

Fiscal Year 2007 first-half results briefing document

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November 9, 2007

Happinet Corporation



Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.

Business results

Fiscal period		1H FY 2004	1H FY 2005	1H FY 2006	1H FY 2007	Remarks	FY 2004	FY 2005	FY 2006	FY 2007
C o n s o l i d a t e d	Net Sales (¥ million)	59,211	64,566	68,140	69,281		122,722	140,461	155,703	160,606
	Operating profit (¥ million)	852	1,369	877	1,157		1,141	2,966	3,470	2,153
	Recurring profit (¥ million)	877	1,463	1,064	1,210		1,326	3,030	3,786	2,554
	Net profit/loss (¥ million)	453	852	685	718		-686	1,580	2,270	1,616
	Net assets (¥ million)	16,047	17,799	19,718	21,465		16,057	16,992	19,109	20,602
	Total assets (¥ million)	37,830	41,118	43,063	47,397		37,034	39,829	45,719	45,801
	Net assets per share (¥)	1,335.24	1,481.29	1,641.15	1,786.54		1,336.02	1,413.96	1,590.44	1,714.73
	Earnings per share (¥)	37.71	70.93	57.07	59.83		-57.36	131.53	188.97	134.54
	Dividends per share (¥) (Interim dividends)	(10.00)	(12.50)	(15.00)	(25.00)		25.0 (12.50)	22.5 (10.00)	27.5 (12.50)	30.0 (15.00)
	Payout ratio (%)	-	-	-	-		-	17.1	14.6	22.3
No. of employees (People)	560	597	761	727		505	566	607	743	
N o n - c o n s o l i d a t e d	Net Sales (¥ million)	58,272	63,913	58,194	58,443		31,287	138,647	154,255	137,295
	Operating profit (¥ million)	807	1,425	726	1,195		173	2,920	3,526	1,738
	Recurring profit (¥ million)	843	1,528	970	1,260		483	3,005	3,868	2,232
	Net profit/loss (¥ million)	487	912	574	724		-723	1,570	2,188	1,018
	No. of employees (People)	488	517	560	537		146	493	528	547

Note1: Including a commemorative dividend of 10 yen per share for the first half of the fiscal year ending March 31, 2008

Note2: Although we had recorded business contract income under Other income, we are recording it under net sales from the fiscal year ending March 31, 2008.

Note3: Mori Toys Co., Ltd. became a consolidated subsidiary of Happinet Corporation in the fiscal year ended March 31, 2007. On April 1, 2007, the Toy Business of Mori Toys Co., Ltd. was succeeded by our non-consolidated subsidiary Best Heart Co., Ltd., and the corporate names of Mori Toys Co., Ltd. and Best Heart Co., Ltd. were changed to Mori Games Co., Ltd. and Mori Toys Co., Ltd., respectively.

1. Fiscal 2007 first-half consolidated profit & loss statement

(¥ millions, %, people, ¥; rounded down)

	Fiscal 2006 First Half			Fiscal 2007 First Half			Remarks
		% of total	YoY		% of total	YoY	
Net sales	68,140	100.0	5.5	69,281	100.0	1.7	
Cost of sales	59,414	87.2	5.6	60,824	87.8	2.4	Includes inventory disposal loss of ¥401m in 1HFY07 and ¥587m in 1HFY06
Gross profit	8,725	12.8	5.0	8,457	12.2	-3.1	
SG&A expenses	7,848	11.5	13.0	7,299	10.5	-7.0	
Personnel	2,642	3.9	24.4	2,564	3.7	-3.0	
Contract personnel costs	646	0.9	34.8	594	0.9	-8.0	
Depreciation and amortization	171	0.3	-14.1	176	0.3	2.4	
Operating profit	877	1.3	-35.9	1,157	1.7	32.0	
Non-operating income	232	0.3	138.0	73	0.1	-68.6	
Interest and dividends received	14	0.0	25.4	31	0.0	113.0	
Other	218	0.3	153.2	42	0.1	-80.7	
Non-operating expenses	45	0.1	1,088.0	20	0.0	-54.8	
Interest paid	35	0.1	5,883.0	5	0.0	-83.9	
Other	10	0.0	214.1	14	0.0	46.2	
Recurring profit	1,064	1.6	-27.3	1,210	1.7	13.7	
Extraordinary gains	8	0.0	-85.9	0	0.0	-97.3	
Extraordinary losses	7	0.0	-86.5	24	0.0	219.5	
Net profit before income taxes	1,064	1.6	-27.3	1,186	1.7	11.4	
Income taxes	378	0.6	-38.2	467	0.7	23.4	
Minority interests	0	0.0	—	—	—	—	
Net profit	685	1.0	-19.6	718	1.0	4.8	

Note: Although we had recorded business contract income under Other income, we are recording it under net sales from the fiscal year ending March 31, 2008.

Earnings per share (¥)	57.07	—	-19.5	59.83	—	4.8
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Average number of shares during period 12,015,292 12,014,995

No. of employees at end of period	761	—	27.6	727	—	-4.6
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Note: The number of employees includes employees temporarily transferred from other companies and contract employees, but excludes employees seconded to other companies and temporary employees.

Capital expenditures	452	—	156.0	319	—	-29.4
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1. Fiscal 2007 first-half consolidated results

1. Sales by business segment

(¥ millions, %, ¥; rounded down)

Segment \ Period	Fiscal 2006 first half			Fiscal 2007 first half			Fiscal 2006			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
Toy business	25,581	37.5	1.3	24,953	36.0	-2.5	57,212	35.6	-2.6	
Video-related business	21,765	31.9	-12.9	18,606	26.9	-14.5	46,145	28.7	-11.7	
Video game business	14,463	21.2	73.9	20,239	29.2	39.9	45,092	28.1	38.9	
Amusement business	3,362	4.9	16.9	3,058	4.4	-9.0	6,347	4.0	7.5	
Other businesses	2,967	4.4	-5.6	2,422	3.5	-18.4	5,808	3.6	-8.3	
Total	68,140	100.0	5.5	69,281	100.0	1.7	160,606	100.0	3.1	

2. Operating profit by business segment

(¥ millions, %, ¥; rounded down)

Segment \ Period	Fiscal 2006 first half		Fiscal 2007 first half		Fiscal 2006		Remarks
		YoY		YoY		YoY	
Toy business	715	-53.4	916	28.1	1,817	-46.4	
Video-related business	396	105.8	301	-24.0	629	53.0	
Video game business	194	108.4	488	151.5	806	10.3	
Amusement business	143	62.0	21	-85.3	120	-10.4	
Other businesses	80	-0.7	54	-32.5	66	-40.5	
Eliminations and corporate	-654		-625		-1,286		
Total	877	-35.9	1,157	32.0	2,153	-37.9	

3. Sales by channel

(¥ 100millions, %, ¥; rounded down)

Channel \ Period	Fiscal 2006 first half			Fiscal 2007 first half			Fiscal 2006			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
General merchandise store	118	17.4	21.3	101	14.7	-14.1	279	17.4	27.9	
Convenience stores	51	7.6	-11.0	56	8.2	9.2	111	6.9	-17.7	
Suburban stores	65	9.6	-17.0	63	9.2	-2.1	140	8.7	-24.2	
E-commerce	119	17.5	14.5	146	21.2	23.1	306	19.1	27.8	
Specialty stores	176	25.8	17.1	203	29.4	15.7	435	27.1	-3.0	Includes consumer electronics and camera stores
Wholesalers	74	11.0	-5.8	64	9.3	-14.0	149	9.3	-15.7	
Department stores	16	2.5	163.5	13	2.0	-19.9	32	2.0	43.4	
Other	58	8.6	-16.9	42	6.1	-28.3	151	9.4	16.7	
Total	681	100.0	5.5	692	100.0	1.7	1,606	100.0	135.8	

1. Fiscal 2007 first-half consolidated results

● Toy sales by manufacturer

(¥ 100millions, %; rounded down)

Manufacturer	Period	Fiscal 2006 first half		Fiscal 2007 first half			Fiscal 2006		Remarks		
		% of total	YoY	% of total	YoY	% of total	YoY				
Bandai Co., Ltd.		146	57.3	-10.6	145	58.1	-1.0	307	53.8	-18.9	
Tomy Co., Ltd.		23	9.2	36.0	21	8.5	-10.1	50	8.8	16.0	
Happinet originals		11	4.6	-17.6	14	5.9	22.8	23	4.0	-18.3	
Other manufacturers		73	28.9	29.9	68	27.5	-7.0	190	33.4	40.4	
Total		255	100.0	1.3	249	100.0	-2.5	572	100.0	-2.6	

● Video-related business sales composition

(¥ millions, %; rounded down)

Division	Period	Fiscal 2006 first half		Fiscal 2007 first half			Fiscal 2006		Remarks		
		% of total	YoY	% of total	YoY	% of total	YoY				
Wholesale		164	75.7	-17.3	140	75.8	-14.5	340	73.7	-15.9	
Exclusive titles		52	24.3	4.5	45	24.2	-14.6	121	26.3	2.7	
Total		217	100.0	-12.9	186	100.0	-14.5	461	100.0	-11.7	

1. Fiscal 2007 first-half consolidated results

● Sales by video game machine

(¥100millions, %; rounded down)

Division \ Period	Fiscal 2006 first half			Fiscal 2007 first half			Fiscal 2006			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
PlayStation 3	-	-	-	6	3.1	-	39	8.8	-	
PlayStation 2	33	23.4	-30.3	29	14.6	-12.9	73	16.4	-49.5	
PlayStation Portable	21	14.7	30.6	30	15.0	43.3	50	11.3	11.6	
Wii	-	-	-	29	14.6	-	25	5.7	-	
Nintendo DS	76	52.7	2763.2	63	31.4	-16.5	146	32.5	536.3	
Other	13	9.2	-14.6	43	21.3	220.4	113	25.3	4.1	
Total	144	100.0	73.9	202	100.0	39.9	450	100.0	38.9	

● Breakdown of PlayStation sales and sales volume

(¥100millions, %; rounded down)

Division \ Period	Fiscal 2006 first half			Fiscal 2007 first half			Fiscal 2006			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
PS3 hardware	-	-	-	3 (7,000units)	5.6	-	34 (60,000units)	20.8	-	
PS3 software	-	-	-	2	3.5	-	4	2.9	-	
PS3 accessories	-	-	-	0	0.3	-	0	0.4	-	
PS2 hardware	3 (20,000units)	7.1	-56.5	1 (10,000units)	2.6	-55.9	8 (50,000units)	5.1	-60.3	
PS2 software	28	52.3	-23.1	27	41.0	-5.9	63	38.7	-47.6	
PS2 accessories	1	2.0	-46.2	0	1.0	-43.8	2	1.2	-52.1	
PSP hardware	9 (40,000units)	17.8	-10.2	18 (90,000units)	27.8	87.4	26 (120,000units)	16.0	-12.6	
PSP software	11	20.1	118.8	10	15.9	-4.9	23	14.3	57.4	
PSP accessories	0	0.7	28.6	1	2.3	316.7	1	0.7	74.6	
Total	55	100.0	-15.0	66	100.0	20.2	164	100.0	-14.4	

1. Fiscal 2007 first-half consolidated balance sheet (1)

(¥100millions, %; rounded down)

	Fiscal 2006 first half	Fiscal 2006	Fiscal 2007 first half		Remarks
				Change	
Assets					
(1) Current assets	37,443	40,021	41,104	1,082	
1. Cash and deposits	4,151	6,252	6,173	-79	
2. Accounts and notes receivable	20,339	22,095	20,976	-1,119	
3. Inventories	7,367	6,208	9,048	2,840	
4. Advances	4,199	3,624	2,962	-661	
5. Deferred tax assets	579	584	626	41	
6. Other	839	1,294	1,354	60	
7. Allowance for doubtful accounts	-32	-38	-37	0	
(2) Fixed assets	5,620	5,780	6,293	512	
1. Tangible fixed assets	1,641	1,603	1,550	-53	
Buildings and structures	491	477	466	-11	
Land	547	547	547	-	
Other	602	578	535	-42	
2. Intangible fixed assets	1,454	1,535	1,647	111	
Goodwill	621	535	449	-85	
Other	833	1,000	1,197	197	
3. Investments and other assets	2,524	2,641	3,096	454	
Investment securities	1,580	1,823	2,352	529	
Long-term prepaid expenses	6	6	5	-1	
Guarantees paid	521	544	533	-10	
Deferred tax assets	218	115	53	-62	
Other	381	236	223	-13	
Allowance for doubtful accounts	-183	-85	-71	13	
Total assets	43,063	45,801	47,397	1,595	

1. Fiscal 2007 first-half consolidated balance sheet (2)

(¥ millions, %, ¥; rounded down)

	Fiscal 2006 first half	Fiscal 2006	Fiscal 2007 first half		Remarks
				Change	
Liabilities					
(1) Current liabilities	21,681	23,560	24,171	610	
1.Accounts and notes payable	18,539	19,112	20,991	1,878	
2. Deferred payments	1,987	3,051	1,926	-1,125	
3. Income tax payable	215	589	541	-48	
4. Bonus reserve	372	322	359	36	
5.Other	566	483	352	-131	
(2) Fixed liabilities	1,662	1,638	1,761	122	
1.Reserve for retirement benefits	952	932	960	28	
2.Guarantees received	698	695	665	-30	
3.Deferred tax liabilities	7	7	134	127	
4.Negative goodwill	5	2	0	-2	
5.Other	—	—	—	—	
Total liabilities	23,344	25,199	25,932	733	
Shareholders' equity					
(1) Capital	2,751	2,751	2,751	—	
(2) Capital surplus	2,776	2,776	2,776	0	
(3) Retained surplus	13,738	14,489	15,053	564	
(4) Treasury stock	-13	-13	-14	-0	
(5) Net unrealized gain on securities	465	599	897	298	
Total shareholders' equity	—	—	—	—	
Total shareholder' equity	19,718	20,602	21,465	862	
Total liabilities and shareholders' equity	43,063	45,801	47,397	1,595	
Net assets per share (¥)	1,641.15	1,714.73	1,786.54	71.81	
Shares outstanding at end of period	12,015,245	12,015,175	12,014,915		

1. Fiscal 2007 full-year consolidated cash-flow statement

	Fiscal 2006 first half	Fiscal 2007 first half		Remarks
			Change	
(1) Cash flows from operating activities				
Net profit before income taxes	1,064	1,186	121	
Depreciation and amortization	171	176	4	
Change in trade receivables	3,487	1,118	-2,368	
Change in inventories	-1,481	-2,840	-1,358	
Change in trade payables	-2,707	1,878	4,585	
Change in other receivables	273	-17	-290	
Change in other payables	-539	-1,196	-656	
Other	-1,287	535	1,823	
Payment of income taxes	-1,081	-563	518	
Net cash provided by/used in operating	-2,099	277	2,377	
(2) Cash flows from investing activities				
Purechases of tangible fixed assets and intangible fixed assets	-397	-248	149	
Purchases of investment in securities	-9	-71	-61	
Sale of investment in securities	60	0	-59	
Payments for purchase of stock in subsidiaries with change in scope of consolidation	-804	-	804	
Other	-9	99	109	
Net cash provided by/used in investing	-1,160	-219	941	
(3) Cash flows from financing activities				
Payments of dividends	-180	-179	0	
Proceeds from sale of treasury stock	-	0	0	
Other	-1,887	-0	1,887	
Net cash provided by/used in financing activities	-2,067	-180	1,887	
(4) Change in cash and equivalents	-5,328	-121	5,206	
(5) Cash and equivalents at beginning of period	9,480	6,252	-3,227	
(6) Amount of increase in cash and cash equivalents associated with the changes to the scope of consolidation	-	42	42	
(7) Cash and equivalents at end of period	4,151	6,173	2,021	

2. Fiscal 2008 forecasts

The impact of making SUNLINK CO.,LTD. and THE APPLE CORPORATION our subsidiaries will be informed as soon as it becomes clear. Consequently, the full-year forecast remains unchanged.

Consolidated statements of income

(¥ millions, %; rounded down)

	Fiscal 2006			Fiscal 2007 forecasts			Remarks
		% of total	YoY		% of total	YoY	
Net sales	160,606	100.0	3.1	165,000	100.0	2.7	
Cost of sales	142,158	88.5	3.6	145,850	88.4	2.6	
Gross profit	18,448	11.5	0.1	19,150	11.6	3.8	
SG&A expenses	16,294	10.1	9.0	16,850	10.2	3.4	
Personnel	5,478	3.4	13.7	5,478	3.3	0.0	
Contract personnel costs	1,336	0.8	26.1	1,340	0.8	0.3	
Depreciation and amortization	357	0.2	-12.5	500	0.3	40.0	
Operating profit	2,153	1.3	-37.9	2,300	1.4	6.8	
Non-operating income	466	0.3	45.1	430	0.3	-7.8	
Interest and dividends received	22	0.0	29.3	30	0.0	31.6	
Other	443	0.3	46.0	400	0.2	-9.8	
Non-operating expenses	65	0.0	—	30	0.0	-54.2	
Interest paid	45	0.0	—	15	0.0	-66.8	
Other	20	0.0	364.9	15	0.0	-26.5	
Recurring profit	2,554	1.6	-32.5	2,700	1.6	5.7	
Extraordinary gains	1	0.0	-97.4	—	0.0	—	
Extraordinary losses	18	0.0	-69.4	—	0.0	—	
Net profit before income taxes	2,537	1.6	-33.2	2,700	1.6	6.4	
Income taxes	920	0.6	-39.8	1,000	0.6	8.6	
Minority interests	0	0.0	—	—	—	—	
Net profit	1,616	1.0	-28.8	1,700	1.0	5.2	

Earnings per share (¥)	134.54	—	-28.8	141.49	—	5.2
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Average number of shares during period 12,015,254 12,015,175

Number of employees at end of period	743	—	22.4	727	—	-2.2
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Note: The number of employees includes employees temporarily transferred from other companies and contract employees, but excludes employees seconded to other companies and temporary employees.

Capital expenditures	783	—	32.7	1,300	—	65.9
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Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.

2. Fiscal 2008 forecasts

The impact of making SUNLINK CO.,LTD. and THE APPLE CORPORATION our subsidiaries will be informed as soon as it becomes clear. Consequently, the full-year forecast remains unchanged.

Sales forecasts by business segment

(¥ millions, %; rounded down)

Segment	Period	Fiscal 2007 first half		Fiscal 2006		Fiscal 2007 forecasts				
			% of total	YoY		YoY		% of total	YoY	
Toy business		24,953	36.0	-2.5	57,212	35.6	-2.6	60,000	36.4	4.9
Video-related business		18,606	26.9	-14.5	46,145	28.7	-11.7	44,000	26.7	-4.7
Video game business		20,239	29.2	39.9	45,092	28.1	38.9	48,000	29.1	6.5
Amusement business		3,058	4.4	-9.0	6,347	4.0	7.5	7,000	4.2	10.3
Other business		2,422	3.5	-18.4	5,808	3.6	-8.3	6,000	3.6	3.3
Total		69,281	100.0	1.7	160,606	100.0	3.1	165,000	100.0	2.7

Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.

3. Group companies (reference)

(¥ millions, %; rounded down)

	Mori Toys Co., Ltd.			
	Fiscal 2006 first half		Fiscal 2006	
		YoY		YoY
Net sales	9,567	85.8	22,305	53.1
Recurring profit	106	-	339	16.1
Net profit	99	-	288	-4.7

Reference: Breakdown of sales

Fiscal 2006 first half Toy Business: 2,935 ¥million, VideoGame Business: 6,561 ¥million

Fiscal 2006 Toy Business: 7,301 ¥million, VideoGame Business: 14,924 ¥million

(¥ millions, %; rounded down)

	Mori Games Co., Ltd.			
	Fiscal 2007 first half		Fiscal 2007 forecasts	
		YoY		YoY
Net sales	7,807	-	18,000	-
Recurring profit	129	-	200	-
Net profit	127	-	200	-

	Mori Toys Co., Ltd.			
	Fiscal 2007 first half		Fiscal 2007 forecasts	
		YoY		YoY
Net sales	3,507	-	10,000	-
Recurring profit	-105	-	300	-
Net profit	-63	-	180	-

Note: The Toy Business of Mori Toys Co., Ltd. was succeeded by our non-consolidated subsidiary Best Heart Co., Ltd., and the corporate names of Mori Toys Co., Ltd. and Best Heart Co., Ltd. were changed to Mori Games Co., Ltd. and Mori Toys Co., Ltd., respectively.

(¥ millions, %; rounded down)

	Happinet Logistics Service Corporation							
	Fiscal 2006 first half		Fiscal 2007 first half		Fiscal 2006		Fiscal 2007 forecasts	
		YoY		YoY		YoY		YoY
Net sales	2,431	9.7	2,191	-9.9	5,079	-0.1	5,500	8.3
Recurring profit	16	-	-22	-	20	-	0	-100.0
Net profit	9	-	-13	-	12	-	0	-100.0

(¥ millions, %; rounded down)

	Happinet Online Corporation							
	Fiscal 2006 first half		Fiscal 2007 first half		Fiscal 2006		Fiscal 2007 forecasts	
		YoY		YoY		YoY		YoY
Net sales	1,031	42.2	657	-36.3	2,115	6.4	2,200	4.0
Recurring profit	-44	-	-3	-	-44	-	15	-
Net profit	-44	-	42	-	-45	-	15	-

Note: e-Shopping! Toys Corporation changed its name to Happinet Online Corporation on July 1, 2006.

(¥ millions, %; rounded down)

	Happinet AM Service Corporation							
	Fiscal 2006 first half		Fiscal 2007 first half		Fiscal 2006		Fiscal 2007 forecasts	
		YoY		YoY		YoY		YoY
Net sales	1,081	72.7	226	-79.1	1,246	-16.2	500	-59.4
Recurring profit	83	179.9	13	-83.5	118	119.8	30	-74.6
Net profit	66	123.9	8	-87.9	85	60.5	18	-79.0

Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.