

Fiscal Year 2007 Full-Year results briefing document

1. Fiscal 2007 consolidated results
2. Fiscal 2008 consolidated forecasts

May 12, 2008

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	FY2003	FY2004	FY2005	FY2006	FY2007	Remarks
Consolidated	Net Sales	(¥ thousand) 122,722,894	140,461,595	155,703,391	160,606,235	168,958,676	
	Recurring profit	(¥ thousand) 1,326,321	3,030,557	3,786,648	2,554,272	1,569,923	
	Net profit/loss	(¥ thousand) -686,818	1,580,783	2,270,747	1,616,477	-1,490,075	
	Net assets	(¥ thousand) 16,057,601	16,992,262	19,109,787	20,602,774	18,811,548	
	Total assets	(¥ thousand) 37,034,100	39,829,631	45,719,978	45,801,983	48,486,678	
	Net assets per share	(¥) 1,336.02	1,413.96	1,590.44	1,714.73	1,566.17	
	Earnings per share	(¥) -57.36	131.53	188.97	134.54	-124.11	
	Dividends per share (Interim dividends)	(¥) 25.0 (12.50)	22.5 (10.00)	27.5 (12.50)	30.0 (15.00)	40.0 (25.00)	The interim dividend for the fiscal year ended March 31, 2008 includes a commemorative dividend of 10 yen to mark our 40th anniversary.
	Payout ratio	% —	17.1	14.6	22.3	—	
	No. of employees	People 505	566	607	743	890	
Non-consolidated	Net Sales	(¥ thousand) 31,287,698	138,647,374	154,255,488	137,295,357	135,717,020	
	Recurring profit	(¥ thousand) 483,873	3,005,602	3,868,638	2,232,109	1,490,405	
	Net profit/loss	(¥ thousand) -723,007	1,570,526	2,188,704	1,018,504	-1,398,574	
	Net assets per share	(¥) 1,206.39	1,439.88	1,608.85	1,683.62	1,541.75	
	Earnings per share	(¥) -60.39	130.68	182.14	84.77	-116.49	
	No. of employees	People 146	493	528	547	511	

Notes: 1. Consolidated and non-consolidated sales figures do not include consumption tax.

2. Happinet Corporation merged with Happinet JP Corporation, Happinet Pictures Corporation, and Happinet Robin Corporation on April 1, 2004.

3. 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.

4. Happinet Corporation acquired an interest in Sunlink Co., Ltd. and The Apple Corporation on November 30, 2007, making it a subsidiary.

5. Happinet Corporation established Happinet Marketing Corporation as a wholly owned subsidiary effective February 1, 2007.

1. Fiscal 2007 full-year consolidated profit & loss statement

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

	FY2006			FY2007			Remarks
		% of total	YoY		% of total	YoY	
Net sales	160,606	100.0	3.1	168,958	100.0	5.2	
Cost of sales	142,158	88.5	3.6	150,651	89.2	6.0	Includes inventory disposal loss of ¥1,809m in FY07 and ¥1,928m in FY06
Gross profit	18,448	11.5	0.1	18,306	10.8	-0.8	
SG&A expenses	16,294	10.1	9.0	16,855	10.0	3.4	
Personnel	5,478	3.4	13.7	5,678	3.4	3.8	
Contract personnel costs	1,336	0.8	26.1	1,665	1.0	24.6	
Depreciation and amortization	357	0.2	-12.5	427	0.3	19.6	
Operating profit	2,153	1.3	-37.9	1,451	0.9	-32.6	
Non-operating income	466	0.3	45.1	162	0.1	-65.2	
Interest and dividends received	22	0.0	29.3	47	0.0	107.2	
Other	443	0.3	46.0	115	0.1	-74.0	
Non-operating expenses	65	0.0	—	43	0.0	-33.0	
Interest paid	45	0.0	—	20	0.0	-54.1	
Other	20	0.0	364.9	23	0.0	13.6	
Recurring profit	2,554	1.6	-32.5	1,569	0.9	-38.5	
Extraordinary gains	1	0.0	-97.4	1	0.0	-4.2	
Extraordinary losses	18	0.0	-69.4	4,029	2.4	—	Loss on business restructuring ¥3,253m Loss on disposal of inventory ¥525m
Net profit before income taxes	2,537	1.6	-33.2	-2,458	-1.5	—	
Income taxes	920	0.6	-39.8	-967	-0.6	—	
Minority interests	0	0.0	—	-0	-0.0	—	
Net profit	1,616	1.0	-28.8	-1,490	-0.9	—	

Earnings per share (¥)	134.54	—	-28.8	-124.11	—	—
Average number of shares during period	12,015,254			12,005,682		

No. of employees at end of period	743	—	22.4	890	—	19.8
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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	835	—	6.6
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1. Fiscal 2007 full-year consolidated results

1. Sales by business segment

(¥ millions, %; rounded down)

Segment \ Period	FY2005		FY2006		FY2007		Remarks			
	% of total	YoY	% of total	YoY	% of total	YoY				
Toy business	58,724	37.7	12.8	57,212	35.6	-2.6	57,784	34.2	1.0	
Video-related business	52,266	33.6	15.0	46,145	28.7	-11.7	38,554	22.8	-16.5	
Video game business	32,469	20.8	13.1	45,092	28.1	38.9	54,535	32.3	20.9	
Amusement business	5,904	3.8	-6.6	6,347	4.0	7.5	12,957	7.7	104.1	
Other businesses	6,337	4.1	-20.0	5,808	3.6	-8.3	5,126	3.0	-11.7	
Total	155,703	100.0	10.9	160,606	100.0	3.1	168,958	100.0	5.2	

2. Operating profit by business segment

(¥ millions, %; rounded down)

Segment \ Period	FY2005		FY2006		FY2007		Remarks
	YoY		YoY		YoY		
Toy business	3,389	95.3	1,817	-46.4	1,281	-29.5	
Video-related business	411	-76.8	629	53.0	37	-94.1	
Video game business	731	141.0	806	10.3	1,321	63.9	
Amusement business	134	1.1	120	-10.4	-25	-	
Other businesses	111	-63.2	66	-40.5	40	-39.4	
Eliminations and corporate	-1,307		-1,286		-1,202		
Total	3,470	17.0	2,153	-37.9	1,451	-32.6	

3. Sales by channel

(¥ millions, %; rounded down)

Channel \ Period	FY2005		FY2006		FY2007		Remarks			
	% of total	YoY	% of total	YoY	% of total	YoY				
General merchandise store	218	14.1	-6.7	279	17.4	27.9	298	17.7	6.7	
Convenience stores	135	8.7	-10.4	111	6.9	-17.7	126	7.5	14.0	
Suburban stores	185	11.9	10.9	140	8.7	-24.2	135	8.0	-3.5	
E-commerce	240	15.4	47.4	306	19.1	27.8	350	20.7	14.2	
Specialty stores	448	28.8	24.7	435	27.1	-3.0	509	30.1	17.0	Includes consumer electronics and camera stores
Wholesalers	177	11.4	2.8	149	9.3	-15.7	149	8.9	-0.2	
Department stores	22	1.4	60.6	32	2.0	43.4	25	1.5	-20.3	
Other	129	8.3	-9.6	151	9.4	16.7	94	5.6	-37.5	
Total	1,557	100.0	10.9	1,606	100.0	3.1	1,689	100.0	5.2	

1. Fiscal 2007 full-year consolidated results

● Toy sales by manufacturer

(¥100millions, %; rounded down)

Manufacturer	Period	FY2005		FY2006		FY2007		Remarks			
		% of total	YoY	% of total	YoY	% of total	YoY				
Bandai Co., Ltd.		379	64.6	21.9	307	53.8	-18.9	300	52.1	-2.3	
Tomy Co., Ltd.		43	7.4	-1.2	50	8.8	16.0	48	8.4	-3.2	
Happinet originals		28	4.8	8.6	23	4.0	-18.3	26	4.6	14.0	
Other manufacturers		135	23.2	-2.3	190	33.4	40.4	201	34.9	5.8	
Total		587	100.0	12.8	572	100.0	-2.6	577	100.0	1.0	

● Video-related business sales composition

(¥100millions, %; rounded down)

Division	Period	FY2005		FY2006		FY2007		Remarks			
		% of total	YoY	% of total	YoY	% of total	YoY				
Wholesale		404	77.4	18.2	340	73.7	-15.9	298	77.5	-12.1	
Exclusive titles		118	22.6	5.3	121	26.3	2.7	86	22.5	-28.5	
Total		522	100.0	15.0	461	100.0	-11.7	385	100.0	-16.5	

1. Fiscal 2007 full-year consolidated results

● Sales by video game machine

(¥100millions, %; rounded down)

Machine \ Period	FY2005			FY2006			FY2007			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
PlayStation 3	-	-	-	39	8.8		31	5.8	-20.1	
PlayStation 2	146	45.1	-24.3	73	16.4	-49.5	57	10.6	-21.5	
PlayStation Portable	45	14.1	64.3	50	11.3	11.6	93	17.2	83.9	
Wii	-	-	-	25	5.7		90	16.6	245.0	
Nintendo DS	23	7.1	3013.5	146	32.5	536.3	127	23.4	-12.9	
Game Boy Advance	13	4.1	-60.7	0	0.1	-96.8	0	0.1	50.0	
Other	96	29.6	246.6	113	25.2	18.0	143	26.3	26.2	
Total	324	100.0	13.1	450	100.0	38.9	545	100.0	20.9	

● Breakdown of PlayStation sales and sales volume

(¥100millions, %; rounded down)

Item \ Period	FY2005			FY2006			FY2007			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
PS3 hardware	-	-	-	34 (60,000units)	20.8		19 (40,000units)	10.6	-43.4	
PS3 software	-	-	-	4	2.9		10	5.7	123.9	
PS3 accessories	-	-	-	0	0.4		1	1.0	158.0	
PS2 hardware	21 (110,000units)	10.9	-56.7	8 (50,000units)	5.1	-60.3	3 (20,000units)	1.9	-58.4	
PS2 software	121	63.1	-11.8	63	38.7	-47.6	53	29.0	-16.3	
PS2 accessories	4	2.2	-43.6	2	1.2	-52.1	1	0.7	-33.7	
PSP hardware	30 (120,000units)	15.6	42.5	26 (120,000units)	16.0	-12.6	58 (310,000units)	32.2	124.7	
PSP software	14	7.8	145.1	23	14.3	57.4	30	16.6	29.1	
PSP accessories	0	0.4	9.8	1	0.7	74.6	4	2.3	268.4	
Total	192	100.0	-13.1	164	100.0	-14.4	183	100.0	11.5	

1. Fiscal 2007 full-year consolidated balance sheet (1)

(¥ millions, %; rounded down)

	FY2007	FY2007	Change	Main reason behind increase or decrease in assets
Assets				
(1) Current assets	40,021	40,801	779	
1. Cash and deposits	6,252	5,927	-324	
2. Accounts and notes receivable	22,095	21,330	-764	
3. Inventories	6,208	7,450	1,242	
4. Advances	3,624	2,868	-755	
5. Deferred tax assets	584	1,996	1,412	
6. Other	1,294	1,392	97	
7. Allowance for doubtful accounts	-38	-166	-128	
(2) Fixed assets	5,780	7,685	1,905	
1. Tangible fixed assets	1,603	2,218	615	
Buildings and structures	477	638	160	
Land	547	851	304	
Other	578	728	150	
2. Intangible fixed assets	1,535	2,215	679	
Goodwill	535	770	235	
Other	1,000	1,444	443	
3. Investments and other assets	2,641	3,251	610	
Investment securities	1,823	2,210	387	
Long-term prepaid expenses	6	79	73	
Guarantees paid	544	674	129	
Deferred tax assets	115	16	-98	
Other	236	447	210	
Allowance for doubtful accounts	-85	-176	-91	
Total assets	45,801	48,486	2,684	

1. Fiscal 2007 full-year consolidated balance sheet (2)

(¥ millions, %; rounded down)

	FY2006	FY2007	Change	Main reason behind increase or decrease in liabilities
Liabilities				
(1) Current liabilities	23,560	27,426	3,865	
1. Accounts and notes payable	19,112	21,096	1,983	
2. Deferred payments	3,051	2,494	-557	
3. Income tax payable	589	57	-531	
4. Bonus reserve	322	390	67	
5. Other	483	3,387	2,903	Allowance for losses on business restructuring ¥2,599m
(2) Fixed liabilities	1,638	2,248	610	
1. Reserve for retirement benefits	932	1,135	202	
2. Guarantees received	695	689	-5	
3. Negative goodwill	2	94	91	
4. Other	7	329	322	
Total liabilities	25,199	29,675	4,475	
Shareholders' equity				
(1) Capital	2,751	2,751	—	
(2) Capital reserve	2,776	2,776	0	
(3) Retained earnings	14,489	12,544	-1,944	
(4) Treasury stock	-13	-239	-225	
(5) Net unrealized gain on securities	599	725	125	
(6) Minority interests	—	253	253	
Total shareholders' equity	20,602	18,811	-1,791	
Total liabilities and shareholders' equity	45,801	48,486	2,684	
Net assets per share (¥)	1,714.73	1,566.17	-148.56	
Shares outstanding at end of period	12,015,175	11,849,355		

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

(¥ millions, %; rounded down)

	FY2006	FY2007	Change	Remarks
(1) Cash flows from operating activities				
Net profit before income taxes	2,537	-2,458	-4,995	
Depreciation and amortization	357	427	70	
Change in 事業構造改革損失引当金	—	2,599	2,599	
Change in trade receivables	1,831	2,743	912	
Change in inventories	-322	-305	17	
Change in trade payables	-2,133	-1,039	1,094	
Change in other receivables	97	96	-0	
Change in other payables	553	-631	-1,185	
Other	-866	1,160	2,027	
Payment of income taxes	-1,247	-901	345	
Net cash provided by/used in operating activities	806	1,691	885	
(2) Cash flows from investing activities				
Payments for purchase of tangible and intangible fixed assets	-752	-851	-99	
Proceeds for sales of tangible and intangible fixed assets	3	0	-3	
Payments for purchase of investment securities	-28	-23	5	
Proceeds from sale of investment securities	60	0	-60	
Proceeds for purchase of stock in subsidiaries with change in scope of consolidation	—	210	210	
Payments for purchase of stock in subsidiaries with change in scope of consolidation	-804	—	804	
Other	-264	169	434	
Net cash provided by/used in investing activities	-1,785	-494	1,291	
(3) Cash flows from financing activities				
Payments of dividends	-360	-479	-118	
Proceeds from sale of treasury stock	0	0	0	
Other	-1,887	-1,175	712	
Net cash provided by/used in financing activities	-2,248	-1,655	593	
(4) Change in cash and equivalents	-3,227	-457	2,769	
(5) Cash and equivalents at beginning of period	9,480	6,252	-3,227	
(6) Changes in cash and cash equivalents with changes in the scope of consolidation	—	42	42	
(7) Cash and equivalents at end of period	6,252	5,837	-415	

2. Fiscal 2008 forecasts

Consolidated statements of income

(¥ millions, %; rounded down)

	FY2008 forecasts			Remarks
		% of total	YoY	
Net sales	180,000	100.0	6.5	
Cost of sales	154,300	85.7	2.4	
Gross profit	25,700	14.3	40.4	
SG&A expenses	23,800	13.2	41.2	
Personnel costs	6,298	3.5	10.8	
Contract personnel costs	2,300	1.3	38.1	
Depreciation and amortization	815	0.5	90.8	
Operating profit	1,900	1.1	30.9	
Non-operating income	140	0.1	-13.8	
Interest and dividends received	50	0.0	5.8	
Other	90	0.1	-21.8	
Non-operating expenses	40	0.0	-8.9	
Interest paid	20	0.0	-3.5	
Other	20	0.0	-13.8	
Recurring profit	2,000	1.1	27.4	
Extraordinary gains	—	—	—	
Extraordinary losses	—	—	—	
Net profit before income taxes	2,000	1.1	—	
Income taxes	780	0.4	—	
Minority interests	20	0.0	—	
Net income	1,200	0.7	—	

Earnings per share (¥)	101.27	—	—	
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Average number of shares during period 11,849,355

Number of employees at end of period	890	—	—	
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Capital expenditures	1,200	—	43.7	
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2. Fiscal 2008 consolidated forecasts

Sales forecasts by business segment

(¥ millions, %; rounded down)

Segment	Period	FY2007		FY2008 forecasts			Remarks	
		% of total	YoY		% of total	YoY		
Toy business		57,784	34.2	1.0	65,000	36.1	12.5	
Video-related business		38,554	22.8	-16.5	35,000	19.4	-9.2	
Video game business		54,535	32.3	20.9	55,000	30.6	0.9	
Amusement business		12,957	7.7	104.1	20,000	11.1	54.4	
Other business		5,126	3.0	-11.7	5,000	2.8	-2.5	
Total		168,958	100.0	5.2	180,000	100.0	6.5	

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