

**Non-Consolidated Financial Report
for the six months ended June 30, 2018
[Japanese GAAP]**

August 14, 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: Hiroshi Aoki, Financial Director
 Tel: (03) 5530-5522

Date of filing of Quarterly Securities Report: August 14, 2018

Date of commencement of dividend payment: -

Availability of supplementary briefing material on quarterly results: Available

Schedule of quarterly results briefing session: None

1. Non-Consolidated Financial Performance for the six months ended June 30, 2018 (From January 1, 2018 to June 30, 2018)

(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 | % |
| Six months ended June 30, 2018 | 18,825 | (11.9) | (3,506) | — | (3,472) | — |
| Six months ended June 30, 2017 | 21,380 | (11.3) | (2,702) | — | (2,609) | — |

| | Profit | | Profit per share (basic) | Profit per share (diluted) |
|--------------------------------|-----------------|---|-----------------------------|-------------------------------|
| | Millions of yen | % | Yen | Yen |
| Six months ended June 30, 2018 | (2,037) | — | (108.22) | — |
| Six months ended June 30, 2017 | (4,567) | — | (260.49) | — |

Note: The percentages represent changes from the six months ended June 30, 2017.

(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 June 30, 2018 | 23,636 | 14,355 | 60.7 | 762.55 |
| As of December 31, 2017 | 29,169 | 17,648 | 60.5 | 937.46 |

Reference: Equity = Net assets – Subscription rights to shares

As of June 30, 2018: 14,355 million yen

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

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, 2017 | — | 0.00 | — | 40.00 | 40.00 |
| Year ending December 31, 2018 | — | 0.00 | | | |
| Year ending December 31, 2018 (forecast) | | | — | — | — |

Note: Revision to the dividend forecast: None

Forecasts of dividends for the year ending December 2018 is undecided.

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 | % |
| Year ending December 31, 2018 | 37,634 | (8.4) | (5,100) | — | (5,200) | — |

| | Profit | | Profit per share (basic) |
|-------------------------------|-----------------|---|--------------------------|
| | Millions of yen | % | Yen |
| Year ending December 31, 2018 | (3,426) | — | (182.00) |

Notes: Revision to the performance forecast: None

The percentages represent changes from the previous fiscal year.

*Notes

(1) Adoption of special accounting treatment for preparation of non-consolidated financial statements for the six months ended June 30, 2018: None

(2) 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: Yes

d. Errors: None

Note: Changes in accounting estimates is listed on page 6.

(3) Number of shares issued (common stock)

| | | | | |
|---|--------------------------------|-------------------|--------------------------------|-------------------|
| a. Number of shares issued at the end of the period (including treasury shares) | As of June 30, 2018 | 19,400,000 shares | As of December 31, 2017 | 19,400,000 shares |
| b. Number of treasury shares at the end of the period | As of June 30, 2018 | 574,454 shares | As of December 31, 2017 | 574,454 shares |
| c. Average number of shares during the period | Six months ended June 30, 2018 | 18,825,546 shares | Six months ended June 30, 2017 | 17,535,546 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 six months ended June 30, 2018 is outside the scope of quarterly review by certified public accountants or an audit firm.

*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. Quarterly Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

| | As of December 31, 2017 | As of June 30, 2018 |
|---|-------------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,806,785 | 2,205,149 |
| Notes and accounts receivable-trade | 2,391,702 | 1,804,885 |
| Merchandise | 12,871,240 | 11,572,853 |
| Other | 1,094,217 | 1,113,217 |
| Total current assets | 18,163,947 | 16,696,105 |
| Non-current assets | | |
| Property, plant and equipment | 2,814,849 | 279,667 |
| Investments and other assets | | |
| Investment securities | 2,753,031 | 1,755,941 |
| Guarantee deposits | 5,207,116 | 4,737,023 |
| Other | 232,377 | 169,158 |
| Allowance for doubtful accounts | (1,600) | (1,600) |
| Total investments and other assets | 8,190,925 | 6,660,523 |
| Total non-current assets | 11,005,775 | 6,940,191 |
| Total assets | 29,169,722 | 23,636,297 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 2,375,628 | 2,373,118 |
| Short-term loans payable | - | 800,000 |
| Income taxes payable | 122,108 | 75,667 |
| Provision for bonuses | - | 95,177 |
| Provision for sales promotion expenses | 24,819 | 25,779 |
| Provision for point card certificates | 309,110 | 381,037 |
| Other | 3,522,683 | 3,354,680 |
| Total current liabilities | 6,354,350 | 7,105,461 |
| Non-current liabilities | | |
| Provision for directors' retirement benefits | 500,726 | 500,726 |
| Provision for business structure improvement | 1,420,299 | 896,140 |
| Asset retirement obligations | 359,979 | 362,575 |
| Long term deposits received | 2,381,722 | - |
| Other | 504,527 | 415,900 |
| Total non-current liabilities | 5,167,254 | 2,175,343 |
| Total liabilities | 11,521,605 | 9,280,804 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,080,000 | 1,080,000 |
| Capital surplus | 3,690,470 | 3,690,470 |
| Retained earnings | 12,449,309 | 9,654,831 |
| Treasury shares | (748,003) | (748,003) |
| Total shareholders' equity | 16,471,775 | 13,677,297 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 1,176,341 | 678,194 |
| Total valuation and translation adjustments | 1,176,341 | 678,194 |
| Total net assets | 17,648,116 | 14,355,492 |
| Total liabilities and net assets | 29,169,722 | 23,636,297 |

(2) Quarterly Non-Consolidated Statements of Operations
For the six-month period ended June 30, 2017 and 2018

(Thousands of yen)

| | For the six-month period ended June 30, 2017 | For the six-month period ended June 30, 2018 |
|--|---|---|
| Net sales | 21,380,010 | 18,825,411 |
| Cost of sales | 10,425,245 | 10,677,789 |
| Gross profit | 10,954,765 | 8,147,622 |
| Selling, general and administrative expenses | 13,657,467 | 11,653,746 |
| Operating income (loss) | (2,702,702) | (3,506,124) |
| Non-operating income | | |
| Interest income | 0 | 0 |
| Dividend income | 30,539 | 17,373 |
| Dividend income of insurance | 76,945 | 64,913 |
| Other | 17,974 | 7,611 |
| Total non-operating income | 125,459 | 89,898 |
| Non-operating expenses | | |
| Loss on retirement of non-current assets | 306 | 2,819 |
| Commission fee | 24,789 | 21,003 |
| Other | 7,587 | 32,415 |
| Total non-operating expenses | 32,684 | 56,238 |
| Ordinary income (loss) | (2,609,926) | (3,472,463) |
| Extraordinary income | | |
| Gain on sales of golf club membership | - | 3,360 |
| Gain on sales of investment securities | 967,786 | 425,230 |
| Gain on sales of non-current assets | 3,793 | 1,177,199 |
| Total extraordinary income | 971,580 | 1,605,789 |
| Extraordinary losses | | |
| Provision for business structure improvement | 1,948,627 | 2,153 |
| Loss on sales of golf club membership | - | 6,800 |
| Loss on closing of stores | - | 18,086 |
| Impairment loss | 962,604 | 129,555 |
| Loss on sales of non-current assets | 2,328 | - |
| Total extraordinary losses | 2,913,560 | 156,595 |
| Profit (loss) before income taxes | (4,551,906) | (2,023,269) |
| Income taxes-current | 16,047 | 14,617 |
| Income taxes-deferred | (154) | (608) |
| Total income taxes | 15,892 | 14,009 |
| Profit (loss) | (4,567,799) | (2,037,279) |

(3) Quarterly Non-Consolidated Statements of Cash Flows

(Thousands of yen)

| | For the six-month period ended June 30, 2017 | For the six-month period ended June 30, 2018 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit (loss) before income taxes | (4,551,906) | (2,023,269) |
| Depreciation | 93,059 | 12,471 |
| Amortization of guarantee deposits | 47 | 44 |
| Increase (decrease) in provision for bonuses | 2,083 | 95,177 |
| Increase (decrease) in provision for directors' retirement benefits | (410) | - |
| Increase (decrease) in provision for sales promotion expenses | (7,996) | 960 |
| Increase (decrease) in provision for point card certificates | 59,298 | 71,926 |
| Increase (decrease) in provision for business structure improvement | 1,948,627 | (524,158) |
| Impairment loss | 962,604 | 129,555 |
| Loss (gain) on sales of investment securities | (967,786) | (425,230) |
| Loss (gain) on sales of property, plant and equipment | (1,465) | (1,177,199) |
| Loss on retirement of non-current assets | 306 | 2,819 |
| Loss on store closing | - | 18,086 |
| Loss (gain) on sales of golf club membership | - | 3,440 |
| Interest and dividend income | (30,539) | (17,373) |
| Decrease (increase) in notes and accounts receivable-trade | (194,798) | 586,817 |
| Decrease (increase) in inventories | 660,775 | 1,300,849 |
| Decrease (increase) in other current assets | 328,084 | (3,876) |
| Increase (decrease) in notes and accounts payable-trade | (760,129) | (2,510) |
| Increase (decrease) in advances received | 179,479 | 133,077 |
| Increase (decrease) in other current liabilities | (682,766) | (168,459) |
| Other, net | 12,983 | (85,176) |
| Subtotal | (2,950,449) | (2,072,030) |
| Interest and dividend income received | 30,539 | 17,373 |
| Income taxes paid | (21,049) | (33,223) |
| Income taxes refund | 14,533 | 7,593 |
| Net cash provided by (used in) operating activities | (2,926,425) | (2,080,286) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (43,203) | (85,640) |
| Proceeds from sales of property, plant and equipment | 4,114 | 1,174,677 |
| Purchase of intangible assets | (38,242) | (61,854) |
| Proceeds from sales of investment securities | 2,580,847 | 748,086 |
| Payments for guarantee deposits | (13,599) | - |
| Proceeds from collection of guarantee deposits | 164,683 | 484,927 |
| Payments for lease and guarantee deposits | - | (40,305) |
| Proceeds from collection of lease and guarantee deposits | - | 90,030 |
| Other, net | 481 | 125,803 |
| Net cash provided by (used in) investing activities | 2,655,080 | 2,435,725 |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | - | 800,000 |
| Cash dividends paid | (1,403,367) | (754,867) |
| Other, net | - | (2,208) |
| Net cash provided by (used in) financing activities | (1,403,367) | 42,923 |
| Net increase (decrease) in cash and cash equivalents | (1,674,712) | 398,363 |
| Cash and cash equivalents at beginning of period | 3,853,798 | 1,806,785 |
| Cash and cash equivalents at end of period | 2,179,086 | 2,205,149 |

5. Changes in accounting estimates

Previously, based on the value on the balance sheet, the Company reduced the carrying amount of inventories exceeding a certain period from the acquisition at a fixed rate.

From the second quarter accounting term of 2018, it has changed the fixed period and certain percentage of the book value devaluation, in order to appropriately reflect the decline in profitability of inventories for the financial condition and operating results. These changes are based on future business model such as store restructuring and sales situation. Cost of sales increased by 1,179,934 thousand yen compared with the conventional method.

6. Concerning going concern assumption

The Company continues to record operating losses since the year ended December 2016, and during the cumulative second quarter of 2018, it has events or circumstances that cause important doubt on the going concern assumption.

The Company will make efforts for resolving events and circumstances which may cause material doubts on the going concern, countermeasures are in the process of being implemented. Accordingly, material uncertainty on the going concern assumption exists at present.

The quarterly financial statements are prepared on the going concern assumption. Therefore, the effect of significant uncertainty regarding the premise of the going concern in the quarterly financial statements is not reflected.

7. Net Sales by Segment and Merchandise

(Thousands of yen)

| | For the six months ended June 30, 2017 | For the six months ended June 30, 2018 | Change from the previous period |
|---------------------------------|---|---|---------------------------------------|
| | Amount | Amount | % |
| Furniture | | | |
| Storage Furniture | 322,287 | 232,285 | 72.1 |
| Japanese-Style Furniture | 69,673 | 48,979 | 70.3 |
| Furniture for Living Rooms | 4,927,941 | 4,169,403 | 84.6 |
| Living Room Boards | 1,174,338 | 1,004,136 | 85.5 |
| School and Office Furniture | 1,147,636 | 1,000,557 | 87.2 |
| Dining Furniture | 4,129,919 | 3,464,656 | 83.9 |
| Carpets and Curtains | 1,917,761 | 1,794,159 | 93.6 |
| Bedding | 5,229,882 | 4,832,647 | 92.4 |
| Lighting and Household Fixtures | 854,201 | 813,192 | 95.2 |
| Unit Furniture | 466,679 | 380,972 | 81.6 |
| Lithography and Paintings | 17,040 | 23,868 | 140.1 |
| Others | 1,098,771 | 1,036,677 | 94.3 |
| Total sales | 21,356,135 | 18,801,535 | 88.0 |
| Real estate rental | 23,875 | 23,875 | 100.0 |
| Total revenue | 21,380,010 | 18,825,411 | 88.1 |

8. Net Sales of Stores, Corporation and Others

(Thousands of yen)

| | For the six months ended June 30, 2017 | For the six months ended June 30, 2018 | Change from the previous period |
|---------------|---|---|---------------------------------------|
| | Amount | Amount | % |
| Stores | 20,319,690 | 17,639,696 | 86.8 |
| Corporation | 1,034,881 | 1,119,294 | 108.2 |
| Others | 25,439 | 66,420 | 261.1 |
| Total revenue | 21,380,010 | 18,825,411 | 88.1 |