



Fiscal 2004 Results Presentation

Results for Fiscal Year 2004

and

Measures for Fiscal Year 2005

May 11, 2005

Happinet Corporation

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When using this information, please keep in mind that final results may vary.

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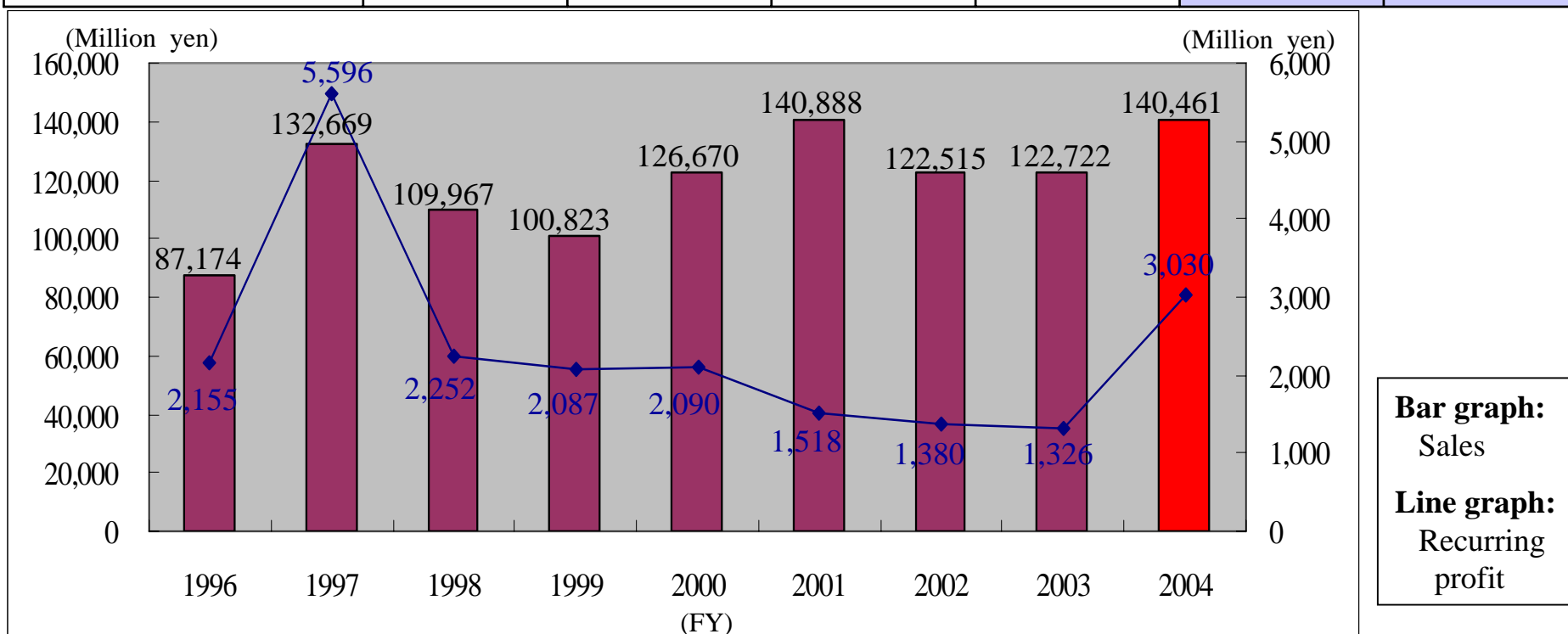
Fiscal 2004

Overview of Results

Consolidated Results

(Units: Million yen, %)

| | FY2000 | FY2001 | FY2002 | FY2003 | FY2004 | YoY % change |
|-------------------------|---------|---------|---------|---------|---------|-----------------|
| Sales | 122,670 | 140,888 | 122,515 | 122,722 | 140,461 | 14.5 |
| Recurring profit | 2,090 | 1,518 | 1,380 | 1,326 | 3,030 | 128.5 |
| Recurring profit margin | 1.7 | 1.1 | 1.1 | 1.1 | 2.2 | |



Key Points for Fiscal 2004

Key Points

The first year of the mid- to long-term management plan “Happinet Dream 08” delivered a dramatic turnaround in performance and established a distinct and systematic growth curve for moving forward.

Sales

Sales in the video-related business were strong due to growth in the DVD market, brisk business with rental stores, and the start of a business relationship with Amazon.co.jp. in June 2004.

Earnings

Profit margins improved significantly due to aggressive restructuring in the toy business, which greatly lowered SG&A expenses, as well as production of hit exclusive titles in the video business.

REFERENCE: Overview of the Fourth Mid- to Long-Term Management Plan
“Happinet Dream 08” (announced April 2004)

Group-wide Vision

1. Global deployment of the business platform

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

2. Establishment of an independent contents business

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

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, in cooperation with Bandai Hong Kong

4. Brand strategy implementation

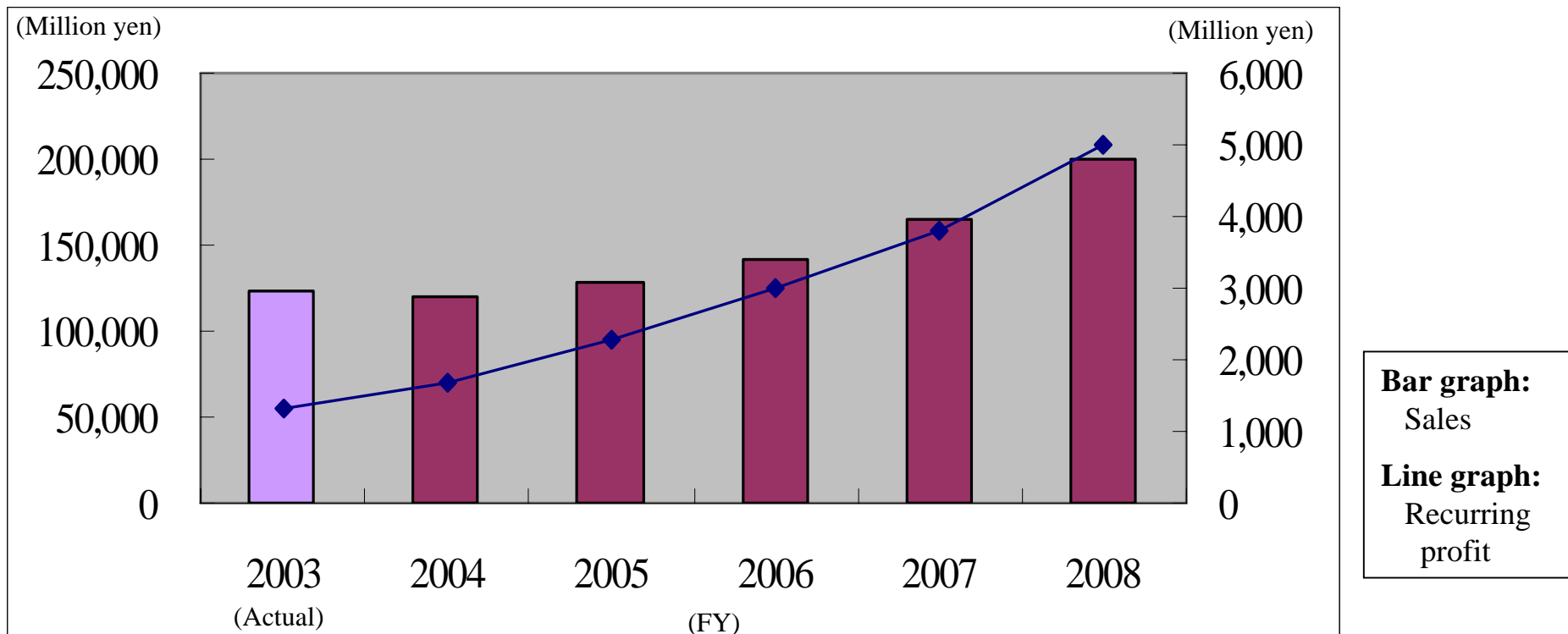
Through the provision of optimal products and services to end-consumers and distribution customers, and utilizing effective corporate advertising, implement a brand strategy to position Happinet as a company that seeks to provide constant satisfaction

REFERENCE: Overview of the Fourth Mid- to Long-Term Management Plan
 “Happinet Dream 08” (announced April 2004)

Group Targets

(Unit: Million yen)

| | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 |
|------------------|---------|---------|---------|---------|---------|
| Sales | 122,000 | 129,000 | 142,000 | 165,000 | 200,000 |
| Recurring profit | 1,700 | 2,300 | 3,000 | 3,800 | 5,000 |



Consolidated Results by Segment

(Units: Million yen, %)

| Product | | FY | 2003 | 2004 | YoY (% change) |
|-----------------------------------|------------------|----|----------------|----------------|-------------------|
| Toys | Sales | | 53,468 | 52,066 | -2.6 |
| | Operating profit | | 175 | 1,735 | 891.4 |
| Video-related | Sales | | 29,261 | 45,457 | 55.3 |
| | Operating profit | | 1,349 | 1,775 | 31.6 |
| Video games | Sales | | 27,185 | 28,696 | 5.6 |
| | Operating profit | | 280 | 303 | 8.2 |
| Amusements | Sales | | 5,437 | 6,318 | 16.2 |
| | Operating profit | | 133 | 132 | -0.1 |
| Others | Sales | | 7,370 | 7,921 | 7.5 |
| | Operating profit | | 375 | 302 | -19.5 |
| Eliminations and corporate losses | Sales | | - | - | - |
| | Operating loss | | -1,172 | -1,282 | |
| Total | Sales | | 122,722 | 140,461 | 14.5 |
| | Operating profit | | 1,141 | 2,966 | 159.9 |

Core Business
Results for Fiscal 2004 and
Measures for Fiscal 2005

(1) Toy Business – Fiscal 2004 Results and Fiscal 2005 Measures

Toy Business Results

(Units: Million yen, %)

| | FY2003 | FY2004 | YoY % change |
|-------------------------|--------|--------|--------------|
| Sales | 53,468 | 52,066 | -2.6 |
| Operating profit | 175 | 1,735 | 891.4 |
| Operating profit margin | 0.3 | 3.3 | |

Benefits from Restructuring

Factors such as:

- Improvement in returns
- Reduction in disposal loss
- Reduction in logistics expenses



Significant improvement in operating profit in the toy business

(1) Toy Business – Fiscal 2004 Results and Fiscal 2005 Measures

Benefits from Restructuring

● Improvement in returns

(Unit: Million yen; amounts approximate)

| | FY2003 | FY2004 | Amount of improvement |
|---------|--------|--------|-----------------------|
| Returns | 1,140 | 653 | 487 |

● Reduction in disposal loss

(Unit: Million yen; amounts approximate)

| | FY2003 | FY2004 | Amount of improvement |
|---------------|--------|--------|-----------------------|
| Disposal loss | 2,186 | 1,633 | 553 |

(1) Toy Business – Fiscal 2004 Results and Fiscal 2005 Measures

Benefits from Restructuring

● Reduction in logistics expenses

(Unit: Million yen; amounts approximate)

| | FY2003 | FY2004 | Amount of improvement |
|------------------------|--------|--------|-----------------------|
| Shipping costs | 2,173 | 1,974 | 199 |
| Returns disposal costs | 92 | 44 | 48 |
| Storage costs | 372 | 288 | 84 |
| Total | 2,637 | 2,306 | 331 |

Factors behind lower logistics expenses

- Revision of shipment units lowered shipping costs
- Efforts to hold down returns lowered returns disposal costs
- Reductions in inventory lowered storage costs

(amounts approximate)

| | FY2003 | FY2004 |
|---------------------------------|----------|----------|
| Monthly average inventory value | ¥4.4bn | ¥2.9bn |
| Inventory turnover rate | 15 turns | 22 turns |

(1) Toy Business – Fiscal 2004 Results and Fiscal 2005 Measures

Happinet will further restructure operations, expand its market share, and optimize its distribution inventory

Toy Business – Sales Forecast

(Units: Million yen, %)

| | FY2004 | FY2005 forecast | YoY % change |
|-------|--------|-----------------|--------------|
| Sales | 52,066 | 52,800 | 1.4 |

- ◆ Adoption of new operating processes and systems
 - Expand the standard merchandise system
 - Implement market promotion strategies tailored to each retail space
 - Share weekly sales data with retail outlets
- ◆ Strategies to expand market share and optimize distribution inventory
 - Enhance cooperative efforts with Bandai Co., Ltd.
 - Dispatch field staff to retailers for market promotions

(2) Video Business – Fiscal 2004 Results and Fiscal 2005 Measures

Video-related Business Results

(Units: Million yen, %)

| | FY2003 | FY2004 | YoY % change |
|-------------------------|--------|--------|--------------|
| Sales | 29,261 | 45,457 | 55.3 |
| Operating profit | 1,349 | 1,775 | 31.6 |
| Operating profit margin | 4.6 | 3.9 | |

Sales in the Wholesale and Exclusive Titles Divisions

(Units: Million yen, %)

| | FY2003 | FY2004 | YoY % change |
|------------------|--------|--------|--------------|
| Wholesale | 21,240 | 34,242 | 61.2 |
| Exclusive titles | 8,021 | 11,215 | 39.8 |
| Total | 29,261 | 45,457 | 55.3 |

(2) Video Business – Fiscal 2004 Results and Fiscal 2005 Measures

Top Five Exclusive Titles

| Rank | Title | Sales (¥bn) | Genre |
|------|--------------------------------------|-------------|--------------|
| 1 | <i>Legend of the Galactic Heroes</i> | 1.4 | Anime |
| 2 | <i>Summer Scent</i> | 0.9 | Foreign film |
| 3 | <i>Kaiketsu Zorori</i> | 0.7 | Anime |
| 4 | <i>Chrono Crusade</i> | 0.6 | Anime |
| 5 | <i>UNDERWORLD</i> | 0.6 | Foreign film |

(2) Video Business – Fiscal 2004 Results and Fiscal 2005 Measures

Happinet will recover its in-house production investments and acquire high-quality titles through sound investments

Video-related Business – Sales Forecast

(Units: Million yen, %)

| | FY2004 | FY2005 forecast | YoY % change |
|-------|--------|-----------------|--------------|
| Sales | 45,457 | 41,300 | -9.2 |

Wholesale and Exclusive Titles Divisions – Sales Forecast

(Units: Million yen, %)

| | FY2004 | FY2005 forecast | YoY % change |
|------------------|--------|-----------------|--------------|
| Wholesale | 34,242 | 31,300 | -8.5 |
| Exclusive titles | 11,215 | 10,000 | -10.8 |
| Total | 45,457 | 41,300 | -9.2 |

(2) Video Business – Fiscal 2004 Results and Fiscal 2005 Measures

During FY05, Happinet will continue to make proactive investments in video titles (mainly foreign films) to ensure acquisition of high-quality productions

| | |
|----------------------------------|----------------|
| Title investment 2004 (actual) | Approx. ¥2.1bn |
| Title investment 2005 (forecast) | Approx. ¥2.5bn |

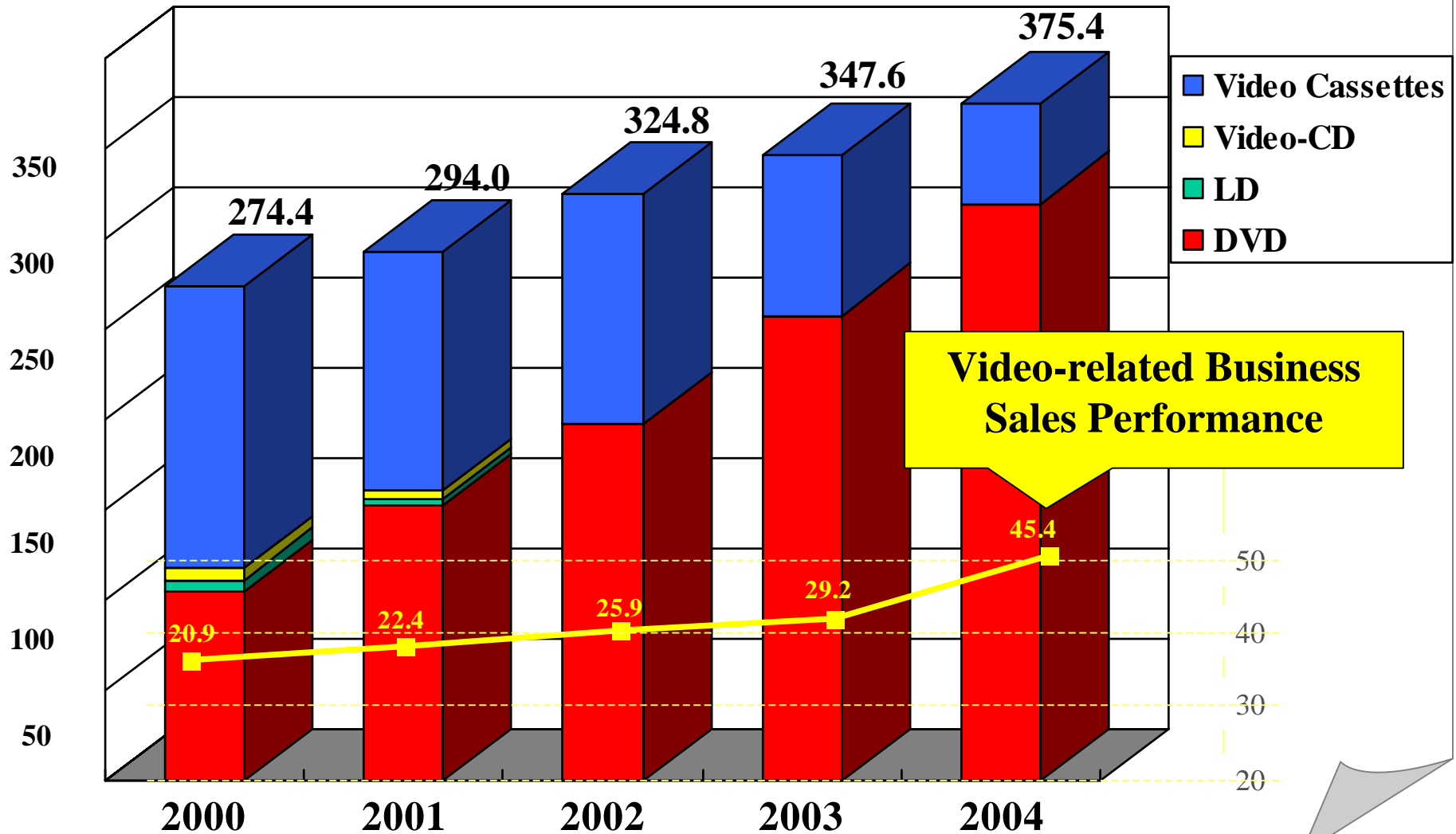
Major Exclusive Titles in Fiscal 2005

| Title | Genre |
|---|---------------|
| <i>Kaiketsu Zorori</i> | Anime |
| <i>Bunshinsaba</i> (to be released in Japan as <i>Kokkuri-san</i>) | Foreign film |
| <i>The Notebook</i> | Foreign film |
| <i>Eternal Sunshine of the Spotless Mind</i> | Foreign film |
| <i>Sang Doo! Let's Go to School</i> | Foreign film |
| <i>Pacchigi!</i> | Japanese film |
| <i>Install</i> | Japanese film |

(3) Video Business – REFERENCE

Video software sales and Happinet sales 2000 – 2004

(Unit: Billion yen)



Source: Japan Video Software Association Study

(4) Video Game Business – Fiscal 2004 Results and Fiscal 2005 Measures

Video Game Business Results

(Units: Million yen, %)

| | FY2003 | FY2004 | YoY % change |
|-------------------------|--------|--------|--------------|
| Sales | 27,185 | 28,696 | 5.6 |
| Operating profit | 280 | 303 | 8.2 |
| Operating profit margin | 1.0 | 1.0 | |

- ◆ Sales and earnings on a recovery track following the releases in the second half of fiscal 2004 of the hit title “Dragon Quest VIII” and the handheld gaming devices PlayStation Portable (PSP) and Nintendo DS
- ◆ Business relationship with Seven-Eleven Japan Co., Ltd. starting in September 2004 opened up new sales channel

(4) Video Game Business – Fiscal 2004 Results and Fiscal 2005 Measures

Happinet will create a business model and distribution system for next-generation devices to be launched by Microsoft Corporation.

Video Game Business – Sales Forecast

(Units: Million yen, %)

| | FY2004 | FY2005 forecast | YoY % change |
|-------|--------|-----------------|--------------|
| Sales | 28,696 | 42,400 | 47.8 |

- ◆ Cooperate closely with Microsoft to develop a Japan strategy
- ◆ Build and adopt an optimal distribution system

Forecasts for Fiscal 2005

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Fiscal 2005 Forecast

(Units: Million yen, %)

| | | FY2005 forecast | YoY % change |
|-------------------------|------------------|-----------------|--------------|
| Consolidated | Sales | 150,000 | 6.8 |
| | Operating profit | 3,130 | 5.5 |
| | Recurring profit | 3,200 | 5.6 |
| | Net income | 1,800 | 13.9 |
| Non-consolidated | Sales | 149,000 | 7.5 |
| | Operating profit | 3,130 | 7.2 |
| | Recurring profit | 3,200 | 6.5 |
| | Net income | 1,800 | 14.6 |

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Fiscal 2005 Forecast by Business Segment

(Units: Million yen, %)

| Product | FY | 2005 forecast | | |
|---------------|----|----------------|--------------|-----------------|
| | | | % of total | YoY % change |
| Toys | | 52,800 | 35.2 | 1.4 |
| Video-related | | 41,300 | 27.5 | -9.2 |
| Video Games | | 42,400 | 28.3 | 47.8 |
| Amusements | | 5,800 | 3.9 | -8.2 |
| Others | | 7,700 | 5.1 | -2.8 |
| Total | | 150,000 | 100.0 | 6.8 |

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Construction of the
Logistics Center East No. 2
(tentative name)

Construction of the Logistics Center East No. 2 (tentative name)

The Happinet Logistics Center East No. 2 (tentative name) will be built in Funabashi-shi, Chiba Prefecture

- Increase handling capacity in line with the business expansion to achieve the targets of the mid- to long-term management plan
- Provide new contract distribution service
- Further improve productivity and increase efficiency

By strengthening the capacity of the current Logistics Center East (Ichikawa-shi, Chiba) and by consolidating a portion of the Funabashi Center (Funabashi-shi, Chiba) operations with those among warehouses in the surrounding area, Happinet will generate synergies with the central Logistics Center East.

The new distribution center will be leased from Kyogi Warehouse Co., Ltd. and the investment budget is approximately ¥150 million.

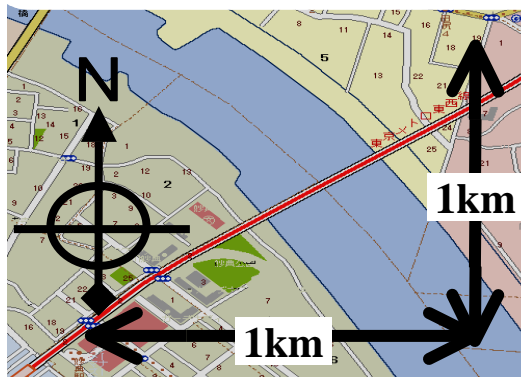


Overview of the Logistics Center East No. 2 (tentative name)

| | |
|------------------------------|---|
| Location: | Nishiura 3-chome, Funabashi-shi, Chiba Prefecture |
| Lot area: | Approx. 18,200m ² |
| Building: | Reinforced steel, four stories |
| Floor area: | Approx. 28,000m ² of a total Approx. 35,000m ² |
| Products handled: | Toys, DVD software, video games, amusements, etc. |
| Construction start: | May 2005 |
| Planned completion: | January 2006 |
| Planned start of operations: | February 2006 |

Construction of the Logistics Center East No. 2 (tentative name)

Location of the new logistics center



Happinet
 Proposed site of the Logistics Center East No. 2 (tentative name)

Approximate distances from the distribution centers of major trading partners

| | East | East No. 2 |
|--------------|-------|------------|
| Toys "R" Us | 1.2km | 3.0km |
| Seven-Eleven | 0.9km | 0.9km |
| Aeon | 4.5km | 3.6km |
| Amazon | 7.2km | 6.3km |

