



Fiscal Year 2005 Results Presentation

May 15, 2006

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.

Fiscal Year 2005

Overview of Consolidated Operating Results

Consolidated Results by Segment

(Units: 100 million yen, %)

Product		Term	2003	2004	2005	YoY (%)
Toy business	Net sales		534	520	587	12.8
	Operating profit		1.7	17.3	33.8	95.3
video-related business	Net sales		292	454	522	15.0
	Operating profit		13.4	17.7	4.1	-76.8
Video game business	Net sales		271	286	324	13.1
	Operating profit		2.8	3.0	7.3	141.0
Amusement business	Net sales		54	63	59	-6.6
	Operating profit		1.3	1.3	1.3	1.1
Other business	Net sales		73	79	63	-20.0
	Operating profit		3.7	3.0	1.1	-63.2
Eliminations and corporate losses	Net sales		-	-	-	-
	Operating profit		-11.7	-12.8	-13.0	-
Total	Net sales		1,227	1,404	1,557	10.9
	Operating profit		11.4	29.6	34.7	17.0

Outline of Strategies in the Current Fiscal Year for Major Business Segments

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Fiscal Year 2006 Forecast by Business Segment (Consolidated)

(Unit: 100 million yen)

Product	Term	2006 forecast		
			Percentage of total	YoY (%) growth
Toy business		590	36.9	0.5
Video-related business		460	28.8	-12.0
Video game business		420	26.3	29.4
Amusement business		70	4.4	18.6
Other business		60	3.8	-5.3
Total		1,600	100.0	2.8

Toy Business:

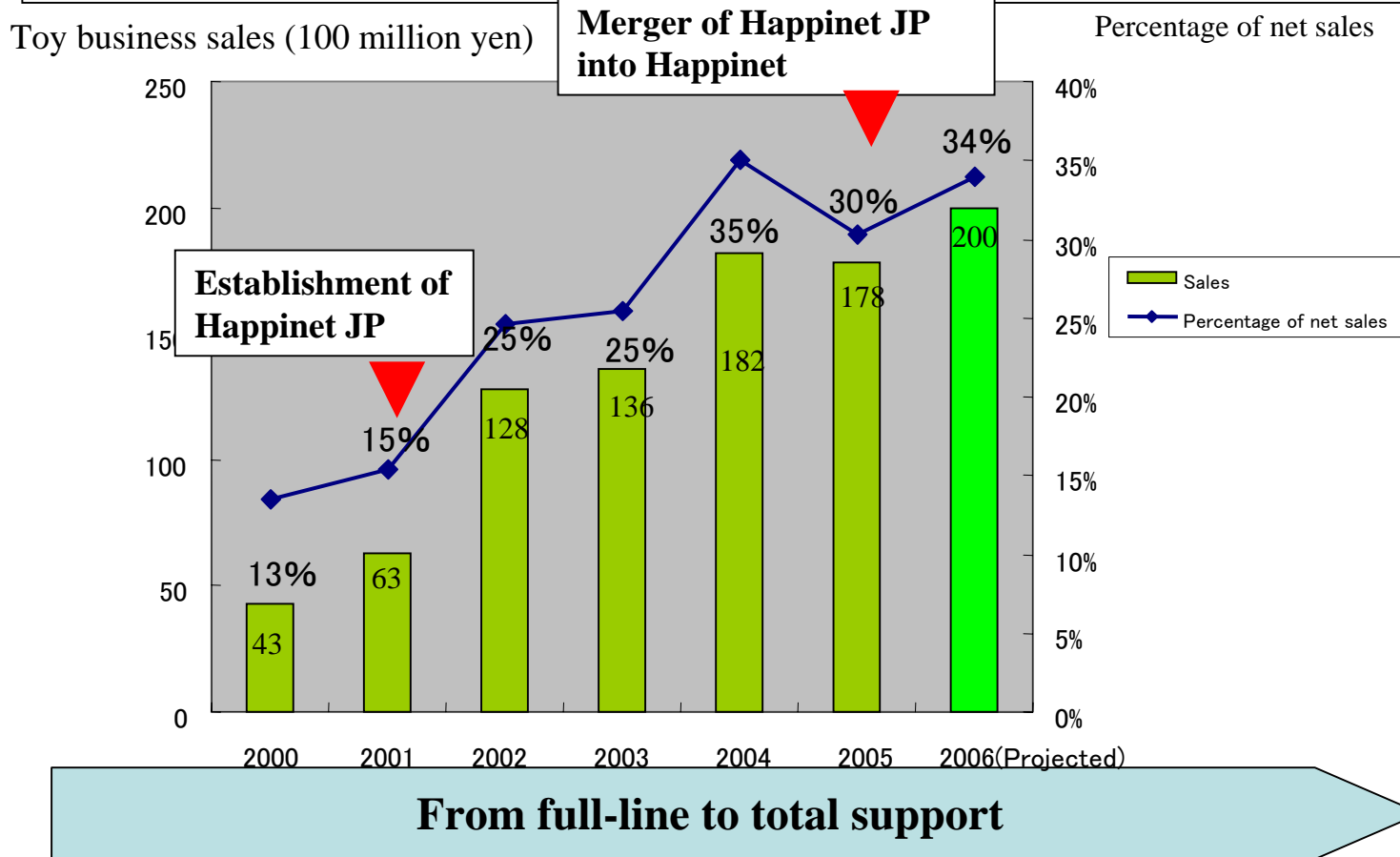
Strategies for the Current Fiscal Year

1. Toy Business: Strategies for the Current Fiscal Year

◇ Increase market share through swift response to market changes

• Pursue market share growth by moving to a full-line system to strengthen coordination with many manufacturers

Transitions in Sales of Manufacturer Products (Other than Video Games/Bandai products)



Note: Only figures for fiscal year 2000 are nonconsolidated

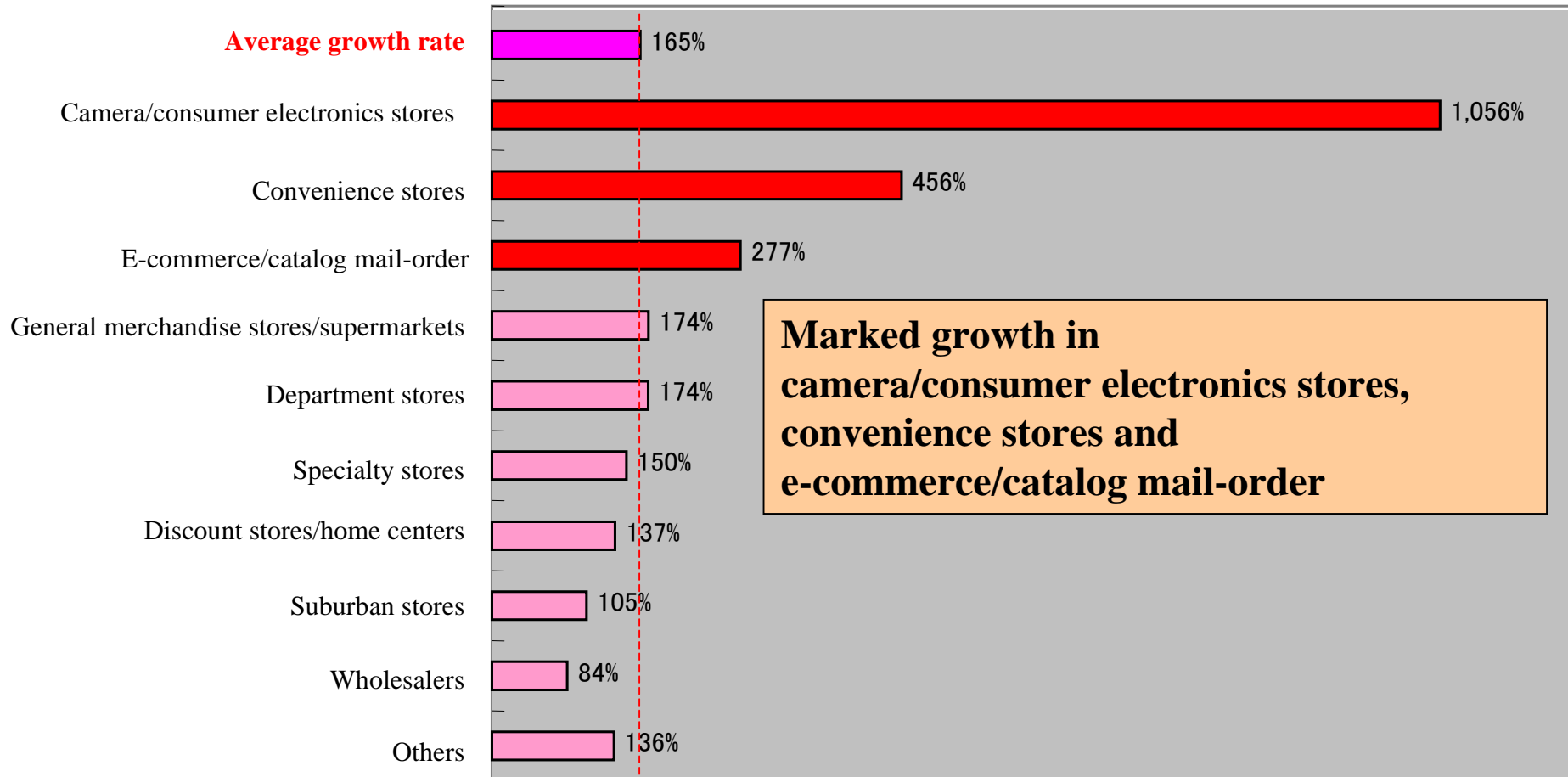
1. Toy Business: Strategies for the Current Fiscal Year

◇ Increase market share through swift response to market changes

- Commence strategic efforts with customers with a potential for expanding distribution and market share

Sales Growth in the Toy Business by Sales Channel (FY 2001-FY 2005)

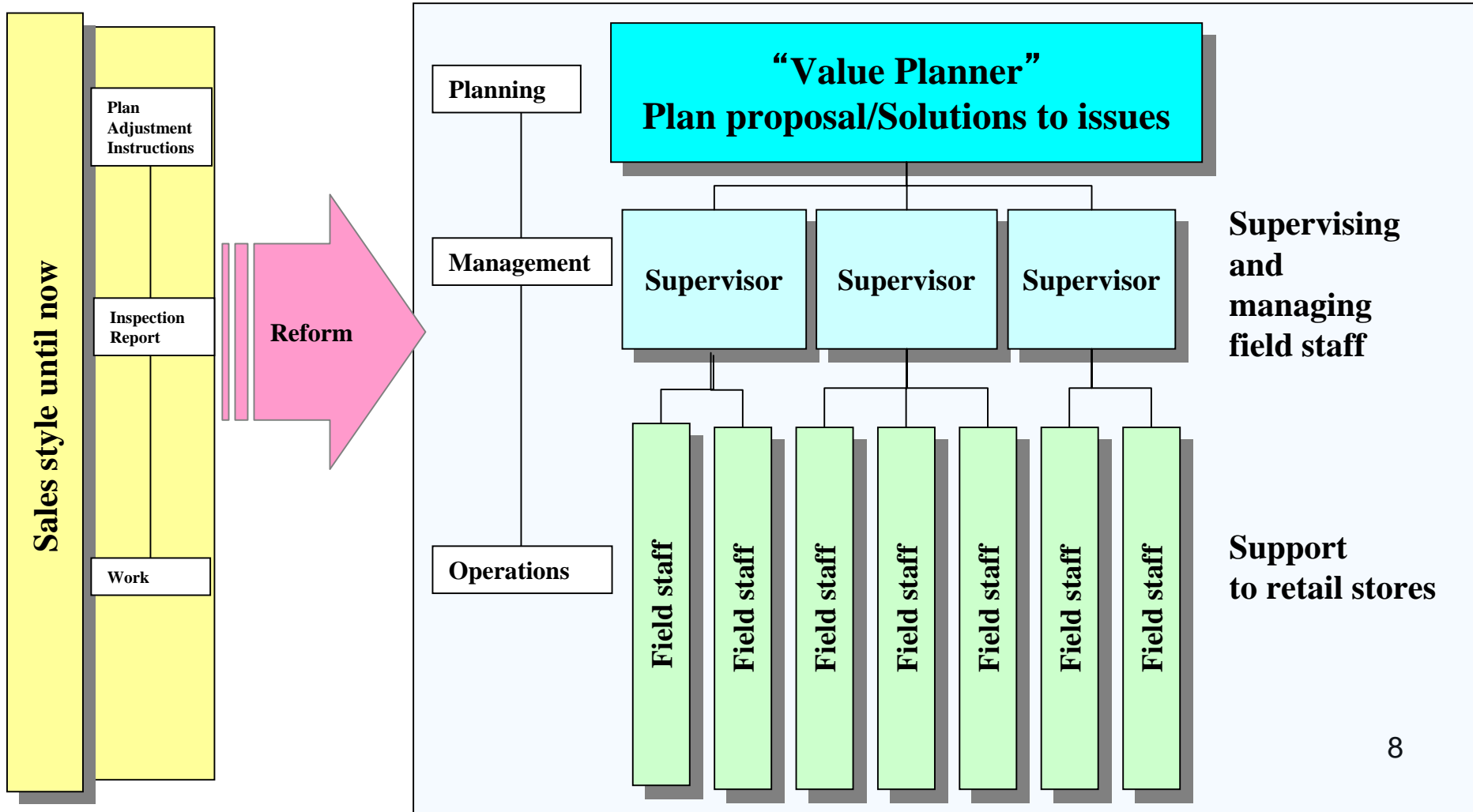
Average growth rate



1. Toy Business: Strategies for the Current Fiscal Year

◇ Changing to a sales style which achieves a total support system

• Seeking to change how we collaborate with our business partners and to reform our sales style, we are establishing a system which will allow us to fully apply our value planning capabilities



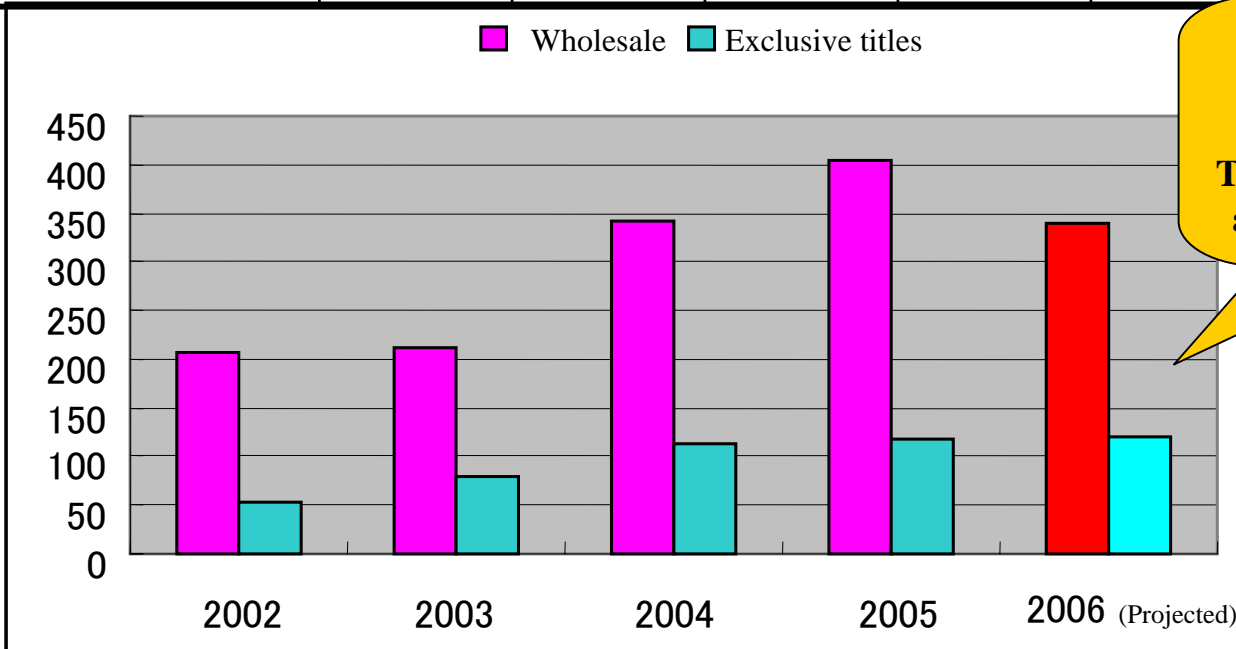
**Video-related Business:
Strategies for the Current Fiscal Year**

2. Video-related Business: Strategies in the Current Fiscal Year

◇ Breakdown of sales and sales trends in the Video-related software business

(100 million yen)

	2002	2003	2004	2005	2006 (Projected)	versus previous year
Wholesale	206	212	342	404	340	84%
Exclusive titles	53	80	112	118	120	101%
(Ratio of exclusive titles)	20%	27%	24%	22%	26%	
Total	259	292	454	522	460	88%

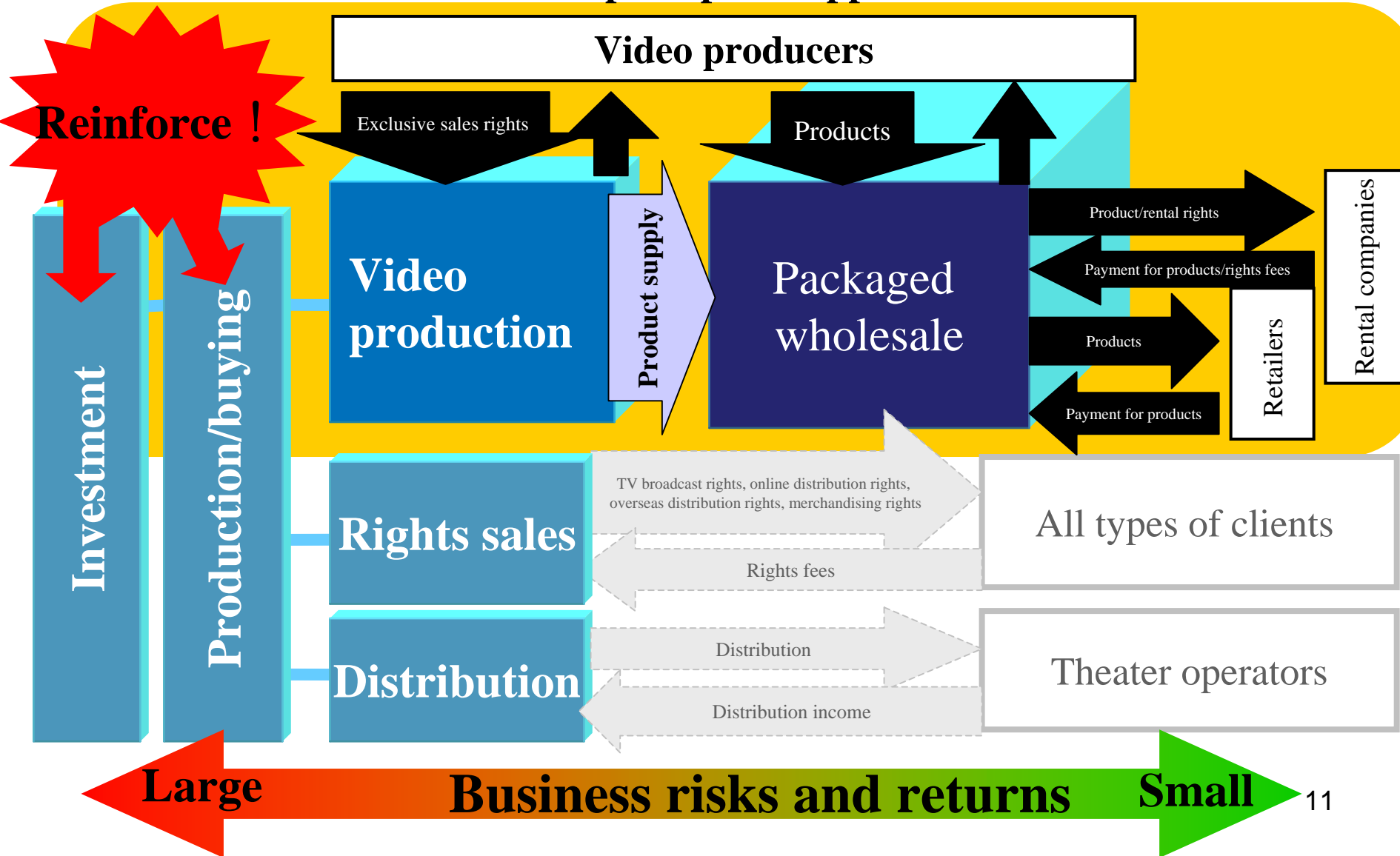


To respond to market saturation, we will overhaul operations. Therefore, wholesale sales are projected to decline.

2. Video-related Business: Strategies in the Current Fiscal Year

◇ Proactive steps to strengthen and expand our base of in-house productions within exclusive titles

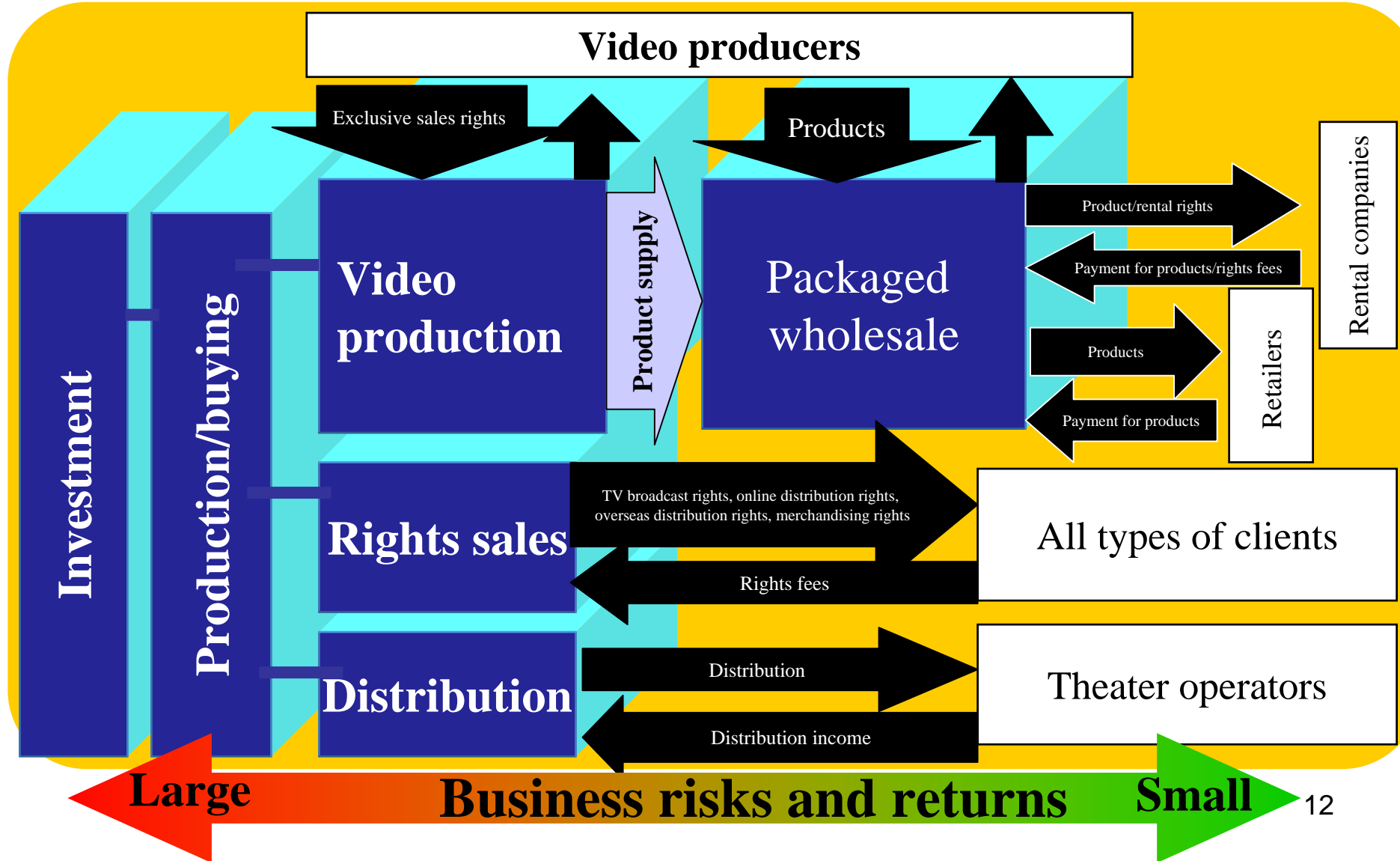
● Increase investment ratio to expand profit opportunities



2. Video-related Business : Strategies in the Current Fiscal Year

◇ Proactive steps to strengthen and expand our base of in-house productions within exclusive titles

● The level of risk will increase, but it will contribute to profitability and business growth and development.



2. Video-related Business : Strategies in the Current Fiscal Year

◇ Proactive steps to strengthen and expand our base of in-house productions within exclusive titles

▪ Acquisition of high-quality products including the packaged/non-packaged business.

< Investment in video products >

(100 million yen)

	2004	2005	2006 (Projected)
Investment in video products	21	29	38

For Reference: Top Five Exclusive Titles in the Previous Fiscal Year

Rank	Title	Sales (projected; 100 million yen)	Genre
1	<i>Brothers Grimm</i> (Investment in purchase; hold video rights)	6	Foreign movie
2	<i>Full Metal Panic! The Second Raid</i> (Production investment; Exclusive sales rights to DVD)	5	Anime
3	<i>The 1% Miracle</i> (100% investment in purchase; TV and video rights)	5	Korean drama
4	<i>Pacchigi!</i> (Production investment; hold video rights)	4	Japanese movie
5	<i>Bunshinsaba</i> (100% investment in purchase; hold all rights)	4	Foreign movie

◆ Full-scale overhaul of sales operations for wholesale titles

Business overhaul and rebuilding to cope with market saturation

- Consideration of sales style according to size of account and type of operation
- Selection of priority suppliers and considering ways to strengthen operations
- Rebuilding an inventory control system suited to the video market
- Exploring ways to tie-up with or differentiate from competitors
- Acquiring distribution capabilities for next-generation DVDs
- Developing an infrastructure to respond to the spread of non-packaged products

Video Game Business:
Strategies for the Current Fiscal Year

3. Video Game Business: Strategies in the Current Fiscal Year

◆ Xbox360-related business

● Release a full complement of titles

- Release of 40 titles by summer and 80 titles by year-end
- Several original titles are currently being sold
 - Mist Walker “Blue Dragon” (scheduled for year-end release) and “Lost Odyssey”
 - tri-Ace “Major RPG”
 - Square Enix “Project Shirufu”
 - Bandai Namco Games “Zegapain XOR,” “Gundam (tentative title)” among others

● Sales of HD-DVD drives

- Announced the sale of external HD-DVD drives in the latter half of 2006

● Strengthening the marketplace

- Video content: online distribution of Japanese *anime*
- Game content (Xbox Live ARCADE): **New entry of major game makers**
D3 publisher, SNK, Konami, Bandai Namco, Hudson, Yukes

3. Video Game Business: Strategies for the Current Fiscal Year

◆ PlayStation3: November 11 release

- PlayStation3

Date of release: November 11, 2006

Price: 20GB hard drive: ¥59,800 (¥62,790 including tax)

60GB hard drive: Open price

- Signed a sales agreement with Sony Computer Entertainment

◆ Full-scale deployment into convenience store channels

- **Currently distributing to certain convenience store chains**

Full-scale launch of store-shelf sales similar to DVD sales

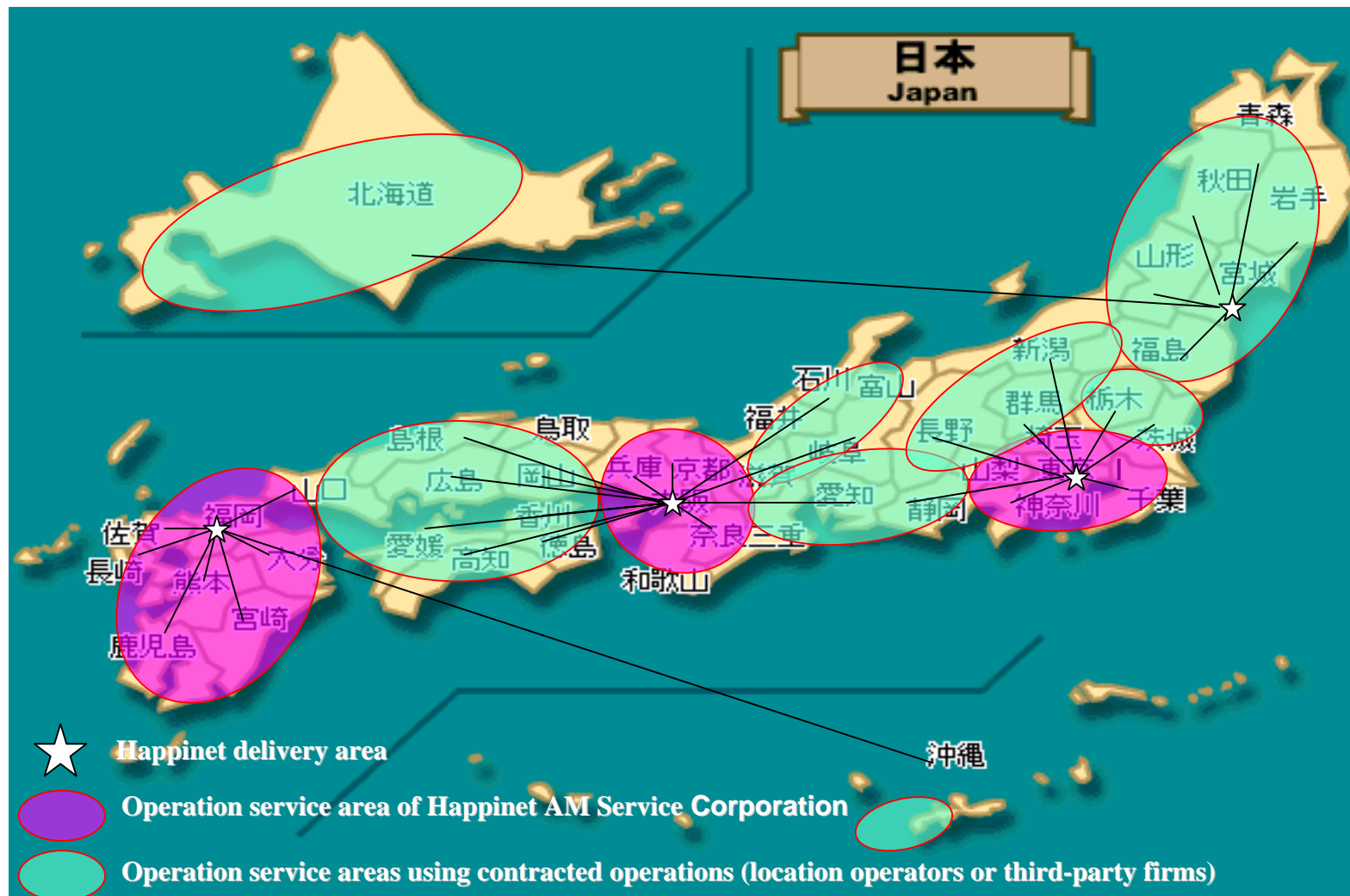
Depending on sales performance, we will increase stores numbers

- **Expansion of sales through convenience stores not currently participating**

**Amusement Business:
Strategies for the Current Fiscal Year**

4. Amusement Business: Strategies for the Current Fiscal Year

◇ In the toy vending machine business, we are building a nationwide operations network through a collaborative system with vending machine location operators. We will further bolster our corporate sales and customer service divisions.



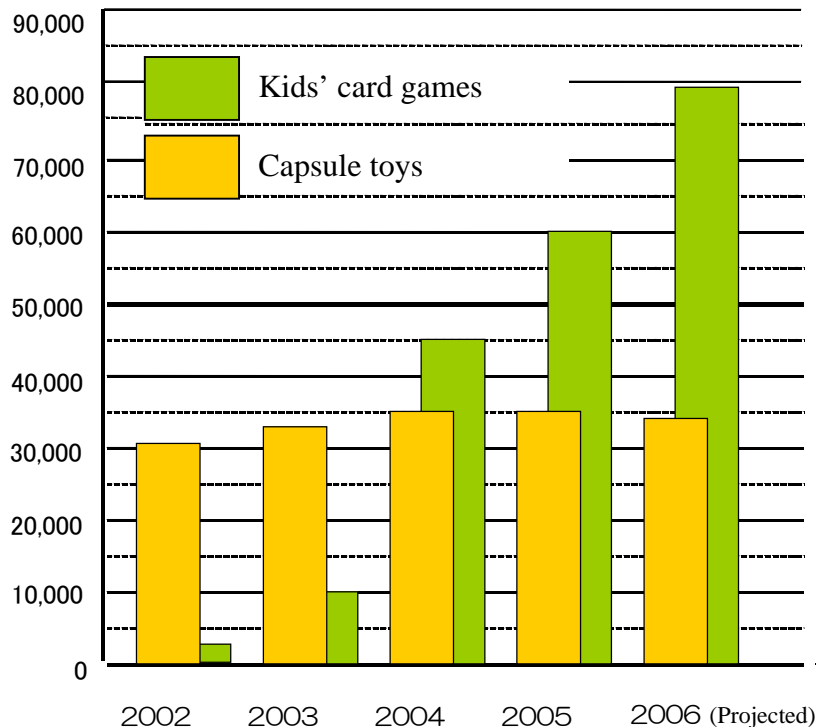
4. Amusement Business: Strategies for the Current Fiscal Year

◇ Developing specialized store spaces that combine kids' card game machines with toy products

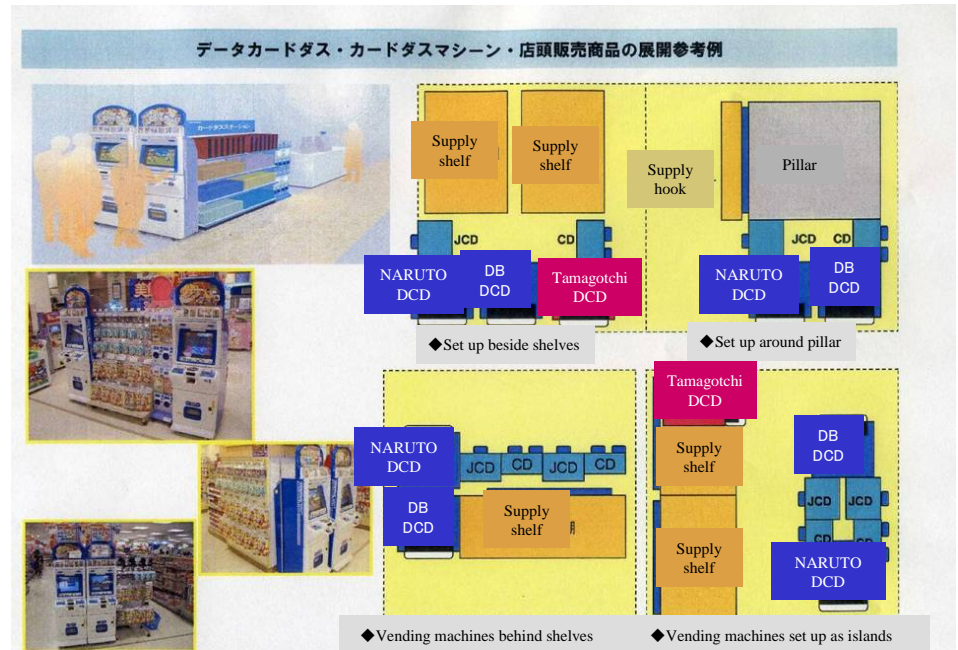
In the toy departments of large chain stores and on grocery shopping floors, we are proactively developing combined amusement and toy spaces

● Transitions in sales volume in the market for capsule toys and kids' card games

(Millions of yen)

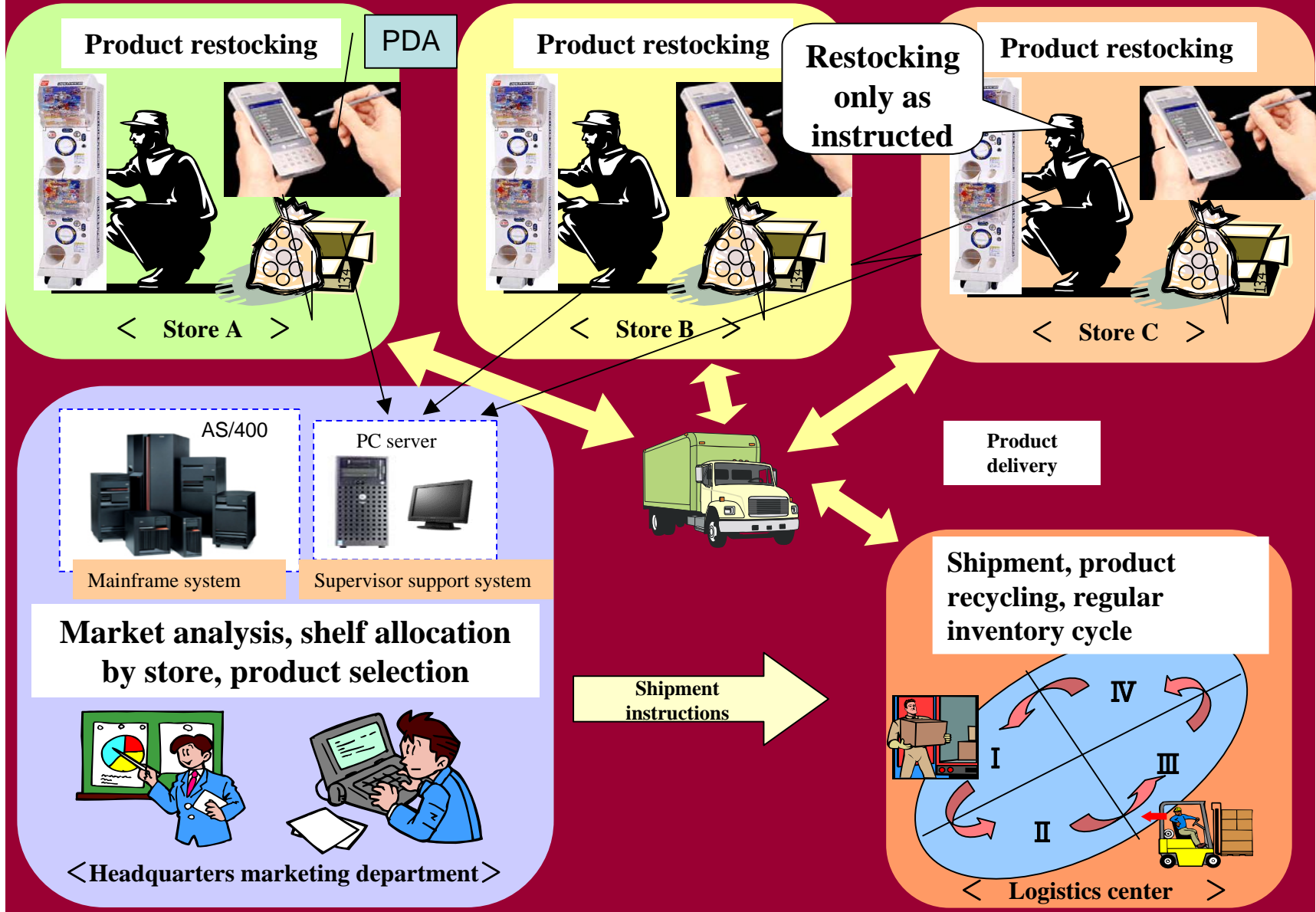


● Examples of the development of sales spaces with a focus on kids' card game machines



4. Amusement Business: Strategies for the Current Fiscal Year

New Happinet distribution model



Commencement of Operations at the
Happinet East Japan Number Two Logistics Center

Happinet East Japan No.2 Logistics Center



●Outline

Location: 3-10-4, Nishiura, Funabashi, Chiba

Land area: 18,183 m²

Total floor area: 28,151 m²

●Main facilities

- 2 vertical pallet carriers
- 4 freight elevators
- POS inspection system
- Wireless LAN
- Automatic price tagging and inspection system
- Automatic shipping label and PD label issuing system

The center commenced operations in February 2006. The new center was built with the objective of flexibly complementing the Happinet East Japan Logistics Center (Ichikawa, Chiba), which began operations in October 2001 as a state-of-the-art facility.

- ◇ With a focus on both centers, we will aim to
 - Respond speedily and flexibly to business expansion
 - Bolster externally sourced logistics contracting
 - Provide higher value-added logistics services
 - Achieve lower costs

Forecast for Fiscal Year 2006

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Forecast for Fiscal Year 2006

(Units: 100 million yen, %)

		2006	YoY (%) growth
Consolidated	Net sales	1,600	2.8
	Operating profit	36	3.7
	Recurring profit	40	5.6
	Net profit	23	1.3
Parent	Net sales	1,600	3.7
	Operating profit	36	2.1
	Recurring profit	40	3.4
	Net profit	23	5.1

(Reference) Comparison of the Consolidated Business Plan for the Current Fiscal Year and the Medium- to Long-Term Management Plan

(100 million yen)

	2004 results	2005 results	2006 (projected)	YoY (%) growth
Net sales	1,404	1,557	1,600	9.2%
Recurring profit	30	37	40	5.7%

(100 million yen)

	2004	2005	2006	2007	2008
Net sales	1,404	1530	1,800	1,920	2,000
Recurring profit	30	35	45	48	50

Note: Revised consolidated projections in the medium- to long-term management plan, announced in November 2005.