

Financial Results in the Six Months ended September 2002

November 18, 2002

DAIICHIKOSHO CO., LTD.

Company code number: 7458
 (URL <http://www.dkkaraoke.co.jp>)

Shares traded: JASDAQ

Location of headquarters: Tokyo

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Date of Board of Directors' meeting for approval of financial results: November 18, 2002
 Adoption of U.S. accounting standards : No

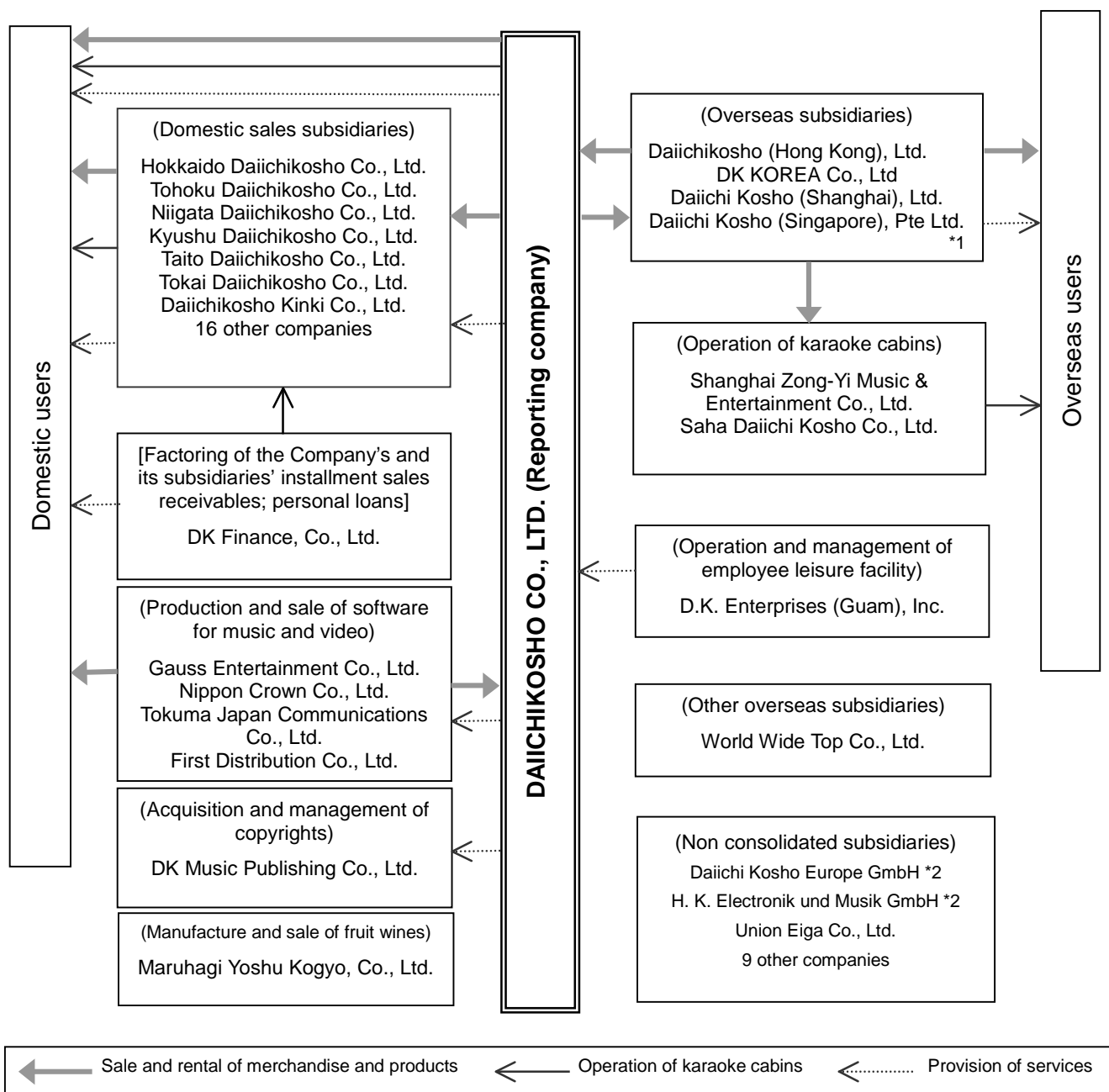
Financial highlights

Millions of yen	September 30, 2000	September 30, 2001	September 30, 2002	March 31, 2001	March 31, 2002
Consolidated					
Net sales	42,328	43,313	58,447	86,730	98,591
Ordinary income	4,183	4,681	5,460	8,430	8,447
Net income	714	1,908	2,325	3,079	3,304
Shareholders' equity	71,551	48,928	50,856	48,678	49,914
Total assets	153,790	131,348	128,511	123,775	131,075
Shareholders' equity per share (Yen)	3,816.97	2,609.67	2,825.74	2,596.50	2,726.97
Net income per share (Yen)	38.10	101.79	127.75	164.28	176.39
Equity ratio (%)	46.5	37.3	39.6	39.3	38.1
Non consolidated					
Net sales	29,955	31,433	35,879	61,200	65,489
Ordinary income	2,077	2,833	3,709	4,683	5,332
Net income	463	1,221	1,436	1,157	2,019
Shareholders' equity	65,723	42,041	42,522	42,011	42,314
Total assets	107,250	79,483	80,358	78,376	81,459
Shareholders' equity per share (Yen)	3,505.20	2,242.38	2,362.69	2,240.57	2,311.78
Net income per share (Yen)	24.71	65.16	78.92	61.71	107.82
Equity ratio (%)	61.3	52.9	52.9	53.6	52.0

Group organization

The Daiichikoshō group consists of Daiichikoshō CO., LTD. and 38 subsidiaries. Its main business is: commercial karaoke operations (the sale and rental of karaoke products, and provision of karaoke-streaming service); the operation of karaoke cabins; the provision of contents; and the production and sale of music software.

The following is a graphic presentation of the group's operations.



(Notes) 1. *1 indicates companies in dormancy.
 2. *2 indicates companies that are now being liquidated.
 3. *3 indicates companies was established in this fiscal year.

1. Management policy

(1) Basic management policy

The Daiichikosho group has adopted the corporate principle of “greater music and service to the world.” In managing its operations, its basic policy is “to promote musical culture through karaoke, and to provide places of pleasant and enjoyable communication.”

Toward this end, the group will be required to provide both karaoke equipment that suits users’ needs and an abundant and attractive range of karaoke software; karaoke cabins, where people gather to enjoy karaoke, will also have to be further developed.

Building on the “know-how” and entertainment-related contents that we have accumulated to date, the goal will be to create companies capable of responding to the expectations of all of our persons concerned. We will accomplish this through the continued expansion of business centering on karaoke and through the generation of high rates of return.

(2) Basic policy on the distribution of profits

Our basic policy will be to maintain the long-term stability of our pay out while increasing dividends to match profit growth. Retained earnings will be invested systematically into product development and operating assets.

(3) Medium-to-long-term management strategy

The goal of the Daiichikosho group is to become a new kind of service enterprise involved in music and information. Toward this end, it is expanding and enriching its karaoke-streaming network, and developing new customer-oriented services.

(4) Measures for improvement of corporate management organizations

In last fiscal year, the Company introduced the corporate executive officer system. The goal of the new system is an ability to cope quickly with a continually and severely changing operating environment.

(5) Issues requiring action

{ 1 } Expanding a telecommunications network

The group will invest maximal efforts into increasing sales and rental income from the Company’s “DAM” telecommunications product, with the aim of expanding the business model in which revenues of sound delivery services are derived from a communications-based karaoke network.

{ 2 } Improving the profitability of karaoke-cabin business

The Company will aim to achieve an operating-profit ratio of 15%, by opening large-scale karaoke stores while closing unprofitable stores.

{ 3 } Reducing loss on satellite-broadcasting business

The Company uses the direct-broadcast-satellite provider, Sky PerfecTV, as its platform for broadcasting programs via over television channels and 100 radio channels. Its goal will be to achieve breakeven in these operations at the earliest possible date through a dedicated effort to increase subscribers.

{4} Strengthening the foundations of music software business

The Company has added Music Software business to its operations through the acquisition of two music-recording companies as subsidiaries. Its goal will be to increase synergies between this new business and its karaoke operations by quickly enacting measures to rebuild management and strengthen the operating foundations of these two companies.

(6) Target performance indicators

The Company's target is to achieve an ROE of over 12% in the year to March 2005.

2. Results of operations and financial condition

(1) Summary of Consolidated Financial Results for the Six-Month Period Ended September 30, 2002

{1} Results of operations

During the six-month period to September 2002, there were bright signs for a while due to expectations of special demand that the World Cup Soccer caused and increase in exports. Meanwhile, due to anxiety about the future which were caused by a bad debt problem which Japanese financial institution had and low stock prices, etc., the Japanese economy continued to be sluggish and severer compared with the previous fiscal year.

In the karaoke industry, the operating environments continued to be also severe due to prolonged business stagnation. Selection simultaneously, amalgamation and partnership in this industry progressed. And price competition became more intense.

Under these conditions, the Daiichikoshō Group actively advanced the business in order to expand the market share due to endeavor to increase the sale and rental of chiefly “*cyber DAM (DAM-G50)*” which was main house brand and “*Denmoku*” into which various title-search function and remote-control function were united, aiming to establish a combined music business, which include karaoke cabin business, contents business, and music software business, in which a karaoke business centered

As a result, net sales increased by 34.9 % to 58,447 million yen in this interim period compared with the previous interim period, as a result of adding music software business, which was new business segment, to the Daiichikoshō Group, and operating income increased by 17.2 % to 5,960 million yen, and ordinary income increased 16.6 % to 5,460 million yen in this interim period compared with the previous interim period due to increase in sales which exceeded increase in selling and administrative expense. Although loss on sales of investment securities was accounted for in extraordinary loss, net income increased by 21.9 % to 2,325 million yen in this interim period compared with the previous interim period.

Segment-related information (percentage changes, year-on-year)

Commercial karaoke business

Sales: 29,361 million yen (+12.3%)

Operating income: 4,893 million yen (+10.4%)

In this segment, the Daiichikoshō Group sells and rents karaoke equipment and software, and provides karaoke-streaming service. Although the number of rental increased, rental sales decreased a little due to decline in rents of karaoke equipment. But revenues from providing karaoke-streaming service increased, with the result that the number of shipment increased by 34.5 % in this interim period compared with the previous interim

period. Accordingly, sales and operating income resulted in increase in this segment.

Karaoke cabin business

Sales: 11,170 million yen (+5.7%)

Operating income: 693 million yen (+39.7%)

In this segment, the Daiichikoshō Group rents karaoke rooms on an hourly basis and provides food and drink. The number of guest that had continued to decrease changed over to increase in this interim period due to endeavor to provide high quality service. As a result of closing 3 unprofitable stores and opening 1 large new store and 4 stores that the Daiichikoshō Group had bought from fellow trader, and especially, the strong sales efforts made by existing stores, Sales and operating income resulted in increase in this segment

Contents business

Sales: 5,054 million yen (+20.6%)

Operating income: 756 million yen (+36.6%)

In this segment, the Daiichikoshō Group provides programs over 2 television and 100 radio channels via the direct-broadcast-satellite provider *Sky PerfectTV*. Regarding service for personal use, although the number of subscription increased for a while due to broadcast of the World Cup Soccer, it tended toward gradual decrease due to making alteration to the programming last year. Regarding service for commercial use, the number of subscription increased firmly. The Daiichikoshō Group also provides customized ring tones for cellular phones. Under the condition that price competition continued, the number of subscription increased firmly. Accordingly, sales and operating income resulted in increase in this segment.

Music software business

Sales: 10,543 million yen

Operating income: 363 million yen

In this segment, the Daiichikoshō Group produces and sells music and video software. The Daiichikoshō Group restructured Tokuma Japan Communications Co., Ltd. and Nippon Crown Co., Ltd. due to strengthen the foundations of management. Meanwhile, sales of Gackt's CD albums that belonged to Nippon Crown Co., Ltd. and DVD of Miyazaki's *Spirited Away* that belonged to Tokuma Japan Communications Co., Ltd. contributed greatly to profit. As a result, operating income in this segment improved exceedingly.

Other business

Sales: 2,317 million yen (-3.5%)

Operating income: 290 million yen (-51.5%)

This segment is involved in real estate rentals, restaurants and other operations. Sales decreased by 3.5 %, operating income decreased 51.5 % in this interim period compared with the previous interim period, mainly due to increase in selling, general and administrative expenses.

{2} Cash flows

Cash and cash equivalents decreased by 3,668 million yen to 20,019 million yen at the end of this interim period compared with the previous interim period, concerning decrease in cash, mainly due to payments for acquisition of property, plant, and equipment, and decrease in proceeds from short-term borrowings. Meanwhile, main causes of increase in cash were that income before income taxes increased by 9.3% to 4,354 million yen in this interim period compared with the previous interim period, and that proceeds from long-term borrowings increased.

(Cash flows from operating activities)

Cash flows from operating activities resulted in increase in cash by 8,623 million yen in this interim period. Net cash provided by operating activities increased by 1,408 million yen in this interim period compared with the previous interim period, mainly due to increase in income before income taxes by 369 million yen, or 9.3%, increase in depreciation expenses by 635 million yen, and increase in trade payables by 409 million yen in this interim period compared with the previous interim period.

(Cash flows from investing activities)

Cash flows from investing activities resulted in decrease in cash by 5,943 million yen in this interim period. Net cash used in investing activities decreased by 1,264 million yen in this interim period compared with the previous interim period. Main causes of decrease in cash were that payments for acquisition of property, plant, and equipment decreased by 1,396 million yen, and that proceeds from sales of investment securities decreased by 900 million yen in this interim period compared with the previous interim period.

(Cash flows from financing activities)

Cash flows from financing activities resulted in decrease in cash by 2,978 million yen in this interim period. Net cash used in financing activities decreased by 1,915 million yen in this interim period compared with the previous interim period. Main causes of decrease in cash were that proceeds from long-term borrowings decreased by 3,805 million yen, and that payments for long-term borrowings decreased by 1,099 million yen and that payments for purchase of treasury stock decreased by 635 million yen in this interim period compared with the previous interim period. Meanwhile, cause of increase in cash was that proceeds from long-term borrowings increased 4,298 million yen in this interim period compared with the previous interim period.

(2) **Forecasts for the full year to March 2003**

Prospect of increase in production that increase in exports caused are weak. And by reason of severe employment conditions, consumer spending will remain sluggish.

In the karaoke industry, the operating environments will be severe in the same way. Under the condition that cannot be expected the market size to spread, selection in this industry will be progressing.

Under these conditions, the Daiichikosho Group will advance improvement and differentiation of house brands, and enrichment of our service in order to strengthen the position of market leader and to expand the Daiichikosho Group's market share besides. Due to introduction of new house brand "*New cyber DAM (DAM-G50)*" in October, 2002 that was enriched in respect of visual contents and musical pieces and that was superior in sound, quality and promise to the former. In the second half of the year, the Daiichikosho Group is aiming to achieve much the same shipment as the first half of the year.

The Daiichikosho Group will endeavor to improve the profitability in the karaoke cabin business and especially in the satellite broadcasting operation that belongs to the contents business, and to expand sales and profits in the e-businesses operation that belongs to the contents business due to effective sales promotion, and to strengthen force of sales and to improve the efficiency of that work in the music software business due to transferring sales departments of Tokuma Japan Communications Co., Ltd. and Nippon Crown Co., Ltd. that are subsidiaries to First Distribution Co., Ltd. that was newly established.

Due to fulfilling the preceding measures, the Daiichikosho Group is aiming to achieve net sales of 114.0 billion yen, ordinary profit of 10.3 billion yen, and net income of 4.6 billion yen for the fiscal year to March 2003.

Consolidated balance sheets

Millions of yen	September30 2002	%	September30 2001	%	March31 2002	%	Year-on-year change
Current assets							
Cash and deposits	21,497		26,293		22,110		(612)
Trade notes and accounts receivable - total	15,132		13,566		14,740		392
Marketable securities	10		11		9		0
Inventories	7,018		6,458		7,376		(358)
Deferred income taxes	1,126		1,604		1,194		(67)
Other current assets	3,947		4,051		4,219		(271)
Allowance for doubtful accounts	(1,313)		(1,042)		(1,400)		86
	<u>47,419</u>	36.9	<u>47,948</u>	36.8	<u>48,250</u>	36.8	<u>(830)</u>
Fixed assets							
Property, plant and equipment							
Buildings and structures	11,130		12,159		11,924		(793)
Karaoke equipment for rental	8,137		7,028		7,208		928
Karaoke-cabin facilities	10,478		9,729		10,040		438
Land	17,042		17,078		17,054		(12)
Other property, plant and equipment	1,802		1,952		1,849		(46)
	<u>48,592</u>	37.8	<u>47,948</u>	36.5	<u>48,077</u>	36.7	<u>514</u>
Intangible fixed assets							
Consolidation adjustments account	900		-		1,336		(435)
Other intangible fixed assets	7,085		5,848		6,811		273
	<u>7,986</u>	6.2	<u>5,848</u>	4.4	<u>8,148</u>	6.2	<u>(161)</u>
Investments and other assets							
Investments in securities	2,878		5,019		4,337		(1,459)
Long-term loans	3,631		4,122		3,816		(185)
Deferred income taxes	2,011		2,220		2,038		(27)
Deferred income taxes arising from revaluation	2,251		2,251		2,251		-
Leasehold deposits	12,059		11,465		12,312		(252)
Other investments and other assets	5,159		5,009		5,204		(44)
Allowance for doubtful accounts	(3,479)		(3,480)		(3,363)		(116)
	<u>24,513</u>	19.1	<u>26,608</u>	20.3	<u>26,599</u>	20.3	<u>(2,086)</u>
Total fixed assets	<u>81,092</u>	63.1	<u>80,405</u>	61.2	<u>82,825</u>	63.2	<u>(1,733)</u>
Total assets	<u>128,511</u>	100.0	<u>131,348</u>	100.0	<u>131,075</u>	100.0	<u>(2,564)</u>

Millions of yen	September30 2002	%	September30 2001	%	March31 2002	%	Year-on-year change
Current liabilities							
Trade notes and accounts payable - total	7,727		6,306		7,697		29
Short-term borrowings - total	19,904		24,263		23,135		(3,230)
Accounts payable - other	5,564		4,407		5,871		(306)
Income taxes payable	2,069		1,888		2,593		(524)
Allowance for bonuses	1,095		1,110		1,080		15
Unrealized profit on installment sales	832		887		869		(37)
Other current liabilities	2,562		2,525		2,966		(403)
	<u>39,756</u>	30.9	<u>41,388</u>	31.5	<u>44,213</u>	33.7	<u>(4,457)</u>
Long-term liabilities							
Convertible bonds	12,650		15,790		14,300		(1,650)
Long-term borrowings	19,531		15,463		16,404		3,127
Deferred income taxes	249		249		249		-
Allowance for retirement benefits	2,640		2,394		2,642		(2)
Consolidation adjustments account	-		1,362		-		-
Other long-term liabilities	1,267		1,145		1,182		85
	<u>36,339</u>	28.3	<u>36,406</u>	27.7	<u>34,778</u>	26.5	<u>1,560</u>
Total liabilities	<u>76,095</u>		<u>77,795</u>	59.2	<u>78,992</u>	60.2	<u>(2,896)</u>
Minority interest in consolidated subsidiaries	1,559	1.2	4,625	3.5	2,169	1.7	(609)
Shareholders' equity							
Common stock	-	-	12,348	9.4	12,348	9.4	(12,348)
Capital reserve	-	-	24,000	18.3	24,000	18.3	(24,000)
Unrealized gains or losses on land revaluation	-	-	(25,419)	(19.4)	(25,189)	(19.2)	25,189
Consolidated earned surplus	-	-	38,558	29.4	38,889	29.7	(38,889)
Net unrealized gains on other securities	-	-	(678)	(0.5)	(352)	(0.3)	352
Translation adjustments	-	-	121	0.1	233	0.2	(233)
Less: treasury stock	-	-	(3)	(0.0)	(15)	(0.0)	15
Common stock	12,348	9.6	-	-	-	-	12,348
Capital surplus	24,000	18.7	-	-	-	-	24,000
Retained earnings	40,450	31.5	-	-	-	-	40,450
Unrealized gains or losses on land revaluation	(25,189)	(19.6)	-	-	-	-	(25,189)
Net unrealized gains on other securities	(240)	(0.2)	-	-	-	-	(240)
Translation adjustments	155	0.1	-	-	-	-	155
Less: treasury stock	(668)	(0.5)	-	-	-	-	(668)
Total shareholders' equity	<u>50,856</u>	39.6	<u>48,928</u>	37.3	<u>49,914</u>	38.1	<u>942</u>
Total liabilities, minority interests and shareholders' equity	<u>128,511</u>	100.0	<u>131,348</u>	100.0	<u>131,075</u>	100.0	<u>(2,564)</u>

Consolidated statements of income

Millions of yen	September30 2002	%	September30 2001	%	March31 2002	%	Year-on-year change
Net sales	58,447	100.0	43,313	100.0	98,591	100.0	134.9
Cost of sales	34,215	58.5	24,372	56.3	55,710	56.5	140.4
Gross profit before adjustment for unrealized profit on installment sales	24,231	41.5	18,940	43.7	42,880	43.5	127.9
Unrealized profit on installment sales – reversal (+)	129		138		269		
Unrealized profit on installment sales – deferred (-)	92		49		162		
	37	0.0	89	0.2	106	0.1	41.7
Gross profit on sales	24,268	41.5	19,029	43.9	42,987	43.6	127.5
Selling, general and administrative expenses	18,307	31.3	13,943	32.2	33,478	34.0	131.3
Operating income	5,960	10.2	5,086	11.7	9,508	9.6	117.2
Non operating income							
Interest and dividend income	331		355		685		
Profit on retirement of convertible bonds	36		13		41		
Interest in profit of investment partnerships	-		24		-		
Amortization of consolidated adjustments	-		69		-		
Other non operating income	668		415		961		
	1,035	1.8	877	2.0	1,688	1.7	118.0
Non operating expenses							
Interest expenses	345		352		707		
Provision for allowance for doubtful accounts	149		203		410		
Loss on disposal of inventories	182		182		654		
Loss on valuation of inventories	606		152		398		
Equity in loss of affiliates	-		103		103		
Other non operating expenses	252		287		475		
	1,536	2.6	1,282	2.9	2,749	2.7	119.8
Ordinary income	5,460	9.4	4,681	10.8	8,447	8.6	116.6
Extraordinary gain							
Reversal of allowance for doubtful accounts	20		17		50		
Gain on sales of investment securities	13		488		532		
Gain on sales of fixed assets	16		-		4		
	49	0.1	506	1.2	588	0.6	9.8
Extraordinary loss							
Loss on disposal of fixed assets	201		446		704		
Loss on sales of investment securities	767		-		-		
Loss on valuation of investment securities	65		495		1,036		
Directors' retirement allowances	119		260		498		
Loss on valuation of memberships in leisure facilities	-		-		17		
	1,155	2.0	1,202	2.8	2,256	2.3	96.1
Income before income taxes and minority interest in consolidated subsidiaries	4,354	7.5	3,985	9.2	6,779	6.9	109.3
Income taxes - current	1,966		1,753		3,515		
Income taxes - deferred	14		201		97		
	1,980	3.4	1,954	4.5	3,613	3.7	101.3
Minority interest in income(loss) of consolidated subsidiaries	48	0.1	121	0.3	(138)	(0.1)	39.8
Net income	2,325	4.0	1,908	4.4	3,304	3.3	121.9

Consolidated statements of retained earnings

Millions of yen	September30 2002	September30 2001	March31 2002
Consolidated earned surplus at beginning of period	-	37,782	37,782
Decreases in consolidated earned surplus			
Dividends	-	656	656
Bonuses to directors and corporate auditors	-	88	88
Disposition of unrealized gains or losses on valuation	-	11	241
Retirement of treasury stock	-	-	836
Decrease due to merger of consolidated subsidiaries	-	375	375
	-	1,131	2,197
Net income	-	1,908	3,304
Consolidated earned surplus at end of period	-	38,558	38,889
(Capital surplus)			
Capital surplus at beginning of period	24,000	-	-
Capital surplus at end of period	24,000	-	-
(Retained earnings)			
Retained earnings at beginning of period	38,889	-	-
Increases in retained earnings			
Net income	2,325	-	-
Decreases in retained earnings			
Dividends	658	-	-
Bonuses to directors and corporate auditors	105	-	-
	764	-	-
Retained earnings at end of period	40,450	-	-

Consolidated statements of cash flows

Millions of yen	September30 2002	September30 2001	March31 2002
Cash flows from operating activities			
Income before income taxes and minority interest in consolidated subsidiaries	4,354	3,985	6,779
Depreciation expenses	5,203	4,568	10,262
Increase in allowance for doubtful accounts	34	233	926
Interest and dividend income	(331)	(355)	(685)
Profit (Loss) on retirement of convertible bonds	(36)	(13)	(41)
Gain (Loss) on sales of investment securities	754	(488)	(532)
Interest in profit (Loss) of investment partnerships	69	(24)	31
Interest expenses	345	352	707
Loss on disposal of fixed assets	185	446	699
Loss on valuation of investment securities	65	495	1,053
Increase (Decrease) in trade receivables	(408)	80	412
Increase (Decrease) in trade payables	436	27	(834)
Others	425	(178)	(675)
Subtotal	11,099	9,128	18,103
Interest and dividends received	337	365	679
Interest paid	(322)	(364)	(731)
Income taxes paid	(2,490)	(1,914)	(3,241)
Net cash provided by operating activities	8,623	7,215	14,810
Cash flows from investing activities			
Increase in time deposits	(623)	(1,590)	(1,787)
Proceeds from decrease in time deposits	937	1,912	2,823
Payments for purchase of marketable securities			-
Proceeds from sales of marketable securities	-	100	101
Payments for acquisition of tangible fixed assets	(5,406)	(4,009)	(8,774)
Proceeds from sales of tangible fixed assets	482	27	388
Payments for acquisition of intangible fixed assets	(2,120)	(1,984)	(4,235)
Payments for purchase of investment securities	(381)	(1,118)	(1,340)
Proceeds from sales of investment securities	462	1,362	2,466
Payments for acquisition of subsidiary's capital	(306)	(56)	(779)
Payments for loans	(688)	(331)	(1,125)
Proceeds from collection of loans	1,017	441	1,193
Payments of leasehold deposits	(215)	(228)	(1,230)
Proceeds from repayments of leasehold deposits	579	1,021	891
Others	319	(226)	200
Net cash used in investing activities	(5,943)	(4,678)	(11,206)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(3,166)	639	444
Proceeds from origination of long-term borrowings	10,302	6,004	12,649
Payments for repayment of long-term borrowings	(7,164)	(6,065)	(14,777)
Payments for retirement of convertible bonds	(1,613)	(1,046)	(2,508)
Dividends paid	(658)	(647)	(652)
Payments for purchase of treasury stock	(653)	(17)	(865)
Others	(24)	71	71
Net cash used in financing activities	(2,978)	(1,062)	(5,638)
Effect of exchange rate changes on cash and cash equivalents	0	(17)	11
Net increase (decrease) in cash and cash equivalents	(298)	1,456	(2,022)
Cash and cash equivalents at beginning of period	20,317	21,4990	21,499
Increase in cash and cash equivalents due to increase in number of newly consolidated subsidiaries	-	731	839
Cash and cash equivalents at end of period	20,019	23,687	20,317

Assumptions underlying preparation of consolidated financial statements

Item	Assumptions underlying preparation of consolidated financial statements
1. Item relating to scope of consolidation	(1) Number of consolidated subsidiaries: 38 (2) Names of major non consolidated subsidiaries: Because of the small size of their operations, Union Eiga Co., Ltd., Crown Music Enterprise Co., Ltd. and Zoom Republic have been excluded from consolidation on the grounds of lack of materiality
2. Item relating to application of the equity method	(1) Affiliate accounted for by the equity method: None (2) Affiliate not accounted for by the equity method: Because of its small impact on profits, Union Eiga Co., Ltd., Crown Music Enterprise Co., Ltd. and Zoom Republic have not been consolidated under the equity method on the grounds of lack of materiality
3. Item relating to the fiscal years of subsidiaries	The following consolidated subsidiaries have fiscal-year ends that differ from that of the reporting company. In preparing the consolidated financial statements, the Company used the financial statements prepared by these subsidiaries as of their respective year-end dates. In the event that an important transaction occurs between the year-end dates and the date of consolidated closing, the Company makes the necessary adjustments for purposes of consolidation. Companies with December 31 year-ends: Shanghai Sogei Ongaku Goraku Co., Ltd.; Saha Daiichi Kosho Co., Ltd. Companies with March 20 year-ends: Nippon Crown Co., Ltd.; Tokuma Japan Communications
4. Items related to accounting standards	(1) Standards and methods of valuation for important assets {1} Marketable and investment securities Bonds held to maturity: cost amortization method (straight line) Other securities: Quoted securities: market value method, based on market prices etc. Unquoted securities: valued at cost using the moving average method {2} Inventories Valued at cost, using the moving average method (2) Depreciable assets and methods of depreciation {1} Tangible fixed assets: declining-balance method (certain buildings, however, are depreciated on a straight-line basis) {2} Intangible fixed assets: straight-line method (3) Standards for important allowances {1} Allowance for doubtful accounts: allowance recognized on the basis of a statutory deduction ratio {2} Reserve for bonuses: estimated-payment standard {3} Reserve for employees' retirement benefits: amounts based on retirement-benefit liabilities and estimated pension assets as of the end of the fiscal year (4) Standard for converting foreign currency-denominated assets and liabilities Foreign currency-denominated assets and liabilities are converted into yen at market rates on the day of the closing of accounts, with any gains or losses from conversion recognized on the income statement. Any gains or losses resulting from the conversion at current market rates of assets, liabilities, revenues or expenses of overseas subsidiaries etc. are debited or credited to the foreign currency adjustment account of the shareholders' equity section of the balance sheet. (5) Accounting for significant lease transactions Financing leases are treated as ordinary rental transactions (6) Hedge accounting methods The Company hedges against risks of interest rate fluctuations by engaging in interest rate swap transactions (7) Others {1} Accounting for installment sales: profits on installment sales are deferred {2} Accounting for consumption taxes: tax-exclusion method

Item	Assumptions underlying preparation of consolidated financial statements
5. Amortization of consolidated adjustment account	Amortized in equal installments over a 5 or 15 years period
6. Scope of funds in the consolidated statement of cash flow	Funds are defined as cash on hand, readily withdrawable deposits, and short-term investments with maturities of less than three months from date of purchase

Notes

(Consolidated balance sheet-related)

Millions of yen	September30 2002	September30 2001	March31 2002
1. Aggregate amount of depreciation on fixed assets	49,856	50,484	50,716
2. Guarantee liabilities	1,192	1,684	1,329
3. Assets provided as collateral	22,154	22,499	22,550
Secured liabilities	22,413	19,803	21,271

Segment information

Segment information by business category

Millions of yen	Commercial karaoke business	Karaoke- cabin business	Contents business	Music software business	Other business	Total	Eliminations	Consolidated
September 30, 2002								
Sales								
External customer sales	29,361	11,170	5,054	10,543	2,317	58,447	-	58,447
Intersegment transactions and eliminations	73	-	-	124	226	424	(424)	-
Total	29,435	11,170	5,054	10,667	2,543	58,871	(424)	58,447
Operating expenses	24,541	10,476	4,297	10,304	2,253	51,874	611	52,486
Operating income	4,893	693	756	363	290	6,997	(1,036)	5,960

Millions of yen	Commercial karaoke business	Karaoke- cabin business	Contents business	Other business	Total	Eliminations	Consolidated
September 30, 2001							
Sales							
External customer sales	26,148	10,570	4,192	2,401	43,313	-	43,313
Intersegment transactions and eliminations	76	-	-	169	245	(245)	-
Total	26,225	10,570	4,192	2,571	43,558	(245)	43,313
Operating expenses	21,794	10,073	3,638	1,972	37,478	747	38,226
Operating income	4,430	496	553	598	6,080	(993)	5,086

Millions of yen	Commercial karaoke business	Karaoke- cabin business	Contents business	Music software business	Other business	Total	Eliminations	Consolidated
March 31, 2002								
Sales								
External customer sales	53,745	21,980	9,097	9,109	4,658	98,591	-	98,591
Intersegment transactions and eliminations	149	-	-	108	392	651	(651)	-
Total	53,895	21,980	9,097	9,218	5,051	99,242	(651)	98,591
Operating expenses	45,494	20,557	7,835	9,550	4,355	87,792	1,290	89,082
Operating income	8,400	1,423	1,262	(332)	696	11,449	(1,941)	9,508

Segment-related businesses

1. Commercial karaoke business

In this segment the group sells and rents karaoke equipment and karaoke software, and provides karaoke streaming services for telecommunications-based systems.

2. Karaoke cabin business

In this segment the group rents karaoke cabins on an hourly basis and provides food and drink.

3. Contents business

In the area of e-business division, the Company distributes customized ring tones to users of cellular phones, while in the area of satellite broadcasting division, it uses the direct-broadcast-satellite provider, Sky PerfecTV, as a platform for broadcasting programs over two television channels and 100 radio channels.

4. Music software business

In this segment, the Company produces and sells software for music and video.

5. Other business

Other operations include a real estate rental operation, restaurants and other activities.

Non consolidated balance sheets

Millions of yen	September30 2002	%	September30 2001	%	March31 2002	%	Year-on-year change
Current assets							
Cash and deposits	8,240		14,878		9,043		(803)
Trade notes receivable	2,088		1,819		2,058		30
Trade accounts receivable	6,657		6,049		6,160		497
Inventories	4,101		3,725		4,698		(597)
Deferred income taxes	606		728		698		(91)
Other current assets	3,150		2,022		1,994		1,155
Allowance for doubtful accounts	(545)		(622)		(525)		(20)
	<u>24,298</u>	30.2	<u>28,600</u>	36.0	<u>24,128</u>	29.6	<u>170</u>
Fixed assets							
Property, plant and equipment							
Buildings	5,093		5,462		5,279		(185)
Karaoke equipment for rental	3,140		2,614		2,656		484
Karaoke-cabin facilities	6,446		5,987		6,065		381
Land	6,051		6,039		6,051		-
Other property, plant and equipment	1,309		1,328		1,272		37
	<u>22,041</u>	27.4	<u>21,432</u>	27.0	<u>21,324</u>	26.2	<u>717</u>
Intangible fixed assets	6,459	8.1	5,243	6.6	6,204	7.6	254
Investments and other assets							
Investment in securities	1,921		4,385		3,376		(1,454)
Capital stock of affiliated companies	8,112		3,143		7,857		255
Long-term loans	6,249		5,832		7,067		(818)
Deferred income taxes	523		789		592		(68)
Deferred Income taxes arising from revaluation	2,251		2,251		2,251		-
Deposits and guarantee money	9,141		8,573		9,233		(92)
Other investments and other assets	3,844		3,701		3,819		25
Allowance for doubtful accounts	(4,485)		(4,471)		(4,395)		(90)
	<u>27,558</u>	34.3	<u>24,207</u>	30.4	<u>29,802</u>	36.6	<u>(2,243)</u>
Total fixed assets	<u>56,060</u>	69.8	<u>50,883</u>	64.0	<u>57,331</u>	70.4	<u>(1,271)</u>
Total assets	<u>80,358</u>	100.0	<u>79,483</u>	100.0	<u>81,459</u>	100.0	<u>(1,101)</u>

Years ended March 31; Millions of yen	September30 2002	%	September30 2001	%	March31 2002	%	Year-on-year change
Current liabilities							
Notes payable - trade	1,935		3,104		3,152		(1,217)
Accounts payable - trade	2,401		2,422		1,938		462
Short-term borrowings	2,510		2,923		4,321		(1,811)
Current portion of long-term borrowings	3,061		2,878		2,467		594
Accounts payable – other	4,023		3,192		4,530		(506)
Income taxes payable	1,028		1,177		1,423		(395)
Allowance for bonuses	655		661		665		(10)
Other current liabilities	1,070		792		819		251
	16,686	20.8	17,153	21.9	19,318	23.7	(2,632)
Long-term liabilities							
Convertible bonds	12,650		15,790		14,300		(1,650)
Long-term borrowings	7,135		3,198		4,176		2,958
Allowance for retirement benefits	953		914		959		(5)
Other long-term liabilities	410		386		390		20
	21,149	26.3	20,288	25.5	19,826	24.3	1,323
Total liabilities	37,836	47.1	37,441	47.1	39,145	48.0	(1,308)
Shareholders' equity							
Common stock	-	-	12,348	15.5	12,348	15.1	(12,348)
Capital reserve	-	-	24,000	30.2	24,000	29.5	(24,000)
Legal reserves	-	-	485	0.6	485	0.6	(485)
Unrealized gains or losses on land revaluation	-	-	(25,419)	(32.0)	(25,189)	(30.9)	25,189
Other surplus							
Retained earnings	-	-	29,450		29,450		(29,450)
Unappropriated retained earnings at end of period	-	-	1,854		1,586		(1,586)
Other surplus subtotal	-	-	31,304	39.4	31,036	38.1	(31,036)
Net unrealized gains on other securities	-	-	(678)	(0.8)	(352)	(0.4)	351
Less: treasury stock	-	-	(3)	(0.0)	(15)	(0.0)	15
Common stock	12,348	15.4	-	-	-	-	12,348
Capital surplus							
Capital reserve	4,000		-		-		4,000
Other capital surplus	20,000		-		-		20,000
Capital surplus subtotal	24,000		-		-		24,000
Earned surplus							
Retained earnings	29,750		-		-		29,750
Unappropriated retained earnings at end of period	2,519		-		-		2,519
Earned surplus subtotal	32,269	40.1	-	-	-	-	32,269
Unrealized gains or losses on land revaluation	(25,189)	(31.4)	-	-	-	-	(25,189)
Net unrealized gains on other securities	(237)	(0.3)	-	-	-	-	(237)
Less: treasury stock	(668)	(0.8)	-	-	-	-	(668)
Total shareholders' equity	42,522	52.9	42,041	52.9	42,314	52.0	207
Total liabilities and shareholders' equity	80,358	100.0	79,483	100.0	81,459	100.0	(1,101)

Non consolidated statements of income

Millions of yen	September30 2002	%	September30 2001	%	March31 2002	%	Year-on-year change (%)
Net sales	35,879	100.0	31,433	100.0	65,489	100.0	114.1
Cost of sales	22,709	63.3	19,611	62.4	40,877	62.4	115.8
Gross profit before adjustment for unrealized profit on installment sales	13,169	36.7	11,822	37.6	24,611	37.6	111.4
Unrealized profit on installment sales – reversal (+)	114		63		108		
Unrealized profit on installment sales – deferred (-)	116		113		243		
	(2)	(0.0)	(50)	(0.2)	(135)	(0.2)	4.7
Gross profit on sales	13,167	36.7	11,772	37.4	24,475	37.4	111.9
Selling, general and administrative expenses	9,837	27.4	8,553	27.2	18,583	28.4	115.0
Operating income	3,330	9.3	3,219	10.2	5,892	9.0	103.4
Non operating income							
Interest and dividend income	406		172		277		
Profit on retirement of convertible bonds	36		13		41		
Fee and commission received	67		62		148		
Other non operating income	214		197		406		
	724	2.0	445	1.4	873	1.3	162.8
Non operating expenses							
Interest expenses	121		104		215		
Provision for allowance for doubtful accounts	7		196		404		
Loss on disposal of inventories	32		175		202		
Loss on valuation of inventories	37		152		280		
Other non operating expenses	146		201		331		
	345	1.0	830	2.6	1,434	2.2	41.5
Ordinary income	3,709	10.3	2,833	9.0	5,332	8.1	130.9
Extraordinary gain							
Reversal of allowance for doubtful accounts	20		31		53		
Gain on sales of investment securities	13		488		488		
Gain on sales of fixed assets	-		-		4		
	33	0.1	520	1.7	546	0.9	6.4
Extraordinary loss							
Loss on sales and disposal of fixed assets	83		303		467		
Loss on sales of investment securities	767		-		-		
Loss on valuation of investment securities	64		491		1,018		
Valuation loss on shares in affiliates	300		-		-		
Directors' retirement allowances	83		137		137		
Loss on valuation of membership in leisure facilities	-		-		10		
	1,299	3.6	932	3.0	1,634	2.5	139.3
Income before income taxes	2,444	6.8	2,421	7.7	4,244	6.5	100.9
Income taxes – current	929		1,006		2,036		
Income taxes – deferred	77		193		188		
	1,007	2.8	1,200	3.8	2,224	3.4	84.0
Net income	1,436	4.0	1,221	3.9	2,019	3.1	117.6
Reversal of legal reserve	485		-		-		
Unappropriated retained earnings brought forward	598		644		644		
Disposition of unrealized gains or losses on valuation	-		(11)		(241)		
Retirement of treasury stock	-		-		836		

Unappropriated retained earnings	2,519	1,854	1,586
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Important accounting policies

Item	Accounting policies
1. Methods of valuation for marketable and investment securities	(1) Shares in subsidiaries and affiliated companies: valued at cost using the moving average method (2) Other securities: Quoted securities: market value method, based on market prices etc. Unquoted securities: valued at cost using the moving average method
2. Methods of valuation for Inventories	(1) Merchandise and finished goods: valued at cost, using the moving average method (2) Work in process: valued at cost, using the specific identification method
3. Depreciable assets and methods of depreciation	(1) Tangible fixed assets: declining-balance method (certain buildings, however, are depreciated on a straight-line basis) (2) Intangible fixed assets: straight-line method
4. Standards for important allowances	(1) Allowance for doubtful accounts: allowance recognized on the basis of a statutory deduction ratio (2) Reserve for bonuses: estimated-payment standard (3) Reserve for employees' retirement benefits: amounts based on retirement-benefit liabilities and estimated pension assets as of the end of the fiscal year
5. Accounting for significant lease transactions	Financing leases are treated as ordinary rental transactions
6. Accounting for installment sales	Profits on installment sales are deferred
7. Accounting for consumption taxes	Tax-exclusion method

Notes

(Non consolidated balance sheet-related)

Millions of yen	September30 2002	September30 2001	March31 2002
1. Aggregate amount of depreciation on fixed assets	23,401	23,221	23,520
2. Guarantee liabilities	5,810	8,563	6,624
3. Assets provided as collateral	4,357	4,602	4,505
Secured liabilities	6,705	5,513	5,482