

FY2006, the year ended March 31, 2007

**Flash Report on the Consolidated Results for the Year Ended March 31, 2007**

May 14, 2007

Company Name: DAIICHIKOSHO CO., LTD.

Code Number: 7458

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

Stock Exchange Listing: JASDAQ

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 Ordinary General Meeting of Shareholders: June 23, 2007

Start Date for Dividend Payment: June 25, 2007

Scheduled Date to Submit the Securities Report: June 25, 2007

(Amounts below one million yen are truncated.)

## 1. Consolidated Performance for the Year Ended March 2007 (from April 1, 2006, to March 31, 2007)

## (1) Consolidated operating results (Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating income		Ordinary income	
	¥ Million	%	¥ Million	%	¥ Million	%
Year ended March 2007	124,654	(3.6)	13,189	16.9	12,937	11.4
Year ended March 2006	129,341	5.9	11,286	8.7	11,618	17.0

	Net income		Net income per share	Fully diluted net income per share
	¥ Million	%	¥	¥
Year ended March 2007	4,801	19.7	68.99	—
Year ended March 2006	4,009	(21.7)	112.60	—

	Return on equity	Ordinary income to total assets	Operating income to net sales
	%	%	%
Year ended March 2007	7.1	9.8	10.6
Year ended March 2006	6.2	8.8	8.7

(Reference) Equity in net income of unconsolidated subsidiaries and affiliates:

Year ended March 2007: (¥199 million)

Year ended March 2006: ¥0 million

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	¥
Year ended March 2007	130,931	68,788	51.9	975.44
Year ended March 2006	133,524	66,440	49.8	1,906.58

(Reference) Shareholders' equity

Year ended March 2007: ¥67,890 million

Year ended March 2006: —

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	¥ Million	¥ Million	¥ Million	¥ Million
Year ended March 2007	32,509	(18,059)	(6,792)	31,918
Year ended March 2006	24,081	(21,808)	(2,018)	24,222

2. Dividend

(Reference dated)	Dividend per share		
	Interim	Year-end	Annual
	Yen	Yen	Yen
Year ended March 2006	—	30.00	30.00
Year ended March 2007	—	20.00	20.00
Year ending March 2008 (forecast)	—	20.00	20.00

	Aggregate amount of dividend (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	¥ Million	%	%
Year ended March 2006	1,044	26.6	1.6
Year ended March 2007	1,391	29.0	1.4
Year ending March 2008 (forecast)	—	21.8	—

Note: A two-for-one share split was conducted for the Company's common stock as of July 1, 2006.

3. Forecast Consolidated Performance for FY2007, the Year Ending March 31, 2008 (from April 1, 2007, to March 31, 2008)

(Percentage figures indicate increase/decrease from a year earlier: The percentages for full-year forecasts mean the increase/decrease from the end of the previous year, and the half-year forecast percentages represent the increase/decrease from the end of the previous interim term.)

	Net sales		Operating income		Ordinary income	
	¥ Million	%	¥ Million	%	¥ Million	%
Six months ending September 30, 2007	63,700	0.8	6,200	(6.9)	6,300	(8.1)
Year ending March 31, 2008 (full year)	127,800	2.5	13,000	(1.4)	13,200	2.0

	Net income		Net income per share
	¥ Million	%	¥
Six months ending September 30, 2007	3,200	(19.1)	45.98
Year ending March 31, 2008 (full year)	6,400	33.3	91.95

4. Other

- (1) Change in important subsidiaries during the term under review (Change in specific subsidiaries causing a change in the scope of consolidation): No
- (2) Change in accounting principals, procedure and presentation methods for preparation of consolidated financial statements (Items set forth in "Changes in important matters in preparing the consolidated financial statements")
  - 1) Changes following a revision of accounting standards: Yes
  - 2) Other changes: No
- (3) Number of common shares issued
  - 1) Number of shares issued (including treasury stock)

- Year ended March 2007: 73,242,596 shares  
 Year ended March 2006: 36,621,298 shares  
 2) Number of shares of treasury stock  
 Year ended March 2007: 3,642,580 shares  
 Year ended March 2006: 1,820,807 shares

(Reference) Outline of Nonconsolidated Financial Results

1. Nonconsolidated Performance for the Year Ended March 2007 (from April 1, 2006, to March 31, 2007)

(1) Nonconsolidated operating results

(Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating income		Ordinary income	
	¥ Million	%	¥ Million	%	¥ Million	%
Year ended March 2007	83,382	(4.7)	7,888	22.9	8,317	23.5
Year ended March 2006	87,537	5.6	6,418	(0.5)	6,735	3.8

	Net income		Net income per share	Fully diluted net income per share
	¥ Million	%	¥	¥
Year ended March 2007	2,310	(1.0)	33.20	—
Year ended March 2006	2,333	(40.8)	66.48	—

(2) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	Yen
Year ended March 2007	80,200	52,189	65.1	749.85
Year ended March 2006	82,630	53,169	64.3	1,527.27

(Reference) Shareholders' equity:

- Year ended March 2007: ¥52,189 million  
 Year ended March 2006: —

2. Forecast Nonconsolidated Performance for FY2007, the Year Ending March 31, 2008 (from April 1, 2007, to March 31, 2008)

(Percentage figures indicate increase/decrease from a year earlier: The percentages for full-year forecasts mean the increase/decrease from the end of the previous year, and the half-year forecast percentages represent the increase/decrease from the end of the previous interim term.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	Yen
Six months ending September 30, 2007	43,400	(0.7)	4,100	(4.5)	4,400	(13.3)	2,200	(23.0)	31.61
Year ending March 31, 2008 (full year)	85,700	2.8	8,300	5.2	8,500	2.2	4,200	81.8	60.34

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.

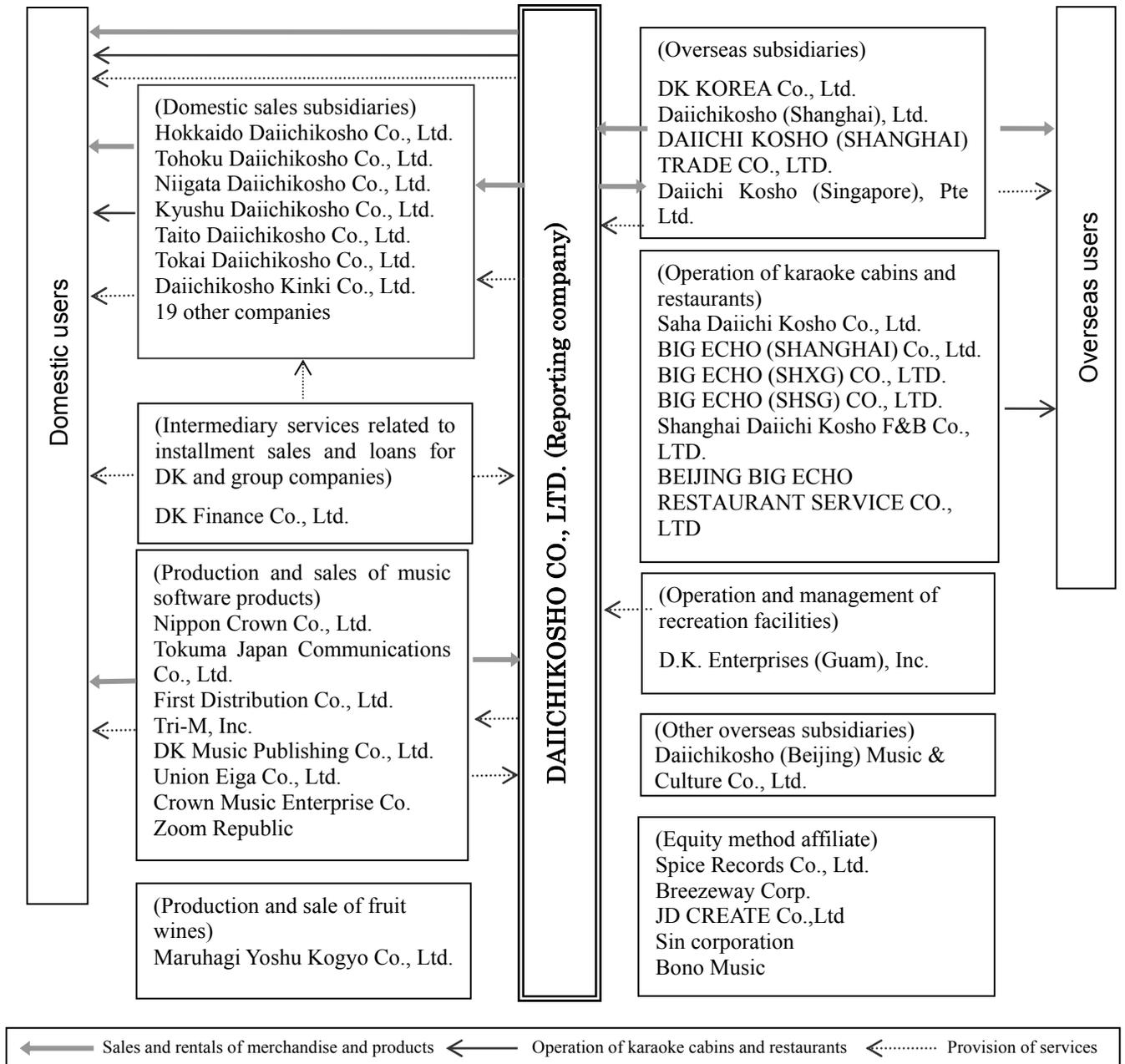
(Attachment)

## 2. Corporate Group

The Daiichikoshō Group (“DKG”) consists of Daiichikoshō Co., Ltd. (“DK” or “the Company”), 48 consolidated subsidiaries and five 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., Hokkaido Daiichikoshō Co., Ltd., Tohoku Daiichikoshō Co., Ltd., Taito Daiichikoshō Co., Ltd., Niigata Daiichikoshō Co., Ltd., Tokai Daiichikoshō Co., Ltd., Daiichikoshō Kinki Co., Ltd., Kyushu Daiichikoshō Co., Ltd., and 19 other subsidiaries	DK KOREA Co., Ltd., Daiichikoshō (Shanghai), Ltd., and two other subsidiary
Karaoke cabin and restaurant business	Operation of karaoke cabins and restaurants		Saha Daiichi Kosho Co., Ltd., BIG ECHO (SHANGHAI) Co., Ltd., 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., Nippon Crown Co., Ltd., Tokuma Japan Communications Co., Ltd., First Distribution Co., Ltd., Union Eiga Co., Ltd., and four other subsidiaries	
Other business	Satellite broadcasting, real estate lease and rental business, etc.	Daiichikoshō Co., Ltd., DK Finance Co., Ltd., and Maruhagi Yoshu Kogyo Co., Ltd.	D.K. Enterprises (Guam), Inc., and one other subsidiary

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



## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

Fiscal year		FY2005		FY2006		Year-over-year change
		(As of March 31, 2006)		(As of March 31, 2007)		
Account item		Amount	Com-position ratio (%)	Amount	Com-position ratio (%)	
<b>(Assets)</b>						
I. Current assets						
1. Cash and bank deposits		24,732		32,404		7,671
2. Notes and accounts receivable—trade		12,092		9,593		(2,498)
3. Inventories		7,683		5,093		(2,589)
4. Deferred tax assets		2,254		1,294		(959)
5. Other		4,376		4,569		192
6. Allowance for doubtful accounts		(1,173)		(745)		428
Total current assets		49,965	37.4	52,210	39.9	2,244
II. Fixed assets						
1. Tangible fixed assets						
(1) Buildings and structures	14,478			14,652		
Accumulated depreciation	8,570	5,907		8,529	6,122	214
(2) Karaoke equipment for rental	28,537			28,570		
Accumulated depreciation	18,834	9,702		19,620	8,949	(752)
(3) Karaoke cabin and restaurant facilities	28,668			28,063		
Accumulated depreciation	14,983	13,684		15,419	12,644	(1,040)
(4) Land		14,284		14,272		(12)
(5) Construction in progress		172		235		63
(6) Other	9,900			8,506		
Accumulated depreciation	6,014	3,886		6,412	2,094	(1,792)
Total tangible fixed assets		47,638	35.7	44,318	33.9	(3,320)
2. Intangible assets		7,950	5.9	6,074	4.6	(1,875)
3. Investments and other assets						
(1) Investments in securities		10,719		9,820		(898)
(2) Long-term loans receivable		1,086		1,220		134
(3) Deferred tax assets		1,111		2,624		1,513
(4) Leasehold deposits and guarantee money		13,373		13,151		(221)
(5) Other		3,789		3,432		(356)
(6) Allowance for doubtful accounts		(2,110)		(1,923)		186
Total investments and other assets		27,969	21.0	28,327	21.6	357
Total fixed assets		83,558	62.6	78,720	60.1	(4,838)
Total Assets		133,524	100.0	130,931	100.0	(2,593)

(Millions of yen)

Fiscal year Account item	FY2005 (As of March 31, 2006)		FY2006 (As of March 31, 2007)		Year-over- year change
	Amount	Com- position ratio (%)	Amount	Com- position ratio (%)	
<b>(Liabilities)</b>					
I. Current liabilities					
1. Notes and accounts payable—trade	5,262		4,646		(615)
2. Short-term borrowings	20,109		17,162		(2,946)
3. Accounts payable—other	6,466		6,959		492
4. Income taxes payable	1,407		3,386		1,978
5. Reserve for bonuses	1,044		1,074		29
6. Unrealized profit on installment sales	373		267		(106)
7. Other	3,151		3,446		295
Total current liabilities	37,815	28.3	36,943	28.2	(872)
II. Long-term liabilities					
1. Long-term borrowings	21,096		18,304		(2,792)
2. Deferred tax liabilities	817		150		(666)
3. Reserve for employees' retirement benefits	2,590		2,660		70
4. Reserve for directors' retirement allowances	2,153		2,437		284
5. Negative goodwill	620		409		(210)
6. Other	1,224		1,235		11
Total long-term liabilities	28,502	21.3	25,198	19.3	(3,303)
Total Liabilities	66,318	49.6	62,142	47.5	(4,175)
<b>(Minority Interests)</b>					
Minority Interests	764	0.6	—	—	(764)
<b>(Shareholders' Equity)</b>					
I. Capital stock	12,350	9.2	—	—	(12,350)
II. Capital surplus	24,003	18.0	—	—	(24,003)
III. Retained earnings	32,029	24.0	—	—	(32,029)
IV. Land revaluation difference	(845)	(0.6)	—	—	845
V. Net unrealized gains or losses on available-for-sale securities	2,354	1.8	—	—	(2,354)
VI. Foreign currency translation adjustments	188	0.1	—	—	(188)
VII. Treasury stock	(3,639)	(2.7)	—	—	3,639
Total shareholders' equity	66,440	49.8	—	—	(66,440)
Total Liabilities, Minority Interests and Shareholders' Equity	133,524	100.0	—	—	(133,524)
<b>(Net assets)</b>					
I. Shareholders' equity					
1. Capital stock	—	—	12,350	9.4	12,350
2. Capital surplus	—	—	24,003	18.3	24,003
3. Retained earnings	—	—	35,671	27.2	35,671
4. Treasury stock	—	—	(3,641)	(2.7)	(3,641)
Total shareholders' equity	—	—	68,384	52.2	68,384
II. Valuation gains and losses and translation adjustments					
1. Net unrealized gains or losses on available-for-sale securities	—	—	123	0.1	123
2. Land revaluation difference	—	—	(845)	(0.6)	(845)
3. Foreign currency translation adjustments	—	—	229	0.2	229
Total valuation gains and losses and translation adjustments	—	—	(493)	(0.3)	(493)
III. Minority interest	—	—	897	0.6	897
Total net assets	—	—	68,788	52.5	68,788
Total liabilities and net assets	—	—	130,931	100.0	130,931

**(2) Consolidated Statements of Income**

Fiscal year		FY2005 (From April 1, 2005, to March 31, 2006)		FY2006 (From April 1, 2006, to March 31, 2007)		Year-over-year change (%)
		Amount	Percent- age (%)	Amount	Percent- age (%)	
Account item						
I. Net sales		129,341	100.0	124,654	100.0	96.4
II. Cost of sales		78,999	61.1	74,824	60.0	94.7
Gross profit before adjustment for unrealized profit on installment sales		50,342	38.9	49,829	40.0	99.0
Unrealized profit on installment sales—reversal (+)	106			126		
Unrealized profit on installment sales—deferred (–)	16	89	0.1	19	106	0.1
Gross profit on sales		50,431	39.0	49,935	40.1	99.0
III. Selling, general and administrative expenses		39,145	30.3	36,745	29.5	93.9
Operating income		11,286	8.7	13,189	10.6	116.9
IV. Nonoperating income						
1. Interest income	95			98		
2. Interest income on installment sales	244			235		
3. Fees and commissions received	180			172		
4. Cooperative monetary aid received	236			265		
5. Amortization of negative goodwill	232			210		
6. Other	1,194	2,184	1.7	798	1,781	1.4
V. Nonoperating expenses						
1. Interest expense	477			475		
2. Loss on devaluation of inventories	887			854		
3. Provision for allowance for doubtful accounts	50			—		
4. Equity in losses of affiliates	—			199		
5. Other	436	1,852	1.4	502	2,033	1.6
Ordinary income		11,618	9.0	12,937	10.4	111.4
VI. Extraordinary gains						
1. Gain on sales of fixed assets	98			199		
2. Gain on sales of investments in securities	370			105		
3. Reversal of allowance for doubtful accounts	75			186		
4. Reversal of reserve for directors' retirement allowances	55			2		
5. Indemnity of cancellation of leases	—			249		
6. Gain on revisions to the past-year copyright use fees	—	599	0.5	112	857	0.7
VII. Extraordinary losses						
1. Loss on sales and disposal of fixed assets	1,165			1,420		
2. Impairment loss on fixed assets	2,493			2,850		
3. Loss on sales of investments in securities	4			—		
4. Loss on valuation of investments in securities	7			180		
5. Loss on cancellation of a new business	435	4,107	3.2	—	4,451	3.6
Income before income taxes and minority interests		8,110	6.3	9,343	7.5	115.2
Income taxes—current	2,062			4,171		
Income taxes—deferred	2,041	4,104	3.2	238	4,409	3.5
Minority interests in income (loss) of consolidated subsidiaries		(3)	(0.0)		132	0.1
Net income		4,009	3.1	4,801	3.9	119.7

**(3) Consolidated Statement of Retained Earnings and Consolidated Statement of Changes in Net Assets****Consolidated Statement of Retained Earnings**

(Millions of yen)

Account item	Fiscal year	FY2005 (From April 1, 2005, to March 31, 2006)	
		Amount	
<b>(Capital surplus)</b>			
I. Capital surplus at the beginning of the year			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 fiscal year			24,003
<b>(Retained earnings)</b>			
I. Retained earnings at the beginning of the year			30,050
II. Increase in retained earnings			
1. Net income	4,009		
2. Increase in retained earnings due to the increase in the number of consolidated subsidiaries	414		4,424
III. Decrease in retained earnings			
1. Cash dividends	1,392		
2. Bonuses to directors and statutory auditors	104		
3. Reversal of land revaluation difference	948		2,445
IV. Retained earnings at the end of the fiscal year			32,029

**Consolidated Statement of Changes in Net Assets**

FY2006 (From April 1, 2006, to March 31, 2007)

(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
Changes in the consolidated fiscal year under review					
Cash dividends paid (Note)			(1,044)		(1,044)
Bonuses to directors and statutory auditors (Note)			(115)		(115)
Net income			4,801		4,801
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		0		0	0
Net change in items other than those in shareholders' equity					
Total of changes during the consolidated fiscal year under view	—	0	3,642	(1)	3,640
Balance as of March 31, 2007	12,350	24,003	35,671	(3,641)	68,384

	Valuation gains and losses and translation adjustments				Minority interest	Total net assets
	Net unrealized gains or losses on available-for-sale securities	Land revaluation difference	Foreign currency translation adjustments	Total valuation gains and losses and translation adjustments		
Balance as of March 31, 2006	2,354	(845)	188	1,697	764	67,205
Changes in the consolidated fiscal year under review						
Cash dividends paid (Note)						(1,044)
Bonuses to directors and statutory auditors (Note)						(115)
Net income						4,801
Purchase of treasury stock						(1)
Disposal of treasury stock						0
Net change in items other than those in shareholders' equity	(2,231)	—	40	(2,191)	132	(2,058)
Total of changes during the consolidated fiscal year under view	(2,231)	—	40	(2,191)	132	1,582
Balance as of March 31, 2007	123	(845)	229	(493)	897	68,788

Note: These are items for which retained earnings were appropriated by resolution of the Ordinary General Meeting of Shareholders held in June 2006.

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

(Millions of yen)

Account item	Fiscal year	FY2005 (From April 1, 2005, to March 31, 2006)	FY2006 (From April 1, 2006, to March 31, 2007)	Year-over-year change
		Amount	Amount	Increase and decrease
<b>I. Cash flows from operating activities:</b>				
Income before income taxes and minority interests		8,110	9,343	
Depreciation expense		15,783	15,633	
Impairment loss on fixed assets		2,493	2,850	
Amortization of negative goodwill		(232)	(210)	
Increase (decrease) in allowance for doubtful accounts		43	(390)	
Increase (decrease) in reserve for directors' retirement allowances		(842)	284	
Dividend and interest income		(460)	(387)	
Gain or loss on sales of investments in securities		(365)	(105)	
Gain or loss on investments in investment business associations		4	(8)	
Interest expense		477	475	
Gain or loss on disposal of fixed assets		1,067	1,220	
Loss on valuation of investments in securities		7	180	
Decrease in trade receivables		415	2,489	
Decrease (increase) in inventories		(928)	2,589	
Transfer of cost of sales on karaoke equipment for rental		1,016	738	
Decrease in trade payables		(1,980)	(612)	
Other		1,061	725	
Subtotal		25,672	34,816	
Interest and dividends received		453	377	
Interest paid		(460)	(491)	
Income taxes paid		(1,583)	(2,192)	
Net cash provided by operating activities		24,081	32,509	8,428
<b>II. Cash flows from investing activities:</b>				
Increase in time and saving deposits		(358)	(190)	
Proceeds from decrease in time and saving deposits		515	214	
Payments for acquisition of tangible fixed assets		(14,628)	(10,442)	
Proceeds from sales of tangible fixed assets		605	626	
Payments for acquisition of intangible assets		(4,766)	(4,076)	
Payments for acquisition of video licenses		(1,512)	(1,206)	
Payments for purchase of investments in securities		(2,598)	(3,249)	
Proceeds from sales of investments in securities		544	154	
Payments for loans		(996)	(509)	
Proceeds from collection of loans receivable		1,249	737	
Payments for leasehold deposits and guarantee money		(908)	(769)	
Proceeds from repayment of leasehold deposits and guarantee money		819	579	
Other		227	73	
Net cash used in investing activities		(21,808)	(18,059)	3,749
<b>III. Cash flows from financing activities:</b>				
Net increase in short-term borrowings		(2,606)	(1,667)	
Increase in long-term borrowings		15,322	10,776	
Payments for repayment of long-term borrowings		(13,330)	(14,848)	
Cash dividends paid		(1,391)	(1,043)	
Payments for purchase of treasury stock		(10)	(1)	
Other		(2)	(8)	
Net cash used in financing activities		(2,018)	(6,792)	(4,774)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>		141	38	(103)
<b>V. Net increase (decrease) in cash and cash equivalents</b>		395	7,695	7,300
<b>VI. Cash and cash equivalents at the beginning of the year</b>		22,428	24,222	1,794
<b>VII. Increase in cash and cash equivalents due to the increase in the number of newly consolidated subsidiaries</b>		1,398	—	(1,398)
<b>VIII. Cash and cash equivalents at the end of the fiscal year</b>		24,222	31,918	7,695

#### 4. Summary of Significant Accounting Policies

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

###### ① Marketable securities and investments in securities

**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 net assets. 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.

###### 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 after March 31, 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 of DK and its domestic consolidated subsidiaries 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 of DK and its domestic consolidated subsidiaries is provided at an amount recognized to have accrued as of the balance-sheet date, based on the projected benefit obligations and plan assets as of March 31, 2007.

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 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 consolidated 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 balance-sheet dates. The resulting translation differences have been included in “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**

DK and its domestic consolidated subsidiaries hedge 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 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 the installment standards used by DK and some of its domestic consolidated subsidiaries.

**② Accounting for consumption taxes**

Consumption taxes are accounted for using the tax exclusion method.

**5. Valuation for assets and liabilities of consolidated subsidiaries**

Assets and liabilities of consolidated subsidiaries are carried at fair value.

**6. Amortization of negative goodwill**

Negative goodwill is equally amortized over 5 or 15 years on a straight-line basis.

**7. Cash and Cash Equivalents in the Consolidated Statements of Cash Flows**

Cash and cash equivalents in the consolidated 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****FY2005 (From April 1, 2005, to March 31, 2006)**

(Millions of yen)

Item	Commer- cial karaoke	Karaoke cabin and restaurant	Gateway	Music software	Other	Total	Eliminations and 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
<b>Assets, depreciation and amortization, impairment loss and capital expenditure</b>								
Assets	67,314	30,497	10,664	8,741	3,130	120,347	13,176	133,524
Depreciation and amortization	8,823	2,854	1,624	35	1,182	14,521	60	14,582
Impairment loss	65	1,273	—	—	814	2,153	340	2,493
Capital expenditure	9,924	5,183	3,041	46	349	18,545	38	18,583

**FY2006 (From April 1, 2006, to March 31, 2007)**

(Millions of yen)

Item	Commer- cial karaoke	Karaoke cabin and restaurant	Gateway	Music software	Other	Total	Eliminations and corporate	Consolidated
<b>Sales and operating income</b>								
Sales								
Sales to third parties	64,685	35,681	4,227	11,982	8,077	124,654	—	124,654
Intersegment sales and transfers	228	—	—	178	750	1,158	(1,158)	—
Total	64,914	35,681	4,227	12,161	8,827	125,812	(1,158)	124,654
Operating expenses	54,740	30,576	5,661	12,010	7,042	110,030	1,433	111,464
Operating income (loss)	10,174	5,105	(1,434)	150	1,785	15,781	(2,591)	13,189
<b>Assets, depreciation and amortization, impairment loss and capital expenditure</b>								
Assets	64,313	29,636	5,187	7,804	3,903	110,845	20,085	130,931
Depreciation and amortization	8,433	2,773	1,432	43	1,241	13,923	73	13,997
Impairment loss	113	256	2,168	—	310	2,850	—	2,850
Capital expenditure	9,302	2,836	788	144	1,269	14,341	8	14,349

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 "DAM Station" 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)

	FY2005	FY2006	Major items
Amounts of unabsorbed operating expenses included in "Eliminations and corporate"	¥3,049	¥2,591	Expenses required for operations by administrative departments such as the General Affairs Dept.
Amounts of assets of the overall Company included in "Eliminations and corporate"	¥13,596	¥20,733	Surplus funds of the Company (cash and bank deposits), long-term investment funds (investments in securities) and management-related assets

**2. Geographical segments**

(FY2005 and FY2006)

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

**3. Overseas sales**

(FY2005 and FY2006)

As sales overseas account for less than 10% of consolidated net sales for fiscal 2005 and 2006, overseas sales-related information is omitted.