



Fiscal Year 2002 Business Performance and Fiscal Year 2003 Earnings Outlook

May 14, 2003

Happinet Corporation

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

1. Fiscal 2002 Business Results

< Market Highlights >

- Toy market: Strong performance from BANDAI character products
- Video game market: -Dull sales in the Japanese market owing market saturation for PlayStation 2 hardware
-Insufficient number of Xbox software titles
- Video DVD market: Expansion of the DVD Video market

Prior Year Results

(Million yen)

	Period ending	2002/3	2003/3	Growth (%)
Consolidated	Sales	140,889	122,516	-13.0%
	Ordinary income	1,518	1,380	-9.1%
	Net income	735	767	4.3%
Non-consolidated	Sales	89,867	39,442	-56.1%
	Ordinary income	1,360	363	-73.3%
	Net income	723	307	-57.5%

1 . Fiscal 2002 Business Results

Prior Year Sales by Product (Consolidated)

(100 million yen, %)

Business	Period ending	2003/3	
		Component ratio	Growth (%)
Toys	520	42.4	27.1
Childcare goods	27	2.2	-6.9
Video Games	343	28.0	-49.0
Amusement	55	4.5	0.0
Videos	260	21.2	15.6
Others	20	1.6	11.1
Total	1,225	100.0	-13.0

1 . Fiscal 2002 Business Results

Profit and Loss: Business Groups and Major Subsidiaries

(Million yen)

	Multimedia Business Group		Digital Entertainment Business Group		Amusement Business Group	
		Growth (%)		Growth (%)		Growth (%)
Sales	25,819	-41.5%	8,100	-57.1%	5,522	-0.8%
Ordinary Income	376	-0.4%	44	-	187	15.8%

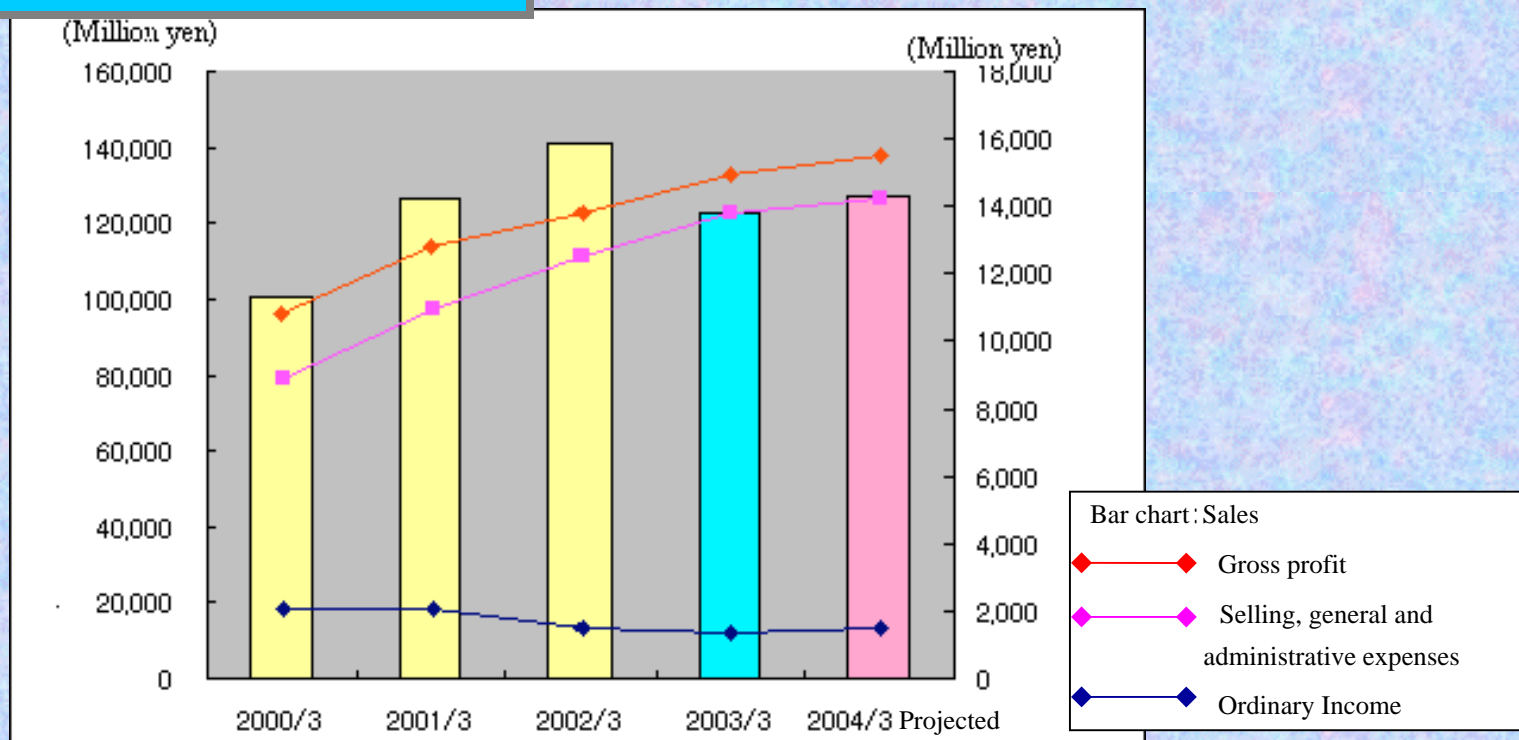
	Happinet JP Corporation		Happinet Pictures Corporation		Happinet Logistics Service Corporation		Happinet Robin Corporation	
		Growth (%)		Growth (%)		Growth (%)		Growth (%)
Sales	61,767	87.4%	25,539	9.2%	5,535	37.9%	2,736	17.4%
Ordinary Income	472	77.4%	386	9.3%	169	-	84	211.1%

Note 1:

- On October 1, 2001 Happinet's toy operations were split off and transferred to a wholly owned subsidiary, Happinet JP Corporation.
- On March 1, 2002 Toyokuni Corporation, a wholly owned subsidiary of the Happinet Group since October 1, 2001, was merged with Happinet JP Corporation.
- On March 1, 2002 the operations of Matsui Sakae Toys Co., Ltd. were transferred to Happinet JP Corporation.

1 . Fiscal 2002 Business Results

< Change in Consolidated Business Results & Projection >



Items	Period ending	2000/3	2001/3	2002/3	2003/3	2004/3 Projected
Net Sales		100,823	126,670	140,889	122,516	127,000
Gross profit		10,827	12,835	13,784	14,976	15,540
Ordinary income		2,087	2,091	1,518	1,380	1,500
Selling, general and administrative expenses		8,913	10,967	12,538	13,797	14,210
Personnel costs		3,540	4,470	4,651	5,010	4,692
Depreciation and amortization		307	398	493	564	498
Loss on disposal of property and equipment / Loss on devaluation of other investments		1,773	2,123	1,895	1,801	1,377

2. Issues to Be Addressed

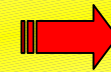
Clarification of Weighted Allocation of Management Resources

Business targeted for expansion and development



Toy Business

Business and function targeted for greater efficiency and rationalization



Video Game Business
Logistics function

Business targeted for nurturing with a view to the future



Video Business

3. Business Targeted for Expansion and Development — Toy Business

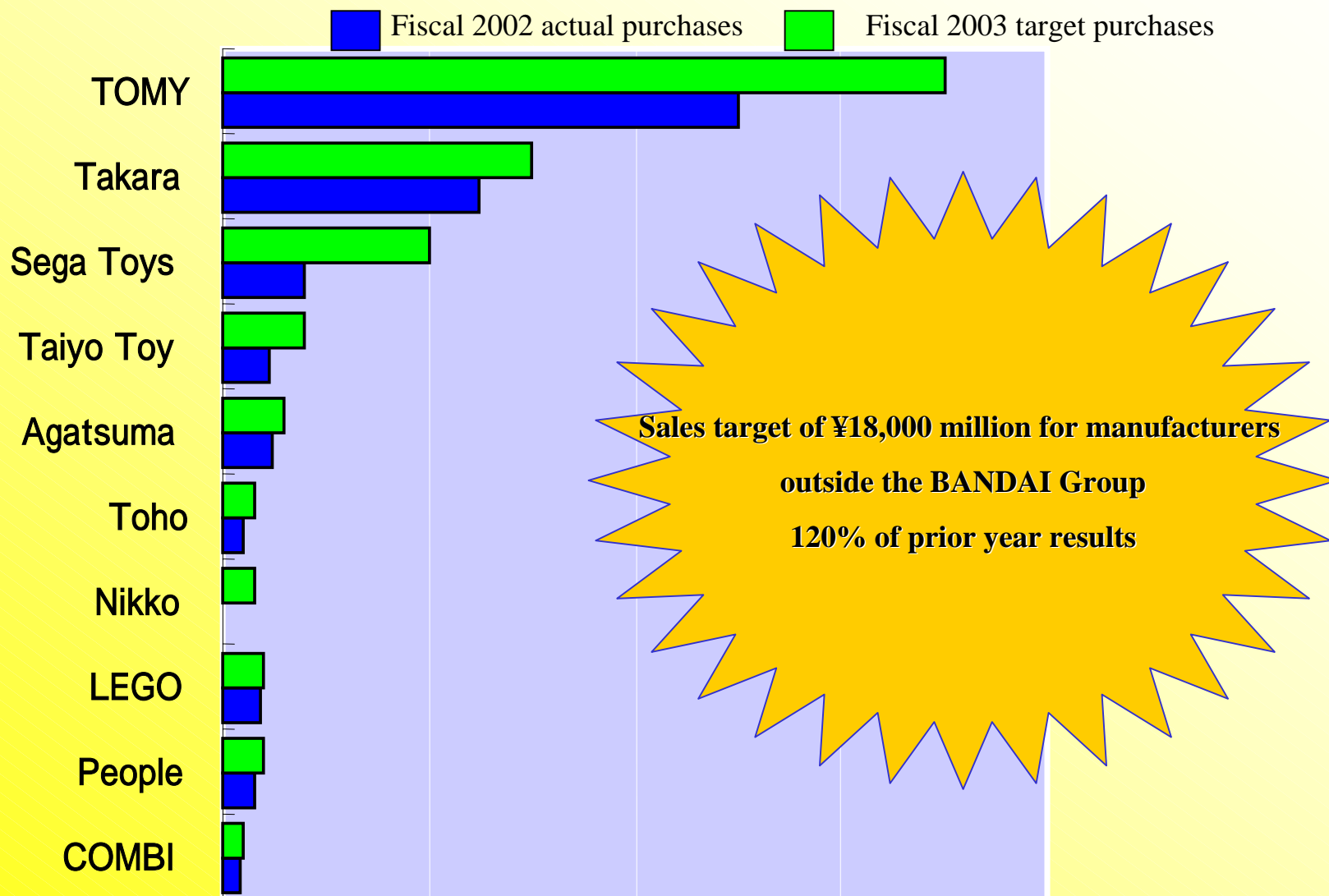
Toy Sales Performance

Manufacturer	Period ending	2003/3		
		Composition ratio	Growth (%)	
BANDAI		365	70.2	13.0
Other manufacturers		155	29.8	80.2
Total		520	100.0	27.1

- Strong performance from BANDAI character products for boys and hobby products for girls.
- Growth in sales of products from other manufacturers, notably TOMY. and Takara
- Expansion of new sales channels.

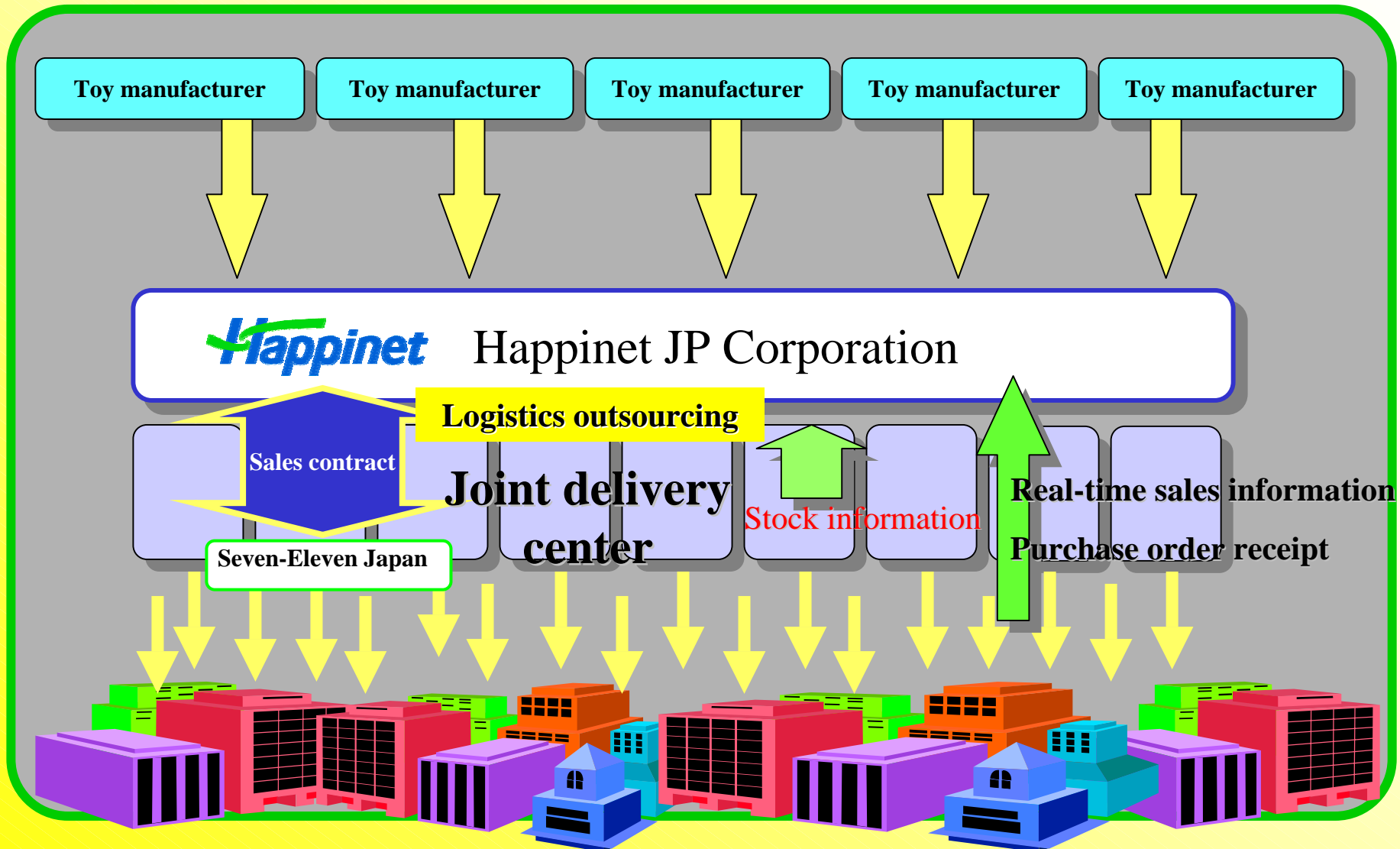
3. Business Targeted for Expansion and Development — Toy Business

Purchase and Share Targets by Manufacturer



3. Business Targeted for Expansion and Development — Toy Business

Enhancement of the Vendor Function with a Focus on Seven-Eleven Japan.



3. Business Targeted for Expansion and Development — Toy Business

Two-Pronged Initiative with Seven-Eleven Japan

Creation of New Demand

Promote the creation of customer demand by creating new products and establishing toy sections in stores.

Distribution Channel Innovation

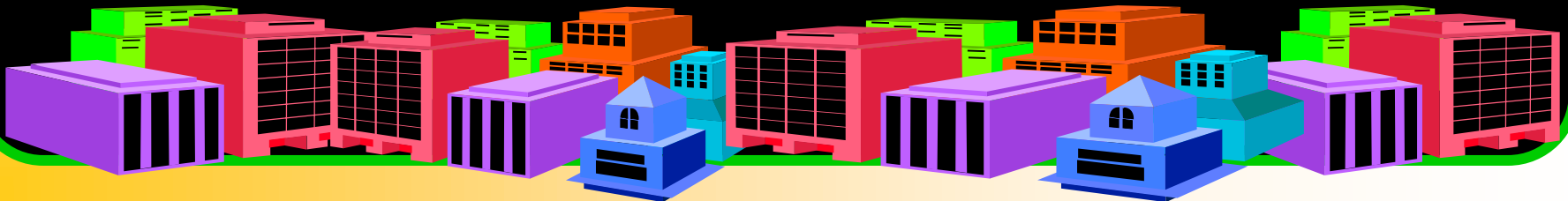
Creating Vendors

(Implemented March 2002)

Comprehensive proposal for establishing a toy section

- Differentiation through original products, event planning, advance sales, etc.
- Introduction of new product categories (Contribute to increased sales by offering character bath products in the toy section.)
- Rapid introduction of national brands

- Improved stock control through direct trading
- Greater efficiency
- Faster information exchange

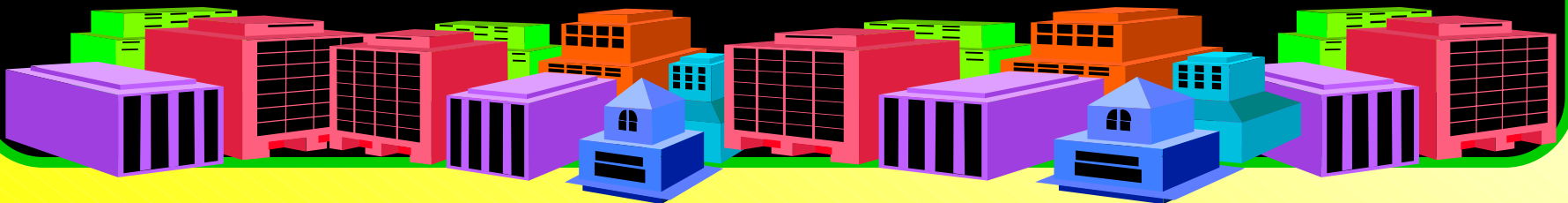


3. Business Targeted for Expansion and Development — Toy Business

Enhancement of the Vendor Function with a Focus on Seven-Eleven Japan

Convenience Store Division

Sales target of ¥10,000 million / 120% of prior year



3. Business Targeted for Expansion and Development — Toy Business

Forging Ahead with New Sales Channel Development

CD·HOBBY

Camera and Home Appliance Channel Target

Increase sales from ¥708 million to ¥1,000 million

Home Appliance Store

ZAKKA

Department Store Channel Target

*Increase sales from ¥0 million to
between ¥700 million and ¥1,000 million*

New Business Target

Increase sales from ¥748 million to ¥1,000 million

3. Business Targeted for Expansion and Development — Toy Business

Upgrade and Expansion of Original and OEM Products Businesses

Products to assist specialty stores
in competitive differentiation

< Successful products from fiscal 2002 >

Joint project with BANDAI

Masked Rider Ryuki EX Series,” “Souchaku Henshin Series”

Joint project with TOMY

“ZOIDS Battle Series”

Joint project for this year with
Aoshima Bunka Kyozaï

Plastic Model Thunderbird Series

April 2003 series launch timed to coincide with broadcasts on the
NHK educational channel

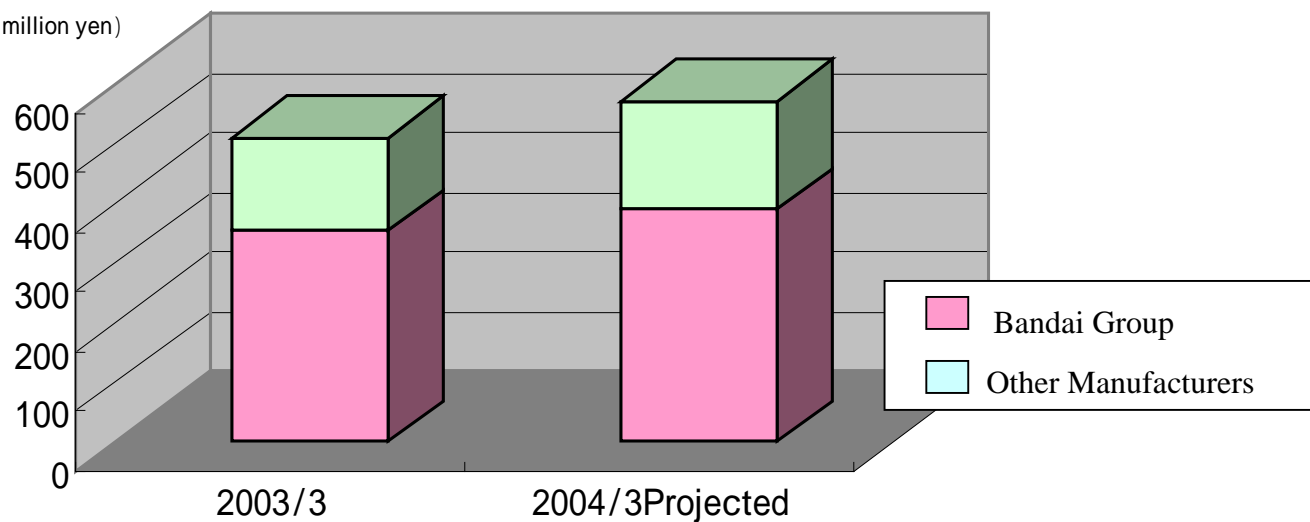
3. Business Targeted for Expansion and Development — Toy Business

Current Year Projections

(hundred million yen)

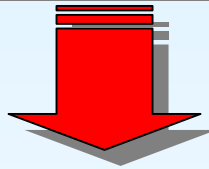
	2003/3	2004/3 (Projected)	Growth %
Bandai Group	365	390	9.9%
Other Manufacturers	155	182	17.4%
Total	520	572	10.0%

(hundred million yen)



4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

- Slump in the video game market
- Market saturation of PlayStation 2 hardware
- Insufficient number of Xbox titles

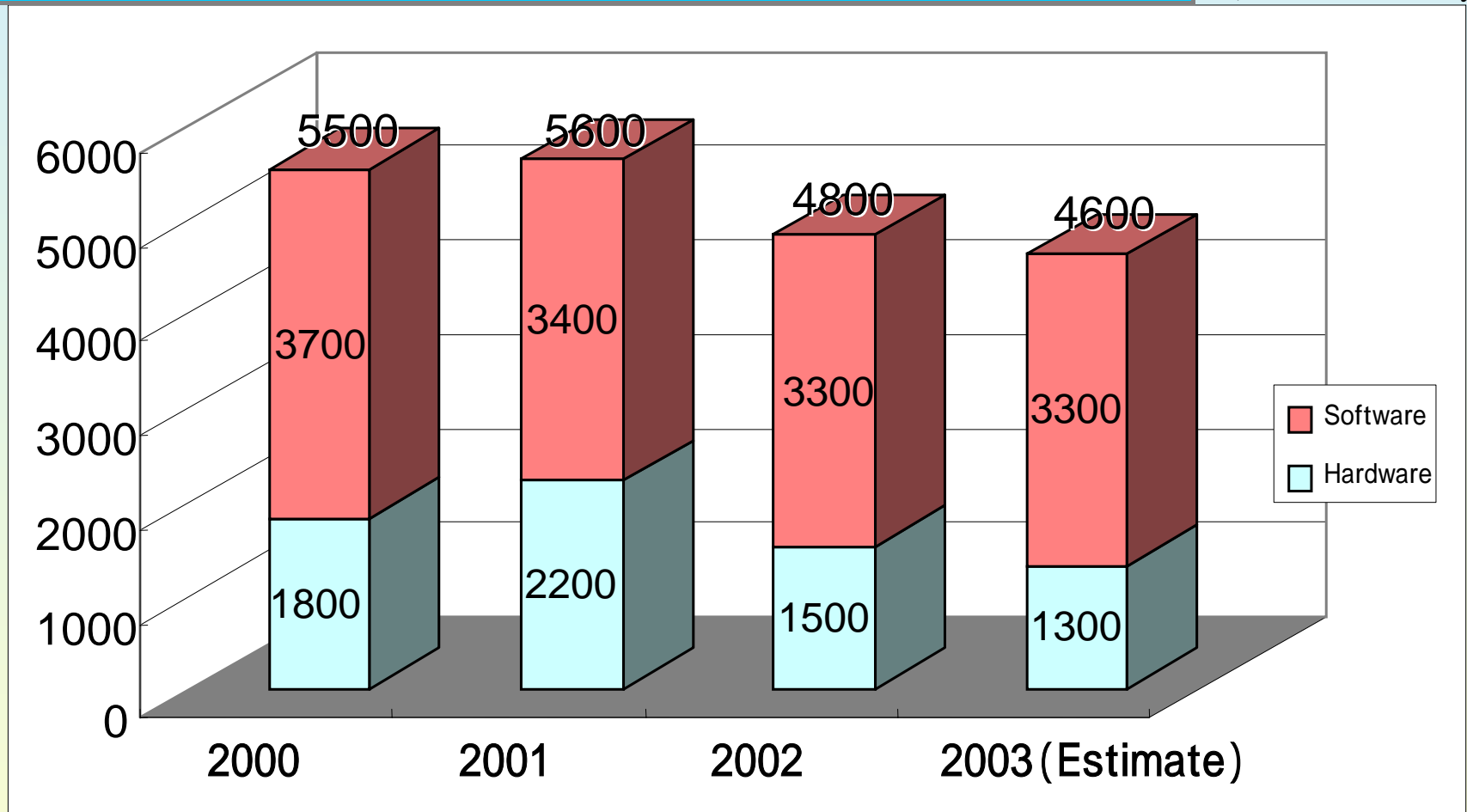


Key tasks are achieving greater efficiency and suitability of customer services

4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

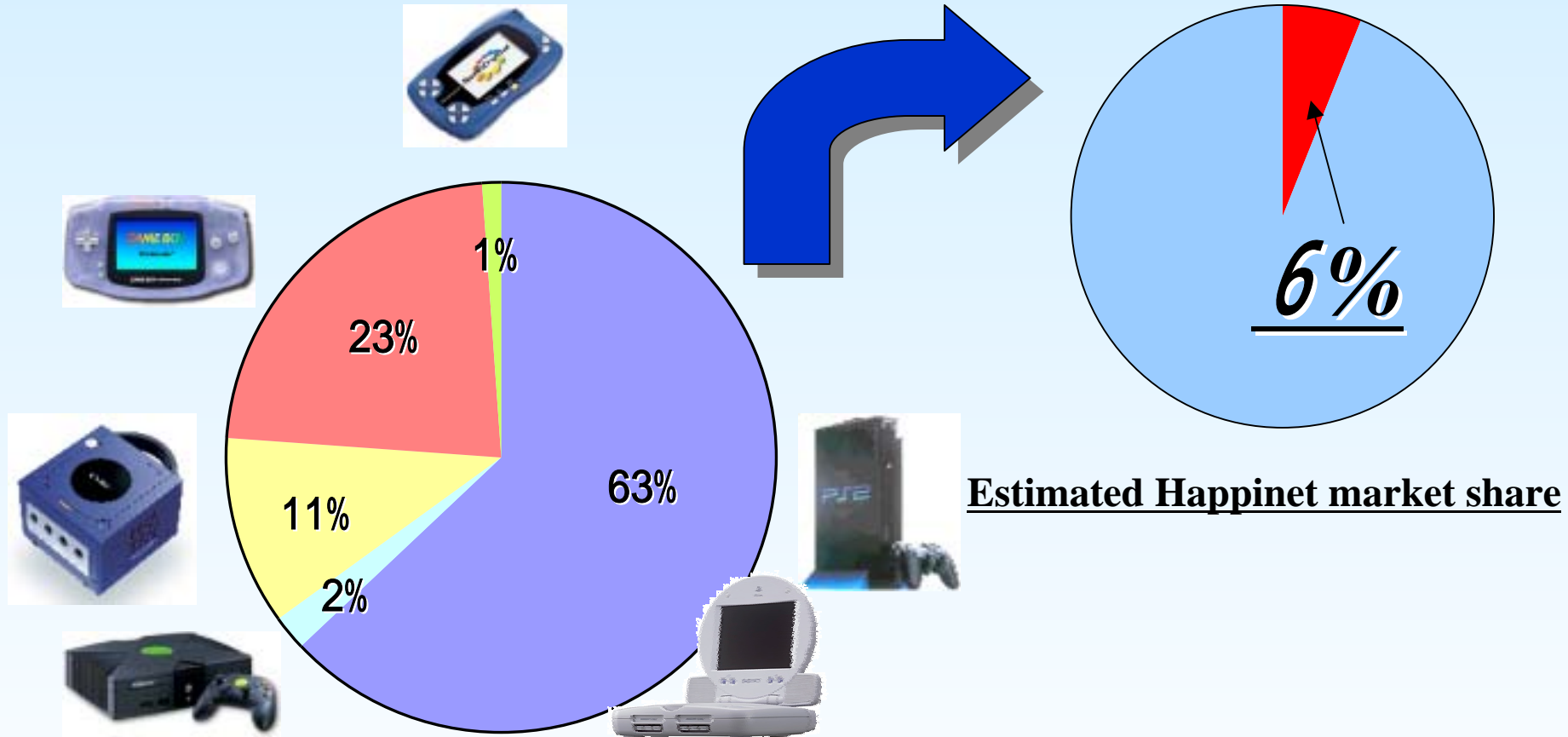
Changes in the Video Game (New Title) Market (Happinet Estimate)

(Hundred million yen)



4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

Market Share by Platform (Happinet Estimate)



Fiscal 2002 market share by platform

4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

Integration of the Multimedia Business Group and
Digital Entertainment Business Group

**Attaining Greater Efficiency and Enhancement (Suitability) of Customer Services
in the Video Game Business**

**Determine high-priority
customers and focus
investment of resources**

**Involvement in new sales
mechanisms not restricted to
wholesale**

**Elimination of waste,
inconsistency, and
overextension — review of
sales practices**

**Research and introduction of
new marketplaces to enhance
stock flow.**

4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

Elimination of Waste, Inconsistency, and Overextension — Review of Sales Practices

	Sales	Operations	Marketing
PlayStation 2	Assign a single representative to each customer company. Issue comprehensive proposals tailored to respond to store issues or customer needs.	Integrate business processes according to the sales structure. Eliminate duplication of business processes.	Strengthen sales, sales promotion, advertising, and information gathering capabilities by platform.
PlayStation			
Xbox			Strengthen Happinet original comprehensive sales promotions and market data gathering and analysis activities.
Game Cube			
Game Boy Advanced			
WonderSwan			



Increase the quality of business proposal activities.

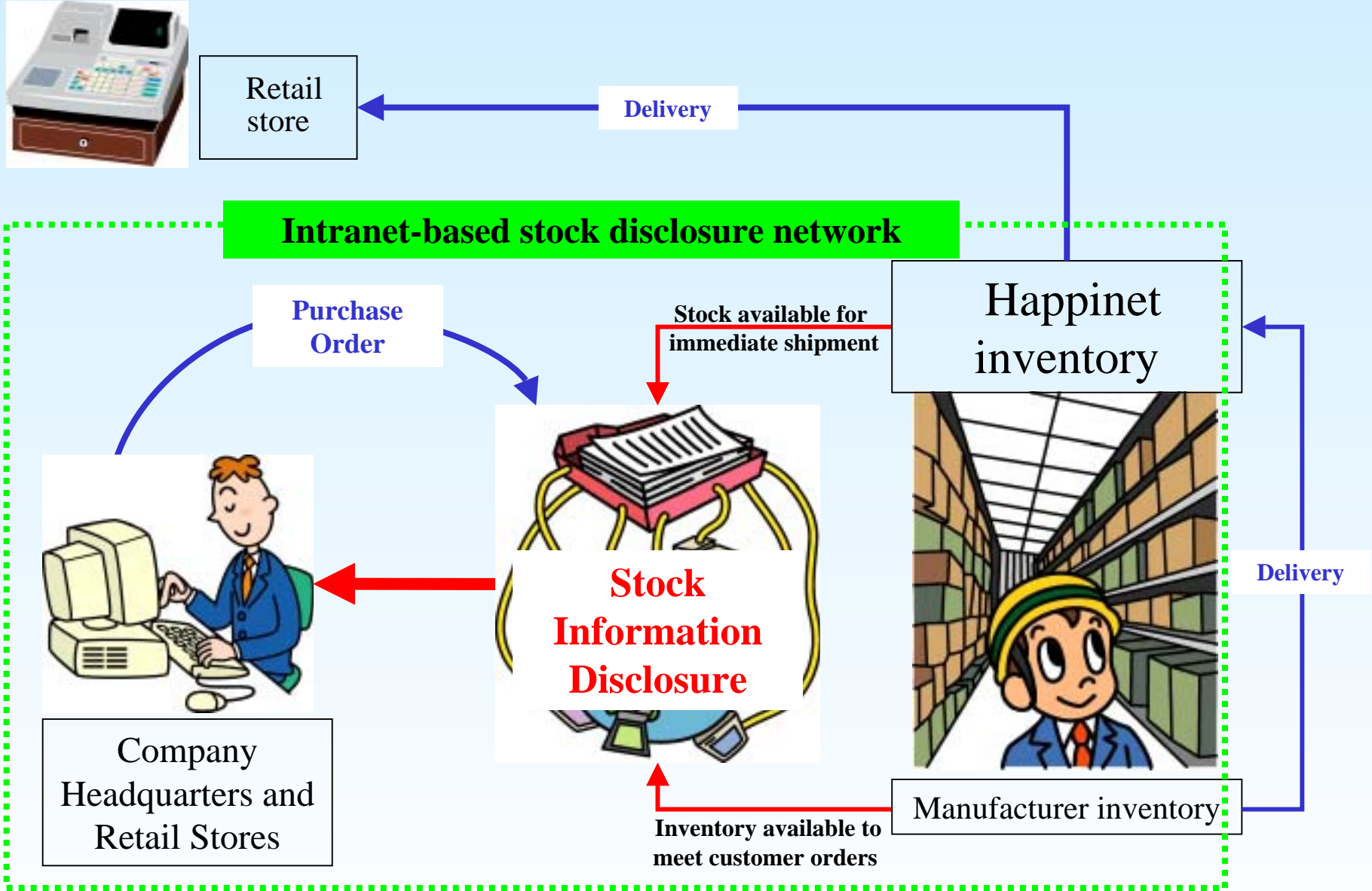


Increase business process efficiency.



4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

Research and Introduction into New Marketplaces to Enhance Stock Flow

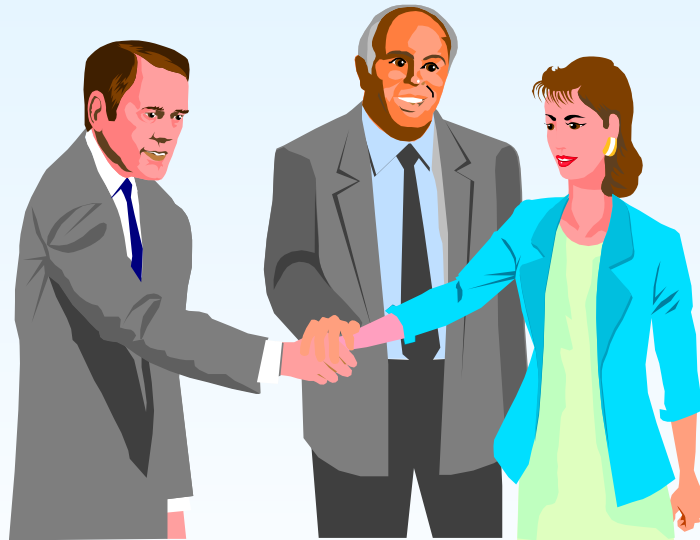


4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

Review of the Xbox Business Profit Structure

Review of distribution fees: Avoid risks associated with changes in sales volumes.

**Review of selling costs: Establish stratified service levels.
Strive for suitable service levels.**



4. Business Targeted for Greater Efficiency and Rationalization — Video Game Business

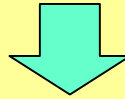
Video Game Software Distributed by Happinet

Fiscal 2002 Hit Titles

Ranking	Title	Manufacturer	Platform	Sales Volume (10,000 Units)	Happinet Group Distribution Situation
1	Pokemon Sapphire	Pokemon	GBA	210	Happinet JP only
2	Pokemon Ruby	Pokemon	GBA	205	Happinet JP only
3	FINAL FANTASY X-2	Square	PS2	184	6%
4	World Soccer Winning Eleven 6	Konami	PS2	109	Not distributed
5	Dynasty Warriors 3	Koei	PS2	102	7%
6	Tales of Destiny 2	Namco	PS2	83	8%
7	Dynasty Warriors 2	Koei	PS2	78	7%
8	Mario Party 4	Nintendo	GC	76	Happinet JP only
9	Super Mario Sunshine	Nintendo	GC	69	Happinet JP only
10	Kirby's Dreamland Deluxe	Nintendo	GBA	65	Happinet JP only

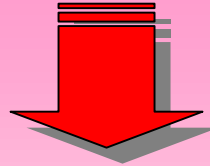
5. Business Targeted for Development for Future Gains— Video Business

- Expansion of the DVD software market
- Distribution of major titles



Sales increase

Reduce the relative sales share of original titles

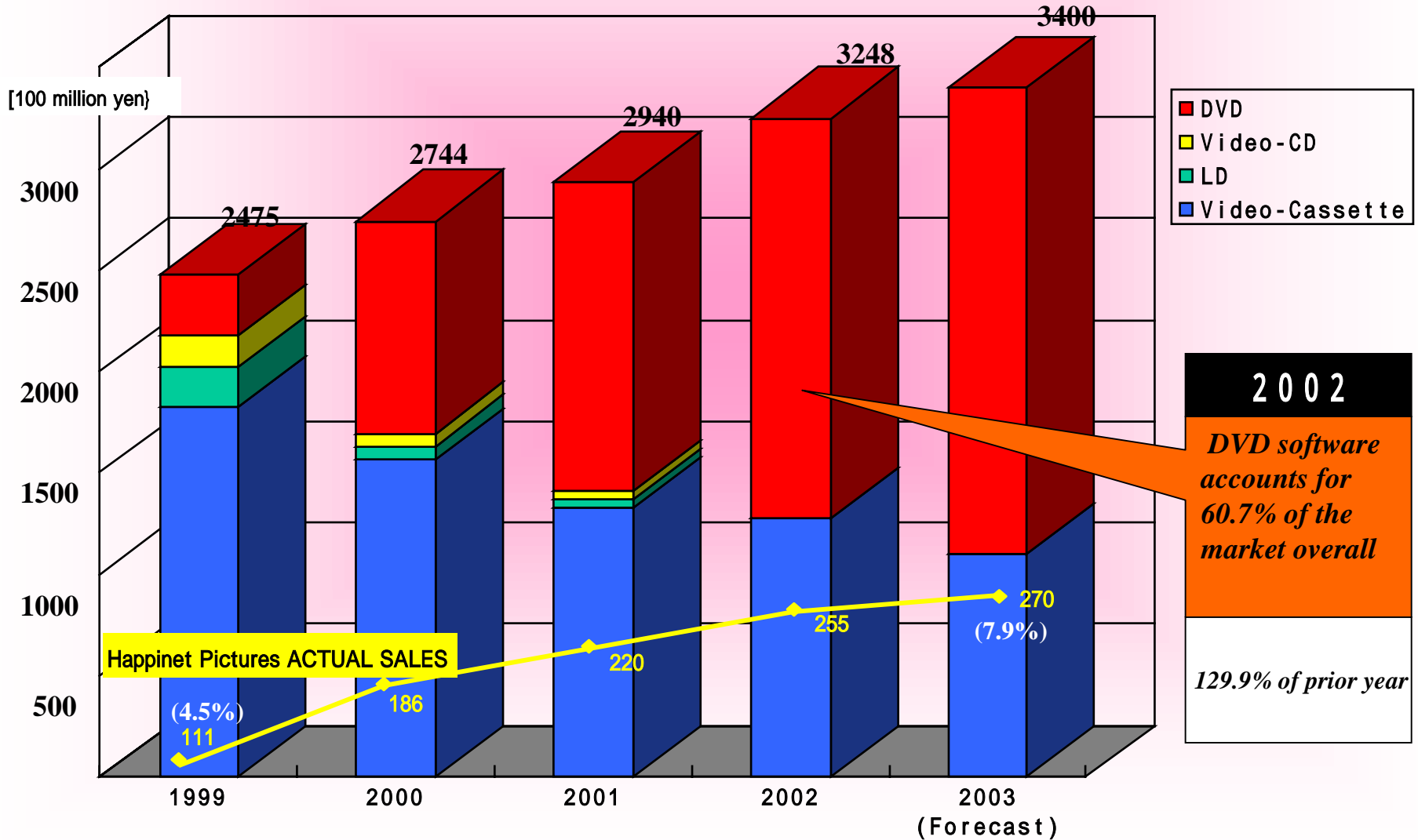


Expansion of market share in the Video DVD market

The key task is to increase profits through structural reform.

5. Business Targeted for Development for Future Gains— Video Business

Video Software Sales and Happinet's Market Share Five-Year Period from 1999 to 2003



5. Business Targeted for Development for Future Gains— Video Business

Expand Manufacturer Activities

Projected Figures for Fiscal 2003

Achieve sales of ¥6,000 million and markup of ¥1,600 million

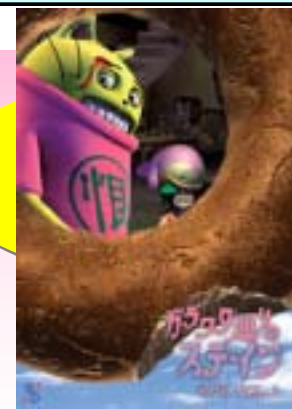
	Sales	Markup	Markup %
Production	4,600 million yen	1,240 million yen	27%
Own Titles	1,400 million yen	360 million yen	26%

5. Business Targeted for Development for Future Gains— Video DVD Business

Expansion of Theater Titles and Animation Titles

Attain sales of 1,500 million from ten main titles.

	Main 10 Titles	Genre
1	<i>D*N*ANGEL</i>	Animation
2	<i>Full Metal Panic 2</i>	Animation
3	CHICAGO	Western Movie
4	<i>Maburaho</i>	Animation
5	<i>GA.RA.KU.TA ~MR.STAIN ON JUNK ALLEY~</i>	Animation
6	Far from Heaven	Western Movie
7	Chemical 51	Western Movie
8	Nowhere in Africa	Western Movie
9	Geroppa	Japanese Movie
10	dinnerrush	Western Movie



Key Happinet Theater Title Titles

February



Chemical 51

Showing at Toho Cinemas and other first-run theaters nationwide beginning Saturday, February 1 (100 theatres)

Rabbit-Proof Fence

Showing at Cineswitch Ginza and other first-run theaters nationwide beginning Saturday, February 1 (30 theaters)

March



Au Plus Pres Du Paradis

Showing at Ginza Cine La Sept and other first-run theaters nationwide beginning Saturday, March 8 (30 theaters)

Jay and Silent Bob Strike Back

Showing at Shibuya Cine Amuse and other first-run theaters nationwide beginning Saturday, March 8 (30 theaters)



April

Millennium Mambo

Showing at Shibuya Cinema Society and other first-run theaters nationwide beginning April (10 theaters)

May



Laissez-Passer

Showing at Hibiya Chanter and other first-run theaters nationwide beginning Golden Week (30 theaters)



June



Far from Heaven

Showing at Shibuya Cinema Rise and other first-run theaters nationwide beginning in early summer (100 theaters)
Nominated for an Academy Award for best actress!

July



Chicago

Blockbuster film showing at Marunouchi Prazer and other first-run theaters

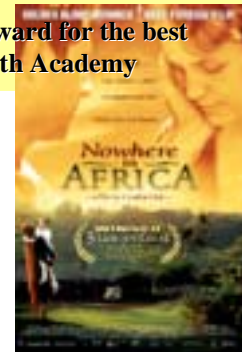
nationwide beginning Saturday, April 19 (260 theaters)

Winner of six Academy Awards, the most of any picture at the 75th Academy Awards Ceremony!!

Nowhere in Africa

Showing at Cineswitch Ginza and other first-run theaters nationwide beginning in early summer (30 theaters)

Winner of the Academy Award for the best foreign language film at 75th Academy Awards Ceremony!!



5. Business Targeted for Development for Future Gains— Video Business

Aggressively Making use of Group Assets

Increase sales of back titles, primarily by means of special price campaigns.

Achieve sales of ¥400 million.

Conduct campaigns in July, November, and February



Strengthen program sales and Internet rights sales.

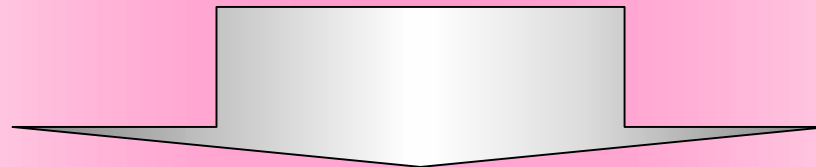
Appoint a dedicated representative and achieve sales of ¥100 million.

5. Business Targeted for Development for Future Gains— Video Business

Results of Prior Year Initiatives and Current Year Plans

Prior year initiative: Expand average sales per title for original titles and exclusive titles by acquiring major titles.

	No. of Titles	Sales (million yen)	Sales per title (million yen)	Contribution to total HPC sales (%)
2002/3	759	3,443	4.5	14.7%



	No. of Titles	Sales (million yen)	Sales per title (million yen)	Contribution to total HPC sales(%)
2003/3	505	5,000	9.9	19.6%
2004/3Projection	450	6,000	13.3	22.2%

HPC = HAPPINET PICTURES

5. Business Targeted for Development for Future Gains— Video DVD Business

Investment in Theater Titles

(million yen)

	Genre	No. of Projects	Investment	Expected Sales
2003/3	Western Movies	29	771	2,000
	Japanese Movies	6	93	200
	Animation	18	258	2,200
2004/3 (Projected)	Western Moives	26	670	2,400
	Japanese Movies	8	130	400
	Animation	22	700	2,800

Movies in Which Happinet Pictures Invested Capture Academy Awards!!

CHICAGO

Winner of six Academy Awards, the most of any picture at the 75th Academy Awards Ceremony!!

Box-office revenues of ¥2,100 million as of May 12, 2003 (23 days)

Showing at about 270 theaters Moving over to 100 theaters on June 7

Nowhere in Africa

Winner of the Academy Award for the best foreign language film at the 75th Academy Awards Ceremony!!

First run scheduled for summer.

5. Business Targeted for Development for Future Gains— Video Business

Major Title Sales Results and Forecast

Fiscal 2002 Major Titles Sales Results

Harry Potter and the Sorcerer's Stone	¥450 million
Star Wars Episode 2/Attack of the Clones	¥400 million
Spirited Away	¥300 million
Kate & Leopold	¥140 million

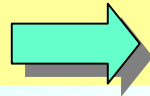
Expected Contribution Ratio of Major Titles Sales Scheduled for Release in Fiscal 2003

Harry Potter and the Chamber of Secrets	10%
Matrix 2	15%
Minority Report	18%

6. Function Targeted for Greater Efficiency and Rationalization — Logistics Function

The logistics environment

- Greater profit orientation on the part of logistics companies due to the prolonged recession
- Environmental protection measures such as the 90 km restriction, diesel engine vehicle restriction



Costs are showing an upward trend

+

Situation at Happinet

- Smaller lots and higher service level



The key task is to reduce logistics costs.

6. Function Targeted for Greater Efficiency and Rationalization — Logistics Function

Changes in Logistics Costs

	(million yen)		
	Fiscal 2000	Fiscal 2001	Fiscal 2002
Warehousing	1,037	1,738	2,160
Freight	1,755	1,793	2,118
Total	2,792	3,531	4,278
% of profit	2.2%	2.5%	3.5%

One-time costs in connection with operation of the Happinet Logistics center and the Happinet Pictures warehouse move were ¥400 million.

Cost reductions due to operation of the Happinet Logistics center amount to ¥200 million.

【Breakdown of logistics cost increase:】

Center fees paid to the distribution center ¥500 million

Attributable to increase in business transactions

Freight and packing costs ¥200 million Attributable to an increase in the number of packages

Category Mix ¥500 million Change in sale composition ratio (attributable to an increase in toys)

Increase in the outsourced portion ¥120 million Connected to operation of the new center

6. Function Targeted for Greater Efficiency and Rationalization — Logistics Function

Future Measures to Achieve Low-Cost Operations

A cost reduction of ¥300 million (0.23% of sales) compared to the previous year is planned for fiscal 2003.

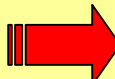
Establishment of a Logistics Innovation Department in Happinet Logistics Service

- Cooperate with the sales units and promote cost reductions

Effective use of Logistics Center East

- Maximum effective use of advanced service functions
 - ➡ Review of categories handled, etc.
- Early recovery of investment by means of volume increases

Logistics outsourcing

- Cost reductions by means of shared use of facilities
- Promotion of logistics outsourcing by means of active use of information and logistics systems
- Prior year Sales share of about 7%  This year **Target of 10%**

7. Projected Business Performance for Fiscal 2003

(million yen)

	Closing date	Fiscal 2003 plan
Consolidated	Sales	127,000
	Ordinary Income	1,500
	Net Income	870
Non-Consolidated	Sales	37,000
	Ordinary Income	580
	Net Income	380

Projected Sales by Product

(100 million, %)

Business	Period ending	Fiscal 2003 Plan	
		Component Ratio	Year on Year
Toys	572	45.0	110.0
Childcare Goods	30	2.4	111.1
Video Games	320	25.2	93.3
Amusement	60	4.7	109.1
Videos	275	21.7	105.8
Others	13	1.0	65.0
Total	1,270	100.0	103.7