



Bridge Report **HAPPINET CORPORATION (7552)**

	Company	HAPPINET CORPORATION	
	Code No.	7552	
	Exchange	First Section, TSE	
	Industry	Wholesale (Commerce)	
	President	Kazuhiko Note	
	HQ Address	Komagata CA Bldg., 2-4-5 Komagata, Taito-ku, Tokyo 111-0043	
	Business	A comprehensive entertainment trading company of toys, visual and music software, video games, and amusement products. HAPPINET also leverages its optimal distribution system to provide high value added distribution services. The Company also boasts of strengths in planning and creation of original toys and video contents.	
Year End	March		
URL	http://www.happinet.co.jp/english/index.html		

Kazuhiko Note,
President

— Stock Information —

Share Price	Shares Outstanding (ex. Treasury Shares)	Market Cap.	ROE (actual)	Trading Unit	
¥797	22,402,010 shares	¥17.854 billion	11.8%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥22.50	2.8%	¥111.60	7.1x	¥972.13	0.8x

* Share price as of closing on May 25, 2012. Number of shares issued at the end of the most recent quarter excluding treasury shares.

— Consolidated Earnings Trends —

(Units: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend (¥)
March 2009	166,778	2,137	2,322	1,135	97.64	30.00
March 2010	194,246	2,327	2,513	1,179	104.60	30.00
March 2011	190,891	2,855	3,013	1,376	122.56	30.00
March 2012	198,021	4,855	5,032	2,458	109.73	38.75
March 2013 Est.	200,000	4,300	4,500	2,500	111.60	22.50

* Estimates are those of the Company. A 2 for 1 stock split was conducted in December 2011.

This Bridge Report presents HAPPINET CORPORATION's earnings results for the fiscal year March 2012.

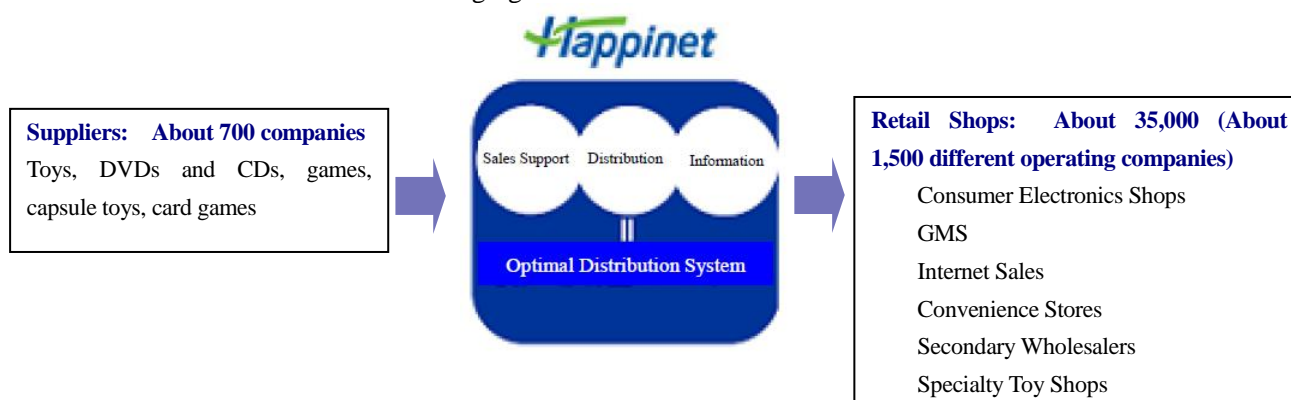
1. Company Overview
2. Fifth Midterm Business Plan Review and Introduction of Sixth Midterm Business Plan
3. Fiscal Year March 2012 Earnings Results
4. Fiscal Year March 2013 Earnings Estimates
5. Conclusions

Key Points

- HAPPINET CORPORATION achieved strong levels of sales and profits in fiscal year March 2012, the 20th anniversary of its operations. In addition to a ¥11.25 per share regular dividend, HAPPINET is expected to pay an additional ¥5 per share to commemorate its 20th year of operations, bringing the total dividend payment to ¥16.25 per share (Because of the 2 for 1 stock split performed in December 2011, the effective pre-split dividend is ¥55 per share).
- While sales during fiscal year March 2013 are expected to remain in line with the current term, anticipatory investments are expected to contribute to a 10.6% year-over-year decline in ordinary income. At the same time the full year dividend payment is expected to decline to ¥22.5 (¥11.25 per share first half dividend) due to the disappearance of the commemorative dividend.
- The Fifth Midterm Business Plan maintained the theme of “Grow as a comprehensive entertainment trading company and venture into new business domains” (From FY3/10 to FY3/12) and progressed on target with improvements being made in the high profitability amusement business and return to profits of the visual and music business. The Sixth Midterm Business Plan, which cover the period from fiscal year March 2013 to fiscal year March 2015, calls for further growth as a comprehensive entertainment trading company as well as the assumption of challenges in new business realms.

1. Company Overview

HAPPINET CORPORATION is a comprehensive distributor (wholesaler) operating in the realm of entertainment products. The Company conducts operations in a wide range of entertainment business realms spanning from toys, visual and music software, video games, amusement products (Capsule toys, card games, others), and other product areas in addition to planning and creation of original toys and visual contents. HAPPINET also exceeds the normal bounds of distributors through its provision of retail related services including toy vending machines selling capsule toys, and card games as well. As of the end of fiscal year March 2012, NAMCO BANDAI Holdings Inc. was the top shareholder with 5.88 million shares or 26.3% of total voting rights.



<Business Segments and Group Structure>

HAPPINET's business can be divided into the toy, visual and music, video-game, and amusement businesses, which accounted for 39.0%, 28.1%, 21.6%, and 11.3% of fiscal year March 2012 sales respectively. By sales channel, specialized consumer electronics and camera shop mass retailers accounted for 31.6% of fiscal year March 2012 sales, mass retailers 20.4%, convenience stores 13.3%, E-commerce 12.7%, and others 22.0%. The HAPPINET Group is comprised of seven consolidated subsidiaries and one non-consolidated subsidiary.

Toy Business	HAPPINET CORPORATION (Toy & Hobby Division, Convenience Stores Business Division, Original Toy Development Division) Happinet Marketing Corporation	Industry's largest wholesaler, handling about 80% of Bandai's total toy business (Bandai products account for 54.8% of HAPPINET's total transactions)
Visual and Music Business	HAPPINET CORPORATION (Pictures Division) Happinet Pictures & Music Corporation	The industry's largest wholesaler. Video software accounts for 71%, of which 11% are products developed in-house, and the remaining 60% are wholesale.
Video-game Business	HAPPINET CORPORATION (Video Game Division) MORI GAMES CO., LTD.	The only wholesaler that deals with all manufacturers of domestic home use video games. PlayStation products (PS3, PSP, PSVita, others) accounts for 45%, Nintendo (Wii, DS, 3DS) 32%, and Xbox360 and other products 23%.
Amusement Business	Happinet Vending Service Corporation	Operation of toy vending machines and amusement facility product sales, the industry's largest amusement vendor with 60% market share.

<Corporate History – From An Individually Run Toy Distributor to A Comprehensive Entertainment Trading Company>

In February 1968, the current Chairman of the Board and CEO Hiroshi Kawai resigned from Bandai Co., Ltd. and started a toy wholesale business as an individual. Later this operation became incorporated as a company called Tosho Ltd. in June 1969, and full scale business transactions with Bandai started in September 1972. In October 1991 Tosho changed its name to HAPPINET along with the absorption of two Bandai affiliated wholesale companies called Dairin Co., Ltd. and Seiko Co., Ltd. Since then, HAPPINET has expanded the range of its businesses from toys to include amusement, video games and video contents in response to declining birthrates, diversification of the ways children play, and other changes in the market. As a means of diversifying its access to capital, the Company offered on the Japanese OTC Market (Currently known as the JASDAQ Market) in August 1997. In December 1998 it moved to the Second Section Market of the Tokyo Stock Exchange, and then to the First Section Market in March 2000.

<Strengths>

(1) Overwhelmingly Strong Business Foundation

HAPPINET CORPORATION is a distributor operating in the realm of toys, DVDs and CDs, capsule toys and card games, and it boasts of a top market share of about 60% in the capsule toys and card games. In addition, it is the only wholesaler that handles products (Japanese market products) of all the home game equipment manufacturers. And as the industry's largest company, HAPPINET leverages its bountiful experience in its marketing activities to gather information about the needs of consumers at the storefront to be provided as feedback to the manufacturers it serves. At the same time, HAPPINET supports both manufacturers and retailers by conveying strategies of manufacturers to retailers to help optimize the storefront sales strategy, and by providing advice on how to arrange the product lineup.

(2) Optimal Distribution System

Supported by the strength of its information gathering capabilities, HAPPINET boasts of an "Optimal Distribution System" (ODS) that links retailers with manufacturers and leverages electronic data interchange (EDI), POS, and the Internet. The four logistics centers that make up this ODS have a combined floor space of 77,134 square meters, which is equivalent to 1.7 times the floor space of the Tokyo Dome all weather multipurpose stadium. ODS boasts of systems that provide highly accurate information on a real time basis and enables quick and optimized shipment operations that have a delivery error rate of less than 1 in 100,000 units. HAPPINET is also able to support the optimization of production volumes through its supply chain management system and reductions in distribution inventories through its rationalized logistics capabilities. The consolidated subsidiary Happinet Logistics Service Corporation is responsible for operation of the Company's logistics centers.

Facility	Operation Start	Location and Floor Space
Happinet Logistics Center-East Japan	April 2001	Ichikawa City, Chiba Prefecture, 24,741 square meters
Happinet Second Logistics Center-East Japan	February 2006	Funabashi City, Chiba Prefecture, 28,151 square meters
Happinet Logistics Center-West Japan	January 2008	Amagasaki City, Hyogo Prefecture, 11,774 square meters
Happinet Second Logistics Center-West Japan	July 2011	Amagasaki City, Hyogo Prefecture, 12,468 square meters

(3) Management Strengths

Superior management is yet another one of HAPPINET's strengths. Expansion of both commercial rights and operating territory has been achieved through M&A activities, and high levels of profitability have been maintained through effective group and product management. And despite the expansion of its business through M&A, stable cash flow has been realized through strict control of receivables and inventories, and a solid financial foundation has been created without relying upon interest bearing liabilities.

Financial Position

(Units: Million Yen)

	FY3/09	FY3/10	FY3/11	FY3/12		FY3/09	FY3/10	FY3/11	FY3/12
Cash	5,463	6,312	8,220	12,359	Payables	20,748	19,832	20,204	23,042
Receivables	25,149	22,937	23,206	26,755	Interest Bearing Liabilities	6,467	2,541	4	0
Inventories	9,345	6,749	6,435	6,168	Liabilities	36,476	30,088	28,704	32,527
Current Assets	44,864	40,140	41,039	48,269	Net Assets	18,184	18,962	19,802	21,795
Fixed Assets	9,797	8,910	7,468	6,054	Total Liabilities, Net Assets	54,661	49,050	48,507	54,323

Profitability and Asset Efficiency

	FY3/09	FY3/10	FY3/11	FY3/12
Ordinary Income Margin	1.4%	1.3%	1.6%	2.5%
Total Asset Turnover Ratio	3.1	4.0	3.9	3.7
ROA	2.1%	2.4%	2.8%	4.5%

Cash Flow

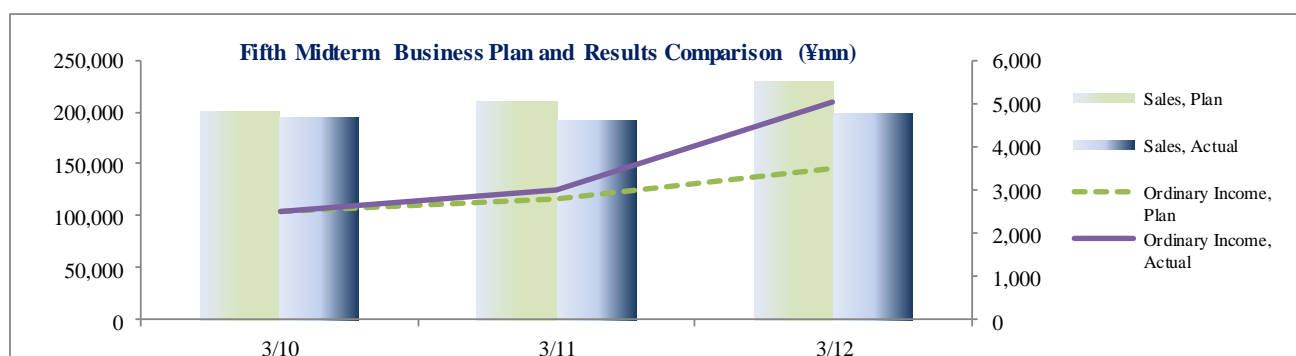
(Units: Million Yen)

	FY3/09	FY3/10	FY3/11	FY3/12
Operating Cash Flow	951	6,232	5,083	4,609
Free Cash Flow	100	5,841	4,768	4,559

2. Fifth Midterm Business Plan Review and Introduction of Sixth Midterm Business Plan

(1) Fifth Midterm Business Plan "Change and Progress 11" (CAP11, From FY3/10 to FY3/12)

The Fifth Midterm Business Plan maintains a central theme of "Strengthen foundation as a comprehensive entertainment software trading company," and places the highest priority upon implementing measures to reform the Company's earnings structure. In the aftermath of the "Lehman Shock" and subsequent economic slowdown, deflationary trends brought on by the strengthening of the yen, and the negative influence of the Great East Japan Earthquake made it difficult to grow sales as called for by the Plan, but despite this HAPPINET was able to fine tune its profitability. Consequently, HAPPINET was able to implement large improvements in its earnings structure and ordinary income to sales margin rose by 1.0% points above targets to 2.5%.



(2) Sixth Midterm Business Plan “CAP14” (From FY3/13 to FY3/15)

“Grow as a comprehensive entertainment trading company and venture into new business domains” is the main theme of the new Plan. And as three main strategies for the plan, HAPPINET will pursue “sustainable growth of existing businesses”, “venture into new business domains” and “strengthen and establish distributing functions.” While the Japanese entertainment market is mature, HAPPINET believes that there is still strong potential for growth based on fortification of its existing business and development of new business realms.

Sustainable Growth of Existing Businesses

HAPPINET seeks to establish a position where it can collaborate with all of the major manufacturers, in addition to strengthening its earnings through an expansion of its original in-house products and exclusive marketing of products.

Business Segments	Current / Target Market Shares	Endeavors
Toy Business	30% / 40%	Increase market share through aggressive development and cultivation of original in-house products, and fortifying its function as a wholesaler (Increase transaction volumes of Bandai products while expanding the share of other makers products)
Visual and Music Business	14% / 20%	Expand sales of highly profitable original in-house visual products, in addition to becoming the industry’s wholesaler that is sought after by major manufacturers
Video-game Business	12% / 20%	Grow market share of hardware through expansion of new game equipment, for which the sales potential is large, and improve profitability and expand sales of products for which HAPPINET has exclusive distribution rights
Amusement Business	60% / 70%	Expand the scale of this business by finding new locations with high ability to attract customers in order to maintain high levels of fixed cost productivity. Improve profitability and expand sales of products for which HAPPINET has exclusive distributorship rights.

Venture into New Business Domains

HAPPINET seeks to achieve new growth by taking on challenges in new business realms. As a concrete measure, the Company will aggressively develop businesses in new realms including social games and digital entertainment, in addition to expanding sales of original products and products for which they have exclusive distributorship rights. Furthermore, HAPPINET is also exploring other opportunities in areas related to its various businesses. Moreover, alliances with non-major game manufacturers are being promoted in the social games realm, and distribution of the first card battle type social game called “Astral Saga” was launched on April 9 to iPhone and iPod touch platforms. The number of users is progressing steadily towards their target of 10,000 within the first two months of the game’s launch, and another four games are expected to be released within the first half of fiscal year March 2013.



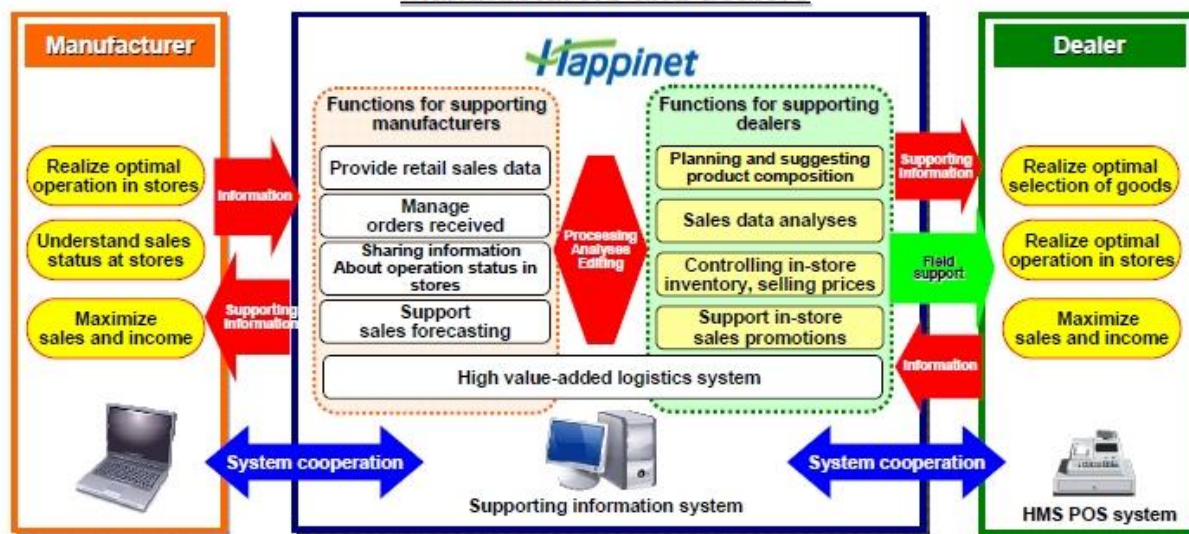
Original, Exclusive Distributorship Rights Product Sales Targets

Toy Business	FY3/12: ¥3.0 billion	⇒	FY3/15: ¥5.0 billion
Visual and Music Business	FY3/12: ¥6.0 billion	⇒	FY3/15: ¥14.0 billion
Video-game Business	FY3/12: ¥3.0 billion	⇒	FY3/15: ¥5.0 billion
Amusement Business	FY3/12: ¥0 billion	⇒	FY3/15: ¥1.0 billion
Total	FY3/12: ¥12.0 billion	⇒	FY3/15: ¥25.0 billion

Strengthen and Establish Distributing Functions

HAPPINET is endeavoring to raise the level of both its hardware and software functions to expand existing businesses and venture into new businesses, and to establish new and fortify its existing logistics functions to enable it to see continuous growth. As an integral part of this strategy, HAPPINET is creating an integrated support system linking manufacturers with retailers. Through the use of this support system, manufacturers can realize an optimized storefront sales strategy, and leverage storefront sales information to maximize sales and profits. At the same time, retailers can maximize their sales and profits by optimizing their storefront product lineup. Traditionally manufacturers and retailers have relied upon manpower to accurately assess the storefront conditions, but HAPPINET will be able to provide highly accurate storefront sales information systematically through its fortified logistics functions.

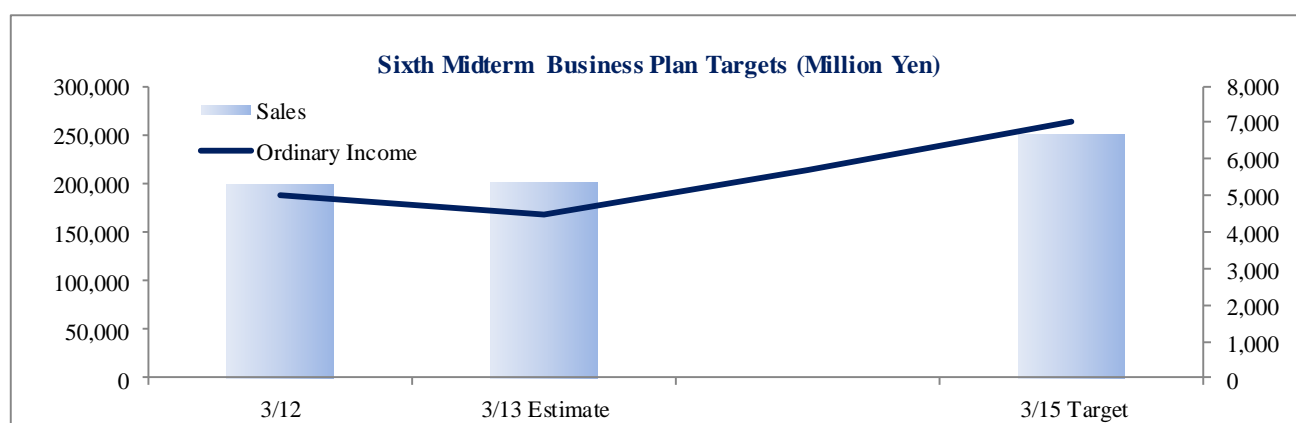
Start developing a advanced support system that links manufacturers and dealers



(Source: Company)

Targets

In the final year of fiscal year March 2015, the Plan has established sales and ordinary income targets of ¥250.0 and ¥7.0 billion respectively. Of the ¥7.0 billion in ordinary income, toy and amusement businesses are expected to account for ¥5.0 billion, and newer businesses are expected to account for the remainder of the total. Furthermore in the visual and music, and video-game businesses HAPPINET places its highest priority upon achieving stable profitability.



3. Fiscal Year March 2012 Earnings Results

Consolidated Earnings

(Units: Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change	Initial Est.	Divergence
Sales	190,891	100.0%	198,021	100.0%	+3.7%	192,000	+3.1%
Gross Income	22,326	11.7%	25,007	12.6%	+12.0%	22,500	+11.1%
SG&A	19,471	10.2%	20,151	10.2%	+3.5%	19,400	+3.9%
Operating Income	2,855	1.5%	4,855	2.5%	+70.0%	3,100	+56.6%
Ordinary Income	3,013	1.6%	5,032	2.5%	+67.0%	3,200	+57.3%
Net Income	1,376	0.7%	2,458	1.2%	+78.6%	1,600	+53.6%

* Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (applies to all tables in this report).

HAPPINET Achieves Strong Sales, Profits in Its 20th Year of Operations in FY3/12

Sales rose by 3.7% year-over-year to ¥198.0 billion. Growth in sales of Bandai's children's character products "Kamen Rider Fourze," "Kaizoku Sentai Gokaiger," and "Tamagocchi!" allowed the mainstay toy business to grow. At the same time, revisions in the retailing business of the amusement business (Toy vending machines selling capsule toys) and hit products contributed to sales growth.

With regards to profits, the sales composition of amusement business, which boasts of high marginal profitability, rose and effective reforms in returns and inventory strategies allowed visual and music business's profitability to improve with gross margin rising by 0.9% point to 12.6%. At the same time, limited increases in warehousing outsourcing and other variable costs within selling, general and administrative expenses allowed operating income to rise by 70.0% year-over-year to ¥4.855 billion. Despite impairment loss of ¥669 million and extraordinary loss of ¥724 million (An extraordinary loss of ¥341 million including valuation losses on marketable securities of ¥153 million was recorded during the previous term), net income rose by 78.6% year-over-year to ¥2,458 million.

Major Items within CGS, SG&A Expenses

(Units: Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change
Cost of Goods Sold	168,564	88.3%	173,013	87.4%	+2.6%
Liquidated inventory loss	2,532	1.3%	2,191	1.1%	-13.5%
SG&A	19,471	10.2%	20,151	10.2%	+3.5%
Outsourced warehouse	1,647	0.9%	1,927	1.0%	+17.0%
Labor	6,921	3.6%	7,001	3.5%	+1.1%
Consigned labor	1,632	0.9%	1,526	0.8%	-6.5%
Depreciation	781	0.4%	688	0.3%	-11.9%
Goodwill amortization	445	0.2%	337	0.2%	-24.3%

Divergence from Estimates

Compared with initial estimates, hit products allowed toy and amusement businesses to see higher than expected sales. With regards to profits, the increase in sales was complemented by strict controls of returns and inventories, and allowed visual and music business to see an improvement in profitability. Despite the upward revision to earnings estimates at the time of the announcement of third quarter earnings, both sales and profits were able to exceed revised estimates by slight margins (Revised sales, operating, ordinary and net incomes estimates: ¥198,000, ¥4,800, ¥4,900, ¥2,300 million respectively).

Dividends

In addition to the yearend dividend of ¥11.25 per share, HAPPINET expects to pay an additional dividend of ¥5 per share to commemorate its 20th year of operations bringing its total yearend dividend to ¥16.25 per share. Combined with the interim dividend, the total full year dividend is expected to be ¥38.75 per share (After the 2 for 1 stock split performed in December 2011 is considered, the effective dividend would be ¥55 per share). Furthermore the 20th year anniversary marks the start of a new period of growth for HAPPINET, which was originally formed from the merger of three toy company wholesalers in October 1991.

(2) Earnings by Segment, Channels

Segment Sales, Income

(Units: Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change	Estimate as of 2Q	Divergence
Toy	69,104	36.2%	77,313	39.0%	+11.9%	70,000	+10.4%
Visual and Music	57,759	30.3%	55,719	28.1%	-3.5%	55,000	+1.3%
Video-game	46,447	24.3%	42,704	21.6%	-8.1%	47,000	-9.1%
Amusement	17,579	9.2%	22,282	11.3%	+26.8%	20,000	+11.4%
Total Sales	190,891	100.0%	198,021	100.0%	+3.7%	192,000	+3.1%
Toy	2,321	55.8%	3,009	48.6%	+29.6%	2,300	+30.8%
Visual and Music	-656	-15.8%	448	7.2%	-	200	+124.0%
Video-game	1,156	27.8%	936	15.1%	-19.0%	1,000	-6.4%
Amusement	1,340	32.2%	1,801	29.1%	+34.3%	900	+100.1%
Adjustments	-1,307	-	-1,341	-	-	-1,300	+3.2%
Operating Income	2,855	-	4,855	-	+70.0%	3,100	+56.6%

Toy Business

Sales and operating income rose by 11.9% and 29.6% year-over-year to ¥77.313 and ¥3.009 billion respectively. Bandai's children's character products "Kamen Rider Fourze," "Kaizoku Sentai Gokaiger," and "Tamagocchi!" saw favorable sales. And while inventory liquidation at the term end rose by ¥200 million from the previous term to ¥1.3 billion (Term end inventories rose by ¥100 million from the previous term end to ¥2.3 billion), the inventory turnover rate rose from 31.3 times in the previous term to 33.6 times in the current term and contributed to an improvement in profitability.

By manufacturer, TOMY COMPANY, LTD. (TAKARA-TOMY) products fell by 10.2% year-over-year to ¥6.3 billion, while Bandai products rose by 13.1% year-over-year to ¥42.3 billion. HAPPINET's original in-house products rose by 53.7% year-over-year to ¥2.2 billion.

Visual and Music Business

Sales declined by 3.5% year-over-year to ¥55.719 billion and operating income improved to a profit of ¥448 million from a loss of ¥656 million in the previous term. This segment's sales decline reflected the contraction in the packaged software market due to the growing diffusion of contents distributed over the Internet. However, the successful results of Business Structural Reforms implemented in April 2011 allowed profitability to improve rapidly and by a large margin.

Taking a look at the various management benchmarks of the first half and full year, the return rate declined from 6.8% during the first half to 6.2% during the full year, inventories fell from ¥2.1 billion to ¥1.8 billion, and inventory turnover ratio rose from 22.3 times to 24.6 times over the same period.

Sales by Realm

(Units: 100 Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change
Wholesale	344	59.6%	336	60.4%	-2.2%
Manufacturer	58	10.2%	59	10.7%	+1.0%
Visual	403	69.8%	396	71.1%	-1.8%
Music	174	30.2%	161	28.9%	-7.6%
Total	577	100.0%	557	100.0%	-3.5%

Regarding Business Structural Reforms

HAPPINET implemented Business Structural Reforms on April 1, 2011 including a shift of the operations for the visual and music business sales function to Happinet Pictures and Music Corporation (Happinet P&M, formerly WINT CORPORATION). As part of the reforms, Happinet P&M reestablished return rates in accordance with each retail store customer, and consolidated content product titles based on their popularity (About 14,000 new CD titles handled each term, of which 95% of sales were generated from about 5,000 titles) as part of the Company's internal inventory strategy.

Video-game Business

Sales and operating income fell by 8.1% and 19.0% year-over-year to ¥42.704 billion and ¥936 million respectively. Despite the launch of new game equipment and hit products, the diffusion of social games contributed to stagnation of market overall. Sales of software products for which sole distributorship rights have been acquired grew along with strong demand for PlayStation 3 products, while demand for Wii and Nintendo DS products remained weak.

By product type, sales of PlayStation 3 (PS3) rose by 22.3% year-over-year to ¥6.7 billion (Accounted for 15.9% of segment sales) while sales of PlayStation Portable (PSP) declined by 11.2% year-over-year to ¥10.3 billion (24.2% of segment sales). At the same time sales of Wii fell by 30.2% year-over-year to ¥3.2 billion (7.7% of segment sales), Nintendo 3DS rose 262.0% year-over-year to ¥8.7 billion, Nintendo DS sales fell 78.0% year-over-year to ¥1.6 billion (3.9% of segment sales), and Xbox 360 dropped 30.0% year-over-year to ¥9.8 billion (23.1% of segment sales).

Amusement Business

Sales and operating income rose by 26.8% and 34.3% year-over-year to ¥22.282 and ¥1.801 billion respectively. Effective structural reforms including the creation and reassignment of responsibilities of regional facilities that match the scale and characteristics of the local markets they serve, the hit character products "Kamen Rider Fourze," "ONE PIECE," and "Kaizoku Sentai Gokaiger," and vending machines selling capsule toys contributed to the sales growth of this segment.

HAPPINET was successful in its restructuring strategy that focused upon productivity by reducing the number of locations (10,000 toy vending machine locations were reduced to 4,500), improving productivity-to-fixed expense to 152%, and raised the inventory turnover ratio to 17.3 times from 16.6 times in the previous term. The favorable sales led to an increase in term end inventories of ¥300 million from ¥1.1 billion at the previous term end to ¥1.4 billion.

Sales by Channels

(Units: Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change
Specialty Stores (Consumer Electronics, Camera Mass Retailers)	653	34.2%	625	31.6%	-4.2%
Mass Retailers	367	19.3%	403	20.4%	+9.7%
Convenience Stores	213	11.2%	263	13.3%	+23.4%
E-commerce	241	12.7%	250	12.7%	+3.8%
Suburban Stores	185	9.7%	193	9.7%	+4.3%
Wholesalers	154	8.1%	152	7.7%	-1.6%
Department Stores	13	0.7%	12	0.6%	-9.0%
Others	79	4.1%	79	4.0%	-0.2%
Total	1,908	100.0%	1,980	100.0%	+3.7%

Strong sales of Amazon.co.jp and Rakuten helped to boost sales of E-commerce, and strong sales to convenience stores, the largest group of retail stores, and strong sales of card games contributed to double digit growth in sales to mass retailers.

(3) Financial Position and Cash Flow

Total assets rose by ¥5.815 billion from the end of the previous term to ¥54.323 billion at the end of the current term. Improvements in cash flow allowed cash and equivalents to grow, and the fiscal year end on a Saturday contributed to increases in both receivables and payables. An increase in tax expenses from ¥574 to ¥1,499 million contributed to decline in operating cash flow.

Financial Position

(Units: Million Yen)

	FY3/11	FY3/12		FY3/11	FY3/12
Cash	8,220	12,359	Payables	20,204	23,042
Receivables	23,206	26,755	Unpaid expenses	3,225	3,351
Inventories	6,436	6,168	Unpaid taxes	1,324	2,010
Current Assets	41,039	48,269	Retirement reserves	1,630	1,780
Tangible Fixed Assets	1,555	1,392	Long term deposits received	1,034	1,008
Intangible Fixed Assets	3,132	1,715	Liabilities	28,704	32,527
Investments, Others	2,780	2,946	Net Assets	19,802	21,795
Fixed Assets	7,468	6,054	Total Liabilities, Net Assets	48,507	54,323

Cash Flow

(Units: Million Yen)

	FY3/11	FY3/12	YY Change	
Operating Cash Flow	5,083	4,609	-473	-9.3%
Investing Cash Flow	-315	-50	+265	-
Free Cash Flow	4,767	4,559	-208	-4.4%
Financing Cash Flow	-2,852	-421	+2,430	-
Cash and Equivalents at Term End	8,220	12,359	+4,138	+50.3%

4. Fiscal Year March 2013 Earnings Estimates

Consolidated Earnings

(Units: Million Yen)

	FY3/12	Share	FY3/13 Est.	Share	YY Change
Sales	198,021	100.0%	200,000	100.0%	+1.0%
Operating Income	4,855	2.5%	4,300	2.2%	-11.4%
Ordinary Income	5,032	2.5%	4,500	2.3%	-10.6%
Net Income	2,458	1.2%	2,500	1.3%	+1.7%

Similar Levels of Sales Expected, but Anticipatory Investment Burdens Expected Depress Ordinary Income by 10.6%

HAPPINET calls for sales to rise by 1.0% year-over-year to ¥200.000 billion in fiscal year March 2013. Growth is expected in amusement business sales on the back of increases in the number of card game equipment and toy vending machines, and the decline in video-game sales is expected to be stopped through fortification of products for which the Company has sole distributorship rights. At the same time visual and music business is expected to see another decline in sales, and a conservative outlook is taken for the toy business while the strong performance of hit products recorded in the current term.

Considering various anticipatory investments expected to be made, HAPPINET calls for operating income to decline by 11.4% year-over-year to ¥4.3 billion in the coming term. Anticipatory expenses include ¥1.4 billion (¥800 million in the previous term) for purchases and installation of toy vending machines and card game equipment, and expenses to upgrade card game equipment, in addition to ¥370 million for development of a new backbone system (No expenses for this in the previous term) in amusement business. Aside from these expenses, depreciation is expected to rise by a marginal amount (From ¥688 million in FY3/12 to ¥700 million in FY3/13), and amortization of goodwill is expected to decline by less ¥45 million (From ¥337 million in FY3/12 to less ¥292 million in FY3/13).

Given the disappearance of the commemorative dividend, dividends of ¥22.5 per share are expected (¥11.25 per share at the end of the first half). In addition to dividends, special original products for which HAPPINET has sole distributorship rights are expected to be presented to shareholders in accordance with the number of their shareholdings as part of the shareholder hospitality program (Shareholder hospitality program catalogs are expected to be sent along with general shareholders' meeting convocation notice in early June).

Segment Sales, Income

(Units: Million Yen)

	FY3/12	Share	FY3/13 Est.	Share	YY Change
Toy	77,313	39.0%	78,000	39.0%	+0.9%
Visual and Music	55,719	28.1%	55,000	27.5%	-1.3%
Video-game	42,704	21.6%	43,000	21.5%	+0.7%
Amusement	22,282	11.3%	24,000	12.0%	+7.2%
Total Sales	198,021	100.0%	200,000	100.0%	+1.0%
Toy	3,009	48.6%	2,900	51.3%	-3.6%
Visual and Music	448	7.2%	450	8.0%	+0.4%
Video-game	936	15.1%	900	15.9%	-4.0%
Amusement	1,801	29.1%	1,400	24.8%	-22.3%
Adjustments	-1,341	-	-1,350	-	-
Operating Income	4,855	-	4,300	-	-11.4%

5. Conclusions

Aside from the overall strong earnings performance during fiscal year March 2012, HAPPINET was able to fine tune high profitability amusement business progressed and bring about a turnaround in the visual and music business to a profit as called for at the beginning of the term (Exceeded target profit by 2.2 times). Both amusement and toy

businesses are expected to be drivers of growth for the foreseeable future, while growth in the visual and music business is expected to be gradual as fine tuning to prepare this segment to enter a new growth phase is conducted. The market for packaged visual and music products is contracting due to the diffusion of contents distributed over the Internet, but the HAPPINET Group has a relatively low market share of only 14% despite its position as the industry's second largest player. And while capturing market share from the top player SEIKODO and number three player MPD Co., Ltd. may be difficult, the potential to increase market share by capturing share from the remaining 50% of the market that is sold directly by manufacturers is strong. As evidence of this strong market share expansion potential, HAPPINET was able to take over the operations of NIKKATSU Corporation in August 2009 and BANDAI VISUAL CO., LTD. in April 2010. By transferring the logistics function to HAPPINET, these companies are able to focus their business resources upon their core competence of contents creation, while allowing HAPPINET to offer improvements in the distributing function services.

HAPPINET was able to realize the targets outlined in its Fifth Midterm Business Plan with the central theme of "Strengthen foundation as a comprehensive entertainment software trading company" The management's abilities to establish clearly defined targets and achieve them as planned are reflections of the Company's strengths. And now with the establishment of the new Sixth Midterm Business Plan with its theme of "Grow as a comprehensive entertainment trading company and venture into new business domains" HAPPINET's abilities to continue to grow existing businesses, take on challenges in new business realms, and fortification of existing and establishment of new distributing functions should be watched closely.

http://www.happinet.co.jp/english/ir/ir_data/pdf/FY2011_Results_Presentation.pdf

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