

FY2008, the year ended March 31, 2009

Flash Report on the Consolidated Results for the Year Ended March 31, 2009

May 15, 2009

Company Name: DAIICHIKOSHO CO., LTD.

Code Number: 7458

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

Stock Exchange Listing: JASDAQ

Representative: Yasutaka Wada, President

Contact: Shigeki Kobayashi, General Manager, Accounting Department

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Date of the Ordinary General Meeting of Shareholders: June 28, 2009

Start Date for Dividend Payment: June 29, 2009

Scheduled Date to Submit the Securities Report: June 29, 2009

(Amounts below one million yen are truncated.)

1. Consolidated Performance for the Year Ended March 2009 (from April 1, 2008, to March 31, 2009)

(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 2009	125,083	(1.4)	16,659	1.7	17,460	6.3
Year ended March 2008	126,844	1.8	16,374	24.1	16,432	27.0

	Net income		Net income per share	Fully diluted net income per share
	¥ Million	%	¥	¥
Year ended March 2009	10,885	85.5	158.76	—
Year ended March 2008	5,869	22.2	84.35	—

	Return on equity	Ordinary income to total assets	Operating income to net sales
	%	%	%
Year ended March 2009	14.5	14.0	13.3
Year ended March 2008	8.4	12.9	12.9

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

Year ended March 2009: (¥13 million)

Year ended March 2008: (¥307 million)

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	¥
Year ended March 2009	124,295	79,331	63.3	1,165.60
Year ended March 2008	124,721	72,399	57.6	1,036.52

(Reference) Shareholders' equity

Year ended March 2009: ¥78,640 million

Year ended March 2008: ¥71,862 million

(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 2009	27,490	(17,110)	(8,997)	29,584
Year ended March 2008	25,419	(18,448)	(10,516)	28,300

2. Dividend

(Reference dated)	Dividend per share				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
		Yen		Yen	Yen
Year ended March 2008	—	0.00	—	25.00	25.00
Year ended March 2009	—	0.00	—	45.00	45.00
Year ending March 2010 (forecast)	—	15.00	—	20.00	35.00

	Aggregate amount of dividend (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	¥ Million	%	%
Year ended March 2008	1,733	29.6	2.5
Year ended March 2009	3,036	28.3	4.1
Year ending March 2010 (forecast)	—	27.1	—

(Note) Breakdown of the year-end dividend for the year ended March 2009: Special dividend 10.00 yen

3. Forecast Consolidated Performance for FY2009, the Year Ending March 31, 2010 (from April 1, 2009, to March 31, 2010)

(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, 2009	62,200	0.5	7,000	(11.0)	7,400	(10.8)
Year ending March 31, 2010 (full year)	125,400	0.3	15,300	(8.2)	16,000	(8.4)

	Net income		Net income per share
	¥ Million	%	¥
Six months ending September 30, 2009	4,000	(20.9)	59.29
Year ending March 31, 2010 (full year)	8,700	(20.1)	128.95

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: Yes
- (3) Number of common shares issued
 - 1) Number of shares issued (including treasury stock)

- Year ended March 2009: 69,600,596 shares
 Year ended March 2008: 69,600,596 shares
 2) Number of shares of treasury stock
 Year ended March 2009: 2,132,586 shares
 Year ended March 2008: 270,292 shares

(Reference) Outline of Nonconsolidated Financial Results

1. Nonconsolidated Performance for the Year Ended March 2009 (from April 1, 2008, to March 31, 2009)

(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 2009	82,882	(3.1)	9,892	(2.8)	11,411	2.2
Year ended March 2008	85,523	2.6	10,174	29.0	11,162	34.2

	Net income		Net income per share	Fully diluted net income per share
	¥ Million	%	¥	¥
Year ended March 2009	6,949	147.7	101.36	—
Year ended March 2008	2,806	21.4	40.33	—

(2) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	Yen
Year ended March 2009	78,837	56,297	71.4	834.43
Year ended March 2008	76,554	53,269	69.6	768.34

(Reference) Shareholders' equity:

- Year ended March 2009: ¥56,297 million
 Year ended March 2008: ¥53,269 million

* Explanation for the appropriate use of performance forecasts and other special notes:

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.

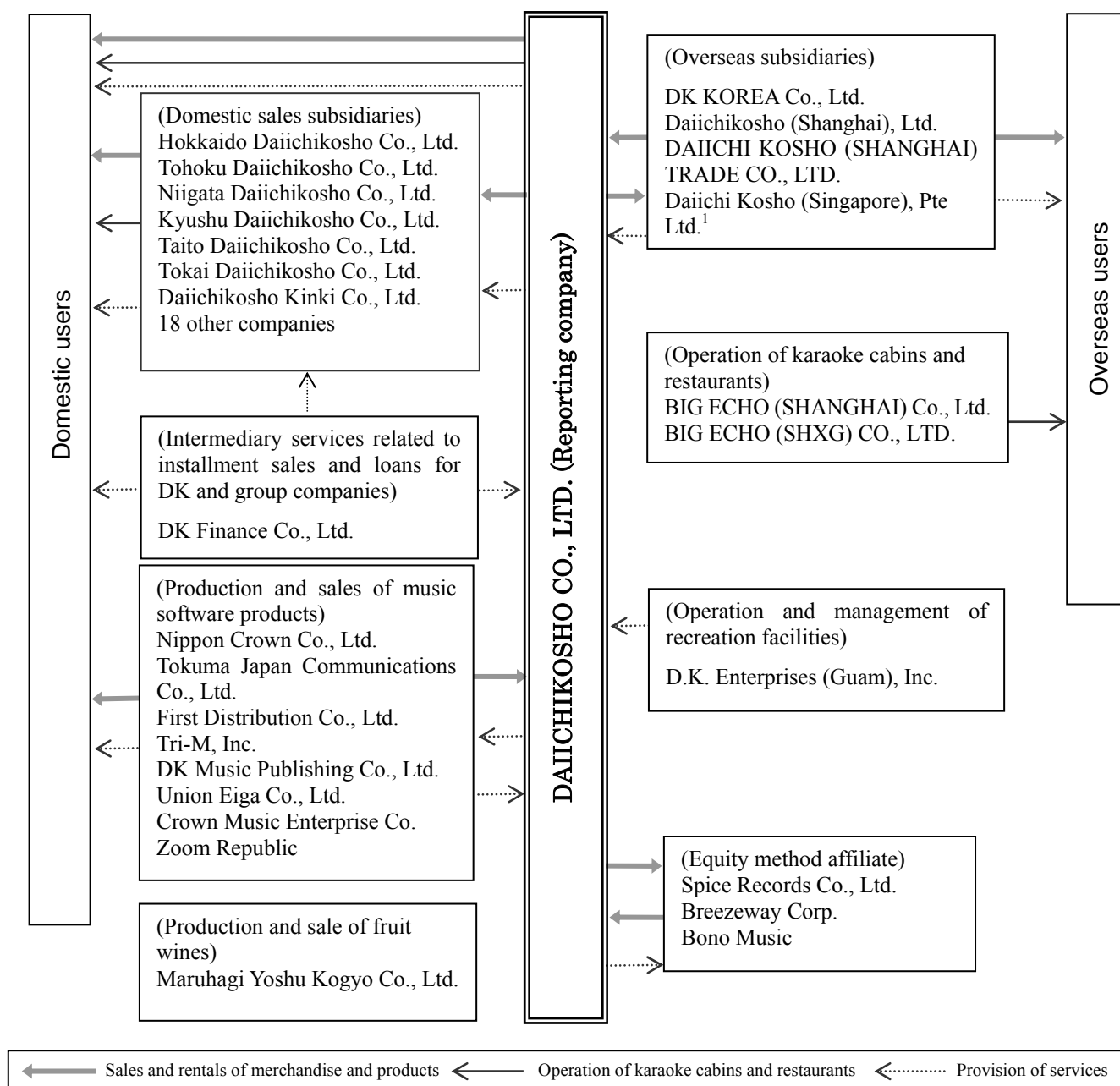
(Attachment)

2. Corporate Group

The Daiichikoshō Group (“DKG”) consists of Daiichikoshō Co., Ltd. (“DK” or “the Company”), 42 consolidated subsidiaries and 3 affiliates. The major group companies engage in the commercial karaoke business, the karaoke cabin and restaurant business, and the music software business.

Business segment	Business line	Domestic	Overseas
Commercial karaoke business	Sales and rental of commercial-use karaoke equipment, supply of sound source and video content for communication karaoke and supply of content services via the special “ DAM Station ” information terminal	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 18 other subsidiaries	DK KOREA Co., Ltd., Daiichikoshō (Shanghai), Ltd., and 2 other subsidiaries
Karaoke cabin and restaurant business	Operation of karaoke cabins and restaurants		BIG ECHO (SHANGHAI) Co., Ltd., And 1 other subsidiary
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 4 other subsidiaries	
Other business	Satellite broadcasting, supply of content services via mobile phone and 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.

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



Note: 1. BIG ECHO (SHSG) CO., LTD. has been excluded from the scope of consolidation because its liquidation was completed in December 2008.

2. Daiichi Kosho (Singapore), Pte Ltd.¹ was dissolved in April 2009.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	(Millions of yen)	
	FY2007	FY2008
	(As of March 31, 2008)	(As of March 31, 2009)
Assets		
Current assets		
Cash and deposits	28,789	30,003
Notes and accounts receivable-trade	9,017	8,925
Inventories	4,577	4,778
Deferred tax assets	1,274	1,221
Other	4,191	3,841
Allowance for doubtful accounts	(436)	(446)
Total current assets	47,414	48,321
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	14,548	14,565
Accumulated depreciation	(8,498)	(8,492)
Buildings and structures, net	6,049	6,073
Karaoke equipment for rental	27,977	27,985
Accumulated depreciation	(19,907)	(20,448)
Karaoke equipment for rental, net	8,069	7,537
Kraoke cabin and restaurant facilities	29,517	30,077
Accumulated depreciation	(15,887)	(16,506)
Kraoke cabin and restaurant facilities, net	13,629	13,571
Land	17,485	18,463
Lease assets	—	35
Accumulated depreciation	—	(14)
Lease assets, net	—	21
Construction in progress	138	525
Other	8,240	7,981
Accumulated depreciation	(6,402)	(6,495)
Other, net	1,837	1,485
Total property, plant and equipment	47,211	47,677
Intangible assets	6,324	7,026
Investments and other assets		
Investment securities	4,598	2,738
Long-term loans receivable	865	620
Deferred tax assets	3,572	3,037
Lease and guarantee deposits	12,999	13,332
Other	3,036	2,520
Allowance for doubtful accounts	(1,302)	(979)
Total investments and other assets	23,771	21,269
Total noncurrent assets	77,307	75,973
Total assets	124,721	124,295

DAIICHIKOSHO CO., LTD.

	(Millions of yen)	
	FY2007	FY2008
	(As of March 31, 2008)	(As of March 31, 2009)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,552	4,214
Short-term loans payable	12,152	11,018
Accounts payable-other	6,419	6,861
Income taxes payable	3,689	1,397
Provision for bonuses	1,098	1,167
Unrealized profit on installment sales	286	—
Other	3,230	3,329
Total current liabilities	31,428	27,988
Noncurrent liabilities		
Long-term loans payable	14,469	10,178
Deferred tax liabilities	150	150
Provision for retirement benefits	2,772	2,891
Provision for directors' retirement benefits	1,849	2,105
Negative goodwill	391	335
Other	1,259	1,314
Total noncurrent liabilities	20,893	16,975
Total liabilities	52,322	44,964
Net assets		
Shareholders' equity		
Capital stock	12,350	12,350
Capital surplus	20,362	20,362
Retained earnings	40,149	49,207
Treasury stock	(266)	(2,094)
Total shareholders' equity	72,595	79,825
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	47	(317)
Revaluation reserve for land	(845)	(777)
Foreign currency translation adjustment	64	(90)
Total valuation and translation adjustments	(733)	(1,184)
Minority interests	537	690
Total net assets	72,399	79,331
Total liabilities and net assets	124,721	124,295

(2) Consolidated Statements of Income

	(Millions of yen)	
	FY2007 (From April 1, 2007, to March 31, 2008)	FY2008 (From April 1, 2008, to March 31, 2009)
Net sales	126,844	125,083
Cost of sales	72,715	72,072
Gross profit before adjustment for unrealized profit on installment sales	54,128	53,010
Reversal of unrealized income on installment sales	50	—
Provision of unrealized income on installment sales	69	—
Reversal of unrealized income on installment sales deferred net	(18)	—
Gross profit	54,109	53,010
Selling, general and administrative expenses		
Advertising expenses	3,871	3,478
Promotion expenses	2,995	1,841
Packing and freight expenses	1,234	1,142
Provision of allowance for doubtful accounts	—	53
Directors' compensations	1,699	1,614
Provision for directors' retirement benefits	432	346
Salaries and bonuses	14,136	14,337
Provision for bonuses	891	917
Retirement benefit expenses	503	553
Rent expenses	1,594	1,607
Depreciation	1,004	793
Other	9,371	9,665
Total selling, general and administrative expenses	37,735	36,350
Operating income	16,374	16,659
Non-operating income		
Interest income	117	241
Interest income on installment sales	165	—
Commission fee	134	—
Cooperative monetary aid received	331	373
Amortization of negative goodwill	74	55
Other	781	939
Total non-operating income	1,605	1,609
Non-operating expenses		
Interest expenses	413	328
Loss on valuation of inventories	472	—
Provision of allowance for doubtful accounts	—	10
Equity in losses of affiliates	307	13
Foreign exchange losses	—	248
Other	354	207
Total non-operating expenses	1,547	808
Ordinary income	16,432	17,460

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2007 (From April 1, 2007, to March 31, 2008)	FY2008 (From April 1, 2008, to March 31, 2009)
Extraordinary income		
Gain on sales of noncurrent assets	76	16
Reversal of allowance for doubtful accounts	243	—
Reversal of provision for directors' retirement benefits	112	—
Indemnity of cancellation of leases	85	119
Reversal of loss on cancellation of a new business	—	116
Other	—	16
Total extraordinary income	518	269
Extraordinary loss		
Loss on disposal of noncurrent assets	556	484
Impairment loss	211	367
Loss on sales of stocks of subsidiaries and affiliates	62	—
Loss on valuation of investment securities	4,484	1,376
Loss on cancellation of a new business	410	—
Loss on irregularities	681	—
Other	—	53
Total extraordinary losses	6,405	2,281
Income before income taxes and minority interests	10,545	15,449
Income taxes-current	5,336	3,807
Income taxes-deferred	(813)	597
Total income taxes	4,523	4,405
Minority interests in income	152	158
Net income	5,869	10,885

(3) Consolidated Statement of Changes in Net Assets

(Millions of yen)

	FY2007 (From April 1, 2007, to March 31, 2008)	FY2008 (From April 1, 2008, to March 31, 2009)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	12,350	12,350
Changes of items during the period		
Balance at the end of current period	12,350	12,350
Capital surplus		
Balance at the end of previous period	24,003	20,362
Changes of items during the period		
Retirement of treasury stock	(3,640)	—
Total changes of items during the period	(3,640)	—
Balance at the end of current period	20,362	20,362
Retained earnings		
Balance at the end of previous period	35,671	40,149
Effect of changes in accounting policies applied to foreign subsidiaries	—	(9)
Changes of items during the period		
Dividends from surplus	(1,391)	(1,733)
Net income	5,869	10,885
Change of scope of equity method	—	(15)
Reversal of revaluation reserve for land	—	(67)
Total changes of items during the period	4,477	9,068
Balance at the end of current period	40,149	49,207
Treasury stock		
Balance at the end of previous period	(3,641)	(266)
Changes of items during the period		
Purchase of treasury stock	(265)	(1,828)
Retirement of treasury stock	3,640	—
Total changes of items during the period	3,375	(1,828)
Balance at the end of current period	(266)	(2,094)
Total shareholders' equity		
Balance at the end of previous period	68,384	72,595
Effect of changes in accounting policies applied to foreign subsidiaries	—	(9)
Changes of items during the period		
Dividends from surplus	(1,391)	(1,733)
Net income	5,869	10,885
Purchase of treasury stock	(265)	(1,828)
Retirement of treasury stock	—	—
Change of scope of equity method	—	(15)
Reversal of revaluation reserve for land	—	(67)
Total changes of items during the period	4,211	7,239
Balance at the end of current period	72,595	79,825

(Millions of yen)

	FY2007 (From April 1, 2007, to March 31, 2008)	FY2008 (From April 1, 2008, to March 31, 2009)
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	123	47
Changes of items during the period		
Net changes of items other than shareholders' equity	(75)	(364)
Total changes of items during the period	(75)	(364)
Balance at the end of current period	47	(317)
Deferred gains or losses on hedges		
Changes of items during the period		
Revaluation reserve for land		
Balance at the end of previous period	(845)	(845)
Changes of items during the period		
Net changes of items other than shareholders' equity	—	67
Total changes of items during the period	—	67
Balance at the end of current period	(845)	(777)
Foreign currency translation adjustment		
Balance at the end of previous period	229	64
Changes of items during the period		
Net changes of items other than shareholders' equity	(164)	(155)
Total changes of items during the period	(164)	(155)
Balance at the end of current period	64	(90)
Total valuation and translation adjustments		
Balance at the end of previous period	(493)	(733)
Changes of items during the period		
Net changes of items other than shareholders' equity	(239)	(451)
Total changes of items during the period	(239)	(451)
Balance at the end of current period	(733)	(1,184)
Subscription rights to shares		
Changes of items during the period		
Minority interests		
Balance at the end of previous period	897	537
Changes of items during the period		
Net changes of items other than shareholders' equity	(360)	153
Total changes of items during the period	(360)	153
Balance at the end of current period	537	690
Total net assets		
Balance at the end of previous period	68,788	72,399
Effect of changes in accounting policies applied to foreign subsidiaries	—	(9)
Changes of items during the period		
Dividends from surplus	(1,391)	(1,733)
Net income	5,869	10,885
Purchase of treasury stock	(265)	(1,828)
Change of scope of equity method	—	(15)
Reversal of revaluation reserve for land	—	(67)
Net changes of items other than shareholders' equity	(600)	(298)
Total changes of items during the period	3,611	6,941
Balance at the end of current period	72,399	79,331

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2007 (From April 1, 2007, to March 31, 2008)	FY2008 (From April 1, 2008, to March 31, 2009)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	10,545	15,449
Depreciation and amortization	14,169	14,012
Impairment loss	211	367
Amortization of negative goodwill	(74)	(55)
Increase (decrease) in allowance for doubtful accounts	(626)	(306)
Increase (decrease) in provision for directors' retirement benefits	(588)	256
Interest and dividends income	(359)	(327)
Loss (gain) on sales of stocks of subsidiaries and affiliates	62	—
Gain or loss on investments in investment business associations	(8)	(4)
Interest expenses	413	328
Loss (gain) on disposal of noncurrent assets	479	467
Loss (gain) on valuation of investment securities	4,484	1,376
Loss on irregularities	681	—
Decrease (increase) in notes and accounts receivable-trade	558	14
Decrease (increase) in inventories	516	(209)
Transfer of cost of sales on karaoke equipment for rental	680	493
Increase (decrease) in notes and accounts payable-trade	(94)	(324)
Other, net	127	2,019
Subtotal	31,177	33,557
Interest and dividends income received	366	325
Interest expenses paid	(411)	(321)
Irregularities paid	(681)	—
Income taxes paid	(5,032)	(6,071)
Net cash provided by (used in) operating activities	25,419	27,490
Net cash provided by (used in) investing activities		
Increase in time and saving deposits	(241)	(303)
Proceeds from decrease in time and saving deposits	238	373
Purchase of property, plant and equipment	(12,848)	(11,272)
Proceeds from sales of property, plant and equipment	156	175
Purchase of intangible assets	(4,351)	(4,360)
Payments for acquisition of video licenses	(1,304)	(1,170)
Purchase of investment securities	(200)	(31)
Proceeds from sales of investment securities	450	136
Purchase of investments in subsidiaries	(413)	—
Payments of loans receivable	(319)	(710)
Collection of loans receivable	707	631
Payments for lease and guarantee deposits	(1,017)	(1,302)
Proceeds from collection of lease and guarantee deposits	641	589
Other, net	56	133
Net cash provided by (used in) investing activities	(18,448)	(17,110)

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2007 (From April 1, 2007, to March 31, 2008)	FY2008 (From April 1, 2008, to March 31, 2009)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(2,975)	(974)
Proceeds from long-term loans payable	6,510	6,250
Repayment of long-term loans payable	(12,382)	(10,700)
Cash dividends paid	(1,392)	(1,733)
Purchase of treasury stock	(265)	(1,828)
Other, net	(10)	(10)
Net cash provided by (used in) financing activities	(10,516)	(8,997)
Effect of exchange rate change on cash and cash equivalents	(72)	(98)
Net increase (decrease) in cash and cash equivalents	(3,618)	1,283
Cash and cash equivalents at beginning of period	31,918	28,300
Cash and cash equivalents at end of period	28,300	29,584

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 Financial Instruments and Exchange Act), 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. (balance sheet values are calculated by the method to reduce the book value to reflect declined profitability.)

(Change in accounting method)

Effective the current consolidated fiscal year, the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 5, 2006) has been applied. Although this change decreased operating income by ¥635 million as compared with the amounts calculated using the former method, there is no effect on ordinary income or income before income taxes and minority interests.

The impact on segment information is stated at the relevant points in the Segment Information.

(2) Depreciation method of major depreciable assets

① Tangible fixed assets (excluding lease 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 and 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

(Additional Information)

DK reviewed the depreciation period for machinery and equipment following the tax system revision in 2008 and changed the depreciation method for machinery and equipment to the method of shortening the depreciation period for certain assets. The effect of this change on the consolidated financial statements is immaterial.

② Intangible assets

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

③ Lease assets

Lease assets are depreciated by the straight-line method with the useful being the lease period with a remaining value being zero.

Finance lease transactions that do not transfer ownership of leased property whose lease inceptions predate March 31, 2008 are accounted for as rental transactions.

(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, 2009.

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 of the overseas subsidiaries are translated into yen at the spot exchange rate in effect at their respective balance-sheet dates, and the revenue and expense accounts are translated into yen at the average rate during the fiscal year. The resulting translation differences have been included in "Foreign currency translation adjustments" in Net Assets.

(5) Hedge accounting

DK 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.

(6) Other important matters in preparing the consolidated financial statements**① 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.

Change in Important Matters Essential for the Preparation of the Consolidated Financial Statements

(Accounting Standard for Lease Transactions)

Previously, finance lease transactions without ownership-transfer were accounted for as operating leases. DK has adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued by the First Session of Business Accounting Council on June 17, 1993; latest revision, March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994; latest revision, March 30, 2007), and is accounting for those finance lease transactions as sales transactions from the current consolidated fiscal year.

Finance lease transactions that do not transfer ownership of leased property whose lease inceptions predate the first applicable consolidated fiscal year are continuously accounted for as rental transactions.

The effect of this change on the consolidated financial statements is immaterial.

(Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

Effective the current consolidated fiscal year, DK adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, May 17, 2006) and made necessary adjustments in its consolidated accounting.

The effect of this change on the consolidated financial statements is immaterial.

(Classification of Promotion Expenses)

Promotion expenses for increasing promotion effect, which were formerly recorded as promotion expenses and included in selling, general and administrative expenses, are partially recorded as a deduction from net sales, effective the fiscal year ended March 31, 2009.

After reviewing the contents of the promotion expenses for dealerships against the background of recently intensifying price competition, DK changed the method of recording promotion expenses to the method in which promotion expenses that are generally classified as sales discount because of its nature of transaction and tend notably to comprise a substantial part of the sales price are directly deducted from net sales, instead of the former method in which such promotion expenses were included in selling, general and administrative expenses.

Although, as a result of this change, net sales, gross profit, and selling, general and administrative expenses for the fiscal year ended March 31, 2009, decreased ¥1,306 million, respectively, as compared with the amounts calculated using the former method, there is no effect on operating income, ordinary income, or income before income taxes and minority interests.

(Segment Information)**1. Business segments****FY2007 (From April 1, 2007, to March 31, 2008)**

(Millions of yen)

Item	Commercial karaoke	Karaoke cabin and restaurant	Music software	Other	Total	Eliminations and corporate	Consolidated
Sales and operating income							
Sales							
Sales to third parties	66,069	38,235	11,739	10,800	126,844	—	126,844
Intersegment sales and transfers	270	—	166	808	1,245	(1,245)	—
Total	66,340	38,235	11,905	11,608	128,089	(1,245)	126,844
Operating expenses	54,969	32,933	11,009	9,871	108,782	1,687	110,470
Operating income	11,370	5,301	896	1,737	19,306	(2,932)	16,374
Assets, depreciation and amortization, impairment loss and capital expenditure							
Assets	60,903	34,145	7,795	5,313	108,159	16,562	124,721
Depreciation and amortization	8,154	2,830	43	1,533	12,562	66	12,629
Impairment loss	—	175	—	36	211	—	211
Capital expenditure	8,433	7,861	13	1,024	17,333	65	17,398

FY2008 (From April 1, 2008, to March 31, 2009)

(Millions of yen)

Item	Commercial karaoke	Karaoke cabin and restaurant	Music software	Other	Total	Eliminations and corporate	Consolidated
Sales and operating income							
Sales							
Sales to third parties	61,031	40,574	12,811	10,665	125,083	—	125,083
Intersegment sales and transfers	275	—	234	834	1,344	(1,344)	—
Total	61,307	40,574	13,045	11,500	126,427	(1,344)	125,083
Operating expenses	50,725	35,024	11,129	9,908	106,788	1,634	108,423
Operating income (loss)	10,581	5,549	1,916	1,591	19,639	(2,979)	16,659
Assets, depreciation and amortization, impairment loss and capital expenditure							
Assets	55,221	36,287	8,854	6,064	106,427	17,868	124,295
Depreciation and amortization	8,124	2,983	39	1,422	12,570	35	12,606
Impairment loss	—	349	—	17	367	—	367
Capital expenditure	9,465	4,674	62	1,089	15,291	156	15,448

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, supply of sound source and video content for communication karaoke, and supply of content services via the special "DAM Station" information terminal
Karaoke cabin and restaurant business	Operation of karaoke cabins and restaurants
Music software business	Production and sales of music and video software products
Other business	Satellite broadcasting business, supply of content services via mobile phones and real estate lease and rental business, etc.

3. Amounts and major items included in "Eliminations and corporate"

(Millions of yen)

	FY2007	FY2008	Major items
Amounts of unabsorbed operating expenses included in "Eliminations and corporate"	¥2,932	¥2,979	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"	¥17,036	¥18,288	Surplus funds of the Company (cash and bank deposits), long-term investment funds (investments in securities) and management-related assets

2. Geographical segments

(FY2007 and FY2008)

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

(FY2007 and FY2008)

As sales overseas account for less than 10% of consolidated net sales for fiscal 2007 and 2008, overseas sales-related information is omitted.