63	6,250	(110)
L&B Business (*1)	11,909	(620)	13,171	(129)	25,080	(750)
Other	2,681	(48)	3,019	28	5,700	(20)
Adjustment amounts (*2)	(1,380)	39	(1,470)	(39)	(2,850)	-
Operating profit	(64)	135	2,364	(135)	2,300	-
WHG Business	1,116	446	1,984	124	3,100	570
Resort Business	(706)	(76)	256	(4)	(450)	(80)
L&B Business (*1)	(39)	(259)	489	(211)	450	(470)
Other	(381)	28	(319)	(49)	(700)	(20)
Adjustment amounts (*2)	(54)	(4)	(46)	4	(100)	-
Ordinary profit	(29)	170	2,330	(170)	2,300	-
Profit attributable to owners of parent	(32)	167	1,332	(167)	1,300	-

*1 L&B Business: Luxury & Banquet Business

*2 Adjustment amounts: Refers to the elimination of inter-segment transactions and corporate expenses not allocated to any reportable segment.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	4,381	3,270
Notes and accounts receivable - trade	4,959	4,971
Merchandise and finished goods	62	51
Work in process	132	34
Raw materials and supplies	526	386
Other	2,653	2,215
Allowance for doubtful accounts	(38)	(33)
Total current assets	12,678	10,895
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,126	41,799
Tools, furniture and fixtures, net	6,155	5,989
Land	11,946	12,286
Construction in progress	425	446
Golf courses	2,416	2,416
Other, net	969	967
Total property, plant and equipment	64,041	63,905
Intangible assets		
Goodwill	280	260
Other	626	521
Total intangible assets	906	781
Investments and other assets		
Investment securities	19,538	16,574
Other	10,222	11,134
Allowance for doubtful accounts	(24)	(24)
Total investments and other assets	29,735	27,685
Total non-current assets	94,684	92,372
Total assets	107,362	103,267

(Million yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,660	1,326
Short-term loans payable	2,985	5,092
Current portion of long-term loans payable	8,907	8,720
Income taxes payable	1,071	211
Provision for bonuses	197	166
Provision for directors' bonuses	7	3
Provision for point card certificates	121	152
Provision for loss on business withdrawal	–	430
Other	7,037	6,907
Total current liabilities	21,988	23,013
Non-current liabilities		
Long-term loans payable	34,805	32,748
Provision for directors' retirement benefits	117	98
Provision for loss on business withdrawal	530	–
Net defined benefit liability	9,425	9,489
Deposits received from members	10,838	10,789
Other	2,018	2,012
Total non-current liabilities	57,736	55,138
Total liabilities	79,724	78,151
Net assets		
Shareholders' equity		
Capital stock	12,081	12,081
Capital surplus	5,431	5,431
Retained earnings	5,927	5,416
Treasury shares	(929)	(929)
Total shareholders' equity	22,511	21,999
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,113	3,087
Deferred gains or losses on hedges	(78)	(68)
Foreign currency translation adjustment	(19)	(20)
Remeasurements of defined benefit plans	(99)	(88)
Total accumulated other comprehensive income	4,916	2,909
Non-controlling interests	209	207
Total net assets	27,637	25,116
Total liabilities and net assets	107,362	103,267

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended June 30

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Net sales	33,818	33,591
Cost of sales	31,343	31,320
Gross profit	2,474	2,270
Selling, general and administrative expenses	2,316	2,335
Operating profit (loss)	158	(64)
Non-operating income		
Interest income	2	2
Dividend income	345	343
Land and house rent received	26	40
Other	106	84
Total non-operating income	481	470
Non-operating expenses		
Interest expenses	270	269
Share of loss of entities accounted for using equity method	14	36
Other	98	129
Total non-operating expenses	383	435
Ordinary profit (loss)	255	(29)
Extraordinary income		
Compensation income	–	103
Release from memberships deposits obligation	25	14
State subsidy	–	3
Gain on sales of non-current assets	–	2
Gain on sales of shares of subsidiaries and associates	199	–
Gain on sales of investment securities	165	–
Total extraordinary income	389	124
Extraordinary losses		
Provision for loss on business withdrawal	–	24
Impairment loss	1,118	19
Loss on sales of non-current assets	3	–
Special maintenance repairs of idle equipment	2	–
Total extraordinary losses	1,124	44
Profit (loss) before income taxes	(478)	50
Income taxes	116	79
Loss	(594)	(29)
Profit attributable to non-controlling interests	3	3
Loss attributable to owners of parent	(598)	(32)

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Loss	(594)	(29)
Other comprehensive income		
Valuation difference on available-for-sale securities	(827)	(2,024)
Deferred gains or losses on hedges	–	9
Foreign currency translation adjustment	(3)	(1)
Remeasurements of defined benefit plans, net of tax	8	10
Share of other comprehensive income of entities accounted for using equity method	0	(2)
Total other comprehensive income	(821)	(2,006)
Comprehensive income	(1,416)	(2,035)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,419)	(2,038)
Comprehensive income attributable to non-controlling interests	3	3

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Cash flows from operating activities		
Profit (loss) before income taxes	(478)	50
Depreciation	2,291	2,427
Impairment loss	1,118	19
Amortization of goodwill	20	23
Increase (decrease) in allowance for doubtful accounts	(7)	(4)
Increase (decrease) in provision for directors' retirement benefits	12	(18)
Increase (decrease) in provision for bonuses	0	(31)
Increase (decrease) in provision for directors' bonuses	(6)	(4)
Increase (decrease) in provision for point card certificates	26	30
Increase (decrease) in provision for loss on business withdrawal	(59)	(99)
Increase (decrease) in net defined benefit liability	40	79
Interest and dividend income	(347)	(345)
Interest expenses	270	269
Foreign exchange losses (gains)	(1)	60
Share of (profit) loss of entities accounted for using equity method	14	36
Loss (gain) on sales of non-current assets	3	(2)
Loss on retirement of non-current assets	15	45
Loss (gain) on sales of short-term and long-term investment securities	(165)	–
Compensation income	–	(103)
Loss (gain) on sales of shares of subsidiaries and associates	(199)	–
Release from memberships deposits obligation	(25)	(14)
Decrease (increase) in notes and accounts receivable - trade	330	(11)
Decrease (increase) in inventories	115	250
Increase (decrease) in notes and accounts payable - trade	(323)	(333)
Increase (decrease) in accrued consumption taxes	(600)	442
Other, net	(965)	197
Subtotal	1,079	2,962
Interest and dividend income received	356	354
Interest expenses paid	(277)	(267)
Income taxes paid	(284)	(955)
Proceeds from compensation	–	103
Net cash provided by (used in) operating activities	875	2,198

(Million yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(6,563)	(2,580)
Proceeds from sales of property, plant and equipment and intangible assets	–	2
Proceeds from sales of investment securities	119	–
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(77)	–
Payments into time deposits	(0)	(0)
Payments for guarantee deposits	(12)	(41)
Proceeds from collection of guarantee deposits	23	12
Other, net	(5)	(30)
Net cash provided by (used in) investing activities	(6,516)	(2,636)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,760	2,107
Proceeds from long-term loans payable	8,059	2,230
Repayments of long-term loans payable	(3,720)	(4,473)
Proceeds from sales of treasury shares	0	–
Purchase of treasury shares	(1)	(0)
Cash dividends paid	(478)	(478)
Dividends paid to non-controlling interests	(6)	(4)
Repayments of finance lease obligations	(16)	(14)
Other, net	(2)	(10)
Net cash provided by (used in) financing activities	5,595	(645)
Effect of exchange rate change on cash and cash equivalents	(3)	(26)
Net increase (decrease) in cash and cash equivalents	(49)	(1,110)
Cash and cash equivalents at beginning of period	4,704	4,304
Cash and cash equivalents at end of period	4,654	3,193