

## Financial Results in the Year ended March 2003

May 19, 2003

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: May 19, 2003

Adoption of U.S. accounting standards : No

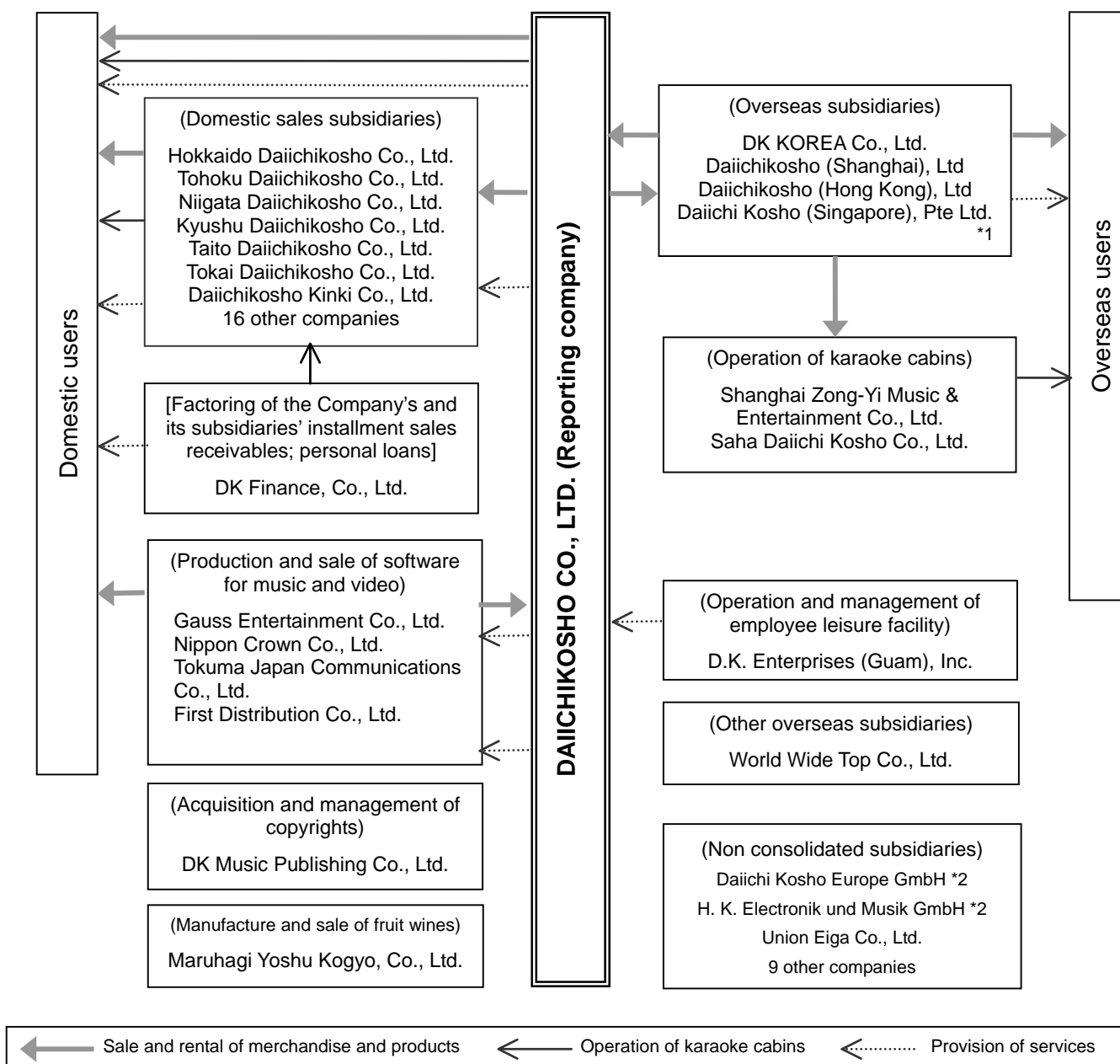
## Financial highlights

Years ended March 31; Millions of yen Consolidated	1999	2000	2001	2002	2003
Net sales	94,681	88,397	86,730	98,591	117,057
Ordinary income	5,998	9,240	8,430	8,447	10,831
Net income	2,307	3,131	3,079	3,304	6,938
Shareholders' equity	64,481	71,798	48,678	49,914	55,555
Total assets	168,135	159,159	123,775	131,075	131,938
Shareholders' equity per share (Yen)	3,439.13	3,829.25	2,596.50	2,726.97	3,081.34
Net income per share (Yen)	123.09	167.01	164.28	176.39	375.89
Equity ratio (%)	38.4	45.1	39.3	38.1	42.1
Return on equity (%)	3.6	4.6	5.1	6.7	13.2
<b>Non consolidated</b>					
Net sales	63,302	59,884	61,200	65,489	74,974
Ordinary income	2,870	4,449	4,683	5,332	7,510
Net income	909	1,078	1,157	2,019	4,350
Shareholders' equity	64,080	67,145	42,011	42,314	45,543
Total assets	120,088	112,651	78,376	81,459	82,546
Shareholders' equity per share (Yen)	3,417.56	3,581.05	2,240.57	2,311.78	2,530.19
Net income per share (Yen)	48.53	57.50	61.71	107.82	238.37
Equity ratio (%)	53.4	59.6	53.6	52.0	55.2
Return on equity (%)	1.4	1.6	2.1	4.8	9.9

## Group organization

The Daiichikoshogroup (“DKG”) that consists of Daiichikoshogroup (“DK”) and 38 subsidiaries is engaged in the commercial karaoke business, the karaoke room business, the contents business and the music software business.

The following is a graphic presentation of DKG’s operations.



(Notes) 1. \*1 indicates companies in dormancy.  
 2. \*2 indicates companies that are now being liquidated.  
 3. Daiichikoshogroup (Shanghai), Ltd. founded in Aug.,2002 and First Distribution Co., Ltd. founded in Sep.,2002 have been newly included among the scope of consolidation.  
 4. Hokkaido Daiichikoshogroup Co., Ltd. that was retained and Otaru Daiichikoshogroup Co., Ltd. merged in May, 2003.

## 1. Management policy

### (1) Basic management policy

DKG's mission statement is "more music to the world, more service to the world." Its basic management policy is to promote musical culture and to provide field of enjoyable communication through karaoke.

DKG understands necessity to provide karaoke equipments and a variety range of karaoke software that suit users' needs, and karaoke rooms where people gather to enjoy karaoke in order to realize the policy.

DKG aims to become an enterprise that can meet expectations of not only investors but also every person concerned around the group by means of more expansion of the business and securing high revenue, centering karaoke business, building on the know-how that the group has developed and contents that the group has accumulated.

### (2) Basic policy on the distribution of profits

DKG's top priority on the distribution of profits is the benefit of its shareholders. Concerning dividend, its basic policy is to continue paying stable dividends, while to pay dividends corresponding to a growth of business results. Concerning retained earnings, its basic policy is to invest it in development of new products and operating assets systematically and effectively in order to raise its market share and extend earning foundations.

### (3) Basic policy on a round lot reduction

DK will examine about this carefully, considering the benefit of its shareholders.

### (4) Medium and long-term management strategy

DKG aims to be an overall service corporation of music and information, expanding the karaoke communication network, creating new service.

### (5) Basic policy on Corporate Governance and status of policy implementation

#### Basic policy on Corporate Governance

DKG has introduced the corporate executive officer system that make function of the board of directors strengthen and make a prompt decision in order to establish efficient group management, aiming to realize its basic management policy, quickly adapting to business environments that change continuously and severely. DKG makes an effort to disclose prompt and accurate information for the purpose of raising transparency of its management.

#### Status of policy implementation

DK holds a weekly management meeting that corporate auditors attend, a regular board of directors' meeting monthly, in addition, an extraordinary board of directors' meeting as the need arises.

### (6) Subjects to be handled

DKG will invest maximum effort in sales and rental of the telecommunication karaoke equipment "DAM" in order to expand its telecommunication karaoke network that is the source of revenues of sound delivery services.

As of March 31, DKG operates 192 karaoke room stores. DKG aims to achieve an operating-profit ratio of 15%, by closing unprofitable stores, opening large-scale stores in the metropolitan area and provincial cities, and differentiation.

DK broadcasts programs via the direct-broadcast-satellite provider, Sky PerfectTV, through 2 TV channels and 100 radio channels. DKG aims to make this operation be in the black early.

DKG aims to increase the synergies between the music software business and its karaoke operations due to strengthening the operating foundations of 2 music-recording subsidiaries that constitute the music software business by means of restructuring.

DK aims to raise its ROE.

(7) Basic policy on related party transactions

DK's basic policy on related party transactions is to disclose all.

(8) Target performance indicators

DK aims to achieve that its Consolidated ROE exceeds 12% by the end of FY2005.

## 2. Results of operations and financial condition

### (1) Summary of the fiscal year to March 2003

#### Results of operations

In the Japanese economy during the year to March 2003, although there were bright signs for a while due to expectation for personal consumption, the Japanese economy continued to be severer compared with the previous fiscal year because of exports that weren't increasing as much as expected, severe employment conditions, the Iraq War, and a fall in stock prices.

In the karaoke industry, the business environment was severe due to a depression. Selection and amalgamation to survive progressed, with price competition becoming intense.

Under these conditions, DKG concentrated on sale and rental of chiefly "*cyber DAM*" which was main house brand and electronic music selection remote control "*Denmoku*" into which various title-search function and remote-control function were united in order to raise its market share further regarding the commercial karaoke business. DKG opened new karaoke room stores and closed unprofitable ones carefully and aggressively in order to improve the rate of return regarding the karaoke room business. DKG endeavored to increase customers in the satellite broadcasting business and the e-commerce business that provided customized ring tones for cellular phones. In the music software business, DKG aimed to raise the profit by means of integrating sales departments of two subsidiaries that constitute the music software business into a sales company that was established in order to streamline the sales departments.

As a result, net sales increased by 18.7 % to 117,057 million yen in FY2003 compared with FY2002, operating income increased by 31.4 % to 12,493 million yen in FY2003 compared with FY2002, ordinary income increased by 28.2% to 10,831 million yen in FY2003 compared with FY2002, net income increased by 110.0% to 6,938 million yen in FY2003 compared with FY2002, main factors that impact on net income were write-off on consolidation adjustments account of 1,742million yen, income taxes-deferred that was caused by sales of revalued land of 2,499 million yen.

Business segment information (percentage changes, year-on-year)

**Commercial karaoke business**

Sales: 61,498 million yen (+14.4%)

Operating income: 9,756 million yen (+16.1%)

In this segment, popular “*Denmoku*” aroused replacement demand for “*cyber DAM*” during the first half of the fiscal year and “*New cyber DAM*” that could use broadband internet service during the second half of fiscal year. As the result, the number of merchandise shipment increased by 48.0% in FY2003 compared with FY2002.

Although the number of rental increased, rental sales decreased minutely due to declines in rents of karaoke equipment.

While revenues from providing karaoke-streaming service increased as customer increased, with the result that net sales increased by 14.4%, operating income increased by 16.1% in FY2003 compared with FY2002.

**Karaoke room business**

Sales: 23,722 million yen (+7.9%)

Operating income: 2,358 million yen (+65.7%)

In this segment, DKG operated 190 karaoke room stores in the country and 2 ones in foreign countries with name of a store “*BIG ECHO*”

Under severe business environment that users of karaoke decreased, DKG opened 2 ones in the metropolitan area, and 8 ones that had bought from peer companies, meanwhile, closed 15 unprofitable ones in order to improve its profit ratio. As a result, net sales increased by 7.9%, operating income increased by 65.7% in FY2003 compared with FY2002.

**Contents business**

Sales: 10,308 million yen (+13.3%)

Operating income: 1,932 million yen (+53.1%)

In the satellite broadcasting business, although personal use subscription was on the decrease gradually, commercial use subscription increased steadily.

In the e-commerce business, although charge of customized ring tones service for cellular phones declined, the number of contracts increased steadily. As a result, net sales increased by 13.3%, operating income increased by 53.1% in FY2003 compared with FY2002.

**Music software business**

Sales: 16,648 million yen (+82.8%)

Operating income: -82 million yen

Under the condition that the music CD market continued to be stagnant, sales company, First Distribution Co., Ltd. was established in order that the business in this segment may strengthen and streamline. Robust sales of albums of “*Gackt*” who belonged to Nippon Crown Co., Ltd. and the audio-visual software the title of “*Spirited Away*” that belonged to Tokuma Japan Communications Co., Ltd. contributed greatly to its revenue. As a result, net sales increased by 82.8%, operating loss improved by 250 million yen in FY2003 compared with FY2002.

**Other business**

Sales: 4,879 million yen (+4.8%)

Operating income: 627 million yen (-9.9%)

This segment mainly consists of the restaurant business and rents of real estate business. Although net sales increased by 4.8% in FY2003 compared with FY2002, operating income decreased by 9.9% in FY2003 compared with FY2002, largely due to a rise in its sales cost ratio.

**Cash flows**

Although income before income taxes and minority interest in consolidated subsidiaries decreased by 3.9% to 6,516 million yen in FY2003 compared with FY2002, proceeds from origination of long-term borrowings increased. As a result, consolidated cash and cash equivalents increased by 2,513 million yen to 22,831 million yen at the end of FY2003 compared with the end of FY2002.

The following is the conditions of consolidated cash flows.

**(Cash flows from operating activities)**

Cash flows from operating activities resulted in an increase in cash by 19,876 million yen in FY2003, mainly due to increases in depreciation expenses by 1,049 million yen, gain and loss on sales of investment securities by 1,213 million yen, and amortization of consolidation adjustments account by 1,867 million yen. Net cash provided by operating activities increased by 5,066 million yen in FY2003 compared with FY2002.

**(Cash flows from investing activities)**

Cash flows from investing activities resulted in a decrease in cash by 14,286 million yen in FY2003, mainly due to increase in time deposits by 1,426 million yen, decreases in proceeds from decrease in time deposits by 1,063 million yen and proceeds from sales of investments in securities by 1,392 million yen in FY2003 compared with FY2002. Net cash used in investing activities decreased by 3,079 million yen in FY2003 compared with FY2002.

**(Cash flows from financing activities)**

Cash flows from financing activities resulted in a decrease in cash by 3,076 million yen in FY2003, mainly due to an increase in proceeds from origination of long-term borrowings by 5,996 million yen, decreases in payments for repayment of long-term borrowings by 1,171 million yen and net increase and decrease in short-term borrowings by 5,099 million yen in FY2003 compared with FY2002. Net cash provided by financing activities increased by 2,561 million yen in FY2003 compared with FY2002.

(2) Outlook for the next fiscal year

There is no expectation so far that capital investments by the private sector and personal consumption expenditure will recover due to volatile international situation and uncertain business conditions, and therefore severer business conditions compared with current period will continue.

In the karaoke industry, the operating environments will be severe in the same way. The bipolarization in the market concerned will grow more distinct.

Under these conditions, DKG will aim to expand the top share of the telecommunication karaoke market by means of improvement and differentiation of the house brands, and enrichment of the service. DKG will endeavor to improve profitability and investing efficiency of the karaoke room business by means of the opening of new karaoke room stores that are in locations selected carefully, the closing of unprofitable ones, and raising the level of the service. DKG will endeavor to increase the number of commercial use subscriptions and to reduce its costs for the purpose of quick recovery from deficit in the satellite broadcasting business, will concentrate on the sales promotion and enrichment of the service for the purpose of the expansion of its revenue in the e-commerce business. In the music software business, DKG will endeavor to improve profitability by means of making various measures be specific.

Due to fulfilling the preceding measures, DKG is planning to achieve net sales of 1,155 hundred million yen, ordinary profit of 117 hundred million yen, and net income of 57 hundred million yen for the next fiscal year.

## Consolidated balance sheets

Years ended March 31; Millions of yen	2002	%	2003	%	Year-on-year change
<b>Current assets</b>					
Cash and deposits	22,110		26,077		3,967
Trade notes and accounts receivable - total	14,740		13,786		( 953)
Marketable securities	9		9		0
Inventories	7,376		6,689		( 686)
Deferred income taxes	1,194		3,852		2,657
Other current assets	4,219		4,021		( 197)
Allowance for doubtful accounts	( 1,400)		( 1,235)		164
	<u>48,250</u>	36.8	<u>53,201</u>	40.3	<u>4,951</u>
<b>Fixed assets</b>					
<b>Property, plant and equipment</b>					
Buildings and structures	11,924		10,375		( 1,548)
Karaoke equipment for rental	7,208		8,641		1,432
Karaoke-room facilities	10,040		9,774		( 266)
Land	17,054		16,085		( 969)
Construction in progress	84		182		97
Other property, plant and equipment	1,765		1,908		143
	<u>48,077</u>	36.7	<u>46,967</u>	35.6	<u>( 1,110)</u>
<b>Intangible fixed assets</b>					
Consolidation adjustments account	1,336		-		( 1,336)
Other intangible fixed assets	6,811		7,709		897
	<u>8,148</u>	6.2	<u>7,709</u>	5.9	<u>( 438)</u>
<b>Investments and other assets</b>					
Investments in securities	4,337		3,084		( 1,253)
Long-term loans	3,816		3,719		( 97)
Deferred income taxes	2,038		3,930		1,891
Deferred income taxes arising from revaluation	2,251		-		( 2,251)
Leasehold deposits	12,312		11,824		( 487)
Other investments and other assets	5,204		4,596		( 608)
Allowance for doubtful accounts	( 3,363)		( 3,096)		267
	<u>26,599</u>	20.3	<u>24,059</u>	18.2	<u>( 2,539)</u>
Total fixed assets	<u>82,825</u>	63.2	<u>78,736</u>	59.7	<u>( 4,088)</u>
Total assets	<u>131,075</u>	100.0	<u>131,938</u>	100.0	<u>862</u>



Years ended March 31; Millions of yen	2002	%	2003	%	Year-on-year change
<b>Current liabilities</b>					
Trade notes and accounts payable - total	7,697		6,537		( 1,160)
Short-term borrowings - total	23,135		18,782		( 4,352)
Accounts payable - other	5,871		5,825		( 45)
Income taxes payable	2,593		1,154		( 1,438)
Allowance for bonuses	1,080		1,032		( 47)
Unrealized profit on installment sales	869		759		( 110)
Other current liabilities	2,966		2,506		( 460)
	<u>44,213</u>	33.7	<u>36,598</u>	27.7	( 7,615)
<b>Long-term liabilities</b>					
Convertible bonds	14,300		12,165		( 2,135)
Long-term borrowings	16,404		21,049		4,645
Deferred income taxes	249		226		( 22)
Allowance for retirement benefits	2,642		2,696		54
Consolidation adjustments account	-		1,105		1,105
Other long-term liabilities	1,182		1,238		56
	<u>34,778</u>	26.5	<u>38,482</u>	29.2	3,703
Total liabilities	<u>78,992</u>	60.2	<u>75,080</u>	56.9	( 3,911)
<b>Minority interest in consolidated subsidiaries</b>					
	2,169	1.7	1,301	1.0	( 867)
<b>Shareholders' equity</b>					
Common stock	12,348	9.4	-	-	( 12,348)
Additional paid-in capital	24,000	18.3	-	-	( 24,000)
Unrealized gains or losses on land valuation	( 25,189)	( 19.2)	-	-	25,189
Consolidated retained earnings	38,889	29.7	-	-	( 38,889)
Unrealized gains or losses on securities	( 352)	( 0.3)	-	-	352
Foreign currency conversion adjustments	233	0.2	-	-	( 233)
Treasury stock	( 15)	( 0.0)	-	-	15
Common stock	-	-	12,348	9.4	12,348
Capital surplus	-	-	24,000	18.2	24,000
Retained earnings	-	-	29,879	22.6	29,879
Unrealized gains or losses on land valuation	-	-	( 10,005)	( 7.6)	( 10,005)
Unrealized gains or losses on securities	-	-	( 103)	( 0.1)	( 103)
Foreign currency conversion adjustments	-	-	135	0.1	135
Treasury stock	-	-	( 700)	( 0.5)	( 700)
Total shareholders' equity	<u>49,914</u>	38.1	<u>55,555</u>	42.1	5,641
Total liabilities, minority interests and shareholders' equity	<u>131,075</u>	100.0	<u>131,938</u>	100.0	862

## Consolidated statements of income

Years ended March 31; Millions of yen	2002	%	2003	%	Year-on-year change (%)
<b>Net sales</b>	98,591	100.0	117,057	100.0	118.7
<b>Cost of sales</b>	55,710	56.5	67,720	57.9	121.6
Gross profit before adjustment for unrealized profit on installment sales	42,880	43.5	49,337	42.1	115.1
Unrealized profit on installment sales - reversal	269		243		
Unrealized profit on installment sales - deferred	162		132		
	106	0.1	110	0.1	
Gross profit on sales	42,987	43.6	49,447	42.2	115.0
<b>Selling, general and administrative expenses</b>	33,478	34.0	36,954	31.6	110.4
Operating income	9,508	9.6	12,493	10.6	131.4
<b>Non operating income</b>					
Interest and dividend income	685		619		
Profit on retirement of convertible bonds	41		42		
Other non operating income	961		1,136		
	1,688	1.7	1,798	1.6	106.5
<b>Non operating expenses</b>					
Interest expenses	707		658		
Loss on disposal of inventories	654		475		
Loss on valuation of inventories	398		1,140		
Provision for allowance for doubtful accounts	410		19		
Equity in loss of affiliated companies	103		-		
Other non operating expenses	475		1,165		
	2,749	2.7	3,460	2.9	125.9
Ordinary income	8,447	8.6	10,831	9.3	128.2
<b>Extraordinary gain</b>					
Gain on sales of fixed assets	4		15		
Gain on sales of investment securities	532		87		
Reversal of allowance for doubtful accounts	50		126		
Gain resulting from change in retirement benefit accounting standards	-		262		
	588	0.6	492	0.4	83.7
<b>Extraordinary loss</b>					
Loss on disposal of fixed assets	704		1,626		
Loss on valuation of investment securities	1,036		515		
Loss on valuation of memberships in leisure facilities	17		-		
Directors' retirement allowances	498		156		
Loss on sales of investment securities	-		767		
Amortization of consolidation adjustments account	-		1,742		
	2,256	2.3	4,808	4.1	213.1
Income before income taxes and minority interest in consolidated subsidiaries	6,779	6.9	6,516	5.6	96.1
Income taxes - current	3,515		1,999		
Income taxes - deferred	97		( 2,499)		
Minority interest in consolidated subsidiaries	(138)	(0.1)	76	0.1	( 55.4)
Net income	3,304	3.3	6,938	5.9	210.0

## Consolidated statement of retained earnings

<b>Years ended March 31; Millions of yen</b>	<b>2002</b>	<b>2003</b>
Retained earnings at beginning of year	37,782	-
Decrease in retained earnings		
Dividends	656	-
Bonuses to directors and corporate auditors	88	-
Reversal of revaluation differences	241	-
Retirement of treasury stock	836	-
Decrease due to merger of consolidated subsidiaries	375	-
	2,197	-
Net income	3,304	-
Retained earnings at end of year	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	-	6,938
Decreases in retained earnings		
Dividends	-	658
Bonuses to directors and corporate auditors	-	105
Land revaluation differences	-	15,184
	-	15,948
Retained earnings at end of period	-	29,879

## Consolidated statement of cash flows

Years ended March 31; Millions of yen	2002	2003
<b>Cash flows from operating activities</b>		
Income before income taxes and minority interest in consolidated subsidiaries	6,779	6,516
Depreciation expenses	10,262	11,312
amortization of consolidation adjustments account	108	1,975
Increase (decrease) in allowance for doubtful accounts	926	( 21)
Interest and dividend income	( 685)	( 619)
Profit on retirement of convertible bonds	(41)	( 42)
Gain and loss on sales of investment securities	( 532)	680
Profit on prior period adjustment of royalty of the copyright	-	( 262)
Interest expenses	707	658
Loss on disposal of fixed assets	699	1,610
Loss on valuation of investment securities	1,053	515
Decrease in trade receivables	412	835
Increase in trade payables	( 835)	( 723)
Others	( 752)	890
Subtotal	18,103	23,325
Interest and dividend received	679	619
Interest paid	( 731)	( 629)
Income taxes paid	( 3,241)	( 3,438)
Cash flows from operating activities	14,810	19,876
<b>Cash flows from investing activities</b>		
Increase in time deposits	( 1,787)	( 3,213)
Proceeds from decrease in time deposits	2,823	1,759
Proceeds from sales of marketable securities	101	-
Payments for acquisition of tangible fixed assets	( 8,774)	( 9,959)
Proceeds from sales of tangible fixed assets	388	983
Payments for acquisition of intangible fixed assets	( 4,235)	( 4,610)
Payments for purchase of investment securities	( 1,340)	( 908)
Proceeds from sales of investment securities	2,466	1,073
Payments for acquisition of subsidiary's capital	( 779)	( 442)
Payments for loans	( 1,125)	( 1,628)
Proceeds from collection of loans	1,193	1,846
Payments of leasehold deposits	( 1,230)	( 433)
Proceeds from repayments of leasehold deposits	891	808
Others	( 200)	438
Cash flows from investing activities	( 11,206)	( 14,286)
<b>Cash flows from financing activities</b>		
Net (decrease) increase in short-term borrowings	444	( 4,655)
Proceeds from origination of long-term borrowings	12,649	18,646
Payments for repayment of long-term borrowings	( 14,777)	( 13,606)
Payments for retirement of convertible bonds	( 2,508)	( 2,091)
Dividends paid	( 652)	( 660)
Payments for repurchase of treasury stock	( 865)	( 685)
Others	71	( 24)
Cash flows from financing activities	( 5,638)	( 3,076)
Effect of exchange rate changes on cash and cash equivalents	11	( 0)
Net increase (decrease) in cash and cash equivalents	( 2,022)	2,513
Cash and cash equivalents at beginning of year	21,499	20,317
Increase in cash and cash equivalents due to increase in number of newly consolidated subsidiaries	839	-
Cash and cash equivalents at end of year	20,317	22,831

## 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 Co., Ltd. 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., Zoom Republic Co., Ltd., etc. 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., Daiichikosho (Shanghai), 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	2002	2003
1. Aggregate amount of depreciation on fixed assets	50,716	49,268
2. Guarantee liabilities	1,329	1,136
3. Assets provided as collateral	22,550	23,195
Secured liabilities	21,271	22,809
4. The Company (Daiichikoshi Co., Ltd.) revalued its land holdings as provided for under the "Law Relating to the Revaluation of Land." Differences resulting from this revaluation were debited to (decreased) the shareholders' equity section of the balance sheet.		
(1) Date of revaluation of land: March 31, 2001		
(2) Method of revaluation: revaluations based on land tax-related appraisals, to which reasonable adjustments were made		
(3) Difference between the total market value of revalued land as of the end of last fiscal year and the total book value of such land after revaluation		(483)

## Segment information

### Segment information by business category

Millions of yen	Commercial karaoke business	Karaoke room business	Contents business	Music software business	Other business	Total	Eliminations	Consolidated
<b>2002</b>								
<b>Sales</b>								
External customer sales	61,498	23,722	10,308	16,648	4,879	117,057	-	117,057
Intersegment transactions and eliminations	143	-	-	234	449	826	( 826)	-
Total	61,642	23,722	10,308	16,882	5,328	117,884	( 826)	117,057
Operating expenses	51,885	21,364	8,375	16,964	4,701	103,291	1,272	104,564
Operating income	9,756	2,358	1,932	( 82)	627	14,593	( 2,099)	12,493
Assets	65,657	23,852	5,352	11,150	8,170	114,183	17,755	131,938
Depreciation	7,505	2,073	925	50	422	10,977	61	11,038
Capital expenditure	9,194	2,625	1,156	21	1,110	14,109	124	14,233

Millions of yen	Commercial karaoke business	Karaoke room business	Contents business	Music software business	Other business	Total	Eliminations	Consolidated
<b>2002</b>								
<b>Sales</b>								
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
Assets	65,206	24,037	4,964	14,581	9,647	118,436	12,639	131,075
Depreciation	6,371	1,957	859	54	655	9,898	61	9,960
Capital expenditure	8,209	2,958	941	6	1,022	13,138	23	13,161

### Segment-related businesses

#### 1. Commercial karaoke business

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

#### 2. Karaoke room business

In this segment, DKG rents karaoke rooms on an hourly basis and provides food and drink.

#### 3. Contents business

In the e-commerce business, DK distributes customized ring tones to users of cellular phones; while in the satellite broadcasting business, DK broadcasts programs via the direct-broadcast-satellite provider, Sky PerfecTV, through 2 TV channels and 100 radio channels.

#### 4. Music software business

In this segment, DKG 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 sheet

Years ended March 31; Millions of yen	2002	%	2003	%	Year-on-year change
<b>Current assets</b>					
Cash and deposits	9,043		13,980		4,937
Trade notes receivable	2,058		2,142		83
Trade accounts receivable	6,160		5,753		( 406)
Merchandise	3,359		2,761		( 597)
Finished products	108		120		11
Work in process	1,230		1,523		292
Advances paid	347		254		( 93)
Prepaid expenses	822		733		( 88)
Deferred income taxes	698		3,362		2,664
Income taxes receivable	-		822		822
Current portion of long-term loans	626		475		( 151)
Other current assets	198		268		70
Allowance for doubtful accounts	( 525)		( 437)		87
	<u>24,128</u>	29.6	<u>31,761</u>	38.5	<u>7,632</u>
<b>Fixed assets</b>					
<b>Property, plant and equipment</b>					
Buildings	5,279		4,569		( 709)
Structures	510		335		( 175)
Tools, furniture and fixtures	673		643		( 30)
Karaoke equipment for rental	2,656		3,621		964
Karaoke-cabin facilities	6,065		6,058		( 6)
Land	6,051		4,807		( 1,243)
Other property, plant and equipment	87		191		104
	<u>21,324</u>	26.2	<u>20,228</u>	24.5	<u>( 1,096)</u>
<b>Intangible fixed assets</b>					
Patent rights	-		2		2
Leaseholds	44		44		-
Trademarks	11		6		( 5)
Software	3,503		3,891		387
Audio-visual software	2,432		2,932		499
Other intangible fixed assets	211		210		( 1)
	<u>6,204</u>	7.6	<u>7,087</u>	8.6	<u>882</u>
<b>Investments and other assets</b>					
Investment in securities	3,376		2,252		( 1,123)
Capital stock of affiliated companies	7,857		5,178		( 2,678)
Investments	833		704		( 128)
Investment in affiliates	-		100		100
Long-term loans	7,067		5,717		( 1,350)
Bankrupt or quasi-bankrupt assets	1,207		1,012		( 194)
Long-term prepaid expenses	133		130		( 3)
Deferred income taxes	592		2,438		1,846
Deferred Income taxes arising from revaluation	2,251		-		( 2,251)
Prepaid pension assets	951		984		33
Deposits and guarantee money	9,233		9,069		( 164)
Others	693		569		( 124)
Allowance for doubtful accounts	( 4,395)		( 4,687)		( 292)
	<u>29,802</u>	36.6	<u>23,469</u>	28.4	<u>( 6,332)</u>
Total fixed assets	<u>57,331</u>	70.4	<u>50,785</u>	61.5	<u>( 6,546)</u>
Total assets	<u>81,459</u>	100.0	<u>82,546</u>	100.0	<u>1,086</u>



Years ended March 31; Millions of yen	2002	%	2003	%	Year-on-year change
<b>Current liabilities</b>					
Notes payable - trade	3,152		2,365		( 787)
Accounts payable - trade	1,938		2,617		679
Short-term borrowings	4,321		1,250		( 3,071)
Current portion of long-term borrowings	2,467		3,388		921
Accounts payable – other	4,530		3,884		( 645)
Accrued expenses	89		110		21
Income taxes payable	1,423		-		( 1,423)
Consumption taxes payable	87		406		318
Unrealized profit on installment sales	309		302		( 7)
Allowance for bonuses	665		631		( 34)
Other current liabilities	332		301		( 31)
	<u>19,318</u>	23.7	<u>15,258</u>	18.5	<u>( 4,060)</u>
<b>Long-term liabilities</b>					
Convertible bonds	14,300		12,165		( 2,135)
Long-term borrowings	4,176		8,179		4,003
Allowance for retirement benefits	959		1,002		42
Other long-term liabilities	390		397		6
	<u>19,826</u>	24.3	<u>21,744</u>	26.3	<u>1,917</u>
Total liabilities	39,145	48.0	37,002	44.8	( 2,142)
<b>Shareholders' equity</b>					
Common stock	12,348	15.1	-	-	( 12,348)
Additional paid-in capital	24,000	29.5	-	-	( 24,000)
Earned reserve	485	0.6	-	-	( 485)
Unrealized gains or losses on land valuation	( 25,189)	( 30.9)	-	-	25,189
Other earned surplus					
Voluntary reserve	29,450		-		( 29,450)
Unappropriated retained earnings at end of year	1,586		-		( 1,586)
Total other earned surplus	31,036	38.1	-	-	( 31,036)
Unrealized gains or losses on securities	( 351)	( 0.4)	-	-	351
Treasury stock	( 15)	( 0.0)	-	-	15
Common stock	-	-	12,348	14.9	12,348
Capital surplus					
Additional paid-in capital	-		4,000		4,000
Other additional paid-in capital	-		20,000		20,000
Gain from additional paid-in capital	-		20,000		20,000
Total capital surplus	-	-	24,000	29.1	24,000
Retained earnings					
Voluntary reserve	-		29,750		29,750
Unappropriated retained earnings at end of year	-		( 9,750)		( 9,750)
Total retained earnings	-	-	19,999	24.2	19,999
Land revaluation differences	-	-	( 10,005)	( 12.1)	( 10,005)
Unrealized gains or losses on securities	-	-	( 99)	( 0.1)	( 99)
Treasury stock	-	-	( 700)	( 0.8)	( 700)
Total shareholder's equity	<u>42,314</u>	52.0	<u>45,543</u>	55.2	<u>3,228</u>
Total liabilities and shareholders' equity	<u>81,459</u>	100.0	<u>82,546</u>	100.0	<u>1,086</u>

## Non consolidated statements of income

Years ended March 31; Millions of yen	2002	%	2003	%	Year-on-year change (%)
<b>Net sales</b>	65,489	100.0	74,974	100.0	114.5
<b>Cost of sales</b>	40,877	62.4	46,529	62.1	113.8
Gross profit before adjustment for unrealized profit on installment sales	24,611	37.6	28,445	37.9	115.6
Unrealized profit on installment sales - reversal	108		196		
Unrealized profit on installment sales - deferred	243		189		
	(135)	(0.2)	7	0.0	
Gross profit on sales	24,475	37.4	28,452	37.9	116.3
<b>Selling, general and administrative expenses</b>	18,583	28.4	20,326	27.1	109.4
Operating income	5,892	9.0	8,125	10.8	137.9
<b>Non operating income</b>					
Interest and dividend income	277		485		
Profit on retirement of convertible bonds	41		42		
Commissions income	148		126		
Other non operating income	406		411		
	873	1.3	1,066	1.4	122.1
<b>Non operating expenses</b>					
Interest expenses	215		235		
Loss on disposal of inventories	202		93		
Loss on valuation of inventories	280		144		
Provision for allowance for doubtful accounts	404		712		
Other non operating expenses	331		495		
	1,434	2.2	1,681	2.2	117.3
Ordinary income	5,332	8.1	7,510	10.0	140.9
<b>Extraordinary gain</b>					
Gain on sales of fixed assets	4		-		
Gain on sales of investment securities	488		13		
Reversal of allowance for doubtful accounts	53		206		
Profit on prior period adjustment of royalty of the copyright	-		262		
	546	0.9	482	0.7	88.2
<b>Extraordinary loss</b>					
Loss on sales and disposal of fixed assets	467		1,278		
Loss on valuation of investment securities	1,018		483		
Loss on valuation of membership in leisure facilities	10		-		
Directors' retirement allowances	137		83		
Loss on sales of investment securities	-		767		
Loss from valuation of shares in affiliates	-		3,370		
	1,634	2.5	5,984	8.0	366.2
Income before income taxes	4,244	6.5	2,009	2.7	47.3
Income taxes – current	2,036		100		
Income taxes – deferred	188		( 2,441)		
Net income	2,019	3.1	4,350	5.8	215.4
Unappropriated retained earnings brought forward	644		598		
Earned reserve drawn down	-		485		
Land revaluation differences drawn down	241		( 15,184)		
Retirement of treasury stock	836		-		
Unappropriated retained earnings at end of year	1,586		( 9,750)		

## Proposal for appropriation of retained earnings

Years ended March 31; Millions of yen	2002	2003	
Unappropriated retained earnings at end of year	1,586	( 9,750)	
Reversal of voluntary reserve			
Reversal of general reserves		11,150	
Total	1,586	1,399	
Appropriation of retained earnings			
Dividends	658	683	
Bonuses to directors and corporate auditors	30	36	
Voluntary reserve			
General reserves	300	988	- 719
Unappropriated retained earnings to be carried forward	598	679	

## 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	2002	2003
1. Aggregate amount of depreciation on fixed assets	23,520	23,098
2. Guarantee liabilities	6,624	5,645
3. Assets provided as collateral	4,505	4,239
Secured liabilities	5,482	6,677
4. The Company (Daiichikosho Co., Ltd.) revalued its land holdings as provided for under the "Law Relating to the Revaluation of Land." Differences resulting from this revaluation were debited to (decreased) the shareholders' equity section of the balance sheet		
(1) Date of revaluation of land: March 31, 2001		
(2) Revaluations based on land tax-related appraisals, to which reasonable adjustments were made		
(3) Difference between the total market value of revalued land as of the end of last fiscal year and the total book value of such land after revaluation		(483)

Management (FYI) as of June 25, 2003

Chairman	<b>Tadahiko Hoshi</b>	
President and Senior Executive Corporate Officer	<b>Tatsuyoshi Yoneda</b>	
Managing Director and Senior Executive Corporate Officer	<b>Shinichi Koshimizu</b>	Supreme Manager for Production Headquarters
Managing Director and Senior Executive Corporate Officer	<b>Shinichi Matukawa</b>	Supreme Manager for Sales Management Headquarters and Purchasing Dept. and Marketing and Advertising Dept.
Managing Director and Senior Executive Corporate Officer	<b>Hiroshi Mino</b>	Executive Director, Development Headquarters Supreme Manager for Intellectual Property
Director (Newly appointed) Corporate officer	<b>Saburo Hayashi</b>	Executive Director, Sales Management Headquarters and General Manager, Branch Sales Dept.
Director (Newly appointed) Corporate officer	<b>Tomohiro Midorikawa</b>	Vice Executive Director, Sales Management Headquarters and General Manager, Subsidiary Sales Dept.
Director (Newly appointed) Corporate officer	<b>Eiji Hata</b>	Executive Director, Administration Headquarters and General Manager, Finance Dept.
Standing Statutory Auditor	<b>Juichi Ishikawa</b>	
Standing Statutory Auditor	<b>Haruhiko Tamura</b>	
Standing Statutory Auditor	<b>Nobuyuki Takase</b>	
Statutory Auditor	<b>Kumiko Takahashi</b>	
Statutory Auditor	<b>Masumi Arichika</b>	
Corporate officer	<b>Shinji Arima</b>	General Manager, Auditing Dept.
Corporate Officer	<b>Takachika Narahara</b>	General Manager, Corporate Sales Dept.

Corporate Officer	<b>Yasuyuki Suzuki</b>	General Manager, Accounting Dept.
Corporate Officer	<b>Hirotsune Tahara</b>	Vice Executive Director, Administration Headquarters, and General Manager, General Affairs Dept.
Corporate Officer	<b>Yuji Yamamoto</b>	Executive Director, Production Headquarters and General Manager, Contents Planning Dept.
Corporate Officer	<b>Shunichi Sadasue</b>	General Manager, Contents Production Dept.
Corporate Officer (Newly appointed)	<b>Osamu Arima</b>	General manager, Big Echo Division
Corporate Officer (Newly appointed)	<b>Tatsuya Kumagai</b>	Vice Executive Director, Development Headquarters and General Manager, Product Development Dept.
Corporate Officer (Newly appointed)	<b>Akira Miyake</b>	Vice Executive Director, Sales Management Headquarters and General Manager, e-Business Division and Satellite Broadcasting Division
Corporate Officer (Newly appointed)	<b>Kentarou Kurokawa</b>	General Manager, Information system Dept.
Corporate Officer (Newly appointed)	<b>Yuichi Murai</b>	General Manager, Marketing and Advertising Dept.
Corporate Officer (Newly appointed)	<b>Yasutaka Wada</b>	General Manager, Production Management Dept.
Corporate Officer (Newly appointed)	<b>Syouichi Maruta</b>	General Manager, Corporate planning Office