HAPPINET CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

March 31, 2007 and 2006

(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, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Assets			
Current assets:			
Cash (note 3)	¥ 6,253	¥ 9,480	$ 52,969
Trade notes and accounts receivable	22,095	21,721	187,166
Inventories	6,208	5,164	52,588
Deferred income taxes (note 7)	585	798	4,956
Other current assets	4,919	4,445	41,669
Less allowance for doubtful receivables	38	39	322
Total current assets	40,022	41,569	339,026
Property, plant and equipment:			
Buildings and structures	1,016	903	8,607
Machinery, equipment and vehicles	901	888	7,632
Tools, furniture and fixtures	602	532	5,100
Land	548	234	4,642
	3,067	2,557	25,981
Less accumulated depreciation	1,464	1,386	12,402
Net property, plant and equipment	1,603	1,171	13,579
Intangible assets:			
Goodwill	536	50	4,540
Other	1,000	727	8,471
Total intangible assets	1,536	777	13,011
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	1,823	1,393	15,443
Refundable deposits	545	470	4,617
Deferred income taxes (note 7)	115	258	974
Other investments and other assets	244	165	2,067
Less allowance for doubtful receivables	86	83	729
Total investments and other assets	2,641	2,203	22,372
Total assets	¥ 45,802	¥ 45,720	$ 387,988

	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Liabilities and Net Assets			
Current liabilities:			
Trade notes and accounts payable (notes 14 and 15)	¥ 19,113	¥ 20,078	$ 161,906
Other payables (note 14)	3,052	2,375	25,854
Accrued income taxes (note 7)	589	1,095	4,989
Accrued bonuses	323	653	2,736
Other current liabilities	484	778	4,100
Total current liabilities	23,561	24,979	199,585
Non-current liabilities:			
Liabilities for retirement and severance benefits (note 6)	933	917	7,903
Other non-current liabilities (note 7)	705	714	5,972
Total non-current liabilities	1,638	1,631	13,875
Total liabilities	25,199	26,610	213,460
Stockholders' equity:			
Common stock (note 10):	2,751	2,751	23,304
Authorized 32,000,000 shares; issued 12,025,000 shares in 2007 and 2006			
Additional paid-in capital (note 10)	2,776	2,776	23,515
Retained earnings (note 11)	14,490	13,233	122,745
Treasury stock	(13)	(12)	(110)
Total stockholders' equity	20,004	18,748	169,454
Valuation and translation adjustments:			
Net unrealized gain on other securities (note 4)	599	362	5,074
Total valuation and translation adjustments	599	362	5,074
Total net assets	20,603	19,110	174,528
Commitments and contingencies (note 15)			
Total liabilities and net assets	¥ 45,802	¥ 45,720	$ 387,988

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Net sales	¥ 160,606	¥ 155,703	$ 1,360,491
Cost of sales (note 14)	142,158	137,279	1,204,218
Gross profit	18,448	18,424	156,273
Selling, general and administrative expenses (notes 8, 9 and 14)	16,295	14,954	138,035
Operating income	2,153	3,470	18,238
Other income (deductions):			
Interest income	3	0	25
Dividend income	20	18	169
Interest expenses	(45)	(1)	(381)
Gain on sale of investments in securities (note 4)	0	4	0
Loss on sale/disposal of property, plant and equipment	(18)	(8)	(152)
Loss on devaluation of investments in securities and other investments (note 4)	–	(47)	–
Other, net	424	363	3,592
	384	329	3,253
Income before income taxes and minority interests	2,537	3,799	21,491
Income taxes (note 7):			
Current	729	1,564	6,175
Deferred	191	(36)	1,618
	920	1,528	7,793
Income before minority interests	1,617	2,271	13,698
Minority interests	0	–	0
Net income	¥ 1,617	¥ 2,271	$ 13,698

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
For the years ended March 31, 2007 and 2006

	Millions of yen							
	Stockholders' equity					Valuation and translation adjustments		Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Total	
	(note 10)	(note 10)	(note 11)			(note 4)		
Balance at March 31, 2005	¥ 2,751	¥ 2,776	¥ 11,263	¥ (7)	¥ 16,783	¥ 209	¥ 209	¥ 16,992
Changes arising during year:								
Cash dividends			(301)		(301)			(301)
Net income			2,271		2,271			2,271
Other, net				(5)	(5)	153	153	148
Total changes during the year	–	–	1,970	(5)	1,965	153	153	2,118
Balance at March 31, 2006	2,751	2,776	13,233	(12)	18,748	362	362	19,110
Changes arising during year:								
Cash dividends			(360)		(360)			(360)
Net income			1,617		1,617			1,617
Purchase of treasury stock				(1)	(1)			(1)
Disposition of treasury stock		0		0	0			0
Net changes other than stockholders' equity						237	237	237
Total changes during the year	–	0	1,257	(1)	1,256	237	237	1,493
Balance at March 31, 2007	¥ 2,751	¥ 2,776	¥ 14,490	¥ (13)	¥ 20,004	¥ 599	¥ 599	¥ 20,603

	Thousands of U.S. dollars (note 2)							
	Stockholders' equity					Valuation and translation adjustments		Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Total	
Balance at March 31, 2006	$ 23,304	$ 23,515	$ 112,097	$ (102)	$ 158,814	$ 3,066	$ 3,066	$ 161,880
Changes arising during year:								
Cash dividends			(3,050)		(3,050)			(3,050)
Net income			13,698		13,698			13,698
Purchase of treasury stock				(8)	(8)			(8)
Disposition of treasury stock		0		0	0			0
Net changes other than stockholders' equity						2,008	2,008	2,008
Total changes during the year	–	0	10,648	(8)	10,640	2,008	2,008	12,648
Balance at March 31, 2007	$ 23,304	$ 23,515	$ 122,745	$ (110)	$ 169,454	$ 5,074	$ 5,074	$ 174,528

See accompanying notes to consolidated financial statements.

Happinet Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,537	¥ 3,799	$ 21,491
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	357	409	3,024
Amortization of goodwill	166	11	1,406
Allowance for doubtful receivables	(101)	(15)	(855)
Increase (decrease) in accrued bonuses	(342)	162	(2,897)
Increase in liabilities for retirement and severance benefits	16	98	136
Interest and dividend income	(23)	(18)	(195)
Interest expenses	45	1	381
Loss on sale/disposal of property, plant and equipment	17	8	144
Gain on sale of investments in securities	0	(4)	0
Loss on devaluation of investments in securities and other investments	–	47	–
(Increase) decrease in trade notes and accounts receivable	1,831	(3,216)	15,510
Increase in inventories	(323)	(734)	(2,736)
Increase (decrease) in trade notes and accounts payable	(2,133)	2,449	(18,069)
Increase in other payables	554	799	4,693
Other, net	(524)	(766)	(4,439)
Sub total	2,077	3,030	17,594
Interest and dividend received	23	18	195
Interest paid	(45)	(1)	(381)
Income taxes paid	(1,248)	(1,416)	(10,572)
Net cash provided by operating activities	807	1,631	6,836
Cash flows from investing activities:			
Capital expenditures	(242)	(142)	(2,050)
Proceeds from sale of property, plant and equipment	3	–	26
Purchase of intangible assets	(511)	(420)	(4,329)
Purchase of investments in securities	(29)	(161)	(246)
Proceeds from sale of investments in securities	61	30	517
Payment for acquisition of consolidated subsidiary	(804)	–	(6,811)
Other, net	(264)	3	(2,236)
Net cash used in investing activities	(1,786)	(690)	(15,129)

Cash flows from financing activities:			
Payments on long-term debt	(1,887)	–	(15,985)
Increase in treasury stock	(1)	(5)	(8)
Dividends paid to stockholders	(360)	(301)	(3,050)
Net cash used in financing activities	(2,248)	(306)	(19,043)
Net increase in cash and cash equivalents	(3,227)	635	(27,336)
Cash and cash equivalents at beginning of year	9,480	8,845	80,305
Cash and cash equivalents of newly consolidated subsidiaries	–	–	–
Cash and cash equivalents at end of year (note 3)	¥ 6,253	¥ 9,480	$ 52,969

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 (5 subsidiaries for 2007 and 4 subsidiaries for 2006).

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 difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments.

The unallocated portion of the difference, which is recognized as goodwill or negative goodwill, 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 net assets. 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 moving-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 – 65 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) Presentation of Net Assets on Balance Sheet

Effective from the year ended March 31, 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, issued by Accounting Standards Board of Japan on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, issued by Accounting Standards Board of Japan on December 9, 2005).

According to the Standards, former "Stockholders' equity" is presented as "Net assets" and classified into "Stockholders' equity" and "Valuation and translation adjustments." The stockholders' equity amounted to ¥20,603 million ($174,528 thousand) based on the former classification.

(m) 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.

(n) 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, 2007.

(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, 2007 have been translated into United States dollars at the rate of ¥118.05=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 30, 2007. 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, 2007 and 2006 is follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash	¥ 6,253	¥ 9,480	$ 52,969
Cash and cash equivalents	¥ 6,253	¥ 9,480	$ 52,969

(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, 2007 and 2006 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross Unrealized gain	Gross Unrealized loss	Balance sheet amount
March 31, 2007				
Equity securities	¥ 650	¥ 1,035	¥ (4)	¥ 1,681
March 31, 2006				
Equity securities	¥ 585	¥ 609	¥ –	¥ 1,194

	Thousands of U.S. dollars			
	Acquisition cost	Gross Unrealized gain	Gross Unrealized loss	Balance sheet amount
March 31, 2007				
Equity securities	$ 5,506	$ 8,768	(34)	$ 14,240

It is not practicable to estimate the fair value of securities as of March 31, 2007 and 2006 described bellow because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Other securities:			
Unlisted equity securities	¥ 122	¥ 180	$ 1,033

For the years ended March 31, 2007 and 2006, proceeds from sale of other securities are ¥60 million ($508 thousand) and ¥25 million. For the year ended March 31, 2007, no realized gains are recognized and the gross realized losses are immaterial. For the year ended March 31, 2006, the gross realized losses were ¥6 million and the gross realized gains were ¥10 million.

(5) Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2007 and 2006 are ¥20 million ($169 thousand) and ¥120 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, and certain consolidated subsidiaries have tax qualified pension plans.

The funded status of the pension plans at March 31, 2007 and 2006 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥ (869)	¥ (917)	$ (7,361)
Net amount recognized in the consolidated balance sheets	(869)	(917)	(7,361)
Prepaid pension cost	64	–	542
Liabilities for retirement and severance benefits	¥ (933)	¥ (917)	$ (7,903)

Net periodic pension cost for the years ended March 31, 2007 and 2006 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 101	¥ 82	$ 855
Interest cost	14	12	119
Amortization of actuarial loss generated in the current fiscal year	9	34	76
Contribution by the Company to the Welfare Pension Fund	29	–	246
Additional benefits, etc.	177	6	1,499
Contribution to the defined contribution fund	44	37	373
Net periodic pension cost	¥ 374	¥ 171	$ 3,168

Significant assumptions of pension plans used to determine these amounts in fiscal 2007 and 2006 are as follows:

	2007	2006
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 2007 and 2006.

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, 2007 and 2006 is follows:

	2007	2006
Statutory tax rate	40.6%	40.6%
Expenses not deductible for tax purposes	0.9	0.8
Income not credited for tax purposes	(0.2)	(0.1)
Per capita tax	1.1	0.5
Tax benefits not recognized on operating losses of subsidiaries	(4.3)	0.4
Other	(1.8)	(1.9)
Effective tax rate	36.3%	40.2%

Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Deferred tax assets (current):			
Accrued business tax	¥ 46	¥ 82	$ 390
Valuation loss for inventories	260	257	2,203
Accrued bonuses	130	260	1,101
Unrealized profit on sale of inventories eliminated on consolidation	0	5	0
Other	149	194	1,262
	585	798	4,956
Deferred tax assets (non-current):			
Liabilities for retirement and severance benefits	378	371	3,202
Loss on devaluation of other investments	35	35	296
Loss on devaluation of investments in securities	46	46	390
Other	88	73	745
Offset with deferred tax liabilities (non-current)	(432)	(267)	(3,659)
	115	258	974
Net deferred tax assets	¥ 700	¥ 1,056	$ 5,930
Deferred tax liabilities:			
Deferred tax liabilities (non-current):			
Net unrealized gain on other securities	¥ (439)	¥ (267)	$ 3,718
Offset with deferred tax assets (non-current)	432	267	(3,659)
Net deferred tax liabilities	¥ 7	¥ –	$ 59

(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
	2007	2006	2007
Storage expenses	¥ 1,530	¥ 1,828	$ 12,961
Freight	2,420	2,139	20,500
Promotion	1,197	1,163	10,140
Salary and executive compensation	5,772	4,711	48,895

(9) Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2007 and 2006 are ¥15 million ($127 thousand) and ¥50 million, respectively.

(10) Common Stock

On May 1, 2006, a new corporation law (the "Corporation Law") became effective, which reformed and replaced the Commercial Code of Japan with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. Under the Corporation Law, 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.

(11) Retained Earnings and Dividends

The Corporation Law provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Corporation Law also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the stockholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended March 31, 2007 and 2006 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company’s non-consolidated books of account in accordance with the Corporation Law.

Dividends paid during the year ended March 31, 2007 which was approved by the general meeting of stockholders held on June 16, 2006 are as follows:

(a)	Total dividends	¥180 million ($1,525 thousand)
(b)	Cash dividends per common share	¥15 ($0.13)
(c)	Record date	March 31, 2006
(d)	Effective date	June 16, 2006

Dividends paid during the year ended March 31, 2007 which was approved by the Board of Directors held on November 8, 2006 are as follows:

(a)	Total dividends	¥180 million ($1,525 thousand)
(b)	Cash dividends per common share	¥15 ($0.13)
(c)	Record date	September 30, 2006
(d)	Effective date	December 14, 2006

Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2007 which was approved by the general meeting of stockholders held on June 22, 2007 are as follows:

(a)	Total dividends	¥180 million ($1,525 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥15 ($0.13)
(d)	Record date	March 31, 2007
(e)	Effective date	June 25, 2007

(12) Per Share Information

(a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2007 and 2006 are as follows:

	Yen		U.S. dollars
	2007	2006	2007
Basic net income per share	¥ 134.54	¥ 188.97	$ 1.14

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net income applicable to common stockholders	¥ 1,616	¥ 2,271	$ 13,689

	Number of shares (Thousands)	
	2007	2006
Weighted average number of shares outstanding on which basic net income per share is calculated	12,015	12,016

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2007 are as follows:

	Yen	U.S. dollars
Net assets per share	¥ 1,714.73	$ 14.53

(13) Leases

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2007 and 2006 are as follows:

	Millions of yen			
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets	Total
March 31, 2007				
Acquisition cost	¥ 6	¥ 191	¥ –	¥ 197
Accumulated depreciation	3	112	–	115
Net book value	¥ 3	¥ 79	¥ –	¥ 82
March 31, 2006				
Acquisition cost	¥ 3	¥ 255	¥ 19	¥ 277
Accumulated depreciation	1	130	16	147
Net book value	¥ 2	¥ 125	¥ 3	¥ 130

	Thousands of U.S. dollars			
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Intangible assets	Total
March 31, 2007				
Acquisition cost	$ 50	$ 1,618	$ –	$ 1,668
Accumulated depreciation	25	949	–	974
Net book value	$ 25	$ 669	$ –	694

Future minimum payments required under finance leases at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Within one year	¥ 47	¥ 58	$ 398
Over one year	36	74	305
	¥ 83	¥ 132	$ 703

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, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease payments	¥ 64	¥ 126	$ 542
Depreciation equivalents	61	120	517
Amounts representing interest	2	4	17

(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 both March 31, 2007 and 2006.

Balances with NAMCO BANDAI Holdings Inc. at March 31, 2007 and 2006, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Balances:			
Other payables	¥ 4	¥ 3	$ 34
Transactions:			
Business management fee	¥ 40	¥ 12	$ 339

A director of the Company was concurrently serving as a representative director of IRIMAJIRI SHOUICHIROU. Transactions with the company for the year ended March 31, 2006 were summarized as follows:

	Millions of yen
Transactions:	
Consultant fee	¥ 6

A director of the Company was concurrently serving as a representative director of SENRYAKU KEIEI KAIHATSU Center. Transactions with the company for the year ended March 31, 2006 were summarized as follows:

	Millions of yen
Transactions:	
Consultant fee	¥ 8

A corporate auditor of the Company was concurrently serving as a representative of TAKAISHI Law Office. Transactions with the firm for the year ended March 31, 2006 were summarized as follows:

	Millions of yen
Transactions:	
Consultant fee	¥ 1

Bandai Co., Ltd. and Bandai Visual Co., Ltd. are subsidiaries of NAMCO BANDAI Holdings Inc. as at March 31, 2007 and 2006. Balances with the companies at March 31, 2007 and 2006, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Bandai Co., Ltd.			
Balances:			
Trade accounts payable	¥ 6,128	¥ 8,277	$ 51,910
Transactions:			
Purchases	¥ 32,103	¥ 40,363	$ 271,944
Bandai Visual Co., Ltd.			
Balances:			
Trade accounts payable	¥ 590	¥ 475	$ 4,998
Transactions:			
Purchases	¥ 4,299	¥ 2,914	$ 36,417

(15) Commitments and Contingencies

Investment in securities with a book value of ¥856 million ($7,251 thousand) and ¥437 million are pledged for trade accounts payable of ¥15 million ($127 thousand) and ¥39 million at March 31, 2007 and 2006, respectively.

(16) Segment Information

(a) Industry segments

The Company categorizes its business into the five segments of “Toy business”, “Video software business”, “TV 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, 2007 and 2006 is summarized as follows:

	Millions of yen							
	2007							
	Toy	Video software	TV game	Amusement	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 57,213	¥ 46,145	¥ 45,093	¥ 6,347	¥ 5,808	¥ 160,606	¥ –	¥ 160,606
Inter-segment sales	–	–	–	–	–	–	–	–
	57,213	46,145	45,093	6,347	5,808	160,606	–	160,606
Operating expenses	55,395	45,516	44,286	6,227	5,742	157,166	1,287	158,453
Operating income	¥ 1,818	¥ 629	¥ 807	¥ 120	¥ 66	¥ 3,440	¥ (1,287)	¥ 2,153
Assets	¥ 15,187	¥ 11,939	¥ 8,026	¥ 1,362	¥ 1,188	¥ 37,702	¥ 8,100	¥ 45,802
Depreciation and amortization	208	71	54	37	21	391	10	401
Capital expenditures	338	214	141	29	42	764	19	783

	Millions of yen							
	2006							
	Toy	Video software	TV 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

	Thousands of U.S. dollars							
	2007							
	Toy	Video software	TV game	Amusement	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers	$ 484,650	$ 390,894	$ 381,982	$ 53,766	$ 49,199	$ 1,360,491	$ –	$ 1,360,491
Inter-segment sales	–	–	–	–	–	–	–	–
	484,650	390,894	381,982	53,766	49,199	1,360,491	–	1,360,491
Operating expenses	469,250	385,566	375,146	52,749	48,640	1,331,351	10,902	1,342,253
Operating income	$ 15,400	$ 5,328	$ 6,836	$ 1,017	$ 559	$ 29,140	$ (10,902)	$ 18,238
Assets	$ 128,649	$ 101,135	$ 67,988	$ 11,537	$ 10,064	$ 319,373	$ 68,615	$ 387,988
Depreciation and amortization	1,762	602	457	313	178	3,312	85	3,397
Capital expenditures	2,863	1,813	1,194	246	356	6,472	161	6,633

Notes:
1. The main products of each segment are as follows:
   Toy: Toys for boys and girls.
   Video software: Video software and music software.
   TV 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 ¥1,287 million ($10,902 thousand) and ¥1,307 million for the years ended March 31, 2007 and 2006 in the Elimination/ corporate line consist primarily of administrative operation expenses.

3. Corporate assets of ¥8,100 million ($68,615 thousand) and ¥10,626 million as of March 31, 2007 and 2006 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, 2007 and 2006.

(c) Overseas sales

Overseas sales are less than 10% of consolidated sales for the years ended March 31, 2007 and 2006.

(17) Supplemental Cash Flow Information

Assets and liabilities of the newly consolidated subsidiary, MORITOYS Co., Ltd. in 2007 by acquisition at the inception of consolidation, and net expenditure for acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,348	$ 28,361
Non-current assets	648	5,489
Goodwill	539	4,566
Current liabilities	(1,441)	(12,207)
Non-current liabilities	(1,798)	(15,231)
Minority interests	(5)	(42)
Acquisition cost of stock	1,291	10,936
Cash and cash equivalents held by acquired subsidiary	487	4,125
Net expenditure for acquisition	¥ 804	$ 6,811

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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, 2007 and 2006, and related consolidated statements of income, changes in net assets 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, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 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 Horwath

Toyo Horwath
Tokyo, Japan
June 22, 2007