

# Consolidated Financial Results for the Fiscal Year Ended December 31, 2020 [Japanese GAAP]



February 12, 2021

Company name: FUJITA KANKO INC.

Stock exchange listing: Tokyo Stock Exchange

Code number: 9722

URL: <https://www.fujita-kanko.co.jp/>

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Scheduled date of Ordinary General Meeting of Shareholders: March 26, 2021

Scheduled date of filing annual securities report: March 26, 2021

Scheduled date of commencing dividend payments: -

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, 2020 (January 1, 2020 to December 31, 2020)

(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, 2020	26,648	(61.4)	(20,611)	-	(20,930)	-	(22,427)	-
Fiscal year ended December 31, 2019	68,960	(0.5)	280	(74.5)	401	(63.7)	(285)	-

(Note) Comprehensive income: Fiscal year ended December 31, 2020: ¥(24,725) million [-%]  
Fiscal year ended December 31, 2019: ¥2,239 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, 2020	(1,871.94)	-	(163.4)	(20.9)	(77.3)
Fiscal year ended December 31, 2019	(23.82)	-	(1.1)	0.4	0.4

(Reference) Profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2020: ¥(71) million  
Fiscal year ended December 31, 2019: ¥8 million

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	96,595	1,347	1.2	98.72
As of December 31, 2019	103,271	26,438	25.4	2,192.09

(Reference) Equity: As of December 31, 2020: ¥1,182 million  
As of December 31, 2019: ¥26,263 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, 2020	(17,069)	(2,412)	19,831	3,697
Fiscal year ended December 31, 2019	4,946	(3,496)	(1,467)	3,348

### 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, 2019	-	0.00	-	30.00	30.00	359	-	1.4
Fiscal year ended December 31, 2020	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2021 (Forecast)	-	0.00	-	-	-		-	

\*The forecast for the year-end dividends for the fiscal year ending December 31, 2021 has not been determined as it is difficult to calculate the financial results forecasts at present.

### 3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2021 (January 1, 2021 to December 31, 2021)

(% 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	-		-	-	-	-	-	-
Full year	-		-	-	-	-	-	-

\*The forecast for the financial results has not been determined as it is difficult to reasonably calculate the financial results forecasts at present due to the impact of COVID-19. The Company will disclose the forecasts immediately when they are available.

**\* Notes:**

- (1) Changes in significant subsidiaries during the period under review: No
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: No
  - 2) Changes in accounting policies other than 1) above: No
  - 3) Changes in accounting estimates: No
  - 4) Retrospective restatement: No
- (3) Total number of issued shares (common shares)
- 1) Total number of issued shares at the end of the period (including treasury shares):  
 December 31, 2020: 12,207,242 shares  
 December 31, 2019: 12,207,242 shares
  - 2) Total number of treasury shares at the end of the period:  
 December 31, 2020: 226,796 shares  
 December 31, 2019: 226,406 shares
  - 3) Average number of shares during the period:  
 Fiscal year ended December 31, 2020: 11,980,862 shares  
 Fiscal year ended December 31, 2019: 11,981,210 shares

(Reference) Summary of Non-consolidated Financial Results

**1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2020 (January 1, 2020 to December 31, 2020)**

(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, 2020	18,310	(62.2)	(14,568)	-	(13,115)	-	(21,156)	-
Fiscal year ended December 31, 2019	48,443	(1.5)	1	(98.3)	673	25.0	225	(61.7)

	Profit per share		Diluted profit per share	
	Yen		Yen	
Fiscal year ended December 31, 2020	(1,764.97)		-	
Fiscal year ended December 31, 2019	18.77		-	

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	95,334	801	0.8	66.90
As of December 31, 2019	100,948	24,590	24.4	2,051.44

(Reference) Equity: As of December 31, 2020: ¥801 million  
 As of December 31, 2019: ¥24,590 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.

## Table of Contents

1. Overview of Operating Results, etc. ....	2
(1) Overview of Operating Results for Current Fiscal Year .....	2
(2) Overview of Financial Position for Current Fiscal Year .....	5
(3) Overview of Cash Flows for Current Fiscal Year .....	5
(4) Basic Dividend Policy and Dividend Payments for Current Fiscal Year and Next Fiscal Year .....	5
(5) Risks Related to Business .....	6
(6) Important Information about Going Concern Assumption.....	7
2. Overview of the Corporate Group .....	7
3. Management Policies .....	10
(1) Basic Management Policies of the Company .....	10
(2) Issues to be Addressed .....	10
4. Basic Policy on Selecting Accounting Standard.....	13
5. Consolidated Financial Statements.....	14
(1) Consolidated Balance Sheets .....	14
(2) Consolidated Statements of Income and Comprehensive Income .....	16
(3) Consolidated Statements of Changes in Net Assets .....	19
(4) Consolidated Statements of Cash Flows .....	21

## 1. Overview of Operating Results, etc.

### (1) Overview of Operating Results for Current Fiscal Year

During the fiscal year ended December 31, 2020, the global economy came to an abrupt halt due to the spread of COVID-19. In Japan, the tourism industry continued to face an extremely adverse business environment due to requests by the government for self-restraint in holding events and going out, in addition to the dramatic drop in the number of inbound guests as a result of the entry restrictions into Japan.

The Group engaged in business operations that put the highest priority on the safety and protection of its customers and employees, while at the same time promoted thorough rationalization including cost-cutting and organizational reviews as well as taking measures in line with government policies such as the utilization of the Employment Adjustment Subsidy system and the Go To Travel campaign, in order to address these unprecedented conditions.

In terms of cost-cutting measures, we took advantage of the Employment Adjustment Subsidy system by furloughing employees and using the furlough period to conduct education and training. Additionally, the Group began to reduce personnel expenses by implementing several cuts of officers' remuneration from April onward, while going ahead with the reduction and non-payment of employee salaries and bonuses. Furthermore, the Group also promoted such measures as internalizing previously outsourced duties such as room cleaning and dishwashing, negotiating lower rent with the owners of the hotels and shops, postponing investments upon careful review of investment plans, and curbing advertising expenses.

#### Main cost-cutting measures:

Furloughed employees	<ul style="list-style-type: none"><li>• Approximately 5,500 full-time employees, contract employees, part-time and casual staff were furloughed for an average of six days out of every month.</li><li>• Approximately ¥3.1 billion of Employment Adjustment Subsidy was recorded as extraordinary income.</li></ul>
Reduced officers' compensation	<ul style="list-style-type: none"><li>• Monthly remuneration was reduced from April.</li><li>• From September further reductions were made including a 50% reduction of Representative Director remunerations.</li></ul>
Changed employee benefits	<ul style="list-style-type: none"><li>• Reduced summer bonuses by two-thirds and winter bonuses were not paid.</li><li>• From November, basic salaries of management-level employees were reduced by 5%.</li><li>• Revised rules for various extra pay such as overtime and late-night work allowances.</li></ul>
Internalized outsourced duties and reviewed contracts	<ul style="list-style-type: none"><li>• Internalized outsourced duties, such as room cleaning and dishwashing.</li><li>• Reduced labor costs by reviewing contract provisions in the context of reduced operations.</li></ul>
Reduced rent	<ul style="list-style-type: none"><li>• Negotiated rent reductions in the WHG Business and all other rented facilities.</li></ul>
Postponed investment plans	<ul style="list-style-type: none"><li>• Postponed non-urgent investment projects by carefully reviewing the investment plan.</li></ul>
Reduced other expenses	<ul style="list-style-type: none"><li>• Curbed advertising expenses, etc.</li></ul>

In terms of sales, we proactively promoted high value-added products that utilized the unique features of each facility and made efforts to maximize revenue after establishing a system to enforce environmental hygiene measures and assigning to each of its facility an "Environmental Hygiene Supervisor," who has received specialized training, to avoid the infection risk of our customers and employees. These efforts proved to be successful especially in the Resort Business and by steadily capturing the domestic travel demand bolstered by the Go To Travel campaign, which commenced in July, and as a result of travels to and from Tokyo being included in the campaign, the recovery trend gained even greater momentum. Nevertheless, the impact of the disappearance of inbound demand and the suspension and scaling-back of operations following the declaration of a State of Emergency by the government turned out to be immense, and the accommodation business centering on the WHG Business, which had been performing strongly as the Group's main source of income in the past few years, was especially hit hard. The wedding

and banquet businesses also experienced numerous cancellations and postponements, which had an unprecedented harsh effect on the Group's financial results.

As a result, net sales for the entire Group in the fiscal year ended December 31, 2020 decreased by ¥42,311 million year on year to ¥26,648 million. In addition, while operating expenses decreased by approximately ¥21,400 million year on year through thorough cost-cutting, operating loss deteriorated by ¥20,891 million year on year to ¥20,611 million, and ordinary loss deteriorated by ¥21,331 million year on year to ¥20,930 million. Loss attributable to owners of parent deteriorated by ¥22,141 million year on year to ¥22,427 million with the recording of extraordinary losses including fixed costs (personnel expenses, depreciation, etc.) arising from the suspension of operations at facilities, despite the recording of the Employment Adjustment Subsidy and other income under extraordinary income.

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	26,648	(42,311)	(61.4)%
Operating loss	(20,611)	(20,891)	-
Ordinary loss	(20,930)	(21,331)	-
Loss attributable to owners of parent	(22,427)	(22,141)	-
(Reference)			
EBITDA	(16,198)	(21,409)	-

#### Sales and operating profit by segment

(Million yen)

	Net sales		Operating loss	
	Actual	YoY change	Actual	YoY change
WHG Business	10,355	(27,274)	(13,669)	(15,923)
Luxury & Banquet Business	9,897	(12,491)	(4,716)	(4,651)
Resort Business	4,220	(1,569)	(769)	169
Other (including adjustment amounts)	2,175	(976)	(1,455)	(485)
Total	26,648	(42,311)	(20,611)	(20,891)

- (Notes)
1. Adjustment amounts refer to eliminations of inter-segment transactions, and corporate expenses not allocated to any particular segment.
  2. The Group made partial changes to the segments to which sales facilities belong, in accordance with organizational changes effective from January 1, 2020. Accordingly, the segment information for the previous fiscal year has been compared based on reclassification, using segment divisions after the changes were enacted.

#### 1) WHG Business

The WHG business, due to the harsh business environment described above, has implemented rationalization and cost reductions, including the internalization of previously outsourced duties such as room cleaning, as well as negotiating lower rent with the owners of the hotel buildings. Additionally, from September, in response to the request by the Kanagawa Prefectural government, we have been offering the Yokohama Isezakicho Washington Hotel (leasing of the entire hotel), as a facility to receive patients with mild cases of COVID-19, doing our part to relieve the burden on the overwhelmed local healthcare system. Furthermore, in anticipation of easing of the entry restriction by the government, we have been promoting measures that will hopefully lead to attracting future

customers in the post-pandemic period such as by accepting inbound visitors on the Residence Track (which requires 14 days of waiting at home after entering or returning to Japan) as well as opening HOTEL TAVINOS ASAKUSA (278 rooms) on July 15.

Hotels with a high proportion of Japanese guests such as the Sendai Washington Hotel have been showing signs of recovery since domestic travel restrictions were lifted in June. With domestic tourism demand bolstered by the Go To Travel campaign, regional facilities backed by high tourism demand have been recovering since July. Facilities in Tokyo catering to business demand have also shown gradual improvement in room occupancy rates from October.

However, due to the continuing decline in room occupancy rates resulting from the substantial drop in accommodation demand, net sales for this segment decreased by ¥27,274 million year on year to ¥10,355 million and operating loss (segment loss) deteriorated by ¥15,923 million year on year to ¥13,669 million.

## 2) Luxury & Banquet Business

In the wedding business of the Luxury & Banquet Business, ever since the government requested self-restraint including the avoidance of the “three Cs,” Hotel Chinzanso Tokyo and Taiko-En suffered successive postponements and cancellations, while a tendency to postpone new bookings also became evident. Under such circumstances, we established the “New Normal for Happy Wedding Declaration,” a joint initiative by 18 wedding companies, to create places for the blessing and celebration of marriage in this era of COVID-19, and implemented initiatives including the introduction of online consultations. Despite these initiatives, net sales in the wedding business declined by ¥6,268 million year on year to ¥4,052 million, due to the immense impact of the postponements and cancellations.

Similar factors also caused a decline in demand in the banquet business, mainly by our corporate customers, for which net sales decreased by ¥3,524 million year on year to ¥1,380 million.

Meanwhile, although accommodation business was affected by the decrease in domestic and inbound demand for accommodation, occupancy rates remained strong and the restaurant business showed a recovery trend in line with the increase in the number of guests. This is due to the increased media exposure of the garden project, “Tokyo Sea of Clouds,” to commemorate the 70th anniversary (in 2022) of the opening of Hotel Chinzanso Tokyo, as well as the promotion of measures to attract nearby customers from mainly Tokyo and neighboring three prefectures, Kanagawa, Chiba, and Saitama, and the inclusion of travel to and from Tokyo in the Go To Travel campaign.

As a result, net sales for this segment including the golf business decreased by ¥12,491 million year on year to ¥9,897 million, and operating loss (segment loss) deteriorated by ¥4,651 million year on year to ¥4,716 million.

## 3) Resort Business

The accommodation business of the resort business suffered a substantial decline in room occupancy rates due to the decrease in domestic and inbound demand for accommodation. However, the high value-added Hakone Kowakien Ten-yu and Fujino Kirameki Fuji Gotemba experienced a rapid rise in their room occupancy rates with substantial subsidies by the government (discounts on regular rates) under the Go To Travel campaign and their heightened sense of privacy, which allows guests to avoid the “three Cs.” Furthermore, we offered workcation and other accommodation packages in line with the new demand in the wake of the COVID-19. As a result, both facilities performed strongly and achieved their highest room occupancy rates in August since they opened. We also made steady progress in the redevelopment of the Hakone area, the core of this business, by acquiring the traditional inn, Mikawayaya, established in 1883, which is located next to Hakone Kowakien, and opening the inn as the Hakone Kowakien Mikawayaya Ryokan (25 rooms) on October 2. Net sales for this entire business including Yufuin Ryokuyu (10 rooms) which closed on March 1 decreased by ¥951 million year on year to ¥2,750 million.

In the day trip and leisure business, Hakone Kowakien Yunessun has been working to capture visitors by collaborating with the popular anime, “Evangelion,” from the beginning of the year, while implementing measures to prevent the spread of infections such as requiring reservations to enter. Although the number of visitors dropped drastically for a while from March due to the government’s request for self-restraint in going out, the numbers began to rebound from July, and net sales for the entire business including the Shimoda Aquarium decreased by ¥600 million year on year to ¥875 million.

As a result, net sales for this segment decreased by ¥1,569 million to ¥4,220 million, and operating loss (segment loss) improved by ¥169 million year on year to ¥769 million. Net sales for the fourth quarter ended December 31, 2020 (from October to December) exceeded the net sales of the previous fiscal year and this segment has shown the quickest recovery among all the segments.

## (Outlook for Next Fiscal Year)

The Group has been promoting the medium-term management plan covering the years from 2020 to 2024 from the previous fiscal year. However, the business environment, which was the premise of the plan, has changed drastically since we formulated the plan, and the impact of COVID-19 on the Group’s financial results has been so



significant that it affects the Company's existence. And the Group recognizes that recovery will take considerable time. Accordingly, the Group, as a fundamental step in rebuilding its business, is promoting structural reform, reviewing its business portfolio, and formulating a new business plan based on the reinforcement of its management control structure, and has already pushed ahead with various measures based on "business structure reform," which is the core of the business plan. Given the current difficulty, amid the declaration of the State of Emergency by the government on January 7 and its subsequent extension, of predicting the timing for the recovery of demand and reasonably estimating the financial results forecast for the fiscal year ending December 31, 2021, the first year of the business plan, we are considering disclosing our numerical targets after the State of Emergency has been lifted.

## (2) Overview of Financial Position for Current Fiscal Year

Total assets as of December 31, 2020 decreased by ¥6,675 million from the end of the previous fiscal year to ¥96,595 million. Current assets decreased by ¥1,122 million due mainly to a decrease in accounts receivable, and non-current assets decreased by ¥5,553 million due mainly to the sales of investment securities and a decline in their market price.

Liabilities increased by ¥18,415 million from the end of the previous fiscal year to ¥95,248 million. This was mainly due to an increase in borrowings by ¥20,328 million, as a result of borrowings for the purpose of increasing cash on hand, in light of the effects of COVID-19 on financial results. The total amount of borrowings as of December 31, 2020 was ¥64,797 million.

Net assets decreased by ¥25,091 million from the end of the previous fiscal year to ¥1,347 million. This was mainly due to a decrease in retained earnings by ¥22,787 million.

## (3) Overview of Cash Flows for Current Fiscal Year

Cash and cash equivalents as of December 31, 2020 amounted to ¥3,697 million, up ¥348 million from the end of the previous fiscal year.

### 1) Cash flows from operating activities

Net cash used in operating activities was ¥17,069 million (an increase of ¥22,016 million compared with the previous fiscal year). This was mainly due to recording a loss before income taxes of ¥23,173 million.

### 2) Cash flows from investing activities

Net cash used in investing activities was ¥2,412 million (a decrease of ¥1,083 million compared with the previous fiscal year). As a result of investments accompanying the new opening of facilities such as HOTEL TAVINOS ASAKUSA and Hakone Kowakien Mikawayaya Ryokan, cash outflows for the purchase of property, plant and equipment and intangible assets were ¥4,079 million.

### 3) Cash flows from financing activities

Net cash provided by financing activities was ¥19,831 million (an increase of ¥21,299 million compared with the previous fiscal year). This was mainly due to the ¥20,326 million in proceeds from the procurement of borrowings.

## (Reference) Historical cash flow indicators

	FY2016	FY2017	FY2018	FY2019	FY2020
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, 2020, 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.

With regard to the forecast for the year-end dividend for the fiscal year ended December 31, 2020, taking into consideration the Company's financial condition and the business environment surrounding the Company, we

sincerely regret to announce that no dividend will be paid.

#### (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 the 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 12, 2021, and risk factors related to business are not limited to these items.

##### 1) Stock price fluctuations

The Group owns ¥14,600 million of marketable securities mainly of its business partners and affiliated companies and is subject to the risk of stock price fluctuations. As of the end of the current fiscal year, the valuation based on the market price yielded an unrealized gain on marketable securities; however, this may affect the operating results and financial position, depending on the future trend of stock prices.

##### 2) Recording of impairment loss

The Group owns ¥58,400 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 hotel 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 ¥80,200 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 COVID-19 or new strains of influenza breaks out, temporary suspension of business operations or cancelation of trips and a decline in inbound demand due to entry restrictions into Japan and overseas travel advisories are expected, and may negatively affect the Group's financial position and 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 ¥3,400 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 ¥64,700 million of borrowings as of the end of the current fiscal year, ¥12,600 million is loans with floating interest rates, which may result in increased interest payments if the yen interest rate rises due to the recovery of the 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

Impact of the spread of Novel Coronavirus

The spread of COVID-19 has caused a dramatic decrease in the number of inbound guests due to entry restrictions into Japan, a decline in tourism and business demand within Japan, and the postponement and cancelation of weddings and banquets. Net sales declined substantially due to the impact of the suspension and scaling-back of operations following the declaration of a State of Emergency by the government, and we consider that, at present, conditions exist that may cast significant doubt on the going concern assumption.

Moreover, the Group's financial results may suffer an even greater impact in the event that COVID-19 is not brought under control, and domestic and international economies are subject to a prolonged slowdown, due to factors such as people refraining from leaving home.

In these conditions, the Group has implemented cost-cutting initiatives, including reductions in officers' remuneration and employee bonuses, rent reduction negotiations, etc., and built a structure that ensures business funding, based on a funding plan that assumes the prolonged impact. We have determined that no material uncertainty exists regarding the going concern assumption, based on the continued implementation of these countermeasures.

2. Overview of the Corporate Group

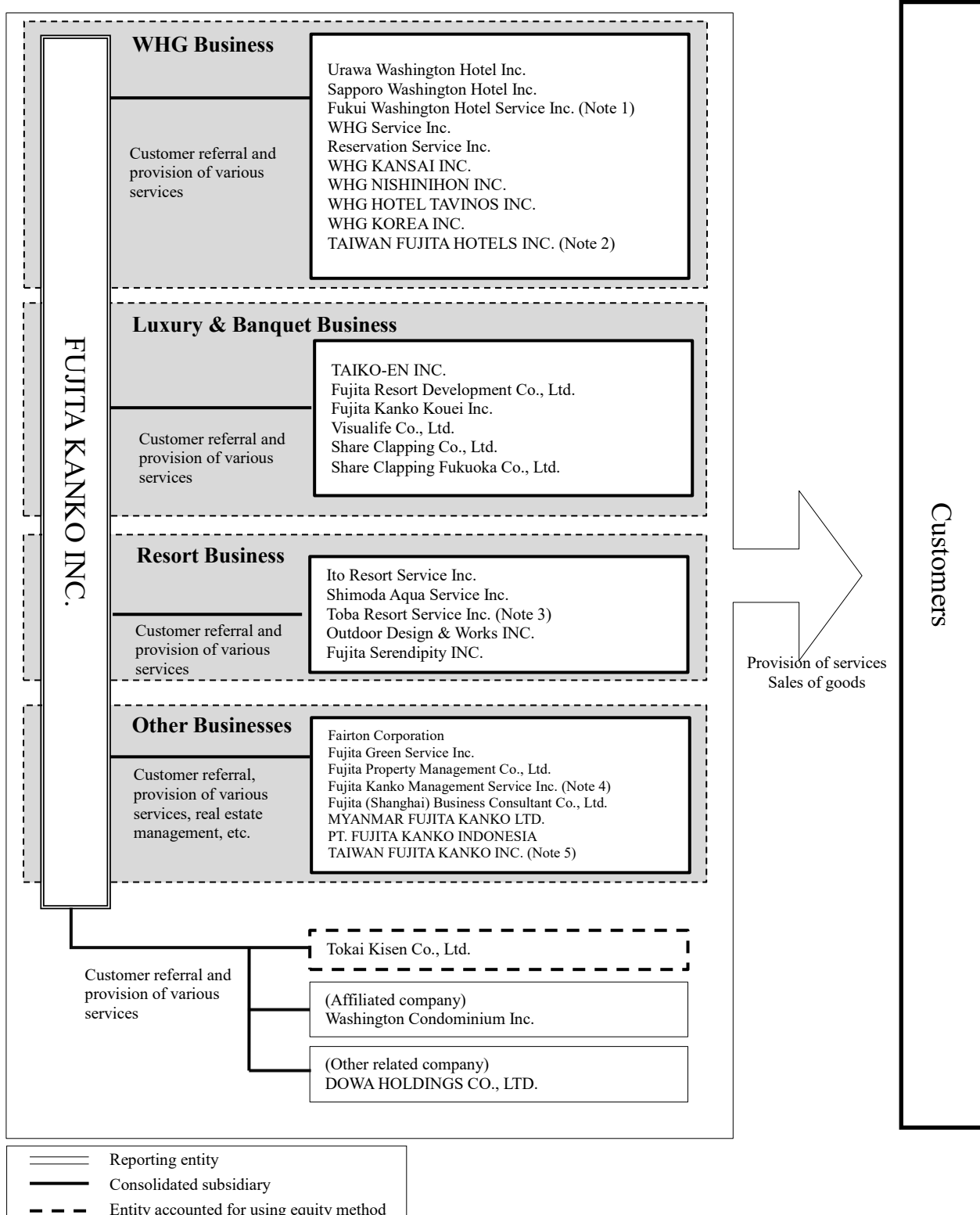
The Group consists of FUJITA KANKO INC., 29 consolidated subsidiaries, 2 affiliated companies, and 1 other related company. The Group engages in the WHG Business, the Luxury & Banquet Business, and the Resort Business as the main businesses and provides various services related to each business.

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.
	Luxury & Banquet Business	Wedding/banquet/restaurant/hotel/golf/flower arrangement/garden management/imaging businesses	Total of 6 companies including FUJITA KANKO INC. (the Company) and TAIKO-EN INC.
	Resort Business	Resort hotel/leisure business	Total of 5 companies including FUJITA KANKO INC. (the Company) and Ito Resort Service 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. Fukui Washington Hotel Service Inc. is inactive as of the end of the current fiscal year.
  2. TAIWAN FUJITA HOTELS INC. was established during the current fiscal year.
  3. Toba Resort Service Inc. is inactive as of the end of the current fiscal year.
  4. Fujita Kanko Management Service Inc. is inactive as of the end of the current fiscal year.
  5. TAIWAN FUJITA KANKO INC. is inactive as of the end of the current fiscal year.

### 3. Management Policies

#### (1) Basic Management Policies of the Company

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

#### (2) Issues to be Addressed

The Group formulated its “Medium-term Management Plan” for fiscal years 2020 to 2024 and has been preparing to achieve its targets based on the major strategies, in order to reinforce its business foundation in the medium- to long-term and achieve sustainable growth.

However, the impact of the spread of COVID-19 that occurred at the end of 2019 has been so significant that it not only affected the financial results of fiscal 2020 but also reached a level that had a grave impact on the Company’s existence, putting severe strain on the management to a point of possibly incurring excess liabilities. It also revealed initiatives that had been inadequately addressed and tasks that had been postponed by exposing the vulnerabilities and structural issues of the Company’s businesses.

We are fully aware that the current harsh management environment was brought on not only by external factors but also by the Company’s corporate culture and other internal factors.

The “Medium-term Management Plan” has only just begun and while our perception of the issues, including those involving the business structure, remains unchanged, the conditions and business environment which were assumed at the time of formulation of the plan have drastically changed. Accordingly, we will review our major strategies and formulate a new “Business Plan” in an effort to rebuild our business.

Although we will need to confront our longstanding issues head-on and ask our employees to commit to a painful “self-reformation and challenges” in the long-term, the Company and all of its employees are united in its “mission” to push forward with this business plan to rebuild our business at any cost.

#### ● Major strategies and key points of the business plan (2021 to 2015)

Major strategies	Key points
I. Promotion of structural reform	Placing a top priority on improving profitability, we will promote the reconstruction of the business structure, including cost-cutting, measures for unprofitable businesses, measures for wages and employment, the transformation of the human resource system, etc.
II. Review of the business portfolio	<ul style="list-style-type: none"><li>• In the short-term, reinforce marketing/branding in the era of COVID-19 and post-COVID-19.</li><li>• In the medium- to long-term, promote growth strategies including the utilization and redevelopment of company-owned assets and the transformation of the business model of the WHG Business.</li></ul>
III. Strengthening the management control structure	Build business foundation capable of withstanding changes in the external environment.

#### ● Overview of the business plan

##### I. Promotion of structural reform

1) Labor cost reforms: We will carry out measures to reduce personnel expenses including early voluntary retirement, reduction of officers’ compensation, reduction of salaries and bonuses, and seconding employees to outside companies.

Major strategies	Key points
Early voluntary retirement	Eligible employees: employees, etc., aged 40 years or over with ten years or more of service
Reduction of officers’ compensation, and employee salaries and bonuses	<ul style="list-style-type: none"><li>• Officers: 25% to 55% pay cuts in addition to non-payment of performance-based compensation</li><li>• Employees: total of 13% to 31% pay cuts by a reduction in salaries and non-payment of bonuses</li></ul>
Other employment adjustments	Indefinite suspension of hiring, secondment to the outside company, and enhancement of support system

2) Cost reforms: We will internalize previously outsourced duties such as room cleaning, security and dishwashing, review new store openings and negotiate rent reductions, among other measures.

- 3) Measures for unprofitable facilities: We will withdraw as quickly as possible from businesses expected to continue reporting losses despite scaling back operations and implementing cost-reduction initiatives.
- 4) Transformation of the human resource system: We will implement a new human resource system including by reviewing training programs and the personnel evaluation system, in order to raise employee motivation and secure superior talent.

## II. Review of the business portfolio

- 1) Short-term and immediate measures: We will strengthen business foundation including the enhancement of marketing and branding and the establishment of digital marketing.
- 2) Medium- to long-term and drastic measures: We will make major investments into the company-owned Hotel Chinzanso Tokyo and Hakone Kowakien to enhance their marketability and business competitiveness and reconstruct the business model of the existing WHG hotels to improve their profitability.

## III. Strengthening the management control structure

- 1) Clarification of strategies and processes and strengthening monitoring: We will strengthen the control structure by reconstructing the monitoring system, in order to identify issues promptly, formulate countermeasures, and make appropriate decisions.
- 2) Strengthening responses when developing new businesses: We will minimize the risk of loss and maximize profit by reviewing the type of business, type of contract, and other factors.

## IV. Numerical plan

### 1) Business plan: Numerical plan

Although we have already pushed ahead with various measures to rebuild the Company based on “business structure reform,” the core of the business plan, given the current difficulty, amid the declaration of the State of Emergency by the government on January 7 and its subsequent extension, of predicting the timing for the recovery of demand and reasonably estimating the financial results forecast for the fiscal year ending December 31, 2021, the first year of the business plan, we are considering disclosing our numerical targets after the State of Emergency has been lifted.

### 2) Procurement of the necessary capital and growth strategies

In light of the deteriorating financial position due to the effects of the spread of COVID-19, the Group has been deliberating various methods of fund-procurement and capital reinforcement, recognizing that it is urgent task to quickly reinforce its diminished capital, improve its financial position, and strengthen its business foundation. In terms of fundraising, in April 2020, the Group executed an emergency additional borrowing from financial institutions to increase its cash on hand. As for capital reinforcements, while the Group had been considering various methods, we were unable to raise sufficient funds and decided to give up raising funds as the outlook for the recovery in our business is uncertain due to even further deterioration of the business environment, including the suspension of the Go To Travel campaign and the declaration of the State of Emergency. Under such circumstances, the Group, to ensure its continued existence, had no choice but to consider the sale of its assets including its business assets. As a result, the Group, as announced in the “Notice on the Transfer of Fixed Assets and the Recording of Extraordinary Income,” dated February 12, 2021, decided to terminate the business of Taiko-En and sell its land and building.

As a result of this sale, we expect to record an extraordinary income of approximately ¥32,900 million in the first quarter of the fiscal year ending December 31, 2021. Although the property will be transferred on March 31, 2021, we will continue to operate Taiko-En until June 30, 2021.

We plan to use the funds and capital raised through this sale as working capital until the effects of the spread of COVID-19 are contained and as expenses to promote the structural reform measures including the early voluntary retirement in this business plan, as well as the funds for growth, such as future investments into Hotel Chinzanso Tokyo and Hakone Kowaiken and the structural reform of the WHG Business.

## V. Strategy by segment

### 1) WHG Business

The priority tasks are to strengthen our sales capabilities and differentiate ourselves from competing hotels. We will take a deeper dive into the review of costs and mainly implement the following initiatives.

Major strategies	Major initiatives
1. Enhancement of added value	<Developing products, capturing customers through reinforced sales, and improving the per-unit price> Development of high value-added products, and strengthening digital marketing, branding, and yield management (*)
2. Establishment of cost-competitiveness	<Cost-cutting through sweeping reviews of business content and operations> Consolidation of the headquarters, selling and administrative functions, streamlining and internalizing onsite operations, review of personnel allocation, measures for unprofitable businesses, etc.
3. Review of the business model	Application of low-cost operations across the Group and review of store openings

(\*) Method of controlling sales price and volume based on demand forecasts

### 2) Luxury & Banquet Business

To revive Hotel Chinzanso Tokyo, which had been plagued with issues of deteriorating profitability even prior to the COVID-19 pandemic, we will mainly implement the following initiatives.

Major strategies	Major initiatives
1. Revival of the Chinzanso brand	<Enhancing the added value of the hotel and improving the quality of the wedding business> Initiatives such as the garden promotions, and rebuilding the wedding brand by improving the quality of food, services, and incidental products
2. Revitalization of the organization (reorganization of operation systems)	<Effective utilization of excess personnel and internalization of duties> Achieving cross-organizational workstyles, and further internalizing of previously-outsourced duties
3. Asset utilization measures	<Effective utilization of assets in line with declining bridal demand> Deliberating effective utilization measures of banquet halls and guest rooms with low utilization rates

### 3) Resort Business

We will mainly implement the following initiatives, together with the redevelopment of Hakone, to meet changing customer needs.

Major strategies	Major initiatives
1. Asset utilization measures (redevelopment)	<Redevelopment to capture a wide range of customers> Redevelopment of Hakone Hotel Kowakien and Hakone Kowakien Yunessun, and deliberation of new schemes
2. Strengthening the appeal to customers	<Strengthening marketing activities and enhancing the value provided> Strengthening sales channels, tie-ups with neighbors, and the customer experience
3. Cost structure transformation	Streamlining the indirect divisions and reviewing the cost structure through multi-tasking

### 4) Headquarters, others, and shared issues

As a common companywide issue, we will improve productivity by streamlining the sales and administrative divisions and reviewing the onsite operation system. In these segments, also, we will implement measures to streamline headquarters and measures against unprofitable businesses.



To rebuild the Company, which is in a critical situation affected by the COVID-19 pandemic, we will press ahead with the structural transformation of our businesses with unwavering determination as well as steadily carry out necessary reviews in order to achieve a business portfolio capable of sustainable growth.

#### 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, 2019	As of December 31, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	3,424	3,723
Notes and accounts receivable - trade	5,241	2,041
Merchandise and finished goods	51	50
Work in process	19	20
Raw materials and supplies	490	369
Other	2,062	3,958
Allowance for doubtful accounts	(19)	(14)
Total current assets	11,272	10,149
Non-current assets		
Property, plant and equipment		
Buildings and structures	102,873	96,758
Accumulated depreciation	(63,100)	(59,291)
Buildings and structures, net	39,772	37,466
Tools, furniture and fixtures	22,778	21,068
Accumulated depreciation	(17,203)	(17,530)
Tools, furniture and fixtures, net	5,575	3,538
Land	12,292	12,845
Construction in progress	411	1,220
Golf courses	2,419	2,434
Other	4,927	4,556
Accumulated depreciation	(3,915)	(3,590)
Other, net	1,011	965
Total property, plant and equipment	61,484	58,471
Intangible assets		
Goodwill	200	160
Software	549	455
Other	153	429
Total intangible assets	903	1,044
Investments and other assets		
Investment securities	18,611	14,787
Guarantee deposits	8,801	8,251
Deferred tax assets	1,783	3,465
Other	420	430
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	29,611	26,929
Total non-current assets	91,999	86,446
<b>Total assets</b>	<b>103,271</b>	<b>96,595</b>

(Million yen)

	As of December 31, 2019	As of December 31, 2020
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	1,505	755
Short-term borrowings	3,230	8,985
Current portion of long-term borrowings	7,526	8,028
Income taxes payable	351	62
Accrued consumption taxes	470	99
Provision for bonuses	179	—
Provision for bonuses for directors (and other officers)	8	—
Provision for point card certificates	143	117
Provision for loss on business withdrawal	98	2
Provision for noncurrent assets removal cost	473	448
Provision for loss on disaster	315	9
Accrued early retirement benefits	—	1,802
Other	6,465	4,885
Total current liabilities	20,768	25,197
Non-current liabilities		
Long-term borrowings	33,711	47,783
Provision for retirement benefits for directors (and other officers)	103	88
Retirement benefit liability	9,676	9,850
Deposits received from members	10,581	10,416
Other	1,990	1,911
Total non-current liabilities	56,063	70,051
Total liabilities	76,832	95,248
<b>Net assets</b>		
Shareholders' equity		
Share capital	12,081	12,081
Capital surplus	5,431	5,430
Retained earnings	5,240	(17,546)
Treasury shares	(931)	(931)
Total shareholders' equity	21,821	(966)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,741	2,463
Deferred gains or losses on hedges	(71)	(71)
Foreign currency translation adjustment	(164)	(178)
Remeasurements of defined benefit plans	(63)	(64)
Total accumulated other comprehensive income	4,442	2,149
Non-controlling interests	175	164
Total net assets	26,438	1,347
Total liabilities and net assets	103,271	96,595

(2) Consolidated Statements of Income and Comprehensive Income  
Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Net sales	68,960	26,648
Cost of sales	64,226	44,091
Gross profit (loss)	4,733	(17,443)
Selling, general and administrative expenses	4,452	3,168
Operating profit (loss)	280	(20,611)
Non-operating income		
Interest income	7	3
Dividend income	412	392
Share of profit of entities accounted for using equity method	8	—
Dividend income of life insurance	63	64
Rental income from land and buildings	95	90
Other	166	185
Total non-operating income	755	736
Non-operating expenses		
Interest expenses	508	657
Share of loss of entities accounted for using equity method	—	71
Loss on retirement of non-current assets	58	116
Foreign exchange losses	13	95
Other	54	113
Total non-operating expenses	634	1,054
Ordinary profit (loss)	401	(20,930)
Extraordinary income		
Subsidy bounty income	—	3,221
Gain on sales of investment securities	218	335
Insurance claim income	15	117
Gain on sales of non-current assets	—	59
Gain on reversal of provision for loss on business withdrawal	—	42
Release from memberships deposits obligation	34	4
National subsidies	16	—
Other	—	43
Total extraordinary income	285	3,824
Extraordinary losses		
Business suspension loss	—	2,289
Impairment loss	195	1,823
Transfer to provision for early retirement	—	1,802
Loss on withdrawal from business	23	38
Provision for removal expenses of noncurrent assets	473	35
Provision for loss on business withdrawal	104	2
Loss on disaster	399	—
Special maintenance repairs of idle equipment	5	—
Loss on sales of non-current assets	0	—
Other	6	76
Total extraordinary losses	1,207	6,067
Loss before income taxes	(521)	(23,173)
Income taxes - current	293	72
Income taxes - deferred	(535)	(813)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Total income taxes	(241)	(740)
Loss	(280)	(22,432)
Profit (loss) attributable to non-controlling interests	5	(5)
Loss attributable to owners of parent	(285)	(22,427)

# Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Loss	(280)	(22,432)
Other comprehensive income		
Valuation difference on available-for-sale securities	2,417	(2,271)
Deferred gains or losses on hedges	2	(0)
Foreign currency translation adjustment	(25)	(13)
Remeasurements of defined benefit plans, net of tax	123	(0)
Share of other comprehensive income of entities accounted for using equity method	1	(7)
Total other comprehensive income	2,519	(2,293)
Comprehensive income	2,239	(24,725)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,234	(24,720)
Comprehensive income attributable to non-controlling interests	5	(5)

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

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

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	12,081	5,431	6,004	(930)	22,587
Changes during period					
Dividends of surplus			(479)		(479)
Loss attributable to owners of parent			(285)		(285)
Purchase of treasury shares		(0)		(1)	(1)
Disposal of treasury shares		0		0	0
Net changes in items other than shareholders' equity					—
Total changes during period	—	(0)	(764)	(0)	(765)
Balance at end of 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 period	2,322	(73)	(139)	(187)	1,922	215	24,724
Changes during period							
Dividends of surplus							(479)
Loss attributable to owners of parent							(285)
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Net changes in items other than shareholders' equity	2,419	2	(25)	123	2,519	(40)	2,479
Total changes during period	2,419	2	(25)	123	2,519	(40)	1,713
Balance at end of period	4,741	(71)	(164)	(63)	4,442	175	26,438

For the fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	12,081	5,431	5,240	(931)	21,821
Changes during period					
Dividends of surplus			(359)		(359)
Loss attributable to owners of parent			(22,427)		(22,427)
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		(0)		1	0
Net changes in items other than shareholders' equity					—
Total changes during period	—	(0)	(22,787)	0	(22,787)
Balance at end of period	12,081	5,430	(17,546)	(931)	(966)

	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 period	4,741	(71)	(164)	(63)	4,442	175	26,438
Changes during period							
Dividends of surplus							(359)
Loss attributable to owners of parent							(22,427)
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Net changes in items other than shareholders' equity	(2,278)	(0)	(13)	(0)	(2,293)	(10)	(2,303)
Total changes during period	(2,278)	(0)	(13)	(0)	(2,293)	(10)	(25,091)
Balance at end of period	2,463	(71)	(178)	(64)	2,149	164	1,347



## (4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Cash flows from operating activities		
Loss before income taxes	(521)	(23,173)
Depreciation	4,934	4,753
Impairment loss	195	1,823
Amortization of goodwill	40	40
Increase (decrease) in allowance for doubtful accounts	(23)	(5)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(7)	(15)
Increase (decrease) in provision for bonuses	(19)	(179)
Increase (decrease) in provision for bonuses for directors (and other officers)	1	(8)
Increase (decrease) in provision for point card certificates	4	(25)
Increase (decrease) in provision for loss on business withdrawal	93	(95)
Increase (decrease) in provision of noncurrent assets removal	473	(25)
Increase (decrease) in provision for loss on disaster	315	(306)
Increase in accrued early retirement benefits	—	1,802
Increase (decrease) in retirement benefit liability	(5)	173
Interest and dividend income	(420)	(395)
Interest expenses	508	657
Foreign exchange losses (gains)	13	95
Share of loss (profit) of entities accounted for using equity method	(8)	71
Loss (gain) on sales of non-current assets	0	(60)
Loss on retirement of non-current assets	58	116
Loss (gain) on sales of short-term and long-term investment securities	(218)	(335)
Loss (gain) on valuation of investment securities	—	9
Release from memberships deposits obligation	(18)	(4)
Decrease (increase) in trade receivables	61	3,199
Decrease (increase) in inventories	51	121
Increase (decrease) in trade payables	(87)	(749)
Increase (decrease) in accrued consumption taxes	(699)	(371)
Other, net	224	(3,439)
Subtotal	4,945	(16,326)
Interest and dividends received	425	408
Interest paid	(511)	(622)
Income taxes (paid) refund	86	(530)
Net cash provided by (used in) operating activities	4,946	(17,069)

(Million yen)

	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(3,846)	(4,079)
Proceeds from sales of property, plant and equipment and intangible assets	0	164
Proceeds from sales of investment securities	581	853
Payments into time deposits	(0)	—
Proceeds from withdrawal of time deposits	—	50
Payments of guarantee deposits	(234)	(112)
Proceeds from refund of guarantee deposits	27	705
Other, net	(24)	5
Net cash provided by (used in) investing activities	(3,496)	(2,412)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,209)	5,754
Proceeds from long-term borrowings	9,000	22,100
Repayments of long-term borrowings	(8,675)	(7,528)
Proceeds from sales of treasury shares	0	0
Purchase of treasury shares	(1)	(1)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(42)	—
Dividends paid	(479)	(360)
Dividends paid to non-controlling interests	(3)	(5)
Repayments of finance lease obligations	(33)	(39)
Other, net	(22)	(88)
Net cash provided by (used in) financing activities	(1,467)	19,831
Effect of exchange rate change on cash and cash equivalents	(22)	(0)
Net increase (decrease) in cash and cash equivalents	(39)	348
Cash and cash equivalents at beginning of period	3,388	3,348
Cash and cash equivalents at end of period	3,348	3,697