

FY 2006, the year ending March 31, 2007

## Flash Report on the Consolidated Results for the Interim Period Ended September 30, 2006

November 13, 2006

Company Name: DAIICHIKOSHO CO., LTD.

Code Number: 7458

(URL <http://www.dkkaraoke.co.jp>)

Stock Exchange Listing: JASDAQ

Location of Head Office (Prefecture): Metropolis of Tokyo

Representative: Yasutaka Wada, President

Contact: Eiji Hata, Managing Director and Senior Corporate Officer; and Executive Director, Administration  
Headquarters

Phone: (03) 3280-2151

Date of the Board of Directors Meeting on the Closing of Accounts: November 13, 2006

Adoption of U.S. GAAP: No

### 1. Consolidated Performance for the Interim Period Ended September 2006 (from April 1, 2006, to September 30, 2006)

#### (1) Consolidated operating results

Note: Amounts below one million yen are truncated.

|  | Net sales |       | Operating income |        | Ordinary income |        |
|--|-----------|-------|------------------|--------|-----------------|--------|
|  | ¥ Million | %     | ¥ Million        | %      | ¥ Million       | %      |
| Interim period ended<br>September 2006 | 63,212    | (1.5) | 6,662            | 29.5   | 6,855           | 32.1   |
| Interim period ended<br>September 2005 | 64,191    | 5.5   | 5,143            | (18.3) | 5,188           | (16.3) |
| Year ended March 2006                  | 129,341   |       | 11,286           |        | 11,618          |        |

|  | Net income |        | Net income per share | Fully diluted net income<br>per share |
|--|------------|--------|----------------------|---------------------------------------|
|  | ¥ Million  | %      | ¥                    | ¥                                     |
| Interim period ended<br>September 2006 | 3,955      | 400.4  | 56.82                | —                                     |
| Interim period ended<br>September 2005 | 790        | (79.7) | 22.71                | —                                     |
| Year ended March 2006                  | 4,009      |        | 112.60               | —                                     |

Notes: 1. Equity in net income of unconsolidated subsidiaries and affiliates:

Interim period ended September 2006: ¥ (20) million

Interim period ended September 2005: ¥ — million

Year ended March 2006: ¥ 0 million

2. Average number of shares outstanding during the respective periods (consolidated):

Interim period ended September 2006: 69,600,427 shares

Interim period ended September 2005: 34,803,317 shares

Year ended March 2006: 34,802,451 shares

The Company conducted a two-for-one stock split on July 1, 2006. For comparison, “Net income per share” is stated in the table as if the stock split had occurred as of April 1, 2006.

“Fully diluted net income per share” for the Interim period ended September 2006 is not stated because no residual securities existed as convertible bonds were redeemed at maturity as of September 30, 2006.

3. Change in accounting method: None

4. Percentages for net sales, operating income, ordinary income and net income show respective year-over-year changes from the previous fiscal year.

## (2) Consolidated financial position

Note: Amounts below one million yen are truncated.

|                                     | Total assets | Net assets | Equity ratio | Net assets per share |
|-------------------------------------|--------------|------------|--------------|----------------------|
|                                     | ¥ Million    | ¥ Million  | %            | ¥                    |
| Interim period ended September 2006 | 134,745      | 68,456     | 50.2         | 972.26               |
| Interim period ended September 2005 | 136,910      | 62,191     | 45.4         | 1,787.00             |
| Year ended March 2006               | 133,524      | 66,440     | 49.8         | 1,906.58             |

Note: Number of shares outstanding at the end of the period (consolidated):

69,600,102 shares at September 30, 2006

34,802,391 shares at September 30, 2005

34,800,491 shares at March 31, 2006

The Company conducted a two-for-one stock split on July 1, 2006. For comparison, "Net assets per share" is stated in the table as if the stock split had occurred as of April 1, 2006.

## (3) Consolidated cash flows

Note: Amounts below one million yen are truncated.

|                                     | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
|                                     | ¥ Million                            | ¥ Million                            | ¥ Million                            | ¥ Million                                  |
| Interim period ended September 2006 | 16,572                               | (12,058)                             | (1,388)                              | 27,372                                     |
| Interim period ended September 2005 | 10,119                               | (10,816)                             | 2,343                                | 25,520                                     |
| Year ended March 2006               | 24,081                               | (21,808)                             | (2,018)                              | 24,222                                     |

## (4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 47

Number of nonconsolidated subsidiaries accounted for by the equity method: —

Number of affiliates accounted for by the equity method: 4

## (5) Change in the scope of consolidation and application of the equity method

Consolidation (newly included): — (Excluded): —

Equity method (newly applied): 2 (Excluded): —

## 2. Forecast Consolidated Performance for FY2006, the Year Ending March 31, 2007 (from April 1, 2006, to March 31, 2007)

|  | Net sales | Ordinary income | Net income |
|--|-----------|-----------------|------------|
|  | ¥ Million | ¥ Million       | ¥ Million  |
| Year ending March 31, 2007 (full year) | 127,400   | 12,000          | 6,000      |

(Reference) Forecast net income per share (full year): ¥86.21

Note: These projected performance figures are based on information available to the Company's management at the time of preparing this report. There are many uncertain factors inherent in forecasting, and there might be cases in which actual results differ from forecast values.

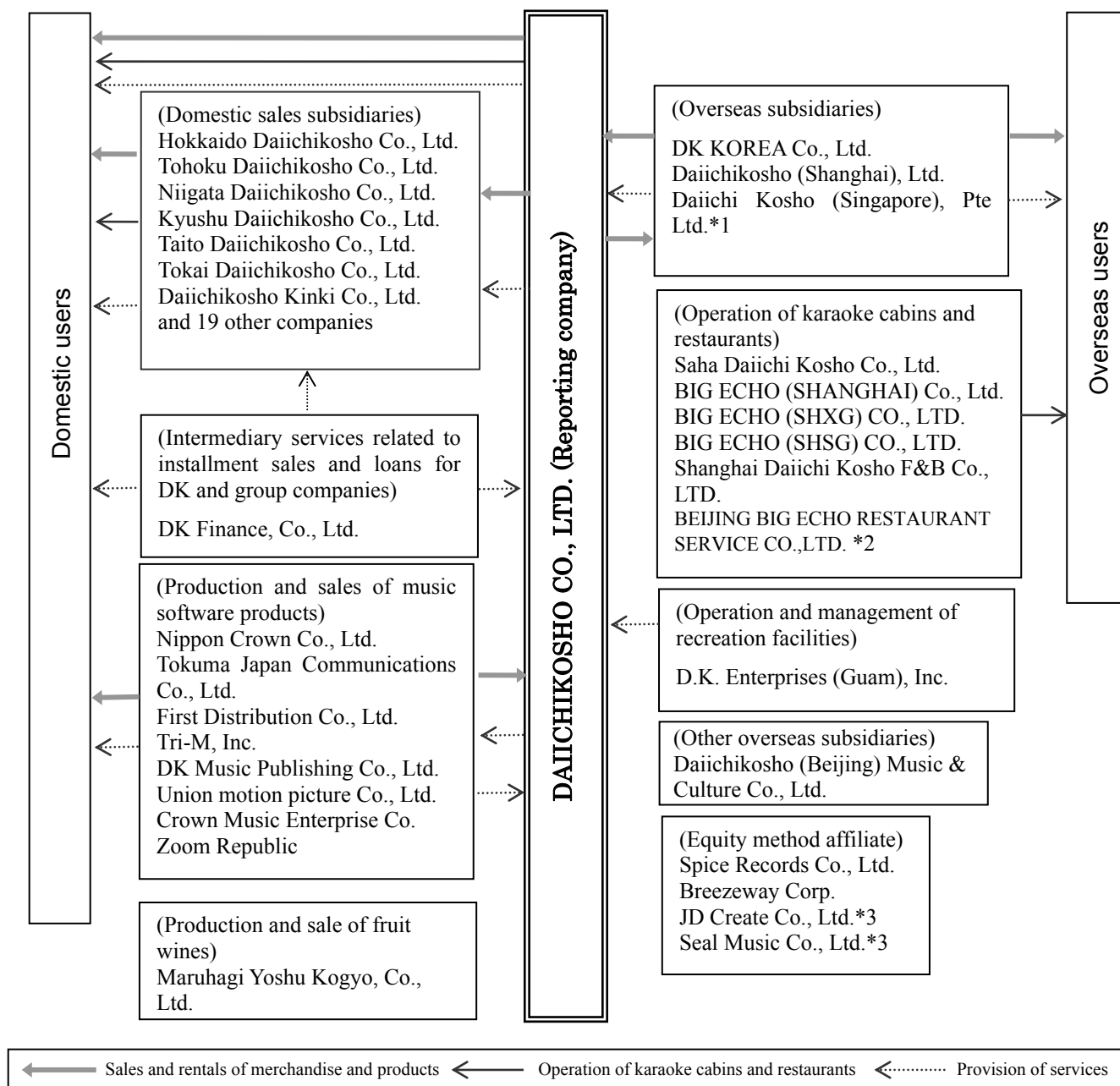
(Attachment)

## 1. Corporate Group

The Daiichikoshō Group (“DKG”) consists of Daiichikoshō Co., Ltd. (“DK” or “the Company”), 47 consolidated subsidiaries and four affiliates. The major group companies engage in the commercial karaoke business, the karaoke cabin and restaurant business, the Gateway business and the music software business.

| Business segment                      | Business line   | Domestic   | Overseas   |
|---------------------------------------|---|--|--|
| Commercial karaoke business           | Sales and rental of commercial-use karaoke equipment  | Daiichikoshō Co., Ltd.<br>Hokkaido Daiichikoshō Co., Ltd.<br>Tohoku Daiichikoshō Co., Ltd.<br>Taito Daiichikoshō Co., Ltd.<br>Niigata Daiichikoshō Co., Ltd.<br>Tokai Daiichikoshō Co., Ltd.<br>Daiichikoshō Kinki Co., Ltd.<br>Kyushu Daiichikoshō Co., Ltd.<br>and 19 other subsidiaries | DK KOREA Co., Ltd.<br>Daiichikoshō (Shanghai), Ltd.<br>and one other subsidiary              |
| Karaoke cabin and restaurant business | Operation of karaoke cabins and restaurants   |  | Saha Daiichi Kosho Co., Ltd.<br>BIG ECHO (SHANGHAI) Co., Ltd.<br>and four other subsidiaries |
| Gateway business                      | Supply of content service via the special “ <i>DAM Station</i> ” information terminal and mobile phones |  |  |
| Music software business               | Production and sales of music and video software products   | Daiichikoshō Co., Ltd.<br>Nippon Crown Co., Ltd.<br>Tokuma Japan Communications Co., Ltd.<br>First Distribution Co., Ltd.<br>Union motion picture Co., Ltd.<br>and four other subsidiaries   |  |
| Other business                        | Satellite broadcasting, real estate lease and rental business, etc.                                     | Daiichikoshō Co., Ltd.<br>DK Finance, Co., Ltd.<br>Maruhagi Yoshu Kogyo, Co., Ltd.   | D.K. Enterprises (Guam), Inc.<br>and one other subsidiary                                    |

The following diagram schematically shows the relationships of the respective group companies and businesses.



## 4. Consolidated Financial Statements

### (1) Consolidated Interim Balance Sheets

(Millions of yen)

| Account item                                   | Fiscal year |                                       | Previous interim period<br>(As of September 30,<br>2005) |                                       | Current interim period<br>(As of September 30,<br>2006) |                                       | FY2005<br>(As of March 31, 2006)<br>Condensed |  | Year-<br>over-<br>year<br>change |
|--|-------------|---------------------------------------|--|---------------------------------------|---|---------------------------------------|---|--|----------------------------------|
|  | Amount      | Com-<br>posi-<br>tion<br>ratio<br>(%) | Amount   | Com-<br>posi-<br>tion<br>ratio<br>(%) | Amount  | Com-<br>posi-<br>tion<br>ratio<br>(%) |   |  |                                  |
| <b>(Assets)</b>                                |             |                                       |  |                                       |   |                                       |   |  |                                  |
| I Current assets                               |             |                                       |  |                                       |   |                                       |   |  |                                  |
| 1 Cash and bank deposits                       | 26,086      |                                       | 27,840   |                                       | 24,732  |                                       | 3,107   |  |                                  |
| 2 Notes and accounts receivable<br>—trade      | 15,516      |                                       | 11,409   |                                       | 12,092  |                                       | (682)   |  |                                  |
| 3 Inventories                                  | 6,871       |                                       | 5,779  |                                       | 7,683   |                                       | (1,903)                                       |  |                                  |
| 4 Deferred tax assets                          | 3,163       |                                       | 1,241  |                                       | 2,254   |                                       | (1,012)                                       |  |                                  |
| 5 Other  | 5,805       |                                       | 5,059  |                                       | 4,376   |                                       | 682   |  |                                  |
| Allowance for doubtful accounts                | (1,349)     |                                       | (1,168)  |                                       | (1,173)   |                                       | 5   |  |                                  |
| Total current assets                           | 56,092      | 41.0                                  | 50,162   | 37.3                                  | 49,965  | 37.4                                  | 196   |  |                                  |
| II Fixed assets                                |             |                                       |  |                                       |   |                                       |   |  |                                  |
| I Tangible fixed assets                        |             |                                       |  |                                       |   |                                       |   |  |                                  |
| (1) Buildings and structures                   | 6,424       |                                       | 6,104  |                                       | 5,907   |                                       | 196   |  |                                  |
| (2) Karaoke equipment for rental               | 10,159      |                                       | 10,026   |                                       | 9,702   |                                       | 323   |  |                                  |
| (3) Karaoke cabin and restaurant<br>facilities | 12,414      |                                       | 13,742   |                                       | 13,684  |                                       | 57  |  |                                  |
| (4) Land                                       | 14,795      |                                       | 14,554   |                                       | 14,284  |                                       | 269   |  |                                  |
| (5) Other                                      | 4,131       |                                       | 4,085  |                                       | 4,058   |                                       | 26  |  |                                  |
| Total tangible fixed assets                    | 47,925      | 35.0                                  | 48,512   | 36.0                                  | 47,638  | 35.7                                  | 873   |  |                                  |
| 2 Intangible assets                            | 7,920       | 5.8                                   | 7,456  | 5.5                                   | 7,950   | 5.9                                   | (493)   |  |                                  |
| 3 Investments and other assets                 |             |                                       |  |                                       |   |                                       |   |  |                                  |
| (1) Investments in securities                  | 7,479       |                                       | 10,960   |                                       | 10,719  |                                       | 241   |  |                                  |
| (2) Long-term loans receivable                 | 1,215       |                                       | 1,071  |                                       | 1,086   |                                       | (14)  |  |                                  |
| (3) Deferred tax assets                        | 1,375       |                                       | 1,870  |                                       | 1,111   |                                       | 759   |  |                                  |
| (4) Leasehold deposits and<br>guarantee money  | 13,113      |                                       | 13,073   |                                       | 13,373  |                                       | (299)   |  |                                  |
| (5) Other                                      | 4,017       |                                       | 3,658  |                                       | 3,789   |                                       | (130)   |  |                                  |
| Allowance for doubtful accounts                | (2,230)     |                                       | (2,020)  |                                       | (2,110)   |                                       | 90  |  |                                  |
| Total investments and other assets             | 24,971      | 18.2                                  | 28,614   | 21.2                                  | 27,969  | 21.0                                  | 644   |  |                                  |
| Total fixed assets                             | 80,817      | 59.0                                  | 84,583   | 62.7                                  | 83,558  | 62.6                                  | 1,024   |  |                                  |
| Total Assets                                   | 136,910     | 100.0                                 | 134,745  | 100.0                                 | 133,524   | 100.0                                 | 1,221   |  |                                  |

## DAIICHIKOSHO CO., LTD.

| Account item   | Fiscal year |                                       | Previous interim period<br>(As of September 30,<br>2005) |                                       | Current interim period<br>(As of September 30, 2006) |                                       | FY2005<br>(As of March 31, 2006)<br>Condensed |                                       | Year-<br>over-<br>year<br>change |
|--|-------------|---------------------------------------|--|---------------------------------------|--|---------------------------------------|---|---------------------------------------|----------------------------------|
|  | Amount      | Com-<br>posi-<br>tion<br>ratio<br>(%) | Amount   | Com-<br>posi-<br>tion<br>ratio<br>(%) | Amount   | Com-<br>posi-<br>tion<br>ratio<br>(%) | Amount  | Com-<br>posi-<br>tion<br>ratio<br>(%) |                                  |
| <b>(Liabilities)</b>   |             |                                       |  |                                       |  |                                       |   |                                       |                                  |
| I Current liabilities  |             |                                       |  |                                       |  |                                       |   |                                       |                                  |
| 1 Notes and accounts payable<br>—trade                               | 8,818       |                                       | 5,525  |                                       | 5,262  |                                       | 262   |                                       |                                  |
| 2 Short-term borrowings  | 22,190      |                                       | 19,495   |                                       | 20,109   |                                       | (613)   |                                       |                                  |
| 3 Accounts payable—other   | 7,095       |                                       | 6,088  |                                       | 6,466  |                                       | (378)   |                                       |                                  |
| 4 Income taxes payable   | 1,253       |                                       | 1,892  |                                       | 1,407  |                                       | 485   |                                       |                                  |
| 5 Reserve for bonuses  | 1,139       |                                       | 1,341  |                                       | 1,044  |                                       | 297   |                                       |                                  |
| 6 Unrealized profit on installment<br>sales                          | 422         |                                       | 328  |                                       | 373  |                                       | (45)  |                                       |                                  |
| 7 Other  | 2,883       |                                       | 3,371  |                                       | 3,151  |                                       | 219   |                                       |                                  |
| Total current liabilities  | 43,802      | 32.0                                  | 38,043   | 28.2                                  | 37,815   | 28.3                                  | 227   |                                       |                                  |
| II Long-term liabilities   |             |                                       |  |                                       |  |                                       |   |                                       |                                  |
| 1 Long-term borrowings   | 23,370      |                                       | 21,375   |                                       | 21,096   |                                       | 278   |                                       |                                  |
| 2 Deferred tax liabilities   | 257         |                                       | 216  |                                       | 817  |                                       | (600)   |                                       |                                  |
| 3 Reserve for employees' retirement<br>benefits                      | 2,616       |                                       | 2,629  |                                       | 2,590  |                                       | 39  |                                       |                                  |
| 4 Reserve for directors' retirement<br>allowances                    | 1,987       |                                       | 2,264  |                                       | 2,153  |                                       | 111   |                                       |                                  |
| 5 Consolidation adjustment account                                   | 736         |                                       | 507  |                                       | 620  |                                       | (112)   |                                       |                                  |
| 6 Other  | 1,190       |                                       | 1,252  |                                       | 1,224  |                                       | 28  |                                       |                                  |
| Total long-term liabilities  | 30,159      | 22.0                                  | 28,246   | 21.0                                  | 28,502   | 21.3                                  | (256)   |                                       |                                  |
| Total Liabilities  | 73,961      | 54.0                                  | 66,289   | 49.2                                  | 66,318   | 49.6                                  | (29)  |                                       |                                  |
| <b>(Minority Interests)</b>  |             |                                       |  |                                       |  |                                       |   |                                       |                                  |
| Minority Interests   | 756         | 0.6                                   | —  | —                                     | 764  | 0.6                                   | (764)   |                                       |                                  |
| <b>(Shareholders' Equity)</b>  |             |                                       |  |                                       |  |                                       |   |                                       |                                  |
| I Capital stock  | 12,350      | 9.0                                   | —  | —                                     | 12,350   | 9.2                                   | (12,350)                                      |                                       |                                  |
| II Capital surplus   | 24,002      | 17.5                                  | —  | —                                     | 24,003   | 18.0                                  | (24,003)                                      |                                       |                                  |
| III Retained earnings  | 29,373      | 21.5                                  | —  | —                                     | 32,029   | 24.0                                  | (32,029)                                      |                                       |                                  |
| IV Land revaluation difference                                       | (1,409)     | (1.0)                                 | —  | —                                     | (845)  | (0.6)                                 | 845   |                                       |                                  |
| V Net unrealized gains or losses on<br>available-for-sale securities | 1,364       | 1.0                                   | —  | —                                     | 2,354  | 1.8                                   | (2,354)                                       |                                       |                                  |
| VI Foreign currency translation<br>adjustments                       | 144         | 0.1                                   | —  | —                                     | 188  | 0.1                                   | (188)   |                                       |                                  |
| VII Treasury stock   | (3,634)     | (2.7)                                 | —  | —                                     | (3,639)  | (2.7)                                 | 3,639   |                                       |                                  |
| Total Shareholders' Equity   | 62,191      | 45.4                                  | —  | —                                     | 66,440   | 49.8                                  | (66,440)                                      |                                       |                                  |
| Total Liabilities, Minority Interests<br>and Shareholders' Equity    | 136,910     | 100.0                                 | —  | —                                     | 133,524  | 100.0                                 | (133,524)                                     |                                       |                                  |

## DAIICHIKOSHO CO., LTD.

| Account item   | Fiscal year |                                       | Previous interim period<br>(As of September 30,<br>2005) |                                       | Current interim period<br>(As of September 30, 2006) |                                       | FY2005<br>(As of March 31, 2006)<br>Condensed |  | Year-<br>over-<br>year<br>change |
|--|-------------|---------------------------------------|--|---------------------------------------|--|---------------------------------------|---|--|----------------------------------|
|  | Amount      | Com-<br>posi-<br>tion<br>ratio<br>(%) | Amount   | Com-<br>posi-<br>tion<br>ratio<br>(%) | Amount   | Com-<br>posi-<br>tion<br>ratio<br>(%) |   |  |                                  |
| <b>(Net Assets)</b>  |             |                                       |  |                                       |  |                                       |   |  |                                  |
| I Shareholders' equity   |             |                                       |  |                                       |  |                                       |   |  |                                  |
| 1 Capital stock  | —           | —                                     | 12,350   | 9.2                                   | —  | —                                     | 12,350  |  |                                  |
| 2 Capital surplus  | —           | —                                     | 24,003   | 17.8                                  | —  | —                                     | 24,003  |  |                                  |
| 3 Retained earnings  | —           | —                                     | 34,825   | 25.8                                  | —  | —                                     | 34,825  |  |                                  |
| 4 Treasury stock   | —           | —                                     | (3,641)  | (2.7)                                 | —  | —                                     | (3,641)                                       |  |                                  |
| Total Shareholders' equity   | —           | —                                     | 67,537   | 50.1                                  | —  | —                                     | 67,537  |  |                                  |
| II Valuation gains and losses and<br>translation adjustment          |             |                                       |  |                                       |  |                                       |   |  |                                  |
| 1 Net unrealized gains or losses on<br>available-for-sale securities | —           | —                                     | 782  | 0.6                                   | —  | —                                     | 782   |  |                                  |
| 2 Land revaluation difference  | —           | —                                     | (845)  | (0.6)                                 | —  | —                                     | (845)   |  |                                  |
| 3 Foreign currency translation<br>adjustments                        | —           | —                                     | 194  | 0.1                                   | —  | —                                     | 194   |  |                                  |
| Total valuation gains and losses and<br>translation adjustment       | —           | —                                     | 131  | 0.1                                   | —  | —                                     | 131   |  |                                  |
| III Minority interests   | —           | —                                     | 786  | 0.6                                   | —  | —                                     | 786   |  |                                  |
| Total Net Assets   | —           | —                                     | 68,456   | 50.8                                  | —  | —                                     | 68,456  |  |                                  |
| Total Liabilities and Net Assets                                     | —           | —                                     | 134,745  | 100.0                                 | —  | —                                     | 134,745                                       |  |                                  |

**(2) Consolidated Interim Statements of Income**

(Millions of yen)

| Account item   | Fiscal year |        | Previous interim period<br>(From April 1, 2005,<br>to September 30, 2005) |        | Current interim period<br>(From April 1, 2006,<br>to September 30, 2006) |                             | Year-over-year<br>change<br>(%) | FY 2005 (From April 1,<br>2005, to March 31, 2006)<br>Condensed |         |                             |
|--|-------------|--------|---|--------|--|-----------------------------|---------------------------------|---|---------|-----------------------------|
|  | Amount      |        | Per-<br>cent-<br>age<br>(%)   | Amount |  | Per-<br>cent-<br>age<br>(%) |                                 | Amount  |         | Per-<br>cent-<br>age<br>(%) |
| I Net sales  |             | 64,191 | 100.0   |        | 63,212   | 100.0                       | 98.5                            |   | 129,341 | 100.0                       |
| II Cost of sales   |             | 39,278 | 61.2  |        | 38,113   | 60.3                        | 97.0                            |   | 78,999  | 61.1                        |
| Gross profit before adjustment for<br>unrealized profit on installment sales |             | 24,912 | 38.8  |        | 25,099   | 39.7                        | 100.8                           |   | 50,342  | 38.9                        |
| Unrealized profit on installment<br>sales—reversal (+)                       | 60          |        |   | 52     |  |                             |                                 | 106   |         |                             |
| Unrealized profit on installment<br>sales—deferred (-)                       | 19          | 41     | 0.1   | 6      | 45   | 0.0                         | 110.5                           | 16  | 89      | 0.1                         |
| Gross profit on sales  |             | 24,953 | 38.9  |        | 25,144   | 39.7                        | 100.8                           |   | 50,431  | 39.0                        |
| III Selling, general and administrative<br>expenses                          |             | 19,810 | 30.9  |        | 18,481   | 29.2                        | 93.3                            |   | 39,145  | 30.3                        |
| Operating income   |             | 5,143  | 8.0   |        | 6,662  | 10.5                        | 129.5                           |   | 11,286  | 8.7                         |
| IV Nonoperating income   |             |        |   |        |  |                             |                                 |   |         |                             |
| 1 Interest income  |             | 177    |   |        | 153  |                             |                                 |   | 340     |                             |
| 2 Dividend income  |             | 111    |   |        | 26   |                             |                                 |   | 120     |                             |
| 3 Fees and commissions received  |             | 95     |   |        | 98   |                             |                                 |   | 180     |                             |
| 4 Contributions received   |             | 118    |   |        | 158  |                             |                                 |   | 236     |                             |
| 5 Amortization of consolidation<br>adjustments account                       |             | 116    |   |        | 112  |                             |                                 |   | 232     |                             |
| 6 Other  | 446         | 1,067  | 1.7   | 352    | 902  | 1.4                         | 84.6                            | 1,074   | 2,184   | 1.7                         |
| V Nonoperating expenses  |             |        |   |        |  |                             |                                 |   |         |                             |
| 1 Interest expense   |             | 244    |   |        | 239  |                             |                                 |   | 477     |                             |
| 2 Loss on devaluation of inventories   |             | 449    |   |        | 279  |                             |                                 |   | 887     |                             |
| 3 Other  |             | 328    | 1.6   | 191    | 710  | 1.1                         | 69.4                            | 486   | 1,852   | 1.4                         |
| Ordinary income  |             | 5,188  | 8.1   |        | 6,855  | 10.8                        | 132.1                           |   | 11,618  | 9.0                         |
| VI Extraordinary gains   |             |        |   |        |  |                             |                                 |   |         |                             |
| 1 Gain on sales of fixed assets  |             | 34     |   |        | 15   |                             |                                 |   | 98      |                             |
| 2 Gain on sales of investments in<br>securities                              |             | 370    |   |        | —  |                             |                                 |   | 370     |                             |
| 3 Reversal of allowance for doubtful<br>accounts                             |             | 92     |   |        | 97   |                             |                                 |   | 75      |                             |
| 4 Reversal of reserve for directors'<br>retirement allowances                | 48          | 546    | 0.9   | 2      | 115  | 0.2                         | 21.2                            | 55  | 599     | 0.5                         |
| VII Extraordinary losses   |             |        |   |        |  |                             |                                 |   |         |                             |
| 1 Loss on sales and disposal of fixed<br>assets                              |             | 456    |   |        | 444  |                             |                                 |   | 1,165   |                             |
| 2 Impairment loss on fixed assets  |             | 2,199  |   |        | 38   |                             |                                 |   | 2,493   |                             |
| 3 Loss on sales of investments in<br>securities                              |             | —      |   |        | —  |                             |                                 |   | 4       |                             |
| 4 Loss on valuation of investments<br>in securities                          |             | 7      |   |        | 5  |                             |                                 |   | 7       |                             |
| 5 Loss on cancellation of a new<br>business                                  | 196         | 2,860  | 4.5   | —      | 488  | 0.7                         | 17.1                            | 435   | 4,107   | 3.2                         |
| Income before income taxes and<br>minority interests                         |             | 2,874  | 4.5   |        | 6,483  | 10.3                        | 225.6                           |   | 8,110   | 6.3                         |
| Income taxes—current   | 1,106       |        |   | 1,776  |  |                             |                                 | 2,062   |         |                             |
| Income taxes—deferred  | 983         | 2,089  | 3.3   | 722    | 2,499  | 4.0                         | 119.6                           | 2,041   | 4,104   | 3.2                         |
| Minority interests in income (loss) of<br>consolidated subsidiaries          |             | (6)    | (0.0)   |        | 28   | 0.0                         | (463.0)                         |   | (3)     | (0.0)                       |
| Net income   |             | 790    | 1.2   |        | 3,955  | 6.3                         | 500.4                           |   | 4,009   | 3.1                         |



**(3) Consolidated Interim Statements of Capital Surplus and Retained Earnings and Consolidated Interim Statement of Changes in Net Assets.**

**Consolidated Interim Statements of Capital Surplus and Retained Earnings**

(Millions of yen)

| Account item   | Fiscal year   |        | FY 2005 (From April 1, 2005, to March 31, 2006) |        |
|--|---|--------|---|--------|
|  | Previous interim period (From April 1, 2005, to September 30, 2005) |        | Amount  |        |
| <b>(Capital surplus)</b>   |   |        |   |        |
| I Capital surplus at the beginning of the year   |   | 24,002 |   | 24,002 |
| II Increase in capital surplus   |   |        |   |        |
| Gain from purchase and redemption of treasury stock  | —   | —      | 0   | 0      |
| III Capital surplus at the end of the interim period   |   | 24,002 |   | 24,003 |
| <b>(Retained earnings)</b>   |   |        |   |        |
| I Retained earnings at the beginning of the year   |   | 30,050 |   | 30,050 |
| II Increase in retained earnings   |   |        |   |        |
| 1 Net income   | 790   |        | 4,009   |        |
| 2 Increase in retained earnings due to the increase in the number of consolidated subsidiaries | 414   | 1,204  | 414   | 4,424  |
| III Decrease in retained earnings  |   |        |   |        |
| 1 Cash dividends   | 1,392   |        | 1,392   |        |
| 2 Bonuses to directors and statutory auditors  | 104   |        | 104   |        |
| 3 Reversal of land revaluation difference  | 385   | 1,881  | 948   | 2,445  |
| IV Retained earnings at the end of the interim period  |   | 29,373 |   | 32,029 |

**Consolidated Interim Statement of Changes in Net Assets.**

Current interim period (From April 1, 2006, to September 30, 2006)

(Millions of yen)

|  | Shareholders' equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Capital stock        | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of March 31, 2006                                 | 12,350               | 24,003          | 32,029            | (3,639)        | 64,743                     |
| Change in first half of FY2006                               |                      |                 |                   |                |                            |
| Cash dividends paid (Note)                                   |                      |                 | (1,044)           |                | (1,044)                    |
| Bonuses to directors and statutory auditors (Note)           |                      |                 | (115)             |                | (115)                      |
| Net income   |                      |                 | 3,955             |                | 3,955                      |
| Purchases of treasury stock                                  |                      |                 |                   | (1)            | (1)                        |
| Disposal of treasury stock                                   |                      | 0               |                   | 0              | 0                          |
| Net change in items other from those in shareholders' equity |                      |                 |                   |                |                            |
| Total of changes in first half of FY2006                     | —                    | 0               | 2,795             | (1)            | 2,794                      |
| Balance as of September 30, 2006                             | 12,350               | 24,003          | 34,825            | (3,641)        | 67,537                     |

|  | Valuation, translation adjustments and others                   |                             |  |   | Minority interests | Total net assets |
|--|---|-----------------------------|--|---|--------------------|------------------|
|  | Net unrealized gains or losses on available-for-sale securities | Land revaluation difference | Foreign currency translation adjustments | Total valuation, translation adjustments and others |                    |                  |
| Balance as of March 31, 2006                                 | 2,354   | (845)                       | 188                                      | 1,697   | 764                | 67,205           |
| Change in 1st half of FY2006                                 |   |                             |  |   |                    |                  |
| Cash dividends (Note)  |   |                             |  |   |                    | (1,044)          |
| Bonuses to directors and statutory auditors (Note)           |   |                             |  |   |                    | (115)            |
| Interim net income   |   |                             |  |   |                    | 3,955            |
| Purchases of treasury stock                                  |   |                             |  |   |                    | (1)              |
| Disposal of treasury stock                                   |   |                             |  |   |                    | 0                |
| Net change in items other from those in shareholders' equity | (1,571)   | —                           | 6  | (1,565)   | 21                 | (1,544)          |
| Total of changes in 1st half of FY2006                       | (1,571)   | —                           | 6  | (1,565)   | 21                 | 1,250            |
| Balance as of September 30, 2006                             | 782   | (845)                       | 194                                      | 131   | 786                | 68,456           |

Note: These are items for which the appropriation of retained earnings was determined by the Ordinary General Meeting of Shareholders held in June 2006.

**(4) Consolidated Interim Statements of Cash Flows**

(Millions of yen)

| Account item  | Fiscal year | Previous interim period (From April 1, 2005, to September 30, 2005) | Current interim period (From April 1, 2006, to September 30, 2006) | Year-over -year change | FY 2005 (From April 1, 2005, to March 31, 2006) Condensed |
|---|-------------|---|--|------------------------|---|
|   |             | Amount  | Amount   | Increase/Decrease      | Amount  |
| <b>I Cash flows from operating activities:</b>  |             |   |  |                        |   |
| Income before income taxes and minority interests   |             | 2,874   | 6,483  |                        | 8,110   |
| Depreciation expense  |             | 7,585   | 7,598  |                        | 15,783  |
| Impairment loss on fixed assets   |             | 2,199   | 38   |                        | 2,493   |
| Increase in allowance for doubtful accounts   |             | 91  | (95)   |                        | 43  |
| Increase (decrease) in reserve for directors' retirement allowances   |             | (1,009)   | 111  |                        | (842)   |
| Dividend and interest income  |             | (289)   | (180)  |                        | (460)   |
| Gain or loss on sales of investments in securities  |             | (370)   | —  |                        | (365)   |
| Interest expense  |             | 244   | 239  |                        | 477   |
| Gain or loss on disposal of fixed assets  |             | 421   | 428  |                        | 1,067   |
| Decrease (increase) in trade receivables  |             | (2,920)   | 676  |                        | 415   |
| Decrease (increase) in inventories  |             | 1   | 1,903  |                        | (928)   |
| Transfer of cost of sales on karaoke equipment for rental   |             | 552   | 468  |                        | 1,016   |
| Increase in trade payables  |             | 1,398   | 266  |                        | (1,980)   |
| Other   |             | (25)  | (14)   |                        | 841   |
| Subtotal  |             | 10,752  | 17,925   |                        | 25,672  |
| Interest and dividends received   |             | 277   | 172  |                        | 453   |
| Interest paid   |             | (233)   | (246)  |                        | (460)   |
| Income taxes paid   |             | (675)   | (1,279)  |                        | (1,583)   |
| Net cash provided by operating activities   |             | 10,119  | 16,572   | 6,452                  | 24,081  |
| <b>II Cash flows from investing activities:</b>   |             |   |  |                        |   |
| Increase in time and saving deposits  |             | (216)   | (78)   |                        | (358)   |
| Proceeds from decrease in time and saving deposits  |             | 316   | 121  |                        | 515   |
| Payments for acquisition of tangible fixed assets   |             | (7,681)   | (6,613)  |                        | (14,628)  |
| Proceeds from sales of tangible fixed assets  |             | 82  | 122  |                        | 605   |
| Payments for acquisition of intangible assets   |             | (2,466)   | (2,179)  |                        | (4,766)   |
| Payments for acquisition of video licenses  |             | (866)   | (619)  |                        | (1,512)   |
| Payments for purchase of investments in securities  |             | (988)   | (2,909)  |                        | (2,598)   |
| Proceeds from sales of investments in securities  |             | 524   | —  |                        | 544   |
| Payments for loans  |             | (452)   | (390)  |                        | (996)   |
| Proceeds from collection of loans receivable  |             | 425   | 373  |                        | 1,249   |
| Payments for leasehold deposits and guarantee money   |             | (232)   | (246)  |                        | (908)   |
| Proceeds from repayment of leasehold deposits and guarantee money   |             | 498   | 317  |                        | 819   |
| Other   |             | 240   | 43   |                        | 227   |
| Net cash used in investing activities   |             | (10,816)  | (12,058)   | (1,242)                | (21,808)  |
| <b>III Cash flows from financing activities:</b>  |             |   |  |                        |   |
| Net increase in short-term borrowings   |             | (448)   | (412)  |                        | (2,606)   |
| Increase in long-term borrowings  |             | 10,694  | 7,405  |                        | 15,322  |
| Payments for repayment of long-term borrowings  |             | (6,504)   | (7,328)  |                        | (13,330)  |
| Cash dividends paid   |             | (1,389)   | (1,043)  |                        | (1,391)   |
| Other   |             | (6)   | (10)   |                        | (12)  |
| Net cash used in financing activities   |             | 2,343   | (1,388)  | (3,732)                | (2,018)   |
| <b>IV Effect of exchange rate changes on cash and cash equivalents</b>  |             | 46  | 25   | (20)                   | 141   |
| <b>V Net increase (decrease) in cash and cash equivalents</b>   |             | 1,693   | 3,150  | 1,456                  | 395   |
| <b>VI Cash and cash equivalents at the beginning of the year</b>  |             | 22,428  | 24,222   | 1,794                  | 22,428  |
| <b>VII Increase in cash and cash equivalents due to the increase in the number of newly consolidated subsidiaries</b> |             | 1,398   | —  | (1,398)                | 1,398   |
| <b>VIII Cash and cash equivalents at the end of the interim period</b>  |             | 25,520  | 27,372   | 1,852                  | 24,222  |

## 1. Summary of Significant Accounting Policies

### (1) Valuation basis and method for important assets

#### ① Marketable securities and investments in securities

##### Held-to-maturity debt securities:

Carried at amortized cost using the straight-line method.

##### Other securities primarily designated as available-for-sale securities for which the fair values are readily determinable:

Carried at fair value as of the balance-sheet date with changes in net unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. The cost of securities sold is determined by the moving-average method.

##### Other securities primarily designated as available-for-sale securities for which the fair values are not readily determinable:

Carried at cost determined by the moving-average method.

With regard to investments in the Investment Business Limited Liability Partnership and similar organizations (which are regarded as "securities" in accordance with Article 2, Paragraph 2, of the Securities Exchange Law), initial investments in such associations are recognized as receivables from associations and the amount assumed to be held by the Company for fluctuations due to the financial situation of the associations after such investment is recognized as receivables and payables related to such associations. The amount assumed to be held by the Company of profit and loss in such associations during the interim period under review was treated as Gain (loss) on investments in associations.

#### ② Derivatives

Carried at fair value.

#### ③ Inventories

Principally stated at cost determined by the moving-average method.

### (2) Depreciation method of major depreciable assets

#### ① Tangible fixed assets

Depreciation is principally computed by the declining-balance method at rates based on the estimated useful lives of the assets as shown below. However, the straight-line method is adopted for buildings (excluding building improvements) acquired on or after April 1, 1998.

**Buildings and structures:** 3–50 years

**Karaoke equipment for rental:** 5–6 years

**Karaoke cabin and restaurant facilities:** 3–19 years

#### ② Intangible assets

Amortization of intangible assets is computed by the straight-line method.

### (3) Accounting standard for important reserves

#### ① Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual rate of losses from bad debt for ordinary receivables, and on the estimated recoverability for specific doubtful receivables.

#### ② Reserve for bonuses

The reserve for bonuses is provided at an estimated amount based on the internal payment prediction standard.

#### ③ Reserve for employees' retirement benefits

The reserve for employees' retirement benefits is provided at an amount recognized to have accrued as of the interim balance-sheet date, based on the projected benefit obligations and plan assets as of September 30, 2006. Actuarial differences are amortized on a pro rata basis by the straight-line method over a certain period (10 years), which is shorter than the average remaining service years for employees at the time of their recognition, from the following fiscal year of recognition.

#### ④ Reserve for directors' retirement allowances

The reserve for directors' retirement allowances of DK and its domestic consolidated subsidiaries is provided at amounts that would be required to be paid in accordance with their respective internal rules concerning directors' retirement allowances if all eligible directors and statutory auditors were to resign their positions as of the respective interim balance-sheet dates.

### (4) Translation of important assets and liabilities denominated in foreign currencies into yen

Monetary receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rate in effect at the interim balance-sheet date. The resulting exchange differences are charged or credited to income. The balance sheet accounts, as well as the revenue and expense accounts, of the overseas subsidiaries are translated into yen at the spot exchange rate in effect at their respective interim balance-sheet dates. The resulting translation differences have been recorded and presented as a component of “Foreign currency translation adjustments” and “Minority interests” in “Net Assets.”

**(5) Accounting for important leases**

Finance leases that do not transfer ownership of leased property to the lessee are accounted for as rental transactions.

**(6) Hedge accounting**

DKG hedges against risks of interest rate fluctuations for its variable-rate borrowings using interest rate swaps. The preferential treatment is applied to these interest rate swaps.

**(7) Other important matters in preparing the consolidated interim financial statements**

**① Accounting for installment sales**

Unrealized profit on installment sales is deferred for the amount corresponding to the portion of installment receivables for which the due date has not expired based on DKG’s installment standards.

**② Accounting for consumption taxes**

Consumption taxes are accounted for using the tax exclusion method.

**2. Cash and Cash Equivalents in the Consolidated Interim Statements of Cash Flows**

Cash and cash equivalents in the consolidated interim statements of cash flows included cash on hand, demand deposits and short-term investments due within three months from the acquired date, which are easily convertible into cash with little risk of value fluctuation.

**(Segment Information)****1. Business segments****Previous interim period (From April 1, 2005, to September 30, 2005)**

(Millions of yen)

| Item                              | Commer-<br>cial karaoke | Karaoke<br>cabin and<br>restaurant | Gateway | Music<br>software | Other | Total  | Elimina-<br>tions and<br>corporate | Consolidated |
|-----------------------------------|-------------------------|------------------------------------|---------|-------------------|-------|--------|------------------------------------|--------------|
| <b>Sales and operating income</b> |                         |                                    |         |                   |       |        |                                    |              |
| Sales                             |                         |                                    |         |                   |       |        |                                    |              |
| Sales to third parties            | 36,897                  | 15,781                             | 2,469   | 5,562             | 3,480 | 64,191 | —                                  | 64,191       |
| Intersegment sales and transfers  | 120                     | —                                  | —       | 87                | 355   | 564    | (564)                              | —            |
| Total                             | 37,018                  | 15,781                             | 2,469   | 5,650             | 3,836 | 64,755 | (564)                              | 64,191       |
| Operating expenses                | 30,627                  | 14,853                             | 3,824   | 5,597             | 2,963 | 57,867 | 1,180                              | 59,047       |
| Operating income (loss)           | 6,391                   | 927                                | (1,355) | 52                | 872   | 6,888  | (1,744)                            | 5,143        |

**Current interim period (From April 1, 2006, to September 30, 2006)**

(Millions of yen)

| Item                              | Commer-<br>cial karaoke | Karaoke<br>cabin and<br>restaurant | Gateway | Music<br>software | Other | Total  | Elimina-<br>tions and<br>corporate | Consolidated |
|-----------------------------------|-------------------------|------------------------------------|---------|-------------------|-------|--------|------------------------------------|--------------|
| <b>Sales and operating income</b> |                         |                                    |         |                   |       |        |                                    |              |
| Sales                             |                         |                                    |         |                   |       |        |                                    |              |
| Sales to third parties            | 34,065                  | 17,046                             | 2,246   | 5,834             | 4,018 | 63,212 | —                                  | 63,212       |
| Intersegment sales and transfers  | 113                     | —                                  | —       | 86                | 365   | 565    | (565)                              | —            |
| Total                             | 34,179                  | 17,046                             | 2,246   | 5,920             | 4,384 | 63,777 | (565)                              | 63,212       |
| Operating expenses                | 28,335                  | 15,057                             | 2,961   | 5,891             | 3,502 | 55,747 | 801                                | 56,549       |
| Operating income (loss)           | 5,843                   | 1,989                              | (715)   | 29                | 882   | 8,029  | (1,366)                            | 6,662        |

**FY2005 (From April 1, 2005, to March 31, 2006)**

(Millions of yen)

| Item                              | Commer-<br>cial karaoke | Karaoke<br>cabin and<br>restaurant | Gateway | Music<br>software | Other | Total   | Elimina-<br>tions and<br>corporate | Consolidated |
|-----------------------------------|-------------------------|------------------------------------|---------|-------------------|-------|---------|------------------------------------|--------------|
| <b>Sales and operating income</b> |                         |                                    |         |                   |       |         |                                    |              |
| Sales                             |                         |                                    |         |                   |       |         |                                    |              |
| Sales to third parties            | 69,672                  | 33,307                             | 4,780   | 14,261            | 7,319 | 129,341 | —                                  | 129,341      |
| Intersegment sales and transfers  | 238                     | —                                  | —       | 166               | 696   | 1,101   | (1,101)                            | —            |
| Total                             | 69,910                  | 33,307                             | 4,780   | 14,428            | 8,015 | 130,442 | (1,101)                            | 129,341      |
| Operating expenses                | 58,660                  | 30,101                             | 7,238   | 13,988            | 6,118 | 116,106 | 1,948                              | 118,054      |
| Operating income (loss)           | 11,250                  | 3,206                              | (2,457) | 439               | 1,896 | 14,336  | (3,049)                            | 11,286       |

Notes: 1. Segmentation method  
According to DKG's sales tabulation categories.

## 2. Major products and/or services of each business segment

| Business segment                      | Major products and/or services  |
|---------------------------------------|---|
| Commercial karaoke business           | Sales and rental of commercial-use karaoke equipment and software   |
| Karaoke cabin and restaurant business | Operation of karaoke cabins and restaurants   |
| Gateway business                      | Supply of music content, etc., via “ <i>DAM Station</i> ” special information terminals and mobile phones |
| Music software business               | Production and sales of music and video software products   |
| Other business                        | Satellite broadcasting business and real estate lease and rental business, etc.                           |

## 3. Amounts and major items included in “Eliminations and corporate”

(Millions of yen)

|   | Previous interim period | Current interim period | Last fiscal year | Major items  |
|---|-------------------------|------------------------|------------------|--|
| Amounts of unabsorbed operating expenses included in “Eliminations and corporate” | ¥1,744                  | ¥1,366                 | ¥3,049           | Expenses required for operations by administrative departments such as General Affairs Dept. |

## 2. Geographical segments

As sales in Japan account for more than 90% of the sum of sales in each region of the respective geographical segments, the segment information by geographical region is omitted.

## 3. Overseas sales

As sales overseas account for less than 10% of consolidated net sales, overseas sales related information is omitted.