

HAPPINET CORPORATION

Financial Statements

Consolidated Financial Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2014

November 12, 2013

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 - (2) Consolidated Quarterly Statements of Income and Consolidated Quarterly Statements of Comprehensive Income
 - (3) Consolidated Quarterly Statements of Cash Flows
- 2. Consolidated Quarterly Financial Results by Business Segments

Consolidated Quarterly Financial Statements Consolidated Quarterly Balance Sheets

	Prior Fiscal Year	Current Fiscal Year
	(As of March 31, 2013)	(As of Sept. 30, 2013)
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Assets		
Current assets		
Cash and deposits	10,155	10,54
Notes and accounts receivable-trade	27,234	28,56
Inventories	6,529	9,04
Other	4,074	4,87
Allowance for doubtful accounts	(63)	(8
Total current assets	47,930	52,95
Noncurrent assets		
Property, plant and equipment	1,110	1,69
Intangible assets		
Goodwill	246	12
Other	738	58
Total intangible assets	985	70
Investments and other assets	2,976	4,91
Total noncurrent assets	5,072	7,31
Total assets	53,003	60,26
Liabilities		
Current liabilities		
Notes and accounts payable-trade	22,672	22,79
Short-term loans payable	,	6,00
Income taxes payable	678	56
Provision for bonuses	378	23
Other provision	24	2
Other	3,129	3,04
Total current liabilities	26,883	32,66
Noncurrent liabilities	20,000	02,00
Provision for retirement benefits	1,830	2,03
Provision for directors' retirement benefits	-	2,00
Other	999	1,01
Total noncurrent liabilities	2,829	3,07
Total liabilities	29,713	35,74
Net assets	23;113	55,74
Shareholders' equity		
Capital stock	2,751	2,75
Capital surplus	2,775	2,73
Retained earnings	18,607	19,72
Treasury stock	(1,055)	(98
Total shareholders' equity		24,26
Valuation and translation adjustments	23,078	24,20
Valuation difference on available-for-sale securities	100	0.4
Deferred gains or losses on hedges	189	24
	1	
Total valuation and translation adjustments	191	24
Subscription rights to shares	17	
Minority interests	1	
Total net assets	23,289	24,52
Total liabilities and net assets	53,003	60,26

onsolidated Quarterly Statements of Income)		(¥millio
	Prior Fiscal Year (Apr. 1, 2012 - Sept. 30, 2012)	Current Fiscal Yea (Apr. 1, 2013 - Sept. 30, 2013)
Net sales	76,211	87,37
Cost of sales	66,019	76,58
Gross profit	10,192	10,78
Selling, general and administrative expenses	9,185	9,23
Operating income	1,007	1,55
Non-operating income		7
Interest income	1	
Dividends income	16	2
Amortization of negative goodwill	14	
Other	38	3
Total non-operating income	70	Ę
Non-operating expenses		
Interest expenses	2	
Foreign exchange losses	1	
Provision of allowance for doubtful accounts	-	2
Other	0	
Total non-operating expenses	5	
Ordinary income	1,072	1,57
Extraordinary income		'
Gain on sales of noncurrent assets	0	
Gain on sales of investment securities	5	
Gain on negative goodwill	-	4(
Total extraordinary income	5	4
Extraordinary loss		
Loss on sales of noncurrent assets	1	
Loss on retirement of noncurrent assets	1	
Loss on valuation of investment securities	31	
Impairment loss	13	
Loss on valuation of membership	7	
Directors' retirement benefits	-	11
Total extraordinary losses	55	15
ncome before income taxes	1,022	1,83
ncome taxes-current	371	55
ncome taxes-deferred	(59)	(9
Total income taxes	312	40
ncome before minority interests	710	1,37
Vinority interests in income	0	.,0.
Net income	709	1,37

(Consolidated quarterly statements of comprehensive income)		(¥million)	
	Prior Fiscal Year (Apr. 1, 2012 - Sept. 30, 2012)	Current Fiscal Year (Apr. 1, 2013 - Sept. 30, 2013)	
Income before minority interests	710	1,376	
Other comprehensive income		,	
Valuation difference on available-for-sale securities	(9)	59	
Deferred gains or losses on hedges	(1)	(2)	
Total other comprehensive income	(11)	57	
Comprehensive income	698	1,434	
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	698	1,433	
Comprehensive income attributable to minority interests	0	0	

(3) Consolidated Quarterly Statements of Cash Flows

Income before income taxes1,0221,833Depreciation and amortization323300Impairment loss1333Amortization of goodwill154121Gain on negative goodwill-400Increase (decrease) in provision for toburses(211)(192Increase (decrease) in provision for toburses(211)(192Increase (decrease) in provision for directors' retirement benefits4855Increase (decrease) in provision for directors' retirement benefits-00Interest and dividends income(177)(22(22Interest and dividends income31700Loss (gain) on sales and retirement of noncurrent assets2(1Loss (gain) on sales and retirement securities(5)700Increase (decrease) in investment securities31700Loss (gain) on valuation of investment securities(1,501)(1,564)Increase (decrease) in inventories(2,236)(1,564)Increase (decrease) in inventories(2,232)(2,232)Other, net(1,306)(3,053)(660)Net cash provided by (used in) operating activities(1,306)(3,053)Purchase of investments in subsidiaries(1,306)(3,053)Net cash provided by (used in) investing activities(1,306)(3,053)Purchase of investments in subsidiaries(1,306)(3,053)Net cash provided by (used in) investing activities(1,306)(3,053)Purchase of investments in subsidiar	,		(¥million)
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Interest expenses paid(2)(2)Income taxes paid(1,593)(666Net cash provided by (used in) operating activities(1,306)(3,093)Net cash provided by (used in) investing activities(69)(156Purchase of property, plant and equipment169Purchase of intargible assets(72)(62Purchase of investment securities(4)(5Proceeds from sales of investment securities66Proceeds from purchase of investment securities66Proceeds from purchase of investments in subsidiaries-(10Purchase of investments in subsidiaries-(11)(11)Purchase of investments in subsidiaries-(12)(12)Purchase of investments in subsidiaries-(13)(12)Purchase of investments in subsidiaries-(14)(12)Purchase of investments in subsidiaries-(12)(12)Net cash provided by (used in) investing activities(173)(112)Net cash provided by (used in) financing activities-(13)(12)Net increase (decrease) in short-term loans payable-(13)(12)Proceeds from sales of treasury stock0-(10)(10)Proceeds from sales of treasury stock-(10)(10)Purchase of treasury stock-(10)(10)(10)Purchase of treasury stock-(10)(10)(10)Purchase of treasury stock-(10)(10) <td< td=""><td>Subtotal</td><td>271</td><td>(2,440</td></td<>	Subtotal	271	(2,440
Income taxes paid(1,593)(666Net cash provided by (used in) operating activities(1,306)(3,092)Vet cash provided by (used in) investing activities(69)(156Purchase of property, plant and equipment16Purchase of investment securities(72)(62Purchase of investment securities(4)(5Proceeds from sales of investment securities67Proceeds from sales of investment securities67Proceeds from sales of investment in subsidiaries-(1Purchase of investment securities-(1Purchase of investments in subsidiaries-(1Purchase of investments in subsidiaries-(1Purchase of investments in subsidiaries-(1Purchase of investments in subsidiaries-(1Vet cash provided by (used in) financing activities(173)(12Net cash provided by (used in) financing activities-4,000Repayment of long-term loans payable-4,000Proceeds from sales of treasury stock0-Proceeds from disposal of treasury stock-50Purchase of treasury stock-(10)Other, net(1)(1)Net cash provided by (used in) financing activities(363)(252Other, net(1)(1)(1)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net cash	Interest and dividends income received	17	23
Net cash provided by (used in) operating activities(1,306)(3,093)Net cash provided by (used in) investing activities(69)(156)Purchase of property, plant and equipment16Proceeds from sales of property, plant and equipment16Purchase of investment securities(4)(5Purchase of investment securities(4)(5Proceeds from sales of investment securities66Proceeds from purchase of investment securities66Proceeds from purchase of investments in subsidiaries-(1Purchase of livestments in subsidiaries-(1Purchase of livestments in subsidiaries-(1Proceeds from sless of treasury stock-4,000Proceeds from sales of treasury stock-53Purchase of treasury stock-(1Purchase of treasury stock-(1Other, net(1)(1Net cash provided by (used in) financing activities(364)Other, net(1)(1Net cash provided by (used in) financing activities(364)Ca	Interest expenses paid	(2)	(9
Net cash provided by (used in) investing activitiesPurchase of property, plant and equipment(69)Proceeds from sales of property, plant and equipment1Purchase of intangible assets(72)Purchase of investment securities(4)Proceeds from sales of investment securities6Proceeds from purchase of investment securities6Proceeds from purchase of investments in subsidiaries-resulting in change in scope of consolidation-Purchase of investments in subsidiaries-resulting in change in scope of consolidation-Purchase of investments in subsidiaries-resulting in change in scope of consolidation-Purchase of investments in subsidiaries-resulting in change in scope of consolidation-Purchase of investments in subsidiaries-(34)85Net cash provided by (used in) financing activities(173)Net cash provided by (used in) financing activities-Net cash provided by (used in) financing activities-Proceeds from disposal of treasury stock-Purchase of treasury stock-Cash dividends paid(363)Other, net(1)Net cash provided by (used in) financing activitiesPurchase of treasury stock-Cash dividends paid(364)Other, net(1)Net cash provided by (used in) financing activitiesCash and cash equivalents(1)Cash and cash equivalents(1)(1)(1) <td>Income taxes paid</td> <td></td> <td>(666</td>	Income taxes paid		(666
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Proceeds from sales of property, plant and equipment15Purchase of intangible assets(72)(62Purchase of investment securities(4)(5Proceeds from sales of investment securities66Proceeds from purchase of investments in subsidiaries66Purchase of investments in subsidiaries-(1Other, net(34)89Net cash provided by (used in) investing activities(173)(124Net cash provided by (used in) financing activities-4,000Repayment of long-term loans payable-4,000Proceeds from disposal of treasury stock00Proceeds from disposal of treasury stock-53Purchase of treasury stock-(1)Other, net(1)(1)Net cash provided by (used in) financing activities-(363)Proceeds from disposal of treasury stock-53Purchase of treasury stock-(1)(1)Net cash provided by (used in) financing activities-(1)Purchase of treasury stock-(1)(1)Net cash dividends paid(364)3,605(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents(1,846)386386	Net cash provided by (used in) investing activities		
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Purchase of investment securities(4)(5)Proceeds from sales of investments in subsidiaries66Proceeds from purchase of investments in subsidiaries66Purchase of investments in subsidiaries-(1Purchase of investments in subsidiaries-(1Other, net(34)89Net cash provided by (used in) investing activities(173)(122Net cash provided by (used in) financing activities-4,000Repayment of long-term loans payable-(194Proceeds from sales of treasury stock0-Purchase of treasury stock-(194Other, net(363)(252Other, net-(10)Cash dividends paid(363)(252Other, net(1)(1Net cash provided by (used in) financing activities(364)Structures (decrease) in short-term loans payable-Proceeds from disposal of treasury stock-Other, net(1)Net cash provided by (used in) financing activitiesCash dividends paid(364)Other, net(1)Net cash provided by (used in) financing activitiesEffect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalentsCash and cash equivalents at beginning of period12,359Not cash equivalents at beginning of period12,359	Proceeds from sales of property, plant and equipment	1	5
Proceeds from sales of investment securities6Proceeds from purchase of investments in subsidiaries6Proceeds from purchase of investments in subsidiaries6Purchase of investments in subsidiaries-Other, net(34)Net cash provided by (used in) investing activities(173)Net cash provided by (used in) financing activities(173)Net increase (decrease) in short-term loans payable-Proceeds from sales of treasury stock0Proceeds from disposal of treasury stock-Purchase of treasury stock-Purchase of treasury stock-Other, net(1)Other, net(1)Cash dividends paid(363)Other, net(1)Net cash provided by (used in) financing activitiesPurchase of treasury stock-Purchase of treasury stock-Cash dividends paid(363)Other, net(1)(1)(1)Net cash provided by (used in) financing activitiesCash and cash equivalents(1)Other, net(1)Net increase (decrease) in cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1)(1)(1)(1)(1)(1)(1)(1)(1)(1)(1)(1) </td <td>Purchase of intangible assets</td> <td>(72)</td> <td>(62</td>	Purchase of intangible assets	(72)	(62
Proceeds from sales of investment securities6Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation-6Purchase of investments in subsidiaries-(1)Other, net(34)88Net cash provided by (used in) investing activities(173)(124Net cash provided by (used in) financing activities-4,000Repayment of long-term loans payable-(194Proceeds from sales of treasury stock0-Purchase of treasury stock0-Purchase of treasury stock-53Other, net(1)(1)Net cash provided by (used in) financing activities-60Proceeds from sales of treasury stock0-Purchase of treasury stock-53Other, net(1)(1)Net cash provided by (used in) financing activities(363)(252Other, net(1)(1)(1)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	Purchase of investment securities		(5
resulting in change in scope of consolidation Purchase of investments in subsidiaries Other, net (34) 89 (173) (122 Net cash provided by (used in) investing activities Net increase (decrease) in short-term loans payable Proceeds from sales of treasury stock Purchase of treasury stock Purchase of treasury stock Cash dividends paid Other, net (1) (1) (1) (1) (1) (1) (1) (1) (1) (1)	Proceeds from sales of investment securities		
Purchase of investments in subsidiaries-(1)Other, net(34)89Net cash provided by (used in) investing activities(173)(124)Net cash provided by (used in) financing activities(173)(124)Net increase (decrease) in short-term loans payable-4,000Repayment of long-term loans payable-(194)Proceeds from sales of treasury stock0-Purchase of treasury stock0-Purchase of treasury stock-(10)Cash dividends paid(363)(252)Other, net(1)(11)Net cash provided by (used in) financing activities(364)3,605)Effect of exchange rate change on cash and cash equivalents(11)(11)Net increase (decrease) in cash and cash equivalents(1,846)386)Cash and cash equivalents at beginning of period12,35910,155	Proceeds from purchase of investments in subsidiaries		_
Other, net(34)85Net cash provided by (used in) investing activities(173)(124)Net cash provided by (used in) financing activities(173)(124)Net increase (decrease) in short-term loans payable-4,000Repayment of long-term loans payable-(194)Proceeds from sales of treasury stock0-Proceeds from disposal of treasury stock-53Purchase of treasury stock-53Other, net(1)(1)Net cash provided by (used in) financing activities(363)(252)Other, net(1)(1)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	resulting in change in scope of consolidation	-	5
Other, net(34)89Net cash provided by (used in) investing activities(173)(124Net cash provided by (used in) financing activities(173)(124Net increase (decrease) in short-term loans payable-4,000Repayment of long-term loans payable-(194Proceeds from sales of treasury stock0-Purchase of treasury stock0-Cash dividends paid(363)(252Other, net(1)(1Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	Purchase of investments in subsidiaries	-	(1
Net cash provided by (used in) financing activitiesNet increase (decrease) in short-term loans payable-4,000Repayment of long-term loans payable-(194Proceeds from sales of treasury stock0-Proceeds from disposal of treasury stock0-Purchase of treasury stock-53Other, net(1)(1)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155		(34)	89
Net cash provided by (used in) financing activitiesNet increase (decrease) in short-term loans payable-4,000Repayment of long-term loans payable-(194)Proceeds from sales of treasury stock00Proceeds from disposal of treasury stock-53Purchase of treasury stock-(10)Cash dividends paid(363)(252)Other, net(1)(11)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(11)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	Net cash provided by (used in) investing activities	(173)	(124
Repayment of long-term loans payable-(194Proceeds from sales of treasury stock0Proceeds from disposal of treasury stock-Purchase of treasury stock-Cash dividends paid(363)Other, net(1)Net cash provided by (used in) financing activities(364)Effect of exchange rate change on cash and cash equivalents(1)Net increase (decrease) in cash and cash equivalents(1,846)Cash and cash equivalents at beginning of period12,35910,155	Net cash provided by (used in) financing activities	· · · · · · · · · · · · · · · · · · ·	· · · · · · · · · · · · · · · · · · ·
Proceeds from sales of treasury stock0Proceeds from disposal of treasury stock-53Purchase of treasury stock-(0Cash dividends paid(363)(252Other, net(1)(1Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	Net increase (decrease) in short-term loans payable	-	4,000
Proceeds from sales of treasury stock0Proceeds from disposal of treasury stock-53Purchase of treasury stock-(0Cash dividends paid(363)(252Other, net(1)(1Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	Repayment of long-term loans payable	-	(194
Proceeds from disposal of treasury stock-53Purchase of treasury stock-(0Cash dividends paid(363)(252Other, net(1)(1Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	Proceeds from sales of treasury stock	0	
Purchase of treasury stock-(()Cash dividends paid(363)(252Other, net(1)(1)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1)(1)Cash and cash equivalents at beginning of period12,35910,155		-	53
Cash dividends paid(363)(252)Other, net(1)(1)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155	Purchase of treasury stock	-	(0
Other, net(1)(1)Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155		(363)	(252
Net cash provided by (used in) financing activities(364)3,605Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155			(1
Effect of exchange rate change on cash and cash equivalents(1)(1)Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155			,
Net increase (decrease) in cash and cash equivalents(1,846)386Cash and cash equivalents at beginning of period12,35910,155			(1
Cash and cash equivalents at beginning of period 12,359 10,155			386
	Cash and cash equivalents at end of period	10,512	10,541

2. Consolidated Quarterly Financial Results by Business Segments

I 2nd Quarter of the Fiscal Year Ended March 31, 2013 (April 1, 2012 - September 30, 2012) Information on net sales and profits or losses by reported segment

							(¥million)
	Segments						
	Toy business	Visual and Music business	Video-game business	Amusument business	Total	Adjustment *1	Consolidated Total *2
Net sales							
To external customers	32,410	20,711	13,127	9,962	76,211	_	76,211
Inter-segment sales and transfers	-	_	_	_	-	_	_
Total	32,410	20,711	13,127	9,962	76,211	-	76,211
Segment income	833	107	98	605	1,644	(637)	1,007

*1 The 637 million yen adjustment to segment income includes unallocated operating expenses. The expenses cannot be assigned to any particular segment and are mostly administrative expenses incurred by the administration sector of the HAPPINET CORPORATION.

*2 Segment income is adjusted to be consistent with operating income shown on the consolidated quarterly statements of income.

I 2nd Quarter of the Fiscal Year Ending March 31, 2014 (April 1, 2013 - September 30, 2013)

(1) Information on net sales and profits or losses by reported segment

							(¥million)
	Segments						
	Toy business	Visual and Music business	Video-game business	Amusument business	Total	Adjustment *1	Consolidated Total *2
Net sales							
To external customers	31,880	21,300	23,042	11,147	87,371	_	87,371
Inter-segment sales and transfers	_	_	_	_	-	_	_
Total	31,880	21,300	23,042	11,147	87,371	-	87,371
Segment income	563	377	34	1,190	2,166	(614)	1,551

*1 The 614 million yen adjustment to segment income includes unallocated operating expenses.

The expenses cannot be assigned to any particular segment and are mostly administrative expenses incurred

by the administration sector of the HAPPINET CORPORATION.

*2 Segment income is adjusted to be consistent with operating income shown on the consolidated quarterly statements of income.

(2) Information on assets by reported segment

(Substantial increase in assets due to the acquisition of a subsidiary)

In the 2nd quarter of the current fiscal year, assets in the Video-game business segment increased 11,015 million yen from the last day of the previous consolidated fiscal year due to the acquisition of the common shares of TOYS UNION Co., Ltd. and the inclusion of this company in the consolidated subsidiaries.

(3) Information on impairment loss on noncurrent assets and goodwill by reportable segment (Significant gain on negative goodwill)

In the 2nd quarter of the current fiscal year, 409million of gain on negative goodwill was recorded as extraordinary income in the Video-game business segment due to the acquisition of the common shares of TOYS UNION Co., Ltd. and the inclusion of this company in the consolidated subsidiaries on July 16, 2013.