

## Summary of Consolidated Financial Results for the Fiscal Year Ended April 30, 2009 (FY4/2009)

Company name: ZAPPALLAS, INC. Stock listing: Tokyo Stock Exchange (First Section)  
 Securities code: 3770 URL: <http://www.zappallas.com>  
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 Scheduled date of Annual Shareholders' Meeting: July 30, 2009  
 Scheduled date of filing of Annual Securities Report: July 31, 2009  
 Scheduled date of payment of dividend: July 31, 2009

(All amounts are rounded down to the nearest million yen)

### FINANCIAL HIGHLIGHTS

(As of and for the fiscal years ended April 30, 2008 and 2009)

#### 1. Consolidated Performance

	FY4/2008	FY4/2009	YoY	FY4/2009
	(millions of yen)		(percentage change)	(thousands of U.S. dollars)
<b>(1) Consolidated financial results</b>				
Net sales	¥8,550	¥10,308	20.6%	\$105,420
Operating income	1,870	2,709	44.8%	27,705
Ordinary income	1,882	2,695	43.2%	27,562
Net income	1,027	1,580	53.8%	16,159
Net income per share (yen, U.S. dollars)	7,925.42	11,966.45		122
Diluted net income per share (yen, U.S. dollars)	7,576.47	11,610.25		119
Return on equity (ROE)	22.8%	28.3%		
Return on assets (ROA)	30.8%	36.3%		
Operating income on net sales	21.9%	26.3%		
<b>(2) Consolidated financial position</b>				
Total assets	6,705	8,148		83,330
Net assets	4,979	6,276		64,185
Shareholders' equity ratio	73.8%	76.6%		
Net assets per share (yen, U.S. dollars)	37,779.69	46,995.21		481
<b>(3) Consolidated cash flows</b>				
Cash flows from operating activities	1,243	1,671		17,089
Cash flows from investing activities	(651)	(213)		(2,178)
Cash flows from financing activities	(154)	(293)		(2,997)
Cash and cash equivalents at end of period	¥2,880	¥4,044		\$41,358
(Reference) Equity in earnings (losses) of affiliates (million yen)	FY4/2009:	(27)	FY4/2008:	-
Shareholders' equity (million yen)	As of Apr. 30, 2009:	6,239	As of Apr. 30, 2008:	4,949

#### 2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	(yen)				
FY4/2008	-	-	-	¥2,500.00	¥2,500.00
FY4/2009	-	-	-	4,000.00	4,000.00
FY4/2010 (Forecast)	-	-	-	¥4,200.00	¥4,200.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	(millions of yen)	(%)	(%)
FY4/2008	¥327	31.5%	7.2%
FY4/2009	¥531	33.4%	9.4%
FY4/2010 (Forecast)		30.6%	

(Note) Composition of year-end dividends for FY4/2009

Ordinary dividends: 3,500.00 yen      Commemorative dividends 500.00 yen

**3. Consolidated Forecast for the Fiscal Year Ending April 30, 2010 (May 1, 2009 – April 30, 2010)**

	FY4/2009	
	Six months	Annual
	<i>(millions of yen)</i>	
Net sales	¥5,440	¥11,350
Operating income	1,470	3,110
Ordinary income	1,460	3,100
Net income	870	1,820
Net income per share <i>(yen)</i>	¥6,553.18	¥13,708.95

**4. Other**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Changes in accounting principles, procedures and presentation methods for preparation of consolidated financial statements

1) Changes caused by revision of accounting standards: Yes

2) Other changes: None

(3) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of period (including treasury stock)

As of Apr. 30, 2009: 132,760 shares As of Apr. 30, 2008: 131,020 shares

2) Number of treasury stock at the end of period

As of Apr. 30, 2009: - As of Apr. 30, 2008: -

**(Reference)****1. Non-consolidated Performance**

	FY4/2008	FY4/2009	YoY	FY4/2009
	<i>(millions of yen)</i>		<i>(percentage change)</i>	<i>(thousands of U.S. dollars)</i>
<b>(1) Non-consolidated financial results</b>				
Net sales	¥7,543	¥9,612	27.4%	\$98,302
Operating income	1,884	2,696	43.1%	27,572
Ordinary income	1,897	2,710	42.8%	27,715
Net income	1,127	1,598	41.7%	16,343
Net income per share <i>(yen, U.S. dollars)</i>	8,697.33	12,099.69		124
Diluted net income per share <i>(yen, U.S. dollars)</i>	8,314.39	11,739.53		120
<b>(2) Non-consolidated financial position</b>				
Total assets	6,733	8,184		83,698
Net assets	5,084	6,390		65,351
Shareholders' equity ratio	75.5%	78.1%		
Net assets per share <i>(yen, U.S. dollars)</i>	¥38,804.51	¥48,139.20		\$492

(Reference) Shareholders equity (million yen): As of Apr. 30, 2009: 6,390 As of Apr. 30, 2008: 5,084

**2. Non-consolidated Forecast for the Fiscal Year Ending April 30, 2010 (May 1, 2009 – April 30, 2010)**

	FY4/2009	
	Six months	Annual
	<i>(millions of yen)</i>	
Net sales	¥5,120	¥10,710
Operating income	1,470	3,110
Ordinary income	1,470	3,120
Net income	880	1,850
Net income per share <i>(yen)</i>	¥6,628.50	¥13,943.92

\*Cautionary statement with respect to forward-looking statements

The above projections are based on information available at the time of release of this report. Actual results could differ significantly from these projections due to a variety of factors.

\* U.S. dollar amounts have been translated from Japanese yen, for readers' convenience only, at the exchange rate of ¥97.78=US\$1, the approximate exchange rate of TTM of Bank of Tokyo-Mitsubishi UFJ, Ltd. as of April 30, 2009.

## 1. Business Results

### (1) Analysis of Business Results

The Japanese economy retreated in the fiscal year under review as the collapse of a major US securities firm caused a sharp drop in share prices and triggered yen appreciation, which in turn cooled consumer sentiment and adversely impacted corporate earnings. Regarding the environment surrounding the mobile business, the total number of mobile phone subscriptions at the end of April 2009 was 107.84 million, and third-generation mobile phones accounted for 100.64 million of these subscriptions (Note 1) (+12.8% year-over-year), or 93.3% of the total. The mobile content and mobile commerce markets have continued to expand, and exceeded a combined one trillion yen in Fiscal 2007 for the first time ever (Note 2). Also, expectations have heightened for new mobile phone-based business models and growth in global markets as platform diversity has widened content distribution channels, and it is now possible to use mobile phones to remit money.

In this environment, the Zappallas Group focused on bolstering its corporate earnings foundation to raise the Group to a new level. In the digital contents business, the Group launched a website in a new category to develop a new earnings pillar to complement its mainstay fortune-telling category. In the mobile commerce business, the Group expanded its lineup of merchandise for the launch of a new shopping website, and the subsidiary in charge of mobile phone sales strove to quickly achieve profitability by concentrating resources to enhance operational efficiency.

As a result of the above activities, consolidated sales in the fiscal year under review totaled 10,308,364,000 yen (+20.6% year-over-year), operating income 2,709,152,000 yen (+44.8%), ordinary income 2,695,847,000 yen (+43.2%), and net income 1,580,863,000 yen (+53.8%). Below we discuss results by business segment.

(Note 1) According to a survey by the Telecommunications Carriers Association.

(Note 2) According to a survey by the Mobile Content Forum.

#### 1) Digital Contents Business

The Zappallas Group's policy for the digital contents business is to secure stable growth while raising profitability. In the fiscal year under review, it strove to attract more customers through the launch of a new website, and to cultivate a new earnings pillar category to complement the Group's mainstay "fortune-telling" category.

The Group achieved stable growth in its membership base for the "fortune-telling" category, a solid source of earnings, by attracting new customers through the launch of new websites, customer relations management (CRM) activities, and advertisement and promotional activities. Indeed, the number of billed customers in the "fortune-telling" category reached 1.48 million persons at the end of the fiscal year under review. The Group is cultivating the "decoration e-mail" (decome) category as a new earnings pillar, launching new websites and improving its ranking in telecom carriers' official menus to increase the membership base. Also, the Group has conducted promotions to accelerate the increase in its "decome" membership base, and the number of billed members has already topped 360,000 persons. The Group launched many new websites in its digital contents business in the fiscal year under review: 82 new mobile contents websites, and 55 new PC contents websites. The Group's membership base consisted of 2.27 million persons at the end of the fiscal year under review: 2.18 million "monthly fee" members, and 80,000 "download" members.

As a result of these activities, the Group had 340 mobile websites listed within the official menus of telecom carriers at the end of the fiscal year under review, and 173 websites for PCs (Note 3). Consolidated sales in the digital contents business in the fiscal year under review totaled 8,078,627,000 yen (+24.1% year-over-year), and operating income 3,152,184,000 yen (+33.0%).

(Note 3) The Group offers downloadable PC content services for a fee. From FY4/2010, it only lists the number of newly launched websites.

## 2) Mobile Commerce Business

The Zappallas Group operates mobile commerce websites, and sells mobile phones, in the mobile commerce business. The Group strove to expand its lineup of merchandise and strengthen its ability to attract customers to its mobile commerce websites during the fiscal year under review, and the new opening of “Pocket Market,” a mobile commerce website that handles daily sundries, contributed to an increase in sales. It also increased profits from its mobile commerce websites due to further growth in its beauty category “*Kirei Kakumei* (Beautiful Revolution)” on the back of longstanding efforts to improve merchandising. G-plus Co., Ltd., the subsidiary in charge of mobile phone sales, strove to quickly move to profitability through the consolidation of administrative functions.

As a result of these activities, the Group operated 22 official mobile commerce websites, and subsidiary G-plus operated three mobile phone sales shops, at the end of the fiscal year. Consolidated sales in the mobile commerce business in the fiscal year under review totaled 1,938,465,000 yen (+17.1% year-over-year), and operating income 129,427,000 yen (from an operating loss of 4,409,000 yen in the previous fiscal year).

## 3) Others Business

The Zappallas Group booked sales from Y! Suica systems development, website management, and advertising in the “others business.” It also endeavored to provide new services in the mobile industry, participating in the TBS television network’s trial demonstration of an original “one-seg” mail-order shopping program, and collaborating with transcosmos inc. and Ares & Mercury Co., Ltd. in a trial to provide fortune-telling applications free of charge for iPhones.

Consolidated sales in the “others” business in the fiscal year under review totaled 291,270,000 yen (-24.6% year-over-year), and operating income 59,175,000 yen (from an operating loss of 7,234,000 yen in the previous fiscal year).

The Group’s policy going forward is to utilize its customer database marketing strengths and membership assets to expand its lineup of services in the digital contents business beyond fortune-telling, expand the range of services in the mobile commerce business, provide mobile solutions for the corporate sector beyond Y!Suica, and develop new mobile services.

In the digital contents business, the Group will focus its human, promotional, and other resources on the “decome” growth category, and move to ensure the stability of its membership base for the mainstay “fortune-telling” category while bolstering the efficiency of its operational structure and customer-attraction efforts to maximize profitability.

In the mobile commerce business, the Group’s core mission is to discover and supply products that customers demand. The Group pursues improvements in merchandising quality to expand profits in line with its basic policy, and will continue in the next fiscal year to strengthen merchandising to improve its profit structure while at the same time pursuing the convenience of customers to improve the Group’s ability to attract customers.

In the others business, the Group’s mission is to continue to explore new business models and collaborative alliances with other companies, and develop new services in existing business segments with an eye to the future.

As a result of these activities, the Group forecasts for the next fiscal year sales of 11,350 million yen (+10.1% year-over-year), operating income of 3,110 million yen (+14.8%), ordinary income of 3,100 million yen (+15.0%), and net income of 1,820 million yen (+15.1%).

**(2) Analysis of Financial Condition**

## 1) Balance sheet position

Assets totaled 8,148,283,000 yen at the end of the fiscal year under review, an increase of 1,443,031,000 yen from the end of the previous fiscal year. This increase mainly reflects a 960,395,000 yen increase in cash and deposits due to the booking of net income, a 305,612,000 yen increase in accounts receivable-trade due to higher net sales.

Liabilities totaled 1,872,068,000 yen, an increase of 146,502,000 yen. This increase mainly reflects a 221,708,000 yen increase in income taxes payable due to the increase of profits.

Net assets totaled 6,276,215,000 yen, an increase of 1,296,529,000 yen. This increase mainly reflects a 1,253,313,000 yen increase in retained earnings.

## 2) Cash flows

Cash and cash equivalents totaled 4,044,047,000 yen at the end of the fiscal year under review on a consolidated basis, an increase of 1,163,691,000 yen from the end of the previous fiscal year. Mainstay sources of income included income before income taxes of 2,699,475,000 yen (+45.2% year-over-year) and depreciation and amortization of 233,970,000 yen (+6.3%). Mainstay outlays included 954,949,000 yen (+30.5%) in income taxes paid, and 305,612,000 yen (-32.2%) in notes and accounts receivable-trade.

## Cash flows from operating activities

Net cash provided by operating activities was 1,671,147,000 yen (+34.4% year-over-year). The main positive factors were income before income taxes of 2,699,475,000 yen, and depreciation and amortization of 233,970,000 yen. The main negative factors were 954,949,000 yen in income taxes paid, and 305,612,000 yen in notes and accounts receivable-trade.

## Cash flows from investing activities

Net cash used in investing activities was 213,917,000 yen (-67.1% year-over-year). The main positive factors were a 200 million yen increase in the difference between maturity and payment of time deposits, and a 100 million yen increase in the difference between redemption and purchase of securities. The main negative factors were payments of 268,600,000 yen in purchase of investment securities, and 243,825,000 yen in purchase of intangible assets.

## Cash flows from financing activities

Net cash used in financing activities was 293,538,000 yen (+90.3% year-over-year). The main factors were cash dividends paid of 325,569,000 yen.

## Reference: Cash flow indicators

	FY4/2006	FY4/2007	FY4/2008	FY4/2009
Shareholders' equity ratio (%)	74.3	74.0	73.8	76.6
Shareholders' equity ratio based on market prices (%)	511.9	263.6	517.8	332.4
Interest-bearing debt to cash flow ratio (%)	0.0	-	-	-
Interest coverage ratio	64,554.5	61,372.9	-	-

Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholders' equity ratio based on market prices: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows

Interest coverage ratio: Cash flows / Interest payments

Note 1: All indices are calculated based on consolidated figures.

Note 2: Market capitalization is calculated based on the number of shares outstanding (excluding treasury stock).

Note 3: Cash flows are calculated using the figures for operating cash flows.

Note 4: Interest-bearing debt includes all liabilities on the consolidated balance sheets that incur interest.

### (3) Basic Profit Allocation Policy and Dividends in the Current and Next Fiscal Years

Returning profits to shareholders is an important priority for management, and our basic policy is to provide stable dividends to shareholders while securing the necessary level of retained earnings to strengthen the corporate structure and pro-actively develop the business. Specifically, we target a payout ratio of 30% against parent net income, with the final decision based on a comprehensive judgment of our business performance during the particular term, and the necessity to enhance retained earnings and invest in the business.

Based on this policy, we plan to propose a FY4/2009 dividend of 4,000 yen (including a commemorative dividend of 500 yen) per common share at the 10<sup>th</sup> Annual Shareholders' Meeting scheduled for July 30, 2009, for shareholders on record as of April 30, 2009. This would translate into a payout ratio of 33.4%.

For the new fiscal year, we plan to pay a dividend of 4,200 yen.

### (4) Business Risks

Below we discuss important risk factors related to our Group's business activities and future development. The recognition of these risk factors implies we will strive to prevent their occurrence, and if they do occur, will work for a rapid resolution.

The forward-looking statements in this "Business Risks" section are based on the judgment of management as of the end of the current fiscal year under review (April 30, 2009).

#### 1) Risks related to the Company's business content

##### a. Risks related to the digital contents business

##### i. Risks related to trends in the mobile content market, and the competitive landscape

The Zappallas Group's digital contents business operates within the context of the mobile content market which is strongly influenced by the penetration of Internet-capable mobile phones, technological innovation, and rapid changes to industry standards. Also, many competitors provide services in fields in which the Zappallas Group specializes including fortune-telling, decoration e-mails ("decome"), standby displays, and hobbies.

The Group utilizes its database of customer activity to provide interesting content that suits customer tastes in order to differentiate itself from the competition, and it also utilizes customer data to work to diversify its earnings base. However, the inability to provide attractive and profitable content in a timely manner going forward, and the resulting failure to differentiate itself from the competition, could trigger a decline in customer numbers and adversely affect the Group's business results.

##### ii. Risks related to content based on information supplied by third-party contractors

The Zappallas Group plans, produces, and supplies content based on information provided by information suppliers, copyright holders, and other third-party contractors.

The Group receives permission from these third-party contractors to supply information, and compensates them through payment of royalties and/or editing fees. The Group strives to maintain good relations with its third-party contractors, but the Group's business results could be adversely affected if the contracts that it has signed with them are amended or cancelled, or if the royalty rates it pays are increased.

The Group's policy going forward is to increase content to reduce its dependence on specific third-party contractors and diversify risk.

##### iii. Risks related to dependence on specific telecom carriers

The Zappallas Group supplies a variety of content to NTT docomo's "i-mode," SoftBank Mobile's "Yahoo! Keitai," and KDDI's "EZweb." The Group plans to continue supplying content to these telecom carriers, but the following changes could impact the Group's business performance and future development.

(Risks related to changes in the business policies of telecom carriers)

The following table shows the breakdown of the Group's sales by telecom carrier. Currently, NTT docomo accounts for a comparatively high percentage of the Group's sales. Therefore, a change in business policy concerning Internet connection services by any of the carriers, and NTT docomo in particular, could impact the Group's business strategy and business results.

(Thousands of yen, %)

Telecom carriers	FY4/2008 (May 1, 2007 – Apr. 30, 2008)		FY4/2009 (May 1, 2008 – Apr. 30, 2009)	
	Amount	Share	Amount	Share
NTT docomo	3,820,436	44.7	4,644,250	45.1
KDDI	1,303,427	15.2	1,704,096	16.5
SoftBank Mobile	909,187	10.6	1,151,149	11.2

(Risks related to the continuity of content supply contracts)

The Zappallas Group has concluded contracts with each telecom carrier regarding content distribution and information fee substitute collection services, and these contracts are automatically renewed unless one party expresses its intention otherwise a certain period of time prior to the contract's expiration date. However, the Group's business performance and future development could be adversely affected if any one of these carriers refuses to renew all or a portion of their contracts with the Group due to a change in business strategy or for other reasons.

Also, any one of these carriers could cancel their content supply contracts with the Group if frequent complaints are made about the Group's content for unforeseen reasons, or if the Group violates any of the cancellation clauses in its contracts.

#### iv. Risks regarding the treatment of uncollectible information fees

In the digital contents business, the Zappallas Group outsources the collection of information fees for mobile contents to each carrier, and for PC contents to each Internet Service Provider (ISP). Contracts signed with NTT docomo, KDDI, and some ISPs regarding the substitute collection of information fees stipulate that they must give notice to the Group when they are unable to collect information fees on behalf of the Group through no fault of their own, and at that point they become exempt from the need to collect those information fees on behalf of the Group.

Uncollectible information fees accounted for just 1.7% of total sales in the digital contents business in the fiscal year under review (see Note), but an increase in delinquent payers and delinquent payment amounts going forward could adversely impact the Group's business results.

However, this kind of problem does not arise under the Group's current contract with SoftBank Mobile because the Group has signed a credit transfer contract in which SoftBank Mobile pays all contents-related fee liabilities to the Group in one lump sum.

(Note) Uncollectible information fees totaled 133,688,000 yen in the fiscal year under review, and this was equivalent to approximately 1.7% of digital contents business sales of 8,078,627,000 yen.

#### v. Risks related to coping with technological innovation

The recent advances in mobile phone handset technology are remarkable, and progress has been made in increasing the speed of telecommunications infrastructure since the introduction of third-generation mobile phones. The Zappallas Group does not expect "fortune-telling," its mainstay content category, to see a large impact from advances in handset technology because the basic medium for this category is words. However, the Group intends to pro-actively and rapidly adapt to new technologies, and supply content that utilizes the new technologies.

However, failure of the Group to appropriately adapt to these changes in technology, and to the new functions added to next-generation mobile phones, could cause the Group's services and technologies to become obsolete, thereby adversely impacting the Group's business results.

b. Risks related to the mobile commerce business

i. Risks related to the business environment surrounding the mobile commerce market

The Zappallas Group expects penetration of third-generation mobile phones to trigger a rapid expansion of the mobile commerce market, and bring about changes in the user environment. The Group is currently working to grow its mobile commerce business into its second major business pillar after the digital contents business, but failure to appropriately respond to changes in the market and user tastes could adversely impact the Group's future development of the business.

The Group's ability to attract mobile commerce customers from the official websites of telecom carriers depends on the ranking and display order of the Group's website on the official menus of each telecom carrier. The Group draws customers through inter-site links, and the distribution of e-mail magazines and other customer relations management activities, and enjoys a stable customer base. It also continues to pro-actively attract new customers to avoid a direct impact from changes in the policies of telecom carriers. However, the delisting of the Group's mobile commerce website from the official menus of any one of the carriers for whatever reason could adversely impact the Group's ability to increase its customer base.

ii. Risks related to the handling of merchandise

The Zappallas Group sells famous brand-name products (watches, accessories, apparel, etc.), cosmetics, food, and everyday goods via the mobile commerce websites it manages, and it plans to expand the categories of merchandise it handles going forward. However, in the rare case that a product sold by the Group is found to be in violation of the law, or to be defective or have safety problems, and the response of the product's supplier is deemed inadequate, the Group cannot completely rule out the possibility that it could become liable to pay damages to customers who bought the product. This could adversely impact the Group's reputation in society, and its business results.

iii. Risks related to the outsourcing of logistics operations

The Zappallas Group outsources to third-party contractors its logistics operations including the inventory management of some products delivered by suppliers, the packaging and handling of products at the time of shipment, the delivery of products to customers, and the substitute collection of payment for products. The Group can make a claim for compensation, based on its outsourcing contracts with third-party contractors, for direct damages resulting from delays or other service-related trouble, but the resulting decline in customer trust could adversely impact the Group's financial condition and business performance.

c. Risks related to the business environment

i. Risks related to laws and regulations

The Zappallas Group's businesses are subject to the laws listed below which stipulate penalties for violation. The Group always conducts its sales activities conscious of the need to closely comply with all relevant laws and regulations, and is of the understanding that it is not currently in violation of any of these laws and regulations that might subject it to penalties.

However, changes to the interpretation of current laws by the administrative authorities, or the formulation and enactment of new laws to regulate the Group's businesses and sales methods, could in some cases restrict the Group's business activities and/or force changes to ensure compliance. This could adversely impact the Group's business results and/or future business development.

(Laws governing the mobile commerce business)

The Zappallas Group's mobile commerce business is subject primarily to the "Law on Specified Commercial Transactions," the "Law Against Unjustifiable Premiums and Misleading Representations," and the "Law on Regulation of Transmission of Specified Electronic Mail."

## ii. Risks related to the handling of personal information

The Zappallas Group is in a position to learn the mobile phone number, e-mail address, and other private information necessary for customers to use its digital content services, and in addition to the above items, the full name, address, home phone number, and other personal information of customers who apply to purchase products via its mobile commerce websites.

The Group is obligated to maintain the confidentiality of this information, and has implemented various policies to prevent personal information from leaking including restricting access to the data, adopting a system to prevent unauthorized access, and using external data centers. It also continues to work for the thorough management and administration of its database to maintain its “privacy mark.”

However, in the rare case that the data leaks outside the Group due to problems in its internal administrative structure, or due to unauthorized entry from outside the Group, the Group’s financial condition and business results could be impacted by damages claims and/or a decline in customer confidence in the Group.

## iii. System risk

The Zappallas Group’s businesses rely on Internet connections by mobile phones and other handsets, but the disruption of telecommunications networks due to natural disasters or accidents could render the provision of services impossible. Also, Group or carrier servers could malfunction due to system overload caused by a spike in user access, and the accurate transmission of information could become impossible due to defects in the Group’s hardware or software, causing a suspension of the system and rendering the provision of services impossible. Furthermore, Group or vendor systems could be replaced, and important data deleted or illicitly accessed, due to illegal infiltration into the Group’s computers via illicit means by outsiders, or due to errors on the part of the Group’s staff.

These kind of failures could directly hurt the Group, and impact its reputation in society and its reliability in the eyes of customers, thereby adversely affecting its business results.

## iv. Risks related to the internal administrative structure

The Zappallas Group has formulated a Corporate Code of Action that stipulates that the Group’s activities are to comply with domestic and overseas laws and regulations, international rules, and conform to corporate ethics, and has also launched a compliance program, in order to ensure that problems do not arise from the inappropriate actions of internal staff. However, the probability is not zero that violations of the law might occur, or that internal staff might act inappropriately, and the occurrence of these affairs could impact the Group’s business results.

## 2) Other risks

Risks related to the dilution of share value from the exercise of subscription rights to shares

The Zappallas Group adopts a stock option system of incentives for directors, employees, and external parties that cooperate with the Group.

The Group is considering pro-actively expanding its stock options system, and the exercise of currently granted subscription rights to shares and those that may be granted in the future, could dilute the value of existing shares. The number of potential stock that could be issued via the exercise of subscription rights to shares was 3,750 shares as of the end of the current fiscal year under review, and this is equivalent to 2.8% of the total number of outstanding shares of 132,760 shares.

## 2. Corporate Group

We omit this section because no material changes have been made to the Company's "Business content diagram" or "Status of affiliate companies" as reported in recent Annual Securities Report submitted July 31, 2008.

## 3. Management Policy

### (1) Basic Management Policy

The Zappallas Group supplies services and products that respect the individuality of each customer, via telecommunications networks centered on the Internet, and focuses on building an ongoing relationship with customers. We believe this raises the lifetime value of customers, and by extension enhances our corporate value and expands shareholder value.

### (2) Performance Targets

We view net sales and the ordinary income margin (ordinary income on net sales) as important performance benchmarks. Specifically, we aim to expand sales while maintaining the ordinary income margin above 10%.

### (3) Medium to Long-term Business Strategy

The Zappallas Group's earnings derive from the 1) mainstay "digital contents business" in which it plans, produces, develops, and manages digital contents supplied over mobile phone and other telecommunications networks, 2) the "mobile commerce business" in which it sells merchandise via mobile websites, and sells mobile phones, and 3) the "others business" in which it engages in contracted systems development, and distributes mobile advertisements.

The Group's core customer base are women aged 20-34 years old ("F1") who are generally thought to have a high level of disposable income, and it strives to analyze customer characteristics and consumption trends to supply products and services that better match customer needs, in order to continuously expand the business.

#### (Digital Contents Business)

In the digital contents business, the Zappallas Group supplies recreational content, centered on fortune-telling, officially for mobile telecom carriers (hereafter "carriers") via 340 websites (including one website which is managed on contract). The Group supplies fortune-telling content in particular via 232 websites (as of the end of the current fiscal year under review), the largest number in the mobile content industry, and aims to leverage its advantage as a category killer to continue launching new contents and attracting customers through mutual links among its content websites, in order to establish a structure to consistently secure sales and profits.

#### (Mobile Commerce Business)

The overall mobile commerce market is rapidly expanding, and in this context, the Zappallas Group makes proposals, as a service to its customer base centered on "F1," of products that it believes its customers want, similar to the sales method it uses in the digital contents business. The Group strives to attract more customers to its base, expand its reach, develop products that meet the latent needs of customers, and strengthen sales. Also, in the mobile phone sales side of the business, it is working to raise efficiency and improve earnings.

#### (Others Business)

The "others business" includes contracted systems development, and the Group is working to develop and pro-actively invest in new businesses including new business models for collaboration, etc.

#### **(4) Challenges**

The Company recognizes the following matters as key challenges for supporting future business growth, and plans to work pro-actively and expeditiously to deal with them.

##### 1) Challenges in the digital contents business

The Zappallas Group believes it can achieve further growth in this business through ongoing growth in existing contents, and the capture of new customers and earnings through the launch of new contents. The launch of new contents with stable growth prospects is key. Going forward, the Group intends to concentrate on launching new categories that appeal, like fortune-telling, to its F1 customer base and offer stable growth prospects, and that customers are likely to use on an ongoing basis.

Additionally, the Group recognizes that it is necessary to improve the exposure and recognition of its contents in order to capture new customers. Various changes in the environment surrounding the mobile market, including the launch of number portability, and the placement of search engines within the official menus of various carriers, have made it easier to access various content. The Group plans to conduct its own proprietary marketing analysis to concentrate on firmly capturing new customers, while also strengthening its SEO policies and optimizing ad placements.

##### 2) Challenges in the mobile commerce business

The Zappallas Group provides value-added products to its membership base in the mobile commerce service, but recognizes that it will need to raise its product procurement capabilities, and improve its appeal to customers to strengthen sales, in order to achieve further growth. Going forward, the Group aims to efficiently attract customers to its membership base (including in the digital content), enrich the lineup of services and products it provides to meet the needs of customers, and finally attract and maintain customers and boost product procurement capabilities to maximize profits.

##### 3) Challenges in the “others business”

The Zappallas Group conducts contracted systems development for “Y! Suica” and other company development projects, and operates an advertisement distributions business as well. Going forward, the Group aims to develop media, new profitable models for business cooperation, and new services for its membership base.

#### **(5) Other Important Management Matters**

Not applicable.

*\* This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*

#### 4. Consolidated Financial Statements

##### (1) Consolidated Balance Sheets

	(Thousands of yen)	
	FY4/2008 (As of Apr. 30, 2008)	FY4/2009 (As of Apr. 30, 2009)
Assets		
Current assets		
Cash and deposits	1,978,309	2,938,704
Accounts receivable-trade	1,956,263	2,261,876
Short-term investment securities	1,502,910	1,405,343
Inventories	21,848	-
Merchandise and finished goods	-	12,240
Deferred tax assets	60,426	98,481
Other	47,110	36,846
Allowance for doubtful accounts	(22,783)	(32,966)
Total current assets	5,544,084	6,720,527
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	99,407	99,407
Accumulated depreciation	(31,054)	(42,259)
Buildings and structures, net	68,353	57,148
Tools, furniture and fixtures	195,093	214,718
Accumulated depreciation	(147,847)	(185,777)
Tools, furniture and fixtures, net	47,245	28,941
Total property, plant and equipment	115,598	86,089
Intangible assets		
Software	152,699	211,835
Goodwill	240,767	227,135
Other	19,128	9,633
Total intangible assets	412,595	448,605
Investments and other assets		
Investment securities	*1 366,848	*1 604,909
Deferred tax assets	120,008	143,386
Other	156,117	144,765
Allowance for doubtful accounts	(10,000)	-
Total investments and other assets	632,973	893,061
Total noncurrent assets	1,161,167	1,427,756
Total assets	6,705,252	8,148,283

	(Thousands of yen)	
	FY4/2008 (As of Apr. 30, 2008)	FY4/2009 (As of Apr. 30, 2009)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	534,823	539,952
Accounts payable-other	438,592	391,329
Income taxes payable	553,271	774,979
Directors' bonuses payable	30,000	35,768
Other	168,878	127,620
<b>Total current liabilities</b>	<b>1,725,566</b>	<b>1,869,650</b>
<b>Noncurrent liabilities</b>		
Other	-	2,417
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>2,417</b>
<b>Total liabilities</b>	<b>1,725,566</b>	<b>1,872,068</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	1,421,443	1,438,843
Capital surplus	1,346,818	1,364,218
Retained earnings	2,181,632	3,434,945
<b>Total shareholders' equity</b>	<b>4,949,894</b>	<b>6,238,007</b>
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	-	1,076
<b>Total valuation and translation adjustments</b>	<b>-</b>	<b>1,076</b>
Minority interests	29,791	37,131
<b>Total net assets</b>	<b>4,979,686</b>	<b>6,276,215</b>
<b>Total liabilities and net assets</b>	<b>6,705,252</b>	<b>8,148,283</b>

**(2) Consolidated Statements of Income**

(Thousands of yen)

	FY4/2008		FY4/2009	
	(May 1, 2007 – Apr. 30, 2008)		(May 1, 2008 – Apr. 30, 2009)	
Net sales		8,550,993		10,308,364
Cost of sales		3,459,687		3,637,830
Gross profit		5,091,305		6,670,533
Selling, general and administrative expenses	*1	3,220,378	*1	3,961,381
Operating income		1,870,927		2,709,152
Non-operating income				
Interest income		11,121		16,663
Insurance premiums refunded cancellation		3,309		-
Other		1,815		3,096
Total non-operating income		16,246		19,759
Non-operating expenses				
Stock issuance cost		444		444
Loss on investments in partnership		4,094		3,935
Equity in losses of affiliates		-		27,601
Other		115		1,083
Total non-operating expenses		4,655		33,065
Ordinary income		1,882,519		2,695,847
Extraordinary income				
Gain on sales of noncurrent assets	*2	182		-
Gain on liquidation of investment securities		29,541		-
Reversal of allowance for doubtful accounts		-		10,000
Total extraordinary income		29,723		10,000
Extraordinary loss				
Loss on sales and retirement of noncurrent assets	*3	7,770	*3	6,193
Impairment loss	*4	34,358		-
Loss on sales of stocks of subsidiaries and affiliates		10,870		-
Loss on valuation of investment securities		450		179
Total extraordinary losses		53,450		6,372
Income before income taxes		1,858,792		2,699,475
Income taxes-current		876,750		1,173,444
Income taxes-deferred		(39,674)		(62,172)
Total income taxes		837,076		1,111,272
Minority interests in income (loss)		(6,099)		7,339
Net income		1,027,815		1,580,863

**(3) Consolidated Statements of Changes in Net Assets**

(Thousands of yen)

	FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	1,396,243	1,421,443
Changes of items during the period		
Issuance of new shares	25,200	17,400
Changes of items during the period	25,200	17,400
Balance at the end of current period	1,421,443	1,438,843
Capital surplus		
Balance at the end of previous period	1,321,618	1,346,818
Changes of items during the period		
Issuance of new shares	25,200	17,400
Total changes of items during the period	25,200	17,400
Balance at the end of current period	1,346,818	1,364,218
Retained earnings		
Balance at the end of previous period	1,359,416	2,181,632
Changes of items during the period		
Dividends from surplus	(205,600)	(327,550)
Net income	1,027,815	1,580,863
Total changes of items during the period	822,215	1,253,313
Balance at the end of current period	2,181,632	3,434,945
Total shareholders' equity		
Balance at the end of previous period	4,077,278	4,949,894
Changes of items during the period		
Issuance of new shares	50,400	34,800
Dividends from surplus	(205,600)	(327,550)
Net income	1,027,815	1,580,863
Total changes of items during the period	872,615	1,288,113
Balance at the end of current period	4,949,894	6,238,007
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	-	-
Changes of items during the period		
Net changes of items other than shareholders' equity	-	1,076
Total changes of items during the period	-	1,076
Balance at the end of current period	-	1,076
Total valuation and translation adjustments		
Balance at the end of previous period	-	-
Balance at the end of current period	-	1,076

	(Thousands of yen)	
	FY4/2008	FY4/2009
	(May 1, 2007 – Apr. 30, 2008)	(May 1, 2008 – Apr. 30, 2009)
Minority interests		
Balance at the end of previous period	42,716	29,791
Changes of items during the period		
Net changes of items other than shareholders' equity	(12,924)	7,339
Total changes of items during the period	(12,924)	7,339
Balance at the end of current period	29,791	37,131
Total net assets		
Balance at the end of previous period	4,119,995	4,979,686
Changes of items during the period		
Issuance of new shares	50,400	34,800
Dividends from surplus	(205,600)	(327,550)
Net income	1,027,815	1,580,863
Net changes of items other than shareholders' equity	(12,924)	8,416
Total changes of items during the period	859,690	1,296,529
Balance at the end of current period	4,979,686	6,276,215

**(4) Consolidated Statements of Cash Flows**

	(Thousands of yen)	
	FY4/2008	FY4/2009
	(May 1, 2007 – Apr. 30, 2008)	(May 1, 2008 – Apr. 30, 2009)
Net cash provided by (used in) operating activities		
Income before income taxes	1,858,792	2,699,475
Depreciation and amortization	220,130	233,970
Amortization of goodwill	62,543	13,631
Amortization of long-term prepaid expenses	4,366	2,381
Stock issuance cost	444	444
Increase (decrease) in allowance for doubtful accounts	4,750	182
Increase (decrease) in provision for directors' bonuses	(22,000)	-
Interest income	(11,121)	(16,663)
Loss (gain) on sales and retirement of noncurrent assets	7,770	6,193
Loss (gain) on sales of noncurrent assets	(182)	-
Loss (gain) on sales of stocks of subsidiaries and affiliates	10,870	-
Loss (gain) on valuation of investment securities	450	179
Gain on liquidation of investment securities	(29,541)	-
Loss on investments in partnership	4,094	3,935
Impairment loss	34,358	-
Equity in (earnings) losses of affiliates	-	27,601
Decrease (increase) in notes and accounts receivable-trade	(451,079)	(305,612)
Decrease (increase) in inventories	20,822	7,958
Increase (decrease) in notes and accounts payable-trade	8,315	5,128
Increase (decrease) in accounts payable-other	199,943	(33,471)
Increase (decrease) in accrued consumption taxes	24,526	9,242
Other	16,821	(46,784)
Subtotal	1,965,077	2,607,790
Interest income received	10,204	18,305
Income taxes paid	(731,503)	(954,949)
Net cash provided by (used in) operating activities	1,243,778	1,671,147
Net cash provided by (used in) investing activities		
Payments into time deposits	(250,000)	(100,000)
Proceeds from maturity of time deposits	50,000	300,000
Purchase of property, plant and equipment	(41,120)	(21,497)
Proceeds from sales of property, plant and equipment	2,628	-
Purchase of intangible assets	(134,633)	(243,825)
Proceeds from sales of intangible assets	144	-
Purchase of short-term investment securities	(601,288)	(100,000)
Proceeds from redemption of securities	200,000	200,000
Purchase of investment securities	(50,000)	(268,600)
Proceeds from liquidation of investment securities	40,125	-
Proceeds from sales of stocks of subsidiaries and affiliates resulting in change in scope of consolidation	128,866	-
Proceeds from sales of business	8,338	-

	(Thousands of yen)	
	FY4/2008	FY4/2009
	(May 1, 2007 – Apr. 30, 2008)	(May 1, 2008 – Apr. 30, 2009)
Payments for guarantee deposits	(8,483)	(30)
Proceeds from collection of guarantee deposits	4,838	2,397
Payments for insurance funds	(375)	-
Proceeds from maturity of insurance funds	-	7,638
Collection of loans receivable	-	10,000
Other	(196)	-
Net cash provided by (used in) investing activities	(651,155)	(213,917)
Net cash provided by (used in) financing activities		
Proceeds from issuance of common stock	49,955	34,449
Cash dividends paid	(204,189)	(325,569)
Other	-	(2,417)
Net cash provided by (used in) financing activities	(154,233)	(293,538)
Net increase (decrease) in cash and cash equivalents	438,389	1,163,691
Cash and cash equivalents at beginning of period	2,441,966	*1 2,880,355
Cash and cash equivalents at end of period	*1 2,880,355	*1 4,044,047

**Going Concern Assumption**

Not applicable.

**Significant Accounting Policies in the Preparation of Consolidated Financial Statements**

Item	FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
1. Scope of consolidation	Number of consolidated subsidiary: 1 Major consolidated subsidiary G-plus Co., Ltd. Ares & Mercury Co., Ltd. was excluded from the scope of consolidation and became an equity-method affiliate, since the Company sold a part of its equity interest in this company in the current fiscal year. However, only the income statement accounts are consolidated for the period from May 1, 2007 to April 30, 2008.	Number of consolidated subsidiary: 1 Major consolidated subsidiary G-plus Co., Ltd.
2. Application of equity method	Number of affiliate accounted for under equity method: 1 Name of affiliate: Ares & Mercury Co., Ltd. Ares & Mercury Co., Ltd. was excluded from the scope of consolidation and became an equity-method affiliate, since the Company's equity interest in this company declined as a result of the partial sale of its shares in the current fiscal year. However, only the income statement accounts are consolidated for the period from May 1, 2007 to April 30, 2008.	Number of affiliate accounted for under equity method: 1 Name of affiliate: Ares & Mercury Co., Ltd.
3. Fiscal year of consolidated subsidiary	The fiscal year of consolidated subsidiary ends on the closing date of consolidated financial statements.	Same as on the left.
4. Accounting standards (1) Valuation standards and methods for principal assets	1) Short-term investment securities Held-to-maturity debt securities Stated at the amortized cost method (straight-line method). Available-for-sale securities  Securities without market quotations Stated at cost determined by the moving-average method. As for investments in limited liability investment partnerships as defined in Article 2, Section 2 of the Financial Instruments and Exchanges Law, the Company books the net value of proportional holdings based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract.	1) Short-term investment securities Held-to-maturity debt securities Same as on the left.  Available-for-sale securities Securities with market quotations Stated at fair value at the end of the fiscal year. (Unrealized gain or loss is included in net assets. Cost of securities sold is determined by the moving-average method.)  Securities without market quotations Same as on the left.

Item	FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
(2) Depreciation and amortization of principal depreciable assets	<p>2) Inventories</p> <p>i. Merchandise Stated at cost determined by the moving-average method.</p> <p>ii. Work in process Stated at cost determined by the specific-identification method.</p> <p>iii. Supplies Stated at the final purchase cost method.</p> <p style="text-align: center;">_____</p>	<p>2) Inventories</p> <p>i. Merchandise Stated at cost determined by the moving-average method (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins).</p> <p>ii. _____</p> <p>iii. Supplies Stated at the final purchase cost method. (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins).</p> <p>(Change in accounting policy) “Accounting Standards for Measurement of Inventories” (Accounting Standards Board of Japan (ASBJ) Statement No. 9, July 5, 2006) has been adopted with effect from the current fiscal year. The effect of this change on profit/loss is insignificant.</p>
	<p>1) Property, plant and equipment Depreciation of property, plant and equipment is calculated using the declining-balance method. Regarding the useful life of assets, the standard stipulated in the Corporate Tax Law is applied for all assets other than computers and peripheral equipment, and two years is applied for computers and peripheral equipment taking into account their economic and functional condition. Useful life of principle assets is as follows: Buildings and structures: 3-22 years Tools, furniture and fixtures: 2-20 years</p> <p>2) Intangible assets Software for internal use Amortization of software for internal use is calculated using the straight-line method over its estimated life cycle of two years.</p> <p>3) Long-term prepaid expenses Amortization of long-term prepaid expenses is calculated using the straight-line method. The service life is based on the standards defined by the Corporation Tax Law.</p> <p style="text-align: center;">_____</p>	<p>1) Property, plant and equipment (excluding lease assets) Same as on the left.</p> <p>2) Intangible assets Same as on the left.</p> <p>3) Long-term prepaid expenses Same as on the left.</p> <p>4) Lease assets Depreciation of lease assets is calculated using the straight-line method with no residual value, assuming the lease period to be the useful life of the asset.</p>

Item	FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
(3) Recognition of significant allowances	<p>Allowance for doubtful accounts</p> <p>To prepare for credit losses on receivables, an allowance equal to the estimated amount of uncollectible receivables is provided for general receivables based on the historical write-off ratio, and bad receivables based on case-by-case determination of collectibility.</p>	<p>Allowance for doubtful accounts</p> <p>Same as on the left.</p>
(4) Accounting for significant leases	<p>Finance leases other than those, which are deemed to transfer the ownership of the lease assets to the lessees, are accounted for by the method similar to that applicable to ordinary operating leases.</p>	<p>—————</p>
(5) Other significant accounting policies in the preparation of financial statements	<p>Consumption taxes are accounted by the tax-exclusion method.</p>	<p>Same as on the left.</p>
5. Valuations on assets and liabilities of consolidated subsidiary	<p>Assets and liabilities in consolidated subsidiary are evaluated based on their full market value.</p>	<p>Same as on the left.</p>
6. Amortization of goodwill and negative goodwill	<p>Goodwill is amortized equally over the period of its effects.</p>	<p>Same as on the left.</p>
7. Scope of cash and cash equivalents on statements of cash flows	<p>For the purpose of statements of cash flows, cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible known amounts of cash and present insignificant risk of change in value.</p>	<p>Same as on the left.</p>

**Change in Significant Accounting Policies in the Preparation of Consolidated Financial Statements**

FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
<p style="text-align: center;">_____</p>	<p>(Accounting Standards for Lease Transactions) In prior years, the Company accounted for finance leases where there is no transfer of ownership as ordinary lease transactions for accounting purposes. In the current fiscal year, the Company started to apply “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13: originally issued on June 17, 1993 by Section 1 of the Business Accounting Deliberation Counsel, and revised on March 30, 2007 by Accounting Standards Board of Japan) and “Guidance on Accounting Standards for Lease Transactions” (ASBJ Guidance No. 16: originally issued on January 18, 1994 by Accounting Standards Committee of the Japanese Institute of Certified Public Accountants, and revised on March 30, 2007 by Accounting Standards Board of Japan), and using an accounting method for leases that is based on the method used for ordinary purchases and sales. The application of these standards has no impact on profit/loss.</p>

**Reclassifications**

FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
<p style="text-align: center;">_____</p>	<p>(Consolidated balance sheets) Following the application of the “Cabinet Office Ordinance Partially Revising Regulation for Terminology, Forms and Preparation Methods of Financial Statements” (Cabinet Office Ordinance No. 50, August 7, 2008), “Inventories” is reclassified and divided into following items in the current fiscal year: “Merchandise and finished goods” is presented as a separate line item; “Supplies” (1,649,000 yen) is presented as a component of “Other” under “Current assets,” given that the amount has decreased the materiality of impact in the context of consolidated financial statements. The amount of “Merchandise and finished goods,” “Work in process,” and “Raw materials and supplies” included in “Inventories” in the previous fiscal year was 18,103,000 yen, 740,000 yen and 3,005,000 yen, respectively.</p>
<p>(Consolidated statements of cash flows) Effective from the current fiscal year, “Increase (decrease) in accounts payable-other,” included in “Other” under “Net cash provided by (used in) operating activities” (24,339,000 yen) in the previous fiscal year, is reclassified and presented as a separate line item since it has increased the materiality of impact in the context of consolidated financial statements.</p>	<p style="text-align: center;">_____</p>

**Notes to Consolidated Financial Statements****Notes to Consolidated Balance Sheets**

(Thousands of yen)

FY4/2008 (As of Apr. 30, 2008)	FY4/2009 (As of Apr. 30, 2009)
*1. The following items are applicable to non-consolidated subsidiaries and affiliates	*1. The following items are applicable to non-consolidated subsidiaries and affiliates
Investment securities (equity) 300,377	Investment securities (equity) 272,776

**Notes to Consolidated Statements of Income**

(Thousands of yen)

FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)						
*1. Major items of selling, general and administrative expenses	*1. Major items of selling, general and administrative expenses						
Provision of allowance for doubtful account 4,750	Provision of allowance for doubtful account 10,182						
Substitute collection fees 782,121	Substitute collection fees 978,505						
Advertising expenses 1,026,091	Advertising expenses 1,483,077						
*2. Breakdown of gain on sales of noncurrent assets	*2. _____						
Tools, furniture and fixtures 182							
*3. Breakdown of loss on sales and retirement of noncurrent assets	*3. Breakdown of loss on sales and retirement of noncurrent assets						
Software 1,397	Software 5,992						
Buildings and structures 2,857	Tools, furniture and fixtures 200						
Tools, furniture and fixtures 3,514							
*4. Impairment loss	*4. _____						
The Group recognized an impairment loss for the following groups of assets.							
<table border="1" style="width: 100%;"> <thead> <tr> <th style="text-align: center;">Location</th> <th style="text-align: center;">Usage</th> <th style="text-align: center;">Item</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Osaka</td> <td style="text-align: center;">Health food sales</td> <td style="text-align: center;">Goodwill</td> </tr> </tbody> </table>	Location	Usage	Item	Osaka	Health food sales	Goodwill	
Location	Usage	Item					
Osaka	Health food sales	Goodwill					
Used assets are grouped based on an administrative accounting classification for grasping ongoing earnings. The group had previously amortized equally the goodwill it booked at the time it made G-Plus Co., Ltd. into a consolidated subsidiary on November 1, 2005, but following a decision to exit from the sale of health food sales, reduced the entire book value of the goodwill of the business of 34,358,000 yen, and booked the resulting impairment loss as an extraordinary loss.							

**Notes to Consolidated Statements of Changes in Net Assets**

FY4/2008 (May 1, 2007 – Apr. 30, 2008)

## 1. Type and number of outstanding shares and treasury stock (Shares)

	Number of shares as of Apr. 30, 2007	Increase during the fiscal year	Decrease during the fiscal year	Number of shares as of Apr. 30, 2008
Outstanding shares				
Common shares (Note)	128,500	2,520	-	131,020

Note: The increase in the number of common shares outstanding (2,520 shares) was due to the issue of new shares resulting from the exercise of the subscription rights to shares.

## 2. Items related to acquisition rights for new shares and treasury stock

Not applicable.

## 3. Dividends

## (1) Dividend payment

Resolution	Type of share	Total amount of dividend (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting on Jul. 30, 2007	Common shares	205,600	1,600	Apr. 30, 2007	Jul. 31, 2007

## (2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Resolution	Type of share	Total amount of dividend (Thousands of yen)	Source of funds	Dividend per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting on Jul. 30, 2008	Common shares	327,550	Retained earnings	2,500	Apr. 30, 2008	Jul. 31, 2008

FY4/2009 (May 1, 2008 – Apr. 30, 2009)

## 1. Type and number of outstanding shares and treasury stock (Shares)

	Number of shares as of Apr. 30, 2008	Increase during the fiscal year	Decrease during the fiscal year	Number of shares as of Apr. 30, 2009
Outstanding shares				
Common shares (Note)	131,020	1,740	-	132,760

Note: The increase in the number of common shares outstanding (1,740 shares) was due to the issue of new shares resulting from the exercise of the subscription rights to shares.

## 2. Items related to subscription rights for new shares and treasury stock

Not applicable.

## 3. Dividends

## (1) Dividend payment

Resolution	Type of share	Total amount of dividend (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting on Jul. 30, 2008	Common shares	327,550	2,500	Apr. 30, 2008	Jul. 31, 2008

## (2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Resolution	Type of share	Total amount of dividend (Thousands of yen)	Source of funds	Dividend per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting on Jul. 30, 2009	Common shares	531,040	Retained earnings	4,000	Apr. 30, 2009	Jul. 31, 2009

Note: Dividend per share of 4,000 yen includes a commemorative dividend of 500 yen.

## Notes to Consolidated Statements of Cash Flows

(Thousands of yen)

FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)																																
<p>*1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of balance sheets for the current fiscal year is made as follows.</p> <p style="text-align: right;">(As of Apr. 30, 2008)</p> <table> <tr> <td>Cash and deposits</td> <td style="text-align: right;">1,978,309</td> </tr> <tr> <td>Time deposits with maturities longer than three months</td> <td style="text-align: right;">(200,000)</td> </tr> <tr> <td>Short-term investments (securities) with original maturities of less than three months</td> <td style="text-align: right;">1,102,046</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;"><u>2,880,355</u></td> </tr> </table> <p>*2. Assets and liabilities of the subsidiary excluded from the consolidation due to sale of equity interest</p> <p>Assets and liabilities at the time of sale, sales value, and the proceeds from sales related to the sale of stock of Ares &amp; Mercury Co., Ltd.</p> <table> <tr> <td>Current assets</td> <td style="text-align: right;">217,984</td> </tr> <tr> <td>Noncurrent assets</td> <td style="text-align: right;">4,055</td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;"><u>222,039</u></td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">49,784</td> </tr> <tr> <td>Noncurrent liabilities</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;"><u>49,784</u></td> </tr> <tr> <td>Sales value</td> <td style="text-align: right;">308,880</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">180,013</td> </tr> <tr> <td>Net: Proceeds from sales</td> <td style="text-align: right;"><u>128,866</u></td> </tr> </table>	Cash and deposits	1,978,309	Time deposits with maturities longer than three months	(200,000)	Short-term investments (securities) with original maturities of less than three months	1,102,046	Cash and cash equivalents	<u>2,880,355</u>	Current assets	217,984	Noncurrent assets	4,055	Total assets	<u>222,039</u>	Current liabilities	49,784	Noncurrent liabilities	-	Total liabilities	<u>49,784</u>	Sales value	308,880	Cash and cash equivalents	180,013	Net: Proceeds from sales	<u>128,866</u>	<p>*1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of balance sheets for the current fiscal year is made as follows.</p> <p style="text-align: right;">(As of Apr. 30, 2009)</p> <table> <tr> <td>Cash and deposits</td> <td style="text-align: right;">2,938,704</td> </tr> <tr> <td>Short-term investments (securities) with original maturities of less than three months</td> <td style="text-align: right;">1,105,343</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;"><u>4,044,047</u></td> </tr> </table> <p>*2. _____</p>	Cash and deposits	2,938,704	Short-term investments (securities) with original maturities of less than three months	1,105,343	Cash and cash equivalents	<u>4,044,047</u>
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**Segment Information**

## a. Operating segment information

FY4/2008 (May 1, 2007 – Apr. 30, 2008)

(Thousands of yen)

	Digital contents business	Mobile commerce business	Others business	Total	Elimination or corporate	Consolidated
I. Net sales and operating income						
Net sales						
(1) External sales	6,509,382	1,655,467	386,143	8,550,993	-	8,550,993
(2) Inter-segment sales and transfers	-	136	18,053	18,190	(18,190)	-
Total	6,509,382	1,655,604	404,197	8,569,183	(18,190)	8,550,993
Operating expenses	4,139,361	1,660,013	411,432	6,210,807	469,258	6,680,065
Operating income (loss)	2,370,020	(4,409)	(7,234)	2,358,376	487,448	1,870,927
II. Assets, depreciation, and capital expenditures						
Assets	2,012,464	271,312	150,102	2,433,879	4,271,373	6,705,252
Depreciation	138,224	23,223	26,302	187,751	32,379	220,130
Capital expenditures	132,891	1,863	22,250	157,005	22,426	179,431

Notes: 1. Reclassification of operating segments

Operating segments are determined in accordance with the characteristics of each business activity.

2. The activities of each segment are as follows.

Operating segments	Main services
Digital contents business	Supply of mobile contents and Web contents
Mobile commerce business	Sale of merchandise over the Internet and at stores
Others business	Business activities excluding those mentioned above

3. Unallocated operating expenses (487,506,000 yen) included in "Elimination or corporate" consist primarily of expenses related to the administration divisions, including the Accounting and General Affairs Divisions.

4. Corporate assets (4,271,333,000 yen) included in "Elimination or corporate" consist primarily of surplus fund (cash and deposits) and assets of the administration divisions at the Company.

FY4/2009 (May 1, 2008 – Apr. 30, 2009)

(Thousands of yen)

	Digital contents business	Mobile commerce business	Others business	Total	Elimination or corporate	Consolidated
I. Net sales and operating income						
Net sales						
(1) External sales	8,078,627	1,938,465	291,270	10,308,364	-	10,308,364
(2) Inter-segment sales and transfers	-	-	-	-	-	-
Total	8,078,627	1,938,465	291,270	10,308,364	-	10,308,364
Operating expenses	4,926,442	1,809,038	232,095	6,967,576	631,635	7,599,211
Operating income (loss)	3,152,184	129,427	59,175	3,340,788	(631,635)	2,709,152
II. Assets, depreciation, and capital expenditures						
Assets	2,328,652	559,784	93,957	2,982,395	5,165,888	8,148,283
Depreciation	181,366	14,211	15,418	210,996	22,973	233,970
Capital expenditures	232,364	24,311	475	257,150	12,640	269,790

Notes: 1. Reclassification of operating segments

Operating segments are determined in accordance with the characteristics of each business activity.

2. The activities of each segment are as follows.

Operating segments	Main services
Digital contents business	Supply of mobile contents and Web contents
Mobile commerce business	Sale of merchandise over the Internet and at stores
Others business	Business activities excluding those mentioned above

3. Unallocated operating expenses (631,635,000 yen) included in "Elimination or corporate" consist primarily of expenses related to the administration divisions, including the Accounting and General Affairs Divisions.

4. Corporate assets (5,165,888,000 yen) included in "Elimination or corporate" consist primarily of surplus fund (cash and deposits) and assets of the administration divisions at the Company.

5. Change in accounting policy

(Accounting Standards for Measurement of Inventories)

As discussed in the section "Significant Accounting Policies in the Preparation of the Consolidated Financial Statements, 4. (1) 2) iii)," the Company has adopted "Accounting Standards for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006) from the current fiscal year. The effect of this change is insignificant.

b. Geographical segment information

FY4/2008 (May 1, 2007 – Apr. 30, 2008)

Not applicable since the Company did not have consolidated subsidiaries or branch offices in areas other than Japan.

FY4/2009 (May 1, 2008 – Apr. 30, 2009)

Not applicable since the Company did not have consolidated subsidiaries or branch offices in areas other than Japan.

c. Overseas sales

FY4/2008 (May 1, 2007 – Apr. 30, 2008)

Not applicable since the Company had no overseas sales.

FY4/2009 (May 1, 2008 – Apr. 30, 2009)

Overseas sales information is not presented since it accounts for less than 10% of consolidated net sales.

**Per Share Information**

(Yen)

FY4/2008 (May 1, 2007 – Apr. 30, 2008)		FY4/2009 (May 1, 2008 – Apr. 30, 2009)	
Net assets per share	37,779.69	Net assets per share	46,995.21
Net income per share	7,925.42	Net income per share	11,966.45
Diluted net income per share	7,576.47	Diluted net income per share	11,610.25

Note: The following is a reconciliation of net income per share and diluted net income per share

(Thousands of yen)

	FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
Net income per share		
Net income	1,027,815	1,580,863
Amounts not available to common shareholders	-	-
Net income available to common shares	1,027,815	1,580,863
Average number of common shares outstanding during the period (shares)	129,686	132,108
Diluted net income per share		
Adjustment to net income	-	-
Increase in the number of common shares (shares)	5,973	4,053
(of which stock subscription rights to shares)	( 5,973)	( 4,053)
Summary of potential stock not included in the calculation of “Diluted net income per share” since there was no dilutive effect.	_____	_____

**Subsequent Events**

FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
<p>Adopted a selective-type defined contribution pension plan starting from May 1, 2008. Minimal impact to earnings in the following current fiscal year.</p>	<p>Acquisition of Nikkatsu Corporation The Company acquired the stock of Nikkatsu Corporation to collaborate in the provision of video content services, and to co-develop/provide mobile contents using characters. Below is an overview of the stock acquisition.</p> <p>1) Profile of seller Nikkatsu Corporation</p> <p>2) Profile of Nikkatsu Corporation Company name: Nikkatsu Corporation Representative: Naoki Sato Address: 3-28-12, Hongo, Bunkyo-ku, Tokyo Established: September 1912 Capital: 3,534.75 million yen Business activities: Planning, production, and distribution of movies Planning, production, sales and rental of videos and software Consent to use the television broadcast rights of video titles Planning, production, and sale of copyrighted products of characters, etc. Theater management Contracted production of outsourced broadcast video using telecommunications satellites, and rental of studios and filming equipment for studios Management of training institutes for entertainers and video engineers</p> <p>3) Date of acquisition May 29, 2009</p> <p>4) Number of shares acquired 424,100 shares</p> <p>5) Acquisition cost 421,979,000 yen</p> <p>6) Equity interest after stock acquisition 5.99%</p>

**Omission of Disclosure**

Notes on lease transaction, marketable securities, derivative transactions, retirement benefits, stock options, deferred tax accounting, and related-party transactions etc. are not presented since the disclosure of these information is not significant in the context of the financial results.

**5. Non-consolidated Financial Statements****(1) Balance Sheets**

	(Thousands of yen)	
	FY4/2008 (As of Apr. 30, 2008)	FY4/2009 (As of Apr. 30, 2009)
Assets		
Current assets		
Cash and deposits	1,912,324	2,836,974
Accounts receivable-trade	1,900,990	2,198,420
Short-term investment securities	1,502,910	1,405,343
Merchandise and finished goods	-	994
Merchandise	1,899	-
Work in process	740	-
Supplies	1,950	-
Advance payments-trade	3,186	-
Prepaid expenses	24,979	23,538
Deferred tax assets	60,426	93,007
Other	14,349	9,918
Allowance for doubtful accounts	(22,783)	(32,966)
Total current assets	5,400,972	6,535,231
Noncurrent assets		
Property, plant and equipment		
Buildings and accompanying facilities	55,802	55,802
Accumulated depreciation	(15,332)	(21,551)
Buildings and accompanying facilities, net	40,470	34,251
Tools, furniture and fixtures	179,061	198,801
Accumulated depreciation	(139,548)	(174,901)
Tools, furniture and fixtures, net	39,513	23,900
Total property, plant and equipment	79,983	58,151
Intangible assets		
Software	151,662	211,791
Other	18,768	9,610
Total intangible assets	170,430	221,402
Investments and other assets		
Investment securities	66,470	332,133
Stocks of subsidiaries and affiliates	771,330	771,330
Long-term loans receivable	10,000	-
Long-term prepaid expenses	2,333	-
Deferred tax assets	120,008	143,386
Guarantee deposits	121,894	121,924
Other	-	1,000
Allowance for doubtful accounts	(10,000)	-
Total investments and other assets	1,082,036	1,369,773
Total noncurrent assets	1,332,450	1,649,327
Total assets	6,733,422	8,184,558

	(Thousands of yen)	
	FY4/2008 (As of Apr. 30, 2008)	FY4/2009 (As of Apr. 30, 2009)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	489,186	489,614
Lease obligations	-	2,417
Accounts payable-other	435,735	389,228
Accrued expenses	70,396	13,207
Income taxes payable	551,486	773,039
Accrued consumption taxes	59,172	70,832
Deposits received	13,277	17,072
Directors' bonuses payable	30,000	35,768
<b>Total current liabilities</b>	<b>1,649,255</b>	<b>1,791,180</b>
<b>Noncurrent liabilities</b>		
Lease obligations	-	2,417
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>2,417</b>
<b>Total liabilities</b>	<b>1,649,255</b>	<b>1,793,598</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	1,421,443	1,438,843
Capital surplus		
Legal capital surplus	1,346,818	1,364,218
<b>Total capital surpluses</b>	<b>1,346,818</b>	<b>1,364,218</b>
<b>Retained earnings</b>		
Other retained earnings		
Retained earnings brought forward	2,315,905	3,586,821
<b>Total retained earnings</b>	<b>2,315,905</b>	<b>3,586,821</b>
<b>Total shareholders' equity</b>	<b>5,084,167</b>	<b>6,389,883</b>
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	-	1,076
<b>Total valuation and translation adjustments</b>	<b>-</b>	<b>1,076</b>
<b>Total net assets</b>	<b>5,084,167</b>	<b>6,390,959</b>
<b>Total liabilities and net assets</b>	<b>6,733,422</b>	<b>8,184,558</b>

**(2) Statements of Income**

(Thousands of yen)

	FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
Net sales		
Sales on digital contents business	6,373,743	8,078,627
Sales on mobile commerce business	843,003	1,242,821
Sales on others business	327,034	291,270
Total net sales	7,543,781	9,612,719
Cost of sales		
Cost of sales on digital contents business	1,926,496	2,154,945
Cost of sales on mobile commerce business	543,924	791,185
Cost of sales on other business	274,157	165,248
Total cost of sales	2,744,577	3,111,378
Gross profit	4,799,203	6,501,340
Selling, general and administrative expenses	2,914,677	3,805,048
Operating income	1,884,526	2,696,291
Non-operating income		
Interest income	5,712	5,476
Interest on securities	6,254	11,059
Insurance premiums refunded cancellation	3,309	-
Other	2,216	2,521
Total non-operating income	17,492	19,056
Non-operating expenses		
Stock issuance cost	444	444
Loss on investments in partnership	4,094	3,935
Other	-	747
Total non-operating expenses	4,539	5,127
Ordinary income	1,897,480	2,710,221
Extraordinary income		
Gain on liquidation of investment securities	29,541	-
Reversal of allowance for doubtful accounts	-	10,000
Total extraordinary income	29,541	10,000
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	2,122	6,092
Loss on valuation of investment securities	450	179
Total extraordinary losses	2,573	6,271
Income before income taxes	1,924,448	2,713,949
Income taxes-current	833,980	1,172,181
Income taxes-deferred	(37,453)	(56,698)
Total income taxes	796,526	1,115,483
Net income	1,127,921	1,598,465

**(3) Statement of Changes in Net Assets**

(Thousands of yen)

	FY4/2008 (May 1, 2007 – Apr. 30, 2008)	FY4/2009 (May 1, 2008 – Apr. 30, 2009)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	1,396,243	1,421,443
Changes of items during the period		
Issuance of new shares	25,200	17,400
Total changes of items during the period	25,200	17,400
Balance at the end of current period	1,421,443	1,438,843
Capital surplus		
Legal capital surplus		
Balance at the end of previous period	1,321,618	1,346,818
Changes of items during the period		
Issuance of new shares	25,200	17,400
Total changes of items during the period	25,200	17,400
Balance at the end of current period	1,346,818	1,364,218
Retained earnings		
Other retained earnings		
Retained earnings brought forward		
Balance at the end of previous period	1,393,583	2,315,905
Changes of items during the period		
Dividends from surplus	(205,600)	(327,550)
Net income	1,127,921	1,598,465
Total changes of items during the period	922,321	1,270,915
Balance at the end of current period	2,315,905	3,586,821
Total shareholders' equity		
Balance at the end of previous period	4,111,445	5,084,167
Changes of items during the period		
Issuance of new shares	50,400	34,800
Dividends from surplus	(205,600)	(327,550)
Net income	1,127,921	1,598,465
Total changes of items during the period	972,721	1,305,715
Balance at the end of current period	5,084,167	6,389,883

	(Thousands of yen)	
	FY4/2008	FY4/2009
	(May 1, 2007 – Apr. 30, 2008)	(May 1, 2008 – Apr. 30, 2009)
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	-	-
Changes of items during the period		
Net changes of items other than shareholders' equity	-	1,076
Total changes of items during the period	-	1,076
Balance at the end of current period	-	1,076
Total valuation and translation adjustments		
Balance at the end of previous period		-
Balance at the end of current period	-	1,076
Total net assets		
Balance at the end of previous period	4,111,445	5,084,167
Changes of items during the period		
Issuance of new shares	50,400	34,800
Dividends from surplus	(205,600)	(327,550)
Net income	1,127,921	1,598,465
Net changes of items other than shareholders' equity	-	1,076
Total changes of items during the period	972,721	1,306,792
Balance at the end of current period	5,084,167	6,390,959

**Going Concern Assumption**

Not applicable.

**6. Other**

(1) Change in Directors

Not applicable.

*\* This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*