

The FY01 Results and FY02 Earnings Outlook



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 the final results may vary.

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1. FY01 Market conditions, actions, and results

The domestic economy

- Unemployment continued at high levels
- Business results were driven down as private consumption languished and capex fell
- The domestic economy showed no signs of picking up

Results

Units: ¥m, %.

	Term	FY00	FY01	YoY
Consolidated	Sales	126,670	140,888	11.2
	RP	2,090	1,518	-27.4
	NP	1,080	735	-32.0
Parent	Sales	101,810	89,867	-11.7
	RP	922	1,360	47.4
	NP	469	722	53.8

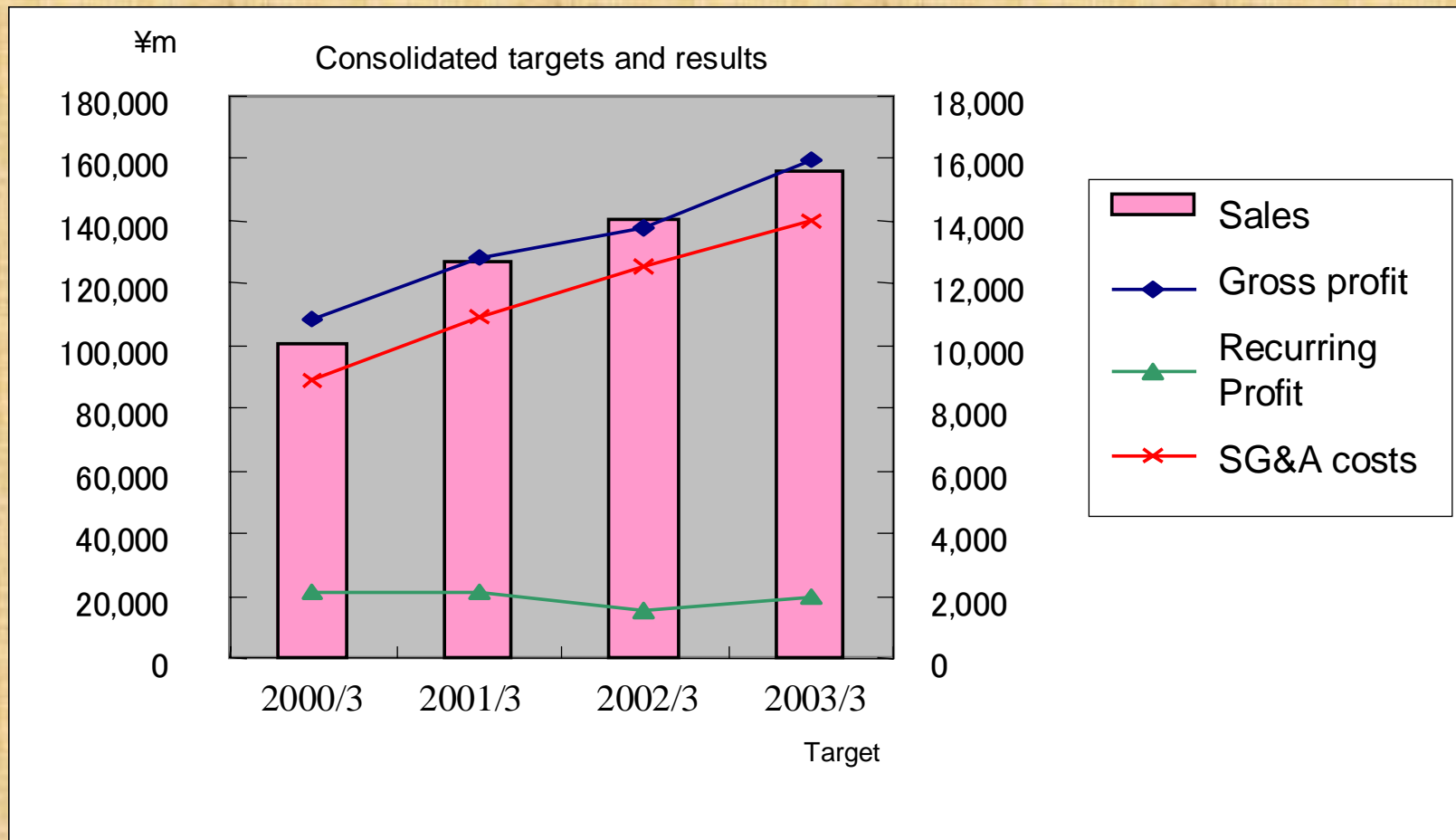
1. FY01 Market conditions, actions, and results

FY01 Sales by product (consolidated)

Unit: ¥bn

Product	FY01		
		Of total (%)	YoY
Toys	40.9	29.0	14.6
Childcare products	2.9	2.1	-19.4
Video games	67.2	47.7	11.6
Amusements	5.5	3.9	-19.1
Videos	22.5	16.0	7.7
Others	1.8	1.3	0.0
Total	140.8	100.0	11.12

2. Important issues



	¥m			
Item	FY99	FY00	FY01	FY02 Target
Sales	100,823	126,670	140,888	156,000
Gross profit	10,827	12,835	13,784	15,926
Recurring Profit	2,087	2,091	1,518	2,000
SG&A costs	8,913	10,967	12,538	13,996
Personnel costs	3,540	4,470	4,651	5,204
Depreciation	307	398	493	537
Write-off/valuation losses	1,773	2,123	1,895	1,352

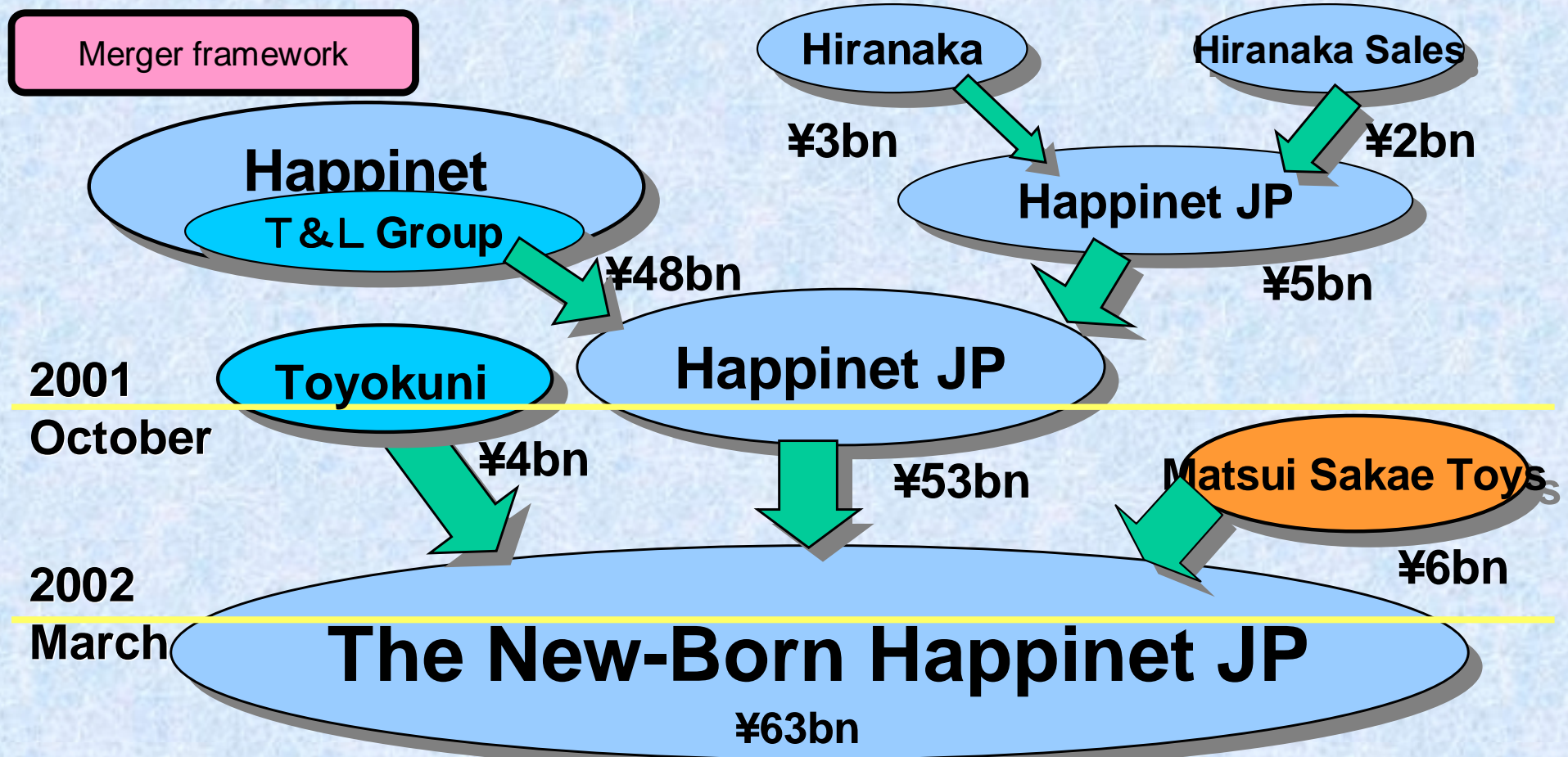
Current issues

- Lower gross margins ratio
- Higher SG&A costs

3. Strategic moves and business development—the new-born Happinet JP (1)

Keeping ahead of a toy industry in transition

- 1 October 2001 Toy operation (Toy & Life Business Group) were folded into the Happinet JP Corporation, a wholly owned subsidiary of Happinet
Happinet acquires all shares of the Toyokuni Corporation
- 1 March 2002 Happinet JP Corporation absorbs Toyokuni Corporation
Happinet JP Corporation receives a complete transfer of business from Matsui Sakae Toys Co., Ltd.



Figures indicate sales

3. Strategic moves and business development

Happinet Group

Corporate clients 1,620

Client accounts 4,810

GMS

Aeon, Ito-Yokado, Uny, others
(toys, video games, videos, etc)

Department stores

Specialty stores

- Toy specialty stores—Toys “R” Us-Japan, Chiyoda, Pelican, Others

Convenience stores

- Home video games specialty stores

Direct marketing

- Video/music specialty stores

Internet shopping

- Home appliance specialty stores

Wholesale

- Drugstores

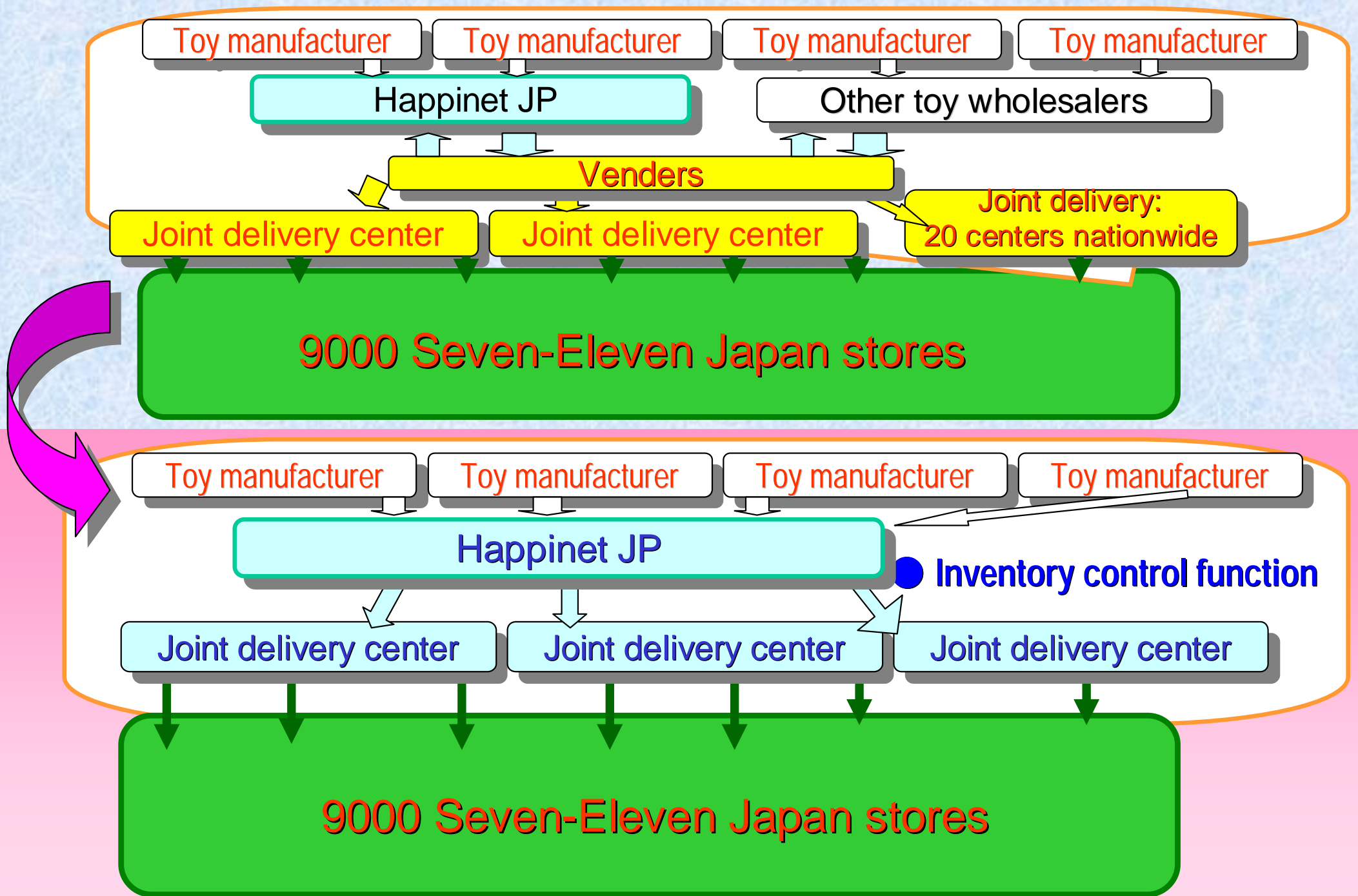
Amusement Arcades

- Bookstores

Others

3. Strategic moves and business development—the new-born Happinet JP (2)

Activity with Seven-Eleven Japan (1)



3. Strategic measures and business development—the new-born Happinet JP (3)

Activity with Seven-Eleven Japan (2)

- Happinet JP
and Seven-Eleven Japan, vending business characteristics

Close integration of **Logistics** + **Merchandising**

Toy sales in Seven-Eleven Japan stores

Current product line insufficient for business development

Responding to consumer tastes in the market,
Differentiating products and business plans (original merchandise/advance sales, etc)

Development of promotions and products indispensable for Seven-Eleven Japan business

Seven-Eleven Japan, manufacturers, and Happinet JP must come together to form a merchandising team

- ◆ **Acting as vendor** Seven-Eleven Japan on-site information enables quick collection of product information for each manufacturer
- ◆ **Our role** To act as a pipeline for the collection, adjustment, and coordination of manufacturer's products in response to Seven-Eleven Japan policy and POS information
- ◆ **Real results** An original Seven-Eleven Japan toy, the Gatcha Box capsule toy, sold 1.5m units in a month

3. Strategic moves and business development—video games (1)

■ 22 February 2002: Microsoft's Xbox goes on sale

- Happinet leads the way in the physical distribution and sales sectors for Xbox distribution
- In physical distribution, Happinet procures and brings to market all products distributed by Microsoft

(Happinet Total Logistics System, a wholly owned Happinet subsidiary oversees physical distribution via the Logistics Center East, which enables comprehensive management of physical distribution operations. Stock management is centralized and overages avoided)

- In sales, the Happinet Group is working with Softbank Commerce to make timely delivery of needed Xbox products to outlets on all distribution channels
- Happinet is penetrating deeper into the market by developing and executing proposals to expand sales

■ Now carrying Nintendo products

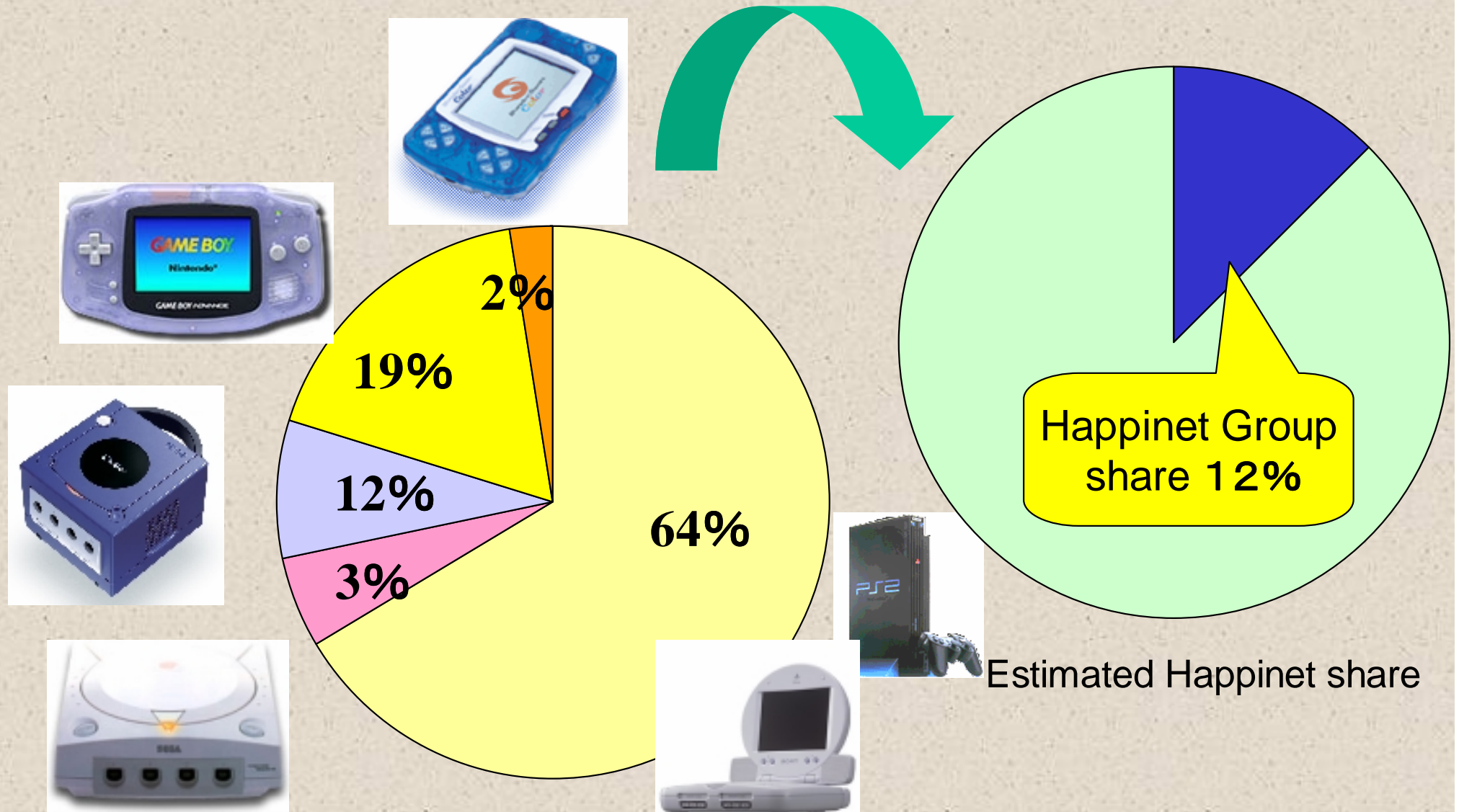
- Happinet JP absorbed the wholly owned subsidiary Toyokuni Corporation in an October 2001 merger and received a transfer of business in March 2002 from Matsui Sakae Toys Co., Ltd. Nintendo, a long-time customer of both companies, is now a Happinet JP customer as a result



Happinet now carries all home video game machines, covering all platforms, as it moves to boost its market share to 30%

3. Strategic moves and business development—video games (2)

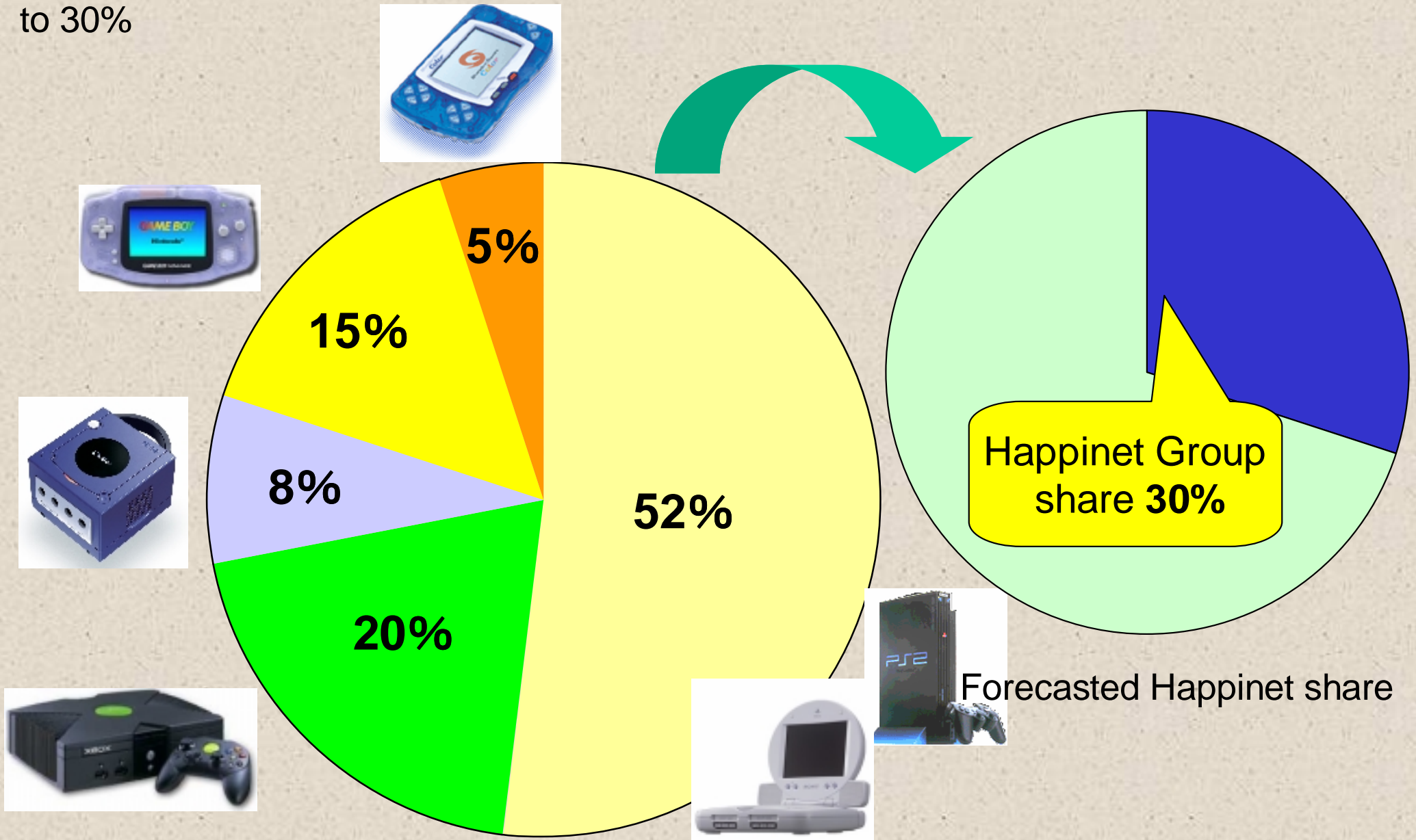
- ◆ Covering all platforms, Happinet Group moves to boost video game market share to 30%



Market share by platform FY01

3. Strategic moves and business development—video games (2)

◆ Covering all platforms, Happinet Group moves to boost video game market share to 30%



Estimated market share by platform, FY01

3. Strategic moves and business development—video games (4)

Expanding the home video game line

Happinet is working to increase the contribution to profits of related products through better ideas

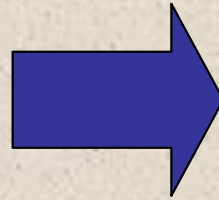


3. Strategic moves and business development—video games (5)

Starting in April 2002, Toys “R” Us-Japan will switch suppliers for most of its PlayStation products from Happinet to Sony Computer Entertainment.

FY01: Sales to Toys “R” Us-Japan (¥bn)

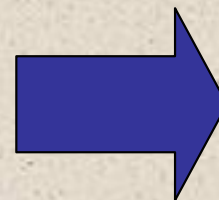
Toys		11.26
Playstation line	SCE	12.03
	Non-SCE	1.89
	Sub-total	13.92
Other video game products		1.52
Total		26.7



Financial effects of the switch
¥12.03bn
 (8.5% of total group sales)

Video game business results and targets

	FY01
Sales	67.2
Change	16.3

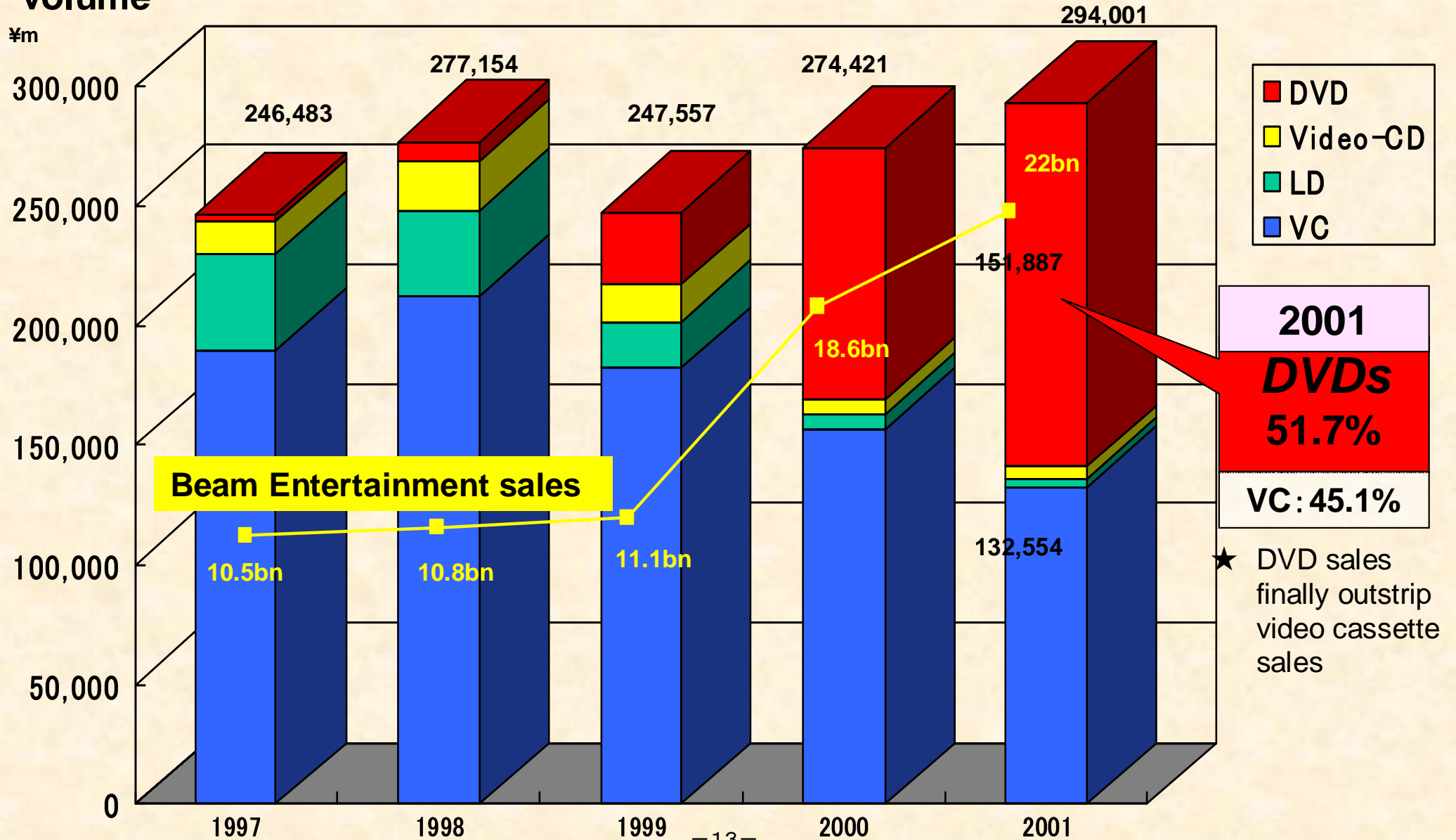


FY02 target	
73.0	(¥bn)
8.6	(%)

3. Strategic measures and business development—videos (1)

Video software sales 1997-2001

Sales
volume



3. Strategic moves and business development—videos (2)

Beam Entertainment DVD video products

	FY01	Total (cum.) (FY97–FY01)
Titles carried	9,987	18,000
Number of self-made or sole distributor titles	628	2,248

- Sole distributor, self-made titles

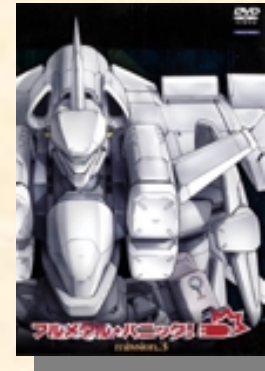
Sole distributor to self-made titles ratio = 7:3

- Titles carried only by Beam Entertainment

Full Metal Panic, Sherlock Holmes, others

- Original labels

- Beam Entertainment General
- Green Bunny Animation
- Eclipse Film Non-mainstream
- Redrum Horror



- ◆ 15 May release: *Harry Potter and the Sorcerer's Stone* on DVD
Beam Entertainment's share (domestic): about 10%

Beam Entertainment is constantly searching for good contents



Summary

Kate (Meg Ryan) is a an ambitious career woman in New York City who unexpectedly meets an eccentric man (Hugh Jackman) dressed in period clothes from 1876 and speaking in royal tones. He in fact is Duke Leopold, just arrived from 1876!
A 125 year-old romance and love story that stands the test of time.

★Opens June 2002 at the Scala-za theater in Hibiya and other fine Toho group theaters.

Kate and Leopold (and other titles)

Joint investment outline

1. Structure

Three companies in the foreign film market join up to acquire a license for the Japanese market and then sell the film, video, and television rights, with profits distributed according to interest in the venture.

2. Partners

GAGA COMMUNICATIONS INC.

Toho Co., Ltd.

Beam Entertainment Corporation

3. Titles (American films)

Kate and Leopold

Texas Rangers

Jay and Silent Bob



Summary

It is the not-to-distant future. The Power Globe is turning and the final battle is about to begin. Brought to you by the producers of *Yuki -Stormriders*, this near-future SF action film is an epic you don't want to miss!

★Opens 1 June at Shinjuku Joy 3 Cinema and select theaters

Kenshin (in partnership with MAXAM)

Acquired rights: sole distribution rights in Japan (distributing, broadcasting, and videogram rights)

(1) Theater information

1 June to 15 June Shinjuku Joy Cinema 3

12:30, 14:30, 16:30, 18:30

22 June to 6 July Nagoya Cinema Skhole Late Show

July Osaka Umeda Cine-Libreville, Fukuoka Cine-Libreville (across from Hakata Station)

Summer holiday Sendai Forum

September Sapporo Denos Cinema

(2) Advertising

●Newspapers

•Tokyo Sports (evening edition, latter half of May) 5 columns, Daily Sports (morning edition, latter half of May) 5 columns

●Posters at stations

•Shinjuku Alta B2 entrance (28 May-3June) four posters

●Posters on trains

•All Toei subway lines (for one week starting 23 May) Asakusa, Oedo, Mita, and Shinjuku lines

●TV commercials

•TV TOKYO (25 May-31 May)

Thursday Night Movie (29 May *Dirty Harry*) *VIDEO DO!*, *GAME WAVE*

Others such as late-night contest shows and hobby programs

•Samurai TV (CS): 14 spots, Honzu Station (CS): 20 spots

(3) Publicity

Total of 130 magazine spots including movie, entertainment, and other magazines

In addition, spots will air over 23 broadcast channels including TV, radio, and the Internet. (This figure includes those still under consideration.)

★Opinion leaders: Nobuaki Kadota, Katsumata Kunikazu

(4) Web site now open!

Kenshin information is just a click away!

This Web site is extremely well done. Follow the link below and take a look!

<http://www.movienet.co.jp/kenshin/>

(5) Other

Kenshin information appears in the May and June issues of *Digital Contents Beam*.



Summary

This is an epic story of a family battered by the turbulent times in China from the 1940s to the 1960s and their indomitable spirit to survive—a spellbinding combination of cinematographic beauty and humor. In typical Zhang Yimou style, moving performances by child actors mesmerize audiences, and combined with an overwhelmingly emotional performance by Tao Guo and the strength of Li Gong, who supports the family, led to awards at the 1994 Cannes Film Festival for Best Male Actor and the Jury Grand Prize. This film is destined to be one of the classic Chinese films of our time.

★ Opens 23 March at the Bunkamura Le Cinema in Shibuya and select theaters nationwide.

Ikiru

■ A film that made the world cry. China's premier film maker and producer of the unforgettable hits *Not One Less* and *The Road Home*, Zhiang Yimou teams up with Li Gong on this moving film that won the Jury Grand Prize and Best Male Actor awards at the 1994 Cannes film festival

★ Winner of the Jury Grand Prize and Best Male Actor awards at the 1994 Cannes Film Festival

■ Now playing at the Shibuya Tokyu Bunkamura Le Cinema! A *Pia* survey conducted at the gate on opening day showed high audience ratings across the boards. *Ikiru* is scheduled to show at select theaters nationwide.

Opening dates and locations

◆ 23 March Tokyo: Shibuya Bunkamura Le Cinema ◆ 27 April Osaka: Umeda Garden Cinema ◆ 11 May Nagoya: Herald Cineplaza 4 ◆ 27 April Sapporo: Marion Theater ◆ 20 April Sendai: MOVIX Sendai ◆ 20 April Fukuoka: KBC Cinema ◆ 25 May Kyoto: Asahi Cinema ◆ June Kobe/Sanomiyu: Asahi Cinema ◆ 15 June to 28 June Okayama: Cinema Kururu ◆ 1 June Hiroshima: Salon Cinema ◆ 29 June to 12 July Cineplex 10 Okura ◆ July Nagasaki: Central ◆ Soon Oita: Forum ◆ 15 June to 5 July Kumamoto: DENKIKAN ◆ TBA Niigata: Cinema Window ◆ June (TBA) Fujisawa/Shonan: Odeon ◆ June (TBA) Cineplex Tsukuba and others

■ Videogram release (DVD by Beam Entertainment) scheduled for 25 October

■ Web site <http://www.ikiru.jp>

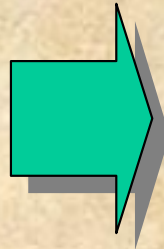
3. Strategic measures and business development—construction of the core physical distribution system for the Logistics Center East (1)

Happinet Logistics Center East highlights

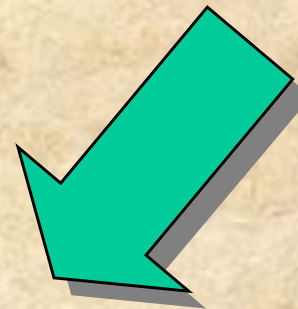
Operation begun in October 2001

● Toy characteristics

- (1) Short life cycle
- (2) Extreme seasonal fluctuations
- (3) Long production lead time
- (4) Few staple products
- (5) Many product types and sizes



Per-piece packing, processing, and similar detailed handling required

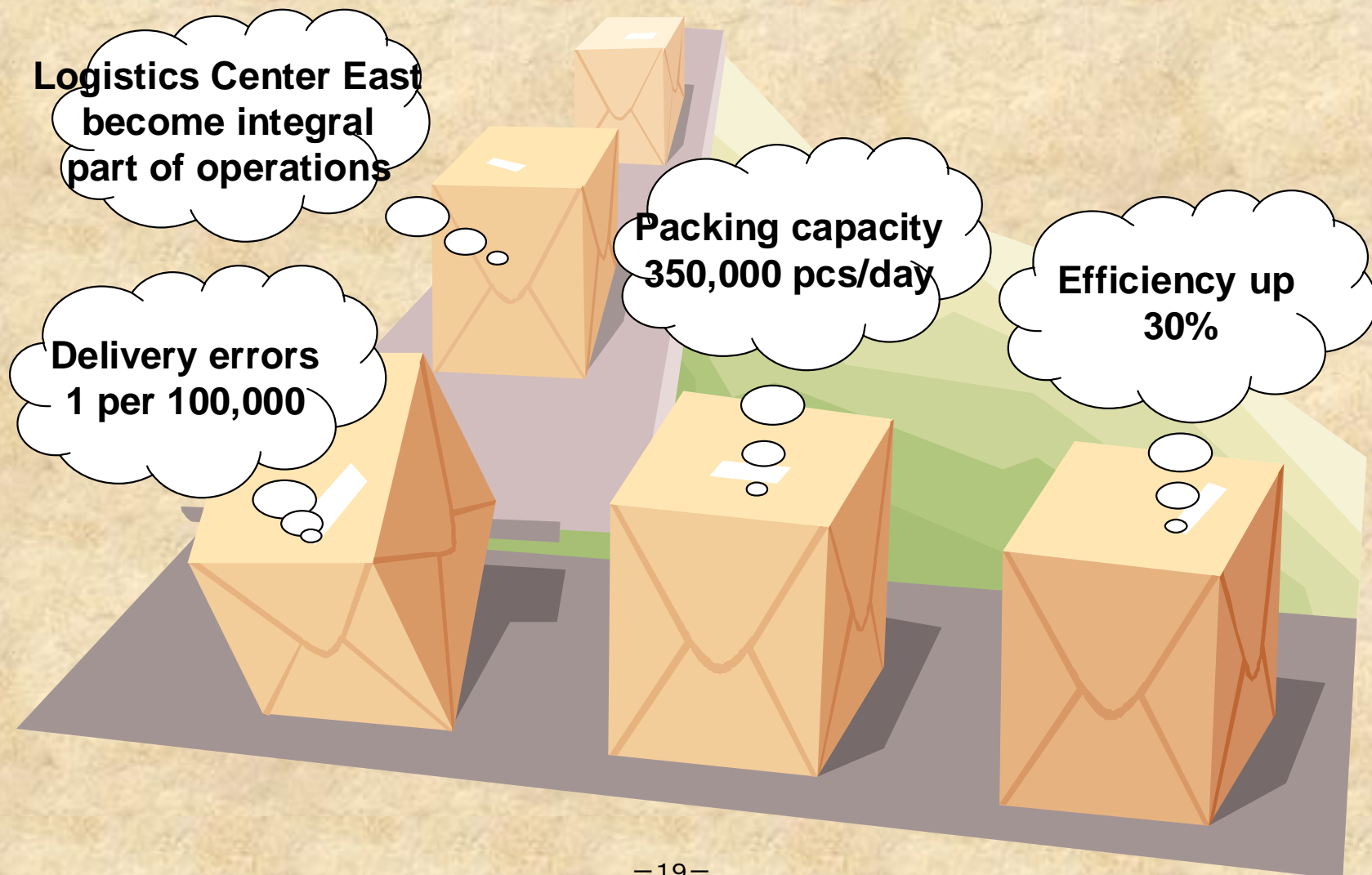


● Happinet Logistics Center East highlights

- (1) 24-hour ordering, shipping 365 days a year
- (2) Paperless receiving
- (3) Non-manpower-intensive order shipping
- (4) High-speed sorting and per-store assortments
- (5) Automated labeling in the distribution process
- (6) Shipping accuracy 99.999% with barcode checking of all pieces
- (7) Workload fluctuations managed through progress monitoring
- (8) Post-shipment tracking system

3. Strategic moves and business development—construction of a core physical distribution system for the Logistics Center East (2)

- The effort and expense put into planning the Logistics Center East is paying off as it becomes an integral part of Happinet's operations and we achieve an efficient and effective distribution system that contributes to the establishment of SCM.



3. Strategic moves and business development—construction of a core physical distribution system for the Logistics Center East (3)

Logistics Center East investment and recovery plan

- About ¥1.35bn invested (mainly in equipment and information systems in the warehouse; land and buildings are build-to-order lease)
- The investment will be recovered over 4½ years through improved productivity and consolidation of physical distribution centers in the Tokyo metropolitan area.
- Full capacity operation brings an efficiency gain of about 30% (compared to the Funabashi Center)



3. Strategic moves and business development—construction of a core physical distribution system for the Logistics Center East

SG&A costs

Physical distribution costs (¥m)

	FY01	FY02
Warehouse deposit	1,738	1,037
Freight	1,793	1,755
Total	3,531	2,792
% of sales	2.5%	2.2%

3. Strategic moves and business development—construction of a core physical distribution system for the Logistics Center East (5)

FY01 increase in deposit as a percentage of sales

**Up 0.3% (¥400m)
(on FY00)**

Factors	¥m	Details
1. Changing centers or introducing new physical distribution system		
(1) One-time costs for start-up of the Logistics System East	120	<ul style="list-style-type: none"> ● Operations automation testers ● Startup costs (moving, implementation costs) ● Integration (costs of mastering the new system)
(2) One-time costs for changing video business physical delivery centers and systems	90	<ul style="list-style-type: none"> ● Personnel costs for operations and system integration ● Training operators and similar start-up costs ● Integration (costs of mastering the new system)
2. One-time costs for introducing the new Xbox line	120	<ul style="list-style-type: none"> ● Special work required at start-up ● Personnel cost increases
3. Deposit required when outsourcing physical distribution	70	<ul style="list-style-type: none"> ● Funabashi Center personnel costs used for Logistics Center East deposit
Total	400	

4. Targets for FY02

¥m

		FY02 Targets
Consolidated	Sales	156,000
	RP	2,000
	NP	1,100
Parent	Sales	78,000
	RP	950
	NP	560

- Sales targets by product (consolidated)

¥bn

Product	FY02 Targets		
		Of total (%)	YoY(%)
Toys	48.0	30.8	17.4
Childcare products	3.0	1.9	3.4
Video games	73.0	46.8	8.6
Amusements	6.0	3.8	9.1
Videos	24.0	15.4	6.7
Other	2.0	1.3	11.1
Total	156.0	100.0	10.8

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5. FY01 Market conditions, actions, and results

Toys

Market conditions

- Reorganizations among medium-sized toy wholesalers resulted in stiffer competition.
- Bandai Co., Ltd.'s GAORANGER and CRUSH GEAR TURBO and Takara Co., Ltd.'s “*Bakuten Bey Shoot*” BeyBlade were some of the hits and sales of these products were firm.

Actions

- The Toy & Life Business Group was folded into the Happinet JP, a wholly owned subsidiary, in a move to bolster sales, improve service, and maintain an edge in the market through expanded lines.
- A broader product line was created by strengthening ties with other toy manufacturers in addition to the Bandai Group, our main supplier.

Results

Sales: ¥40.9bn, up 15.0% YoY

- In toys for boys, Bandai Co., Ltd.'s GAORANGER and CRUSH GEAR TURBO and Takara Co., Ltd.'s “*Bakuten Bey Shoot*” BeyBlade sold well
- In toys for girls, sales of Bandai Co., Ltd.'s Magical *Doremi* held firm in this, the third year of the series, though sales were down slightly from last year.

5. FY01 Market conditions, actions, and results

Video games

Market conditions

- In video game hardware, Sony Computer Entertainment's PlayStation2 performed as expected.
- Sales of Nintendo's GameCube began in September 2001 followed by Microsoft's Xbox in February 2002, resulting in fiercer competition.

Actions

- We led the nationwide distribution of Microsoft's Xbox starting in February and began carrying Nintendo through the addition of a Nintendo wholesaler to our group through acquisition.
- We now carry all home video game platforms.

Results

Sales: ¥67.2bn, up 16.3% YoY

- The price of PlayStation2 was lowered. This contributed to strong sales.
- Even though a popular game for the hand-held unit WonderSwan Color sold well in the 2H, it was not enough to make up for a weak 1H.
- Xbox sales starting on 22 February 2002 did not contribute significantly FY02 results.
- In software, the big titles like *Dragon Quest 7*, *Final Fantasy X*, and *Onimusha 2* did well, while mid- to low-ranking titles floundered.

5. FY01 Market conditions, actions, and results

Video products

Market conditions

- Falling DVD player prices, the appearance of DVD player/recorders, and the spread of DVD player-equipped game machines fed an expansion in the market for DVD videos.
- The superior quality of DVDs helped DVD sales surpass those of video cassettes.

Actions

- Partnerships with major manufacturers were strengthened to acquire new titles with sole distributorship.

Results

Sales: ¥22.5bn up7.4% YoY

- Sales of DVD titles were firm due to the expansion of the DVD market.
- The market share of our self-made, high-margin titles was down, preventing them from contributing to profits.

5. FY01 Market conditions, actions, and results

Amusements

Market conditions

- There are signs of recovery in arcade video games and others segments of the amusement arcade market .

Actions

- The Happinet Group of toy vending machine operators organized to increase solidarity and build a network.

Results

Sales: ¥5.5bn, down 18.8% YoY

- Toy vending machines had *Morning Musume* to add to the list of strong selling characters. These already include Bandai's character card games such as Digimon and ONE PIECE, which were carried over from last year. However, they did not make up for last year's *Yu-Gi-Oh*.
- Capsule toys were fairly stable at 95% of last year's level.
- The amusement market showed signs of recovery driven by amusement arcade games, but our main amusement business products did poorly.

5. Other business developments

Participating partner in e-menu system development

- The e-menu system

A table-top terminal for placing orders at restaurants, created by ASKA T3

- ✓ No waiting for orders even at peak times
- ✓ Improved service with one-touch ordering from your table
- ✓ Increased earnings opportunity

- The e-menu system adds value

Making lunch and dinner as enjoyable as the off-peak hours creates increased earning potential.

- ✓ Digital printing service
- ✓ Digital crane game
- ✓ Fortune telling, short games
- ✓ Ticket reservations/sales etc.

- The Happinet Group will provide prizes for the digital crane game (the off-line version of Banpresto Co., Ltd.'s BigEntertainment) and content for the fortune telling and short games.

5. Other business developments

Results for e-Shopping! Toys (1)

Sales **Annual turnover ¥400m (Specialty toy section: ¥330m)**

Visits **15–16,000/day**

Page views **170–175,000/day**

Items **45,000 items (Specialty electronic-game section carries 22,000 items)**

- **Creating attractive shops to increase customer visits and sales**

Specialty toy section

Future changes include a Character Strategy to increase demand for existing characters and introducing new characters, and the development of attractive original designs to grab new customers and keep regular customers coming back. Strategic use of magazines and other media will increase the number of customers and uncover new target markets.

5. Other business developments

Results for e-Shopping! Toys (2)

Reopening of the Yahoo! e-shopping toy store

We are working on reopening an outlet in Yahoo! Shopping. We will differentiate ourselves from competing sites by coordinating the character strategy with the main site and taking pre-release orders for products.

Digital-kan

We will strengthen our pipeline with makers so they can acquire timely information. This site will enhance our market response by providing information on the target markets.

Today, the internet shopping environment is spreading, and we are actively seeking out new markets and products as we expand our customer base and sales.

5. Other business developments

PlayStation.com

- We handle all back office operations for the PlayStation.com Japan Internet shopping site. The site opened in February 2000, with explosive sales from the start, but other than the peaks attendant with big titles, shipping volumes are steady. We are increasing the number of new products, such as Gundam apparell and magazines, in an effort to increase our customer base. Shipping volumes of DVD products continue to rise. We plan to improve logistics service through customer-specified delivery times and other actions.

LaLaBit

- We took over the back office operations for this Internet shopping site, which features products with original designs and limited editions. In April of this year we shipped a large volume of radio controlled toys (Gundam related products).
- Products are shipped as soon as they are received, so there is no running stock, and we have been doing a steady volume of shipping.
- Back office operations share office space, facilities, and personnel to reduce costs for us, which means reduced cost for the customer, while maintaining profitability. There are plans to expand the back office business.

5. Other business developments

BigE project (BigEntertainment)

- Banpresto Co., Ltd. officially opened its Web amusement arcade in June 2001, and it subcontracted Happinet to oversee inventory control for the prizes, distribution processing, physical distribution, and other back office operations. Installation of PCs at the tables of large franchise restaurants and other projects are expected to feed through to higher shipping volumes.
- Back office operations share office space, facilities, and personnel to help customers reduce costs.