HAPPINET CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

March 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

Happinet Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
Assets			
Current assets:			
Cash (note 3)	¥ 6,295	¥ 10,756	$ 52,371
Trade notes and accounts receivable	17,498	25,828	145,574
Inventories	7,857	8,227	65,366
Deferred income taxes (note 7)	497	512	4,135
Other current assets	2,428	2,325	20,200
Less allowance for doubtful receivables	158	202	1,315
Total current assets	34,417	47,446	286,331
Property, plant and equipment:			
Buildings and structures	1,695	1,780	14,101
Machinery, equipment and vehicles	835	839	6,947
Tools, furniture and fixtures	390	395	3,244
Land	1,220	1,263	10,150
	4,140	4,277	34,442
Less accumulated depreciation	1,459	1,286	12,138
Net property, plant and equipment	2,681	2,991	22,304
Intangible assets, net	853	1,015	7,097
Investments and other assets:			
Investments in securities (notes 4 and 5)	1,199	1,301	9,975
Refundable deposits	464	482	3,861
Deferred income taxes (note 7)	226	290	1,880
Other investments and other assets (note 5)	201	356	1,672
Less allowance for doubtful receivables	66	183	549
Total investments and other assets	2,024	2,246	16,839
Total assets	¥ 39,975	¥ 53,698	$ 332,571

	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
Liabilities and Stockholders' Equity			
Current liabilities:			
Trade notes and accounts payable (note 14)	¥ 19,760	¥ 30,612	$ 164,392
Other payables (note 14)	1,420	2,571	11,814
Accrued income taxes (note 7)	406	724	3,378
Accrued bonuses	347	383	2,887
Other current liabilities	390	1,851	3,245
Total current liabilities	22,323	36,141	185,716
Non-current liabilities:			
Liabilities for retirement and severance benefits (note 6)	432	404	3,594
Deferred income taxes (note 7)	36	57	300
Other non-current liabilities	672	565	5,590
Total non-current liabilities	1,140	1,026	9,484
Total liabilities	23,463	37,167	195,200
Minority interests	–	99	–
Stockholders' equity:			
Common stock (note 10):	2,751	2,751	22,887
Authorized 32,000,000 shares; issued and outstanding 12,025,000 shares in 2003 and 2002			
Additional paid-in capital (note 10)	2,776	2,776	23,095
Retained earnings (note 11)	11,279	10,812	93,835
Net unrealized gain (loss) on other securities (note 4)	(36)	94	(300)
Treasury stock	(258)	(1)	(2,146)
Total stockholders' equity	16,512	16,432	137,371
Commitments and contingencies (note 14)			
Total liabilities and stockholders' equity	¥ 39,975	¥ 53,698	$ 332,571

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
Net sales	¥ 122,516	¥ 140,889	$ 1,019,268
Cost of sales (note 14)	107,540	127,104	894,676
Gross profit	14,976	13,785	124,592
Selling, general and administrative expenses (notes 8, 9 and 14)	13,797	12,538	114,783
Operating income	1,179	1,247	9,809
Other income (deductions):			
Interest income	2	4	17
Dividend income	9	8	75
Interest expenses	(1)	(25)	(8)
Rent income	41	69	341
Gain (loss) on sale of investments in securities (note 4)	87	(1)	724
Loss on sale/disposal of property, plant and equipment	(12)	(6)	(100)
Loss on devaluation of investments in securities and other investments (note 4)	(82)	(134)	(682)
Provision (reversal) of allowance for doubtful receivables	55	(0)	457
Other, net	126	212	1,048
	225	127	1,872
Income before income taxes and minority interests	1,404	1,374	11,681
Income taxes (note 7):			
Current	476	945	3,960
Deferred	150	(324)	1,248
	626	621	5,208
Income before minority interests	778	753	6,473
Minority interests	11	18	92
Net income	¥ 767	¥ 735	$ 6,381

	Yen		U.S. dollars (note 2)
	2003	2002	2003
Per share of common stock:			
Net income – basic (note 12)	¥ 64.40	¥ 61.13	$ 0.54
Cash dividends applicable to the year (note 11)	25.00	25.00	0.21

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Stockholders' Equity
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
Common stock (note 10):			
Balance at beginning of year	¥ 2,751	¥ 2,751	$ 22,887
Balance at end of year	2,751	2,751	22,887
Additional paid-in capital (note 10):			
Balance at beginning of year	2,776	2,776	23,095
Balance at end of year	2,776	2,776	23,095
Retained earnings (note 11):			
Balance at beginning of year	10,812	10,380	89,950
Cash dividends	(300)	(303)	(2,496)
Net income	767	735	6,381
Balance at end of year	11,279	10,812	93,835
Net unrealized gain (loss) on other securities at end of year (note 4)	(36)	94	(300)
Treasury stock at end of year	(258)	(1)	(2,146)
Total stockholders' equity at end of year	¥ 16,512	¥ 16,432	$ 137,371

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 1,404	¥ 1,374	$ 11,681
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	565	498	4,700
Allowance for doubtful receivables	(161)	132	(1,339)
Increase (decrease) in accrued bonuses	(36)	60	(300)
Increase in liabilities for retirement and severance benefits	28	4	233
Interest and dividend income	(11)	(12)	(92)
Interest expenses	1	25	8
Loss on sale/disposal of property, plant and equipment	12	6	100
(Gain) loss on sale of investments in securities	(87)	1	(724)
Loss on devaluation of investments in securities and other investments	82	134	682
(Increase) decrease in trade notes and accounts receivable	8,451	(4,397)	70,308
(Increase) decrease in inventories	370	(2,130)	3,078
Increase (decrease) in trade notes and accounts payable	(10,853)	11,946	(90,291)
Increase (decrease) in other payables	(1,100)	1,485	(9,151)
Other, net	(1,229)	836	(10,225)
Sub total	(2,564)	9,962	(21,332)
Interest and dividend received	11	12	92
Interest paid	(1)	(25)	(8)
Income taxes paid	(823)	(553)	(6,847)
Net cash provided by (used in) operating activities	(3,377)	9,396	(28,095)
Cash flows from investing activities:			
Capital expenditures	(61)	(711)	(507)
Proceeds from sale of property, plant and equipment	83	364	691
Purchase of intangible assets	(163)	(437)	(1,356)
Purchase of investments in securities	(225)	(67)	(1,872)
Proceeds from sale of investments in securities	133	11	1,106
Other, net	(292)	(189)	(2,429)
Net cash used in investing activities	(525)	(1,029)	(4,367)

Cash flows from financing activities:			
Decrease in short-term debt	–	(398)	–
Payments on long-term debt	–	(964)	–
(Increase) decrease in treasury stock	(257)	(1)	(2,138)
Dividends paid to stockholders	(299)	(298)	(2,488)
Dividends paid to minority stockholders of subsidiaries	(3)	(13)	(25)
Net cash used in financing activities	(559)	(1,674)	(4,651)
Net increase (decrease) in cash and cash equivalents	(4,461)	6,693	(37,113)
Cash and cash equivalents at beginning of year	10,756	4,013	89,484
Cash and cash equivalents of newly consolidated subsidiaries	–	50	–
Cash and cash equivalents at end of year (note 3)	¥ 6,295	¥ 10,756	$ 52,371

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

Happinet Corporation (the Company) and its consolidated subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (5 subsidiaries for 2003 and 7 subsidiaries for 2002).

All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in affiliates are accounted for by the equity method.

The Accounting Standards for Consolidation require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the parent company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and another company over which the parent company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

The excess of cost over the underlying net assets at the dates of investments in subsidiaries is being amortized over 5 years.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) Investments in Securities

Under the Accounting Standards for Financial Instruments, securities are classified into four categories – “trading securities”, “held-to-maturity securities”, “investments in affiliates” and “other securities”. Securities classified as “trading securities” are stated at fair value and unrealized gains or losses are recorded in the consolidated statement of income. Securities classified as “held-to-maturity securities” are stated at amortized cost. Securities classified as “other securities” are stated at fair value and unrealized gains or losses, net of related taxes, are excluded from earnings and recorded in a separate component of stockholders’ equity. Realized gains or losses on the other securities are determined by the moving average method. Holding securities of the Company are classified as other securities.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method.

(f) Property, Plant and Equipment

Property, plant and equipment are carried substantially at cost. Depreciation is provided by the declining-balance method based on estimated useful lives, except for the buildings acquired on or after April 1, 1998, which are depreciated based on the straight-line method.

The estimated useful lives are as follows:

Buildings and structures	3 – 47 years
Machinery, equipment and vehicles	3 – 12 years
Tools, furniture and fixtures	2 – 20 years

(g) Intangible Assets

Software development expenses are deferred and amortized by the straight-line method over estimated useful lives (5 years). Intangible assets other than software are deferred and amortized by the straight-line method at the rates based on the estimated useful lives of the respective assets.

(h) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided at an amount of uncollectible receivables based on historical loss ratios and an amount that takes into consideration the possibility of specific liabilities.

(i) Retirement and Severance Benefits

The Company and its consolidated subsidiaries have contributory and noncontributory pension plans to provide retirement and severance benefits to substantially all employees.

Under the Accounting Standards for Retirement and Severance Benefits, provisions have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement and severance benefits attributable to employee services rendered by the end of the year, less amounts funded under contributory and noncontributory pension plans.

The differences arising from the change at the time the standards were introduced (¥446 million) have been amortized over 5 years.

(j) Leases

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases.

(k) Income Taxes

The Accounting Standards for Deferred Income Taxes require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the stockholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. (See note 11)

(m) Data per Common Share

Net income per share is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. (See note 12)

Cash dividends per share are computed based on dividends actually paid during the year.

(n) Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2002 have been made to conform to the 2003 presentation.

(2) Financial Statement Translation

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars at the rate of ¥120.20=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2003. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

(3) Cash and Cash Equivalents

A reconciliation of the cash and cash equivalents of consolidated balance sheets and that of consolidated statements of cash flows at March 31, 2003 and 2002 is follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash	¥ 6,295	¥ 10,756	$ 52,371
Cash and cash equivalents	¥ 6,295	¥ 10,756	$ 52,371

(4) Investments in Securities

Acquisition cost, balance sheet amount and gross unrealized gain and gross unrealized loss of other securities with fair value as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen			
	Acquisition cost	Unrealized gain	Unrealized loss	Balance sheet amount
March 31, 2003				
Equity securities	¥ 874	¥ 188	¥ (248)	¥ 814
March 31, 2002				
Equity securities	¥ 854	¥ 182	¥ (20)	¥ 1,016

	Thousands of U.S. dollars			
	Acquisition cost	Unrealized gain	Unrealized loss	Balance sheet amount
March 31, 2003				
Equity securities	$ 7,271	$ 1,564	$ (2,063)	$ 6,772

It is not practicable to estimate the fair value of securities as of March 31, 2003 and 2002 described bellow because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unlisted equity securities	¥ 142	¥ 215	$ 1,181

For the years ended March 31, 2003 and 2002, proceeds from sale of other securities are ¥133 million ($1,106 thousand) and ¥11 million, the gross realized gains are ¥114 million ($948 thousand) and ¥1 million, and the gross realized losses are ¥27 million ($225 thousand) and ¥3 million, respectively.

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2003 and 2002 is ¥242 million ($2,013 thousand) and ¥70 million, respectively.

(6) Retirement and Severance Benefits

The Company and consolidated subsidiaries have defined benefit retirement and pension plans, which consist of unfunded retirement and severance plans that provide for lump-sum payment of benefits and contributory benefit plans provided under the Welfare Pension Insurance Law of Japan.

The funded status of the pension plans at March 31, 2003 and 2002 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥ 650	¥ 641	$ 5,408
Amount recognized in the consolidated balance sheets	432	404	3,594
Unrecognized prior service cost	(34)	(52)	(283)
Unrecognized actuarial loss	77	26	641
Unrecognized transition obligation existing at April 1, 2000	175	263	1,456

Net periodic pension cost for the years ended March 31, 2003 and 2002 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 72	¥ 15	$ 599
Interest cost	6	10	50
Amortization of prior service cost	(17)	(17)	(141)
Amortization of transition obligation existing at April 1, 2000	88	93	732
Amortization of actuarial loss	5	–	41
Contribution by the Company to the Welfare Pension Fund	81	71	674
Additional benefits, etc.	81	27	674
Net periodic pension cost	¥ 316	¥ 199	$ 2,629

Significant assumptions of pension plans used to determine these amounts in fiscal 2003 and 2002 are as follows:

	2003	2002
Discount rate	2.5%	3.0%
Periodic allocation method for projected benefit	Straight-line	Straight-line
Period for amortization of unrecognized prior service cost	5 years	5 years
Period for amortization of unrecognized actuarial loss	5 years	5 years
Period for amortization of transition obligation existing at April 1, 2000	5 years	5 years

Plan assets of the welfare pension fund at March 31, 2003 and 2002 are estimated to be ¥1,316 million ($10,948 thousand) and ¥1,344 million, respectively.

(7) Income Taxes

The Company and its consolidated subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 42.0% in 2003 and 2002.

Amendments to Japanese tax regulations were enacted on March 31, 2003. As a result of these amendments, the normal income tax rate is to be reduced from approximately 42.0% to 40.4% effective from the Company's fiscal year beginning April 1, 2004. Deferred income tax assets and liabilities as of March 31, 2003 which expected to be eliminated after April 1, 2004 were revaluated at a rate of 40.4%. As a result of the change in the tax rate, net deferred income tax assets as of March 31, 2003 were decreased by ¥8 million ($66 thousand) and net unrealized gain on other securities was decreased by ¥1 million ($8 thousand), and ¥7 million ($58 thousand) was charged to income.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2003 and 2002 is follows:

	2003	2002
Statutory tax rate	42.0%	42.0%
Expenses not deductible for tax purposes	1.5	2.2
Income not credited for tax purposes	(0.2)	(0.2)
Per capita tax	1.5	0.7
Effect of change in the tax rate	0.8	–
Loss in subsidiaries	–	0.2
Other	(1.0)	0.3
Effective tax rate	44.6%	45.2%

Significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Deferred tax assets (current):			
Accrued business tax	¥ 35	¥ 63	$ 291
Valuation loss for inventories	268	317	2,230
Accrued bonuses	120	96	998
Unrealized profit on sale of inventories eliminated on consolidation	4	4	33
Other	70	32	583
	497	512	4,135
Deferred tax assets (non-current):			
Liabilities for retirement and severance benefits	149	130	1,239
Loss on devaluation of other investments	44	37	366
Loss on devaluation of investments in securities	27	57	225
Tax loss carryforwards	79	191	657
Other	27	53	225
Offset with deferred tax liabilities (non-current)	(100)	(178)	(832)
	226	290	1,880
Net deferred tax assets	¥ 723	¥ 802	$ 6,015
Deferred tax liabilities:			
Deferred tax liabilities (non-current):			
Net unrealized gain on other securities	¥ 28	¥ (69)	$ 233
Gain on evaluation of subsidiaries' assets and liabilities	(164)	(166)	(1,365)
Offset with deferred tax assets (non-current)	100	178	832
Net deferred tax liabilities	¥ (36)	¥ (57)	$ (300)

(8) Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Storage expenses	¥ 2,160	¥ 1,739	$ 17,970
Freight	2,118	1,794	17,621
Promotion	763	670	6,348
Salary and wages	3,926	3,695	32,662

(9) Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2003 and 2002 are ¥116 million ($965 thousand) and ¥93 million, respectively.

(10) Common Stock

Under the Commercial Code of Japan, at least 50% of the issue price of new shares is required to be designated as stated common stock. The actual portion to be designated as stated common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amount designated as stated common stock are credited to additional paid-in capital.

(11) Retained Earnings and Dividends

The Commercial Code of Japan provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equal 25% of common stock.

This legal reserve and additional paid-in capital may be used to reduce a deficit by approval at the meeting of stockholders or may be transferred to stated common stock by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains equal to or exceeds 25% of stated common stock, they are available for distributions by approval at the meeting of stockholders.

Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Commercial Code of Japan.

In accordance with the Commercial Code of Japan, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year. The proposed appropriation of retained earnings at March 31, 2003 was cash dividends of ¥147 million ($1,223 thousand).

(12) Net Income per Share Information

Reconciliation of the numbers and the amounts used in the basic net income per share computations for the year ended March 31, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net income applicable to common stockholders	¥ 767	$ 6,381

	Number of shares (Thousands)
Weighted average number of shares on which basic net income per share is calculated	11,906

(13) Leases

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases under accounting principles generally accepted in Japan.

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2003 and 2002 are as follows:

	Millions of yen			
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets	Total
March 31, 2003				
Acquisition cost	¥ 10	¥ 621	¥ 378	¥ 1,009
Accumulated depreciation	8	408	146	562
Net book value	¥ 2	¥ 213	¥ 232	¥ 447
March 31, 2002				
Acquisition cost	¥ 11	¥ 1,072	¥ 114	¥ 1,197
Accumulated depreciation	7	462	39	508
Net book value	¥ 4	¥ 610	¥ 75	¥ 689

	Thousands of U.S. dollars			
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets	Total
March 31, 2003				
Acquisition cost	$ 83	$ 5,166	$ 3,145	$ 8,394
Accumulated depreciation	66	3,394	1,215	4,675
Net book value	$ 17	$ 1,772	$ 1,930	$ 3,719

Future minimum payments required under finance leases at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Within one year	¥ 226	¥ 267	$ 1,880
Over one year	233	434	1,939
	¥ 459	¥ 701	$ 3,819

Lease payments, depreciation equivalents and amounts representing interest under the finance leases which are accounted for in the same manner as operating leases for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease payments	¥ 287	¥ 270	$ 2,388
Depreciation equivalents	270	253	2,246
Amounts representing interest	18	18	150

(14) Balances and Transactions with Related Party

The Company's outstanding common stock was owned by Bandai Co., Ltd. by 23% and 22% at March 31, 2003 and 2002, respectively.

Balances with Bandai Co., Ltd. at March 31, 2003 and 2002, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Balances:			
Trade accounts payable	¥ 576	¥ 1,428	$ 4,792
Transactions:			
Purchases	¥ 5,363	¥ 20,859	$ 44,617

A director of the Company is concurrently serving as a representative director of SENRYAKU KEIEI KAIHATSU Center, and the balances with the company at March 31, 2003 and 2002, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Balances:			
Other payables	¥ –	¥ 1	$ –
Transactions:			
Consultant fee	¥ 7	¥ 9	$ 58

(15) Commitments and Contingencies

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in settlement of trade accounts receivable and to subsequently discount such notes at banks or to transfer them by endorsement to suppliers in the settlement of accounts payable. At March 31, 2003 and 2002, the company was contingently liable with respect to trade notes receivable endorsed in the amounts of ¥18 million ($150 thousand) and ¥34 million, respectively.

(16) Segment Information

(a) Industry segments

Operations by business group are summarized as follows:

	Millions of yen				
	2003				
	Toy and Video game etc.	Video software	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 96,553	¥ 25,963	¥ 122,516	¥ –	¥ 122,516
Inter-segment sales	–	–	–	–	–
	96,553	25,963	122,516	–	122,516
Operating expenses	95,015	25,128	120,143	1,194	121,337
Operating income	¥ 1,538	¥ 835	¥ 2,373	¥ (1,194)	¥ 1,179
Assets	¥ 27,580	¥ 6,605	¥ 34,185	¥ 5,790	¥ 39,975
Depreciation and amortization	501	25	526	25	551
Capital expenditures	158	5	163	10	173

	Millions of yen				
	2002				
	Toy and Video game etc.	Video software	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 118,397	¥ 22,492	¥ 140,889	¥ –	¥ 140,889
Inter-segment sales	–	–	–	–	–
	118,397	22,492	140,889	–	140,889
Operating expenses	116,367	22,076	138,443	1,199	139,642
Operating income	¥ 2,030	¥ 416	¥ 2,446	¥ (1,199)	¥ 1,247
Assets	¥ 37,863	¥ 6,325	¥ 44,188	¥ 9,510	¥ 53,698
Depreciation and amortization	436	14	450	33	483
Capital expenditures	1,341	74	1,415	42	1,457

	Thousands of U.S. dollars				
	2003				
	Toy and Video game etc.	Video software	Total	Elimination / corporate	Consolidated
Sales to outside customers	$ 803,270	$ 215,998	$ 1,019,268	$ –	$ 1,019,268
Inter-segment sales	–	–	–	–	–
	803,270	215,998	1,019,268	–	1,019,268
Operating expenses	790,475	209,051	999,526	9,933	1,009,459
Operating income	$ 12,795	$ 6,947	$ 19,742	$ (9,933)	$ 9,809
Assets	$ 229,451	$ 54,950	$ 284,401	$ 48,170	$ 332,571
Depreciation and amortization	4,168	208	4,376	208	4,584
Capital expenditures	1,314	42	1,356	83	1,439

Notes: 1. The non-categorized operating expenses of ¥1,202 million ($10,000 thousand) and ¥1,126 million for the years ended March 31, 2003 and 2002 in the Elimination/ corporate line consist primarily of administrative operation expenses.

2. Corporate assets of ¥5,790 million ($48,170 thousand) and ¥9,510 million as of March 31, 2003 and 2002 in the Elimination/ corporate line consist primarily of cash and deposits, long-term investments (investments in securities) and assets relating to the administrative operations.

(b) Geographic segments

Both domestic sales and assets located in Japan are over 90% of all segments for the years ended March 31, 2003 and 2002.

(c) Overseas sales

Overseas sales are less than 10% of consolidated sales for the years ended March 31, 2003 and 2002.

(17) Supplemental Cash Flow Information

Assets and liabilities of the newly consolidated subsidiary in 2002 by acquisition at the inception of consolidation, and net expenditure for acquisition were as follows:

	Millions of yen
Current assets	¥ 1,098
Non-current assets	1,798
Current liabilities	(941)
Non-current liabilities	(1,514)
The excess of cost over the underlying net assets	(1)
Acquisition cost of stock	440
Cash and cash equivalents held by acquired subsidiary	(70)
Net expenditure for acquisition	¥ 370

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Independent Auditors' Report

To the Stockholders and Board of Directors of
Happinet Corporation

We have audited the accompanying consolidated balance sheets of Happinet Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan and, accordingly, our audits included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Happinet Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan on a consistent basis.

The accompanying consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.

Toyo & Co.

Toyo & Co.
Tokyo, Japan
June 20, 2003

See Note 1(a) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Happinet Corporation and consolidated subsidiaries under Japanese accounting principles and practices.