



Fiscal Year 2003 Business Performance, Fourth Mid- to Long-Term Management Plan and Policies for Fiscal Year 2004

May 12, 2004

Happinet Corporation

Estimates of future performance are provided as a reference for investors.
They are based on projections and estimates and should not be construed as an assurance or guarantee of future performance.
When using this information, please keep in mind that final results may vary.

**Business Performance
for Fiscal 2003
(Year Ended March 31, 2004)**

1. Fiscal 2003 Business Results

Key Points

- Toy market: Although there were no major hit products, Bandai character products performed well in the market.
- Video game market: Market activity was sluggish owing to PlayStation 2 hardware market saturation and a shortage of Xbox software titles.
- Video-related market: The growth trend in the DVD video market continued.

Fiscal 2003 Results

(Unit: million yen)

	Term	Fiscal 2002	Fiscal 2003	Year-on-year change
Consolidated	Net sales	122,516	122,723	0.2%
	Recurring profit	1,380	1,326	-3.9%
	Net income (loss)	767	-687	-189.6%
Non-consolidated	Net sales	39,442	31,288	-20.7%
	Recurring profit	363	484	33.4%
	Net income (loss)	307	-723	-335.6%

1. Fiscal 2003 Business Results

Fiscal 2003 Sales by Product (Consolidated)

(Units: 100 million yen, %)

Product	Term	Fiscal 2003	
		% of total	Year-on-year change
Toys	535	43.6	2.8
Childcare goods	17	1.4	-36.4
Video games	272	22.2	-20.8
Amusement	54	4.4	-1.5
Video-related	293	23.8	12.7
Others	57	4.6	183.8
Total	1,227	100.0	0.2

1. Fiscal 2003 Business Results

Profit and Loss for Business Groups and Major Subsidiaries

(Unit: million yen)

	Multimedia Business Group		Amusement Business Group	
		Year-on-year change		Year-on-year change
Net sales	25,840	-23.8%	5,444	-1.4%
Recurring profit	237	-28.7%	69	-62.9%

(Unit: million yen)

	Happinet JP Corporation		Happinet Pictures Corporation		Happinet Logistics Services Corporation		Happinet Robin Corporation	
		Year-on-year change		Year-on-year change		Year-on-year change		Year-on-year change
Net sales	65,861	6.6%	28,949	13.4%	5,607	1.3%	2,641	-3.5%
Recurring profit	-221	-146.8%	752	94.8%	287	69.8%	133	58.3%

Note: On April 1, 2003 the Multimedia Business Group and Digital Entertainment Business Group were integrated. Year-on-year growth figures are a comparison with the combined figures for the two groups.

1. Fiscal 2003 Business Results

e-Shopping! Toys Became a Happinet Consolidated Subsidiary

On March 12, 2004, Happinet Corporation acquired e-Shopping! Toys Corporation shares from Softbank BB Corporation. Happinet increased its ownership ratio from 10.0% to 74.0% and made e-Shopping! Toys a consolidated subsidiary.

Purpose of the Share Acquisition

e-Shopping! Toys is a toy industry website launched by Happinet and Softbank BB Corporation together with a number of other companies in 1999 to sell toys, DVD software and other products online. The site has about 200,000 active members and receives about 100 million page views annually. Through the share acquisition, Happinet aims to contribute to the development of the online sales business in the toy industry, and to further strengthen its marketing capabilities by maintaining a direct channel to consumers.

1. Fiscal 2003 Business Results

Change in Consolidated Business Results and Fiscal 2004 Performance Projection

(Unit: million yen)

Item \ Term	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004 (planned)
Sales	126,670	140,889	122,516	122,723	122,000
Gross profit	12,835	13,784	14,976	14,726	15,700
Selling, general, and administrative expenses	10,967	12,538	13,797	13,585	14,051
Employment costs	4,470	4,651	5,010	4,620	4,866
Depreciation and amortization	398	493	564	518	557
Recurring profit	2,091	1,518	1,380	1,326	1,700
Loss on disposal of property and equipment / loss on devaluation	2,123	1,895	1,801	2,882	1,800

Projected employment costs for fiscal 2004 will increase owing to changes in the scope of consolidation.

Projected depreciation and amortization for fiscal 2004 will increase owing to the acquisition of e-Shopping! Toys.

Actual loss on disposal of property and equipment/ loss on devaluation of other investments for fiscal 2003 increased principally due to a 2,031 million yen disposal of obsolete toy inventory.

Happinet Dream 08
Fourth Mid- to Long-Term
Management Plan

2 . Fourth Mid- to Long-Term Management Plan

Happinet Corporation absorbed three subsidiaries in order to realize the Group's strategic business development potential

From April 1, 2004, the following companies were merged into Happinet Corporation:

Happinet JP Corporation (toy sales)

Happinet Pictures Corporation (planning, production, and sales of video software)

Happinet Robin Corporation (manufacturing and sales of toys)

Purpose of the merger

- Take maximum advantage of customers, logistics systems and other management resources to realize the Group's comprehensive business capabilities and increase competitiveness
- Strengthen the management structure to cope with the rapidly changing business environment

2 . Fourth Mid to Long-Term Management Plan

Happinet has established Happinet Dream 08 as a mid- to long-term management plan for Group realignment following the mergers. The plan covers the five-year period from fiscal 2004 to fiscal 2008.

Slogan: “Creation of New Core Competence”

Building on the foundation of wholesale distribution, build new core businesses and business functions in overseas operations and content development.

2 . Fourth Mid- to Long-Term Management Plan

By further developing the wholesale distribution base built up over the years, use this foundation as a basis for achieving the visions set forth in the management plan.

2 . Fourth Mid- to Long-Term Management Plan

1) Group-Wide Vision

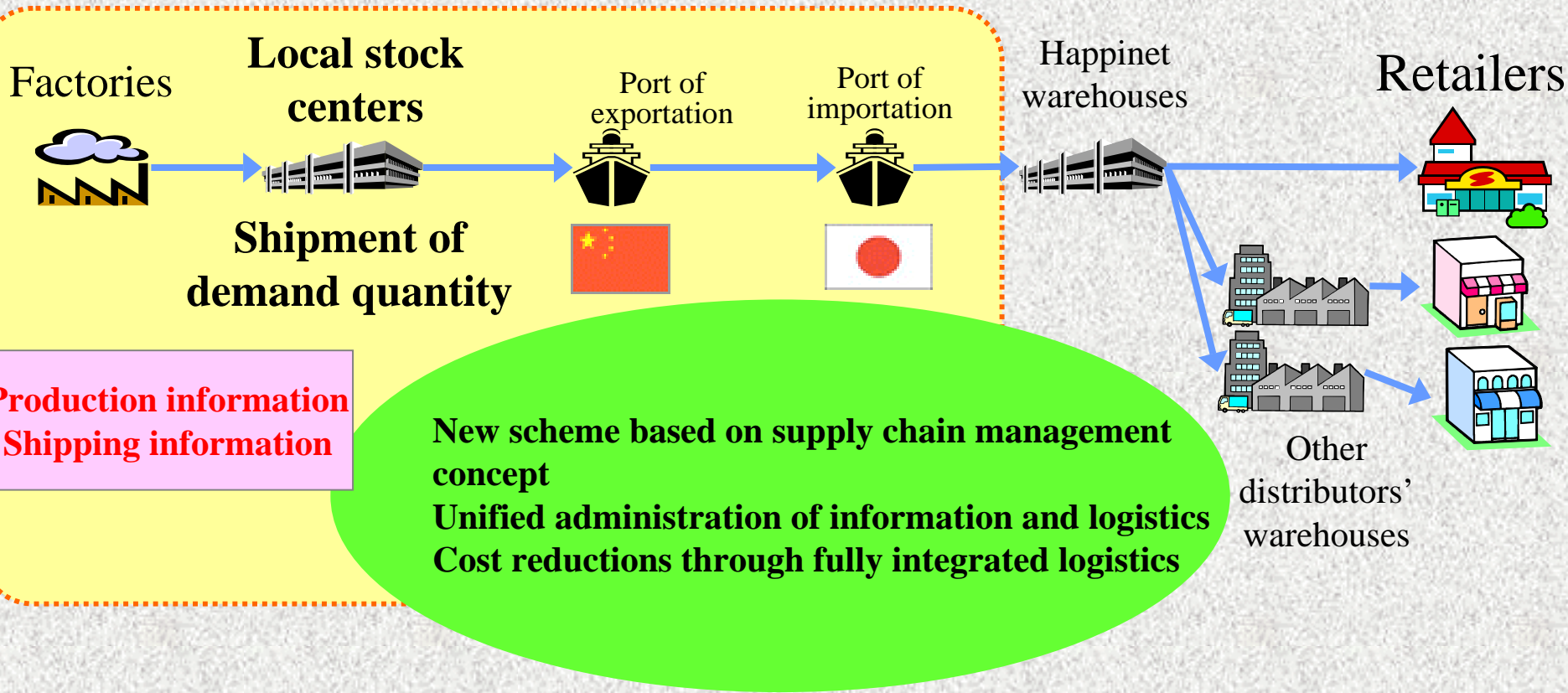
Group-Wide Vision 1

Global Development of Business Platform

Contribute to the construction of a fully integrated information and logistics scheme stretching from overseas production centers to retail stores.

Note: Scheme implementation will be realized using a project infrastructure involving Bandai, Bandai Logipal, and Happinet.

Global Development of Business Platform



**Promotion of unification of information
and logistics with Bandai**

2 . Fourth Mid- to Long-Term Management Plan

1) Group-Wide Vision

Group-Wide Vision 2

Establishment of an independent content business

Develop a business function that will create, produce, and provide high-quality content (including content from overseas) and establish a new business model that includes distribution.

Establishment of an independent content business

Planning
and
develop-
ment

Original content production

Foreign content procurement

Product planning

Logistics

Strengthen distributor capabilities

Distri-
bution
partners
and
consumers

Strengthen marketing capabilities

2 . Fourth Mid- to Long-Term Management Plan

1) Group-Wide Vision

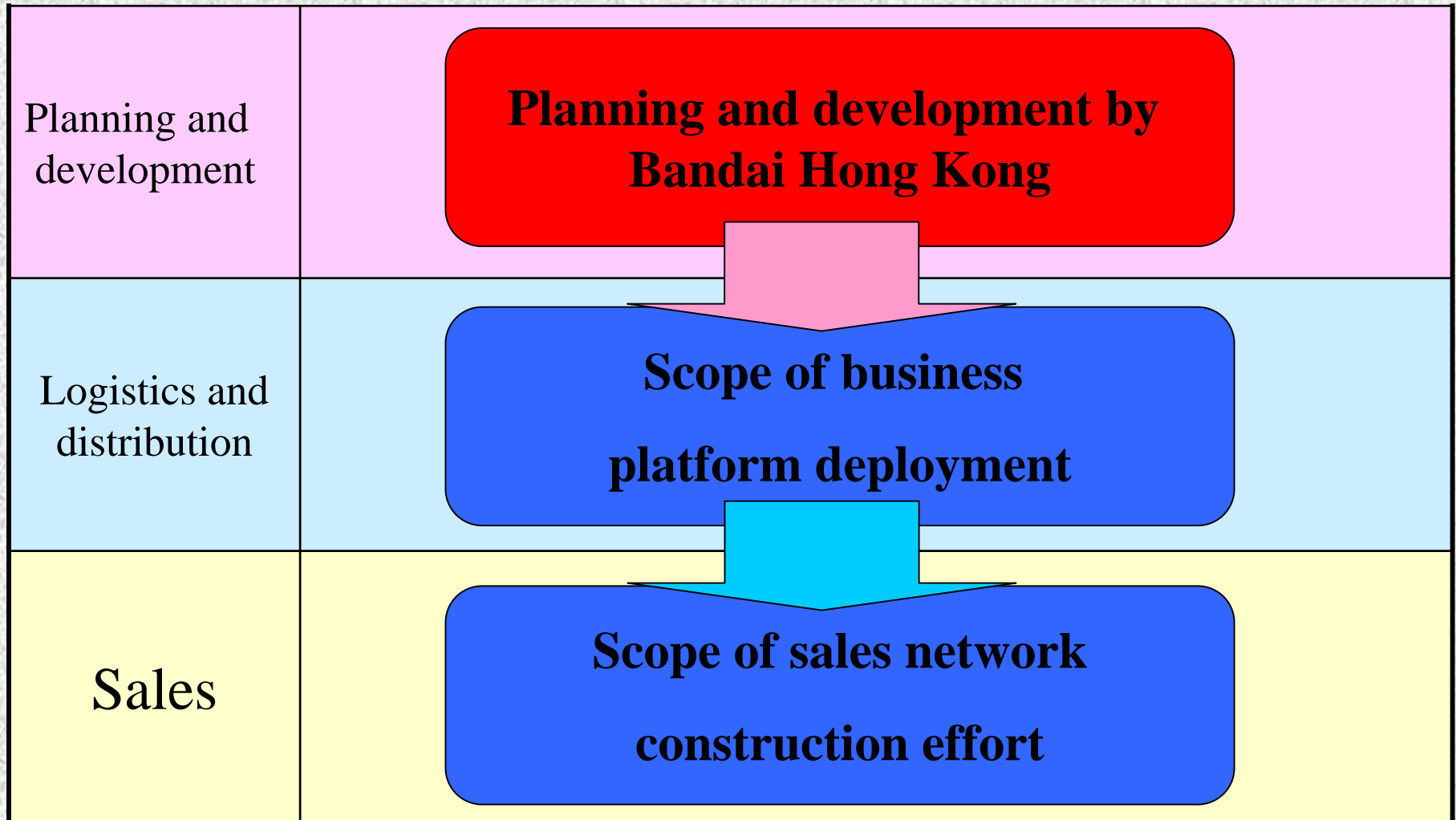
Group-Wide Vision 3

**Seek to establish a sales network
in East Asia**

Apply the Group's distribution capabilities in East Asia and contribute to the construction of a sales network through cooperation with Bandai Hong Kong.

Seek to establish a sales network in East Asia

Operations in China, Taiwan, and other parts of East Asia



2 . Fourth Mid- to Long-Term Management Plan

1) Group-Wide Vision

Group-Wide Vision 4

Brand strategy implementation

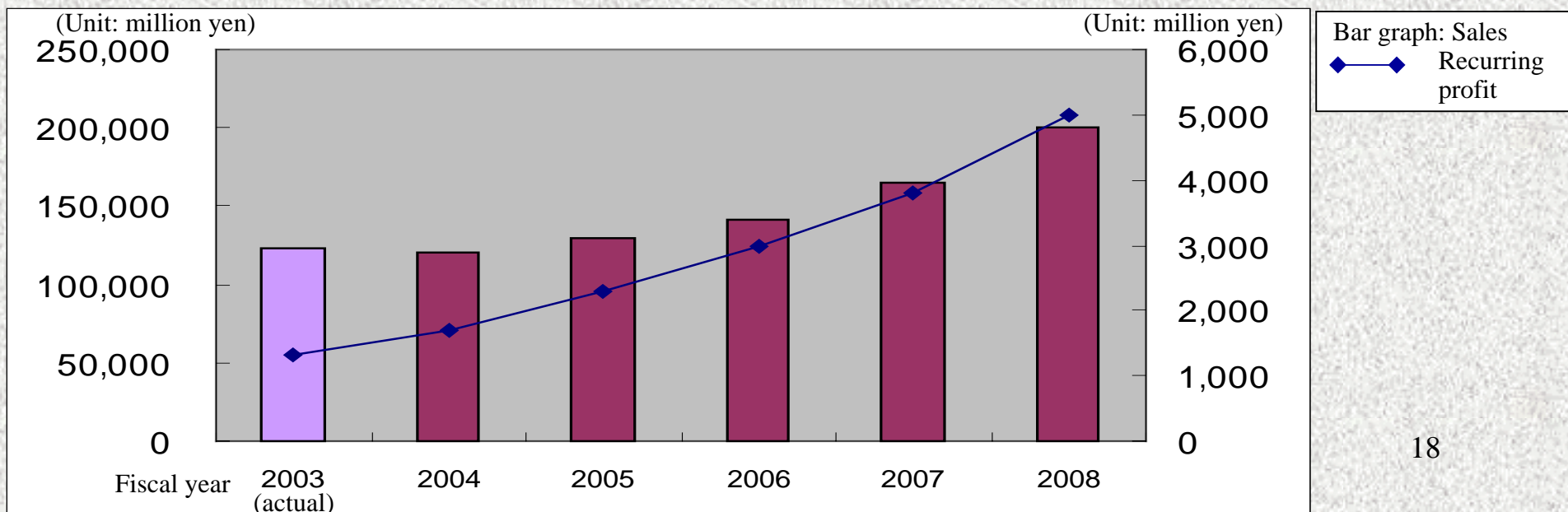
Through the provision optimal products and services to end-consumers and distribution customers, and utilizing effective corporate advertising, implement a brand strategy to position Happinet as a company that seeks to provide constant satisfaction.

2. Fourth Mid- to Long-Term Management Plan

2) Group Business Plan

(Unit: million yen)

	Fiscal 2003 (actual)	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Sales	122,723	122,000	129,000	142,000	165,000	200,000
Recurring profit	1,326	1,700	2,300	3,000	3,800	5,000



2. Fourth Mid- to Long-Term Management Plan

Reference
Information

3) Business Unit Directions

Toy Business Unit

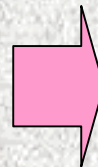
Establish and implement a toy distribution business model and offer its services to the industry

- Participate in the supply chain management system being implemented by Bandai Group companies and Bandai and contribute to the building of a fully integrated information and logistics scheme extending from overseas production centers to retail stores.
- Actively engage in business process innovation, establish a low-cost, competitive logistics system base, and convert it to a profitable business structure through improving the efficiency.

Fiscal 2003 (actual)

Sales

65,800 million yen



Fiscal 2008 (planned)

Sales

100,000 million yen

2. Fourth Mid- to Long-Term Management Plan

Reference
Information

3) Business Unit Directions

Video-Related Business Unit

Secure a high quality content library and further develop distribution

- Create high-quality content by strengthening Group planning and production capabilities and marketing.
- Establish non-packaged businesses (distribution, television program sales, online delivery, licensing, etc.).
- Aim for global development through both title acquisition and sales.
- Expand the distribution business by fully utilizing the information and logistics systems and establishing multiple sales channels.

Fiscal 2003 (actual)

Sales	28,900 million yen
In-house production	7,300 million yen
Distribution	21,600 million yen



Fiscal 2008 (planned)

Sales	37,000 million yen
In-house production	12,000 million yen
Distribution	25,000 million yen

2 . Fourth Mid- to Long-Term Management Plan

Reference
Information

3) Business Unit Directions

Video Game Business Unit

Aggressively pursue new businesses without being constrained by the video game genre

- From the starting point of comprehensive distribution of video game platforms, which are becoming increasingly multi-functional, and the realization of multiple sales channels, seek out new businesses and establish them as mainstay operations.
- Develop various new businesses based on existing businesses.

Fiscal 2003 (actual)	
Sales	25,800 million yen



Fiscal 2008 (planned)	
Sales	37,000 million yen

2. Fourth Mid- to Long-Term Management Plan

Reference
Information

3) Business Unit Directions

Original Products Development Business Unit

Construct new platforms for business growth and a low-cost production system

- Step up development of products targeting young adults and build those products into new business platforms.
- Expand direct trading with production plants in the East Asia region and build a low-cost production system.
- Based on the collaboration with the Bandai Group, expand the Group's distribution reach into East Asia.

Fiscal 2003 (actual)

Sales

2,600 million yen



Fiscal 2008 (planned)

Sales

10,000 million yen

2. Fourth Mid-Term to Long-Term Management Plan

Reference
Information

3) Business Unit Directions

Amusement Business Unit

Establish new locations

- Build a location business suited to new industries and business formats, focusing on the restaurant industry
- In the toy vendor business, establish a new operation system that has information functions.



“Digital Gasha”

Original digital coin-operated toy vending machine

Fiscal 2003 (actual)

Sales

5,400 million yen



Fiscal 2008 (planned)

Sales

10,000 million yen

Policies for Fiscal 2004

3. Policies for Fiscal 2004

1) Toy Business

Toy Business Unit - Change in Business Results

(Units: million yen, %)

	Fiscal 2003	Fiscal 2004 (planned)
Sales	65,861	63,000
Recurring profit	-221	650
Recurring profit margin	-0.3	1.0

Note: The figures for fiscal 2003 are actual results for Happinet JP Corporation, and those for fiscal 2004 are planned figures for the Happinet Toys business unit.

Fiscal 2003

In this first year of business process innovation, Happinet Corporation disposed of obsolete inventory, withdrew from unprofitable businesses, and established the basis for becoming a profitable business structure.

Fiscal 2004

Continued implementation of vigorous business process innovation

Efficiency and streamlining

- Clarification of trading policy by customer class and by customer
- Review of trading terms and conditions

Reduction of disposal losses

- Cooperative initiatives with Bandai
- Establishment of a product management system

Reduction of the returned goods rate

- Day-to-day implementation of returned goods results analysis and countermeasures

Development of Original Products by Happinet Robin

Expand sales of toy confectioneries and hobby products targeting young adults

Happinet Robin - Change in Business Results

(Units: million yen, %)

	Fiscal 2003	Fiscal 2004 (planned)
Sales	2,641	2,300
Recurring profit	133	200
Recurring profit margin	5.0	8.7

Note: The figures for fiscal 2003 are actual results for Happinet Robin Corporation, and those for fiscal 2004 are planned figures for the Happinet Robin business unit.

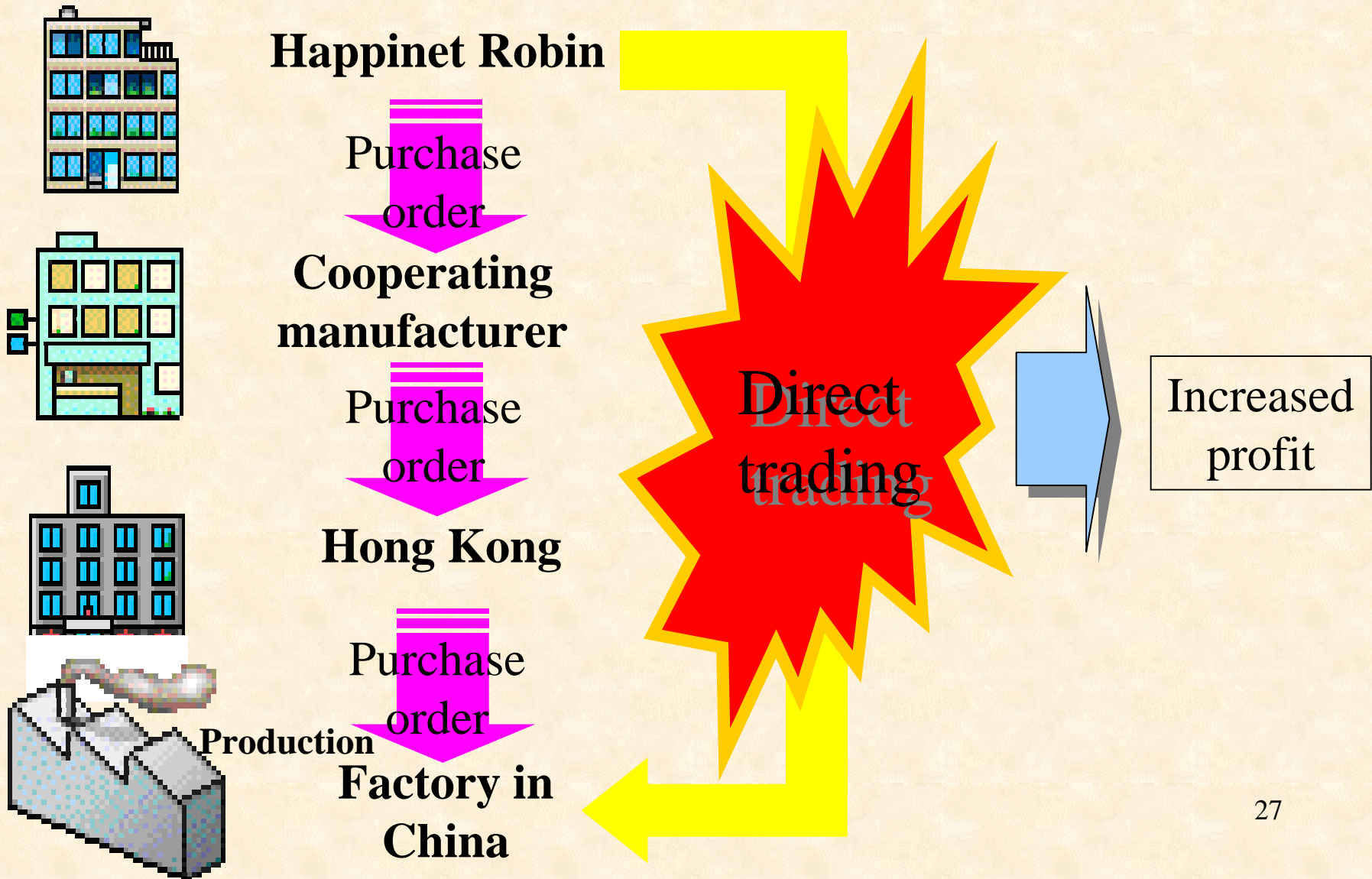
Sales objectives for products targeting young adults

Toy confectioneries	4,800 million yen
Toys for young adults	4,800 million yen
Figurine capsule toys	200 million yen

3. Policies for Fiscal 2004

1) Toy Business

Boost direct trading with production plants in China and reduce product costs



3. Policies for Fiscal 2004

2) Video-Related Business

Further strengthen and expand in-house production base

Happinet Pictures - Change in Business Results

(Units: million yen, %)

	Fiscal 2003	Fiscal 2004 (planned)
Sales	28,949	27,000
Recurring profit	752	600
Recurring profit margin	2.6	2.2

Note: The figures for fiscal 2003 are actual results for Happinet Pictures Corporation, and those for fiscal 2004 are planned figures for the Happinet Pictures business unit.

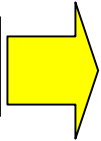
(Units: 100 million yen, %)

	Sales	Sales of exclusively distributed titles	% of total
Fiscal 2003	289	73	25.3
Fiscal 2004 (planned)	270	75	27.7

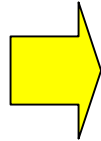
Further strengthen and expand in-house production base

Build a new scheme for non-Japanese films

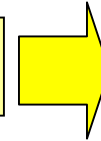
Purchase



Theater
distribution



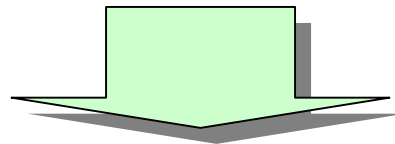
Packaging



TV program
sales

Acquire expertise by playing a central role in a series of linked activities.

For the purpose of amassing expertise in schemes of linked activities, aim to acquire three or four Asian titles such as the Korean film *Bunshinsaba* (provisional title) in fiscal 2004.



Expand the scheme to acquire major titles.

3. Policies for Fiscal 2004

2) Video-Related Business

Further strengthen and expand in-house production base

Participate in the animation and Japanese film business in Japan and overseas, strengthening and expanding the business base for animation and Japanese films.

Animation	Sales: 5,000 million yen	Marginal profit: 670 million yen
Japanese films	Sales: 800 million yen	Marginal profit: 110 million yen

(Unit: million yen)

Key Titles	Genre	Sales
Kaiketsu Zorori	Animation	1,000
Legend of Galactic Heros	Animation	1,000
Chrono Crusade	Animation	900
Daphne in the Brilliant Blue	Animation	500
MEZZO	Animation	300
Director Kazuyuki Izutsu's latest film	Japanese film	290
Gerropa!	Japanese film	180
Vibrator	Japanese film	23

3. Policies for Fiscal 2004

3) Video Game Business

Video Game Business - Change in Business Results

(Units: million yen, %)

	Fiscal 2003	Fiscal 2004 (Planned)
Sales	25,840	23,000
Recurring profit	237	350
Recurring profit margin	0.9	1.5

Strengthen exclusive distribution

Toy stores
Toy departments at
general merchandise stores

Distribution characteristics
Customer preferences
Customer age groups, etc.

Limit distribution to publishers for which Happinet can leverage its distribution power.

Fiscal 2003 Actual
Bandai (Game Boy Advance), Kadokawa, others
Sales: 2,400 million yen

Appliance mass merchandisers

Specialty game shops

Actual results from similar past titles
Market share by genre
Publicity and advertising capabilities, etc.

Merger with SCE, and expansion of exclusive distribution products

Fiscal 2004 Target	
Exclusive distribution companies: 6 companies	Sales: 7,000 million yen

4. Business Plan for Fiscal 2004

(Unit: million yen)

	Fiscal year	Fiscal 2004 (planned)
Consolidated	Sales	122,000
	Recurring profit	1,700
	Net income	970
Non-consolidated	Sales	120,000
	Recurring profit	1,700
	Net income	970

Planned Sales by Product (Consolidated)

(Units: 100 million yen, %)

Product	Term	Fiscal 2004 (planned)		
			% of total	Year-on-year change
Toys		529	43.3	98.9
Childcare goods		0	0.0	-
Video games		289	23.7	106.3
Amusement		52	4.3	95.6
Video-related		295	24.2	100.9
Others		55	4.5	96.9
Total		1,220	100.0	99.4

5. Reference Information

Video Software Sales and Happinet Corporation Market Share Five-Year Period from 1999 to 2003

Source: Japan Video Software Association survey

