

**Non-Consolidated Financial Report
for the Year ended December 31, 2017
[Japanese GAAP]**

February 8, 2018

Company name: Otsuka Kagu, Ltd.
 Ticker symbol number: 8186
 URL: <http://www.idc-otsuka.jp/company/>
 Representative: Kumiko Otsuka, President and Representative Director
 Head office: 3-6-11, Ariake, Koto-ku, Tokyo, Japan
 Contact: Hitoshi Sugitani, Board Director and Managing Executive Officer
 and General Manager, Finance Division
 Tel: (03) 5530-5522

Date of commencement of dividend payment: March 27, 2018

Date of annual shareholders' meeting: March 26, 2018

Date of filing of Securities Report: March 26, 2018

Availability of supplementary briefing material on results: Available

Schedule of results briefing session: Planned (for institutional investors and analysts)

1. Non-Consolidated Financial Performance for the Year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(1) Results of operations

(Any amount of 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, 2017	41,079	(11.3)	(5,136)	—	(5,144)	—
Year ended December 31, 2016	46,307	(20.2)	(4,597)	—	(4,436)	—

	Profit		Profit per share (basic)	Profit per share (diluted)
	Millions of yen	%	Yen	Yen
Year ended December 31, 2017	(7,259)	—	(410.62)	—
Year ended December 31, 2016	(4,567)	—	(257.10)	—

	Return on equity	Ordinary income to total assets	Operating income to net sales
	%	%	%
Year ended December 31, 2017	(33.2)	(15.4)	(12.5)
Year ended December 31, 2016	(15.1)	(10.6)	(9.9)

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, 2017: —

Year ended December 31, 2016: —

(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, 2017	29,169	17,648	60.5	937.46
As of December 31, 2016	37,685	26,024	69.1	1,484.08

Reference: Equity = Net assets - Subscription rights to shares

As of December 31, 2017: 17,648 million yen

As of December 31, 2016: 26,024 million yen

(3) Cash flow position

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

	Net cash used in 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, 2017	(4,785)	3,094	(356)	1,806
Year ended December 31, 2016	(5,770)	(812)	(534)	3,853

2. Dividends

	Cash dividends per share (yen)				
	End of first quarter	End of second quarter	End of third quarter	Year-end	For the year
Year ended December 31, 2016	—	0.00	—	80.00	80.00
Year ended December 31, 2017	—	0.00	—	40.00	40.00
Year ending December 31, 2018 (forecast)	—	0.00	—	10.00	10.00

	Total cash dividends paid for the year	Payout ratio	Dividend to net assets
	Millions of yen	%	%
Year ended December 31, 2016	1,411	—	4.8
Year ended December 31, 2017	757	—	3.3
Year ending December 31, 2018 (forecast)		12.7	

Note: Total cash dividends paid for the year ended December 31, 2017 includes 4 million yen of dividend relating to the Company's treasury shares held by the "stock grant ESOP trust account."

3. Forecast of Non-Consolidated Financial Performance for Fiscal 2018 (From January 1, 2018 to December 31, 2018)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ending June 30, 2018	21,687	1.4	(830)	—	(816)	—
Year ending December 31, 2018	45,663	11.2	200	—	150	—

	Profit		Profit per share (basic)
	Millions of yen	%	Yen
Six months ending June 30, 2018	470	—	26.58
Year ending December 31, 2018	1,390	—	78.62

Note: The percentages for the year ending December 31, 2018 and the six months ending June 30, 2018 represent changes from the previous year and the six months ended June 30, 2017, respectively.

*Notes

- (1) Changes in accounting policies, changes in accounting estimates and errors
 - a. Changes in accounting policies resulted from the amendment of accounting standards: None
 - b. Changes other than the above changes: None
 - c. Changes in accounting estimates: None
 - d. Errors: None

(2) Number of shares issued (common stock)

a. Number of shares issued at the end of the year (including treasury shares)	As of December 31, 2017	19,400,000 shares	As of December 31, 2016	19,400,000 shares
b. Number of treasury shares at the end of the year	As of December 31, 2017	574,454 shares	As of December 31, 2016	1,864,454 shares
c. Average number of shares during the year	Year ended December 31, 2017	17,680,450 shares	Year ended December 31, 2016	17,764,054 shares

Note: The Company has introduced a stock grant ESOP trust. The number of the Company's shares held in said trust account is included in the number of treasury shares.

* This non-consolidated financial report for the year ended December 31, 2017 is outside the scope of audit.

*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.

4. Financial Statements

(1) Non-Consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	3,853,798	1,806,785
Notes receivable-trade	30,204	50,061
Accounts receivable-trade	2,496,392	2,341,641
Merchandise	14,302,114	12,871,240
Advance payments-trade	58,878	146,096
Prepaid expenses	902,211	879,524
Other	450,844	68,597
Total current assets	22,094,444	18,163,947
Non-current assets		
Property, plant and equipment		
Buildings, net	790,289	441,983
Structures, net	20,127	888
Machinery and equipment, net	2,096	28
Vehicles, net	66	-
Tools, furniture and fixtures, net	458,695	13,989
Land	2,414,213	2,357,959
Total property, plant and equipment	3,685,490	2,814,849
Intangible assets		
Software	119,887	-
Other	47,955	-
Total intangible assets	167,842	-
Investments and other assets		
Investment securities	5,513,983	2,753,031
Shares of subsidiaries and associates	97,000	98,000
Long-term prepaid expenses	28,876	34,752
Guarantee deposits	5,989,612	5,207,116
Other	110,144	99,624
Allowance for doubtful accounts	(1,600)	(1,600)
Total investments and other assets	11,737,987	8,190,925
Total non-current assets	15,591,319	11,005,775
Total assets	37,685,764	29,169,722

(Thousands of yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Notes payable-trade	1,373,318	876,351
Accounts payable-trade	1,824,476	1,499,277
Accounts payable-other	358,448	170,268
Accrued expenses	1,687,315	1,347,575
Income taxes payable	64,856	122,108
Advances received	1,715,876	1,529,861
Deposits received	299,497	203,015
Provision for sales promotion expenses	38,574	24,819
Provision for point card certificates	109,941	309,110
Other	161,522	271,962
Total current liabilities	7,633,826	6,354,350
Non-current liabilities		
Guarantee deposits received	74,861	77,294
Provision for directors' retirement benefits	496,703	500,726
Provision for business structure improvement	-	1,420,299
Asset retirement obligations	351,147	359,979
Long term deposits received	2,381,722	2,381,722
Deferred tax liabilities	723,267	410,924
Other	-	16,308
Total non-current liabilities	4,027,701	5,167,254
Total liabilities	11,661,528	11,521,605
Net assets		
Shareholders' equity		
Capital stock	1,080,000	1,080,000
Capital surplus		
Legal capital surplus	3,690,470	3,690,470
Other capital surplus	81,695	-
Total capital surpluses	3,772,165	3,690,470
Retained earnings		
Legal retained earnings	270,000	270,000
Other retained earnings		
General reserve	25,820,000	19,820,000
Retained earnings brought forward	(4,539,463)	(7,640,690)
Total retained earnings	21,550,536	12,449,309
Treasury shares	(2,311,151)	(748,003)
Total shareholders' equity	24,091,551	16,471,775
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,932,684	1,176,341
Total valuation and translation adjustments	1,932,684	1,176,341
Total net assets	26,024,235	17,648,116
Total liabilities and net assets	37,685,764	29,169,722

(2) Non-Consolidated Statements of Operations

(Thousands of yen)

	For the year ended December 31, 2016	For the year ended December 31, 2017
Net sales		
Net sales of goods	46,241,012	41,032,086
Rent income of real estate	66,834	47,751
Total net sales	46,307,846	41,079,837
Cost of sales		
Cost of goods sold		
Beginning goods	14,035,032	14,302,114
Cost of purchased goods	21,904,449	18,735,379
Total	35,939,482	33,037,494
Transfer to other account	72,131	47,011
Ending goods	14,302,114	12,871,240
Cost of goods sold	21,565,236	20,119,242
Cost of real estate rent	21,853	18,403
Total cost of sales	21,587,089	20,137,646
Gross profit	24,720,756	20,942,191
Selling, general and administrative expenses	29,318,318	26,078,789
Operating income (loss)	(4,597,561)	(5,136,598)
Non-operating income		
Interest income	1	0
Dividend income	83,814	49,316
Dividend income of insurance	47,998	76,945
Other	42,352	28,539
Total non-operating income	174,166	154,801
Non-operating expenses		
Loss on retirement of non-current assets	5,183	306
Foreign exchange losses	527	1,810
Commission fee	2,362	27,357
Arrangement fee	-	108,000
Interest expenses on guarantee deposits	315	-
Commission for purchase of treasury shares	4,112	-
Other	928	25,620
Total non-operating expenses	13,430	163,094
Ordinary income (loss)	(4,436,824)	(5,144,891)
Extraordinary income		
Gain on sales of non-current assets	43,128	11,688
Gain on sales of golf memberships	-	49,525
Reversal of reserve for loss on dissolution of employees' pension fund	176,897	-
Gain on sales of investment securities	417,698	1,128,850
Total extraordinary income	637,725	1,190,063
Extraordinary losses		
Loss on sales of non-current assets	12,248	52,426
Impairment loss	297,261	1,532,574
Provision for business structure improvement	-	1,690,047
Total extraordinary losses	309,510	3,275,048
Profit (loss) before income taxes	(4,108,609)	(7,229,876)
Income taxes-current	31,254	30,531
Income taxes-deferred	427,239	(478)
Total income taxes	458,494	30,053
Profit (loss)	(4,567,104)	(7,259,930)

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

For the year ended December 31, 2016

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	1,080,000	3,690,470	81,695	3,772,165	270,000	26,920,000	418,837	27,608,837
Changes of items during period								
Reversal of general reserve						(1,100,000)	1,100,000	-
Dividends of surplus							(1,491,197)	(1,491,197)
Loss							(4,567,104)	(4,567,104)
Purchase of treasury shares								
Disposal of treasury shares								
Transfer of loss on disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	-	-	-	(1,100,000)	(4,958,301)	(6,058,301)
Balance at end of current period	1,080,000	3,690,470	81,695	3,772,165	270,000	25,820,000	(4,539,463)	21,550,536

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(882,572)	31,578,431	2,886,022	2,886,022	34,464,453
Changes of items during period					
Reversal of general reserve		-			-
Dividends of surplus		(1,491,197)			(1,491,197)
Loss		(4,567,104)			(4,567,104)
Purchase of treasury shares	(1,428,579)	(1,428,579)			(1,428,579)
Disposal of treasury shares		-			-
Transfer of loss on disposal of treasury shares		-			-
Net changes of items other than shareholders' equity			(953,337)	(953,337)	(953,337)
Total changes of items during period	(1,428,579)	(7,486,880)	(953,337)	(953,337)	(8,440,217)
Balance at end of current period	(2,311,151)	24,091,551	1,932,684	1,932,684	26,024,235

For the year ended December 31, 2017

(Thousands of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	1,080,000	3,690,470	81,695	3,772,165	270,000	25,820,000	(4,539,463)	21,550,536
Changes of items during period								
Reversal of general reserve						(6,000,000)	6,000,000	-
Dividends of surplus							(1,411,195)	(1,411,195)
Loss							(7,259,930)	(7,259,930)
Purchase of treasury shares								
Disposal of treasury shares			(511,797)	(511,797)				
Transfer of loss on disposal of treasury shares			430,101	430,101			(430,101)	(430,101)
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	(81,695)	(81,695)	-	(6,000,000)	(3,101,227)	(9,101,227)
Balance at end of current period	1,080,000	3,690,470	-	3,690,470	270,000	19,820,000	(7,640,690)	12,449,309

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(2,311,151)	24,091,551	1,932,684	1,932,684	26,024,235
Changes of items during period					
Reversal of general reserve		-			-
Dividends of surplus		(1,411,195)			(1,411,195)
Loss		(7,259,930)			(7,259,930)
Purchase of treasury shares		-			-
Disposal of treasury shares	1,563,147	1,051,350			1,051,350
Transfer of loss on disposal of treasury shares		-			-
Net changes of items other than shareholders' equity			(756,343)	(756,343)	(756,343)
Total changes of items during period	1,563,147	(7,619,775)	(756,343)	(756,343)	(8,376,119)
Balance at end of current period	(748,003)	16,471,775	1,176,341	1,176,341	17,648,116

(4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	For the year ended December 31, 2016	For the year ended December 31, 2017
Cash flows from operating activities		
Profit (loss) before income taxes	(4,108,609)	(7,229,876)
Depreciation	229,453	121,639
Amortization of guarantee deposits	12,101	93
Increase (decrease) in provision for bonuses	(102,276)	-
Increase (decrease) in provision for directors' retirement benefits	11,067	4,023
Increase (decrease) in provision for sales promotion expenses	(3,316)	(13,755)
Increase (decrease) in provision for point card certificates	109,941	199,169
Increase (decrease) in provision for business structure improvement	-	1,420,299
Impairment loss	297,261	1,532,574
Increase (decrease) in provision of reserve for loss on dissolution of employees' pension fund	(507,106)	-
Loss (gain) on sales of investment securities	(417,698)	(1,128,850)
Loss on retirement of non-current assets	5,183	306
Loss (gain) on sales of non-current assets	(30,880)	40,738
Loss (gain) on sales of golf club memberships	-	(49,525)
Interest and dividend income	(83,815)	(49,316)
Decrease (increase) in notes and accounts receivable-trade	504,672	134,894
Decrease (increase) in inventories	(266,599)	1,423,189
Decrease (increase) in advance payments	50,068	(87,217)
Decrease (increase) in other current assets	(358,679)	378,930
Increase (decrease) in notes and accounts payable-trade	(489,776)	(822,165)
Increase (decrease) in advances received	(603,001)	(186,014)
Increase (decrease) in accrued expenses	34,206	(339,739)
Increase (decrease) in other current liabilities	269,479	(299,394)
Increase (decrease) in accrued consumption taxes	(477,393)	112,239
Increase (decrease) in income taxes payable-factor based tax	28,575	35,805
Other, net	23,053	(23,348)
Subtotal	(5,874,089)	(4,825,299)
Interest and dividend income received	83,815	49,316
Income taxes paid	(66,507)	(23,935)
Income taxes refund	86,137	14,850
Net cash provided by (used in) operating activities	(5,770,643)	(4,785,068)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,387,375)	(368,709)
Proceeds from sales of property, plant and equipment	85,765	226,740
Purchase of intangible assets	(51,735)	(145,138)
Proceeds from sales of investment securities	674,049	2,848,513
Purchase of shares of subsidiaries and associates	-	(1,000)
Payments for guarantee deposits	(70,648)	(59,681)
Proceeds from collection of guarantee deposits	670	540,038
Repayments of lease deposits	(31,572)	-
Proceeds from cancellation of insurance funds	3,499	1,464
Proceeds from sales of membership	-	50,000
Other, net	(35,100)	2,728
Net cash provided by (used in) investing activities	(812,445)	3,094,957
Cash flows from financing activities		
Cash dividends paid	(1,488,081)	(1,408,251)
Purchase of treasury shares	(1,428,579)	-
Proceeds from disposal of treasury shares	-	1,051,350
Proceeds from long-term deposits received	2,381,722	-
Net cash provided by (used in) financing activities	(534,938)	(356,901)
Net increase (decrease) in cash and cash equivalents	(7,118,028)	(2,047,012)
Cash and cash equivalents at beginning of period	10,971,827	3,853,798
Cash and cash equivalents at end of period	3,853,798	1,806,785

(5) Significant Accounting Policies

1. Securities

(1) Investments in subsidiaries and affiliates are stated at cost determined by the moving-average method.

(2) Other securities

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.

b. Other securities for which market quotations are unavailable:

These are stated at cost determined by the moving-average method.

2. 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 non-current assets

(1) Property, plant and equipment

a. Property, plant and equipment other than leased assets

Depreciation of property, plant and equipment other than leased 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

b. Leased assets

Leased assets associated with finance leases where there are no transfers of ownerships Depreciation of leased assets associated with finance leases where there are no transfers of ownerships is computed by the straight-line method over the lease periods.

Major lease periods are five years.

(2) Intangible assets

Intangible 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).

4. Allowances

(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.

(2) Provision for bonuses

A provision for bonuses to employees is provided in the estimated amounts of future payments attributable to the current fiscal year.

(3) Provision for directors' retirement benefits

A provision for directors' retirement benefits is provided in the amount required as stipulated in the Company's internal regulations.

(4) Provision for sales promotion expenses

A provision for sales promotion expenses 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.

(5) Provision for point card certificates

A provision for point card certificates is provided for expenses resulting from the use of points given to customers in the amount expected to arise.

(6) Provision for business structure improvement

A provision for business structure improvement is provided in the amount of loss expected to arise in connection with the optimization of the scale of stores, such as decreasing the redundant store floor space, with a view to accelerating the development of the next-generation store network.

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 included in the Statements 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

Consumption taxes are separately recorded from the related items in the financial statements.

5. Net Sales by Segment and Merchandise

(Thousands of yen)

	For the year ended December 31, 2016		For the year ended December 31, 2017	
	Amount	%	Amount	%
Furniture				
Storage Furniture	780,573	1.7	577,196	1.4
Japanese-Style Furniture	136,378	0.3	139,670	0.3
Furniture for Living Rooms	11,033,047	23.8	9,852,262	24.0
Living Room Boards	2,452,983	5.3	2,192,631	5.3
School and Office Furniture	2,407,130	5.2	2,079,010	5.1
Dining Furniture	8,946,418	19.3	7,791,982	19.0
Carpets and Curtains	3,858,163	8.3	3,594,823	8.8
Bedding	11,573,810	25.0	10,030,457	24.3
Lighting and Household Fixtures	1,656,973	3.6	1,584,294	3.9
Unit Furniture	1,057,654	2.3	885,796	2.2
Lithography and Paintings	35,432	0.1	40,553	0.1
Others	2,302,445	5.0	2,263,406	5.5
Total sales	46,241,012	99.9	41,032,086	99.9
Real estate rental	66,834	0.1	47,751	0.1
Total revenue	46,307,846	100.0	41,079,837	100.0

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