



Consolidated Financial Results

for the 2nd Quarter of the Fiscal Year Ending March 31, 2015

November 12, 2014

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This document contains forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectation.

Consolidated Financial Results
for the 2nd Quarter of the Fiscal Year Ending March 31, 2015 [Japanese GAAP]

Company name	HAPPINET CORPORATION		
Stock listing	Tokyo Stock Exchange		
Code No.	7552	URL:	http://www.happinet.co.jp/
Representative	Kazuhiko Note, President and COO		
Contact	Hideo Asatsu, Board Director and CFO		
Scheduled filing date of the quarterly report	November 13, 2014		
Scheduled starting date for dividend payments:	December 5, 2014		
The additional materials of the financial results:	Yes		
The information session of the financial results:	Yes (For analysts)		

(Figures are in millions of yen, rounded down)

1. Consolidated Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2015
(April 1, 2014 - September 30, 2014)

(1) Consolidated Operating Results (For the six months Ended September 30, 2014)

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
2nd Quarter of the Fiscal Year Ending March 31, 2015	93,437	6.9	2,362	52.3	2,413	52.8	1,814	31.9
2nd Quarter of the Fiscal Year Ended March 31, 2014	87,371	14.6	1,551	54.0	1,579	47.3	1,375	93.8

Note: Comprehensive income: As of September 30, 2014 1,957million yen [36.5%]
As of September 30, 2013 1,434million yen [105.2%]

	Earnings per share	Earnings per share (diluted)
	¥	¥
2nd Quarter of the Fiscal Year Ending March 31, 2015	80.21	79.29
2nd Quarter of the Fiscal Year Ended March 31, 2014	61.13	61.06

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	¥ million	¥ million	%
As of September 30, 2014	61,985	27,356	43.9
As of March 31, 2014	53,879	25,694	47.4

(Reference)

Shareholder's equity: As of September 30, 2014 27,183million yen
As of March 31, 2014 25,519million yen

2. Dividend

Dividend record dates	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	Fiscal Year-end	Total
	¥	¥	¥	¥	¥
Fiscal Year Ended March 31, 2014	—	11.25	—	13.50	24.75
Fiscal Year Ended March 31, 2015	—	13.50			
(Projection) Fiscal Year Ending March 31, 2015			—	13.50	27.00

3. Consolidated Projections for the Fiscal Year ending March 31, 2015 (April 1, 2014 - March 31, 2015)

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full Year	215,000	3.9	5,000	28.6	5,000	27.6	3,500	41.9	154.62

※ Other Information

- (1) Significant changes in consolidated subsidiaries during the period: No
- (2) Application of special accounting methods for quarterly consolidated financial statements: No
- (3) Changes in accounting principles, accounting estimation change and error correction.
 - a) Changes in accounting principles due to revisions to accounting standards and other regulations: Yes
 - b) Changes in accounting principles due to revisions to other reasons: No
 - c) Changes in accounting estimation: No
 - d) Error correction: No
- (4) Number of shares issued (common shares)
 - a) Number of shares issued at the end of the period (including treasury shares)

2nd quarter of the fiscal year ending March 31, 2015	24,050,000shares
Fiscal year ended March 31, 2014	24,050,000shares
 - b) Number of treasury shares at the end of the period

2nd quarter of the fiscal year ending March 31, 2015	1,413,310shares
Fiscal year ended March 31, 2014	1,431,310shares
 - c) Average number of shares during the period

For the 2nd quarter of the fiscal year ending March 31, 2015	22,628,216shares
For the 2nd quarter of the fiscal year ended March 31, 2014	22,505,866shares

* Information regarding the implementation of quarterly review procedures

This Report was exempt from quarterly review which was based on “Financial Instruments and Exchange Act.” At the time of release of this report, the quarterly review procedures based on “Financial Instruments and Exchange Act.” have not been completed.

*Proper use of earnings projections, and other special matters

The above projections are based on information available to the Company as of the date of the announcement of these materials. Actual business results may differ from the projections due to a number of factors in the future.

II. Consolidated Quarterly Financial Statements
 (i) Consolidated Quarterly Balance Sheets

(¥ million)

	Prior Fiscal Year (As of March 31, 2014)	Current Fiscal Year (As of Sept. 30, 2014)
Assets		
Current assets		
Cash and deposits	9,996	11,795
Notes and accounts receivable – trade	24,104	30,167
Inventories	7,404	8,557
Other	5,533	3,924
Allowance for doubtful accounts	(12)	(5)
Total current assets	47,025	54,439
Non-current assets		
Property, plant and equipment	1,342	1,013
Intangible assets	446	695
Investments and other assets	5,065	5,836
Total non-current assets	6,854	7,546
Total assets	53,879	61,985
Liabilities		
Current liabilities		
Notes and accounts payable – trade	20,099	26,540
Income taxes payable	1,104	610
Provision for bonuses	477	249
Other provision	21	18
Other	3,333	3,828
Total current liabilities	25,036	31,248
Non-current liabilities		
Provision for directors' retirement benefits	24	–
Net defined benefit liability	2,103	2,422
Other	1,020	957
Total non-current liabilities	3,148	3,380
Total liabilities	28,185	34,628
Net assets		
Shareholders' equity		
Capital stock	2,751	2,751
Capital surplus	2,775	2,775
Retained earnings	20,562	22,071
Treasury shares	(948)	(936)
Total shareholders' equity	25,141	26,661
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	378	519
Deferred gains or losses on hedges	(0)	1
Total accumulated other comprehensive income	378	521
Subscription rights to shares	175	173
Total net assets	25,694	27,356
Total liabilities and net assets	53,879	61,985

(ii) Consolidated Quarterly Statements of Income and Consolidated Quarterly Statements of Comprehensive Income
(Consolidated Quarterly Statements of Income)

(¥million)

	Prior Fiscal Year (Apr. 1, 2013 - Sept. 30, 2013)	Current Fiscal Year (Apr. 1, 2014 - Sept. 30, 2014)
Net sales	87,371	93,437
Cost of sales	76,587	81,421
Gross profit	10,783	12,016
Selling, general and administrative expenses	9,231	9,653
Operating income	1,551	2,362
Non-operating income		
Interest income	1	1
Dividend income	21	21
Amortization of negative goodwill	1	—
Other	34	35
Total non-operating income	58	57
Non-operating expenses		
Interest expenses	5	0
Loss on cancellation of leases	0	5
Provision of allowance for doubtful accounts	24	0
Other	0	0
Total non-operating expenses	30	6
Ordinary income	1,579	2,413
Extraordinary income		
Gain on sales of non-current assets	2	2
Gain on sales of investment securities	—	4
Gain on bargain purchase	409	—
Total extraordinary income	411	6
Extraordinary losses		
Loss on sales of non-current assets	0	—
Loss on retirement of non-current assets	0	6
Loss on sales of investment securities	—	0
Loss on valuation of investment securities	7	14
Impairment loss	33	125
Loss on revision of retirement benefit plan	—	379
Directors' retirement benefits	110	—
Total extraordinary losses	152	525
Income before income taxes and minority interests	1,838	1,894
Income taxes - current	557	600
Income taxes - deferred	(94)	(520)
Total income taxes	462	79
Income before minority interests	1,376	1,814
Minority interests in income	0	—
Net income	1,375	1,814

(Consolidated Quarterly Statements of Comprehensive Income)

(¥ million)

	Prior Fiscal Year (Apr. 1, 2013 - Sept. 30, 2013)	Current Fiscal Year (Apr. 1, 2014 - Sept. 30, 2014)
Income before minority interests	1,376	1,814
Other comprehensive income		
Valuation difference on available-for-sale securities	59	140
Deferred gains or losses on hedges	(2)	2
Total other comprehensive income	57	143
Comprehensive income	1,434	1,957
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,433	1,957
Comprehensive income attributable to minority interests	0	—

(iii) Consolidated Quarterly Statements of Cash Flows

(¥ million)

	Prior Fiscal Year (Apr. 1, 2013 - Sept. 30, 2013)	Current Fiscal Year (Apr. 1, 2014 - Sept. 30, 2014)
Cash flows from operating activities		
Income before income taxes and minority interests	1,838	1,894
Depreciation	309	184
Impairment loss	33	125
Amortization of goodwill	121	—
Gain on bargain purchase	(409)	—
Increase (decrease) in allowance for doubtful accounts	12	(8)
Increase (decrease) in provision for bonuses	(193)	(227)
Increase (decrease) in provision for retirement benefits	55	—
Increase (decrease) in net defined benefit liability	—	319
Interest and dividend income	(23)	(22)
Interest expenses	5	0
Loss (gain) on sales and retirement of non-current assets	(1)	3
Loss (gain) on sales of investment securities	—	(3)
Loss (gain) on valuation of investment securities	7	14
Foreign exchange losses (gains)	0	(0)
Decrease (increase) in notes and accounts receivable - trade	618	(6,062)
Decrease (increase) in inventories	(1,564)	(1,152)
Increase (decrease) in notes and accounts payable - trade	(1,030)	6,441
Other, net	(2,221)	1,898
Subtotal	(2,440)	3,406
Interest and dividend income received	23	22
Interest expenses paid	(9)	(0)
Income taxes paid	(666)	(1,103)
Net cash provided by (used in) operating activities	(3,093)	2,325
Cash flows from investing activities		
Purchase of property, plant and equipment	(156)	(95)
Proceeds from sales of property, plant and equipment	5	183
Purchase of intangible assets	(62)	(360)
Purchase of investment securities	(5)	(6)
Proceeds from sales of investment securities	—	10
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	5	—
Purchase of shares of subsidiaries	(1)	—
Other, net	89	66
Net cash provided by (used in) investing activities	(124)	(201)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	4,000	—
Repayments of long-term loans payable	(194)	—
Proceeds from disposal of treasury shares	53	9
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(252)	(305)
Other, net	(1)	(27)
Net cash provided by (used in) financing activities	3,605	(323)
Effect of exchange rate change on cash and cash equivalents	(1)	(0)
Net increase (decrease) in cash and cash equivalents	386	1,799
Cash and cash equivalents at beginning of period	10,155	9,996
Cash and cash equivalents at end of period	10,541	11,795

III. Consolidated Quarterly Financial Results by Business Segments

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

Information on net sales and profits or losses by reported segment

(¥ million)

	Segments					Adjustment *1	Consolidated Total *2
	Toy business	Visual and Music business	Video-game business	Amusement business	Total		
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) 2nd Quarter of the Fiscal Year Ending March 31, 2015 (April 1, 2014 - September 30, 2014)

Information on net sales and profits or losses by reported segment

(¥ million)

	Segments					Adjustment *1	Consolidated Total *2
	Toy business	Visual and Music business	Video-game business	Amusement business	Total		
Net sales							
To external customers	39,479	21,376	19,939	12,643	93,437	—	93,437
Inter-segment sales and transfers	—	—	—	—	—	—	—
Total	39,479	21,376	19,939	12,643	93,437	—	93,437
Segment income(loss)	1,663	145	(61)	1,264	3,011	(648)	2,362

*1 The 648 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.