

From “Made in Japan” to “Checked by Japan”

**Business Results for the First Half of
Fiscal Year Ending March 31, 2012**

DIGITAL Hearts Co., Ltd.

Eiichi Miyazawa, President & CEO



From “Made in Japan” to “Checked by Japan”

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Summary of Business Results for 1H FY03/12



- | Consolidated: Investment for Korean subsidiary frontloaded; focus on employee training
 - n Net Sales: In general, Q&A Testing Services generate stable revenues
 - n The Consumer Games Unit performed particularly well, driving sales growth
- | Operating Income: Cost of launching Korean subsidiary results in loss of ¥10 million on a non-consolidated basis
- | Non-consolidated: Posted record highs in sales and income
 - n Net Sales: Same as consolidated results
 - n Operating Income: Improved profitability due to increase in net sales and decrease in fixed costs

(¥million)	Non-consolidate	Consolidated				Non-Consolidated			
	1H FY03/11	1H FY03/12				1H FY03/12			
	Actual	Forecast (as of Aug.26)	Forecast (as of Oct.13)	Actual	YoY Change	Forecast (as of Aug.26)	Forecast (as of Oct.13)	Actual	YoY Change
Net Sales	1,881	2,250	2,618	2,618		2,250	2,618	2,618	139.2%
Operating Income	214	270	464	464		270	475	475	221.7%
<i>Operating Income Margin</i>	<i>11.4%</i>	<i>12.0%</i>	<i>17.8%</i>	<i>17.8%</i>		<i>12.0%</i>	<i>18.2%</i>	<i>18.2%</i>	<i>+6.8 points</i>
Ordinary Income	213	272	462	463		272	473	474	221.6%
Net Income	115	150	244	244		150	255	255	221.4%

*Only non-consolidated results available up to FY03/11

Summary of Balance Sheets

(¥million)	Non-Consolidated FY03/11 End of Term	Consolidated FY03/12 End of 1H	Change Amount
Current assets	1,668	2,093	424
Cash and deposits	1,054	1,139	84
Notes and accounts receivable - trade	545	855	310
Fixed assets	674	750	76
Property, plant and equipment	138	197	59
Intangible assets	58	65	6
Investments and other assets	477	488	10
Total assets	2,343	2,844	501

*Only non-consolidated results available up to FY03/11

(¥million)	Non-Consolidated FY03/11 End of Term	Consolidated FY03/12 End of 1H	Change Amount
Current liabilities	484	795	311
Noncurrent liabilities	10	10	0
Total liabilities	494	806	311
Shareholders' equity	1,849	2,050	201
Capital stock	272	272	0
Capital surplus	232	232	0
Retained earnings	1,343	1,544	201
Total net assets	1,848	2,038	190
Total liabilities and net assets	2,343	2,844	501

- | Current assets: Net sales growth drives increase in accounts receivable and bills receivable
- | Fixed assets: Increase in property, plant and equipment—from procurement of Q&A Testing Service equipment, to expansion of commercial space at Nagoya Office, Sapporo Laboratory and Kyoto Laboratory—attributed primarily to overall business growth
- | Current liabilities: Increase due primarily to unpaid expenses and higher corporate income tax
- | Equity ratio: 71.7%

Summary of Statements of Cash Flows

(¥million)	Non-Consolidated 1H FY03/11 Actual	Consolidated 1H FY03/12 Actual	YoY Change Amount
Cash flows from operating activities	91	239	147
(Cash flows before income taxes paid)	164	368	204
Cash flows from investing activities	△58	△194	△135
Cash flows from financing activities	△28	△44	△15
Net increase (decrease) in cash and cash equivalent	4	△9	△13
Cash and cash equivalents, beginning of term	868	1,054	186
Cash and cash equivalents, end of term	873	1,045	172

*Only non-consolidated results available up to FY03/11

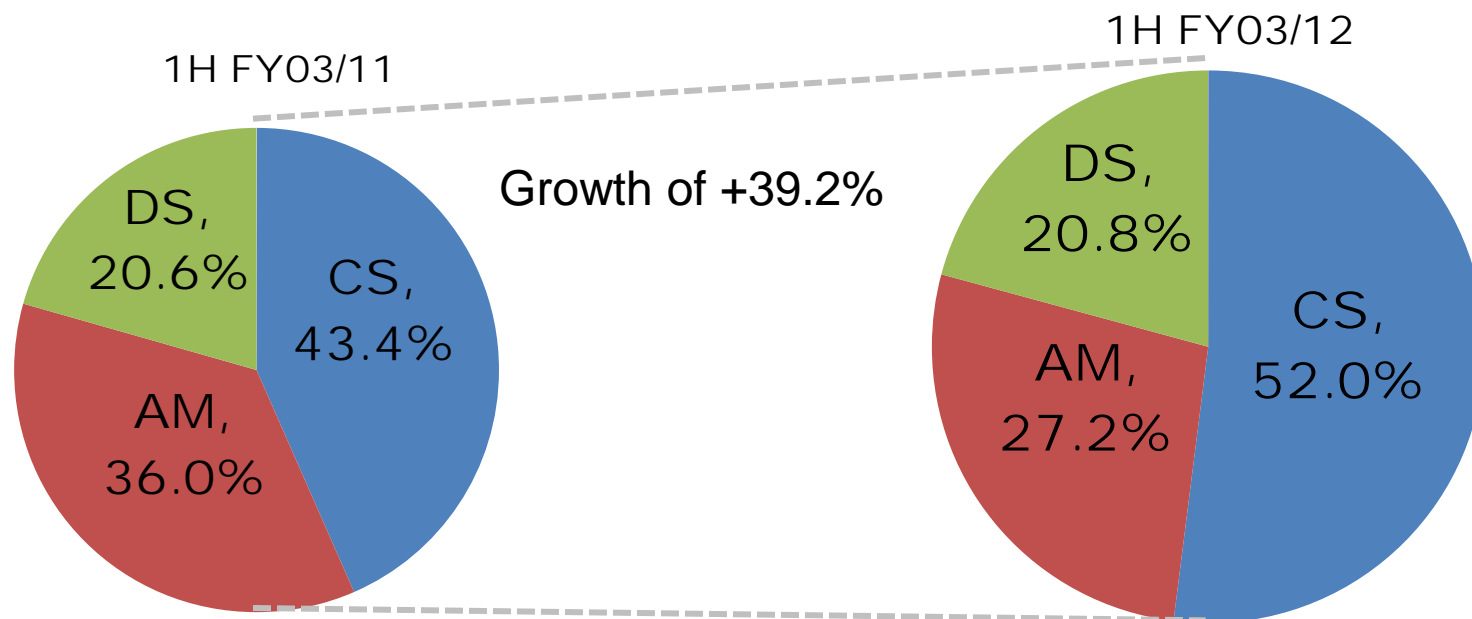
- | CF from operating activities: Due primarily to increase in quarterly net income prior to tax adjustments, unpaid expenses and funds for depreciation exceeding an increase in accounts receivable-trade and decrease in corporate income tax payment
- | CF from investing activities: Due primarily to increase in fixed-term deposit payments and acquisition of property, plant and equipment due to the procurement of Q&A Testing Service equipment and expansion of commercial space at Nagoya Office, Sapporo Laboratory and Kyoto Laboratory as a result of overall business growth
- | CF from financing activities: Due primarily to payment of stock dividends

Summary of Net Sales by Business Unit



(¥million)		1H FY03/11	1H FY03/12	
		Actual	Actual	YoY Chg Amount
QA (Quality Assurance) Testing Service	Consumer Games (CS)	816	1,360	+66.7%
	Digital Solutions (DS)	387	544	+40.5%
	Amusement (AM)	677	712	+5.1%
Others	3D Content Production	—	0	—

*Note: Due to the organizational restructuring adopted in April 2011, which recombined individual business segments, the figures of the previous term have been posted on a post-restructuring basis



Unit Summary:

Consumer Games (CS) Unit and Digital Solutions (DS) Unit

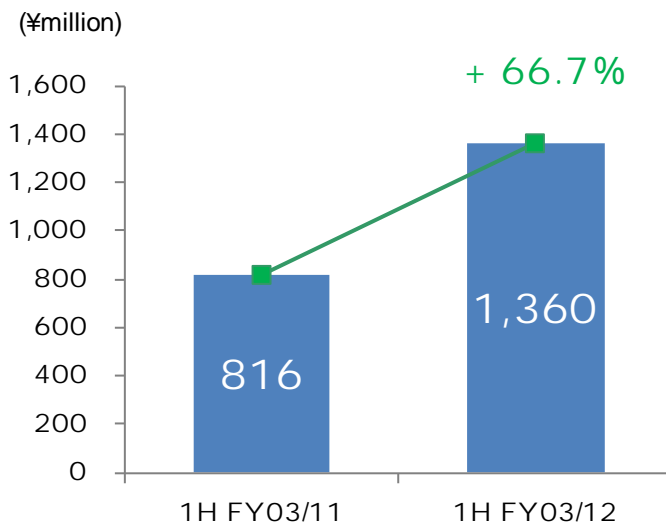


Consumer Games (CS) Unit

(¥million)	1H	1H	YoY Change	
	FY03/11	FY03/12	Amount	Ratio
Net Sales	816	1,360	544	+66.7%

*Note: Due to the organizational restructuring adopted in April 2011, which recombined individual business segments, the figures of the previous term have been posted on a post-restructuring basis

- n A number of killer titles for new hardware systems are released in succession
- n Digital Hearts keys on providing solutions, reinforcing marketing/sales to existing customers
- n Several clients raise ratio of projects outsourced to the Company

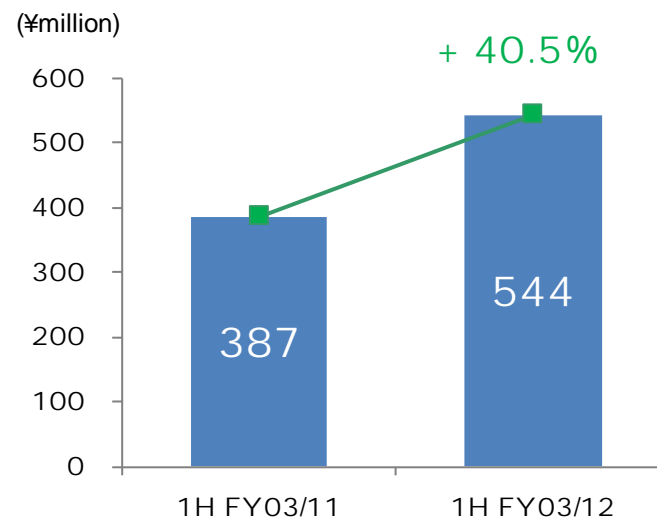


Digital Solutions (DS) Unit

(¥million)	1H	1H	YoY Change	
	FY03/11	FY03/12	Amount	Ratio
Net Sales	387	544	156	+40.5%

*Note: Due to the organizational restructuring adopted in April 2011, which recombined individual business segments, the figures of the previous term have been posted on a post-restructuring basis

- n Orders increase as a result of focusing on developing services to meet customer needs and marketing/sales initiatives to expand the Company's customer base
- n Focus on mobile commerce and e-commerce testing systems



Unit Summary: Amusement (AM) Unit and Others

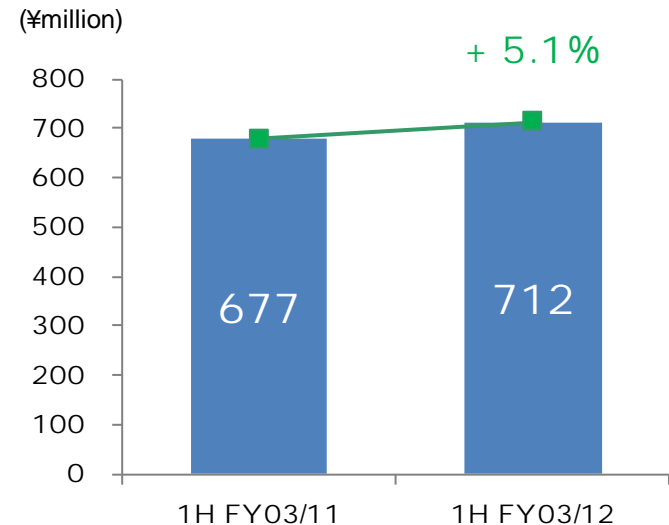


Amusement (AM) Unit

(\u00a5million)	1H FY03/11	1H FY03/12	YoY change	
	Actual	Actual	Amount	Ratio
Net Sales	677	712	34	+5.1%

*Note: Due to the organizational restructuring adopted in April 2011, which recombined individual business segments, the figures of the previous term have been posted on a post-restructuring basis

- n As with the previous term, Digital Hearts focuses on marketing solutions to develop games with a high entertainment quotient
- n Although affected by the March 11 disaster in Q1, operations improve in Q2 and post stable revenues

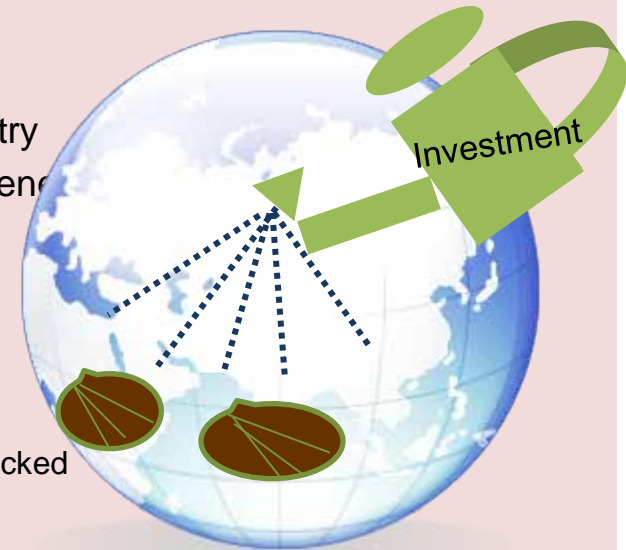


3D Content Production Business

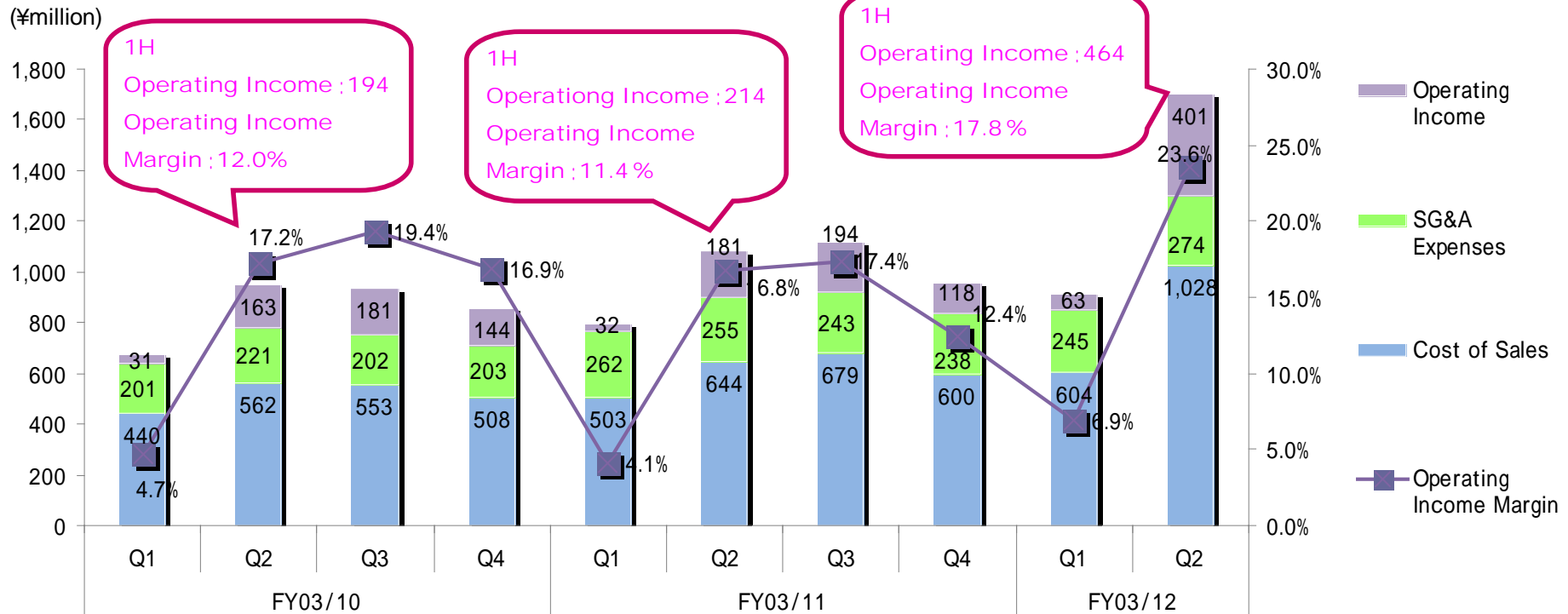
- I Initiatives to achieve profitability
 - n Focus on developing new customers, primarily in the video industry
 - n Developing operating regime to reinforce international competitiveness
- I Developing regime to improve and advance technology
 - n Focus on developing human resources from global perspective

Fuguai.com Business

- I Adopting initiatives to increase website membership
 - n Website submitted to Good Design Expo 2011 organized by government-backed
- I Adopting initiatives to develop viable business model
 - n Installed information services provider system as a B2B operation



Trend in Consolidated Operating Income and Operating Expenses



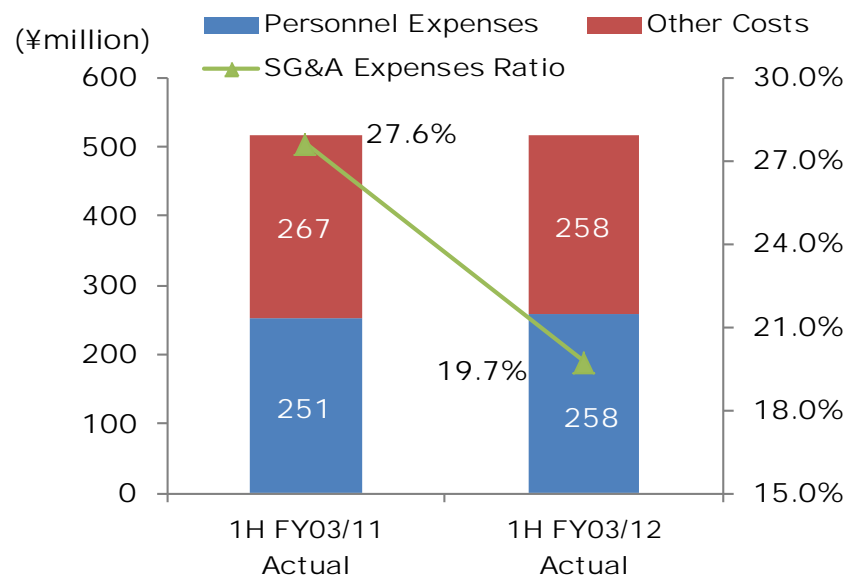
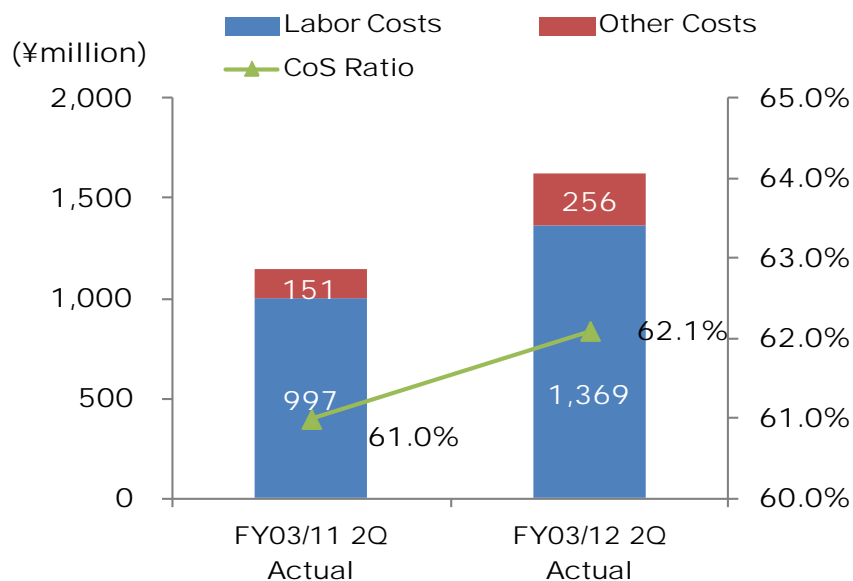
Only non-consolidated results available up to FY3/12 1Q

Driven by net sales growth, 1H operating income increased by ¥250 million year-on-year

Posted record-high income / Operating income margin also improves dramatically, rising from 11.4% to 17.8%

(¥million)	1H FY03/11 Actual	1H FY03/12 Actual	YoY change
Cost of Sales	1,148	1,625	+41.6%
Labor Costs	997	1,369	+37.3%
CoS Ratio	61.0%	62.1%	+1.1%

(¥million)	1H FY03/11 Actual	1H FY03/12 Actual	YoY Change
SG&A Expenses	518	516	Δ0.4%
Personnel Expenses	251	258	+2.7%
SG&A Expenses Ratio	27.6%	19.7%	7.9%




- | Cost of Sales Ratio: Rose 1.1% due to increase in workforce from new business venture
- | SG&A Expenses Ratio: Business growth works to reduce burden of workforce increase that occurred from the previous term, causing SG&A expenses ratio to contract by 7.9%

Actual Results

Accelerated transition to outsourcing leads to surge in clients and in the number of debugging cases
With the market moving to serialized game titles and multiplatform compatibility, the Company stands at an advantage

ü No. of Clients: 880 **Companies** (Sep-11)

693 companies
as of Sep-10

27.0% 

ü No. of QA Testing Cases: 610,000
(Sep-11)

510,000 cases
as of Sep-10

19.6% 

Recruitment, Training and Placement

Equipped with proprietary training system to train fully operational testers in a short period of time

ü Registered Testers: 5,136 (Sep-11)

4,381 as of Sep-10

17.2% 

ü Title Leaders: 182 (Sep-11)

165 as of Sep-10

10.3% 

ü Fulltime Workers : 163 (Sep-11)

152 as of Sep-10

7.2% 

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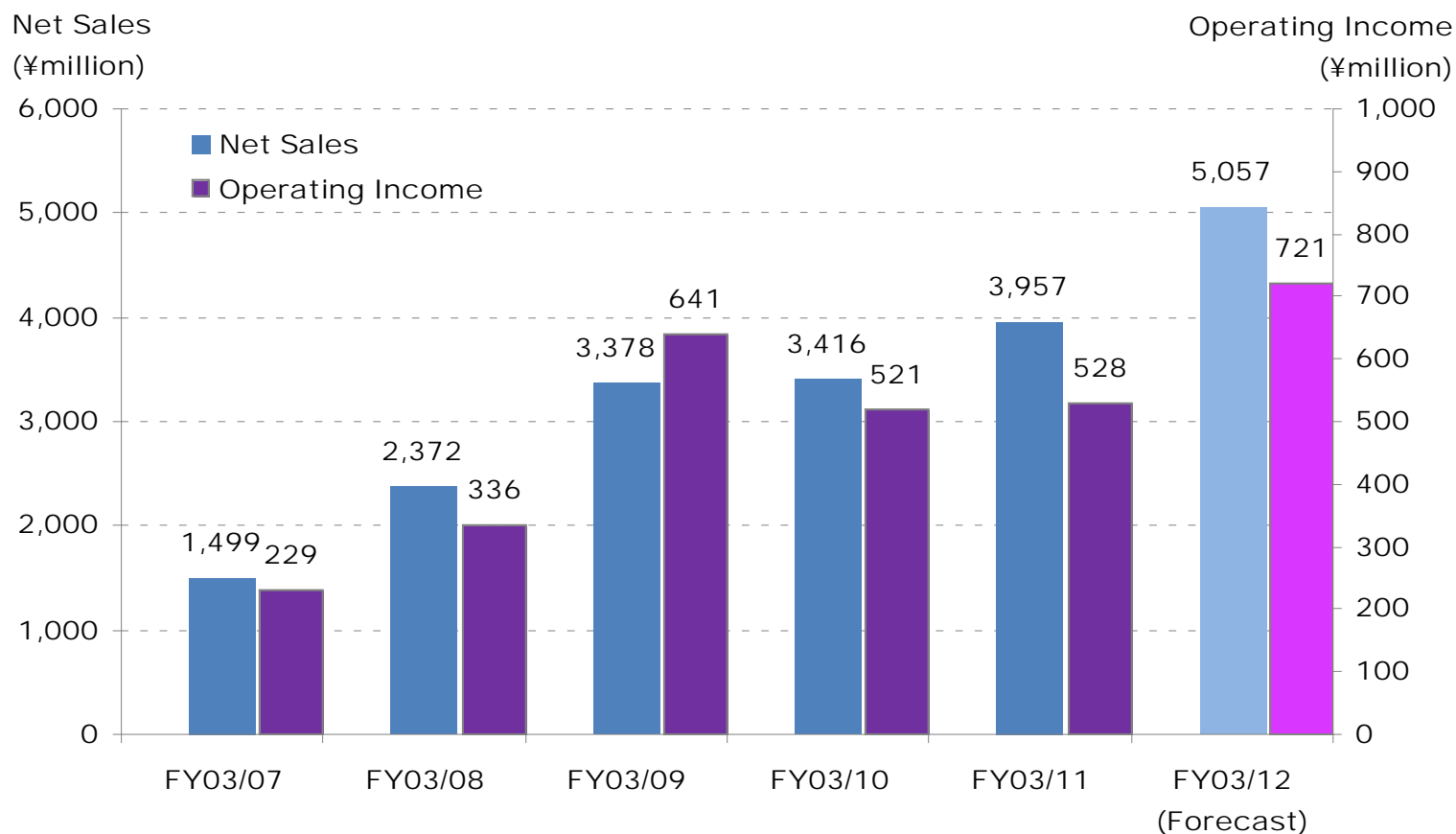
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Financial Forecast for FY03/12

Net Sales: ¥4,509 million revised to ¥5,057 million

Operating Income: ¥645 million revised to ¥721 million



*Until FY03/11, only non-consolidated data was disclosed, thus figures posted are non-consolidated

Financial Forecast for FY03/12



(¥million)	Non-Consolidated	Consolidated			Non-Consolidated			
	FY03/11	FY03/12			FY03/12			
	Actual	Forecast (as of Aug. 26)	Forecast (as of Nov. 4)	Change vs Aug.26 fcst	Forecast (as of Aug. 26)	Forecast (as of Nov. 4)	Change vs Aug.26 fcst	YoY Change
Net Sales	3,957	4,509	5,057	+12.2%	4,509	5,029	+11.5%	+27.1%
Operating Income	528	645	721	+11.8%	645	772	+19.5%	+46.2%
Operating Income Margin	13.3%	14.3%	14.3%	+0 point	14.3%	15.3%	+1.0 point	+2.0 points
Ordinary Income	495	646	701	+8.4%	646	751	+16.2%	+51.7%
Net Income	278	355	357	+0.6%	355	407	+14.7%	+46.4%

*Non-consolidated results only up until FY03/11

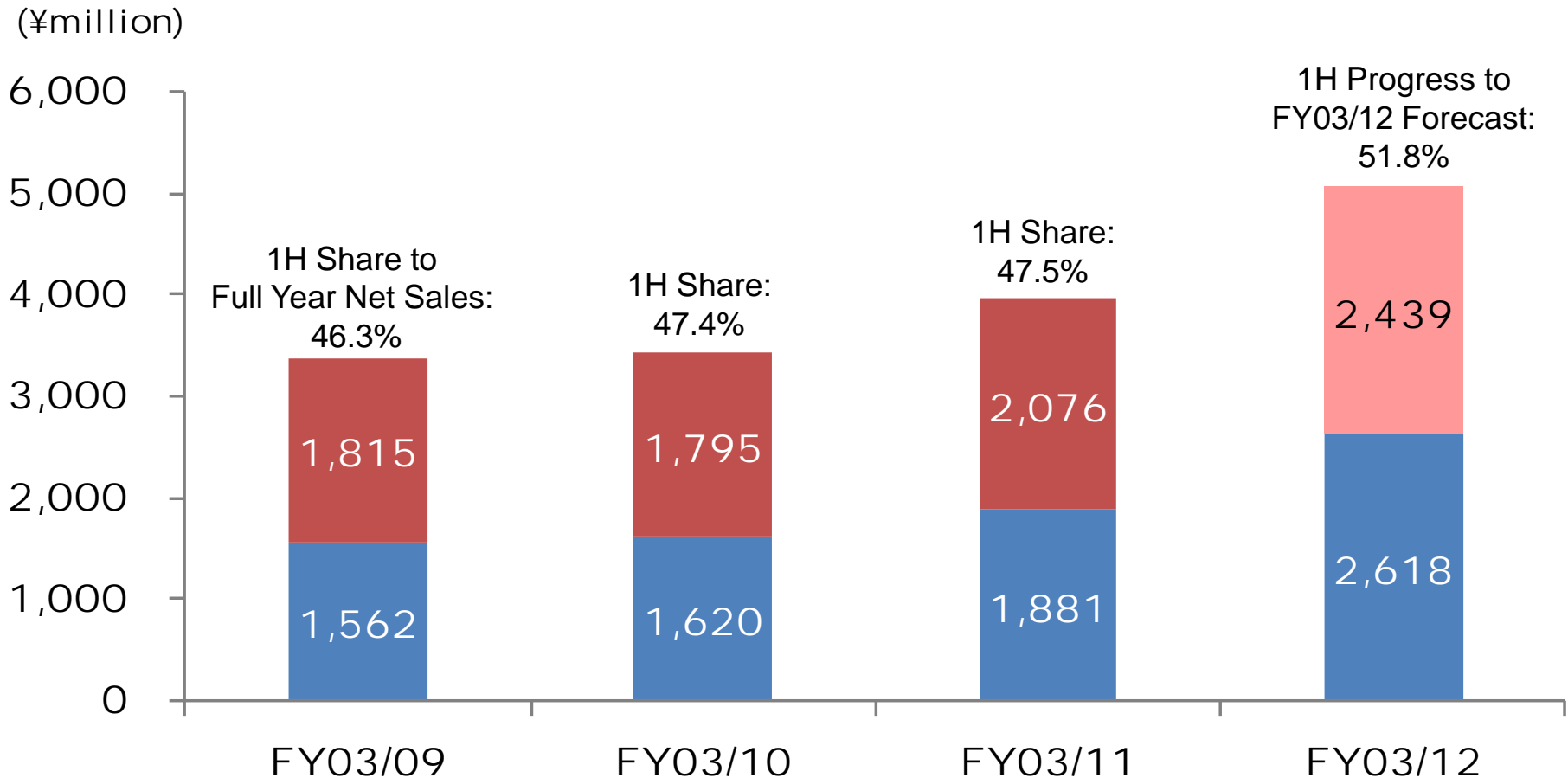
- | Net Sales : All segments involved in Q&A Testing Services are projected to record stable growth
- | Operating Income: Expected to increase in line with higher net sales, although the Company should be incurring costs resulting from frontloaded investment for new business ventures and its overseas operations in 2H

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FY03/12 Consolidated Net Sales Forecast and Progress Ratio



*Only non-consolidated results available up to FY03/11

ü Exploiting Markets with Potential

ü Enhancing Added Value

Strengthening technology base and cost competitiveness



| **1st Step** : Established DIGITAL Hearts Korea Co., Ltd.

| **2nd Step** : Enters into partnership with DIGICRAFTS CO., LTD. in Thailand

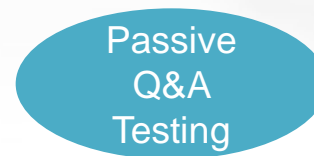
| **3rd Step** : Establish a subsidiary in US

User-perspective testing of operations exceeding normal design parameters



Creating **added value** through unique Japanese sensibilities

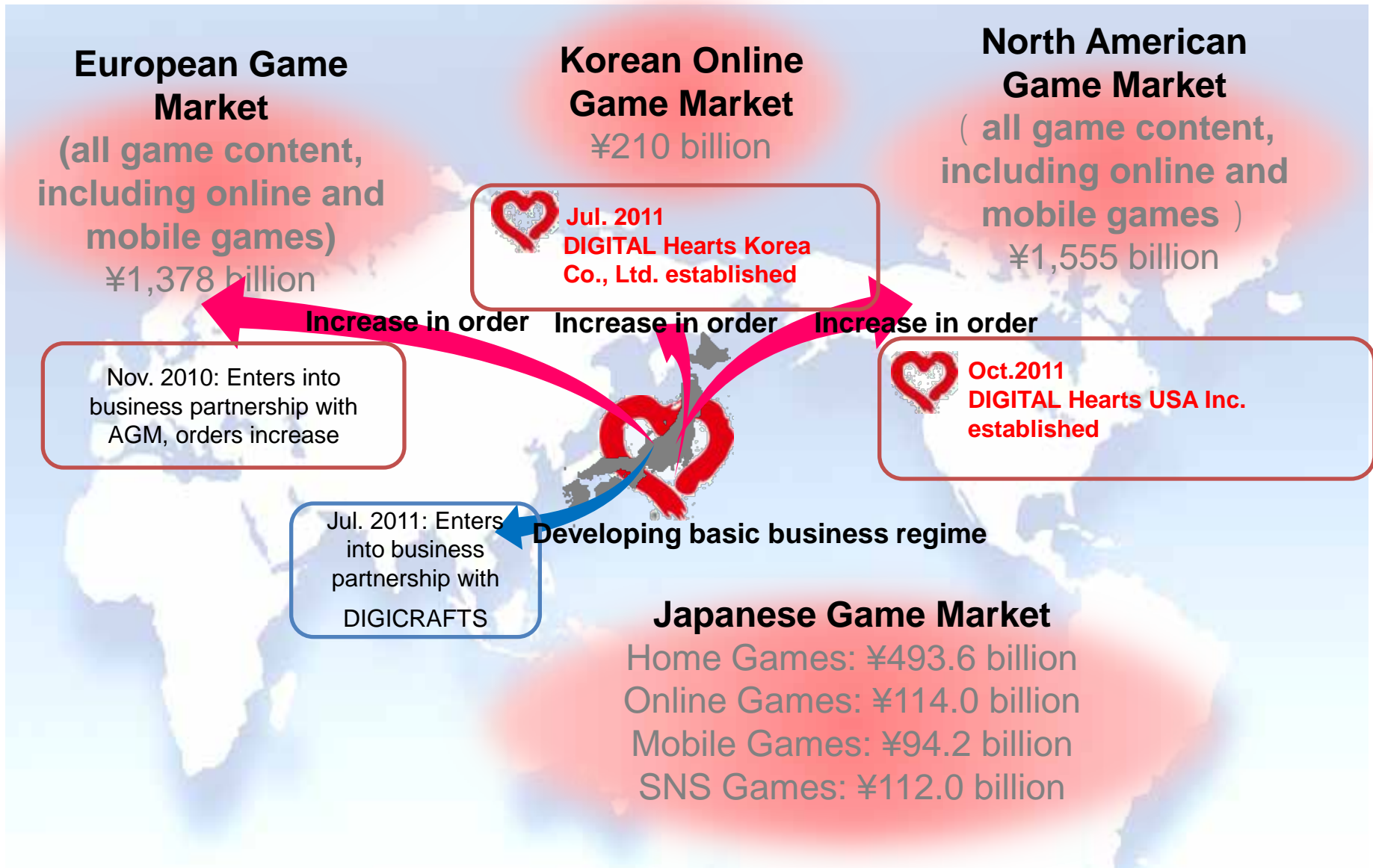
Developer-perspective testing of operations and processing under normal design parameters



Securing work centers overseas
Achieving **cost competitiveness**



Establishing service regime capable of meeting global demand for Q&A testing

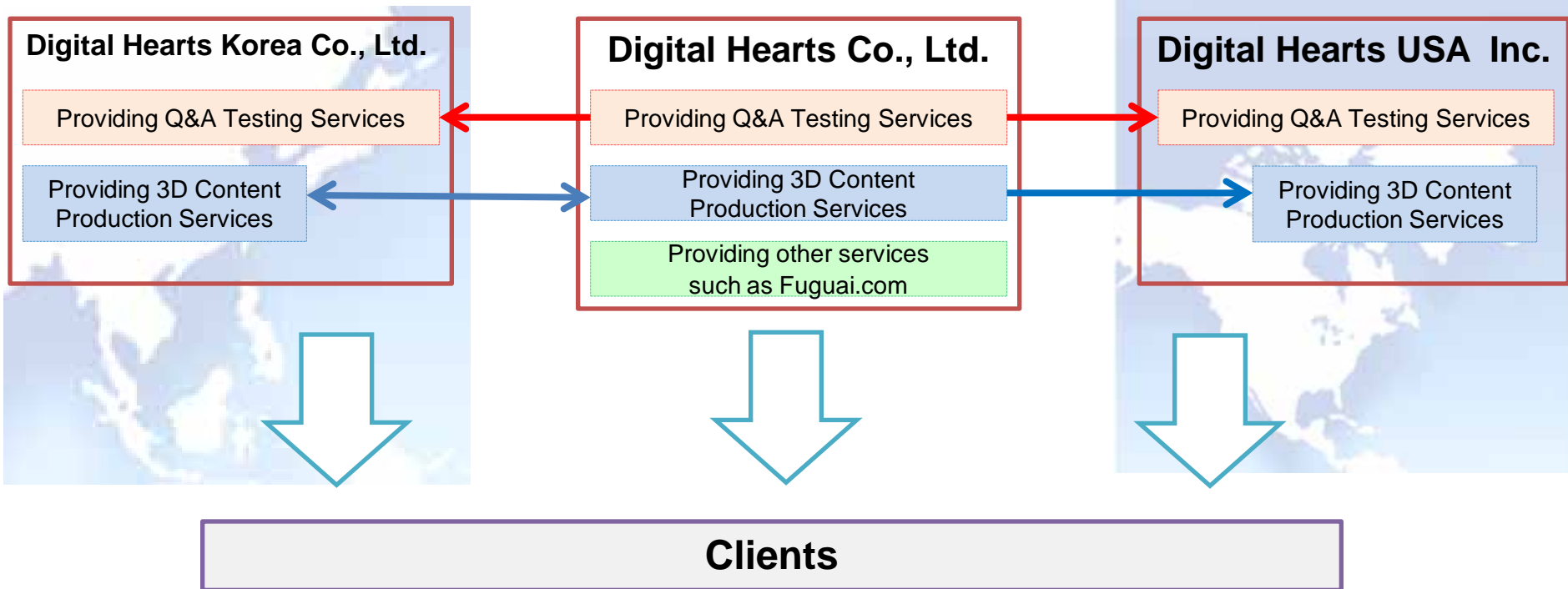


DIGITAL Hearts Group: Summary of Global Operations



Keying on marketing/sales and 3D content production, particularly in Korea; working to become major service provider

Keying on marketing/sales in North America and Europe



→ Flow of 3D content production services

→ Flow of Q&A Testing Services

Q&A Testing Services

Buoyed by an industry in its up-cycle, the Company projects profit growth for every business unit

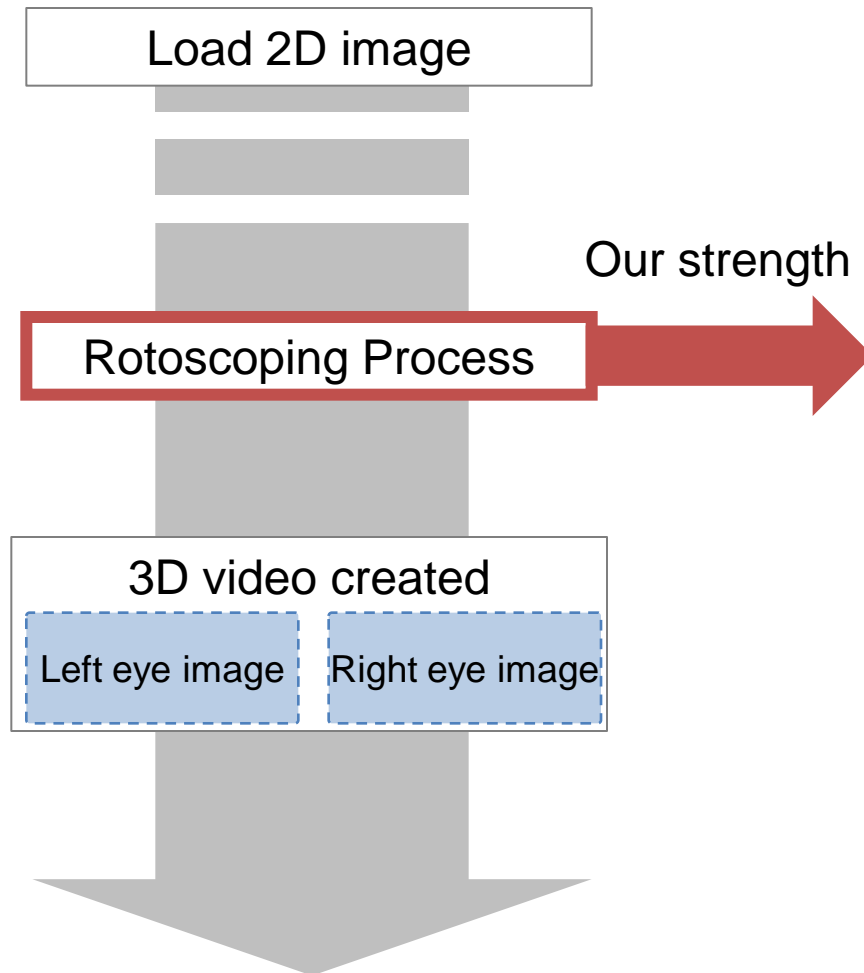
- | Consumer Games Business
 - n Profit growth expected due to rising demand from debugging services for software of such new consoles as 3DS and PlayStationVita
- | Digital Solutions Business
 - n Profit expected to surge with the expansion of the smart phone market
- | Amusement Business
 - n Will carry forward relationship of trust with clients developed in FY03/12

Other Businesses

- | 3D Content Production Business
 - n To focus on enhancing technical expertise base by training workers
 - n To advance business framework and promote marketing activities
- | Fuguai.com Business
 - n Achieve profitability by developing new business model

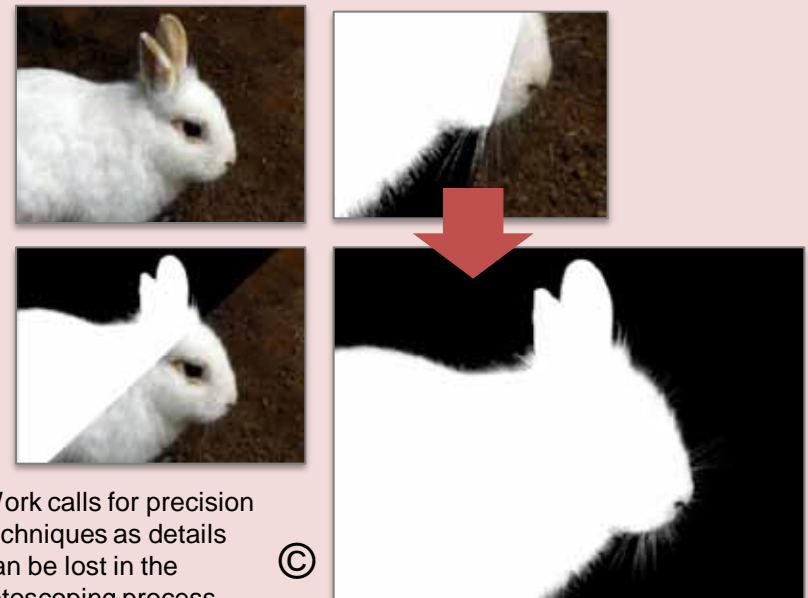
- | Focus on rotoscoping and establish a profit-making business platform
- | Attract new clients

2D-to-3D Conversion Workflow



Rotoscoping

- | Technique based on cutting out outline of the targeted 3D object from a 2D background image
- | Preciseness is essential so that intricate details can be readily recognized **by viewers**



Work calls for precision techniques as details can be lost in the rotoscoping process

©

[Reference] Fuguai.com Business

- | Create demand for added value
- | Develop a profit-making business model

May 2011: Redesigned website launched
 Oct. 2011: Recipient of Good Design Award



fuguai.comってどんなサイト?

「これって故障?」「不具合発生!」など、普段使用している製品の不具合情報やメーカー発表リコール情報を共有できるサイトです。
 あなたの不具合情報の投稿がメーカーの安全で高品質な製品づくりにも役立ちます。



n Since its launch in July 2008, some 20,000 reports of glitches from released software have been reported to the website

n In addition to posting information releases issued by developers, over 4,500 registered website members report on software glitches on a daily basis, providing an interactive, real-time forum for users

n Developing a new business model that not only utilizes developer releases, but also glitch information posed by registered users

n Established a special unit to supervise task of achieving website profitability in FY03/12

[Reference] Changes in Business Organization



< FY03/11 >

Q&A Testing Services

Consumer Games Business

Consumer game software
 Online games
 Consumer electronics
 SNS applications (online PC)
 Overseas operations support
 Web systems (business systems)

Mobile Solutions Business

Mobile applications
 Smart phone/device Applications
 SNS applications (mobile based)

Amusement Business

Pachinko parlor game
 Pachisuro slot machine

Consumer electronics sales to be transferred to Digital Solutions Business

The Mobile Solutions Business was renamed the Digital Solutions Business in order to better respond to the rapid transition to a multiplatform environment and develop solutions for it

< FY03/12 >

Q&A Testing Services

Consumer Games Business

Consumer game software
 Online games
 Overseas operations support

Digital Solutions Business

Mobile applications
 Smart phone/device applications
 SNS applications (mobile based)
 Overseas operations support (mobile based)
 Consumer electronics
 SNS applications (online PC)
 Web systems (business systems)

Amusement Business

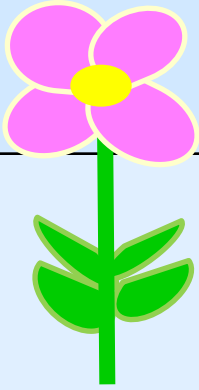
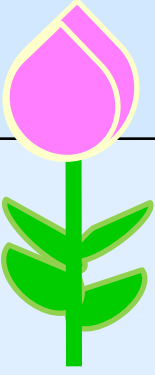
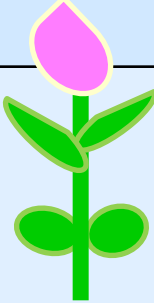
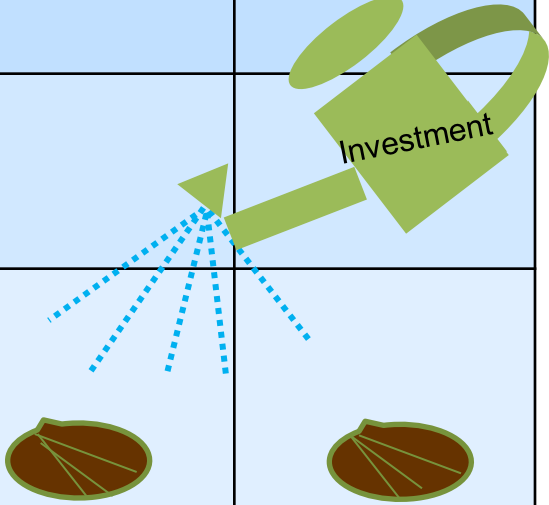



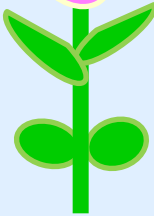


Pachinko parlor game
 Pachisuro slot machine

Other Businesses

Achieving profitability for Fuguai.com

New business ventures, including 3D content production

Market Maturity and Outlook by Business Unit

<p>Stage 3 (Expansion Phase) Raise outsourcing ratio to 80% or more; reinforce usage of other services</p>	<p>Q&A Testing: Consumer Games</p>	<p>Q&A Testing: Amusement</p>	<p>Q&A Testing: Digital Solutions</p>	<p>Fuguai.com</p>	<p>3D Content Production</p>
<p>Stage 2 (Growth Phase) Continue raising outsourcing ratio</p>					
<p>Stage 1 (Entry Phase) Promote trial use of Q&A testing services</p>					
<p>FY03/12 Forecast</p>	<ul style="list-style-type: none"> Recovery in number of titles to be released Reap reward from expanding online content, SNS popularity and multiplatform compatibility 	<ul style="list-style-type: none"> Expanded memory capacity of new systems will prove beneficial Greater demand to be created by product planning focused on high entertainment element 	<ul style="list-style-type: none"> Growing popularity of smart phones and expanding social media audience will prove a boon 	<ul style="list-style-type: none"> Continue developing user-supplied glitch information base and enhance website recognition 	<ul style="list-style-type: none"> Commence rotoscoping operations by tapping the some 4,000 registered testers who possess the skill sets for highly detailed work

Strengthening ties with existing clients

Acquire new clients

From “Made in Japan” to “Checked by Japan”



DIGITAL Hearts Co., Ltd.

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<http://www.digitalhearts.co.jp/en>



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From “Made in Japan” to “Checked by Japan”

Reference

- Corporate Profile and History
- Adopted Business Model
- Our Q&A Testing Services
- Three Keys Surrounding Our Company
- Our Unique Identity and Strengths, Part 1: High Entry Barriers
- Our Unique Identity and Strengths, Part 2: Nationwide Business Infrastructure



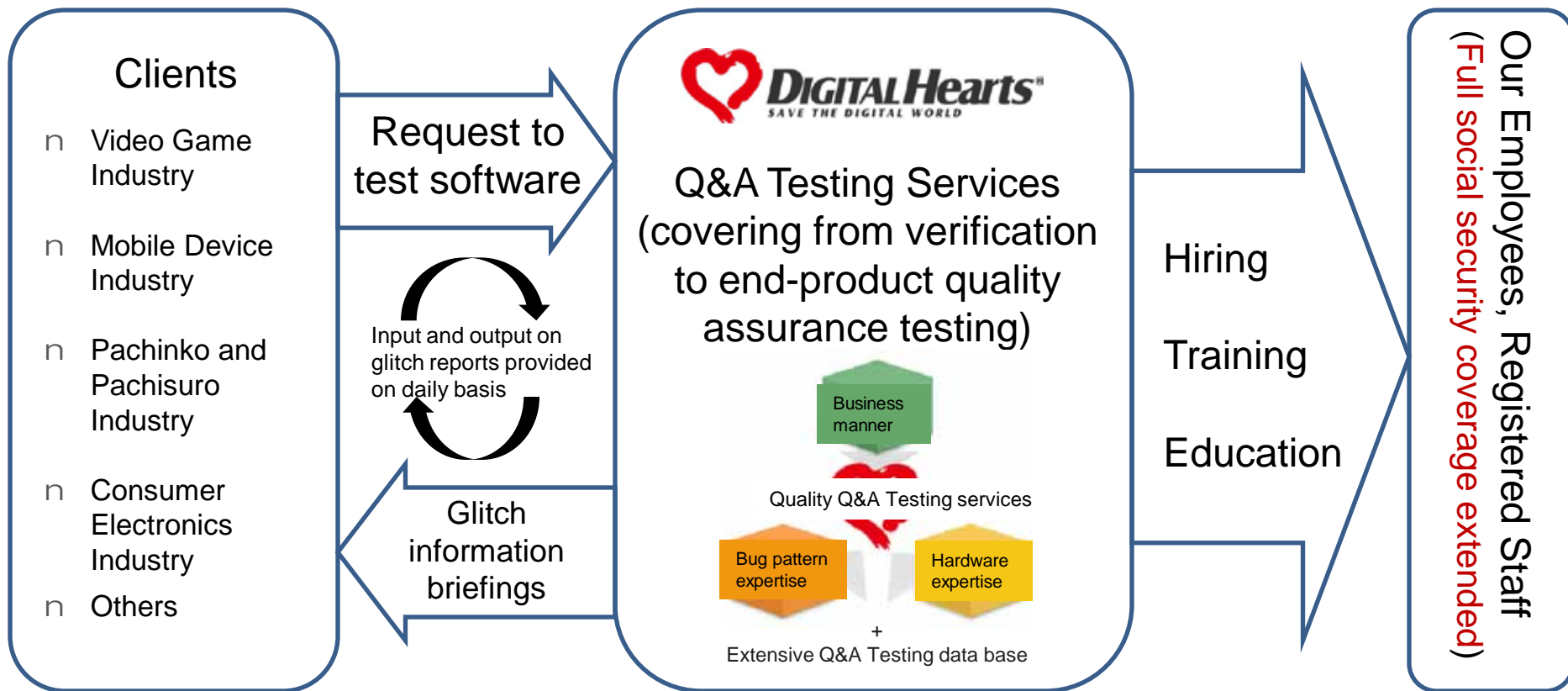
Corporate Profile and History



Registered Name	DIGITAL Hearts Co., Ltd.
Founded	April 19, 2001
Date Listed	February 1, 2008 (Moved from TSE Mothers to TSE 1 st Section in February 2011) Tokyo Stock Exchange The 1 st Section (Securities Code 3620)
Capitalization	¥272,860,000 (as of September 30, 2011)
Shares Issued	57,921 Shares (as of September 30, 2011)
Services	<ul style="list-style-type: none"> ▫ Comprehensive Quality Assurance Debugging Testing ▫ Onsite Testing ▫ Playability and Usability Testing ▫ Testing Staff Placement ▫ Production of 3D Content
Major Businesses	<ul style="list-style-type: none"> ▫ Q&A Testing Services for Consumer Games, Digital Solutions and Arcade Games ▫ Other Businesses, including Fuguai.com and 3D Content Production
Head Office	3-20-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo
Business Locations	Osaka, Nagoya, Sapporo, Yokohama, Sasazuka, Fukuoka, Los Angeles
Workforce	5,321 (includes temporary staff as of September 2011)
Major Clients (in alphabetical order)	CAPCOM CO., LTD. DP-CORPORATION Index Corporation Microsoft Development Co., Ltd. Nintendo Co., Ltd. SEGA Sony Computer Entertainment Inc.

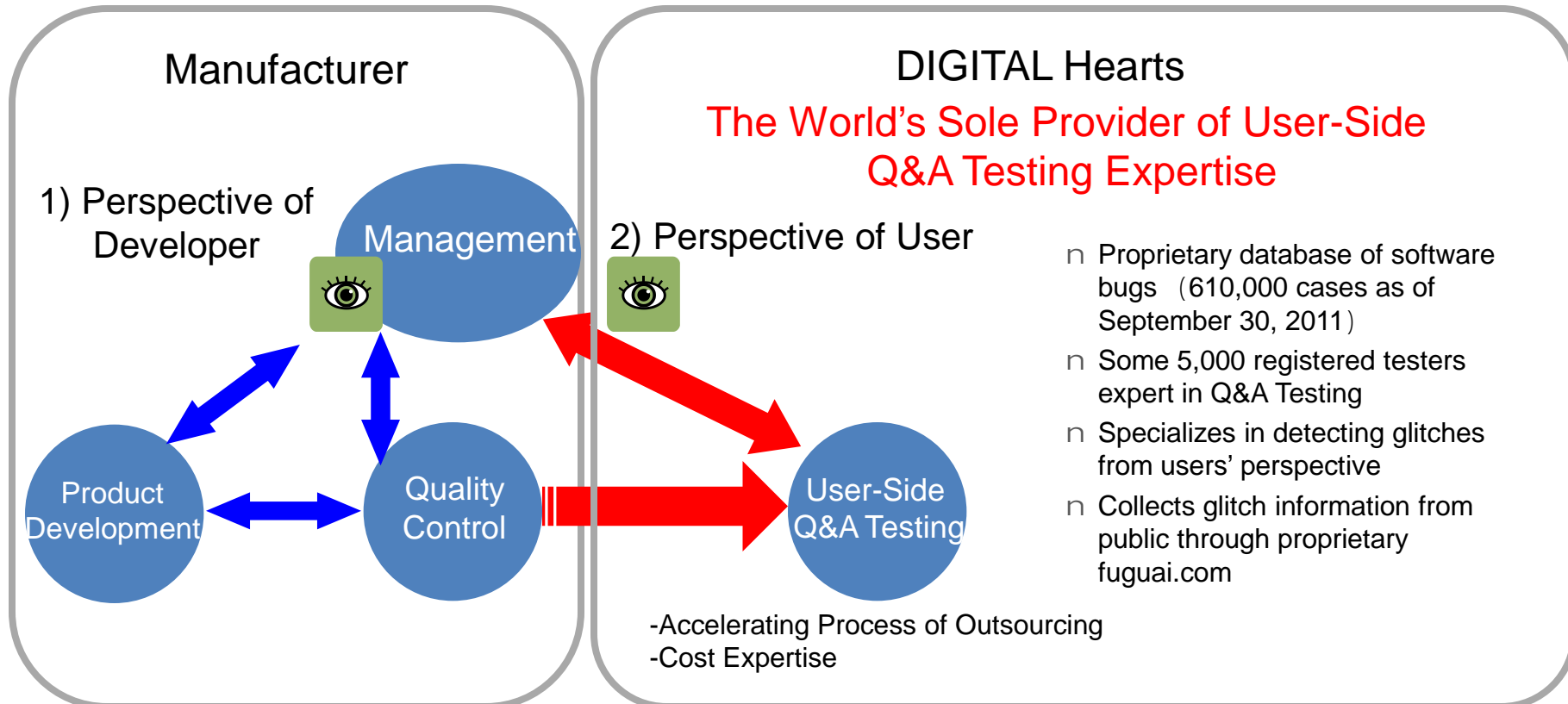
Month-Year	Corporate History
Apr-01	DIGITAL Hearts Ltd. founded in Sugunami Ward, Tokyo Began offering video game and pachinko machine testing services
Oct-01	Head office moved to Shibuya Ward, Tokyo
Sep-02	Obtained license to engage in general worker placement business
Jan-03	Began offering testing services for pachisuro slot machines
Sep-03	Began offering testing services for mobile phone applications
Oct-03	Incorporated as DIGITAL Hearts Co., Ltd.
Aug-04	Became member of Computer Entertainment Suppliers Association (CESA)
Apr-05	Opened Osaka Office in Osaka prefecture
Aug-05	Opened Nagoya Office in Aichi prefecture
Jul-07	Opened Yokohama Office (now the Yokohama Laboratory, or "Lab.") in Kanagawa prefecture
Sep-07	Became the first Japanese test house approved by Microsoft for its Xbox video game system (Authorized Xbox Test Program)
Oct-07	Achieve the "PrivacyMark" certification from the Japan Information Processing Development Corporation (now renamed the Japan Institute for Promotion of Digital Economy and Community) Certification No.: A822640 (01)
Feb-08	Listed on TSE Mothers (Securities Code: 3620)
May-08	Opened Sapporo Office (now the Sapporo Lab.) in Hokkaido prefecture
Apr-09	Opened Fukuoka Lab. in Fukuoka prefecture
Sep-09	Opened Los Angeles Office in California, USA
May-10	Relocated head office to Shinjuku Ward Former head office converted to Sasazuka Lab.
Feb-11	Opened Ueno Office Listed on TSE 1st Section
Mar-11	Opened Kyoto Lab. in Kyoto prefecture
Jul-11	Established DIGITAL Hearts Korea Co., Ltd.
Oct-11	Established DIGITAL Hearts USA Inc.

Objective: To provide services to verify and report glitches in pre-release software from the user's point of view (Q&A Testing Services)



ü Our Q&A Testing Services bridge the perception gap between users and developers

- n By testing software beyond the parameters set by developers for intended use, we identify flaws or glitches that users can find disconcerting, providing a user's perspective of the product
- n Enables companies to compare and verify glitches from two perspectives, allowing them to set up a framework with which to determine the severity of and remedial measures for the identified issues on a concurrent basis



ü Importance of Q&A Testing

- n As products become increasingly reliant on computerized controls, demand for software debugging services to prevent software failures grows equally large

ü Importance of Outsourcing

- n As earnings deteriorate and R&D costs escalate in this economic downturn, companies are now looking more than ever to convert their fixed costs (in-house testing personnel) to variable costs
- n By outsourcing testing needs to specialized companies, clients are able to dramatically improve verification of glitches

ü Importance of Shifting from “Made in Japan” to “Checked by Japan”

- n By capitalizing on the Japanese skill sets in mastering highly detailed work, we can provide the world with a unique business developed in Japan

ü Independence

Unencumbered by outside capital, we can service any company

ü Equipment

Debugging games requires special testing equipment that are licensed to us

ü Credibility

Our credibility is bolstered by being a listed company, especially when handling pre-release products

ü Security

Our security regime has **never been breached**, both on a **hardware basis** (fingerprint authentication at entrance and egress points, disposal of documents by specialized companies, and other steps) and **software basis** (personal references required for all 5,136 of our registered testers, for example), due to our robust security measures.

üA Business Network Spanning 10 Locations

- n September 1, 2009: Opened Los Angeles office
- n May 6, 2010: Relocated head office, established Sasazuka Lab.
- n February 15, 2011: Established Ueno Lab.
- n March 1, 2011: Established Kyoto Lab.
- n Jul. 2011: DIGITAL Hearts Korea Co., Ltd. established
- n Oct. 2011: DIGITAL Hearts USA Inc. established

