

**Consolidated Financial Results
for the Six Months Ended June 30, 2019
[Japanese GAAP]**



August 6, 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 filing quarterly securities report: August 6, 2019

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, 2019 (January 1, 2019 to June 30, 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	%
Six months ended June 30, 2019	33,605	0.0	(153)	-	(64)	-	(131)	-
Six months ended June 30, 2018	33,591	(0.7)	(64)	-	(29)	-	(32)	-

(Note) Comprehensive income: Six months ended June 30, 2019: ¥(237) million [-%]
Six months ended June 30, 2018: ¥(2,035) million [-%]

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended June 30, 2019	(10.98)	-
Six months ended June 30, 2018	(2.68)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	100,378	23,962	23.7
As of December 31, 2018	102,045	24,724	24.0

(Reference) Equity: As of June 30, 2019: ¥23,794 million

As of December 31, 2018: ¥24,509 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, 2018	-	0.00	-	40.00	40.00
Fiscal year ending December 31, 2019	-	0.00			
Fiscal year ending December 31, 2019 (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, 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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	70,300	1.5	900	(18.2)	900	(18.6)	300	(46.1)	25.04

(Note) Revision to the financial results forecast announced most recently: Yes

*** 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: Yes
 - 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, 2019: 12,207,424 shares
December 31, 2018: 12,207,424 shares
 - 2) Total number of treasury shares at the end of the period:
June 30, 2019: 226,153 shares
December 31, 2018: 226,108 shares
 - 3) Average number of shares during the period:
Six months ended June 30, 2019: 11,981,263 shares
Six months ended June 30, 2018: 11,981,725 shares

* 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 4 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 inbound travel market that is the main market of the Group remained strong during the six months ended June 30, 2019, and according to the Japan National Tourism Organization (JNTO), the number of foreign visitors to Japan grew by 4.6% year on year.

The Group strongly attracted inbound customers mainly from Asian countries, and the number of inbound guests increased 1.4% year on year to about 930,000. In the accommodation business, our existing hotels in the Tokyo metropolitan area maintained strong performance, and the Hotel Gracery Seoul opened in August 2018 and Hotel Gracery Asakusa opened in October 2018 contributing to sales revenue growth year on year. In the leisure business, the number of visitors to Hakone Kowakien Yunessun increased year on year, increasing revenue as part of a gradual recovery trend. Yet, the wedding and banquet businesses struggled to increase the number of weddings or guests, and revenue decreased year on year.

Although net sales for the entire Group increased by ¥14 million year on year to ¥33,605 million, anticipatory expenses associated with opening new hotels and developing new brands resulted in an operating loss of ¥153 million, deteriorating by ¥88 million year on year. Meanwhile, ordinary loss deteriorated by ¥35 million year on year to ¥64 million, and loss attributable to owners of parent deteriorated by ¥99 million year on year to ¥131 million. Operating profit before depreciation, which the Group has established as a key indicator, decreased by ¥129 million year on year to ¥2,624 million.

Comparing results to the initial forecast, in terms of sales, room occupancy rate of the WHG Business was comparable to initial forecast. However, in some areas, revenue declined due to the slowdown in sales per room growth mainly caused by the impact of price competition associated with the successive opening of several competitor's hotels (down approximately ¥300 million compared to initial forecast). In the Luxury & Banquet Business, revenue declined due to a continued declining trend in the numbers of weddings and guests (down approximately ¥300 million compared to initial forecast), and consolidated net sales decreased by approximately ¥600 million. In terms of expenses, we reduced costs by taking various measures such as improving productivity. In addition, as a result of deferring some expenses related to our newly opened hotels to the second half of the year, profit increased in each segment. Therefore, on a consolidated basis, operating profit increased by approximately ¥200 million and ordinary profit increased by approximately ¥300 million compared to the initial forecast.

An 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 the Actual Results for the Six Months Ended June 30, 2019 and Revision of the Full-Year Forecast” announced today (August 6, 2019).

	Actual results for the current period	YoY change	Difference from forecast
Net sales	33,605	14	(594)
Operating loss	(153)	(88)	246
Ordinary loss	(64)	(35)	335
Loss attributable to owners of parent	(131)	(99)	68
Operating profit before depreciation	2,624	(129)	—

An overview of business results by segment is as follows.

WHG Business

The WHG Business strived to maximize sales by focusing on attracting customers from Europe, the U.S. and Australia in addition to customers from East Asia and Southeast Asia, leading to increase inbound use, and also by striving to gain repeat guests from Japan and overseas.

As described above, the two hotels that were newly opened last year contributed to sales, and room occupancy and sales per room year on year were secured as a whole for existing hotels as well, despite an increase in competing hotels in each area. Among these hotels, Shinjuku Washington Hotel and Hotel Gracery Shinjuku, the flagship

facilities of the WHG Business, posted strong results particularly for inbound guests, which boosted the Business's performance.

Although sales per room decreased by 0.1% year on year for the WHG Business overall, they increased by 1.5% year on year for hotels in the Tokyo metropolitan area that account for much of our guest rooms. For regional hotels, while sales per room decreased by 1.9% year on year due to factors including the impact of competing hotels in some areas, room occupancy grew year on year.

As a result, although net sales for this segment increased by ¥651 million year on year to ¥18,394 million, operating profit (segment income) decreased by ¥100 million year on year to ¥1,015 million due to factors including anticipatory expenses associated with opening new hotels and developing new brands.

Resort Business

In the accommodation business, we focused on improving customer satisfaction at Hakone Kowakien Ten-yu, such as changing breakfast to a buffet in April 2019, as well as attracting customers both from Japan and overseas. Sales per room and room occupancy grew compared to the initial plan and year on year thanks to efforts to attract inbound guests on weekdays. In addition, in terms of operations, progress was made in productivity improvements through enabling multi-tasking by staff. Net sales in the accommodation business decreased by ¥83 million year on year to ¥1,837 million mainly due to the impact from Hakone Hotel Kowakien, which terminated operation on January 10, 2018.

In the leisure business, at the Hakone Kowakien Yunessun day-trip hot spring facility, although sales were flat year on year, the number of visitors grew by 12.1% year on year as a result of focusing on attracting more visitors, such as by creating new campaigns, enhancing event promotions, and revising admission fees. Net sales in the leisure business increased by ¥54 million year on year to ¥601 million.

As a result, although net sales for this segment decreased by ¥22 million year on year to ¥2,615 million, operating loss (segment loss) improved by ¥212 million year on year to ¥493 million mainly due to a decrease in fixed costs resulting from productivity improvements at Hakone Kowakien Ten-yu.

Luxury & Banquet Business

In the accommodation business, net sales increased by ¥61 million year on year to ¥1,127 million as a result of sales per room exceeding the previous year owing to measures primarily focused on attracting individual customers from Japan and overseas at Hotel Chinzanso Tokyo.

In the wedding business, at Hotel Chinzanso Tokyo and Taikoen (Osaka Prefecture), the downward trend in the number of weddings and guests continued despite efforts to capture the expected demand for Japanese-style weddings and small-scale weddings, and as a result, net sales in the wedding business decreased by ¥417 million year on year to ¥4,864 million.

In the banquet business, we strengthened the sales structure through organization revisions and an increase in headcount at Hotel Chinzanso Tokyo in order to compensate for the decline in sales in the wedding business. These efforts have not led to any significant results as of yet, and net sales for the banquet business decreased by ¥137 million year on year to ¥2,544 million during the six months ended June 30, 2019.

As a result, net sales for this segment, including the golf business, decreased by ¥613 million year on year to ¥11,295 million, and operating loss (segment loss) deteriorated by ¥158 million year on year to ¥198 million.

(2) Explanation of Financial Position

The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) was applied from the beginning of the three months ended March 31, 2019. As a result, relating to the explanation of financial position, the figures after retroactive application of this accounting standard are used for comparison with and analysis of previous consolidated fiscal year.

1) Assets, liabilities and net assets

Total assets as of June 30, 2019 decreased by ¥1,667 million from the end of the previous fiscal year to ¥100,378 million. Current assets decreased by ¥1,218 million mainly due to the decrease in cash and deposits and accounts receivable - trade. In non-current assets, property, plant and equipment decreased by ¥345 million due to depreciation, and investments and other assets decreased by ¥110 million mainly due to the sales of investment securities.

Liabilities decreased by ¥904 million from the end of the previous fiscal year to ¥76,416 million. This was mainly due to a decrease in current liabilities of ¥759 million as a result of factors including the payment of consumption taxes. The total amount of loans payable as of June 30, 2019 was ¥45,509 million.

Net assets decreased by ¥762 million from the end of the previous fiscal year to ¥23,962 million. This was mainly due to a decrease in retained earnings of ¥611 million owing to the recording of a loss attributable to owners of parent and cash dividends paid.

2) Cash flows

Cash and cash equivalents as of June 30, 2019 amounted to ¥2,943 million, down ¥444 million from the end of the previous fiscal year.

i) Cash flows from operating activities

Net cash provided by operating activities was ¥1,815 million (a decrease of ¥383 million compared with the same period of the previous fiscal year). This was due to a decrease in accrued consumption taxes of ¥731 million, in spite of a loss before income taxes of ¥69 million and depreciation of ¥2,389 million.

ii) Cash flows from investing activities

Net cash used in investing activities was ¥1,848 million (a decrease of ¥788 million compared with the same period of the previous fiscal year). This was mainly due to the purchase of property, plant and equipment and intangible assets of ¥1,874 million.

iii) Cash flows from financing activities

Net cash used in financing activities was ¥389 million (a decrease of ¥255 million compared with the same period of the previous fiscal year). This was mainly due to cash dividends paid of ¥472 million.

(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 the Actual Results for the Six Months Ended June 30, 2019 and Revision of the Full-Year Results Forecast, 4. Reasons for Revising the Full-Year Consolidated Results Forecast,” announced today (August 6, 2019).

In terms of sales in the second half, we expect price competition with competing hotels to intensify even further in the WHG Business. With consideration for the impact of the recent international situation on attracting inbound guests, we expect decreased revenue (down approximately ¥500 million compared to initial forecast). The Resort Business is generally expected to be on par with initial forecast, but with consideration for the impact of the Mt. Hakone eruption warning level being raised from 1 to 2 on May 19, 2019, we expect decreased revenue (down approximately ¥200 million compared to initial forecast). The Luxury & Banquet Business will have lower revenue, as we do not expect enough income from accommodation, banquet, and restaurant businesses to compensate for fewer weddings (down approximately ¥400 million compared to initial forecast). In the overall consolidated forecast, we expect revenue to decrease by approximately ¥1,100 million from initial forecast in the second half.

As described above, consolidated results for the full year are expected to have sales revenue of ¥70,300 million, down approximately ¥1,700 million from initial forecast. In terms of expenses, besides reducing expenses through the promotion of various measures, we also strive to revise costs. We expect operating profit, ordinary profit, and profit attributable to owners of parent for the full year to be on par with initial forecast, and no revisions are made to the forecast.

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.

(Million yen)

	First half Six months ended June 30, 2019 (January to June)		Second half (July to December)		Full year (January to December)	
	Actual (Announced on August 6)	Difference from initial forecast (Announced on February 14)	Revised forecast (Announced on August 6)	Difference from initial forecast (Announced on February 14)	Revised forecast (Announced on August 6)	Difference from initial forecast (Announced on February 14)
Net sales	33,605	(594)	36,695	(1,106)	70,300	(1,700)
WHG Business	18,394	(305)	20,106	(495)	38,500	(800)
Resort Business	2,615	15	3,085	(215)	5,700	(200)
L&B Business (*1)	11,295	(304)	11,805	(396)	23,100	(700)
Other	2,651	51	3,049	(51)	5,700	-
Adjustment amounts (*2)	(1,351)	(51)	(1,349)	51	(2,700)	-
Operating profit	(153)	246	1,053	(246)	900	-
WHG Business	1,015	115	1,585	(115)	2,600	-
Resort Business	(493)	106	(157)	(106)	(650)	-
L&B Business (*1)	(198)	1	198	(1)	0	-
Other	(447)	2	(503)	(2)	(950)	-
Adjustment amounts (*2)	(29)	20	(71)	(20)	(100)	-
Ordinary profit	(64)	335	964	(335)	900	-
Profit attributable to owners of parent	(131)	68	431	(68)	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, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	3,464	3,019
Notes and accounts receivable - trade	5,304	4,952
Merchandise and finished goods	52	46
Work in process	48	17
Raw materials and supplies	512	374
Other	2,313	2,064
Allowance for doubtful accounts	(25)	(22)
Total current assets	11,671	10,453
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	41,297	40,608
Tools, furniture and fixtures, net	5,692	5,413
Land	12,283	12,292
Construction in progress	206	728
Golf courses	2,419	2,419
Other, net	939	1,030
Total property, plant and equipment	62,838	62,493
Intangible assets		
Goodwill	240	220
Other	561	587
Total intangible assets	801	808
Investments and other assets		
Investment securities	15,540	15,185
Other	11,216	11,461
Allowance for doubtful accounts	(23)	(23)
Total investments and other assets	26,734	26,623
Total non-current assets	90,374	89,925
Total assets	102,045	100,378

(Million yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,592	1,212
Short-term loans payable	4,440	4,887
Current portion of long-term loans payable	8,675	8,331
Income taxes payable	231	219
Provision for bonuses	196	161
Provision for directors' bonuses	8	2
Provision for point card certificates	139	163
Provision for loss on business withdrawal	5	57
Other	7,036	6,530
Total current liabilities	22,326	21,566
Non-current liabilities		
Long-term loans payable	32,257	32,289
Provision for directors' retirement benefits	111	102
Net defined benefit liability	9,859	9,665
Deposits received from members	10,799	10,671
Other	1,966	2,120
Total non-current liabilities	54,995	54,849
Total liabilities	77,321	76,416
Net assets		
Shareholders' equity		
Capital stock	12,081	12,081
Capital surplus	5,431	5,431
Retained earnings	6,004	5,393
Treasury shares	(930)	(930)
Total shareholders' equity	22,587	21,975
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,322	2,235
Deferred gains or losses on hedges	(73)	(92)
Foreign currency translation adjustment	(139)	(156)
Remeasurements of defined benefit plans	(187)	(168)
Total accumulated other comprehensive income	1,922	1,818
Non-controlling interests	215	167
Total net assets	24,724	23,962
Total liabilities and net assets	102,045	100,378

(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, 2018	For the six months ended June 30, 2019
Net sales	33,591	33,605
Cost of sales	31,320	31,564
Gross profit	2,270	2,040
Selling, general and administrative expenses	2,335	2,193
Operating loss	(64)	(153)
Non-operating income		
Interest income	2	4
Dividend income	343	358
Land and house rent received	40	46
Other	84	86
Total non-operating income	470	496
Non-operating expenses		
Interest expenses	269	256
Share of loss of entities accounted for using equity method	36	40
Other	129	110
Total non-operating expenses	435	407
Ordinary loss	(29)	(64)
Extraordinary income		
Gain on sales of investment securities	–	66
Release from memberships deposits obligation	14	32
State subsidy	3	16
Compensation income	103	–
Gain on sales of non-current assets	2	–
Total extraordinary income	124	115
Extraordinary losses		
Provision for loss on business withdrawal	24	56
Impairment loss	19	45
Loss on business withdrawal	–	10
Special retirement expenses	–	6
Loss on sales of non-current assets	–	0
Other	–	0
Total extraordinary losses	44	120
Profit (loss) before income taxes	50	(69)
Income taxes	79	64
Loss	(29)	(133)
Profit (loss) attributable to non-controlling interests	3	(2)
Loss attributable to owners of parent	(32)	(131)

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Million yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Loss	(29)	(133)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,024)	(86)
Deferred gains or losses on hedges	9	(19)
Foreign currency translation adjustment	(1)	(16)
Remeasurements of defined benefit plans, net of tax	10	19
Share of other comprehensive income of entities accounted for using equity method	(2)	(0)
Total other comprehensive income	(2,006)	(103)
Comprehensive income	(2,035)	(237)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,038)	(234)
Comprehensive income attributable to non-controlling interests	3	(2)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Cash flows from operating activities		
Profit (loss) before income taxes	50	(69)
Depreciation	2,427	2,389
Impairment loss	19	45
Amortization of goodwill	23	20
Increase (decrease) in allowance for doubtful accounts	(4)	(3)
Increase (decrease) in provision for directors' retirement benefits	(18)	(8)
Increase (decrease) in provision for bonuses	(31)	(36)
Increase (decrease) in provision for directors' bonuses	(4)	(4)
Increase (decrease) in provision for point card certificates	30	24
Increase (decrease) in provision for loss on business withdrawal	(99)	52
Increase (decrease) in net defined benefit liability	79	(166)
Interest and dividend income	(345)	(362)
Interest expenses	269	256
Foreign exchange losses (gains)	60	46
Share of loss (profit) of entities accounted for using equity method	36	40
Loss (gain) on sales of non-current assets	(2)	0
Loss on retirement of non-current assets	45	31
Loss (gain) on sales of short-term and long-term investment securities	–	(66)
Compensation income	(103)	–
Release from memberships deposits obligation	(14)	(32)
Decrease (increase) in notes and accounts receivable - trade	(11)	350
Decrease (increase) in inventories	250	174
Increase (decrease) in notes and accounts payable - trade	(333)	(380)
Increase (decrease) in accrued consumption taxes	442	(731)
Other, net	197	(72)
Subtotal	2,962	1,498
Interest and dividend income received	354	371
Interest expenses paid	(267)	(252)
Income taxes (paid) refund	(955)	197
Proceeds from compensation	103	–
Net cash provided by (used in) operating activities	2,198	1,815

(Million yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(2,580)	(1,874)
Proceeds from sales of property, plant and equipment and intangible assets	2	0
Proceeds from sales of investment securities	–	248
Payments into time deposits	(0)	(0)
Payments for guarantee deposits	(41)	(208)
Proceeds from collection of guarantee deposits	12	6
Other, net	(30)	(19)
Net cash provided by (used in) investing activities	(2,636)	(1,848)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,107	447
Proceeds from long-term loans payable	2,230	4,000
Repayments of long-term loans payable	(4,473)	(4,287)
Proceeds from sales of treasury shares	–	0
Purchase of treasury shares	(0)	(0)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(42)
Cash dividends paid	(478)	(472)
Dividends paid to non-controlling interests	(4)	(3)
Repayments of finance lease obligations	(14)	(15)
Other, net	(10)	(15)
Net cash provided by (used in) financing activities	(645)	(389)
Effect of exchange rate change on cash and cash equivalents	(26)	(21)
Net increase (decrease) in cash and cash equivalents	(1,110)	(444)
Cash and cash equivalents at beginning of period	4,304	3,388
Cash and cash equivalents at end of period	3,193	2,943