

Overview of First Half Results and Measures for the Second Half

November 11, 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.

First Half Results

1. First Half Results (September 2004 Term) [1]

First Half Business Performance

(Units: Million yen, %)

	Term	September 2003 (Half year)	September 2004 (Half year)	Year-on-year change
Consolidated	Net sales	52,484	59,211	12.8
	Recurring profit	458	877	91.4
	Net profit/loss (half year)	-1,089	453	-
Parent	Net sales	11,238	58,272	418.5
	Recurring profit	45	843	1,764.1
	Net profit/loss (half year)	-848	487	-

Note: The substantial year-on-year change in non-consolidated performance is due to the merger of the Company's wholly owned subsidiaries Happinet JP Corporation, Happinet Pictures Corporation, and Happinet Robin Corporation on April 1, 2004.

Key Points:

- Sales in the toy business, despite an overall downturn, were strong to convenience stores. In the video-related business, sales grew due to the start of business with Amazon.co.jp.
- Profit margins rose due to aggressive restructuring in the toy business, and strong sales of highly profitable, original titles in the video-related business.

- **First Half Results (September 2004 Term) [2]**

First Half Sales by Product (Consolidated)

(Units: Million yen, %)

Term Product	September 2004 (Half year) Net sales			September 2004 (Half year) Operating profit/loss	
		% of total	Year-on-year change		Year-on-year change
Toys	24,034	40.6	-1.9	770	101.5
Video	19,797	33.5	57.4	1,001	178.6
Video games	8,600	14.5	-7.0	-453	-
Amusement	3,164	5.3	24.5	86	27.1
Others	3,614	6.1	0.2	112	-48.1
Total	59,211	100.0	12.8	852	137.4

Core Businesses
First Half Results
and
Second Half Measures

2. Toy Business – First Half Results

Business Performance Trends in the Toy Business

(Unit: Million yen)

	September 2003	September 2004
Net sales	24,506	24,034
Operating profit	382	770
Operating margin	1.5%	3.2%

Business Process Innovation

(1) Merchandise policy

Reduced inventory, launched standardized merchandise system

(2) Sales policy

Clarified sales strategy by client

(3) Management policy

Prepared for introduction of budget management system based on merchandise policy

3. Toy Business – Second Half Measures

Implement Further Business Process Innovation

Place priority on the five points of the business process innovation

- **Merchandise policy** Establish a standardized merchandise system (review merchandise selection quarterly)
25,000 items in Sep. 2003→15,000 items in Sep. 2004
- **Logistics policy** Reexamine costs (first half cost reduction of approx. ¥220 mil.)
- **Customer policy** Review customer service standards
- **Manufacturer policy** Strengthen cooperation with Bandai Co.,Ltd.
- **Management policy** Enhance voluntary review system comprising budget results + purchase budget management framework

Measures for Convenience Stores

- Implement more sophisticated operations with direct trading partners Seven-Eleven Japan Co., Ltd. and FamilyMart Co., Ltd.
- Negotiate with convenience store chains that are not direct trading partners to form direct trading partnerships

	September 2003	September 2004
Toy Business - Convenience store sales	¥5,700 million	¥6,800 million

4. Video Business – First Half Results [1]

Further Expand/Strengthen the Base for Exclusive Title Production

Business Performance Trend of Video Business

(Unit: Million yen)

	September 2003	September 2004
Net sales	12,578	19,797
Operating income	359	1,001
Operating margin	2.8%	5.0%

Video Business Exclusive Title Sales

(Unit: Million yen)

	September 2003	September 2004
Net sales	12,578	19,797
Exclusive title sales	2,400	5,800
Exclusive title sales ratio	19.0%	29.2%

Note: Exclusive title sales = Sales of merchandise made and sold exclusively by Happinet

4. Video Business – First Half Results [2]

Titles Contributing to Sales in the First Half of 2004

Exclusive Titles

(Unit: Million yen)

“Legend of the Galactic Heroes”	1,290
<i>UNDERWORLD</i>	540
“ <i>Maburaho</i> ”	390
“Cherno Crusade”	390
“ <i>Kaiketsu Zorori</i> ”	260
“UltraSeven DVD BOX”	230



UNDERWORLD



“Legend of the Galactic Heroes”



“*Kaiketsu Zorori*”



“UltraSeven DVD BOX”

4. Video Business – First Half Results [3]

Titles Contributing to Sales in the First Half of 2004

Wholesale Titles

(Unit: Million yen)

<i>STAR WARS TRILOGY DVD-BOX</i>	510
<i>The Last Samurai</i>	390
<i>Finding Nemo</i>	180

5. Video Business – Second Half Measures [1]

Sales Plan for Major Titles in the Second Half of 2004

Exclusive Titles (Unit: Million yen)

“Summer Scent”	800
“ <i>Kaiketsu Zorori</i> ”	350
“Girls Bravo”	340
<i>Wonbin</i> Premium Box	340
“ <i>2x2=Shinobuden</i> ”	260
<i>Jang DongGun</i> Premium Box	100
<i>Kikansha Sensei</i>	100
“ <i>Sakigake! Otokojuku</i> ”	100

“Summer Scent”



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“Sakigake! Otokojuku”



Kikansha Sensei



5. Video Business – Second Half Measures [2]

Sales Plan for Major Titles in the Second Half of 2004

Wholesale Titles

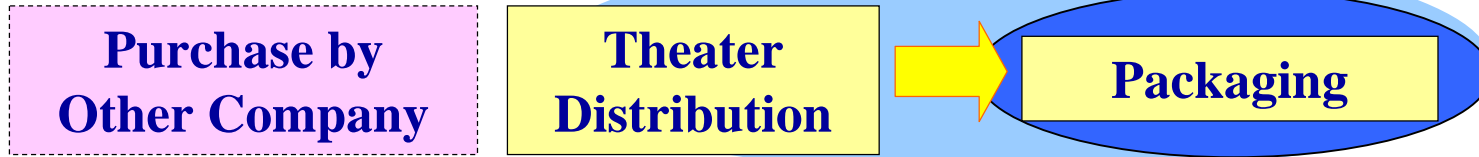
(Unit: Million yen)

<i>“Sekai No Chushin De, Ai Wo Sakebu”</i> (<i>“Cry out for Love at the Heart of the World”</i>)	520
<i>Harry Potter and the Prisoner of Azkaban</i>	390
<i>Spider-Man 2</i>	210

5. Video Business – Second Half Measures [3]

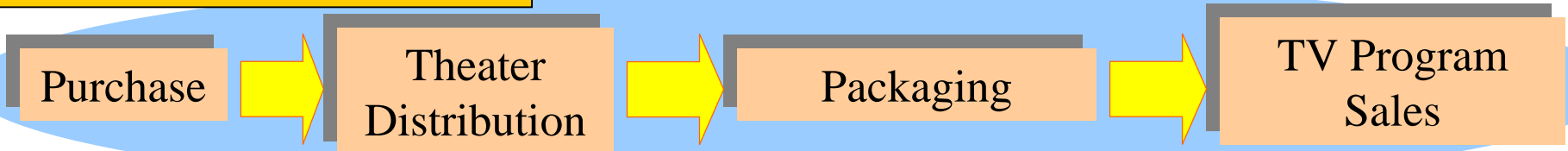
Establishment of New Scheme for Acquiring Non-Japanese Movies

Current Scheme



Invest in titles purchased by another company and divide up distribution to acquire DVD or videogram license. Alternatively, pay minimum guarantee to acquire DVD or videogram license.

New scheme



Happinet makes consistent efforts to successively acquire all rights

- Korean film *Bunshinsaba* (To be released in Japan as *Kokkuri-san*)
Scheduled for release in April 2005
- Korean film *Samaritan Girl* Scheduled for release in March 2005
- Korean film *3-Iron* No details yet available
- Korean film *Too Beautiful to Lie* No details yet available

Plus investment in other titles, mainly from Asia

5. Video Business – Second Half Measures [4]

Start of Business Relationship with Amazon.co.jp

1. Significant sales boost

 **Top share of video wholesale business**

2. Improvement in purchasing terms

 **More buying power creates wider pipeline to producers**

3. Revitalization of inventory

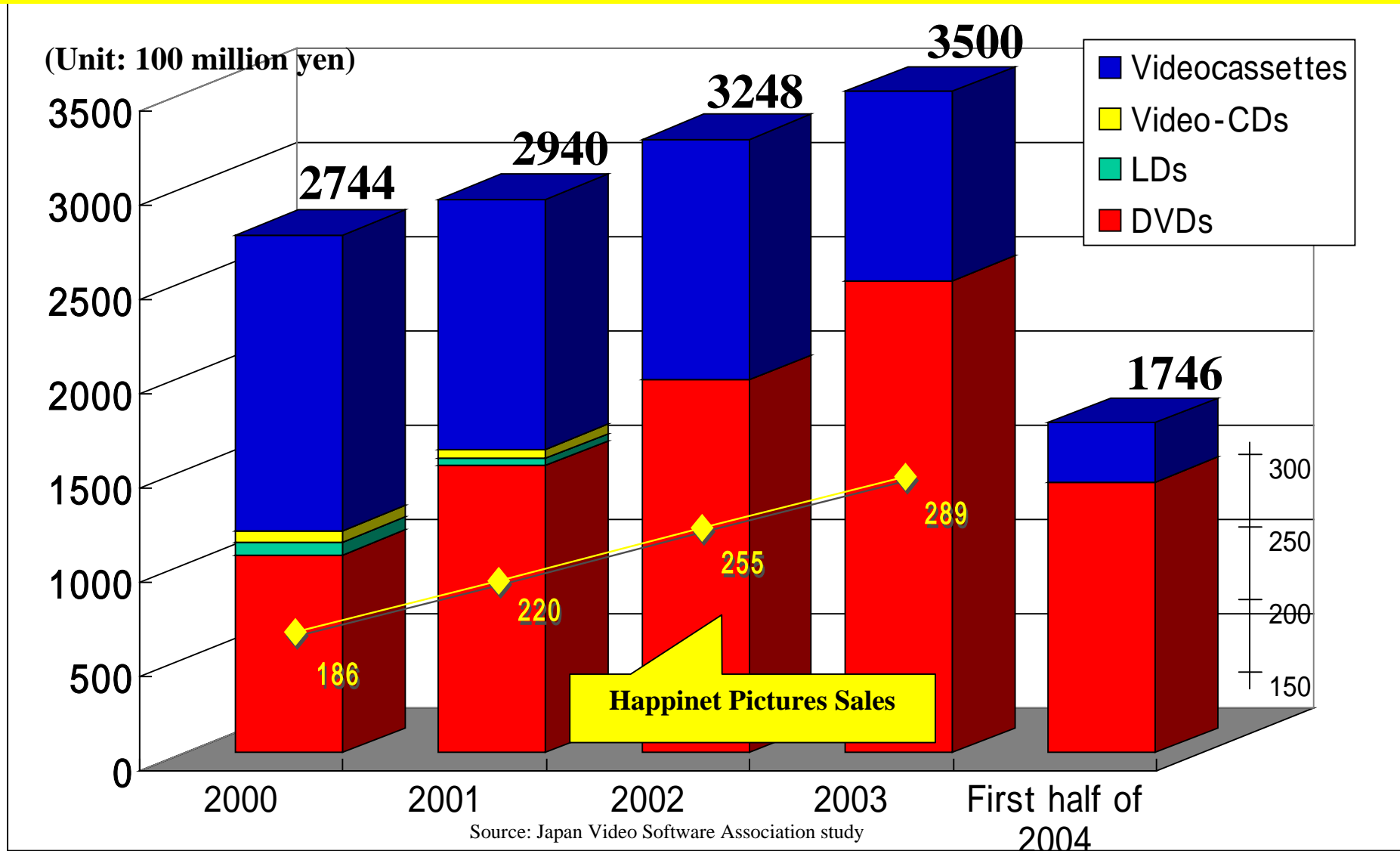
 **Availability of full range of titles boosts inventory**

Future Issues

- **Forge better trading terms with producers**
- **Improve logistics and information systems service**
- **Enhance project proposal abilities**
- **Improve shipping rates and accuracy of inventory control**

6. Video Business – Supplementary Material

Video Software Sales and Happinet Sales: 2000 to First Half of 2004



Note: Video software sales are calendar year, Happinet Pictures sales are fiscal year.

7. Video Game Business – First Half Results

Business Performance Trend of Video Game Business

(Unit: Million yen)

	September 2003	September 2004
Net sales	9,250	8,600
Operating profit/loss	-23	-453

Strengthen Exclusive Sales

(Unit: Million yen)

	March 2004 Actual	March 2005 Initial forecast	March 2005 Revised forecast
No. of exclusive sales companies	3 companies	6 companies	4 companies
Net sales	2,400	7,000	4,000

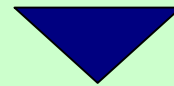
8. Video Game Business – Second Half Measures [1]

Develop New Channels

Develop convenience stores as new sales channels.
Business with Seven-Eleven Japan begun in September.

Introduction of New PlayStation2 Model

The new PlayStation2 model (SCPH-70000) was launched on November 3, 2004. The new console is significantly smaller, lighter and thinner than the previous model, and features network terminals as standard equipment.



Strong sales

8. Video Game Business – Second Half Measures [2]

Response to Launch of New Handheld Gaming Device Models

Sony Computer Entertainment Inc. will launch the new handheld gaming device PlayStation Portable (PSP) on Sunday, December 12, 2004.

Happinet will distribute the PSP through toy vendors and general merchandisers, as it does for PlayStation and PlayStation2.

PlayStation Portable (PSP)

MSRP: ¥19,800 (¥20,790 tax included)

PlayStation Portable (PSP) Value Pack

MSRP: ¥24,800 (¥26,040 tax included)

* PSP includes Memory Stick Duo, headphones with a line-in remote, carrying case and hand strap.

Nintendo Co., Ltd. will launch a new handheld gaming device, Nintendo DS (¥15,000 MSRP, tax included) on Thursday, December 2, 2004.

Happinet will sell the gaming device through its existing Nintendo merchandise accounts.

Performance Forecasts

9. Fiscal 2004 Full Year Forecasts

(Unit: Million yen)

Consolidated	Net sales	122,000
	Recurring profit	1,700
	Net profit/loss	970
Parent	Net sales	120,000
	Recurring profit	1,700
	Net profit/loss	970

Sales by Product Area (Consolidated)

(Units: Million yen, %)

Product	Term	March 2005 (planned)		
			% of total	Year-on-year change
Toys		52,900	43.3	-1.1
Video		29,500	24.2	0.9
Video games		28,900	23.7	6.3
Amusements		5,200	4.3	-4.4
Others		5,500	4.5	-3.1
Total		122,000	100.0	-0.6

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