

Non-Consolidated Financial Report for the Year ended December 31, 2010

February 18, 2011

Company name: Otsuka Kagu, Ltd.
 Ticker symbol number: 8186
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Date of commencement of dividend payment: March 30, 2011

Date of annual shareholders' meeting: March 29, 2011

Date of filing of Securities Report: March 29, 2011

1. Non-Consolidated Financial Performance for the Year ended December 31, 2010

(1) Results of operations

(Any amount less than a million yen is discarded.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended December 31, 2010	56,912	(1.7)	(132)	—	38	—
Year ended December 31, 2009	57,925	(13.3)	(1,451)	—	(1,337)	—

	Net income		Net income per share (basic)	Net income per share (diluted)
	Millions of yen	%	Yen	Yen
Year ended December 31, 2010	(255)	—	(13.18)	—
Year ended December 31, 2009	(1,490)	—	(76.84)	—

	Return on equity	Ordinary income to total assets	Operating income to net sales
	%	%	%
Year ended December 31, 2010	(0.7)	0.1	(0.2)
Year ended December 31, 2009	(4.2)	(3.0)	(2.5)

Note: The percentages represent changes from the previous fiscal year.

Reference: Earnings or loss on investments in equity-method affiliates (Millions of yen)

Year ended December 31, 2010: —

Year ended December 31, 2009: —

(2) Financial position

(Any amount of less than a million yen is discarded.)

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2010	42,714	34,019	79.6	1,753.63
As of December 31, 2009	43,707	34,655	79.3	1,786.41

Reference: Equity = Net assets - Treasury stock - Deferred hedge profit (loss)

Year ended December 31, 2010: 34,019 million yen

Year ended December 31, 2009: 34,655 million yen

(3) Cash flow position

(Any amount of less than a million yen is discarded.)

	Net cash provided by operating activities	Net cash provided by (used in) investing activities	Net cash used in financing activities	Cash and cash equivalents at the end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended December 31, 2010	717	(768)	(775)	6,270
Year ended December 31, 2009	(1,328)	(156)	(774)	7,097

2. Dividends

	Cash dividends per share (yen)		
	Interim	Year-end	For the year
Year ended December 31, 2009	—	40.00	40.00
Year ended December 31, 2010	—	40.00	40.00
Year ending December 31, 2011 (forecast)	—	40.00	40.00

	Total cash dividends paid for the year	Payout ratio	Dividend to net assets
	Millions of yen	%	%
Year ended December 31, 2009	775	—	2.2
Year ended December 31, 2010	775	—	2.3
Year ending December 31, 2011 (forecast)		1,159.4	

3. Forecast of Non-Consolidated Financial Performance for Fiscal 2011 (From January 1, 2011, to December 31, 2011)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ending June 30, 2011	29,787	4.2	840	719.5	961	314.9
Year ending December 31, 2011	58,350	2.5	970	—	1,126	—

	Net income		Net income per share (basic)
	Millions of yen	%	Yen
Six months ending June 30, 2011	22	(84.7)	1.14
Year ending December 31, 2011	66	—	3.45

4. Others

(1) Change in the principles of accounting

- a. Changes resulted from the amendment of accounting standards: None
- b. Changes other than the above change: None

(2) Number of shares issued (common stock)

a. Number of shares issued at the end of the year (including treasury stock):

Year ended December 31, 2010: 19,400,000 shares

Year ended December 31, 2009: 19,400,000 shares

b. Number of shares of treasury stock at the end of the year:

Year ended December 31, 2010: 365 shares

Year ended December 31, 2009: 204 shares

*Explanation regarding the appropriate use of forecasts and other special notes

Descriptions of future events such as forecasts of financial performance stated in this report are prepared based on the information available to the Company at the time of the preparation of this report. Accordingly, the actual results may differ from those descriptions, depending on various factors.

5. Financial Statements

(1) Non-consolidated Balance Sheets

(Thousands of yen)

	December 31, 2009		December 31, 2010	
Assets				
Current assets				
Cash and deposits		7,097,494		6,270,896
Notes receivable-trade	*4	181,339	*4	247,096
Accounts receivable-trade		2,075,522		2,592,621
Short-term investment securities	*3	15,523		-
Merchandise		14,672,727		13,252,711
Advance payments-trade		42,991		93,783
Prepaid expenses		990,083		898,594
Income taxes receivable		19,552		6,305
Deferred tax assets		194,380		466,051
Other		65,621		39,338
Allowance for doubtful accounts		(720)		(260)
Total current assets		25,354,516		23,867,139
Noncurrent assets				
Property, plant and equipment				
Buildings, net	*2	1,234,061	*2	1,245,058
Structures, net		24,040		27,832
Machinery and equipment, net		8,812		6,308
Vessels, net		480		320
Vehicles, net		21,622		13,477
Tools, furniture and fixtures, net		534,834		639,681
Land	*2	1,335,121	*2	1,275,556
Total property, plant and equipment	*1	3,158,971	*1	3,208,233
Intangible assets				
Software		97,419		86,771
Other		14,820		14,937
Total intangible assets		112,239		101,709
Investments and other assets				
Investment securities		6,193,489		6,749,021
Stocks of subsidiaries and affiliates		77,000		77,000
Long-term prepaid expenses		1,349		1,113
Guarantee deposits		7,350,120	*3	7,756,453
Deferred tax assets		1,254,631		756,388
Other		207,358		197,056
Allowance for doubtful accounts		(2,000)		(0)
Total investments and other assets		15,081,949		15,537,033
Total noncurrent assets		18,353,160		18,846,976
Total assets		43,707,677		42,714,115

(Thousands of yen)

	December 31, 2009	December 31, 2010
Liabilities		
Current liabilities		
Notes payable-trade	1,738,935	1,664,917
Accounts payable-trade	2,401,269	2,131,430
Accounts payable-other	37,450	252,766
Accrued expenses	1,763,959	1,695,421
Income taxes payable	45,068	64,795
Advances received	1,632,370	1,573,071
Deposits received	305,298	293,112
Provision for bonuses	91,192	89,095
Provision for sales promotion expenses	46,133	47,330
Other	224,337	170,941
Total current liabilities	8,286,015	7,982,882
Noncurrent liabilities		
Guarantee deposits received	*2 312,204	*2 277,761
Provision for directors' retirement benefits	453,517	433,610
Total noncurrent liabilities	765,721	711,371
Total liabilities	9,051,737	8,694,253
Net assets		
Shareholders' equity		
Capital stock	1,080,000	1,080,000
Capital surplus		
Legal capital surplus	3,690,470	3,690,470
Total capital surpluses	3,690,470	3,690,470
Retained earnings		
Legal retained earnings	270,000	270,000
Other retained earnings		
General reserve	31,020,000	28,820,000
Retained earnings brought forward	(1,406,110)	(237,878)
Total retained earnings	29,883,889	28,852,121
Treasury stock	(707)	(867)
Total shareholders' equity	34,653,651	33,621,723
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,288	398,138
Total valuation and translation adjustments	2,288	398,138
Total net assets	34,655,939	34,019,861
Total liabilities and net assets	43,707,677	42,714,115

(2) Non-consolidated Statements of Operations

(Thousands of yen)

	For the year ended December 31, 2009	For the year ended December 31, 2010
Net sales		
Net sales of goods	57,856,460	56,843,530
Rent income of real estate	68,746	68,849
Total net sales	57,925,207	56,912,379
Cost of sales		
Cost of goods sold		
Beginning goods	15,447,122	14,672,727
Cost of purchased goods	27,154,545	24,552,506
Total	42,601,667	39,225,234
Transfer to other account	639,327	153,444
Ending goods	14,672,727	13,252,711
Cost of goods sold	27,289,612	25,819,078
Cost of real estate rent	29,697	28,464
Total cost of sales	27,319,310	25,847,542
Gross profit	30,605,897	31,064,837
Selling, general and administrative expenses	*1 32,057,837	*1 31,197,406
Operating loss	(1,451,940)	(132,569)
Non-operating income		
Interest income	223	49
Dividends income	92,184	83,029
Dividends income of insurance	-	40,945
Other	50,101	59,501
Total non-operating income	142,509	183,526
Non-operating expenses		
Interest expenses on guarantee deposits	5,136	4,447
Loss on retirement of noncurrent assets	12,434	6,866
Bad debts expenses	6,699	-
Other	3,617	932
Total non-operating expenses	27,888	12,245
Ordinary income (loss)	(1,337,319)	38,711
Extraordinary income		
Reversal of allowance for doubtful accounts	5,364	459
Gain on sales of noncurrent assets	-	58,833
Reversal of provision for directors' retirement benefits	8,200	-
Total extraordinary income	13,564	59,293
Extraordinary loss		
Loss on valuation of golf club membership	14,230	1,575
Loss on valuation of investment securities	300,164	9,533
Impairment loss	*2 110,166	*2 24,996
Loss on closing of stores	37,873	229,644
Loss on valuation of goods	470,921	-
Total extraordinary losses	933,357	265,749
Loss before income taxes	(2,257,113)	(167,744)
Income taxes-current	38,709	25,737
Income taxes-deferred	(805,228)	62,294
Total income taxes	(766,518)	88,032
Net loss	(1,490,594)	(255,776)

(3) Non-consolidated Statements of Changes in Net Assets

(Thousands of yen)

	For the year ended December 31, 2009	For the year ended December 31, 2010
Shareholders' equity		
Capital stock		
Balance at the end of previous period	1,080,000	1,080,000
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	1,080,000	1,080,000
Capital surplus		
Legal capital surplus		
Balance at the end of previous period	3,690,470	3,690,470
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	3,690,470	3,690,470
Total capital surplus		
Balance at the end of previous period	3,690,470	3,690,470
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	3,690,470	3,690,470
Retained earnings		
Legal retained earnings		
Balance at the end of previous period	270,000	270,000
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	270,000	270,000
Other retained earnings		
General reserve		
Balance at the end of previous period	40,320,000	31,020,000
Changes of items during the period		
Reversal of general reserve	(9,300,000)	(2,200,000)
Total changes of items during the period	(9,300,000)	(2,200,000)
Balance at the end of current period	31,020,000	28,820,000
Retained earnings brought forward		
Balance at the end of previous period	(8,439,523)	(1,406,110)
Changes of items during the period		
Reversal of general reserve	9,300,000	2,200,000
Dividends from surplus	(775,992)	(775,991)
Net loss	(1,490,594)	(255,776)
Total changes of items during the period	7,033,413	1,168,231
Balance at the end of current period	(1,406,110)	(237,878)
Total retained earnings		
Balance at the end of previous period	32,150,476	29,883,889
Changes of items during the period		
Reversal of general reserve	-	-
Dividends from surplus	(775,992)	(775,991)
Net loss	(1,490,594)	(255,776)
Total changes of items during the period	(2,266,586)	(1,031,768)
Balance at the end of current period	29,883,889	28,852,121

(Thousands of yen)

	For the year ended December 31, 2009	For the year ended December 31, 2010
Treasury stock		
Balance at the end of previous period	(699)	(707)
Changes of items during the period		
Purchase of treasury stock	(8)	(159)
Total changes of items during the period	(8)	(159)
Balance at the end of the current period	(707)	(867)
Total shareholders' equity		
Balance at the end of previous period	36,920,247	34,653,651
Changes of items during the period		
Dividends from surplus	(775,992)	(775,991)
Net loss	(1,490,594)	(255,776)
Purchase of treasury stock	(8)	(159)
Total changes of items during the period	(2,266,595)	(1,031,928)
Balance at the end of current period	34,653,651	33,621,723
Valuation and translation adjustments		
Valuation difference on available-for-sale-securities		
Balance at the end of previous period	(313,498)	2,288
Changes of items during the period		
Net changes of items other than shareholders' equity	315,786	395,850
Total changes of items during the period	315,786	395,850
Balance at the end of current period	2,288	398,138
Deferred gains or losses on hedges		
Balance at the end of previous period	(11,467)	-
Changes of items during the period		
Net changes of items other than shareholders' equity	11,467	-
Total changes of items during the period	11,467	-
Balance at the end of current period	-	-
Total valuation and translation adjustments		
Balance at the end of previous period	(324,966)	2,288
Changes of items during the period		
Net changes of items other than shareholders' equity	327,254	395,850
Total changes of items during the period	327,254	395,850
Balance at the end of current period	2,288	398,138
Total net assets		
Balance at the end of previous period	36,595,281	34,655,939
Changes of items during the period		
Dividends from surplus	(775,992)	(775,991)
Net loss	(1,490,594)	(255,776)
Purchase of treasury stock	(8)	(159)
Net changes of items other than shareholders' equity	327,254	395,850
Total changes of items during the period	(1,939,341)	(636,077)
Balance at the end of current period	34,655,939	34,019,861

(4) Non-consolidated Statements of Cash Flows

(Thousands of yen)

	For the year ended December 31, 2009	For the year ended December 31, 2010
Net cash provided by (used in) operating activities		
Loss before income taxes	(2,257,113)	(167,744)
Depreciation and amortization	275,100	241,325
Amortization of guarantee deposits	54,477	14,541
Increase (decrease) in allowance for doubtful accounts	(35,846)	(2,460)
Increase (decrease) in provision for bonuses	(13,023)	(2,096)
Increase (decrease) in provision for directors' retirement benefits	(11,802)	(19,907)
Increase (decrease) in provision for sales promotion expenses	(2,409)	1,196
Loss on valuation of golf club memberships	14,230	1,575
Loss (gain) on valuation of investment securities	300,164	9,533
Impairment loss	110,166	24,996
Loss on retirement of noncurrent assets	12,434	6,866
Interest and dividends income	(92,408)	(83,079)
Decrease (increase) in notes and accounts receivable-trade	75,299	(582,855)
Decrease (increase) in inventories	689,615	1,325,756
Decrease (increase) in advance payments	117,501	(50,792)
Decrease (increase) in other current assets	60,140	117,758
Increase (decrease) in notes and accounts payable-trade	(508,766)	(343,857)
Increase (decrease) in advances received	(302,170)	(59,298)
Increase (decrease) in accrued expenses	(20,972)	(178,059)
Increase (decrease) in other current liabilities	(19,101)	(25,725)
Increase (decrease) in accrued consumption taxes	(114,353)	228,985
Increase (decrease) in income taxes payable-the factor based tax	27,925	15,159
Other, net	43,026	170,073
Subtotal	(1,597,882)	641,891
Interest and dividends income received	92,408	83,092
Income taxes paid	(53,855)	(34,366)
Income taxes refund	230,933	26,442
Net cash provided by (used in) operating activities	(1,328,395)	717,060
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(194,727)	(294,073)
Proceeds from sales of property, plant and equipment	309	101,576
Purchase of intangible assets	(94,891)	(20,516)
Payments for guarantee deposits	(345,303)	(722,664)
Proceeds from collection of guarantee deposits	534,972	280,462
Repayments of lease deposits	(39,578)	(38,889)
Proceeds from cancellation of insurance funds	25,279	13,502
Other, net	(42,119)	(87,465)
Net cash provided by (used in) investing activities	(156,059)	(768,068)
Net cash provided by (used in) financing activities		
Purchase of treasury stock	(8)	(159)
Cash dividends paid	(774,571)	(775,429)
Net cash provided by (used in) financing activities	(774,580)	(775,589)
Net increase (decrease) in cash and cash equivalents	(2,259,035)	(826,597)
Cash and cash equivalents at beginning of period	9,356,529	7,097,494
Cash and cash equivalents at end of period	* 7,097,494	* 6,270,896

(5) Significant Accounting Policies

Item	For the year ended December 31, 2010
1. Securities	<p>(1) Investments in subsidiaries and affiliates Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.</p> <p>(2) Other securities</p> <p>a. Other securities for which market quotations are available: These are stated at fair value as of the balance sheet date. Net unrealized holding gains or losses on these securities are presented as a separate component of net assets. Realized gains or losses on sales of these securities are determined by the moving-average method.</p> <p>b. Other securities for which market quotations are unavailable: These are stated at cost determined by the moving-average method.</p>
2. Inventories	Inventories are stated at cost determined by the moving-average method. (The balance sheet amounts are stated at cost using the method of devaluing book value to reflect declines in profitability.)
3. Depreciation and amortization of fixed assets	<p>(1) Tangible fixed assets Depreciation of tangible fixed assets is computed by the declining-balance method over the estimated useful lives of the respective assets. However, buildings, excluding improvements, acquired on or after April 1, 1998, are depreciated by the straight-line method. Major useful lives are as follows: Buildings: 2–50 years Tools, furniture and fixtures: 2–17 years</p> <p>(2) Intangible fixed assets Intangible fixed assets are amortized by the straight-line method. Amortization of software for internal use is determined using the straight-line method over the estimated useful lives (five years).</p> <p>(3) Long-term prepaid expenses Long-term prepaid expenses are amortized equally over the relevant period.</p>

Item	For the year ended December 31, 2010
4. Allowances	<p>(1) Allowance for doubtful accounts An allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collections. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount based on past experience of bad debt losses for the remaining receivables.</p> <p>(2) Allowance for bonuses An allowance for bonuses to employees is provided in the estimated amounts of future payments attributable to the current year.</p> <p>(3) Allowance for retirement benefits to directors and corporate auditors An allowance for retirement benefits to directors and corporate auditors is provided in the amount required as stipulated in the Company' internal regulations.</p> <p>(4) Allowance for sales promotion An allowance for sales promotion is provided for expenses resulting from the use of gift coupons issued to customers for the purchase of furniture in the amount expected to be used.</p>
5. Foreign currency translation	Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are charged or credited to income.
6. Cash and cash equivalents	Cash and cash equivalents included in the Statement of Cash Flows consist of cash on hand, cash in banks which can be withdrawn on demand, and short-term investments with a maturity of three months or less when purchased which can easily be converted into cash and are subject to little risk of change in value.
7. Other significant basis of preparation of the financial statements	<p>(1) Consumption taxes Consumption taxes are separately recorded from the related items in the financial statements.</p> <p>(2) For finance lease transactions that do not involve transfer of ownership for which the start date of the lease transaction was on or before December 31, 2008, the Company applies the accounting procedures based on the method for ordinary lease transactions.</p>

(6) Notes to Non-Consolidated Financial Statements

(Balance Sheets)

As of December 31, 2010	
1. Accumulated depreciation of tangible fixed assets (directly deducted from the tangible fixed assets) totaled 3,918,725 thousand yen.	
2. Assets pledged as collateral and liabilities secured by such collateral are as follows: (Thousands of yen)	
Assets pledged as collateral	
Buildings	108,464
Land	10,023
Total	118,487
Liabilities secured by such collateral	
Guarantee deposits received	240,761
3. Out of the above amount, 10,000 thousand yen are pledged as collateral with the Ministry of Justice under the Building Lots and Buildings Transaction Business Act.	
4. The Company assumes that notes maturing on bank holidays are settled on their dates of maturity. The following notes reached maturity on bank holidays:	
Trade notes receivable	16,371 thousand yen

(Statements of Operations)

For the year ended December 31, 2010	
1. Selling, general and administrative expenses principally consisted of the following: (Thousands of yen)	
Freight	1,636,198
Advertising	3,480,359
Provision for allowance for sales promotion	44,245
Allowance for employee bonuses	88,991
Provision for reserve for retirement allowance to directors and corporate auditors	15,875
Salaries	8,709,329
Depreciation	226,614
Rent	9,827,695
Administrative expenses	2,046,765

2. The Company recorded an impairment loss on the following asset groups.

Location	Use	Classification	Others	Impairment loss (Thousands of yen)
Chita-gun, Aichi and others	Idle assets	Land	—	22,286
Fukuoka Showroom and others	Retail stores and others	Vehicles and equipment	—	2,709

Retail stores are primarily classified into groups based on the management accounting units on which revenue and expenditure are continuously recorded. Idle assets are individually classified.

The book values of asset groups whose retail stores incurred operating losses continuously were reduced to the recoverable amount. The book values of idle assets were written down to their respective recoverable amounts due to a significant decline in the market value of land. The resulting impairment loss amounted to 24,996 thousand yen and is recorded as an extraordinary loss.

The impairment loss consists of 22,286 thousand yen for land and 2,709 thousand yen for vehicles and equipment.

The recoverable amounts from these asset groups were calculated based on the net selling prices. The recoverable amounts from asset groups that have a significant impact on the balance sheets were calculated based on assessments from real estate appraisers in accordance with established standards.

(Statements of Changes in Net Assets)

For the year ended December 31, 2010 (From January 1, 2010, to December 31, 2010)

1. The classification and aggregate number of shares issued and the classification and number of treasury stock

	As of December 31, 2009 (Thousands of shares)	Increase during the year ended December 31, 2010 (Thousands of shares)	Decrease during the year ended December 31, 2010 (Thousands of shares)	As of December 31, 2010 (Thousands of shares)
Number of shares issued:				
Common stock (Notes)	19,400	—	—	19,400
Total	19,400	—	—	19,400
Treasury stock:				
Common stock (Notes)	0	0	—	0
Total	0	0	—	0

Notes: The increase of shares in treasury stock is due to the acquisition of treasury stock pursuant to Article 155, Paragraph 7, of the Companies Act.

2. Stock acquisition rights

None applicable

3. Dividends

(1) Dividends paid during the year under review

Resolution	Class of shares	Total dividends (Thousands of yen)	Amount of dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders on March 26, 2010	Common stock	775,991	40.00	December 31, 2009	March 29, 2010

(2) Dividends to be paid after the closing date of the year under review

Resolution	Class of shares	Source for payment of dividends	Total dividends (Thousands of yen)	Amount of dividends per share (Yen)	Record date	Effective date
Annual general meeting of shareholders on March 29, 2011	Common stock	Retained earnings	775,985	40.00	December 31, 2010	March 30, 2011

(Statements of Cash Flows)

(Thousands of yen)

Reconciliation of "Cash and deposits" in the Balance Sheets and "Cash and cash equivalents" in the Statements of Cash Flows	For the year ended December 31, 2010
Cash and deposits	6,270,896
Cash and cash equivalents	6,270,896

6. Net Sales by Segment and Merchandise

(Thousands of yen)

	For the year ended December 31, 2009		For the year ended December 31, 2010	
	Amount	%	Amount	%
Furniture				
Storage Furniture	1,900,635	3.3	1,809,629	3.2
Japanese-Style Furniture	312,778	0.6	285,387	0.5
Furniture for Living Rooms	13,998,610	24.2	13,340,241	23.5
Living Room Boards	4,345,381	7.5	4,199,654	7.4
School and Office Furniture	2,897,061	5.0	2,891,052	5.1
Dining Furniture	11,079,499	19.1	10,649,946	18.7
Carpets and Curtains	4,553,026	7.9	4,750,253	8.3
Bedding	13,517,006	23.3	13,477,707	23.7
Lighting and Household Fixtures	1,974,444	3.4	2,009,712	3.5
Unit Furniture	1,354,826	2.3	1,373,359	2.4
Lithography and Paintings	50,412	0.1	46,497	0.1
Others	1,872,778	3.2	2,010,087	3.5
Total sales	57,856,460	99.9	56,843,530	99.9
Real estate rental	68,746	0.1	68,849	0.1
Total revenue	57,925,207	100.0	56,912,379	100.0

Any fractional amount of less than a thousand yen is discarded.