

Fiscal Year 2006 Full-Year results briefing document

1. Fiscal 2006 consolidated results
2. Fiscal 2007 consolidated forecasts
3. Group companies (reference)

May 11, 2007

Happinet Corporation



Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.

Business results

	Fiscal period	FY2002	FY2003	FY2004	FY2005	FY2006	Remarks
Consolidated	Net Sales	(¥ thousand) 122,515,841	122,722,894	140,461,595	155,703,391	160,606,235	
	Recurring profit	(¥ thousand) 1,380,129	1,326,321	3,030,557	3,786,648	2,554,272	
	Net profit/loss	(¥ thousand) 766,689	-686,818	1,580,783	2,270,747	1,616,477	
	Net assets	(¥ thousand) 16,512,301	16,057,601	16,992,262	19,109,787	20,602,774	
	Total assets	(¥ thousand) 39,975,413	37,034,100	39,829,631	45,719,978	45,801,983	
	Net assets per share	(¥) 1,408.83	1,336.02	1,413.96	1,590.44	1,714.73	
	Earnings per share	(¥) 64.40	-57.36	131.53	188.97	134.54	
	Dividends per share (Interim dividends)	(¥) 25.0 (12.50)	25.0 (12.50)	22.5 (10.00)	27.5 (12.50)	30.0 (15.00)	
	Payout ratio	% 38.8	—	17.1	14.6	22.3	
	No. of employees	People 510	505	566	607	743	
Non-consolidated	Net Sales	(¥ thousand) 39,441,524	31,287,698	138,647,374	154,255,488	137,295,357	
	Recurring profit	(¥ thousand) 362,764	483,873	3,005,602	3,868,638	2,232,109	
	Net profit/loss	(¥ thousand) 306,920	-723,007	1,570,526	2,188,704	1,018,504	
	Net assets per share	(¥) 1,292.89	1,206.39	1,439.88	1,608.85	1,683.62	
	Earnings per share	(¥) 25.78	-60.39	130.68	182.14	84.77	
	No. of employees	People 174	146	493	528	547	

Notes: 1. Consolidated and non-consolidated sales figures do not include consumption tax.

2. Happinet Corporation acquired an interest in e-Shopping! Toys Corporation on March 12, 2004, making it a subsidiary.

3. Happinet Corporation merged with Happinet JP Corporation, Happinet Pictures Corporation, and Happinet Robin Corporation on April 1, 2004.

4. e-Shopping! Toys Corporation, Scitron Digital Contents Inc., and Happinet AM Service West Corporation were included as consolidated subsidiaries from fiscal 2004 in light of their relative importance.

5. The business of Scitron Digital Contents Inc. was transferred to Happinet Corporation on April 1, 2006 and liquidation of the company was completed on September 30, 2006.

6. Happinet AM Service West Corporation changed its name to Happinet AM Service Corporation on April 1, 2006.

7. e-Shopping! Toys Corporation changed its name to Happinet Online Corporation on July 1, 2006.

8. Mori Toys Co., Ltd. became a consolidated subsidiary of Happinet Corporation in the fiscal year ended March 31, 2007. On April 1, 2007, the Toy Business of Mori Toys Co., Ltd. was succeeded by our non-consolidated subsidiary Best Heart Co., Ltd.,

and the corporate names of Mori Toys Co., Ltd. and Best Heart Co., Ltd. were changed to Mori Games Co., Ltd. and Mori Toys Co., Ltd., respectively.

1. Fiscal 2006 full-year consolidated profit & loss statement

(¥ millions, %, people, ¥; rounded down)

	FY2005			FY2006			Remarks
		% of total	YoY		% of total	YoY	
Net sales	155,703	100.0	10.9	160,606	100.0	3.1	
Cost of sales	137,279	88.2	11.2	142,158	88.5	3.6	Includes inventory disposal loss of ¥1,928m in FY06 and ¥1,953m in FY05
Gross profit	18,423	11.8	8.2	18,448	11.5	0.1	
SG&A expenses	14,953	9.6	6.3	16,294	10.1	9.0	
Personnel	4,819	3.1	12.7	5,478	3.4	13.7	
Contract personnel costs	1,060	0.7	14.1	1,336	0.8	26.1	
Depreciation and amortization	408	0.3	-20.8	357	0.2	-12.5	
Operating profit	3,470	2.2	17.0	2,153	1.3	-37.9	
Non-operating income	321	0.2	219.5	466	0.3	45.1	
Interest and dividends received	17	0.0	63.4	22	0.0	29.3	
Other	303	0.2	238.3	443	0.3	46.0	
Non-operating expenses	5	0.0	-86.3	65	0.0	—	
Interest paid	0	0.0	-63.9	45	0.0	—	
Other	4	0.0	-87.5	20	0.0	364.9	
Recurring profit	3,786	2.4	24.9	2,554	1.6	-32.5	
Extraordinary gains	73	0.0	23.4	1	0.0	-97.4	
Extraordinary losses	60	0.0	-64.0	18	0.0	-69.4	
Net profit before income taxes	3,799	2.4	30.1	2,537	1.6	-33.2	
Income taxes	1,528	1.0	16.6	920	0.6	-39.8	
Minority interests	—	—	—	0	0.0	—	
Net profit	2,270	1.5	43.6	1,616	1.0	-28.8	
Earnings per share (¥)	188.97	—	43.7	134.54	—	-28.8	
Average number of shares during period	12,016,468			12,015,254			
No. of employees at end of period	607	—	7.2	743	—	22.4	
Note: The number of employees includes employees temporarily transferred from other companies and contract employees, but excludes employees seconded to other companies and temporary employees.							
Capital expenditures	590	—	175.0	783	—	32.7	

1. Fiscal 2006 full-year consolidated results

1. Sales by business segment

(¥ millions, %; rounded down)

Segment \ Period	FY2004		FY2005		FY2006		(Ref) Sales at Mori Toys FY 2006	Remarks		
	% of total	YoY	% of total	YoY	% of total	YoY				
Toy business	52,066	37.1	-2.6	58,724	37.7	12.8	57,212	35.6	-2.6	7,301
Video-related business	45,457	32.4	55.3	52,266	33.6	15.0	46,145	28.7	-11.7	-
Video game business	28,696	20.4	5.6	32,469	20.8	13.1	45,092	28.1	38.9	14,924
Amusement business	6,318	4.5	16.2	5,904	3.8	-6.6	6,347	4.0	7.5	79
Other businesses	7,921	5.6	7.5	6,337	4.1	-20.0	5,808	3.6	-8.3	-
Total	140,461	100.0	14.5	155,703	100.0	10.9	160,606	100.0	3.1	22,305

2. Operating profit by business segment

(¥ millions, %; rounded down)

Segment \ Period	FY2004		FY2005		FY2006		Remarks
	YoY		YoY		YoY		
Toy business	1,735	891.4	3,389	95.3	1,817	-46.4	
Video-related business	1,775	31.6	411	-76.8	629	53.0	
Video game business	303	8.2	731	141.0	806	10.3	
Amusement business	132	-0.1	134	1.1	120	-10.4	
Other businesses	302	-19.5	111	-63.2	66	-40.5	
Eliminations and corporate	-1,282		-1,307		-1,286		
Total	2,966	159.9	3,470	17.0	2,153	-37.9	

3. Sales by channel

(¥ millions, %; rounded down)

Channel \ Period	FY2004		FY2005		FY2006		Remarks		
	% of total	YoY	% of total	YoY	% of total	YoY			
General merchandise store	234	16.7	-12.6	218	14.1	-6.7	279	17.4	27.9
Convenience stores	150	10.7	21.4	135	8.7	-10.4	111	6.9	-17.7
Suburban stores	166	11.9	-5.4	185	11.9	10.9	140	8.7	-24.2
E-commerce	162	11.6	-	240	15.4	47.4	306	19.1	27.8
Specialty stores	359	25.6	11.5	448	28.8	24.7	435	27.1	-3.0
Wholesalers	172	12.3	12.4	177	11.4	2.8	149	9.3	-15.7
Department stores	13	1.0	-11.1	22	1.4	60.6	32	2.0	43.4
Other	143	10.2	-13.9	129	8.3	-9.6	151	9.4	16.7
Total	1,404	100.0	14.5	1,557	100.0	10.9	1,606	100.0	3.1

Includes consumer electronics and camera stores

1. Fiscal 2006 full-year consolidated results

● Toy sales by manufacturer

(¥100millions, %; rounded down)

Manufacturer	Period	FY2004		FY2005		FY2006		Remarks			
		% of total	YoY	% of total	YoY	% of total	YoY				
Bandai Co., Ltd.		312	60.0	2.4	379	64.6	21.9	307	53.8	-18.9	
Tomy Co., Ltd.		43	8.2		43	7.4	-1.2	50	8.8	16.0	FY2004, FY2005 Sum of the former TOMY Co., Ltd. and Takara Co., Ltd.
Happinet originals		26	5.1		28	4.8	8.6	23	4.0	-18.3	
Other manufacturers		139	26.7	-9.4	135	23.2	-2.3	190	33.4	40.4	
Total		520	100.0		587	100.0	12.8	572	100.0	-2.6	

● Video-related business sales composition

(¥100millions, %; rounded down)

Division	Period	FY2004		FY2005		FY2006		Remarks			
		% of total	YoY	% of total	YoY	% of total	YoY				
Wholesale		342	75.3	61.2	404	77.4	18.2	340	73.7	-15.9	
Exclusive titles		112	24.7	39.8	118	22.6	5.3	121	26.3	2.7	
Total		454	100.0	55.3	522	100.0	15.0	461	100.0	-11.7	

1. Fiscal 2006 full-year consolidated results

● Sales by video game machine

(¥100millions, %; rounded down)

Machine \ Period	FY2004			FY2005			FY2006			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
PlayStation 3	-	-	-	-	-	-	39	8.8		
PlayStation 2	193	67.4	1.1	146	45.1	-24.3	73	16.4	-49.5	
PlayStation Portable	27	9.7	-	45	14.1	64.3	50	11.3	11.6	
Wii	-	-	-	-	-	-	25	5.7		
Nintendo DS	0	0.3	-	23	7.1	3013.5	146	32.5	536.3	
Game Boy Advance	33	11.7	3.0	13	4.1	-60.7	0	0.1	-96.8	
Other	30	10.0	-13.2	96	29.6	246.6	113	25.2	18.0	
Total	286	100.0	5.6	324	100.0	13.1	450	100.0	38.9	

● Breakdown of PlayStation sales and sales volume

(¥100millions, %; rounded down)

Item \ Period	FY2004			FY2005			FY2006			Remarks
		% of total	YoY		% of total	YoY		% of total	YoY	
PS3 hardware	-	-	-	-	-	-	34 (60,000units)	20.8		
PS3 software	-	-	-	-	-	-	4	2.9		
PS3 accessories	-	-	-	-	-	-	0	0.4		
PS2 hardware	48 (260,000units)	21.9	-32.9	21 (110,000units)	10.9	-56.7	8 (50,000units)	5.1	-60.3	
PS2 software	137	62.1	28.6	121	63.1	-11.8	63	38.7	-47.6	
PS2 accessories	7	3.4	-38.5	4	2.2	-43.6	2	1.2	-52.1	
PSP hardware	21 (90,000units)	9.5	-	30 (120,000units)	15.6	42.5	26 (120,000units)	16.0	-12.6	
PSP software	6	2.8	-	14	7.8	145.1	23	14.3	57.4	
PSP accessories	0	0.3	-	0	0.4	9.8	1	0.7	74.6	
Total	221	100.0	15.6	192	100.0	-13.1	164	100.0	-14.4	

1. Fiscal 2006 full-year consolidated balance sheet (1)

(¥ millions, %; rounded down)

	FY2005	FY2006	Change	Main reason behind increase or decrease in assets
Assets				
(1) Current assets	41,569	40,021	-1,547	
1. Cash and deposits	9,480	6,252	-3,227	
2. Accounts and notes receivable	21,721	22,095	374	
3. Inventories	5,163	6,208	1,044	
4. Advances	3,414	3,624	209	
5. Deferred tax assets	798	584	-213	
6. Other	1,030	1,294	263	
7. Allowance for doubtful accounts	-39	-38	1	
(2) Fixed assets	4,150	5,780	1,629	
1. Tangible fixed assets	1,170	1,603	432	
Buildings and structures	347	477	130	
Land	233	547	313	
Other	589	578	-10	
2. Intangible fixed assets	776	1,535	758	
Goodwill	164	535	370	
Other	612	1,000	387	
3. Investments and other assets	2,203	2,641	438	
Investment securities	1,393	1,823	429	
Long-term prepaid expenses	5	6	1	
Guarantees paid	469	544	74	
Deferred tax assets	257	115	-142	
Other	159	236	76	
Allowance for doubtful accounts	-83	-85	-2	
Total assets	45,719	45,801	82	

1. Fiscal 2006 full-year consolidated balance sheet (2)

(¥ millions, %; rounded down)

	FY2005	FY2006	Change	Main reason behind increase or decrease in liabilities
Liabilities				
(1) Current liabilities	24,978	23,560	-1,417	
1. Accounts and notes payable	20,077	19,112	-964	
2. Deferred payments	2,375	3,051	676	
3. Income tax payable	1,095	589	-506	
4. Bonus reserve	653	322	-330	
5. Other	777	483	-293	
(2) Fixed liabilities	1,631	1,638	6	
1. Reserve for retirement benefits	917	932	15	
2. Guarantees received	706	695	-10	
3. Negative goodwill	8	2	-5	
4. Other	—	7	7	
Total liabilities	26,610	25,199	-1,410	
Shareholders' equity				
(1) Capital	2,751	2,751	—	
(2) Capital reserve	2,776	2,776	0	
(3) Retained earnings	13,233	14,489	1,256	
(4) Treasury stock	-12	-13	-0	
(5) Net unrealized gain on securities	361	599	237	
Total shareholders' equity	19,109	20,602	1,492	
Total liabilities and shareholders' equity	45,719	45,801	82	
Net assets per share (¥)	1,590.44	1,714.73	124.29	
Shares outstanding at end of period	12,015,435	12,015,175		

1. Fiscal 2006 full-year consolidated cash-flow statement

(¥ millions, %; rounded down)

	FY2005	FY2006	Change	Remarks
(1) Cash flows from operating activities				
Net profit before income taxes	3,799	2,537	-1,261	
Depreciation and amortization	408	357	-51	
Change in trade receivables	-3,216	1,831	5,047	
Change in inventories	-734	-322	411	
Change in trade payables	2,449	-2,133	-4,582	
Change in other receivables	117	97	-20	
Change in other payables	799	553	-245	
Other	-576	-866	-289	
Payment of income taxes	-1,415	-1,247	168	
Net cash provided by/used in operating	1,631	806	-824	
(2) Cash flows from investing activities				
Payments for purchase of tangible and intangible fixed assets	-562	-752	-190	
Proceeds for sales of tangible and intangible fixed assets	—	3	3	
Payments for purchase of investment securities	-161	-28	132	
Proceeds from sale of investment securities	30	60	30	
Payments for purchase of stock in subsidiaries with change in scope of consolidation	—	-804	-804	
Other	3	-264	-268	
Net cash provided by/used in investing	-689	-1,785	-1,095	
(3) Cash flows from financing activities				
Payments of dividends	-301	-360	-59	
Proceeds from sale of treasury stock	0	0	-0	
Other	-5	-1,887	-1,882	
Net cash provided by/used in financing activities	-306	-2,248	-1,941	
(4) Change in cash and equivalents	634	-3,227	-3,862	
(5) Cash and equivalents at beginning of period	8,845	9,480	634	
(6) Cash and equivalents at end of period	9,480	6,252	-3,227	

2. Fiscal 2007 forecasts

Consolidated statements of income

(¥ millions, %; rounded down)

	FY2006			FY2007 forecasts			Remarks
		% of total	YoY		% of total	YoY	
Net sales	160,606	100.0	3.1	165,000	100.0	2.7	
Cost of sales	142,158	88.5	3.6	145,850	88.4	2.6	
Gross profit	18,448	11.5	0.1	19,150	11.6	3.8	
SG&A expenses	16,294	10.1	9.0	16,850	10.2	3.4	
Personnel costs	5,478	3.4	13.7	5,478	3.3	0.0	
Contract personnel costs	1,336	0.8	26.1	1,340	0.8	0.3	
Depreciation and amortization	357	0.2	-12.5	500	0.3	40.0	
Operating profit	2,153	1.3	-37.9	2,300	1.4	6.8	
Non-operating income	466	0.3	45.1	430	0.3	-7.8	
Interest and dividends received	22	0.0	29.3	30	0.0	31.6	
Other	443	0.3	46.0	400	0.2	-9.8	
Non-operating expenses	65	0.0	—	30	0.0	-54.2	
Interest paid	45	0.0	—	15	0.0	-66.8	
Other	20	0.0	364.9	15	0.0	-26.5	
Recurring profit	2,554	1.6	-32.5	2,700	1.6	5.7	
Extraordinary gains	1	0.0	-97.4	—	0.0	—	
Extraordinary losses	18	0.0	-69.4	—	0.0	—	
Net profit before income taxes	2,537	1.6	-33.2	2,700	1.6	6.4	
Income taxes	920	0.6	-39.8	1,000	0.6	8.6	
Minority interests	0	0.0	—	—	—	—	
Net income	1,616	1.0	-28.8	1,700	1.0	5.2	

Earnings per share (¥)	134.54	—	-28.8	141.49	—	5.2	
------------------------	--------	---	-------	--------	---	-----	--

Average number of shares during period 12,015,254

12,015,175

Number of employees at end of period	743	—	22.4	743	—	0.0	
--------------------------------------	-----	---	------	-----	---	-----	--

Capital expenditures	783	—	32.7	1,300	—	65.9	
----------------------	-----	---	------	-------	---	------	--

Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.

2. Fiscal 2007 consolidated forecasts

Sales forecasts by business segment

(¥ millions, %; rounded down)

Segment	Period	FY2006		FY2007 forecasts			Remarks	
		% of total	YoY		% of total	YoY		
Toy business		57,212	35.6	-2.6	60,000	36.4	4.9	
Video-related business		46,145	28.7	-11.7	44,000	26.7	-4.7	
Video game business		45,092	28.1	38.9	48,000	29.1	6.5	
Amusement business		6,347	4.0	7.5	7,000	4.2	10.3	
Other business		5,808	3.6	-8.3	6,000	3.6	3.3	
Total		160,606	100.0	3.1	165,000	100.0	2.7	

Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.

3. Group companies (reference)

(¥ millions, %; rounded down)

	Mori Toys Co., Ltd.					
	FY2004		FY2005		FY2006	
		YoY		YoY		YoY
Net sales	13,368	-	14,565	9.0	22,305	53.1
Recurring profit	133	-	292	119.2	339	16.1
Net profit	-2,211	-	303	-	288	-4.7

(¥ millions, %; rounded down)

	Mori Games Co., Ltd.	
	FY2007 forecasts	
		YoY
Net sales	18,000	-
Recurring profit	200	-
Net profit	200	-

(¥ millions, %; rounded down)

	Mori Toys Co., Ltd.	
	FY2007 forecasts	
		YoY
Net sales	10,000	-
Recurring profit	300	-
Net profit	180	-

Note: The Toy Business of Mori Toys Co., Ltd. was succeeded by our non-consolidated subsidiary Best Heart Co., Ltd., and the corporate names of Mori Toys Co., Ltd. and Best Heart Co., Ltd. were changed to Mori Games Co., Ltd. and Mori Toys Co., Ltd., respectively.

(¥ millions, %; rounded down)

	Happinet Logistics Service Corporation							
	FY2004		FY2005		FY2006		FY2007 forecasts	
		YoY		YoY		YoY		YoY
Net sales	4,975	-11.3	5,083	2.2	5,079	-0.1	5,500	8.3
Recurring profit	155	-45.9	-23	-	20	-	0	-100.0
Net profit	92	-44.1	-14	-	12	-	0	-100.0

(¥ millions, %; rounded down)

	Happinet Online Corporation							
	FY2004		FY2005		FY2006		FY2007 forecasts	
		YoY		YoY		YoY		YoY
Net sales	1,180	-22.4	1,987	68.4	2,115	6.4	2,200	4.0
Recurring profit	-66	-	-71	-	-44	-	15	-
Net profit	-126	-	-64	-	-45	-	15	-

Note: e-Shopping! Toys Corporation changed its name to Happinet Online Corporation on July 1, 2006.

(¥ millions, %; rounded down)

	Happinet AM Service Corporation							
	FY2004		FY2005		FY2006		FY2007 forecasts	
		YoY		YoY		YoY		YoY
Net sales	952	17.0	1,486	56.1	1,246	-16.2	500	-59.4
Recurring profit	0	-	53	-	118	119.8	30	-74.6
Net profit	0	-	53	-	85	60.5	18	-79.0

Note: Happinet AM Service West Corporation changed its name to Happinet AM Service Corporation on April 1, 2006.

Forecasts of future performance are provided as a reference for investors. These forecasts are based on projections and estimates and do not represent an assurance or guarantee of future performance. Use this information with an understanding that actual results may differ from these forecasts.