

# **Fiscal Year 2005 Half-Year Results Briefing Document**

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November 14, 2005

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.

## Business Results

	Mar. 2002	Sep. 2002	Mar. 2003	Sep. 2003	Mar. 2004	Sep. 2004	Mar. 2005	Sep. 2005	Comments	
	Full year	Half year	Full year	Half year	Full year	Half year	Full year	Half year		
Consolidated	Sales	thousand yen 140,888,629	55,783,291	122,515,841	52,484,708	122,722,894	59,211,025	140,461,595	64,566,137	
	Recurring profit	thousand yen 1,518,069	657,385	1,380,129	458,454	1,326,321	877,306	3,030,557	1,463,328	
	Net profit/loss	thousand yen 735,100	420,724	766,689	-1,089,168	-686,818	453,227	1,580,783	852,370	
	Net assets	thousand yen 16,432,387	16,620,954	16,512,301	15,770,631	16,057,601	16,047,120	16,992,262	17,799,513	
	Total assets	thousand yen 53,698,026	44,400,884	39,975,413	39,069,727	37,034,100	37,830,355	39,829,631	41,118,944	
	Net assets per share	yen 1,366.61	1,390.24	1,408.83	1,312.08	1,336.02	1,335.24	1,413.96	1,481.29	
	EPS	yen 61.13	35.01	64.40	-91.32	-57.36	37.71	131.53	70.93	
	No. of employees	556	543	510	503	505	560	566	597	
Non-Consolidated	Sales	thousand yen 89,867,180	17,256,998	39,441,524	11,238,047	31,287,698	58,272,970	138,647,374	63,913,938	
	Recurring profit	thousand yen 1,360,000	120,317	362,764	45,269	483,873	843,848	3,005,602	1,528,001	
	Net profit/loss	thousand yen 722,884	205,127	306,920	-848,963	-723,007	487,847	1,570,526	912,773	
	Net assets per share	yen 1,280.52	1,290.71	1,292.89	1,206.42	1,206.39	1,364.89	1,439.88	1,511.56	
	Dividend per share (Interim dividend)	yen 25.0 (12.50)	(12.50)	25.00 (12.50)	(12.50)	25.0 (12.50)	(10.00)	22.5 (10.00)	(12.50)	
	EPS	yen 60.12	17.07	25.78	-71.18	-60.39	40.59	130.68	75.96	
	Payout ratio	% 41.59	-	96.98	-	-	-	17.2	-	
	No. of employees	174	184	174	137	146	488	493	517	

Notes: 1. Sales tax is not included in either the consolidated or parent sales figures.

2. On March 12, 2004, Happinet Corporation acquired an interest in e-Shopping! Toys CORP., making it a subsidiary.

3. On April 1, 2004, Happinet Corporation merged with Happinet JP Corporation, Happinet Pictures Corporation, and Happinet Robin Corporation.

4. From the previous full year fiscal period, e-Shopping! Toys Corp., Scitron Digital Contents Inc. and Happinet AM Service West Corporation are accounted for as consolidated subsidiaries from the standpoint of significance.

# 1. Fiscal Year 2005 Half-Year Consolidated Results (Profit and Loss Statements)

(Units: million yen, %, persons, yen; rounded down)

	Sep. 2004 (Half year)			Sep. 2005 (Half year)			Comments	(Reference) 9/30 revised figures
		Of total (%)	YoY (%)		Of total (%)	YoY (%)		
Sales	59,211	100.0	12.8	64,566	100.0	9.0		63,000
Cost of sales	51,620	87.2	13.0	56,252	87.1	9.0	Includes inventory revaluation loss: current: 531 previous term: 973	
Gross profit	7,590	12.8	11.3	8,313	12.9	9.5		
SG&A expenses	6,738	11.4	4.3	6,943	10.8	3.0		
Personnel costs	1,979	3.3	7.0	2,123	3.3	7.3		
Subcontracted personnel costs	452	0.8	15.9	479	0.7	6.0		
Depreciation	267	0.5	4.3	200	0.3	-25.2		
Operating income	852	1.4	137.4	1,369	2.1	60.7		
Non-operating income	48	0.1	-54.0	97	0.2	102.3		
Interest and dividends received	6	0.0	-22.3	11	0.0	79.4		
Others	41	0.1	-56.8	86	0.1	105.8		
Non-operating expenses	23	0.0	315.6	3	0.0	-83.3		
Interest paid	1	0.0	1,640.6	0	0.0	-42.9		
Others	22	0.0	301.2	3	0.0	-85.2		
Recurring profit	877	1.5	91.4	1,463	2.3	66.8		1,200
Extraordinary profit	3	0.0	-56.1	57	0.1	1,412.6		
Extraordinary loss	9	0.0	-99.6	55	0.1	510.5		
Pretax profit (half year)	871	1.5	149.4	1,465	2.3	68.0		
Enterprise and other taxes	389	0.7	157.6	612	0.9	57.2		
Minority interests	28	0.1	-	-	-	-		
Net profit (half year)	453	0.8	141.6	852	1.3	88.1		700
Surplus, opening	10,278	-	-8.9	11,263	-	9.6		
Surplus, increase	453	-	141.6	852	-	88.1		
Surplus, decrease	475	-	190.3	150	-	-68.4		
Surplus, closing (half year)	10,255	-	2.3	11,965	-	16.7		
EPS (yen) (half year)	37.71	-	141.3	70.93	-	88.1		
Average no. of shares	12,018,606			12,016,944				
No. of employees at period end	560	-	11.3	597	-	6.6		
Facility investment amount	67	-	107.4	176	-	162.5		

Note: The number of employees includes employees seconded from other companies and contracted staff members but excludes employees seconded to other companies and temporary staff members.

## 1. Fiscal Year 2005 Half-Year Consolidated Results

### 1. Sales by product area

(Units: million yen, %; rounded down)

Product \ Term	Sep. 2004 (Half year)			Mar. 2005			Sep. 2005 (Half year)			Comments
	Of total (%)	YoY (%)		Of total (%)	YoY (%)		Of total (%)	YoY (%)		
Toy business	24,034	40.6	-1.9	52,066	37.1	-2.6	25,246	39.1	5.0	
Video-related business	19,797	33.5	57.4	45,457	32.4	55.3	24,983	38.7	26.2	
Video game business	8,600	14.5	-7.0	28,696	20.4	5.6	8,314	12.9	-3.3	
Amusement business	3,164	5.3	24.5	6,318	4.5	16.2	2,876	4.4	-9.1	
Other businesses	3,614	6.1	0.2	7,921	5.6	7.5	3,144	4.9	-13.0	
<b>Total</b>	<b>59,211</b>	<b>100.0</b>	<b>12.8</b>	<b>140,461</b>	<b>100.0</b>	<b>14.5</b>	<b>64,566</b>	<b>100.0</b>	<b>9.0</b>	

### 2. Operating income by segment

(Units: million yen, %; rounded down)

Product \ Term	Sep. 2004 (Half year)		Mar. 2005		Sep. 2005 (Half year)		Comments
		YoY (%)		YoY (%)		YoY (%)	
Toy business	770	101.5	1,735	891.4	1,537	99.6	
Video-related business	1,001	178.6	1,775	31.6	192	-80.8	
Video game business	-453	-	303	8.2	93	-	
Amusement business	86	27.1	132	-0.1	88	2.1	
Other businesses	112	-48.1	302	-19.5	81	-27.6	
Eliminations and corporate losses	-664		-1,282		-623		
<b>Total</b>	<b>852</b>	<b>137.4</b>	<b>2,966</b>	<b>159.9</b>	<b>1,369</b>	<b>60.7</b>	

### 3. Sales by sales channel

(Units: 100 million yen, %; rounded down)

Channel \ Term	Sep. 2004 (Half year)			Mar. 2005			Sep. 2005 (Half year)			Comments
	Of total (%)	YoY (%)		Of total (%)	YoY (%)		Of total (%)	YoY (%)		
Specialty stores	156	26.4	13.1	359	25.6	11.5	150	23.3	-3.8	
General merchandise stores	88	14.9	-18.5	234	16.7	-12.6	97	15.1	10.5	
Wholesalers	79	13.4	25.2	172	12.3	12.4	79	12.3	0.2	
Suburban retail outlets	74	12.6	-5.8	166	11.9	-5.4	78	12.2	5.4	
E-commerce	-	-	-	162	11.6	-	104	16.1	-	Included in "Others" in Sep. 2004
Convenience stores	68	11.6	18.6	150	10.7	21.4	58	9.0	-14.8	
Department stores	5	0.9	-21.2	13	1.0	-11.1	6	1.0	15.9	
Others	119	20.2	68.3	143	10.2	-	70	11.0	-	
<b>Total</b>	<b>592</b>	<b>100.0</b>	<b>12.8</b>	<b>1,404</b>	<b>100.0</b>	<b>14.5</b>	<b>645</b>	<b>100.0</b>	<b>9.0</b>	

# 1. Fiscal Year 2005 Half-Year Consolidated Results

## 4. Sales by product line

### Toys

(Units: 100 million yen, %; rounded down)

Item \ Term	Mar. 2005		Sep. 2005 (Half year)		Comments
		Of total (%)		Of total (%)	
Bandai	312	60.0	163	64.9	Happinet Robin: Happinet's original product development division Other manufacturers: Takara, Sega Toys, etc.
Tomy	25	4.9	11	4.7	
Happinet Robin	26	5.1	14	5.7	
Other manufacturers	156	30.0	62	24.7	
Total	520	100.0	252	100.0	

### Composition of sales in Video-related business

(Units: 100 million yen, %; rounded down)

Item \ Term	Sep. 2004 (Half year)			Mar. 2005			Sep. 2005 (Half year)			Comments
		Of total (%)	YoY (%)		Of total (%)	YoY (%)		Of total (%)	YoY (%)	
Wholesale	138	69.8	36.4	342	75.3	61.2	198	79.4	43.6	
Exclusive titles	59	30.2	144.4	112	24.7	39.8	51	20.6	-14.0	
Total	197	100.0	57.4	454	100.0	55.3	249	100.0	26.2	

# 1. Fiscal Year 2005 Half-Year Consolidated Results

## 4. Sales by product line

### Video games

(Units: 100 million yen, %; rounded down)

Item	Term	Sep. 2004 (Half year)		Mar. 2005		Sep. 2005 (Half year)			Comments		
		Of total (%)	YoY (%)	Of total (%)	YoY (%)	Of total (%)	YoY (%)	YoY (%)			
PlayStation 2		59	69.2	-12.0	193	67.4	1.1	48	58.4	-18.5	
PlayStation Portable (PSP)		-	-	-	27	9.7	-	16	19.5	-	
PlayStation		0	0.4	-91.8	0	0.2	-90.3	0	0.1	-81.4	
Nintendo DS		-	-	-	0	0.3	-	2	3.2	-	
Game Boy Advance		18	21.0	289.0	33	11.7	3.0	11	14.2	-34.4	
GameCube		1	1.8	-59.9	3	1.2	-58.3	0	0.7	-61.7	
Others		6	7.7	-38.5	27	9.5	-13.2	3	3.9	-51.0	
<b>Total</b>		<b>86</b>	<b>100.0</b>	<b>-7.0</b>	<b>286</b>	<b>100.0</b>	<b>5.6</b>	<b>83</b>	<b>100.0</b>	<b>-3.3</b>	

### PlayStation products (sales and number of units)

(Units: 100 million yen, %; rounded down)

Item	Term	Sep. 2004 (Half year)		Mar. 2005		Sep. 2005 (Half year)			Comments		
		Of total (%)	YoY (%)	Of total (%)	YoY (%)	Of total (%)	YoY (%)	YoY (%)			
PS2 hardware		11	19.8	-62.2	48	21.9	-32.9	8	13.8	-23.7	
		(61,000 units)			(260,000 units)			(47,000 units)			
PS2 software		44	75.1	37.0	137	62.1	28.6	37	57.9	-16.1	
PS2 accessories		3	5.1	-21.7	7	3.4	-38.5	2	3.2	-32.3	
PSP hardware		-			21	9.5	-	10	16.9	-	
					(90,000 units)			(46,000 units)			
PSP software		-			6	2.8	-	5	7.8	-	
PSP accessories		-			0	0.3	-	0	0.4	-	
<b>Total</b>		<b>59</b>	<b>100.0</b>	<b>-12.0</b>	<b>221</b>	<b>100.0</b>	<b>15.6</b>	<b>64</b>	<b>100.0</b>	<b>8.9</b>	

# 1. Fiscal 2005 Year Half-Year Results (Consolidated Balance Sheets [1])

(Unit: million yen; rounded down)

	Sep. 2004 (Half year)	Mar. 2005	Sep. 2005 (Half year)		Main reason behind increase or decrease in assets
				Change	
Assets					
(1) Current assets	33,671	36,135	37,303	1,167	
1. Cash and deposits	6,296	8,845	8,075	-770	
2. Accounts and bills receivable	17,611	18,502	19,345	843	
3. Inventories	5,995	4,429	6,048	1,619	
4. Advances	2,081	2,403	2,269	-134	
5. Deferred tax assets	900	863	728	-134	
6. Others	880	1,135	881	-254	
7. Reserves	-93	-44	-46	-1	
(2) Fixed assets	4,158	3,694	3,815	121	
1. Tangible assets	1,397	1,201	1,172	-28	
Buildings and structures	530	370	365	-5	
Land	272	233	233	-	
Others	594	596	573	-23	
2. Intangible assets	863	637	581	-56	
Goodwill	214	181	148	-33	
Others	649	455	432	-22	
3. Investments and other assets	1,897	1,855	2,062	206	
Long-term securities	1,161	1,043	1,262	218	
Prepaid long-term expenses	8	4	6	2	
Guarantees paid	467	471	469	-1	
Deferred tax assets	183	262	248	-13	
Others	171	166	166	0	
Reserves	-95	-92	-91	0	
Total assets	37,830	39,829	41,118	1,289	

## 1. Fiscal Year 2005 Half-Year Results (Consolidated Balance Sheets [2])

(Unit: million yen; rounded down)

	Sep. 2004 (Half year)	Mar. 2005	Sep. 2005 (Half year)		Main reason behind increase or decrease in liabilities
				Change	
<b>Liabilities</b>					
(1) Current liabilities	20,318	21,282	21,741	459	
1. Accounts and bills payable	17,937	17,628	18,742	1,113	
2. Deferred payments	1,346	1,544	1,694	149	
3. Enterprise and other taxes owed	178	948	587	-361	
4. Reserves against bonuses	353	491	312	-178	
5. Others	501	669	405	-263	
(2) Fixed liabilities	1,465	1,555	1,577	22	
1. Reserves against severance and past service obligations	728	818	859	40	
2. Guarantees received	687	704	707	2	
3. Consolidated adjustment account	16	13	10	-2	
4. Others	32	18	-	-18	
<b>Total liabilities</b>	<b>21,783</b>	<b>22,837</b>	<b>23,319</b>	<b>482</b>	
<b>Minority interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Shareholders' equity</b>					
(1) Capital	2,751	2,751	2,751	-	
(2) Capital reserves	2,776	2,776	2,776	0	
(3) Consolidated surplus	10,255	11,263	11,965	702	
(4) Securities valuation account	270	208	316	108	
(5) Treasury stock	-6	-7	-10	-3	
<b>Total shareholders' equity</b>	<b>16,047</b>	<b>16,992</b>	<b>17,799</b>	<b>807</b>	
<b>Liabilities, minority interests, and shareholders' equity</b>	<b>37,830</b>	<b>39,829</b>	<b>41,118</b>	<b>1,289</b>	
<b>Shareholders' equity per share (yen)</b>	<b>1,335.24</b>	<b>1,413.96</b>	<b>1,481.29</b>	<b>67.33</b>	
Term-end no. of shares issued	12,018,180	12,017,540	12,016,260		



## 1. Fiscal Year 2005 Half-Year Results (Consolidated Cash Flow Statement)

(Unit: million yen; rounded down)

	Sep. 2004 (Half year)	Sep. 2005 (Half year)		Comments
			Change	
(1) Cash flows from operating activities				
Current pretax profit (half year)	871	1,465	593	
Depreciation and amortization	268	200	-67	
Change in trade receivables	686	-842	-1,529	
Change in inventories	-1,157	-1,619	-462	
Change in trade payables	956	1,113	157	
Change in accounts receivable-others	95	268	172	
Change in accounts payable-others	-122	147	270	
Others	-578	-208	369	
Tax paid	-386	-896	-509	
Net cash provided by/used in operating activities	633	-371	-1,005	
(2) Cash flows from investing activities				
Expenditures on acquisition of tangible and intangible assets	-78	-159	-81	
Proceeds from sale of tangible and intangible assets	-	-	-	
Expenditure on acquisition of investment securities	-64	-104	-39	
Gains on sale of investment securities	-	20	20	
Expenditures on loans	-	-	-	
Others	32	-0	-32	
Net cash used in investing activities	-111	-245	-133	
(3) Cash flows from financing activities				
Dividends paid	-150	-150	0	
Proceeds from sales of treasury stock	-	-	-	
Others	-0	-3	-2	
Net cash used in financing activities	-151	-153	-1	
(4) Change in cash and equivalents	370	-770	-1,140	
(5) Cash and cash equivalents opening balance	5,844	8,845	3,000	
(6) Change in cash and cash equivalents resulting from changes in consolidation	81	-	-81	
(7) Cash and cash equivalents closing balance (half year)	6,296	8,075	1,778	

Note: From the previous half year fiscal period under review, Scitron Digital Contents Inc. and Happinet AM Service West Corporation are accounted for as consolidated subsidiaries from the standpoint of significance.

## 2. Fiscal Year 2005 Full-Year Forecasts (Consolidated Profit and Loss Statement)

(Units: million yen, %, persons, yen; rounded down)

	Mar. 2005			Mar. 2006 (Planned)			Comments
		Of total (%)	YoY (%)		Of total (%)	YoY (%)	
Sales	140,461	100.0	14.5	153,000	100.0	8.9	
Cost of sales	123,431	87.9	14.3	134,400	87.8	8.9	
Gross profit	17,030	12.1	15.6	18,600	12.2	9.2	
SG&A expenses	14,063	10.0	3.5	15,300	10.0	8.9	
Personnel costs	4,278	3.0	11.3	4,395	2.9	2.7	
Subcontracted personnel costs	928	0.7	19.6	1,176	0.8	26.7	
Depreciation	515	0.4	-0.6	418	0.3	-18.9	
Operating profit	2,966	2.1	159.9	3,300	2.2	10.9	
Non-operating profit	100	0.1	-52.5	210	0.1	118.6	
Interest and dividends received	10	0.0	-24.6	10	0.0	-7.3	
Others	89	0.1	-54.6	200	0.1	133.8	
Non-operating expenses	36	0.0	36.7	10	0.0	-72.9	
Interest paid	1	0.0	316.3	0	0.0	-68.7	
Others	35	0.0	32.0	9	0.0	-73.2	
Recurring profit	3,030	2.2	128.5	3,500	2.3	15.5	
Extraordinary profit	59	0.0	52.7	57	0.0	-4.2	
Extraordinary losses	169	0.1	-93.1	57	0.0	-66.3	
Pretax profit/loss	2,921	2.1	373.4	3,500	2.3	19.8	
Enterprise and other taxes	1,311	0.9	443.7	1,500	1.0	14.4	
Minority interests	28	0.0	-	-	-	-	
Net profit/loss	1,580	1.1	330.2	2,000	1.3	26.5	
Surplus, opening	10,278	-	-8.9	11,263	-	9.6	
Surplus, increase	1,580	-	330.2	2,000	-	26.5	
Surplus, decrease	595	-	89.7	300	-	-49.6	
Surplus, closing	11,263	-	9.6	12,962	-	15.1	
EPS (yen)	131.53	-	329.3	166.44	-	26.5	
Average no. of shares	12,018,284			12,016,260			
No. of employees at period end	566	-	12.1	597	-	5.5	
Facility investment amount	214	-	60.3	600	-	179.4	

Note: The number of employees includes employees seconded from other companies, contracted staff members and part-time employees but excludes employees seconded to other companies and temporary staff members.

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### 3. Fiscal Year 2005 Full-Year Forecast (Consolidated)

#### 1. Sales by segment

(Units: million yen, %; rounded down)

Item \ Term	Mar. 2005			Sep. 2005 (Half year)			Mar. 2006 (Forecast)			Comments
		Of total (%)	YoY (%)		Of total (%)	YoY (%)		Of total (%)	YoY (%)	
Toy business	52,066	37.1	-2.6	25,246	39.1	5.0	52,800	34.5	1.4	
Video-related business	45,457	32.4	55.3	24,983	38.7	26.2	44,300	29.0	-2.5	
Video game business	28,696	20.4	5.6	8,314	12.9	-3.3	42,400	27.7	47.8	
Amusement business	6,318	4.5	16.2	2,876	4.4	-9.1	5,800	3.8	-8.2	
Other businesses	7,921	5.6	7.5	3,144	4.9	-13.0	7,700	5.0	-2.8	
<b>Total</b>	<b>140,461</b>	<b>100.0</b>	<b>14.5</b>	<b>64,566</b>	<b>100.0</b>	<b>9.0</b>	<b>153,000</b>	<b>100.0</b>	<b>8.9</b>	

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### 3. Group Companies (Reference)

(Units: million yen, %)

	Happinet Logistics Services Corporation							
	Sep. 2004 (Half year)		Mar. 2005		Sep. 2005 (Half year)		Mar. 2006 (Forecast)	
		YoY (%)		YoY (%)		YoY (%)		YoY (%)
Sales	2,354	-13.8	4,975	-11.3	2,216	-5.8	5,000	0.5
Recurring profit/loss	92	-60.5	155	-45.9	-13	-	20	-87.1
Net profit/loss	55	-59.0	92	-44.1	-7	-	12	-87.1

(Units: million yen, %)

	e-Shopping! Toys CORP.							
	Sep. 2004 (Half year)		Mar. 2005		Sep. 2005 (Half year)		Mar. 2006 (Forecast)	
		YoY (%)		YoY (%)		YoY (%)		YoY (%)
Sales	467	-43.0	1,180	-22.4	725	55.3	1,500	27.0
Recurring profit/loss	-39	11.5	-66	-	-51	-	0	-
Net profit/loss	-39	11.2	-126	-	-43	-	0	-

(Units: million yen, %)

	Scitron Digital Contents Inc.							
	Sep. 2004 (Half year)		Mar. 2005		Sep. 2005 (Half year)		Mar. 2006 (Forecast)	
		YoY (%)		YoY (%)		YoY (%)		YoY (%)
Sales	349	-	679	16.4	225	-35.3	600	-11.7
Recurring profit/loss	8	-	9	-	-16	-	0	-
Net profit/loss	9	-	10	-	-16	-	0	-

(Units: million yen, %)

	Happinet AM Service West Corporation							
	Sep. 2004 (Half year)		Mar. 2005		Sep. 2005 (Half year)		Mar. 2006 (Forecast)	
		YoY (%)		YoY (%)		YoY (%)		YoY (%)
Sales	483	28.2	952	17.0	626	29.6	1,000	5.0
Recurring profit/loss	3	117.6	0	-	29	898.3	0	-
Net profit/loss	2	112.6	0	-	29	1,286.5	0	-

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.