HAPPINET CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

March 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

Note:
The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. All figures have been rounded to the nearest million yen.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Assets			
Current assets:			
Cash (note 3)	¥ 9,480	¥ 8,845	$ 80,701
Trade notes and accounts receivable	21,721	18,503	184,907
Inventories	5,164	4,430	43,960
Deferred income taxes (note 7)	798	863	6,793
Other current assets	4,445	3,539	37,840
Less allowance for doubtful receivables	39	45	332
Total current assets	41,569	36,135	353,869
Property, plant and equipment:			
Buildings and structures	903	898	7,687
Machinery, equipment and vehicles	888	872	7,559
Tools, furniture and fixtures	532	465	4,529
Land	234	234	1,992
	2,557	2,469	21,767
Less accumulated depreciation	1,386	1,267	11,798
Net property, plant and equipment	1,171	1,202	9,969
Intangible assets, net	777	637	6,614
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	1,393	1,044	11,858
Refundable deposits	470	471	4,001
Deferred income taxes (note 7)	258	262	2,196
Other investments and other assets	165	171	1,405
Less allowance for doubtful receivables	83	92	706
Total investments and other assets	2,203	1,856	18,754
Total assets	¥ 45,720	¥ 39,830	$ 389,206

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Liabilities and Stockholders' Equity			
Current liabilities:			
Trade notes and accounts payable (notes 14 and 15)	¥ 20,078	¥ 17,628	$ 170,920
Other payables (note 14)	2,375	1,544	20,218
Accrued income taxes (note 7)	1,095	949	9,322
Accrued bonuses	653	492	5,559
Other current liabilities	778	670	6,623
Total current liabilities	24,979	21,283	212,642
Non-current liabilities:			
Liabilities for retirement and severance benefits (note 6)	917	819	7,806
Other non-current liabilities	714	736	6,078
Total non-current liabilities	1,631	1,555	13,884
Total liabilities	26,610	22,838	226,526
Minority interests	–	–	–
Stockholders' equity:			
Common stock (note 10):	2,751	2,751	23,419
Authorized 32,000,000 shares; issued and outstanding 12,025,000 shares in 2006 and 2005			
Additional paid-in capital (note 10)	2,776	2,776	23,631
Retained earnings (note 11)	13,233	11,263	112,650
Net unrealized gain on other securities (note 4)	362	209	3,082
Treasury stock	(12)	(7)	(102)
Total stockholders' equity	19,110	16,992	162,680
Commitments and contingencies (note 15)			
Total liabilities and stockholders' equity	¥ 45,720	¥ 39,830	$ 389,206

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Net sales	¥ 155,703	¥ 140,462	$ 1,325,470
Cost of sales (note 14)	137,279	123,432	1,168,630
Gross profit	18,424	17,030	156,840
Selling, general and administrative expenses (notes 8, 9 and 14)	14,954	14,063	127,301
Operating income	3,470	2,967	29,539
Other income (deductions):			
Interest income	0	0	0
Dividend income	18	11	153
Interest expenses	(1)	(2)	(8)
Gain on sale of investments in securities (note 4)	4	21	34
Loss on sale/disposal of property, plant and equipment	(8)	(88)	(68)
Loss on devaluation of investments in securities and other investments	(47)	–	(400)
Other, net	363	12	3,090
	329	(46)	2,801
Income before income taxes and minority interests	3,799	2,921	32,340
Income taxes (note 7):			
Current	1,564	1,072	13,314
Deferred	(36)	239	(306)
	1,528	1,311	13,008
Income before minority interests	2,271	1,610	19,332
Minority interests	–	29	–
Net income	¥ 2,271	¥ 1,581	$ 19,332

	Yen		U.S. dollars (note 2)
	2006	2005	2006
Per share of common stock (note 1 (m)):			
Net income – basic	¥ 188.97	¥ 131.53	$ 1.61
Cash dividends applicable to the year	25.00	22.50	0.21

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Stockholders' Equity
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Common stock (note 10):			
Balance at beginning of year	¥ 2,751	¥ 2,751	$ 23,419
Balance at end of year	2,751	2,751	23,419
Additional paid-in capital (note 10):			
Balance at beginning of year	2,776	2,776	23,631
Increase resulting from sale of treasury stock	0	0	0
Balance at end of year	2,776	2,776	23,631
Retained earnings (note 11):			
Balance at beginning of year	11,263	10,278	95,880
Decrease resulting from a newly consolidated subsidiary	–	(326)	–
Cash dividends	(301)	(270)	(2,562)
Net income	2,271	1,581	19,332
Balance at end of year	13,233	11,263	112,650
Net unrealized gain on other securities at end of year (note 4)	362	209	3,082
Treasury stock at end of year	(12)	(7)	(102)
Total stockholders' equity at end of year	¥ 19,110	¥ 16,992	$ 162,680

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,799	¥ 2,921	$ 32,340
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	409	516	3,482
Allowance for doubtful receivables	(15)	(56)	(128)
Increase in accrued bonuses	162	159	1,379
Increase in liabilities for retirement and severance benefits	98	127	834
Interest and dividend income	(18)	(11)	(153)
Interest expenses	1	2	8
Loss on sale/disposal of property, plant and equipment	8	88	68
Gain on sale of investments in securities	(4)	(21)	(34)
Loss on devaluation of investments in securities and other investments	47	–	400
Increase in trade notes and accounts receivable	(3,216)	(200)	(27,377)
(Increase) decrease in inventories	(734)	408	(6,248)
Increase in trade notes and accounts payable	2,449	646	20,848
Increase (decrease) in other payables	799	(7)	6,802
Other, net	(755)	(801)	(6,427)
Sub total	3,030	3,771	25,794
Interest and dividend received	18	11	153
Interest paid	(1)	(2)	(8)
Income taxes paid	(1,416)	(541)	(12,055)
Net cash provided by operating activities	1,631	3,239	13,884
Cash flows from investing activities:			
Capital expenditures	(142)	(142)	(1,209)
Proceeds from sale of property, plant and equipment	–	171	–
Purchase of intangible assets	(420)	(73)	(3,575)
Purchase of investments in securities	(161)	(69)	(1,371)
Proceeds from sale of investments in securities	30	35	255
Other, net	3	32	26
Net cash used in investing activities	(690)	(46)	(5,874)

Cash flows from financing activities:			
(Increase) decrease in treasury stock	(5)	(2)	(43)
Dividends paid to stockholders	(301)	(272)	(2,562)
Net cash used in financing activities	(306)	(274)	(2,605)
Net increase in cash and cash equivalents	635	2,919	5,405
Cash and cash equivalents at beginning of year	8,845	5,845	75,296
Cash and cash equivalents of newly consolidated subsidiaries	–	81	–
Cash and cash equivalents at end of year (note 3)	¥ 9,480	¥ 8,845	$ 80,701

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

Happinet Corporation (the Company) and its consolidated subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (4 subsidiaries for 2006 and 2005).

All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in affiliates are accounted for by the equity method.

The Accounting Standards for Consolidation require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the parent company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the parent company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

The excess of cost over the underlying net assets at the dates of investment in subsidiaries is amortized over 5 years.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) Investments in Securities

Under the Accounting Standards for Financial Instruments, securities are classified into four categories – “trading securities,” “held-to-maturity securities,” “investments in affiliates” and “other securities.” Securities classified as “trading securities” are stated at fair value and unrealized gains or losses are recorded in the consolidated statements of income. Securities classified as “held-to-maturity securities” are stated at amortized cost. Securities classified as “other securities” with fair value are stated at fair value and unrealized gains or losses, net of related taxes, are excluded from earnings and recorded in a separate component of stockholders’ equity. Debt classified as “other securities” for which fair value is not available are stated at the amortized cost. Equity securities classified “other securities” for which fair value is not available are stated at the moving-average cost. Realized gains and losses on the other securities are computed using the moving-average cost. Holding securities of the Company are classified as other securities.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method.

(f) Property, Plant and Equipment

Property, plant and equipment are carried substantially at cost. Depreciation is provided by the declining-balance method based on the estimated useful lives, except for the buildings acquired on or after April 1, 1998, which are depreciated based on the straight-line method.

The estimated useful lives are as follows:

Buildings and structures	3 – 47 years
Machinery, equipment and vehicles	3 – 12 years
Tools, furniture and fixtures	2 – 20 years

(g) Intangible Assets

Intangible assets are carried at cost less amortization. Software development expenses are deferred and amortized by the straight-line method over the estimated useful lives (5 years). Intangible assets other than software are deferred and amortized by the straight-line method at rates based on the estimated useful lives of the respective assets.

(h) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided at an amount of uncollectible receivables based on historical loss ratios and an amount that takes into consideration the possibility of specific liabilities.

(i) Retirement and Severance Benefits

The Company and its consolidated subsidiaries have contributory and noncontributory pension plans to provide retirement and severance benefits to substantially all employees.

Under the Accounting Standards for Retirement and Severance Benefits, provisions have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement and severance benefits attributable to employee services rendered by the end of the year, less amounts funded under pension plans.

(j) Leases

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases.

(k) Income Taxes

The Accounting Standards for Deferred Income Taxes require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the stockholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. (See note 11)

(m) Data per Common Share

Net income per share is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. (See note 12)

Cash dividends per share are computed based on dividends actually paid during the year. (See note 11)

(n) Impairment of Long-lived Assets

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets (“Opinion Concerning the Establishment of an Accounting Standard for the Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the “Implementation Guidance on the Accounting Standard for the Impairment of Fixed Assets” (Business Accounting Standard Implementation Guidance No. 6 issued on October 31, 2003). The effect of adoption of these new standards was nil.

(o) Reclassifications

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2006.

(2) Financial Statement Translation

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2006 have been translated into United States dollars at the rate of ¥117.47=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2006. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

(3) Cash and Cash Equivalents

Reconciliation between “Cash” in the accompanying consolidated balance sheets and “Cash and cash equivalents” in the accompanying consolidated statements of cash flows at March 31, 2006 and 2005 is follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash	¥ 9,480	¥ 8,845	$ 80,701
Cash and cash equivalents	¥ 9,480	¥ 8,845	$ 80,701

(4) Investments in Securities

Acquisition cost, balance sheet amount and gross unrealized gain and gross unrealized loss of other securities with fair value as of March 31, 2006 and 2005 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross Unrealized gain	Gross Unrealized loss	Balance sheet amount
March 31, 2006				
Equity securities	¥ 585	¥ 609	¥ -	¥ 1,194
March 31, 2005				
Equity securities	¥ 598	¥ 359	¥ (8)	¥ 949

	Thousands of U.S. dollars			
	Acquisition cost	Gross Unrealized gain	Gross Unrealized loss	Balance sheet amount
March 31, 2006				
Equity securities	$ 4,980	$ 5,184	$ -	$ 10,164

It is not practicable to estimate the fair value of securities as of March 31, 2006 and 2005 described bellow because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other securities:			
Unlisted equity securities	¥ 180	¥ 74	$ 1,532

For the years ended March 31, 2006 and 2005, proceeds from sale of other securities are ¥25 million ($213 thousand) and ¥35 million, the gross realized gains are ¥10 million ($85 thousand) and ¥21 million, respectively. The gross realized losses are ¥6 million ($51 thousand) for the year ended March 31, 2006, and were immaterial for the year ended March 31, 2005.

(5) Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2006 and 2005 are ¥120 million ($1,022 thousand) and ¥20 million, respectively.

(6) Retirement and Severance Benefits

The Company and certain consolidated subsidiaries have defined benefit retirement and pension plans, which consist of unfunded retirement and severance plans that provide for lump-sum payment of benefits and defined contribution retirement and pension plans.

The Company and certain consolidated subsidiaries had defined contributory benefit plans provided under the Welfare Pension Insurance Law of Japan. The Corporate Defined Benefit Pension Plan Law was enacted, and on January 28, 2005, the Company and certain consolidated subsidiaries obtained the approval from the Minister of Health, Labour and Welfare and dissolved the contributory benefit plans provided under the Welfare Pension Insurance Law of Japan. On April 1, 2005, the Company and certain consolidated subsidiaries introduced a defined contribution retirement and pension plan.

The funded status of the pension plans at March 31, 2006 and 2005 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥ 917	¥ 819	$ 7,806
Amount recognized in the consolidated balance sheets	¥ 917	¥ 819	$ 7,806

Net periodic pension cost for the years ended March 31, 2006 and 2005 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 82	¥ 76	$ 698
Interest cost	12	14	102
Amortization of actuarial loss generated in the current fiscal year	34	67	290
Contribution by the Company to the Welfare Pension Fund	-	73	-
Additional benefits, etc.	6	1	51
Contribution to the defined contribution fund	37	1	315
Net periodic pension cost	¥ 171	¥ 232	$ 1,456

Significant assumptions of pension plans used to determine these amounts in fiscal 2006 and 2005 are as follows:

	2006	2005
Discount rate	1.5%	1.5%
Periodic allocation method for projected benefit	Straight-line	Straight-line
Period for amortization of unrecognized prior service cost	1 year*	1 year*
Period for amortization of unrecognized actuarial loss	1 year*	1 year*

Note: *Amortized in the year in which they were generated

(7) Income Taxes

The Company and its consolidated subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 40.6% in 2006 and 2005.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2006 and 2005 is follows:

	2006	2005
Statutory tax rate	40.6%	40.6%
Expenses not deductible for tax purposes	0.8	0.8
Income not credited for tax purposes	(0.1)	(0.1)
Per capita tax	0.5	0.7
Tax benefits not recognized on operating losses of subsidiaries	0.4	1.6
Other	(1.9)	1.3
Effective tax rate	40.2%	44.9%

Significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Deferred tax assets (current):			
Accrued business tax	¥ 82	¥ 73	$ 698
Valuation loss for inventories	257	462	2,188
Accrued bonuses	260	197	2,213
Unrealized profit on sale of inventories eliminated on consolidation	5	3	43
Other	194	128	1,651
	798	863	6,793
Deferred tax assets (non-current):			
Liabilities for retirement and severance benefits	371	320	3,158
Loss on devaluation of other investments	35	36	298
Loss on devaluation of investments in securities	46	43	392
Other	73	32	621
Offset with deferred tax liabilities (non-current)	(267)	(169)	(2,273)
	258	262	2,196
Net deferred tax assets	¥ 1,056	¥ 1,125	$ 8,989
Deferred tax liabilities:			
Deferred tax liabilities (non-current):			
Net unrealized gain on other securities	¥ (267)	¥ (169)	$ (2,273)
Offset with deferred tax assets (non-current)	267	169	2,273
Net deferred tax liabilities	¥ -	¥ -	$ -

(8) Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Storage expenses	¥ 1,828	¥ 1,940	$ 15,561
Freight	2,139	2,060	18,209
Promotion	1,163	1,078	9,900
Salary and executive compensation	4,711	4,114	40,104

(9) Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2006 and 2005 are ¥50 million ($426 thousand) and ¥50 million, respectively.

(10) Common Stock

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital. On October 1, 2001, the Code was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

(11) Retained Earnings and Dividends

The Commercial Code of Japan provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of such reserve and additional paid-in capital equal 25% of common stock. Either additional paid-in capital or the legal reserve may be available for dividends by resolution of the stockholders to the extent that the amount of total additional paid-in capital and legal reserve exceeds 25% of stated common stock. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Commercial Code of Japan.

In accordance with the Commercial Code of Japan, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year. The proposed appropriation of retained earnings at March 31, 2006 of cash dividends of ¥15.0 ($0.13) per common share aggregating ¥180 million ($1,532 thousand) was approved at the Company’s general meeting of stockholders held on June 16, 2006.

(12) Net Income per Share Information

Reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net income applicable to common stockholders	¥ 2,271	¥ 1,581	$ 19,332

	Number of shares (Thousands)	
	2006	2005
Weighted average number of shares on which basic net income per share is calculated	12,016	12,018

(13) Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2006 and 2005 are as follows:

	Millions of yen			
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets	Total
March 31, 2006				
Acquisition cost	¥ 3	¥ 255	¥ 19	¥ 277
Accumulated depreciation	1	130	16	147
Net book value	¥ 2	¥ 125	¥ 3	¥ 130
March 31, 2005				
Acquisition cost	¥ 6	¥ 314	¥ 340	¥ 660
Accumulated depreciation	3	126	290	419
Net book value	¥ 3	¥ 188	¥ 50	¥ 241

	Thousands of U.S. dollars			
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets	Total
March 31, 2006				
Acquisition cost	$ 26	$ 2,170	$ 162	$ 2,358
Accumulated depreciation	9	1,106	136	1,251
Net book value	$ 17	$ 1,064	$ 26	1,107

Future minimum payments required under finance leases at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Within one year	¥ 58	¥ 116	$ 494
Over one year	74	129	630
	¥ 132	¥ 245	$ 1,124

Lease payments, depreciation equivalents and amounts representing interest under the finance leases which are accounted for in the same manner as operating leases for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease payments	¥ 126	¥ 175	$ 1,073
Depreciation equivalents	120	166	1,022
Amounts representing interest	4	5	34

(14) Balances and Transactions with Related Party

Bandai Co., Ltd. and Namco Limited established a joint holding company (NAMCO BANDAI Holdings Inc.) on September 29, 2005 and the Company’s shares held by Bandai Co., Ltd. were transferred to NAMCO BANDAI Holdings Inc. on December 1, 2005.

The Company’s outstanding common stock was owned by NAMCO BANDAI Holdings Inc. by 25% at March 31, 2006.

Balances with NAMCO BANDAI Holdings Inc. at March 31, 2006, and related transactions for the year then ended are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Balances:		
Other payables	¥ 3	$ 26
Transactions:		
Business management fee	¥ 12	$ 102

The Company's outstanding common stock was owned by Bandai Co., Ltd. by 25% at March 31, 2005.

Balances with the company at March 31, 2005, and related transactions for the year then ended were summarized as follows:

	Millions of yen
Balances:	
Trade accounts payable	¥ 7,174
Transactions:	
Purchases	¥ 37,482

A director of the Company is concurrently serving as a representative director of IRIMAJIRI SHOUICHIROU. There were no outstanding balances with the company at March 31, 2006 and 2005, and transactions with the company for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Transactions:			
Consultant fee	¥ 6	¥ 6	$ 51

A director of the Company is concurrently serving as a representative director of SENRYAKU KEIEI KAIHATSU Center, and balances with the company at March 31, 2006 and 2005, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Balances:			
Other payables	¥ -	¥ 0	$ -
Transactions:			
Consultant fee	¥ 8	¥ 8	$ 68

A corporate auditor of the Company is concurrently serving as a representative of TAKAISHI Law Office. There were no outstanding balances with the firm at March 31, 2006 and 2005, and transactions with the firm for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Transactions:			
Consultant fee	¥ 1	¥ 1	$ 9

Bandai Co., Ltd. and Bandai Visual Co., Ltd. are subsidiaries of NAMCO BANDAI Holdings Inc. as at March 31, 2006. Balances with the companies at March 31, 2006, and related transactions for the year then ended are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Bandai Co., Ltd.		
Balances:		
Trade accounts payable	¥ 8,277	$ 70,461
Transactions:		
Purchases	¥ 40,363	$ 343,603
Bandai Visual Co., Ltd.		
Balances:		
Trade accounts payable	¥ 475	$ 4,044
Transactions:		
Purchases	¥ 2,914	$ 24,806

Bandai Visual Co., Ltd. was a subsidiary of Bandai Co., Ltd. as at March 31, 2005. Balances with the company at March 31, 2005, and related transactions for the year then ended were summarized as follows:

	Millions of yen
Balances:	
Trade accounts payable	¥ 487
Transactions:	
Purchases	¥ 2,577

(15) Commitments and Contingencies

Investment in securities with a book value of ¥437 million ($3,720 thousand) and ¥291 million are pledged for trade accounts payable of ¥39 million ($332 thousand) and ¥7 million at March 31, 2006 and 2005, respectively.

(16) Segment Information

(a) Industry segments

The Company had categorized its business into the two segments of “Toy and Video game etc. business” and “Video-related business.” Effective in the year ended March 31, 2005, the Company changed its management organization reflecting the merger and the business acquisition, and started its new mid to long term management plan. The business segments have been reclassified to reflect these changes more accurately into the five segments as “Toy business”, “Video-related business”, “Video game business”, “Amusement business” and “Other business.” The segments are divided based on type of products and natures, sales system and markets.

Segment information by industry for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen							
	2006							
	Toy	Video-related	Video game	Amusement	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 58,725	¥ 52,267	¥ 32,470	¥ 5,904	¥ 6,337	¥ 155,703	¥ –	¥ 155,703
Inter-segment sales	–	–	–	–	–	–	–	–
	58,725	52,267	32,470	5,904	6,337	155,703	–	155,703
Operating expenses	55,335	51,856	31,739	5,770	6,226	150,926	1,307	152,233
Operating income	¥ 3,390	¥ 411	¥ 731	¥ 134	¥ 111	¥ 4,777	¥ (1,307)	¥ 3,470
Assets	¥ 12,331	¥ 13,261	¥ 6,402	¥ 1,723	¥ 1,377	¥ 35,094	¥ 10,626	¥ 45,720
Depreciation and amortization	229	69	43	34	20	395	10	405
Capital expenditures	253	205	92	13	25	588	3	591

	Millions of yen							
	2005							
	Toy	Video-related	Video game	Amusement	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 52,067	¥ 45,458	¥ 28,697	¥ 6,319	¥ 7,921	¥ 140,462	¥ –	¥ 140,462
Inter-segment sales	–	–	–	–	–	–	–	–
	52,067	45,458	28,697	6,319	7,921	140,462	–	140,462
Operating expenses	50,331	43,683	28,394	6,186	7,618	136,212	1,283	137,495
Operating income	¥ 1,736	¥ 1,775	¥ 303	¥ 133	¥ 303	¥ 4,250	¥ (1,283)	¥ 2,967
Assets	¥ 10,819	¥ 8,618	¥ 7,459	¥ 1,592	¥ 1,628	¥ 30,116	¥ 9,714	¥ 39,830
Depreciation and amortization	304	64	62	33	35	498	12	510
Capital expenditures	115	47	27	112	21	322	3	325

	Thousands of U.S. dollars							
	2006							
	Toy	Video-related	Video game	Amusement	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers	$ 499,915	$ 444,939	$ 276,411	$ 50,259	$ 53,946	$ 1,325,470	$ –	$ 1,325,470
Inter-segment sales	–	–	–	–	–	–	–	–
	499,915	444,939	276,411	50,259	53,946	1,325,470	–	1,325,470
Operating expenses	471,057	441,440	270,188	49,119	53,001	1,284,805	11,126	1,295,931
Operating income	$ 28,858	$ 3,499	$ 6,223	$ 1,140	$ 945	$ 40,665	$ (11,126)	$ 29,539
Assets	$ 104,971	$ 112,889	$ 54,499	$ 14,668	$ 11,722	$ 298,749	$ 90,457	$ 389,206
Depreciation and amortization	1,950	587	366	290	170	3,363	85	3,448
Capital expenditures	2,154	1,745	783	110	213	5,005	26	5,031

Notes: 1. The main products of each segment are as follows:

Toy:	Toys for boys and girls.
Video-related:	Video-related and music software.
Video game:	Game consoles and related software.
Amusement:	Toy vending machines and products sold via the machines.
Other:	Miscellaneous goods and trading cards.

2. The non-categorized operating expenses of ¥1,307 million ($11,126 thousand) and ¥1,283 million for the years ended March 31, 2006 and 2005 in the Elimination/ corporate line consist primarily of administrative operation expenses.

3. Corporate assets of ¥10,626 million ($90,457 thousand) and ¥9,714 million as of March 31, 2006 and 2005 in the Elimination/ corporate line consist primarily of cash and deposits, long-term investments (investments in securities) and assets relating to the administrative operations.

(b) Geographic segments

Both domestic sales and assets located in Japan are over 90% of all segments for the years ended March 31, 2006 and 2005.

(c) Overseas sales

Overseas sales are less than 10% of consolidated sales for the years ended March 31, 2006 and 2005.

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Independent Auditors' Report

To the Board of Directors of
Happinet Corporation

We have audited the accompanying consolidated balance sheets of Happinet Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Happinet Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As more fully described in Note 16 to the consolidated financial statements, effective in the year ended March 31, 2005, the Company has changed its classification of segmentation in the segment information by industry.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.

Toyo & Co.

Toyo & Co.
Tokyo, Japan
June 16, 2006