Consolidated Financial Results
for the Fiscal Year Ended December 31, 2019
[Japanese GAAP]

February 14, 2020

Company name: FUJITA KANKO INC.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9722
URL: https://www.fujita-kanko.co.jp/
Representative: Yoshihiro Ise, Representative Director and President, Executive Officer
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Scheduled date of Ordinary General Meeting of Shareholders: March 26, 2020
Scheduled date of filing annual securities report: March 26, 2020
Scheduled date of commencing dividend payments: March 27, 2020
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, 2019 (January 1, 2019 to December 31, 2019)

(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, 2019	68,960	(0.5)	280	(74.5)	401	(63.7)	(285)	-
Fiscal year ended December 31, 2018	69,285	(1.9)	1,099	(44.9)	1,105	(46.0)	556	(66.7)

(Note) Comprehensive income: Fiscal year ended December 31, 2019: ¥2,239 million [-%]
Fiscal year ended December 31, 2018: ¥(2,426) 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, 2019	(23.82)	-	(1.1)	0.4	0.4
Fiscal year ended December 31, 2018	46.46	-	2.1	1.1	1.6

(Reference) Profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2019: ¥8 million
Fiscal year ended December 31, 2018: ¥30 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2019	103,271	26,438	25.4	2,192.09
As of December 31, 2018	102,045	24,724	24.0	2,045.65

(Reference) Equity: As of December 31, 2019: ¥26,263 million
As of December 31, 2018: ¥24,509 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, 2019	4,946	(3,496)	(1,467)	3,348
Fiscal year ended December 31, 2018	5,428	(4,324)	(1,880)	3,388

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, 2018	-	0.00	-	40.00	40.00	479	86.1	1.9
Fiscal year ended December 31, 2019	-	0.00	-	30.00	30.00	359	-	1.4
Fiscal year ending December 31, 2020 (Forecast)	-	0.00	-	30.00	30.00		89.9	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(% 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									
Initial plan	33,200		(1,300)		(1,300)		(900)		
* Amount of impact	(1,200)		(1,000)		(1,000)		(700)		
Revised forecast	32,000	(1.2)	(2,300)	-	(2,300)	-	(1,600)	-	(75.12)
Full year									
Initial plan	72,200		1,600		1,600		1,100		
* Amount of impact	(1,200)		(1,000)		(1,000)		(700)		
Revised forecast	71,000	3.0	600	114.1	600	49.6	400	-	33.39

* We have factored into the forecast the amount of impact expected from the recently developing Novel Coronavirus, by subtracting such amount from the initially planned forecast. While we have established the amount of impact from the Novel Coronavirus under the assumption that inbound travel demand from China will continue to decline for approximately three months as a result, this may vary depending on the situation, going forward.

*** 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: Yes
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, 2019: 12,207,424 shares
December 31, 2018: 12,207,424 shares

2) Total number of treasury shares at the end of the period:
December 31, 2019: 226,406 shares
December 31, 2018: 226,108 shares

3) Average number of shares during the period:
Fiscal year ended December 31, 2019: 11,981,210 shares
Fiscal year ended December 31, 2018: 11,981,630 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2019 (January 1, 2019 to December 31, 2019)

(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, 2019	48,443	(1.5)	1	(98.3)	673	25.0	225	(61.7)
Fiscal year ended December 31, 2018	49,179	(4.0)	112	(80.5)	538	(42.3)	587	(46.1)

	Profit per share	Diluted profit per share
	Yen	Yen
Fiscal year ended December 31, 2019	18.77	-
Fiscal year ended December 31, 2018	49.03	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2019	100,948	24,590	24.4	2,051.44
As of December 31, 2018	99,091	22,425	22.6	1,870.80

(Reference) Equity: As of December 31, 2019: ¥24,590 million
As of December 31, 2018: ¥22,425 million

* 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

In the business environment surrounding the Group during the fiscal year ended December 31, 2019, while the Japanese inbound travel market remained strong, competition intensified along with the acceleration of new entrants to the hotel business from different industries, in addition to competitors. Moreover, as well as a reduction in the number of guests from South Korea, natural disasters also occurred, including a large typhoon.

The Group advanced its five-year medium-term management plan, which ended in fiscal year 2019, while reviewing changes in the business environment and confirming the progress of measures for each segment, and making revisions as necessary.

During the fiscal year ended December 31, 2019, in order to capture inbound demand for accommodation, in July we opened the Hotel Gracery Osaka Namba (170 rooms) in the Namba area of Osaka, which is popular for tourism and leisure activities, while in August we opened the HOTEL TAVINOS HAMAMATSUCHO (188 rooms) as a new WHG Business brand. With the Hotel Gracery Asakusa (125 rooms) operating for a full year after being opened in 2018, the number of inbound guests across the Group increased by 1.6% year on year to roughly 1,900,000.

In addition, we worked to expand our hotel business domain. For example, in July we opened the Hakujukan, Shinzen-no-yado, Eihei-ji Temple (18 rooms), an accommodation facility that allows guests to experience the world of Zen, in Fukui Prefecture, while in November we opened the ISORAS CIKARANG service apartment (214 rooms), in an industrial park area on the outskirts of Jakarta, Indonesia.

In order to improve the profitability of these diversifying businesses within the Group, in March we established the new Marketing Group to offer cross-sectional sales support that crosses business boundaries, thereby strengthening our sales capabilities.

In the first half of the fiscal year ended December 31, 2019, the Hotel Gracery Seoul (336 rooms) and the Hotel Gracery Asakusa, which opened in 2018, operated for the full year, and strongly attracted inbound customers.

However, in the second half of the fiscal year, in addition to a drop in sales per room at some hotels that accompanied the opening of competing hotels, and the impact from the above-mentioned substantial drop in South Korean guests and the large typhoon, the ongoing slump in the wedding and banquet businesses also led to a downward revision by the Group of its initial consolidated financial results forecast for the fiscal year.

As a result, net sales for the entire Group in the fiscal year ended December 31, 2019 decreased ¥324 million year on year to ¥68,960 million. In addition, operating profit decreased ¥819 million year on year to ¥280 million, and ordinary profit decreased ¥704 million year on year to ¥401 million, due to factors including anticipatory expenses associated with the opening of new hotels and the development of new brands. Loss attributable to owners of parent deteriorated ¥842 million year on year to ¥285 million, due in part to the recording of restoration expenses resulting from typhoon damage.

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	68,960	(324)	(0.5)%
Operating profit	280	(819)	(74.5)%
Ordinary profit	401	(704)	(63.7)%
Loss attributable to owners of parent	(285)	(842)	-

Sales and operating profit by segment

(Million yen)

	Net sales		Operating profit	
	Actual	YoY change	Actual	YoY change
WHG Business	37,638	701	1,969	(873)
Resort Business	5,533	(194)	(695)	201
Luxury & Banquet Business	22,949	(1,032)	(42)	(96)
Other (including adjustment amounts)	2,838	200	(951)	(50)
Total	68,960	(324)	280	(819)

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, while focusing on attracting customers from Europe, the U.S. and Australia in addition to customers from East Asia and Southeast Asia, strived to expand its hotel business domain both in Japan and overseas, opening the HOTEL TAVINOS HAMAMATSUCHO, the first of the new TAVINOS brand hotels targeting young inbound guests, as well as the ISORAS CIKARANG service apartment on the outskirts of Jakarta, Indonesia.

Meanwhile, in regard to existing hotels in Japan, competing hotels opened and competition to attract inbound guests to replace those from South Korea intensified. In order to secure sales, we set flexible sales prices and strengthened sales to the inbound markets of China, Europe, the U.S. and Australia. Accordingly, although the sales per room overall in this segment decreased year on year, the room occupancy rate increased by 0.5% year on year.

As a result, net sales for this segment increased by ¥701 million year on year to ¥37,638 million due to the opening of the above-mentioned Hotel Gracery Osaka Namba as well as the full-year operation of the Hotel Gracery Seoul and the Hotel Gracery Asakusa, which opened in 2018, despite the presence of a decreasing factor due to the Fujita Kanko Washington Hotel Asahikawa (260 rooms), which terminated operation in September 2018. However, operating profit (segment income) decreased by ¥873 million year on year to ¥1,969 million, due to factors including opening expenses for new hotels and anticipatory expenses associated with the development of new brands.

2) Resort Business

At Hakone Kowakien, a main facility in the Resort Business, the nearby Owakudani eruption warning level was raised to 2 in May (and lowered back to 1 in October). Moreover, a series of natural disasters occurred in September and October, including large typhoons, which resulted in damage.

At Hakone Kowakien Ten-yu, although booking cancellations occurred temporarily due to the impact of natural disasters, the room occupancy rate maintained a level equal to that of the previous year due to attracting more customers among inbound visitors on weekdays. In addition to productivity improvements achieved by enabling multi-tasking by staff, we changed our breakfast to buffet style, and were successful in our efforts to prioritize customer satisfaction and quality improvements. Accordingly, accommodation unit prices increased by 3.1% year on year.

Overall net sales in the accommodation business decreased by ¥245 million year on year to ¥3,701 million mainly due to the impact of natural disasters, despite a year on year increase at Hakone Kowakien Ten-yu.

Meanwhile, overall net sales in the day trip and leisure business, including the Shimoda Aquarium, increased by ¥32 million year on year to ¥1,475 million as a result of measures taken at the Hakone Kowakien Yunessun, such as enhancing media exposure together with placing the restaurants under direct management and reviewing admission fees.

As a result, net sales for this segment decreased by ¥194 million year on year to ¥5,533 million and operating loss (segment loss) improved by ¥201 million year on year to ¥695 million.

3) Luxury & Banquet Business

In the wedding business of the Luxury & Banquet Business, despite successes in sales of 60th anniversary plans and enhanced announcements of the renewal of the chapel at Taikoen, the downward trend in the number of weddings and guests continued at Hotel Chinzanso Tokyo, and overall net sales decreased by ¥683 million year on year to ¥10,320 million.

In the banquet business, while we continued to revise the organization and strengthen the sales structure at Hotel Chinzanso Tokyo on an ongoing basis, overall net sales decreased by ¥176 million year on year to ¥4,904 million, due to a decrease in users.

In the accommodation business, due to attracting more, mainly individual customers from Japan and overseas, together with a focus on enhancing quality at the Hotel Chinzanso Tokyo, we were able to maintain the room occupancy rate at a level equal to that of the previous year, and increase sales per room by 7.2% year on year, resulting in an increase in net sales of ¥75 million year on year to ¥2,279 million.

As a result, net sales for this segment, including the golf business, decreased by ¥1,032 million year on year to ¥22,949 million and operating loss (segment loss) deteriorated by ¥96 million to ¥42 million.

(Outlook for Next Fiscal Year)

The Group has formulated a five-year medium-term management plan which will begin in fiscal year 2020. Under the slogan of "self-reformation and challenges," the first half will be a stage for "foundation strengthening," in which investment will take priority. However, within three years, we will complete our structural reforms and, from the fourth year onwards, aim to increase profit.

In fiscal year 2020, the first year of the five-year medium-term management plan, we can expect to see increased tourism demand triggered by the Tokyo Olympic and Paralympic Games. Meanwhile, however, the accommodation business is expected to experience intensifying price competition in oversupplied areas. Furthermore, due to an increase in natural disaster risks as a result of extraordinary weather conditions and the impact from the recent Novel Coronavirus, we recognize that the future situation is extremely uncertain.

Under such circumstances, in the WHG Business, in addition to effects from the full-year operation of the Hotel Gracery Osaka Namba and the HOTEL TAVINOS HAMAMATSUCHO, opened in 2019, the Group will aim to maximize profit through enhanced productivity by strengthening sales methods and introducing new systems. In the Luxury & Banquet Business, the Group will work to enhance quality at the Hotel Chinzanso Tokyo as the first priority, as well as develop a product strategy that is easy to understand for customers and strengthen the functions of our main wedding and banquet businesses. In the Resort Business, while proceeding with preparations for the opening of the new Hakone Kowakien hotel, which is planned for 2023, the Group will aim to further enhance customer satisfaction and productivity at our existing facilities (Ten-yu and Yunessun) and construct business foundations for Hakone.

As a result of the above, the financial results forecast for fiscal year 2020 is as follows. Taking into account the recently developing Novel Coronavirus, we forecast the amount of its impact to be, on an overall consolidated basis, a decrease of ¥1.2 billion in net sales and a decrease of ¥1.0 billion in operating profit (by segment: a decrease of ¥0.98 billion in net sales and a decrease of ¥0.85 billion in operating profit for the WHG Business; a decrease of ¥0.07 billion in net sales and a decrease of ¥0.05 billion in operating profit for the Luxury & Banquet Business; and a decrease of ¥0.15 billion in net sales and a decrease of ¥0.1 billion in operating profit for the Resort Business). In addition, while we have established the amount of impact from the Novel Coronavirus under the assumption that inbound travel demand from China will continue to decline for approximately three months as a result, this may vary depending on the situation going forward.

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

Consolidated business results forecast for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(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	Initial plan	33,200	(1,300)	(1,300)	(900)	72,200	1,600	1,600	1,100
	* Amount of impact	(1,200)	(1,000)	(1,000)	(700)	(1,200)	(1,000)	(1,000)	(700)
	Revised forecast	32,000	(2,300)	(2,300)	(1,600)	71,000	600	600	400

* We have factored into the forecast the amount of impact expected from the recently developing Novel Coronavirus, by subtracting such amount from the initially planned forecast. While we have established the amount of impact from the Novel Coronavirus under the assumption that inbound travel demand from China will continue to decline for approximately three months as a result, this may vary depending on the situation, going forward.

Business results forecast by segment

(Note) In accordance with organizational changes from fiscal year 2020, we have made partial changes to the segments to which sales facilities belong, and have prepared the following business results forecast by segment using the divisions after such changes.

(Million yen)

	First half (total)				Full year			
	Net sales		Operating profit		Net sales		Operating profit	
	Revised forecast	YoY change	Revised forecast	YoY change	Revised forecast	YoY change	Revised forecast	YoY change
WHG Business	17,300	(1,094)	(550)	(1,597)	38,850	1,220	2,450	195
Luxury & Banquet Business	10,600	(414)	(400)	(185)	22,600	211	(50)	15
Resort Business	2,500	(181)	(750)	(115)	5,800	9	(750)	189
Total	30,400	(1,690)	(1,700)	(1,898)	67,250	1,441	1,650	399
Other	2,900	33	(550)	(223)	6,350	446	(950)	(91)
Adjustment amounts (*)	(1,300)	51	(50)	(23)	(2,600)	151	(100)	11
Consolidated total	32,000	(1,605)	(2,300)	(2,146)	71,000	2,039	600	319

* 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, 2019 increased by ¥1,225 million from the end of the previous fiscal year to ¥103,271 million. While current assets decreased by ¥399 million, in non-current assets, property, plant and equipment decreased by ¥1,354 million, while investments and other assets increased by ¥2,877 million, mainly due to appreciation in the market price of investment securities.

Liabilities decreased by ¥488 million from the end of the previous fiscal year to ¥76,832 million. This was mainly due to loans payable decreasing by ¥904 million, while we recorded a provision for loss on disaster. The total amount of loans payable as of December 31, 2019 was ¥44,469 million.

Net assets increased by ¥1,713 million from the end of the previous fiscal year to ¥26,438 million. While retained earnings decreased by ¥764 million, valuation difference on available-for-sale securities increased by ¥2,419 million.

(3) Overview of Cash Flows for Current Fiscal Year

Cash and cash equivalents as of December 31, 2019 amounted to ¥3,348 million, down ¥39 million from the end of the previous fiscal year.

i) Cash flows from operating activities

Net cash provided by operating activities was ¥4,946 million (a decrease of ¥481 million compared with the previous fiscal year). This was due to depreciation of ¥4,934 million and the recording of a provision without any cash out occurring during the fiscal year under review, despite recording a loss before income taxes of ¥521 million.

ii) Cash flows from investing activities

Net cash used in investing activities was ¥3,496 million (a decrease of ¥827 million compared with the previous fiscal year). As a result of investments aimed at enhancing quality, such as the renovation of guest rooms and banquet halls of our existing facilities, in addition to investments accompanying the new opening of ISORAS CIKARANG and other hotels, cash outflows for the purchase of property, plant, equipment and intangible assets were ¥3,846 million.

iii) Cash flows from financing activities

Net cash used in financing activities was ¥1,467 million (a decrease of ¥413 million compared with the previous fiscal year). This was mainly due to repayments of loans payable of ¥885 million, and cash dividends paid of ¥482 million.

(Reference) Historical cash flow indicators

	FY2015	FY2016	FY2017	FY2018	FY2019
Years of debt redemption (years)	-	7.4	8.5	8.4	9.0
Interest coverage ratio (times)	-	11.0	10.0	10.2	9.7

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 ¥30 per share of the Company's common stock. The dividend for the next fiscal year is planned to be ¥30 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, 2020, and risk factors related to business are not limited to these items.

1) Stock price fluctuations

The Group owns ¥18,400 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 ¥61,400 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 ¥69,500 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 ¥1,700 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 ¥44,400 million of loans payable as of the end of the current fiscal year, ¥7,200 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.

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

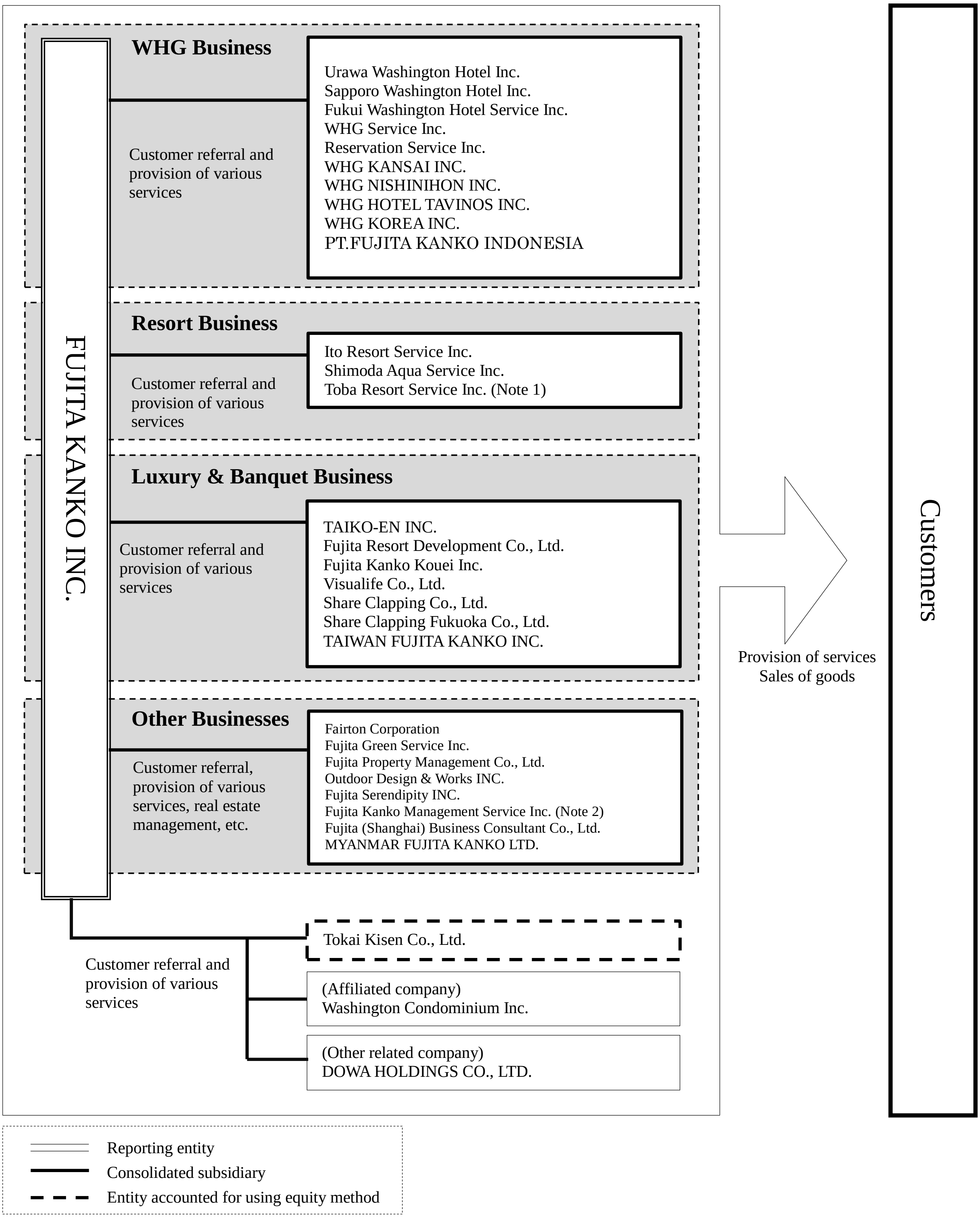
The Group consists of FUJITA KANKO INC., 28 consolidated subsidiaries, 2 affiliated companies, and 1 other related company. The Group engages in WHG Business, Resort Business, and Luxury & Banquet Business as the main businesses and provides various services related to each business.

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

		Main businesses	Major affiliates, etc. (Note)
Reportable segment	WHG Business	Hotel business emphasis on accommodations	Total of 10 companies including FUJITA KANKO INC. (the Company) and Urawa Washington Hotel Inc.
	Resort Business	Resort hotel/leisure business	Total of 3 companies including FUJITA KANKO INC. (the Company) and Ito Resort Service Inc.
	Luxury & Banquet Business	Wedding/banquet/restaurant/hotel/golf/flower arrangement/garden management/imaging businesses	Total of 7 companies including FUJITA KANKO INC. (the Company) and TAIKO-EN INC.
Other Businesses		Cleaning and maintenance/real estate management/management contract businesses	Total of 8 companies including FUJITA KANKO INC. (the Company) and Fairton Corporation

(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. Toba Resort Service Inc. is inactive as of the end of the current fiscal year.
2. Fujita Kanko Management Service Inc. is inactive as of the end of the current fiscal year.
3. Fujita Kanko Washington Hotel Asahikawa Kabushiki Kaisha completed liquidation during 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

The Group, in FUJITA PREMIUM VALUE CREATION 2015, its five-year medium-term management plan from 2015 to 2019, has worked towards its overall strategies of 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; and III. Creating fulfilling workplaces where diversified human resources can play an active role. In 2017, midway through the plan, we reexamined the plan and, although no major changes were made to the overall strategies, we revised the measures and numerical targets of the plan. However, in addition to continued sluggishness in the wedding business and delays in the monetization of new facilities, ongoing sluggish performance over two years due to the impact from natural disasters and relations between Japan and South Korea in 2018 and 2019 has led to inadequate outcomes.

Going forward, in the business environment, we believe that there will be an even higher demand for the ability to respond to diversifying consumer lifestyles, together with a clear separation of winners and losers among hotel businesses in the post-Tokyo Olympic and Paralympic accommodation market due to the fears of oversupply, depending on the region. Moreover, as the responsibilities that are asked of companies in regard to increasingly familiar environmental issues, such as frequent extraordinary weather conditions, continue to increase, the creation of solid business foundations that are less likely to be affected by such external factors is required.

Based on this situation, we have formulated a 10-year long-term vision and a five-year medium-term management plan from 2020 to 2024.

● Long-term vision

"Continue to grow through a unique development of business that closely matches lifestyles, in order to create smiles."

The Group, upon imagining the future after 10 years with regard to business, has taken into consideration the backdrop of a strong demand for engagement with various stakeholders. In order to embody the spirit 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," we believe that it is necessary to deliver clear and consistent messages regarding what companies provide for the benefit of society and, expressing the three following thoughts, we have established our long-term vision.

i) Identify the needs of the age by accompanying the various scenes of our customers' lives
ii) Further evolve and develop business through the addition of new values while protecting the history, culture, and tradition that have been cultivated up to the present
iii) Amid the further diversification of views regarding work and workstyles, aim for a society that leads to customer satisfaction and the happiness of all stakeholders, through all of our employees continuing to grow together with the company while taking pride and confidence in their own work

● Medium-term management plan 2020-2024: Self-reformation and challenges

We have positioned the first half of the medium-term management plan as a stage for "foundation strengthening," in which investment will take priority. However, within three years, we will complete our structural reforms and, from the fourth year onwards, aim to increase profit. The major strategies of the plan are as follows.

I. Reengineering of sales and marketing

In order to enhance customer convenience, the Group will reconstruct its customer information management system and deepen direct bonds with its customers by refurbishing its online booking system, in addition to renewing the "Fujita Kanko Group Members Card WAON," a membership organization for Group customers.

II. Human resource development and productivity enhancement

Together with continuing efforts to "construct systems which enable the active roles of diverse human resources," as a second stage of the reform of work styles, we will also involve ourselves in the work style "quality." While working towards enhancing professional skills such as cooking and hospitality, we will pursue high productivity including the slimming down of indirect divisions through the renewal of our accounting systems, and use all our strength to drastically improve profitability.

III. Reconstruction of business through the revival of the Chinzanso brand

We have placed the reconstruction of Hotel Chinzanso Tokyo, which has experienced sluggish weddings and delays in structural reforms in recent years, as one of the main strategies in our medium-term management plan. By working to enhance quality as a priority and raising the brand value, we are aiming for a transformation to a leaner business structure.

IV. Redevelopment of Hakone Kowakien

Initiating the redevelopment plan for Hakone Kowakien, we will grow the Resort Business into one of the Group's pillars of profitability. In addition to opening a new hotel in 2023 on the site of the former Hakone Hotel Kowakien in order to further enhance attractiveness of overall Hakone Kowakien, through the gradual renovation of the Hakone Kowakien Yunessun together with Hakone Kowakien Ten-yu, it will be reborn into an integrated resort where guests can enjoy hot springs, nature, food, culture and experiences.

V. Expanding the accommodation business domain

We are continually planning new developments with a focus on the WHG Business, which forms the core of the Group's profitability and has been responsible for our growth strategies. Going forward, in addition to focusing on the opening of TAVINOS brand hotels, we will also search for locations that are applicable to the development of Washington Hotel and Hotel Gracery brands.

VI. Promotion of the SDGs (*)

In regard to the promotion of the SDGs, we have thus far performed committee-based activities via a cross-section of the business groups and headquarters departments, as a Board of Directors' advisory body. Going forward, as a successor to the CSR Promotion Office, we will newly establish the SDGs Promotion Office under the direct jurisdiction of the President and Executive Officer, and enhance our eco-cleaning, food waste reduction and other initiatives.

(*) SDGs: Sustainable Development Goals

[Objective indicators for judging the achievement of management goals]

In the medium-term management plan, we have established the following numerical goals.

(Billion yen)

	2019 Actual	Forecast for 2020	Goal for 2022	Goal for 2024
Net sales	68.9	71.0	75.0	79.0
Operating profit	0.2	0.6	2.0	4.0
Operating profit to net sales	0.4%	0.8%	2.7%	5.0%
EBITDA (Operating profit + Depreciation)	5.2	5.7	7.5	9.5
Ordinary profit	0.4	0.6	2.0	4.0
ROE (Profit / Equity)	-	9% or more by 2024		
ROA (Ordinary profit / Total assets)	0.4%	4% or more by 2024		
Capital investment	3.8	¥25.0 billion for accumulated total for five years		
Free cash flow	1.4	¥10.0 billion or more for accumulated total for five years		
Interest-bearing debt	44.4	¥36.0 billion or less by 2024		
D/E Ratio (Interest-bearing debt / Equity)	1.7 times	1.2 times or less by 2024		

In 2021, which is the second year of the plan, we anticipate costs mainly due to new WHG Business openings, the redevelopment of Hakone Kowakien, the reconstruction of business through revival of the Chinzanso brand, and capital investment for the maintenance and repair of existing facilities. However, in 2024, the final year of the plan, we expect an increase in profits due to the effects from the new hotel openings in the WHG Business and at Hakone Kowakien, as well as an improvement of performance at Hotel Chinzanso Tokyo.

As of the end of January, 2020, while we have established numerical goals under the assumption that inbound travel demand from China will continue to decline for approximately three months due to the impact from the Novel Coronavirus, this may vary depending on the situation, going forward.

With regard to the progress management of the medium-term management plan, when setting the annual budget, we will place an emphasis on the medium-term direction, measures to solve each business challenge, and the establishment of a roadmap for achievement and the execution thereof. Upon this, we will manage our progress through the use of various indices that look ahead approximately three years as guidelines, and will roll this system forward while responding to changes in the business environment.

Please see our corporate website for the medium-term management plan.

[Fiscal year 2020 key initiatives for each business]

WHG Business

In order to create a management structure that is less likely to be affected by external factors such as the international political situation, we aim to enhance efficiency by improving productivity through a review of the business models of the Washington Hotel and Hotel Gracery. Moreover, we will enhance profitability and expand net sales by reviewing customer management systems. In addition, regarding TAVINOS, which has been rolled out since last year, we will open the second hotel, the HOTEL TAVINOS ASAKUSA (278 rooms) in June, and going forward are also planning openings in the Kyoto, Okachimachi, Higashi-nihonbashi, and Asakusabashi areas. Together with establishing the business model, we shall continue to develop business in Japan and overseas, along with the above two hotel brands.

Luxury & Banquet Business

We believe that the Tokyo Olympic and Paralympic Games represents a great opportunity for the Hotel Chinzanso Tokyo to heighten the awareness and reputation of the hotel around the world. Accordingly, we are working to enhance quality as the first priority. Furthermore, with the aim of enhancing brand power, we will proceed with the development of a product strategy that is easy to understand for our customers, along with strengthening of the functions of our main wedding and banquet businesses, and will focus on building foundations for generating reliable profits.

Resort Business

The early recovery and restoration from the October 2019 Typhoon Hagibis are the desire of the Hakone area as a whole, and Hakone Kowakien is also working together with the local community. Furthermore, in order to promote the redevelopment plan for Hakone Kowakien, we will start dismantling the Hakone Hotel Kowakien, which terminated operation in January 2018, and push forward with the design of the new hotel. Moreover, at Hakone Kowakien Ten-yu, through hot springs and meals at a restaurant which utilizes a building that is a registered tangible cultural property, which are our strengths, we will pursue customer satisfaction while also attracting a larger number of inbound customers by taking advantage of the Tokyo Olympic and Paralympic Games. At the Hakone Kowakien Yunessun, in addition to building reservable private baths as part of its redevelopment, we will contribute to the revitalization of the entire Hakone area through collaborations with popular anime contents.

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, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	3,464	3,424
Notes and accounts receivable - trade	5,304	5,241
Merchandise and finished goods	52	51
Work in process	48	19
Raw materials and supplies	512	490
Other	2,313	2,062
Allowance for doubtful accounts	(25)	(19)
Total current assets	11,671	11,272
Non-current assets		
Property, plant and equipment		
Buildings and structures	102,667	102,873
Accumulated depreciation	(61,370)	(63,100)
Buildings and structures, net	41,297	39,772
Tools, furniture and fixtures	21,380	22,778
Accumulated depreciation	(15,688)	(17,203)
Tools, furniture and fixtures, net	5,692	5,575
Land	12,283	12,292
Construction in progress	206	411
Golf courses	2,419	2,419
Other	4,713	4,927
Accumulated depreciation	(3,773)	(3,915)
Other, net	939	1,011
Total property, plant and equipment	62,838	61,484
Intangible assets		
Goodwill	240	200
Software	438	549
Other	122	153
Total intangible assets	801	903
Investments and other assets		
Investment securities	15,540	18,611
Guarantee deposits	8,508	8,801
Deferred tax assets	2,315	1,783
Other	392	420
Allowance for doubtful accounts	(23)	(5)
Total investments and other assets	26,734	29,611
Total non-current assets	90,374	91,999
Total assets	102,045	103,271

(Million yen)

	As of December 31, 2018	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,592	1,505
Short-term loans payable	4,440	3,230
Current portion of long-term loans payable	8,675	7,526
Income taxes payable	231	351
Accrued consumption taxes	1,170	470
Provision for bonuses	196	179
Provision for bonuses for directors (and other officers)	8	8
Provision for point card certificates	139	143
Provision for loss on business withdrawal	5	98
Provision for noncurrent assets removal cost	–	473
Provision for loss on disaster	–	315
Other	5,865	6,465
Total current liabilities	22,326	20,768
Non-current liabilities		
Long-term loans payable	32,257	33,711
Provision for retirement benefits for directors (and other officers)	111	103
Retirement benefit liability	9,859	9,676
Deposits received from members	10,799	10,581
Other	1,966	1,990
Total non-current liabilities	54,995	56,063
Total liabilities	77,321	76,832
Net assets		
Shareholders' equity		
Capital stock	12,081	12,081
Capital surplus	5,431	5,431
Retained earnings	6,004	5,240
Treasury shares	(930)	(931)
Total shareholders' equity	22,587	21,821
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,322	4,741
Deferred gains or losses on hedges	(73)	(71)
Foreign currency translation adjustment	(139)	(164)
Remeasurements of defined benefit plans	(187)	(63)
Total accumulated other comprehensive income	1,922	4,442
Non-controlling interests	215	175
Total net assets	24,724	26,438
Total liabilities and net assets	102,045	103,271

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Net sales	69,285	68,960
Cost of sales	63,540	64,226
Gross profit	5,744	4,733
Selling, general and administrative expenses	4,645	4,452
Operating profit	1,099	280
Non-operating income		
Interest income	4	7
Dividend income	399	412
Share of profit of entities accounted for using equity method	30	8
Dividend income of life insurance	79	63
Land and house rent received	89	95
Other	184	166
Total non-operating income	786	755
Non-operating expenses		
Interest expenses	529	508
Loss on retirement of non-current assets	113	58
Foreign exchange losses	86	13
Other	52	54
Total non-operating expenses	780	634
Ordinary profit	1,105	401
Extraordinary income		
Gain on sales of investment securities	–	218
Release from memberships deposits obligation	28	34
State subsidy	3	16
Gain on reversal of provision for loss on business withdrawal	242	–
Compensation income	140	–
Gain on sales of non-current assets	3	–
Other	–	15
Total extraordinary income	418	285
Extraordinary losses		
Provision for removal expenses of noncurrent assets	–	473
Loss on disaster	–	399
Impairment loss	110	195
Provision for loss on business withdrawal	41	104
Loss on business withdrawal	66	23
Special maintenance repairs of idle equipment	12	5
Loss on sales of non-current assets	–	0
Other	0	6
Total extraordinary losses	231	1,207
Profit (loss) before income taxes	1,292	(521)
Income taxes - current	240	293
Income taxes - deferred	484	(535)
Total income taxes	725	(241)
Profit (loss)	567	(280)
Profit attributable to non-controlling interests	10	5
Profit (loss) attributable to owners of parent	556	(285)

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Profit (loss)	567	(280)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,786)	2,417
Deferred gains or losses on hedges	4	2
Foreign currency translation adjustment	(120)	(25)
Remeasurements of defined benefit plans, net of tax	(87)	123
Share of other comprehensive income of entities accounted for using equity method	(4)	1
Total other comprehensive income	(2,993)	2,519
Comprehensive income	(2,426)	2,239
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,437)	2,234
Comprehensive income attributable to non-controlling interests	10	5

(3) Consolidated Statements of Changes in Net Assets
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 (loss) 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 (loss) 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

For the fiscal year ended December 31, 2019 (January 1, 2019 to December 31, 2019)

(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	6,004	(930)	22,587
Changes of items during period					
Dividends of surplus			(479)		(479)
Profit (loss) attributable to owners of parent			(285)		(285)
Purchase of treasury shares		(0)		(1)	(1)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	(0)	(764)	(0)	(765)
Balance at end of current period	12,081	5,431	5,240	(931)	21,821

	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	2,322	(73)	(139)	(187)	1,922	215	24,724
Changes of items during period							
Dividends of surplus							(479)
Profit (loss) attributable to owners of parent							(285)
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	2,419	2	(25)	123	2,519	(40)	2,479
Total changes of items during period	2,419	2	(25)	123	2,519	(40)	1,713
Balance at end of current period	4,741	(71)	(164)	(63)	4,442	175	26,438

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Cash flows from operating activities		
Profit (loss) before income taxes	1,292	(521)
Depreciation	4,864	4,934
Impairment loss	110	195
Amortization of goodwill	43	40
Increase (decrease) in allowance for doubtful accounts	(13)	(23)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(5)	(7)
Increase (decrease) in provision for bonuses	(0)	(19)
Increase (decrease) in provision for bonuses for directors (and other officers)	0	1
Increase (decrease) in provision for point card certificates	17	4
Increase (decrease) in provision for loss on business withdrawal	(524)	93
Increase (decrease) in provision of noncurrent assets removal	–	473
Increase (decrease) in provision for loss on disaster	–	315
Increase (decrease) in retirement benefit liability	307	(5)
Interest and dividend income	(403)	(420)
Interest expenses	529	508
Foreign exchange losses (gains)	86	13
Share of loss (profit) of entities accounted for using equity method	(30)	(8)
Loss (gain) on sales of non-current assets	(3)	0
Loss on retirement of non-current assets	113	58
Loss (gain) on sales of short-term and long-term investment securities	–	(218)
Compensation income	(140)	–
Release from memberships deposits obligation	(28)	(18)
Decrease (increase) in notes and accounts receivable - trade	(346)	61
Decrease (increase) in inventories	109	51
Increase (decrease) in notes and accounts payable - trade	(67)	(87)
Increase (decrease) in accrued consumption taxes	956	(699)
Other, net	(39)	224
Subtotal	6,825	4,945
Interest and dividend income received	412	425
Interest expenses paid	(533)	(511)
Income taxes (paid) refund	(1,416)	86
Proceeds from compensation	140	–
Net cash provided by (used in) operating activities	5,428	4,946

(Million yen)

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(4,391)	(3,846)
Proceeds from sales of property, plant and equipment and intangible assets	3	0
Proceeds from sales of investment securities	–	581
Payments into time deposits	(0)	(0)
Payments for guarantee deposits	(179)	(234)
Proceeds from collection of guarantee deposits	308	27
Other, net	(66)	(24)
Net cash provided by (used in) investing activities	(4,324)	(3,496)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,455	(1,209)
Proceeds from long-term loans payable	6,127	9,000
Repayments of long-term loans payable	(8,907)	(8,675)
Proceeds from sales of treasury shares	0	0
Purchase of treasury shares	(2)	(1)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(42)
Cash dividends paid	(479)	(479)
Dividends paid to non-controlling interests	(4)	(3)
Repayments of finance lease obligations	(28)	(33)
Other, net	(41)	(22)
Net cash provided by (used in) financing activities	(1,880)	(1,467)
Effect of exchange rate change on cash and cash equivalents	(139)	(22)
Net increase (decrease) in cash and cash equivalents	(915)	(39)
Cash and cash equivalents at beginning of period	4,304	3,388
Cash and cash equivalents at end of period	3,388	3,348