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DIGITAL Hearts Co., Ltd.
Business Results Summary for the First Half of Fiscal Year Ending March 2012

On November 4, 2011, DIGITAL Hearts Co., Ltd. (hereinafter DIGITAL Hearts or the Company) announced its financial results for the first half of the fiscal year ending March 2012. The following is a summary of a Trias Corporation interview with DIGITAL Hearts board of director Kenichiro Kawaguchi, held after the announcement, on its improving business performance and other issues.

Summary of 1H FY3/12 Consolidated Business Results

First, because DIGITAL Hearts began reporting its consolidated business results from this fiscal year, it should be noted that year-on-year comparisons in this memo will be made between 1H FY3/12 Group figures and parent-only figures for FY3/11. As seen in Table 1, the Company's earnings fared well across the board. In particular, it reported a significant gain in operating income as an increase in net sales offset fixed costs, with the profit margin rising from 11.4% for 1H in FY3/11 to 17.7% for 1H in FY3/12.

●【Table 1】 Summary of 1H FY3/12 Business Results

(¥ million)	1H FY3/11 (Nonconsolidated)		1H FY3/12 (Nonconsolidated)			YoY Change		1H FY3/12 (Consolidated)		
	Actual	Weighting	Forecast	Actual	Weighting	Amount	Ratio	Forecast	Actual	Weighting
Net Sales	1,881	100.0%	2,618	2,618	100.0%	737	139.2%	2,618	2,618	100.0%
Consumer Games	816	43.4%	--	1,360	51.9%	--	--	--	--	--
Digital Solutions	387	20.6%	--	544	20.8%	--	--	--	--	--
Arcade Games	677	36.0%	--	712	27.2%	--	--	--	--	--
Cost of Sales	1,148	61.0%	--	1,625	62.1%	477	141.6%	--	--	--
Labor Cost	997	53.0%	--	1,369	52.3%	372	137.3%	--	--	--
SG&A Expenses	518	27.5%	--	516	19.7%	(2)	99.6%	--	--	--
Personnel Expenses	251	13.3%	--	258	9.9%	7	102.8%	--	--	--
Operating Income	214	11.4%	475	475	18.1%	261	221.7%	464	464	17.7%
Ordinary Income	213	11.3%	473	474	18.1%	261	221.6%	462	463	17.7%
Net Income	115	6.1%	255	255	9.7%	140	221.4%	244	244	9.3%

Note: All tables prepared by Trias Corp. with the data disclosed by DIGITAL Hearts Co., Ltd.

1H FY3/12 forecast announced on October 13, 2011

Breaking the results down by business segment, all three of DIGITAL Hearts' main businesses—Consumer Games, Digital Solutions and Arcade Games—recorded y/y net sales growth in QA testing operations. Notably, net sales of the Consumer Games Business accounted for 51.9% of total net sales, climbing from 43.4% the year before. The increase is partly the result of the consumer game market bottoming out after contracting over the past three years; another major factor was due to the growing reliance of game makers on outsourced QA testing services. One of the benefits of this

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outsourcing trend is that DIGITAL Hearts did not have to lay off employees even during the market contraction, enabling it to strategically build up its QA testing expertise. The Company also stepped up an aggressive marketing courtship of game makers, which helped contribute to the overall net sales gain.

FY3/12 Consolidated Financial Forecast

At its business results meeting held on November 4, DIGITAL Hearts announced an upward revision to its full-year financial outlook for FY3/12. The Company now projects operating income ¥721 million, up from the original forecast of ¥645 million, on net sales of ¥5,057 million, also revised upward from the ¥4,509 million projection. The primary driver of the upward revision is the robust performance of the Company's core QA testing operations. In the Consumer Games segment, the number of QA testing projects is expected to increase in line with an increase in the total number of software requiring the debugging service as game makers scramble to develop titles for the Nintendo 3DS, PlayStation®Vita and other new game consoles. In the Digital Solutions segment, QA testing projects for social network games are also projected to grow as a result of a booming smartphone market. Meanwhile, testing service demand is expected to level off for the Arcade Games segment, which served as a growth driver until the previous fiscal year but has seen business slow down from the fallout of the March 11 earthquake and tsunami. As for operating income, the Company expects the income to grow in line with higher net sales despite incurring costs stemming from frontloaded investment allocated for new business ventures and offshore operations.

●【Table 2】 FY3/12 Consolidated Earnings Forecasts

(¥ million)	FY3/11 (Nonconsolidated)		FY3/12 Forecast (as of Aug. 26, 2011)		FY3/12 Forecast (as of Nov. 4, 2011)			YoY Change	
	Actual	Weighting	Full Year (Non- consolidated)	Full Year (Consolidated)	Full Year (Non- consolidated)	Full Year (Consolidated)	Weighting	Amount	Ratio
Net Sales	3,957	100.0%	4,509	4,509	5,029	5,057	100.0%	1,072	127.1%
Operating Income	528	13.3%	645	645	772	721	15.4%	244	146.2%
Ordinary Income	495	12.5%	646	646	751	701	14.9%	256	151.7%
Net Income	278	7.0%	355	355	407	357	8.1%	129	146.4%

Initiatives for Future Growth

Organizational Restructuring

In April 2011, DIGITAL Hearts reorganized its corporate structure, creating marketing/sales units and QA testing units in each business segment as opposed to the past, when the two units were vertically

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divided and centrally administrated. The move now provides a framework for each segment to develop solutions tailored to the needs and interests of their respective clients. As a result, the Company can extract more productive use of the expertise and knowledge base that has been built up over the years in each business segment. For example, an employee possessing the know-how and experience for a specific game series can now be assigned to work on titles related to that series on a long-term basis. The upshot: the Company is able to provide higher quality services based on the need of individual clients.

3D Content Production, Fuguai.com

Projecting that the 3D market has great growth potential, DIGITAL Hearts is bolstering its 3D content production operations both at home and abroad by focusing on technologies to convert 2D images into 3D images. The Company is placing particular emphasis on strengthening its rotoscoping techniques, a handcrafted matting process that can convert an object into a 3D image by cutting it out from a 2D background image. It has begun to send employees to Thailand to train in rotoscoping, while stepping up efforts to expand its operations in Korea, a leader in 3D conversion technologies. Such moves are already paying off, as DIGITAL Hearts 3D content production has been used in a number of films and videos, including “Inazuma Eleven Go: Kyukyoku no Kizuna Gurifon,” an animated feature released in late-2011.


In addition, the Company launched Fuguai.com in 2008, a portal website that collects and collates information on product defects from registered members on every product sold in Japan. The site, which is currently comprised of 4,500 members who provide user feedback on products, aims to assist Japanese manufacturers in ensuring the safety of their products and enhance their brand strength. DIGITAL Hearts has established a dedicated business unit to operate the website and seeks to achieve profitability within the fiscal year.

Overseas Strategies

DIGITAL Hearts is accelerating moves to exploit foreign markets with high growth potential. As a first step, it entered into a collaborative venture with Osaka-based Active Gaming Media Co., Ltd. (AGM), which has a proven track record in the European game market, in November 2010. With an established corps of foreign staff, AGM provides translation services for Japanese consumer game makers, in addition to research and localization services to ensure that Japanese games conform to social norms and worldviews, as well as levels of difficulty, embraced in Europe, the United States and other countries.

In July 2011, DIGITAL Hearts established a subsidiary in Korea to provide QA testing services and produce 3D content. With its Korean operations ramping up from Q3 FY3/12, the Company expects

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the subsidiary to begin contributing to earnings from fiscal 2013 and beyond. It also entered into a business alliance with Digicrafts Co., a digital image production firm in Thailand, in July 2011 as well. The goal is to provide cost competitive testing services and produce 3D content to meet growing global demand. The Company projects the alliance will bear fruit in terms of cash flow from 2013. DIGITAL Hearts also established a subsidiary in the U.S. in October 2011; as with its Korean subsidiary, the aim of the U.S. operation is to provide QA testing services and produce 3D content. 

● **[Table 3] Major Management Indicators**

Indicators	Unit	Sept.08	Sept.09	Sept.10	Sept.11
Net Sales	¥ million	1,562	1,620	1,881	2,618
No. of Clients	Companies	472	578	693	880
No. of Registered Testers	Persons	3,065	4,146	4,381	5,136
No. of Title Leaders	Persons	106	155	165	182
No. of Permanent Hires	Persons	118	152	152	163
No. of Bug Cases	Cases	260,000	390,000	510,000	610,000
Year-on-Year Change	Unit	Sept.08	Sept.09	Sept.10	Sept.11
Net Sales		--	3.7%	16.1%	39.2%
No. of Clients		--	22.5%	19.9%	27.0%
No. of Registered Testers	%	--	35.3%	5.7%	17.2%
No. of Title Leaders		--	46.2%	6.5%	10.3%
No. of Permanent Hires		--	28.8%	0.0%	7.2%
No. of Bug Cases		--	50.0%	30.8%	19.6%

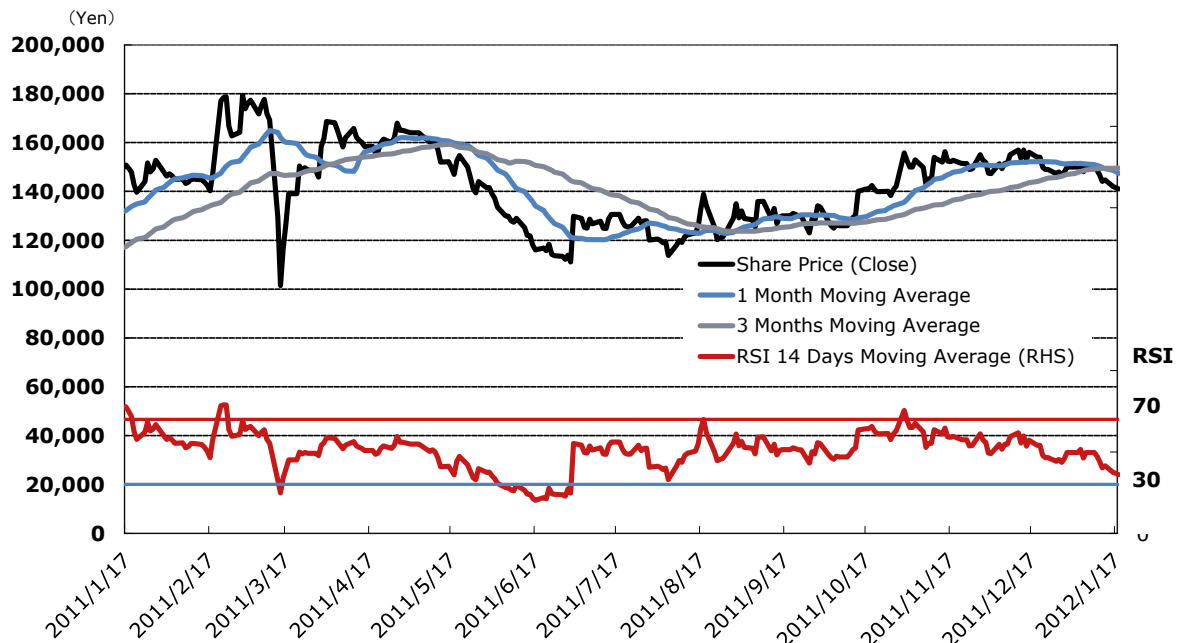
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Reference
● Key Indicators and Business Results (Consolidated)

No. of Shares Issued	Mar.2011	57,885	Total Assets (¥ million)	Mar.2011	2,343
No. of Treasury Stock	Mar.2011	0	Shareholders' Equity (¥ million)	Mar.2011	1,848
Market Value (¥ million)	Jan 17,2012	8,191	Interest-Bearing Debt (¥ million)	Mar.2011	12
BPS (¥)	Mar.2011	31,929.1	Equity Ratio (%)	Mar.2011	78.9
ROE (%)	Mar.2011	15.0	Ratio of Interest-Bearing Debt (% Mar.2011)		0.0
ROA (%)	Mar.2011	11.9	Free Cash Flows (¥ million)	Mar.2011	45
PER (times)	FY12/11 Fcst	22.9	ROE=Current Net Income÷Shareholders' Equity		
PCFR (times)	Mar.2011	24.6	ROA=Current Net Income÷Total Assets		
PBR (times)	Mar.2011	4.4	PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	Jan 17,2012	141,500	Ave. Daily Vol.=Ave. Daily Vol. for the last 12 months		
Unit Share (shs)	Jan 17,2012	--	Interest-Bearing Debts Ratio=I.B.D.÷Shareholders' Equity		
Average Daily Volume (shs)	Jan 17,2012	196	Free Cash Flows=Operating CF+Investment CF		

(¥ million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
FY3/08	2,372	336	319	169	9,942.30	0.00
FY3/09	3,378	641	643	347	6,035.86	500.00
FY3/10	3,416	521	526	306	5,303.32	500.00
FY3/11	3,957	528	495	278	4,820.11	750.00
FY3/12 1H	2,618	464	463	244	4,222.14	--
FY3/12 fcst.	5,057	721	701	357	6,176.26	500.00

Note: FY3/12 forecast announced on November 4, 2011

● Stock Price and RSI


Source: Prepared by Trias Corp. with Bloomberg data.

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices.

In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days + averaged share price decline for N days) x100

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