

Overview of First Half Results and Measures for Second Half and Beyond

November 6, 2003

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.

■ Direct any inquiries to the Public Relations Team (E-mail: msaito@happinet.co.jp)

1. First Half Results (September 2003 Term)

First Half Business Performance

(Units: million yen, %)

| | Term | September 2002 (interim) | September 2003 (interim) | Year-on-Year change |
|------------------|------------------------|-----------------------------|-----------------------------|------------------------|
| Consolidated | Net sales | 55,783 | 52,485 | 94.1 |
| | Recurring profit | 657 | 458 | 69.7 |
| | Net income (half year) | 421 | -1,089 | - |
| Non-consolidated | Net sales | 17,257 | 11,238 | 65.1 |
| | Recurring profit | 120 | 45 | 37.6 |
| | Net income (half year) | 205 | -849 | - |

Key Points:

- Slump in the video game business
- Recorded extraordinary loss in order to reduce future risks.

1. First Half Results (September 2003 Term)

First Half Sales by Product (Consolidated)

(Units: 100 million yen, %)

| Product | Term | September 2003 (interim) | | |
|-----------------|------|--------------------------|------------|---------------------|
| | | | % of total | Year-on-Year change |
| Toys | | 245 | 46.7 | 109.0 |
| Childcare goods | | 9 | 1.8 | 63.3 |
| Video games | | 93 | 17.6 | 61.4 |
| Amusement | | 25 | 4.8 | 90.4 |
| Video-related | | 126 | 24.0 | 99.9 |
| Others | | 27 | 5.1 | 196.3 |
| Total | | 525 | 100.0 | 94.1 |

1. Results of the First Half (September 2003 Term)

Profit and Loss: of Business Groups/Major Subsidiaries

(Units: million yen, %)

| | Multimedia Business Group | | | Amusement Business Group | | |
|------------------|---------------------------|--------------------------|---------------------|--------------------------|--------------------------|---------------------|
| | September 2002 (interim) | September 2003 (interim) | Year-on-Year change | September 2002 (interim) | September 2003 (interim) | Year-on-Year change |
| | | | | | | |
| Net sales | 14,445 | 8,701 | 60.2 | 2,812 | 2,537 | 90.2 |
| Recurring profit | -93 | -49 | - | 100 | 59 | 59.0 |

(Units: million yen, %)

| | Happinet JP Corporation | | | Happinet Pictures Corporation | | | Happinet Logistics Services Corporation | | | Happinet Robin Corporation | | |
|------------------|--------------------------|--------------------------|---------------------|-------------------------------|--------------------------|---------------------|---|--------------------------|---------------------|----------------------------|--------------------------|---------------------|
| | September 2002 (interim) | September 2003 (interim) | Year-on-Year change | September 2002 (interim) | September 2003 (interim) | Year-on-Year change | September 2002 (interim) | September 2003 (interim) | Year-on-Year change | September 2002 (interim) | September 2003 (interim) | Year-on-Year change |
| | | | | | | | | | | | | |
| Net sales | 27,902 | 29,588 | 106.0 | 12,402 | 12,456 | 100.4 | 2,605 | 2,731 | 104.9 | 1,315 | 1,479 | 112.5 |
| Recurring profit | 437 | 57 | 13.1 | 222 | 111 | 50.3 | -17 | 235 | - | 30 | 150 | 497.7 |

Note: The September 2002 figures of the Multimedia Business Group represent the total of the results of the Multimedia Business Group and Digital Entertainment Business Group during the previous year.

2. Issues for Second Half and Positioning of Each Business

Clarification of Weighted Allocations of Management Resources

● Business to be Expanded/Reinforced

Toy Business

● Business to be Rationalized/have Efficiency Enhanced

Video Game Business

● Business to be Expanded Based on Anticipated Trends

Video-related Business

● Function to be Rationalized/ have Efficiency Enhanced

Logistics Function

3. Issue Countermeasure Progress and Second Half Developments

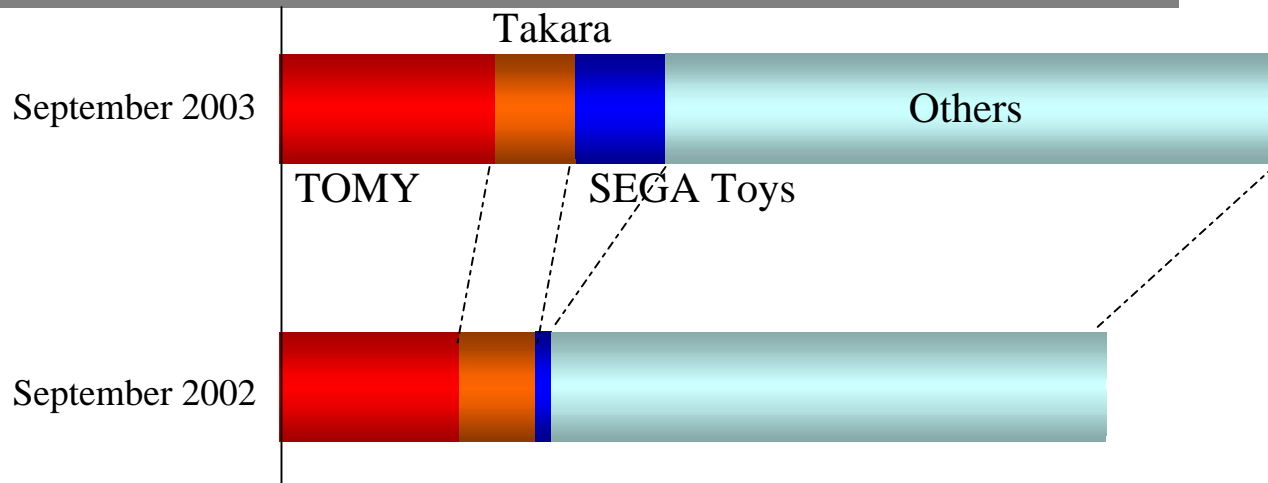
Business to be Expanded/Reinforced (Toy Business)

Sales Comparison by Toy Manufacturer

(Units: 100 million yen, %)

| Term | September 2003 (interim) | | |
|---------------------|--------------------------|------------|---------------------|
| | | % of total | Year-on-Year change |
| Manufacturer | | | |
| Bandai | 176 | 72.0 | 105.2 |
| Other manufacturers | 69 | 28.0 | 120.0 |
| TOMY | 15 | 6.1 | 120.1 |
| Takara | 6 | 2.3 | 107.1 |
| SEGA Toys | 6 | 2.6 | 505.5 |
| Others | 42 | 17.2 | 109.3 |
| Total | 245 | 100.0 | 109.0 |

Trend among other manufacturers



3. Issue Countermeasure Progress and Second Half Developments

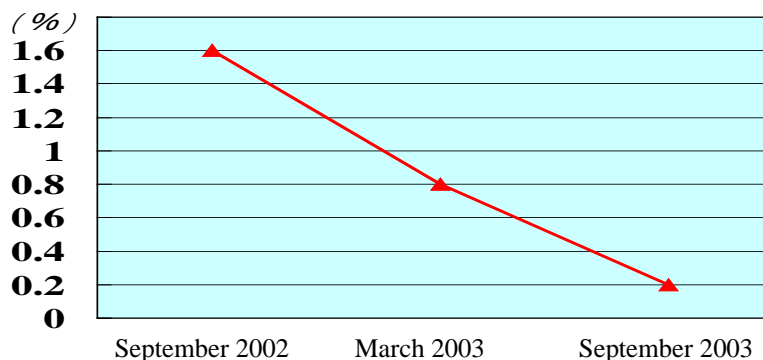
Business to be Expanded/Reinforced (Toy Business)

Business Performance Trend of Happinet JP Corporation

(Units: million yen, %)

| | September 2002 (interim) | March 2003 | September 2003 (interim) |
|------------------------|-----------------------------|------------|-----------------------------|
| Net sales | 27,902 | 61,767 | 29,588 |
| Recurring profit | 437 | 472 | 57 |
| Recurring profit ratio | 1.6 | 0.8 | 0.2 |

**Change in
recurring profit
ratio**



Sales efficiency is declining due to lower product prices.

The Group's top-priority issue must be to swiftly reform sales practice at Happinet JP Corporation.

3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded/Reinforced (Toy Business)

Executives of Happinet JP Corporation

President and COO

Kazuhiko Note

Senior Executive Vice President,
Leader of Sales Operation Division #1

Shigeru Tanimoto

The Group must consolidate its resources to swiftly implement reform in sales practice at Happinet JP Corporation.

3. Issue Countermeasure Progress and Second Half Developments

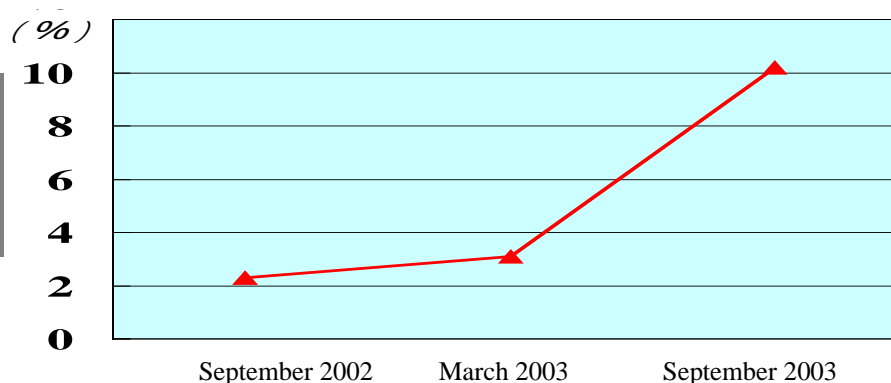
Business to be Expanded/Reinforced (Toy Business)

Business Performance Trend of Happinet Robin Corporation

(Units: million yen, %)

| | September 2002 (interim) | March 2003 | September 2003 (interim) |
|------------------------|-----------------------------|------------|-----------------------------|
| Net sales | 1,315 | 2,736 | 1,479 |
| Recurring profit | 30 | 84 | 150 |
| Recurring profit ratio | 2.3 | 3.1 | 10.2 |

**Change in
recurring profit
ratio**



**Withdrawal from the video game software-development business
Expansion of the scope of business from small sized, low-priced toys
to items targeting older groups**

**Profit increase
Sales increase**

**Reduction of intermediate costs through simplifying the production layer
for certain products**

**Profit increase
Reflected in the
next term**

3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded/Reinforced (Toy Business)

Product Development of Happinet Robin Corporation

Strategy for Products Targeting Older Groups

Mainly Products for Convenience Stores

| | Sales targets |
|--------------------------------|-----------------|
| Toys with confectionery | 500 million yen |
| Miniature figures/stuffed toys | 500 million yen |



“Chihuahua & Dachshund”
 Launch: Mid-November,
 2003 (scheduled)
 Retail price: 980 yen



figuAx



“figuax featuring Go Nagai Dynamic Game Block”
 Launch: June 23, 2003
 Retail price: 280 yen
 © Go Nagai/Dynamic Planning



“Showa Scene Museum”
 Launch: February 2004 (scheduled)
 Retail price: 300 yen
 © F-TOYS/Reo

3. Issue Countermeasure Progress and Second Half Developments

Business to be Rationalized/have Efficiency Enhanced (Video Game Business)

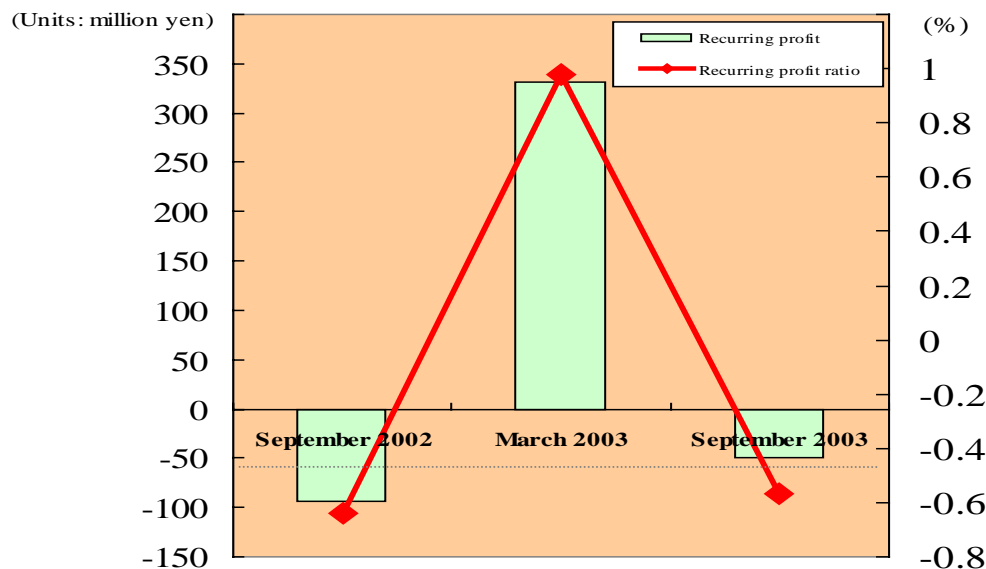
Business Performance Trend of Multimedia Business Group

(Units: million yen, %)

| | September 2002 (interim) | March 2003 | September 2003 (interim) |
|------------------------|-----------------------------|------------|-----------------------------|
| Net sales | 14,445 | 33,919 | 8,701 |
| Recurring profit | -93 | 332 | -49 |
| Recurring profit ratio | -0.64 | 0.98 | -0.57 |

Note: The September 2002 and March 2003 figures of the Multimedia Business Group represent the total of the results of the Multimedia Business Group and Digital Entertainment Business Group.

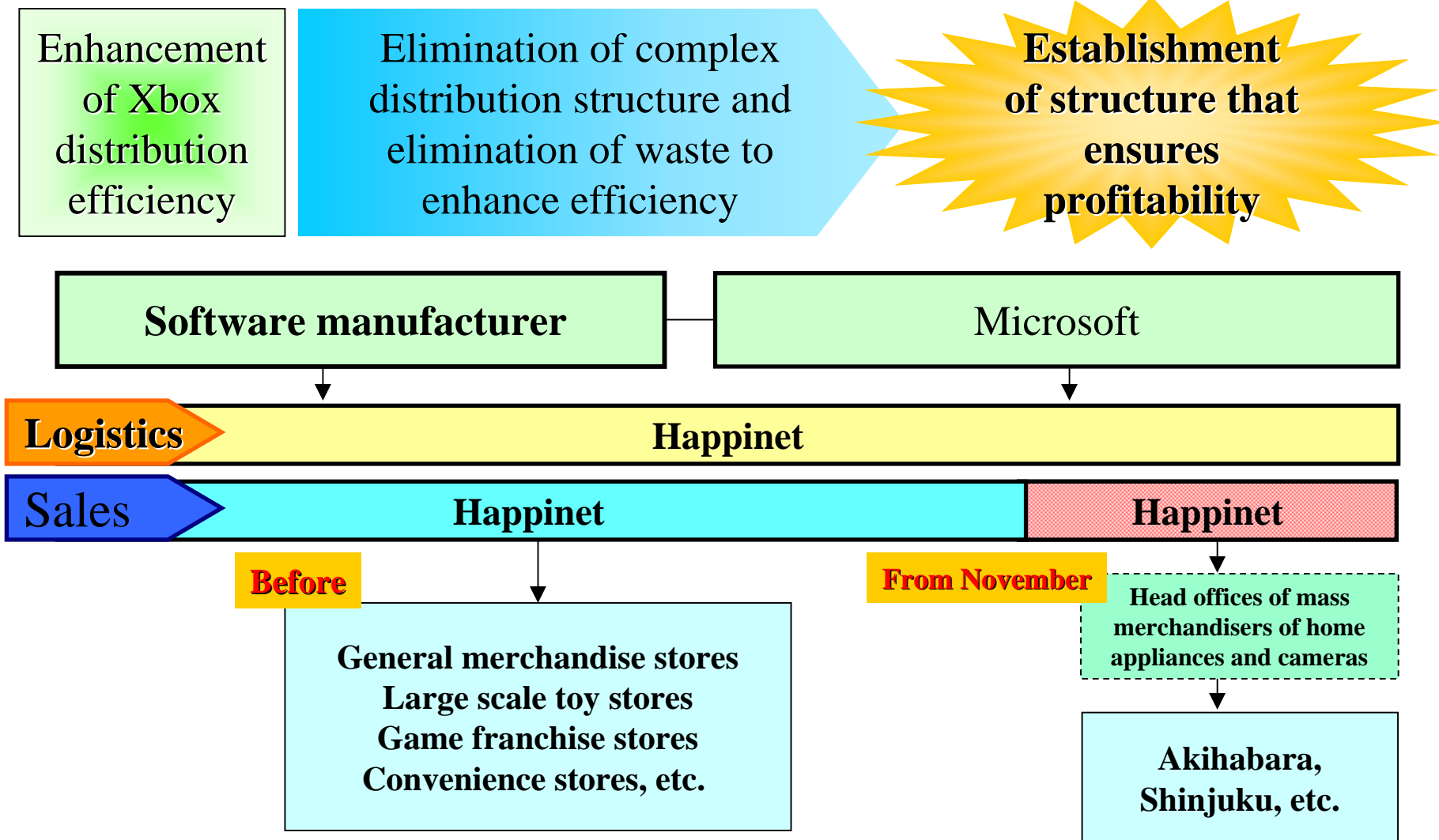
Change in recurring profit and recurring profit ratio



3. Issue Countermeasure Progress and Second Half Developments

Business to be Rationalized/have Efficiency Enhanced (Video Game Business)

Efficiency Enhancement Strategy



3. Issue Countermeasure Progress and Second Half Developments

Business to be Rationalized/have Efficiency Enhanced (Video Game Business)

Strategy of Cooperation with Manufacturers

Exclusive Distribution of Game Software

Launch:
October 30

Kadokawa Shoten PS2 software
“D.C.P.S. Da Capo Plus Situation”

Launch:
November
27

Bandai GBA software
“SD *Gundam* G Generation Advance”

For users who want to enjoy animations and movies
on Game Boy Advance (GBA)

am3 Inc.

**Advance Movie Adapter
Advance Movie Card**

Scheduled for release on November 20!

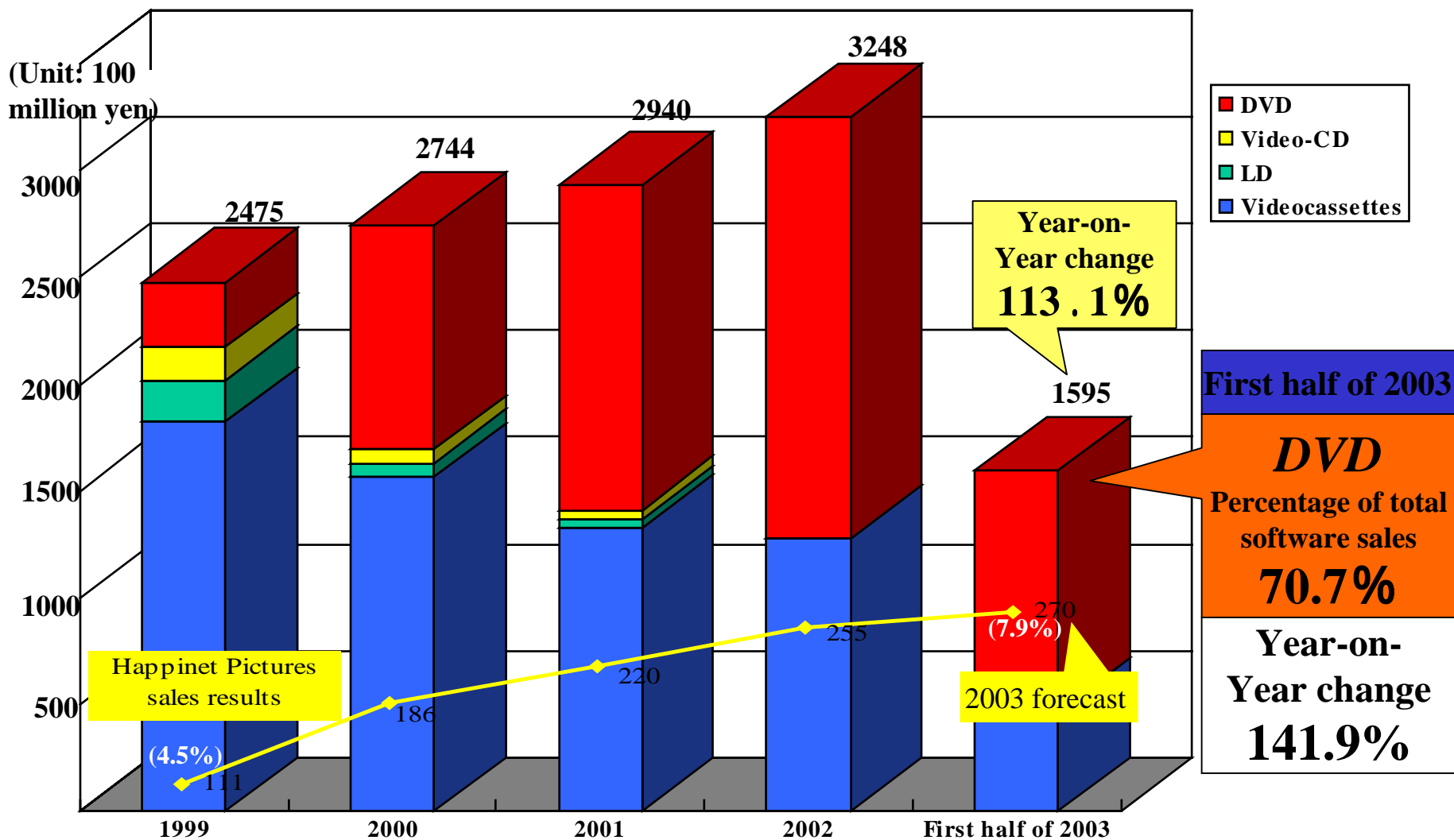


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3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded Based on Anticipated Trends (Video-related Business)

Video Software Sales and Happinet Pictures' Share from 1999 to the First Half of 2003



3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded Based on Anticipated Trends (Video-related Business)

Business Performance Trend of Happinet Pictures Corporation

(Units: million yen, %)

| | September 2002 (interim) | March 2003 | September 2003 (interim) | March 2004 (plan) |
|------------------------|-----------------------------|------------|-----------------------------|----------------------|
| Net sales | 12,402 | 25,539 | 12,456 | 26,738 |
| Recurring profit | 222 | 386 | 111 | 576 |
| Recurring profit ratio | 1.8 | 1.5 | 0.9 | 2.2 |

First half: Release dates of major exclusive titles are concentrated in the second half due to the compilation schedule.

Second half: Increase in percentage of exclusive titles

Improvement in profit ratio

| | Sales | Sales from exclusive titles | Percentage | Recurring profit ratio |
|-----------------|---------------------------|-----------------------------|------------|------------------------|
| March 2003 | Approx. 25.50 billion yen | (5.18 billion yen) | 20% | 1.5% |
| March 2004 plan | Approx. 27.00 billion yen | (6.0 billion yen) | 22.2% | 2.2% |

3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded Based on Anticipated Trends (Video-related Business)

Titles Contributing to Sales in the First Half of 2003

Wholesale Titles

| | |
|--|-----------------|
| <i>Harry Potter and the Chamber of Secrets</i> | 570 million yen |
| <i>Die Another Day</i> | 130 million yen |
| <i>Minority Report</i> | 300 million yen |

Exclusive Titles

| | |
|-----------------------------------|-----------------|
| <i>D.N.Angel</i> | 120 million yen |
| <i>New Fist of the North Star</i> | 100 million yen |

3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded Based on Anticipated Trends (Video-related Business)

Sales Forecast for Major Titles in the Second Half of 2003

Wholesale Titles

| | |
|---|-----------------|
| <i>Matrix Reloaded</i> | 400 million yen |
| <i>Hero</i> | 300 million yen |
| <i>Nausicaa of the Valley of the Wind</i> | 130 million yen |

3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded Based on Anticipated Trends (Video-related Business)

Sales Forecast for Major Titles in the Second Half of 2003

Exclusive Titles

| | |
|--|-----------------|
| CHICAGO | 700 million yen |
| Legend of the Galactic Heroes | 900 million yen |
| Full Metal Panic | 350 million yen |
| Get Up! | 300 million yen |
| Titles licensed from Universal Pictures | 700 million yen |
| Old titles repackaged at discounted price points | 400 million yen |



● Happinet Pictures to Release Series of Hit Movies on Video

DVD

Release: October 31



“CHICAGO”

The Hit Musical That Swept the Academy Awards in 2003
Winner of 6 Oscars, including Best Picture and Best Supporting Actress
“One of the most entertaining movies of all time!”

A big hit at the box office after the movie premiered in April at 260 theaters nationwide, including Marunouchi Prazer.

A long-run picture still playing at 150 second-run theaters.

VHS/DVD

Release: January 22



“Far from Heaven”

A masterpiece cited by many movie critics!

Playing nationwide at 100 theaters, including Shibuya Cinema Rise



“Get Up!”

Directed by Kazuyuki Izutsu and starring Toshiyuki Nishida
Premiered in August at 140 theaters nationwide, including Shibuya Cine Amuse
A big hit at the box office throughout Japan

DVD

Release: Spring 2004

VHS/DVD

Release: December 21



“A Snake of June”

Directed by Shinya Tsukamoto

Winner of the Jury’s Special Award at the 2002 Venice Film Festival

Playing at 70 theaters, including Cine La Sept



“Sayonara Kuro”

Playing at 80 theaters nationwide, including Cine la sept

DVD

Release: February 6

DVD

Release: February 26



“Nowhere in Africa”

A moving tale
Winner of the Oscar for Best Foreign Language Film in 2003
A long-run picture still playing at 30 theaters since its July premiere at Cine Switch Ginza and other select theaters

3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded Based on Anticipated Trends (Video-related Business)

Full-Scale Entry into the DVD Rental Business

| | Sales | Mark-up | Number of contract stores |
|----------------------|-----------------|-----------------|---------------------------|
| March 2003 | 508 million yen | 116 million yen | 2,000 stores |
| March 2004 (planned) | 900 million yen | 350 million yen | 2,900 stores |

3. Issue Countermeasure Progress and Second Half Developments

Business to be Expanded Based on Anticipated Trends (Video-related Business)

Reuse of Proprietary Content

Special Price Campaigns

Smile Price (2,800 yen) Campaign Part 2: November 27; 30 titles
Smile Price (2,800 yen) Campaign Part 3: February 26; 30 titles

Sales target: 350 million yen



¥2,800



3. Issue Countermeasure Progress and Second Half Developments

Function to be Rationalized/have Efficiency Enhanced (Logistics Function)

Effect of Establishing Happinet Logistics Center East

Goals of Establishing Happinet Logistics Center East

- Enhance efficiency
- Realize logistics services appropriate for the sales strategy
- Create business opportunities by improving the logistics quality



3. Issue Countermeasure Progress and Second Half Developments

Function to be Rationalized/have Efficiency Enhanced (Logistics Function)

Goal (1): Enhance efficiency

Realize cost reduction (millions of yen) (March 2004 forecast)

| | |
|---|-----|
| ■ Improvement of productivity in warehouse operations | 300 |
| ■ Reduction of administrative/personnel costs | 40 |
| ■ Reduction of facilities via consolidation | 120 |
| ■ Expansion of floor space | -70 |
| ■ Increased expenses for automation, etc. | -50 |

Annual cost reduction: 340 million yen

Total investment: 1,350 million yen

(* Investment can be recovered in four years, as projected in the initial plan.)

3. Issue Countermeasure Progress and Second Half Developments

Function to be Rationalized/have Efficiency Enhanced (Logistics Function)

Goal (2): Realize logistics services appropriate for the sales strategy

*Guarantee accurate
delivery service*

Use of the Happinet Logistics
Center East
Products can be delivered within
24 hours of order.
Shipping capacity: 150,000
pieces/day

Reliability

On peak days

Use of old warehouse
Shipping capacity: Limited to 30,000
pieces/day
Shipment delays occur on daily basis.
Limitations of human-oriented
center operation

*Guarantee accurate
delivery*

Happinet Logistics Center East system
Shipping accuracy: 99.999%

Reliability

Old warehouse system
Sustainable accuracy is 99.95% at
best.
Limitations of human-oriented
system operation

3. Issue Countermeasure Progress and Second Half Developments

Function to be Rationalized/have Efficiency Enhanced (Logistics Function)

Goal (3): Create business opportunities by improving the logistics quality

Advanced logistics information system

Happinet logistics system

Swift response to EDI requests from general merchandise stores

Reliability

Diverse requests from variety of customers

Customer requests can be addressed quickly and reliably.

First step toward integrated system

New logistics service contracts

New logistics service contracts

Happinet total logistics system

Integration of information system and advanced logistics system

Logistics service contracts with interested businesses who visited the Happinet Logistics Center East having business relationships with the Happinet Group

**Became a stable business operation after two years.
Number of new logistics service contracts is increasing.**

Further efficiency enhancement through integrating systems, etc.

4. Business Plan for the Year Ended March 2004

(Unit: million yen)

| | Term | March 2004 (planned) |
|------------------|------------------|-------------------------|
| Consolidated | Net sales | 115,000 |
| | Recurring profit | 1,300 |
| | Net profit | -600 |
| Non-consolidated | Net sales | 30,000 |
| | Recurring profit | 300 |
| | Net profit | -700 |

Sales by Product Area (Consolidated)

(Units: 100 million yen, %)

| Product \ Term | March 2004 (planned) | | |
|-----------------|----------------------|------------|---------------------|
| | | % of total | Year-on-Year change |
| Toys | 507 | 44.1 | 97.6 |
| Childcare goods | 17 | 1.5 | 61.9 |
| Video games | 252 | 21.9 | 73.4 |
| Amusements | 53 | 4.7 | 97.3 |
| Video-related | 267 | 23.2 | 102.8 |
| Others | 53 | 4.6 | 266.6 |
| Total | 1,150 | 100.0 | 93.9 |

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