

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

Business Results

for the Fiscal Year Ended March 31, 2011

DIGITAL Hearts Co., Ltd.

Eiichi Miyazawa, President & CEO



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

Contents

- | | |
|----------------------------------|-----|
| 1. Business Results for FY03/11 | P 3 |
| 2. Earnings Forecast for FY03/12 | P14 |
| 3. FY03/12: Future Initiatives | P17 |

- 4/13/10 Mobile content services for Android phones launched
- 5/7/10 Glitch cases registered on fuguai.com surpass 10,000-mark
- 8/26/10 Exclusive test booth set up for Xbox 360 Kinect
- 9/17/10 Localized support services for Yahoo! Mobage and Mobage town launched
- 11/12/10 Entered into business alliance with Active Gaming Media Co., Ltd.
- 1/14/11 Entered into business alliance with E-Guardian Co., Ltd.
- 1/28/11 3D content production started
- 2/22/11 Selected as alliance service vendor for GREE games

Business Results Summary



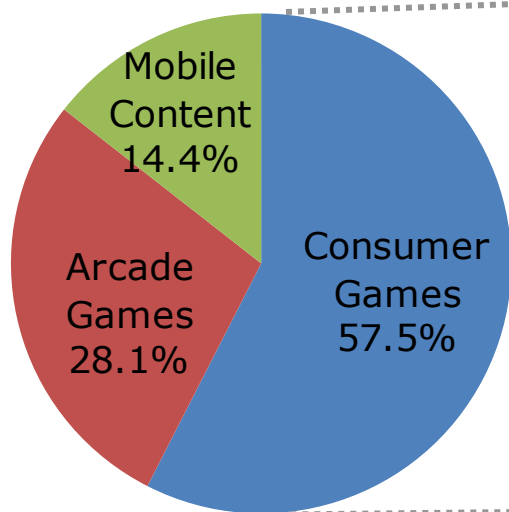
(¥ Million)	FY03/10 Actual Results	FY03/11 Initial Forecast	FY03/11 Actual Results	Year-on-Year Change
Net Sales	3,416	4,068	3,957	115.8%
Operating Income	521	620	528	101.3%
Ordinary Income	526	618	495	94.1%
Net Income	306	330	278	91.0%
Ordinary Income Margin	15.4%	15.2%	12.5%	△2.9 points

- Net Sales: Reached 115.8% yoy growth
- Operating Income: Due to higher labor and new business preparation costs, only generated 101.3% yoy growth
- Ordinary Income: Market fluctuations led to 94.1% yoy decline

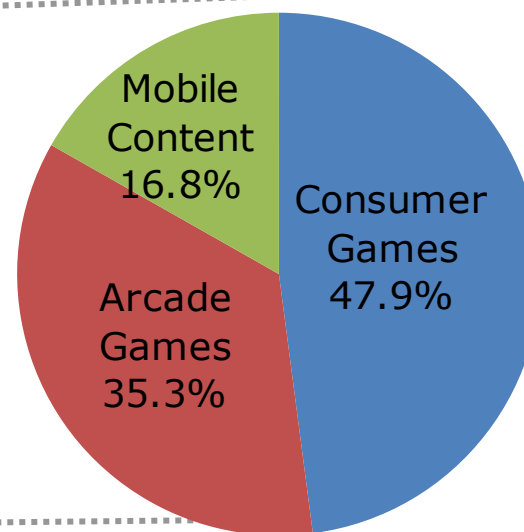
Ratio of Net Sales by Business Unit

(¥ Million)	FY03/10 Actual Results	FY03/11 Actual Results	Year-on-Year Change
Consumer Games Unit	1,964	1,896	96.5%
Mobile Content Unit	493	664	134.7%
Arcade Games Unit	958	1,396	145.7%

FY03/10



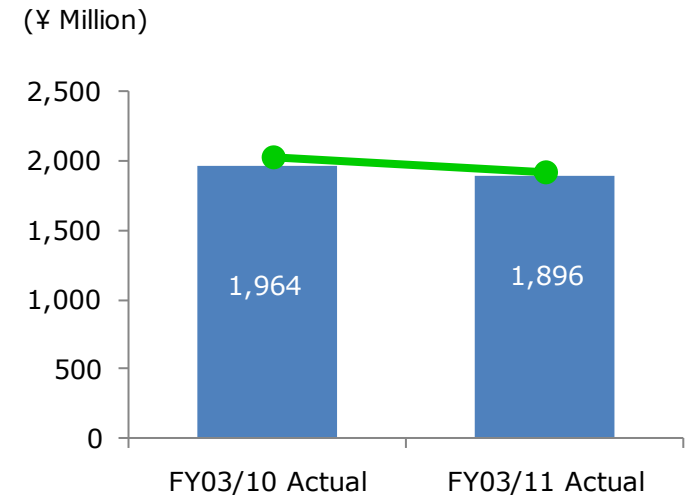
FY03/11



Full-Year Results: Consumer Games Unit



(¥ Million)	FY03/10 Actual	FY03/11 Actual	Year-on-Year Change
Net Sales	1,964	1,896	96.5%

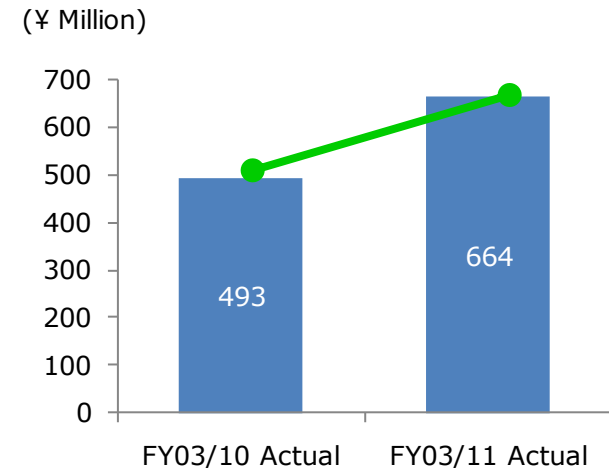


- Market Environment
 - (+) Makers are increasingly relying on global initiatives as development costs soar
 - (+) Content for the SNS market has expanded dramatically in size with the inclusion of older, popular home video game titles
 - (-) The market for game software in fiscal 2011 has contracted significantly, falling by 90.7%
 - (-) Game developers have had to alter their development timetables to meet the rollout of new game consoles
- Digital Hearts' Initiatives
 - Established exclusive test booth for newly introduced Kinect unit
 - Alliance with Active Gaming Media→Reinforces localization and expands channels to overseas clients
 - Alliance with E-Guardian→Strengthened much needed operating support services for SAP
- Results Summary
 - Declined by 96.5% on yoy basis due to fewer number of titles under development for market

Full-Year Results: Mobile Content Unit



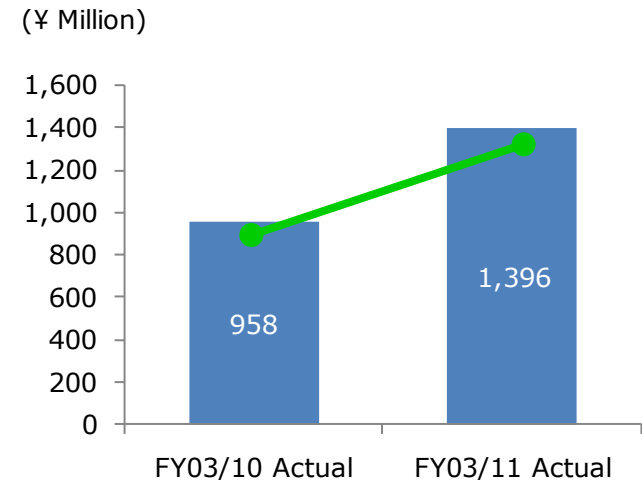
(¥ Million)	FY03/10 Actual	FY03/11 Actual	Year-on-Year Change
Net Sales	493	664	134.7%



- **Market Environment**
 - (+) The market for smart phones grew as mobile phone carriers began selling Android-based smart phones and tablets
 - (+) With Android emerging as a global OS standard, it has helped to accelerate the globalization of services and applications
 - (+) With the increasingly diversification of mobile content and terminals, the need to service multiple platforms has accelerated
 - (–) The number of casual applications is rising and that, in turn, has intensified competition among content developers and adversely impacted their profit structure
- **Digital Hearts' Initiatives**
 - Launched debugging service for Android mobile phones from April
 - Launched localized services for Yahoo! Mobage and Mobage town
 - Selected as alliance service vendor for GREE
- **Results Summary**
 - Achieved 134.7% yoy growth driven by demand for applications for smart phones and SNS

Full-Year Results: Arcade Games Unit

(¥ Million)	FY03/10 Actual	FY03/11 Actual	Year-on-Year Change
Net Sales	958	1,396	145.7%



- Market Environment

- (+) The trend is for makers and developers to develop games with broader entertainment value
- (+) Arcade games relying on increasingly complex LCD and lighting to enhance entertainment element

- Digital Hearts' Initiatives

- Focused on marketing of solutions for upstream development processes
- Upgrading service quality by focusing on tester training in order to develop strong ties to clients

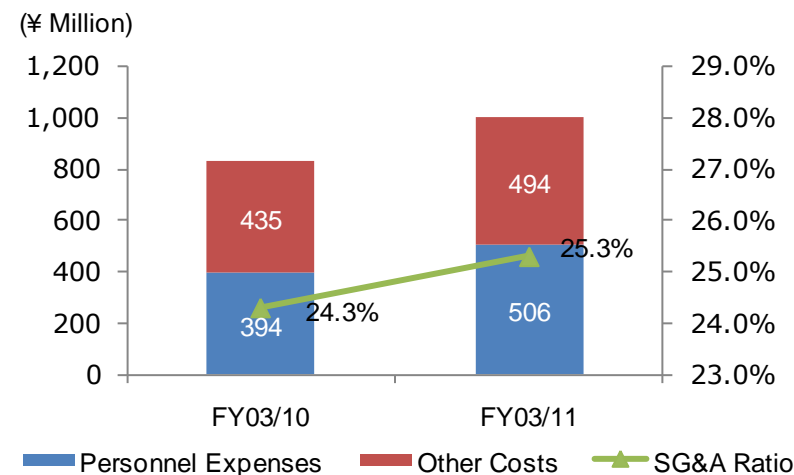
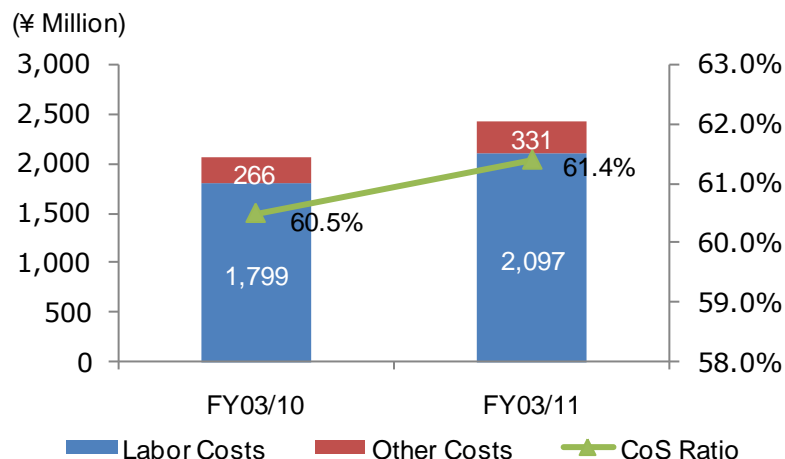
- Results Summary

- Achieved dramatic yoy growth of 145.7% due to orders surge for widely acknowledged debugging services quality for highly entertaining content

Cost Analysis

(¥ Million)	FY03/10 Actual	FY03/11 Actual	Year-on-Year Change
Cost of Sales	2,065	2,428	17.6%
Labor Costs	1,799	2,097	16.6%
CoS Ratio	60.5%	61.4%	+0.9 points

(¥ Million)	FY03/10 Actual	FY03/11 Actual	Year-on-Year Change
SG&A Expenses	829	1,000	20.6%
Personnel Expenses	394	506	28.5%
SG&A Ratio	24.3%	25.3%	+1.0 points



- CoS ratio rose 0.9 points due to increase in hourly remuneration of testers
- SG&A ratio rose 1.0 points due to increase in personnel, primarily managers, in the previous term, as well as an increase in rent due to relocation of head office

Balance Sheets

(¥ Million)	FY03/10	FY03/11	YoY chg Amount
Current assets	1,350	1,668	+318
Cash and deposits	868	1,054	+186
Notes and accounts receivable - trade	431	545	+113
Noncurrent assets	599	674	+74
Property, plant and equipment	94	138	+43
Intangible assets	57	58	+1
Investments and assets	448	477	+29
Assets	1,949	2,343	+393

(¥ Million)	FY03/10	FY03/11	YoY chg Amount
Current liabilities	351	484	+133
Noncurrent liabilities	-	10	+10
Total liabilities	351	494	+143
Shareholders' equity	1,599	1,849	+250
Capital stock	272	272	+0
Capital surplus	232	232	+0
Retained earnings	1,093	1,343	+249
Total net assets	1,598	1,848	+249
Total liabilities and net assets	1,949	2,343	+393

- Current assets: primarily an increase in cash, deposits and trade receivables
- Noncurrent assets: primarily an increase in property, plant and equipment due to head office relocation and laboratory relocation, the latter at lessor's convenience
- Current debt: primarily an increase in accrued charge and income tax payable
- **Current ratio: 344.6%; net worth ratio: 78.9%**

Statement of Cash Flows

(¥ Million)	FY03/10	FY03/11	YoY chg Amount
Cash flows from operating activities	124	307	+183
(※ Cash flows before income taxes paid)	486	530	+44
Cash flow from investing activities	△140	△92	+47
Cash flows from financing activities	△28	△28	△0
Net increase (decrease) in cash and cash equivalent	△44	186	+230
Cash and cash equivalents, beginning of term	912	868	△44
Cash and cash equivalents, end of term	868	1,054	+186

- Operating activities: primarily a decrease in income tax payment
- Investing activities: acquired noncurrent assets due to relocation of head office in response to growing business size, as well as move of laboratory at lessor's request
- Financing activities: primarily payout of dividends

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

✓ No. of Clients: 795 Companies
(as of March 2011)

636 companies
as of March 2010

25.0% 

✓ No. of Debugging Cases: 560,000
(as of March 2011)

460,000 cases
as of March 2010

21.7% 

Recruitment, Training and Placement

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

✓ Registered testers: 4,588
(as of March 2011)

3,542 testers
as of March 2010

29.5% 

✓ Title Leaders: 176
(as of March 2011)

167 leaders
as of March 2010

5.4% 

✓ Fulltime Workers: 151
(as of March 2011)

153 workers
as of March 2010

1.3% 

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

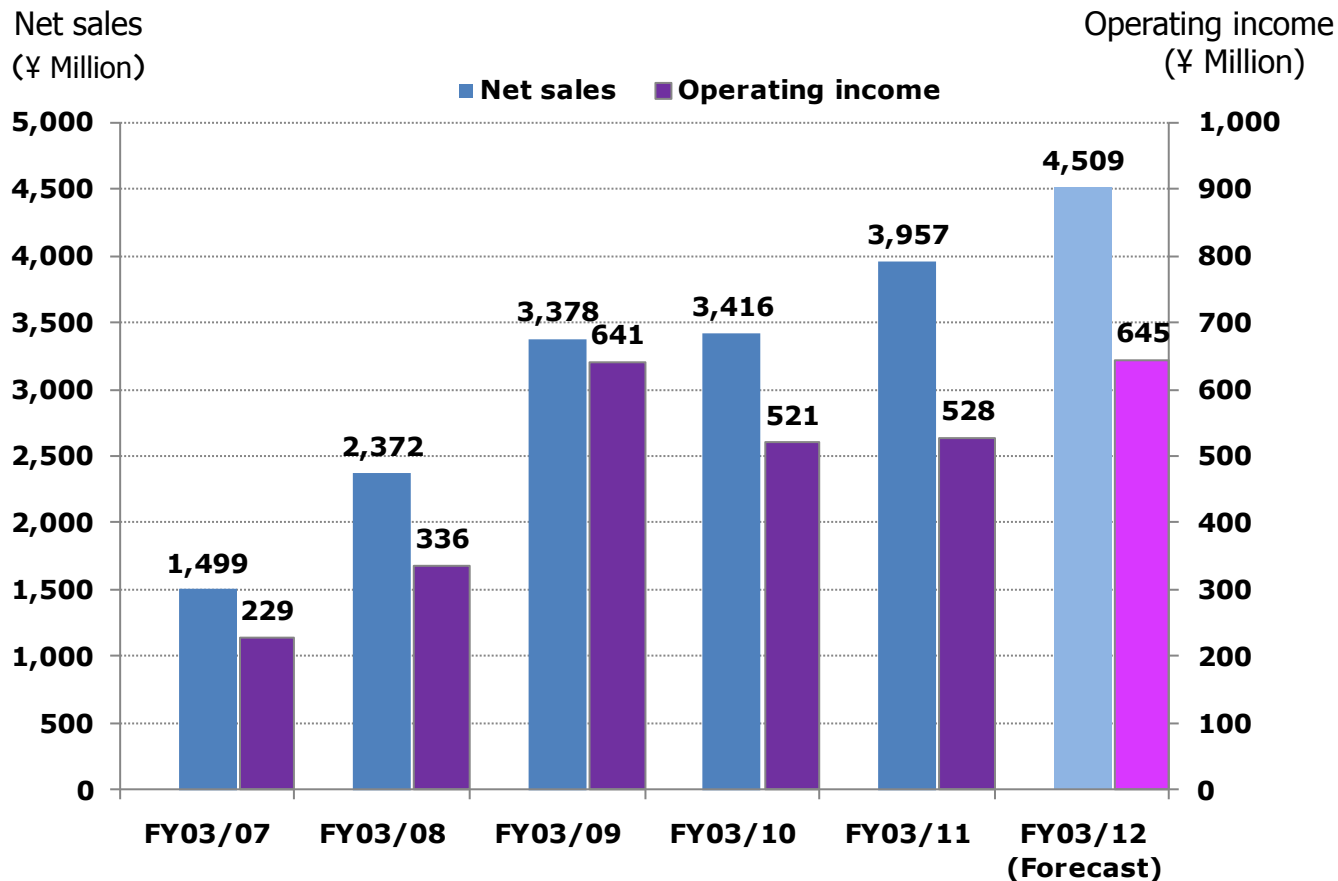
Contents

1. Business Results for FY03/11 P 3
2. Earnings Forecast for FY03/12 P14
3. FY03/12: Future Initiatives P17

FY03/12 Forecast

Net Sales: ¥4,509 Million (YoY increase of 13.9%)

Operating Income: ¥645 Million (YoY increase of 22.3%)



(¥ Million)	FY03/11 Actual	FY03/12 Forecast	YoY change
Net sales	3,957	4,509	113.9%
Operating income	528	645	122.3%
Ordinary income	495	646	130.6%
Net income	278	355	127.6%
Ordinary income Margin	12.5%	14.3%	+1.8 points

- Net Sales: YoY growth of 13.9%
- Ordinary Income: Ordinary income rate to improve by 1.8 points due to lower ratio of fixed costs achieved through net sales growth

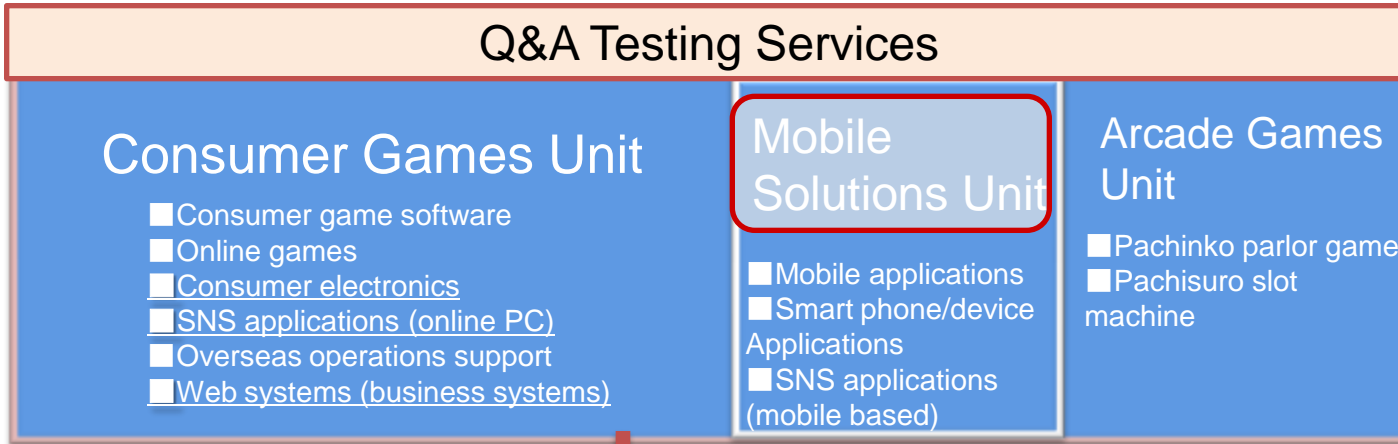
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Contents

- | | |
|---------------------------------------|------------|
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Changes in Business Organization

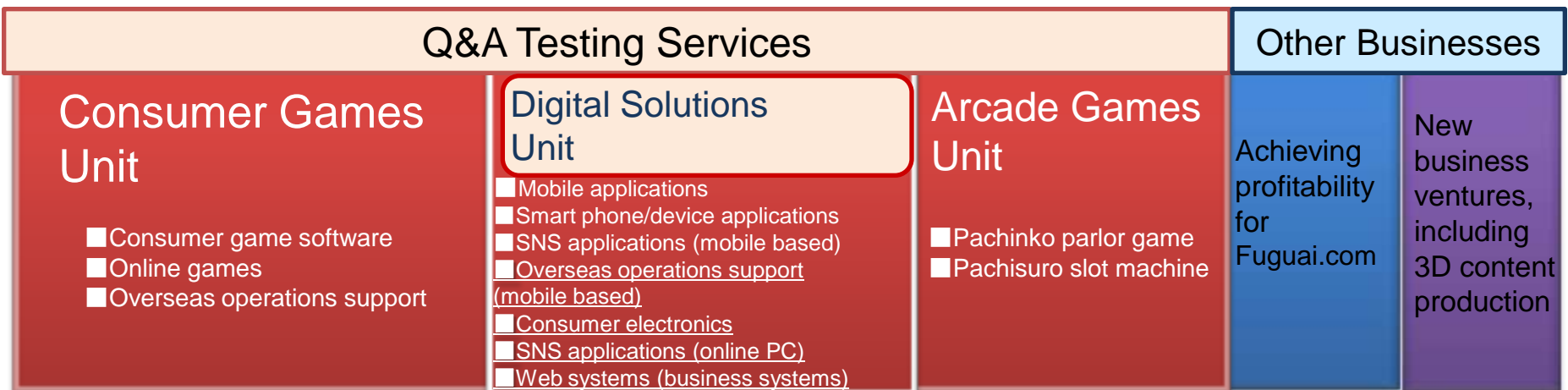
<FY03/11>



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

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

- Consumer Games Unit
 - Profit growth expected due to rising demand from debugging services for software of such new consoles as 3DS and NGP
- Digital Solutions Unit
 - Profit expected to surge with the expansion of the smart phone market
- Arcade Games Unit
 - Profits will remain robust; will carry forward relationship of trust with clients developed in FY03/11

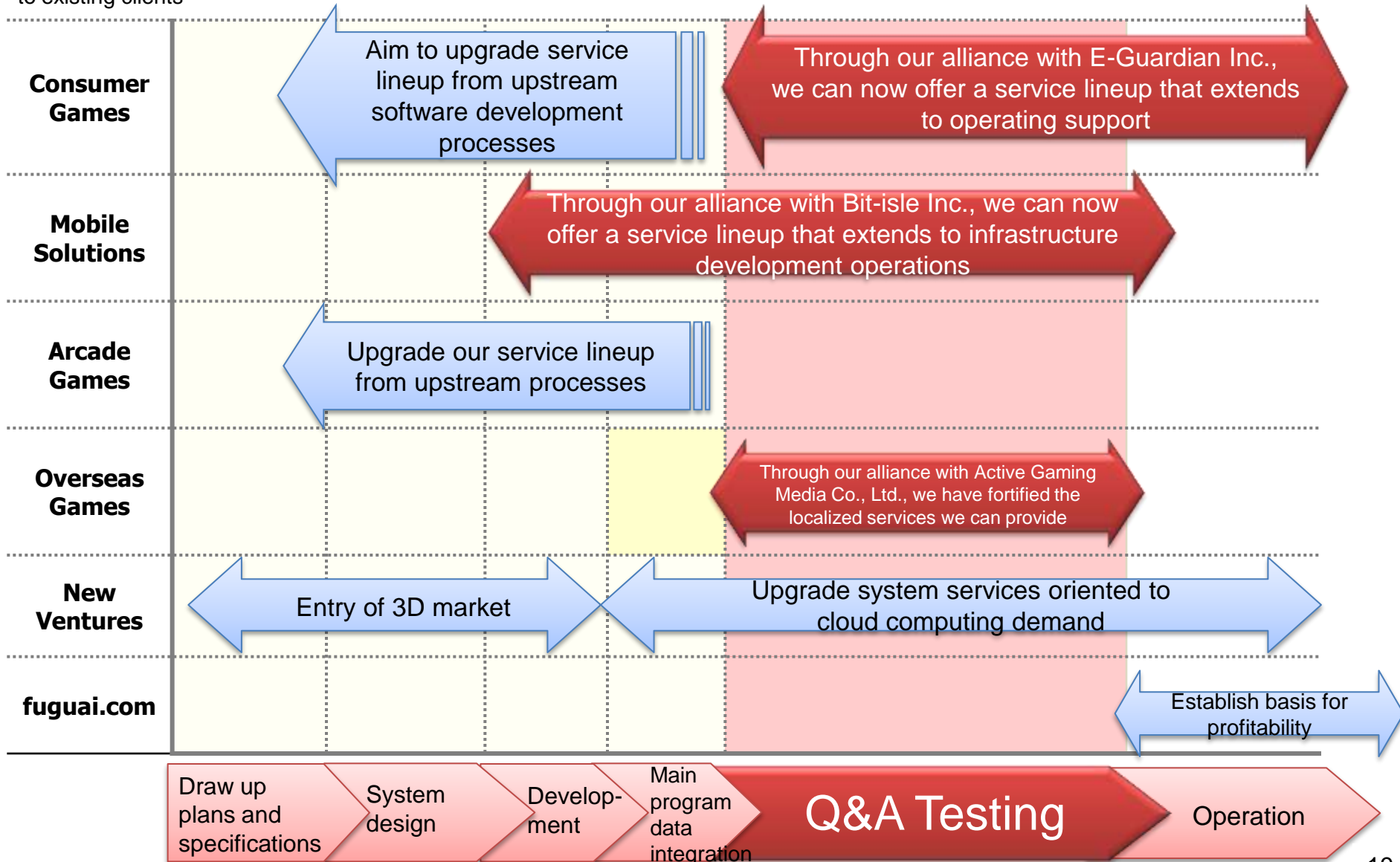
Other Businesses

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

Future Initiatives: Upgrading Service Lineup through Alliances



The Company's goal is to upgrade its service lineup and, by collaborating with its alliance partners, acquire new clients and broaden channels to existing clients



~ Delivering Japanese Quality to the World ~

Tested from user's perspective
(unintended usage exceeding
projected operating parameters)

Tested from developer's
perspective (operation and
processing within projected
operating parameters)

Active
Q&A Testing



Passive
Q&A Testing



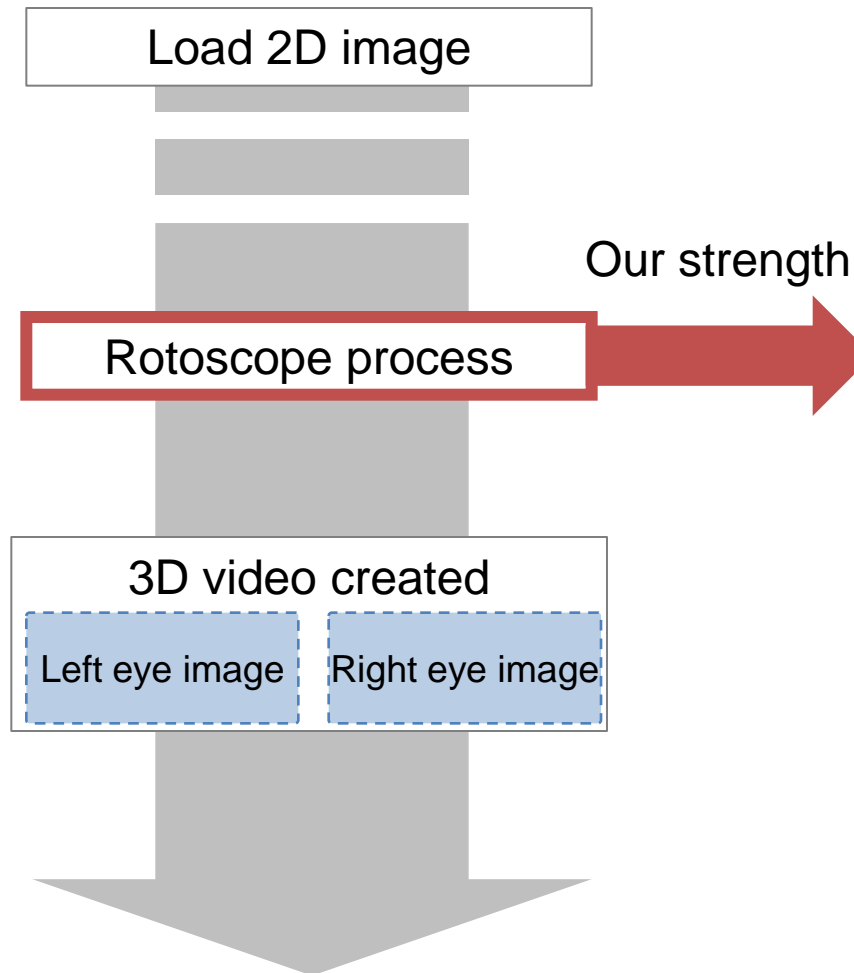
Creating **added value** through
unique Japanese sensibilities

Enhance **cost competitiveness**
through business regime reviews

Establish service regime that responds to
global demand for Q&A Testing Services

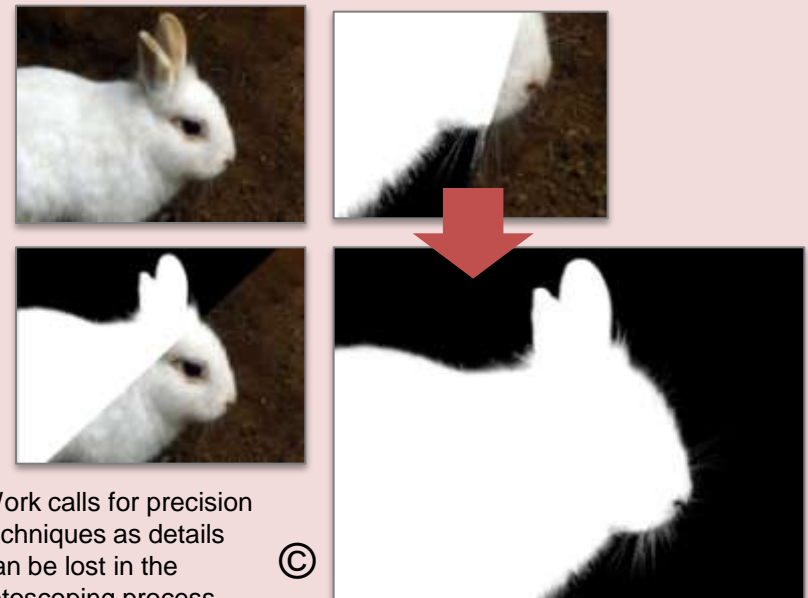
- Focus on rotoscoping and establish a profit-making business platform
- Attract new clients

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**






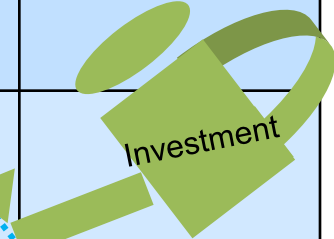
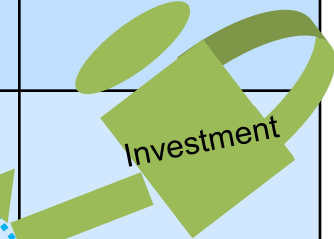


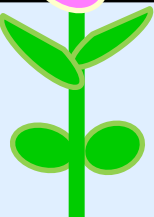


- Create demand for added value
- Develop a profit-making business model

May 9, 2011:
Redesigned website launched



- Since its launch in July 2008, some 20,000 reports of glitches from released software have been reported to the website
- 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
- Developing a new business model that not only utilizes developer releases, but also glitch information posed by registered users
- Established a special unit to supervise task of achieving website profitability in FY03/12

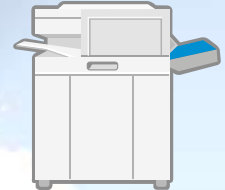
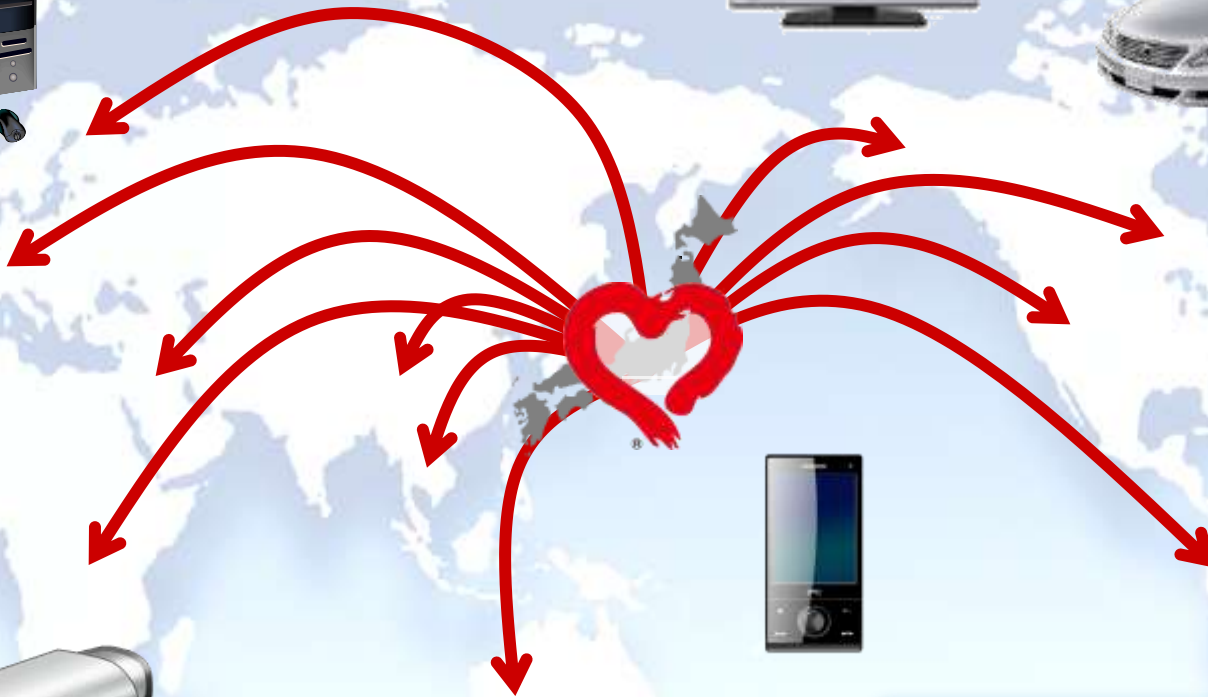
Market Maturity and Outlook by BusinessUnit

<p>Stage 3 (Expansion Phase) Raise outsourcing ratio to 80% or more; reinforce usage of other services</p>	<p>Q&A Testing: Consumer Games Unit</p>	<p>Q&A Testing: Arcade Games Unit</p>	<p>Q&A Testing: Digital Solutions Unit</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>Forecast for FY03/12</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"> ● will continue robust performance ● 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

To New Fields



To New Regions

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



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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



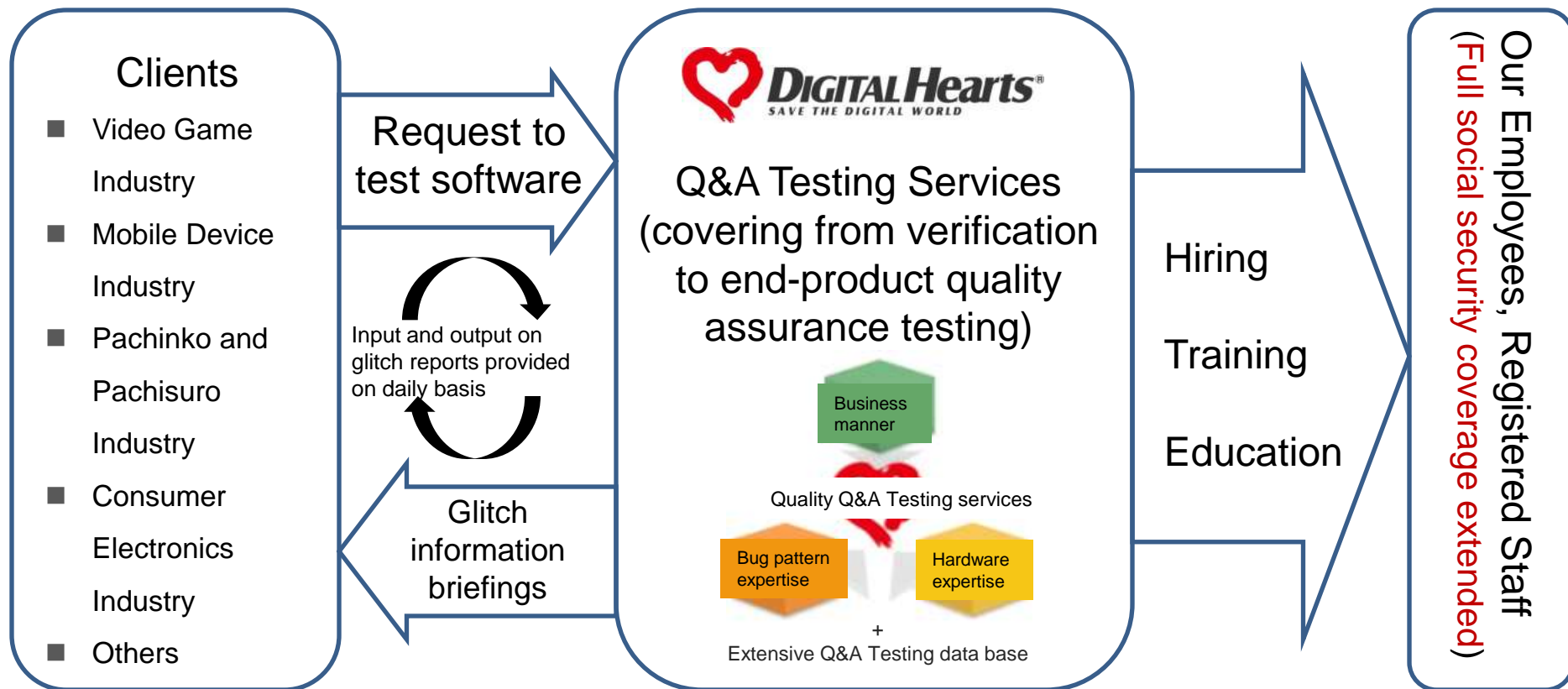
Corporate Profile and History



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	¥272,820,000 (as of March 31, 2011)
Shares Issued	57,885 Shares (as of March 31, 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	4,768 (includes temporary staff as of March 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.

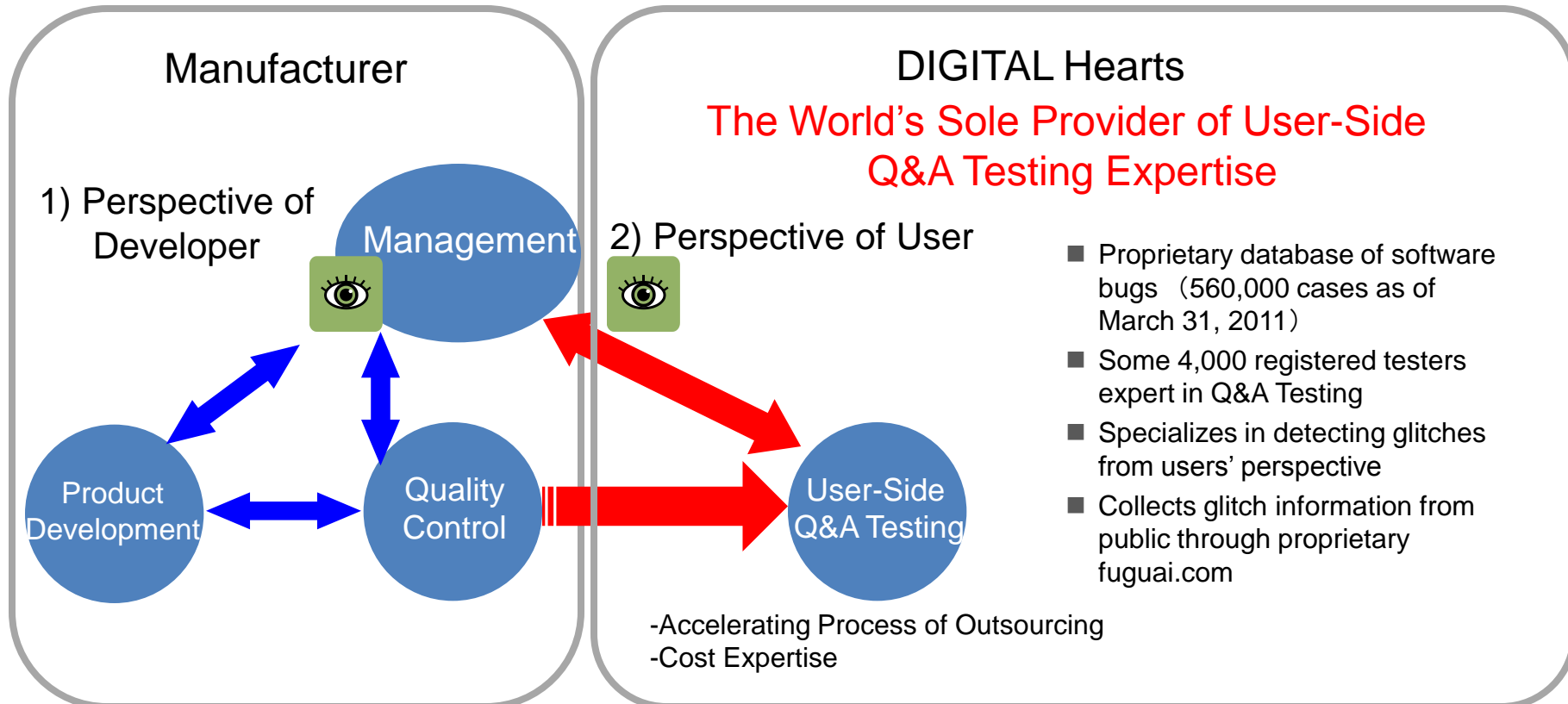
Month-Year	Corporate History
Apr-01	DIGITAL Hearts Ltd. founded in Suginami Ward, Tokyo Began offering video game and pachinko machine testing services
Oct-01	Head office moved to Shibuya Ward, Tokyo
Sep-02	Obtained license to engage in general worker placement business
Jan-03	Began offering testing 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

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



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

- 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
- 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



✓ Importance of Q&A Testing

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

✓ Importance of Outsourcing

- 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
- By outsourcing testing needs to specialized companies, clients are able to dramatically improve verification of glitches

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

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

✓ Independence

Unencumbered by outside capital, we can service any company

✓ Equipment

Debugging games requires special testing equipment that are licensed to us

✓ Credibility

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

✓ 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 4,588 of our registered testers, for example), due to our robust security measures.

✓ A Business Network Spanning 10 Locations

- September 1, 2009: Opened Los Angeles Office
- May 6, 2010: Relocated head office, established Sasazuka Lab.
- February 15, 2011: Established Ueno Lab.
- March 1, 2011: Established Kyoto Lab.



▲ External appearance at Fukuoka Lab.

