

Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [Japanese GAAP]



February 14, 2023

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

Contact: Hiroyuki Nozaki, Director in charge of Planning Division

Phone: +81-3-5981-7723

Scheduled date of Ordinary General Meeting of Shareholders: March 29, 2023

Scheduled date of filing annual securities report: March 29, 2023

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, 2022 (January 1, 2022 to December 31, 2022)

(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, 2022	43,749	53.9	(4,048)	-	(4,461)	-	(5,789)	-
Fiscal year ended December 31, 2021	28,433	6.7	(15,822)	-	(16,542)	-	12,675	-

(Note) Comprehensive income: Fiscal year ended December 31, 2022: ¥(5,864) million [-%]
Fiscal year ended December 31, 2021: ¥12,816 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, 2022	(483.05)	-	(22.6)	(4.2)	(9.3)
Fiscal year ended December 31, 2021	1,057.69	-	85.0	(15.8)	(55.6)

(Reference) Profit (loss) of entities accounted

for using equity method: Fiscal year ended December 31, 2022: ¥- million
Fiscal year ended December 31, 2021: ¥(36) million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	99,962	22,740	22.6	586.49
As of December 31, 2021	112,762	28,833	25.4	1,126.35

(Reference) Equity: As of December 31, 2022: ¥22,629 million
As of December 31, 2021: ¥28,656 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, 2022	645	(6,122)	(8,935)	24,110
Fiscal year ended December 31, 2021	(16,302)	42,890	8,319	38,619

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, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended December 31, 2022	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2023 (Forecast)	-	-	-	-	-		-	

(Notes)

1. The forecast for the year-end dividends for the fiscal year ending December 31, 2023 has not been determined at present.
2. “Dividends” above are dividends for common shares. For dividends for class shares (unlisted) with different rights from those of common shares issued by the Company, please see “Dividends on Class Shares” to be described later.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(% 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	24,600	34.4	(2,200)	-	(2,300)	-	(1,700)	-	(141.84)
Full year	56,600	29.4	400	-	200	-	800	-	66.75

*** 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: Yes
 - 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, 2022: 12,207,424 shares
December 31, 2021: 12,207,424 shares
 - 2) Total number of treasury shares at the end of the period:
December 31, 2022: 221,887 shares
December 31, 2021: 221,715 shares
 - 3) Average number of shares during the period:
Fiscal year ended December 31, 2022: 11,985,639 shares
Fiscal year ended December 31, 2021: 11,984,328 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(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, 2022	33,242	61.1	(2,210)	-	(2,469)	-	(6,234)	-
Fiscal year ended December 31, 2021	20,636	12.7	(10,855)	-	(11,456)	-	12,498	-

	Profit per share		Diluted profit per share	
	Yen		Yen	
Fiscal year ended December 31, 2022	(520.12)		-	
Fiscal year ended December 31, 2021	1,042.73		-	

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	99,894	21,770	21.8	514.82
As of December 31, 2021	114,854	28,390	24.7	1,104.16

(Reference) Equity: As of December 31, 2022: ¥21,770 million
As of December 31, 2021: ¥28,390 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.

Dividends on Class Shares

The following shows the breakdown of dividend per share of Class A preferred shares, which have different rights from those of common shares.

Class A preferred Shares	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	-	-	-	1,041,095.89	1,041,095.89
Fiscal year ended December 31, 2022	-	-	-	4,000,000.00	4,000,000.00
Fiscal year ending December 31, 2023 (Forecast)	-	-	-	-	-

(Notes)

1. The capital surplus was used to fund the dividends paid for the fiscal year ended December 31, 2022. For details, please see “Breakdown of Dividends Paid Out of Capital Surplus” below.
2. The forecast for dividends for the fiscal year ending December 31, 2023 has not been determined at present.
3. The Company issued the Class A preferred shares on September 28, 2021.

Breakdown of Dividends Paid Out of Capital Surplus

The following shows the breakdown of dividends paid out of capital surplus for the fiscal year ended December 31, 2022.

Record date	Year-end	Total
	Yen	Yen
Dividend per share	4,000,000.00	4,000,000.00
	Million yen	Million yen
Dividend total	600	600

(Note) Net asset decrease ratio is 0.028.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for Current Fiscal Year

During the fiscal year ended December 31, 2022, the tourism industry strove to balance the prevention of COVID-19 infections with economic activities, despite being affected by the prolonged impact of the pandemic, and saw signs of recovery following March when the priority preventive measures against the spread of COVID-19 were lifted. Although there was a temporary resurgence of infections after that, the movement restrictions were gradually relaxed and the industry has followed a further recovery trend since October, backed by the full-scale resumption of accepting inbound tourists and the national travel assistance program. Although there exist concerns over the soaring raw material and fuel prices stemming from the Russia-Ukraine conflict and other factors, along with labor shortages in the accommodation and restaurant service sectors, a recovery in demand is expected to continue in 2023.

In this environment, the Group has been pushing ahead with the business plan, with a further aim to build the cornerstone of its sustained growth in the future. With regard to “promotion of structural reform,” which is one of the major strategies, we steadily promoted cost reforms to lower the break-even net sales. In addition, we overhauled our human resource system in April, under which a scheme was put in place to reward people who continue taking on challenges and those who have produced results, and to help them advance their careers. As to “review of the business portfolio,” we introduced a new membership program, “THE FUJITA MEMBERS,” in April as a companywide effort to reinforce marketing/branding. With this program, we have developed a system to accumulate and utilize customer data.

Moreover, in the fourth quarter under review (from October to December), we captured the recovery in demand prompted by the full-scale resumption of accepting inbound tourists and the start of the national travel assistance program as mentioned above, which led to favorable results in both ADR and occupancy rate in the accommodation business of each segment.

As a result, net sales for the entire Group increased by ¥15,315 million year on year to ¥43,749 million, operating loss improved by ¥11,773 million year on year to ¥4,048 million, and ordinary loss improved by ¥12,081 million year on year to ¥4,461 million. Loss attributable to owners of parent was ¥5,789 million due to extraordinary income from cooperative payments for preventing the spread of infection and employment adjustment subsidies related to shortened business hours, as well as extraordinary losses, such as impairment losses and losses on withdrawal from business, etc.

An overview of business results is as follows.

	(Million yen)	
	Actual results for the current period	YoY change
Net sales	43,749	15,315
Operating loss	(4,048)	11,773
Ordinary loss	(4,461)	12,081
Loss attributable to owners of parent	(5,789)	(18,465)

An overview of business results by segment is as follows.
Sales and operating profit by segment

(Million yen)

	Net sales		Operating loss	
	Actual	YoY change	Actual	YoY change
WHG Business	20,587	10,153	(3,218)	8,876
Luxury & Banquet Business	15,191	2,750	(23)	1,843
Resort Business	5,638	1,889	(439)	686
Other (including adjustment amounts)	2,331	522	(366)	366
Total	43,749	15,315	(4,048)	11,773

(Note) Adjustment amounts refer to eliminations of inter-segment transactions.

1) WHG Business

The WHG Business saw a slow progress in room occupancy under the priority preventive measures against the spread of COVID-19 until March. Following April, however, the business achieved a gradual recovery as we seized on travel demand during the Golden Week holiday period and summer vacation. Following October, we captured the demand prompted by the full-scale resumption of accepting inbound tourists and the start of the national travel assistance program, and sales for inbound tourists mainly from South Korea grew particularly in Tokyo and Osaka. Thanks to the foregoing effects, both ADR and occupancy rate rose significantly year on year on a full year basis. In addition, the Company provided four facilities, including Hotel Gracery Shinjuku, to the government (building rental), which had the effect of increasing revenues. As a result, net sales for this segment increased by ¥10,153 million year on year to ¥20,587 million, and operating loss improved by ¥8,876 million to ¥3,218 million.

2) Luxury & Banquet Business

In the Luxury & Banquet Business, ADR of the accommodation business of the Hotel Chinzanso Tokyo exceeded that of 2019, the pre-pandemic level, due to the effect of measures for expanding sales of products related to “Tokyo Sea of Clouds” and hotel suits. In the wedding business, although the number of guests per ceremony continued to decline, the number of weddings recovered, including postponements from 2021, and the total number of facility users increased by 44% year on year. In the banquets business, demand for business use has not fully recovered, but events targeted at individual use showed strong performance, while the restaurant business and the golf business also performed well. As a result, net sales for this segment increased by ¥2,750 million year on year to ¥15,191 million, and operating loss improved by ¥1,843 million to ¥23 million.

3) Resort Business

In the Resort Business, Hakone Kowakien Ten-yu achieved strong sales of products that responded to the COVID-19 pandemic, such as a plan with in-room dining, and high-value-added products. In addition, we enhanced products for family customers such as dinner buffet during the summer vacation period, which contributed to increases in ADR and occupancy rate. Hakone Kowakien Yunessun held collaborative events with movies and anime and increased media exposure, which led to a year-on-year increase in the number of visitors. In addition, following October, acceptance of inbound tourists was fully resumed and the national travel assistance program was started, which had the effect of increasing revenues. As a result, net sales for this segment increased by ¥1,889 million year on year to ¥5,638 million, and operating loss improved by ¥686 million to ¥439 million. The Group has been engaged in redevelopment of the entire Hakone Kowakien area. Preparations are well underway for the opening of the new Hakone Hotel Kowakien in July 2023, in conjunction with which we have renovated Hakone Kowakien Yunessun.

(2) Overview of Financial Position for Current Fiscal Year

Total assets as of December 31, 2022 decreased by ¥12,799 million from the end of the previous fiscal year to ¥99,962 million. Current assets decreased by ¥13,328 million due mainly to a decrease in cash and deposits, and non-current assets increased by ¥529 million due mainly to the acquisition of assets associated with the redevelopment of Hakone Kowakien.

Liabilities decreased by ¥6,706 million from the end of the previous fiscal year to ¥77,222 million, mainly due to the repayments of borrowings. The total amount of borrowings as of December 31, 2022 was ¥49,732 million.

Net assets decreased by ¥6,093 million from the end of the previous fiscal year to ¥22,740 million, mainly due to a decrease of ¥5,789 million in retained earnings.

(3) Overview of Cash Flows for Current Fiscal Year

Cash and cash equivalents (hereinafter referred to as “Funds”) as of December 31, 2022 amounted to ¥24,110 million, down ¥14,509 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities was ¥645 million (¥16,302 million used in the previous fiscal year). This was mainly because operating loss improved by ¥11,773 million year on year.

2) Cash flows from investing activities

Net cash used in investing activities was ¥6,122 million (¥42,890 million provided in the previous fiscal year). This was mainly due to the acquisition of non-current assets of ¥6,998 million.

3) Cash flows from financing activities

Net cash used in financing activities was ¥8,935 million (¥8,319 million provided in the previous fiscal year). This was mainly due to repayments of long-term borrowings of ¥7,867 million.

(Reference) Historical cash flow indicators

	FY2018	FY2019	FY2020	FY2021	FY2022
Years of debt redemption (years)	8.4	9.0	-	-	77.3
Interest coverage ratio (times)	10.2	9.7	-	-	1.1

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 paid” in the consolidated statements of cash flows.
2. For the fiscal year ended December 31, 2020 and the fiscal year ended December 31, 2021, the years of debt redemption and interest coverage ratio are not stated as operating cash flows were negative.

(4) Future Outlook

Although the business environment surrounding the Group faces concerns over cost increases and labor shortages, there are expectations for recovery in travel demand. The Group will continue pushing ahead with the business plan, while carrying out measures with an eye toward a sustained growth and revenue increase in the future. For details, please refer to 3. Management Policies (2) Issues to be Addressed.

As for the full-year financial results forecast for 2023, the Group forecasts net sales of ¥56,600 million, an increase of ¥12,850 million year on year, operating profit of ¥400 million, an increase of ¥4,448 million year on year, and ordinary profit of ¥200 million, an increase of ¥4,661 million. The Group anticipates profit attributable to owners of parent of ¥800 million.

The forecast is based on the Group's judgement using currently available information, and actual results may vary from the forecast due to various factors.

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

Consolidated financial results forecast for the fiscal year ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(Million yen)

	First half				Full year			
	Net sales	Operating loss	Ordinary loss	Loss attributable to owners of parent	Net sales	Operating profit (loss)	Ordinary profit	Profit attributable to owners of parent
Consolidated total	24,600	(2,200)	(2,300)	(1,700)	56,600	400	200	800
WHG Business	13,300	(1,200)	-	-	30,300	350	-	-
Luxury & Banquet Business	7,600	(100)	-	-	17,000	800	-	-
Resort Business	2,700	(800)	-	-	7,500	(600)	-	-
Other (including adjustment amounts)	1,000	(100)	-	-	1,800	(150)	-	-

(Note) Adjustment amounts refer to eliminations of inter-segment transactions.

(5) 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 dividend on common shares for the fiscal year ended December 31, 2022, upon comprehensively taking into consideration factors including the business environment surrounding the Company and financial conditions, we sincerely regret to announce that no dividend will be paid.

As for the dividend on class shares issued through a third-party allotment in September 2021 for the fiscal year ended December 31, 2022, the Company plans to pay out an amount in accordance with the issuance document for the class shares drawn up at the time of the issuance.

Furthermore, dividends for the fiscal year ending December 31, 2023 are undetermined at this time. The Company will disclose a forecast as soon as possible, after comprehensively considering the future business environment and performance.

(6) 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 14, 2023, and risk factors related to business are not limited to these items.

1) Stock price fluctuations

The Group owns ¥9,500 million of marketable securities mainly of its business partners 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 ¥49,000 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 ¥68,500 million for the remaining portion of the lease period.

4) Natural disaster and pandemic outbreak

If a natural disaster such as a massive earthquake, volcanic eruption, typhoon, or extraordinary weather conditions occurs, or a pandemic such as COVID-19 or new strains of influenza breaks out, temporary suspension of business operations or cancellation 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 unprofitable, and if we decide to exit from these businesses, a considerable amount of loss may be temporarily incurred.

6) 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.

7) Fluctuation in Japanese yen interest rate

Among ¥49,700 million of borrowings as of the end of the current fiscal year, ¥12,800 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.

8) Fluctuation in exchange rate

Revenues and expenses, as well as receivables and payables, 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.

(7) Important Information about Going Concern Assumption

Impact of the spread of COVID-19

The Group saw signs of recovery in the business environment after the lifting of the priority preventive measures against the spread of COVID-19 in March. The environment followed a further recovery trend after October, when acceptance of inbound tourists was fully resumed and the national travel assistance program was started. The Group, however, posted operating loss of ¥4,048 million and loss attributable to owners of parent of ¥5,789 million in the current fiscal year. In consideration of such a situation and other factors, at this point in time, we believe that conditions exist that may cast significant doubt on the going concern assumption.

In these conditions, the Group has ensured business funding, based on a funding plan that assumes the prolonged impact. Moreover, the Group is taking measures to maximize profit by expanding sales and cost management.

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

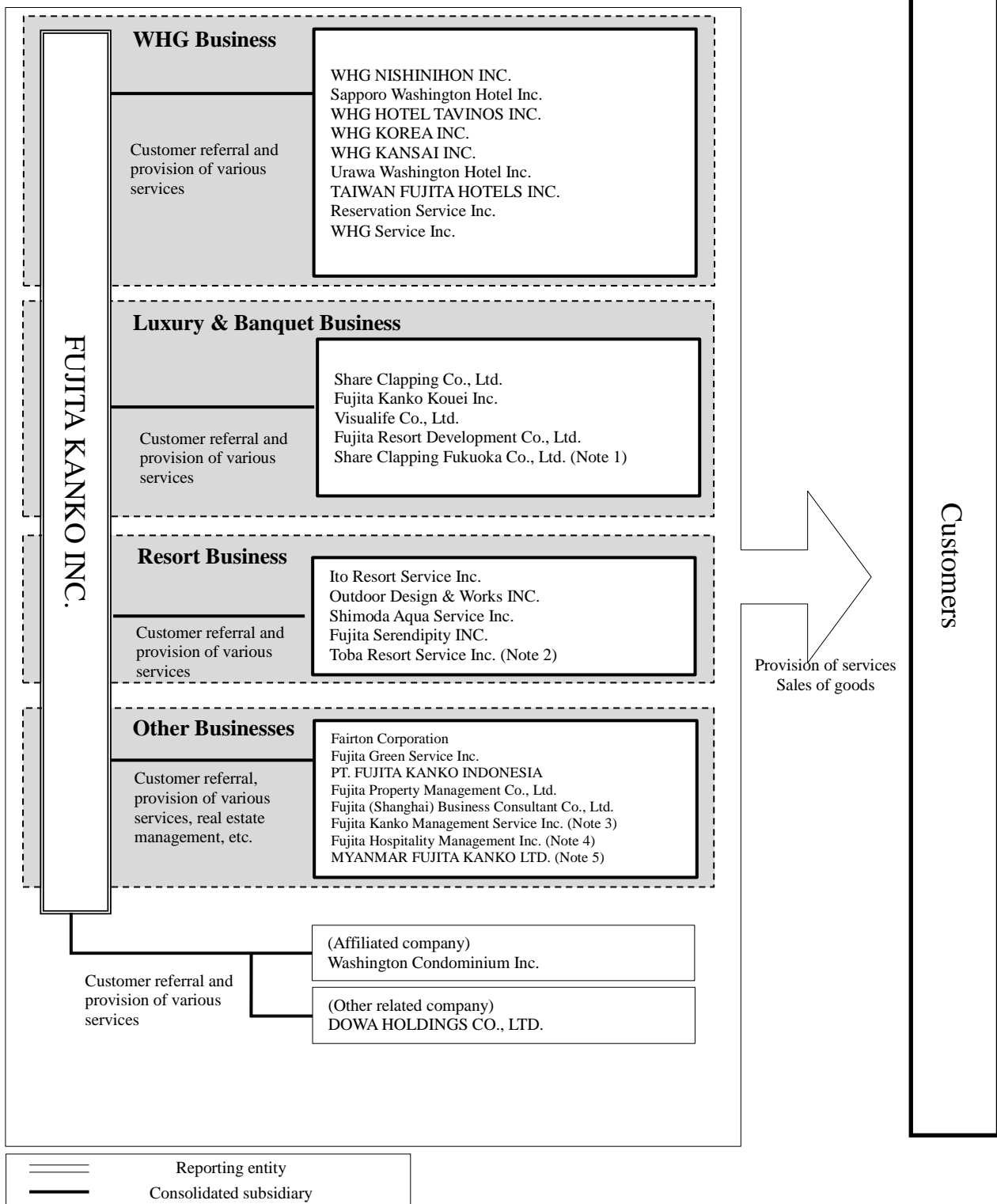
The Group consists of FUJITA KANKO INC., 27 consolidated subsidiaries, 1 affiliated company, and 1 other related company. The Group engages in the WHG Business, the Luxury & Banquet Business, and the Resort Business as the main businesses and provides various services related to each business.

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 9 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 5 companies including FUJITA KANKO INC. (the Company) and Share Clapping Co., Ltd.
	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. Share Clapping Fukuoka Co., Ltd. is inactive as of the end of the current fiscal year.
 2. Toba Resort Service Inc. is inactive as of the end of the current fiscal year.
 3. Fujita Kanko Management Service Inc. is inactive as of the end of the current fiscal year.
 4. TAIKO-EN INC. changed its trade name to Fujita Hospitality Management Inc. on November 2, 2022.
Fujita Hospitality Management Inc. is inactive as of the end of the current fiscal year.
 5. MYANMAR FUJITA KANKO LTD. is inactive as of the end of the current fiscal year.
 6. TAIWAN FUJITA KANKO INC. completed its 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

Basic understanding in view of the business environment

The environment surrounding the tourism industry faces concerns over an impact on the business performance due to cost increases such as higher utility and raw material expenses, as well as for labor shortages. However, travel demand turned to upward trend from the second half of the previous year, and it is expected that traffic of people will gain momentum throughout this year.

The Group will continue pushing ahead with the business plan and work to achieve improved profitability by capturing demand in the market recovery period to the maximum degree possible.

Progress of the business plan

Major strategies of the business plan are “I. Promotion of structural reform,” “II. Review of the business portfolio,” and “III. Strengthening the management control structure.” With an eye toward a sustained growth and revenue increase in the future, we will build a business foundation not easily swayed by the surrounding environment, while increasing added value to capture the recovery in demand after the end of the pandemic.

Major strategies	Key points
I. Promotion of structural reform	Measures for unprofitable businesses, organizational and staffing measures, measures for wages and employment, revision of the human resource system, cost-cutting, etc.
II. Review of the business portfolio	(Short-term) Reinforcement of marketing/branding (Medium- to long-term) Redevelopment of business sites where company-owned assets are located, effective utilization of assets, review of the business model of the WHG Business, etc.
III. Strengthening the management control structure	Enhancement of monitoring

I. Promotion of structural reform

To resolve issues that have materialized due to the COVID-19 pandemic, we advanced structural reforms and achieved improved productivity and cost-cutting. Going forward, we seek to expand sales, while retaining these effects as much as possible.

<Introduction of a new human resource system>

The Group introduced in April 2022 a new human resource system that rewards people who continue taking on challenges and those who have produced results, and helps them advance their careers. With this system in place, we will improve employee motivation and revitalize organizations. We also develop an environment where our people can hone their specialized skills in order to further improve the quality of our food and customer service, which form the core elements of our business. In addition to operating the new system, we will introduce in April 2023 area-specific job positions that enable working in specific areas or business locations. The new scheme will help us enhance our hiring capability and achieve diversity in employees’ work styles.

II. Review of the business portfolio

In order to improve profitability, which has been our longstanding challenge, we are revising our business portfolio. Aside from reinforcement of marketing/branding, we will review the business models of the WHG Business and study how our assets can be better utilized, redeveloped or other, as we look into the future with medium- to long-term perspectives.

<Strategy by segment>

WHG Business

The WHG Business, which has suffered a massive impact from the COVID-19 pandemic, is now advancing business structural reforms to enable future growth, including the review of chain management operation and improvement of operational efficiency by introducing more machines. While continuing with this initiative, we will implement measures to increase added value and enhance customer satisfaction by offering finest breakfast, and strengthen promotions that depict the concepts of Washington Hotel and Hotel Gracery brands and convey the experience value. In parallel with this, for HOTEL TAVINOS, a brand that we launched to target the millennials, we will enhance promotions outside Japan to raise again the TAVINOS brand awareness. In addition, to ensure sustained business growth without being swayed by the surrounding environment, we will expand the number of our locations by way of facility openings through franchising, management contracting* and others, not limited to the form of leasing.

* Management contracting: An arrangement under which management and operation of a hotel are entrusted

Luxury & Banquet Business

Hotel Chinzanso Tokyo that marked in November 2022 the 70th anniversary of its opening, will celebrate in 2023 the 145th anniversary of construction of the garden by Duke Aritomo Yamagata. Taking this occasion, we will restore the original beauty of the garden true to the naturalistic perspective as “New Twelve Views in Reiwa,” together with the water landscape cherished by Duke Yamagata, and develop further the garden. While continually enhancing the value of “Tokyo Sea of Clouds,” “Forest Aurora” and other programs that we have designed and created to date, we will raise and solidify the value of the Chinzanso brand by offering products related to the 70th anniversary and high-value added food and customer service. To ensure business growth with an eye toward future, we will also explore ways for effective utilization of assets we own with the aim of creating new values.

Resort Business

The construction of new Hakone Hotel Kowakien is progressing steadily for the opening on July 12. In parallel with this, we newly installed a flowing pool and private baths at Hakone Kowakien Yunessun to increase the appeal of the facility featuring hot springs. We also enhance the functions of activities it offers, including dining and camping, so as to develop it into an unmissable spot to visit in Hakone. Putting on track the operation of Hakone Hotel Kowakien at the earliest possible time, we will rebuild a business portfolio that would seize on various demands, and increase the appeal of the entire Hakone Kowakien area. We will also further enhance the added value of glamping, which has received acclaim amid the COVID-19 pandemic, utilize idle land, and increase profitability by streamlining operations and improving productivity.

<Reinforcement of marketing/branding>

Following the launch of an overhauled membership program, “THE FUJITA MEMBERS,” in April 2022, we are now enhancing marketing measures across the company. We will analyze customer needs based on their important personal information and utilize such information for making proposals tailored to each occasion of their use or for product development, seeking to make them repeat customers of the Company. To maximize the effects of a digital marketing scheme, we also strive to acquire new members and promote the use of our facilities.

III. Strengthening the management control structure

To promptly and appropriately make management decisions, we revised both our structure and functions such as by reviewing the meeting bodies and monitoring, in an effort to strengthen the management structure. Maintaining this structure, we will engage in management operation in an optimal condition.

Movement restrictions, border measures and other limitations in Japan and abroad are gradually relaxed, and we reached a phase where the government is set to review the classification of COVID-19 under the Infectious Diseases Control Law. Financial results, however, will be affected to a certain extent depending on how the pandemic will develop going forward. We will continue pushing ahead with the business plan, which is our top priority, to ensure profits even in this difficult environment, rebuild the Company so we can achieve sustained growth, and achieve profitability within this year.

Moreover, with an eye toward the end of the pandemic, we start formulating a new medium-term management plan to maximize profit.

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, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	38,647	24,139
Notes and accounts receivable - trade	2,292	4,157
Merchandise and finished goods	44	48
Work in process	19	26
Raw materials and supplies	314	386
Other	2,971	2,201
Allowance for doubtful accounts	(13)	(13)
Total current assets	44,276	30,947
Non-current assets		
Property, plant and equipment		
Buildings and structures	91,796	93,613
Accumulated depreciation	(56,900)	(59,249)
Buildings and structures, net	34,896	34,364
Tools, furniture and fixtures	19,432	19,675
Accumulated depreciation	(16,981)	(17,628)
Tools, furniture and fixtures, net	2,450	2,047
Land	6,894	6,381
Construction in progress	351	3,095
Golf courses	2,443	2,443
Other	4,122	4,316
Accumulated depreciation	(3,364)	(3,595)
Other, net	757	721
Total property, plant and equipment	47,793	49,053
Intangible assets		
Software	545	484
Other	211	188
Total intangible assets	756	673
Investments and other assets		
Investment securities	10,253	9,794
Guarantee deposits	9,280	9,195
Deferred tax assets	42	45
Other	466	360
Allowance for doubtful accounts	(107)	(107)
Total investments and other assets	19,935	19,288
Total non-current assets	68,486	69,015
Total assets	112,762	99,962

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	809	957
Short-term borrowings	10,700	10,042
Current portion of long-term borrowings	7,829	9,016
Income taxes payable	194	65
Accrued consumption taxes	219	1,131
Provision for bonuses	11	106
Provision for point card certificates	69	—
Provision for loss on business withdrawal	115	689
Provision for noncurrent assets removal cost	3	—
Other	3,982	5,311
Total current liabilities	23,935	27,321
Non-current liabilities		
Long-term borrowings	39,704	30,673
Provision for retirement benefits for directors (and other officers)	37	49
Deferred tax liabilities	1,168	401
Retirement benefit liability	6,780	6,490
Deposits received from members	10,444	10,547
Other	1,857	1,739
Total non-current liabilities	59,993	49,901
Total liabilities	83,929	77,222
Net assets		
Shareholders' equity		
Share capital	100	100
Capital surplus	32,412	32,256
Retained earnings	(5,231)	(11,020)
Treasury shares	(902)	(903)
Total shareholders' equity	26,378	20,432
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,533	2,233
Deferred gains or losses on hedges	(67)	3
Foreign currency translation adjustment	(144)	(316)
Remeasurements of defined benefit plans	(43)	276
Total accumulated other comprehensive income	2,277	2,196
Non-controlling interests	177	110
Total net assets	28,833	22,740
Total liabilities and net assets	112,762	99,962

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

(Million yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Net sales	28,433	43,749
Cost of sales	41,631	44,976
Gross loss	(13,197)	(1,227)
Selling, general and administrative expenses	2,625	2,821
Operating loss	(15,822)	(4,048)
Non-operating income		
Interest income	11	7
Dividend income	200	247
Foreign exchange gains	123	—
Dividend income of life insurance	69	47
Rental income from land and buildings	78	77
Other	154	102
Total non-operating income	638	482
Non-operating expenses		
Interest expenses	686	585
Share of loss of entities accounted for using equity method	36	—
Commission expenses	544	75
Loss on retirement of non-current assets	49	66
Other	41	167
Total non-operating expenses	1,358	895
Ordinary loss	(16,542)	(4,461)
Extraordinary income		
Subsidy bounty income	1,925	1,084
Gain on sale of non-current assets	33,369	4
Reversal of provision for assets removal	—	1
Gain on reversal of provision for loss on business withdrawal	5	0
Gain on sale of investment securities	1,763	—
Reversal of provision for cost of early retirement	24	—
Other	—	1
Total extraordinary income	37,088	1,092
Extraordinary losses		
Impairment losses	2,098	2,279
Provision for loss on business withdrawal	115	669
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	—	44
Loss on withdrawal from business	804	—
Amortization of goodwill	150	—
Provision of allowance for doubtful accounts	102	—
Provision for removal expenses of noncurrent assets	3	—
Other	113	—
Total extraordinary losses	3,388	2,994
Profit (loss) before income taxes	17,158	(6,362)
Income taxes - current	200	34
Income taxes - deferred	4,269	(613)
Total income taxes	4,469	(578)
Profit (loss)	12,688	(5,784)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Profit attributable to non-controlling interests	12	5
Profit (loss) attributable to owners of parent	12,675	(5,789)

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Profit (loss)	12,688	(5,784)
Other comprehensive income		
Valuation difference on available-for-sale securities	87	(300)
Deferred gains or losses on hedges	4	71
Foreign currency translation adjustment	33	(171)
Remeasurements of defined benefit plans, net of tax	20	320
Share of other comprehensive income of entities accounted for using equity method	(17)	—
Total other comprehensive income	128	(80)
Comprehensive income	12,816	(5,864)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,803	(5,870)
Comprehensive income attributable to non-controlling interests	12	5

(3) Consolidated Statements of Changes in Net Assets

For the fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	12,081	5,430	(17,546)	(931)	(966)
Changes during period					
Issuance of new shares	7,500	7,500			15,000
Transfer from share capital to other capital surplus	(19,481)	19,481			—
Dividends of surplus - other capital surplus					—
Profit attributable to owners of parent			12,675		12,675
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		0			0
Change in scope of equity method			(359)	30	(329)
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes in items other than shareholders' equity					—
Total changes during period	(11,981)	26,981	12,315	28	27,345
Balance at end of period	100	32,412	(5,231)	(902)	26,378

	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	2,463	(71)	(178)	(64)	2,149	164	1,347
Changes during period							
Issuance of new shares							15,000
Transfer from share capital to other capital surplus							–
Dividends of surplus - other capital surplus							–
Profit attributable to owners of parent							12,675
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Change in scope of equity method							(329)
Change in ownership interest of parent due to transactions with non-controlling interests							–
Net changes in items other than shareholders' equity	69	4	33	20	128	12	141
Total changes during period	69	4	33	20	128	12	27,486
Balance at end of period	2,533	(67)	(144)	(43)	2,277	177	28,833

For the fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	100	32,412	(5,231)	(902)	26,378
Changes during period					
Issuance of new shares					–
Transfer from share capital to other capital surplus					–
Dividends of surplus - other capital surplus		(156)			(156)
Profit attributable to owners of parent			(5,789)		(5,789)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					–
Change in scope of equity method					–
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Net changes in items other than shareholders' equity					–
Total changes during period	–	(156)	(5,789)	(0)	(5,946)
Balance at end of period	100	32,256	(11,020)	(903)	20,432

	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	2,533	(67)	(144)	(43)	2,277	177	28,833
Changes during period							
Issuance of new shares							–
Transfer from share capital to other capital surplus							–
Dividends of surplus - other capital surplus							(156)
Profit attributable to owners of parent							(5,789)
Purchase of treasury shares							(0)
Disposal of treasury shares							–
Change in scope of equity method							–
Change in ownership interest of parent due to transactions with non-controlling interests							0
Net changes in items other than shareholders' equity	(300)	71	(171)	320	(80)	(66)	(147)
Total changes during period	(300)	71	(171)	320	(80)	(66)	(6,093)
Balance at end of period	2,233	3	(316)	276	2,196	110	22,740

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	17,158	(6,362)
Depreciation	4,041	3,613
Impairment losses	2,098	2,279
Amortization of goodwill	160	—
Reversal of provision for cost of early retirement	(24)	—
Increase (decrease) in allowance for doubtful accounts	101	(0)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(50)	12
Increase (decrease) in provision for bonuses	11	95
Increase (decrease) in provision for point card certificates	(48)	(69)
Increase (decrease) in provision for loss on business withdrawal	112	574
Increase (decrease) in provision of noncurrent assets removal	(444)	(3)
Increase (decrease) in provision for loss on disaster	(9)	—
Increase (decrease) in retirement benefit liability	(3,013)	28
Interest and dividend income	(211)	(255)
Interest expenses	686	585
Foreign exchange losses (gains)	(123)	62
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	—	44
Share of loss (profit) of entities accounted for using equity method	36	—
Loss (gain) on sale of non-current assets	(33,369)	(4)
Loss on retirement of non-current assets	49	66
Loss (gain) on sale of short-term and long-term investment securities	(1,763)	—
Loss (gain) on valuation of investment securities	0	—
Decrease (increase) in trade receivables	(248)	(1,863)
Decrease (increase) in inventories	62	(82)
Increase (decrease) in trade payables	53	148
Increase (decrease) in accrued consumption taxes	119	911
Other, net	185	1,382
Subtotal	(14,431)	1,164
Interest and dividends received	208	255
Interest paid	(688)	(589)
Early retirement expenses paid	(1,777)	—
Income taxes refund (paid)	385	(184)
Net cash provided by (used in) operating activities	(16,302)	645

(Million yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(1,428)	(6,998)
Proceeds from sale of property, plant and equipment and intangible assets	39,732	5
Proceeds from sale of investment securities	6,249	—
Payments into time deposits	(0)	(0)
Payments of guarantee deposits	(1,936)	(19)
Proceeds from refund of guarantee deposits	264	883
Other, net	9	7
Net cash provided by (used in) investing activities	42,890	(6,122)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,715	(658)
Proceeds from long-term borrowings	181	—
Repayments of long-term borrowings	(8,467)	(7,867)
Proceeds from issuance of shares	15,000	—
Purchase of treasury shares	(1)	(0)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(72)
Dividends paid	—	(156)
Repayments of finance lease liabilities	(40)	(40)
Other, net	(68)	(140)
Net cash provided by (used in) financing activities	8,319	(8,935)
Effect of exchange rate change on cash and cash equivalents	15	(97)
Net increase (decrease) in cash and cash equivalents	34,921	(14,509)
Cash and cash equivalents at beginning of period	3,697	38,619
Cash and cash equivalents at end of period	38,619	24,110