

"Zappallas, the spirit inside you."

Results of Operations for
the Second quarter ended October 31, 2010

December, 2010

ZAPPALLAS
ZAPPALLAS, INC.

Tokyo Stock Exchange First Section: Code No. 3770

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the Year Ending April 2011 2**

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Second Quarter Cumulative Consolidated Performance

- ✓ Both net sales and operating income reached a record high for the first half.
- ✓ Net sales were 5,714 million yen. It was a 3.1% increase from the same period of the previous year.
- ✓ Operating income was 1,637 million yen. It was a 9.3% increase from the same period of the previous year.
- ✓ Sales in commerce business stood at a record high of 1,170 million yen.

Second Quarter Accounting Consolidated Performance

- ✓ Net sales were 2,858 million yen. It was a 3.8% increase from the same period of the previous year.
- ✓ Operating income was 842 million yen. Operating margin was 29.5%. (This was the highest quarterly operating income)

Contents

- ✓ Regarding the number of sites, we introduced 15 new sites in contents business, bringing the total to 433 sites.
- ✓ The number of fee-paying subscribers increased by 9,000 from the previous quarter, and now is 2,242,000. (increased by 41,000 in fortune-telling contents and decreased in Decome and other contents)
- ✓ We started providing “Hoshi yomi” which are contents compatible with iPhone and Android.
- ✓ We launched 5 new sites for GREE (3 fortune-telling sites and 2 Decome sites)

Commerce

- ✓ Subscribers in mobile commerce business increased by 338,000 from the previous quarter, and now is 929,000.
- ✓ We started providing a new site, “Minna de Daietto”
- ✓ We started opening stores at PC site (Rakuten).

New efforts

- ✓ From August, we started providing “Spitra” which is a game using positional information.
- ✓ From October, We introduced virtual currency “Mint” into mobile site “Spichan” which is our first company platform of subscribers.

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Chapter 3 Performance Overview by Business Segment

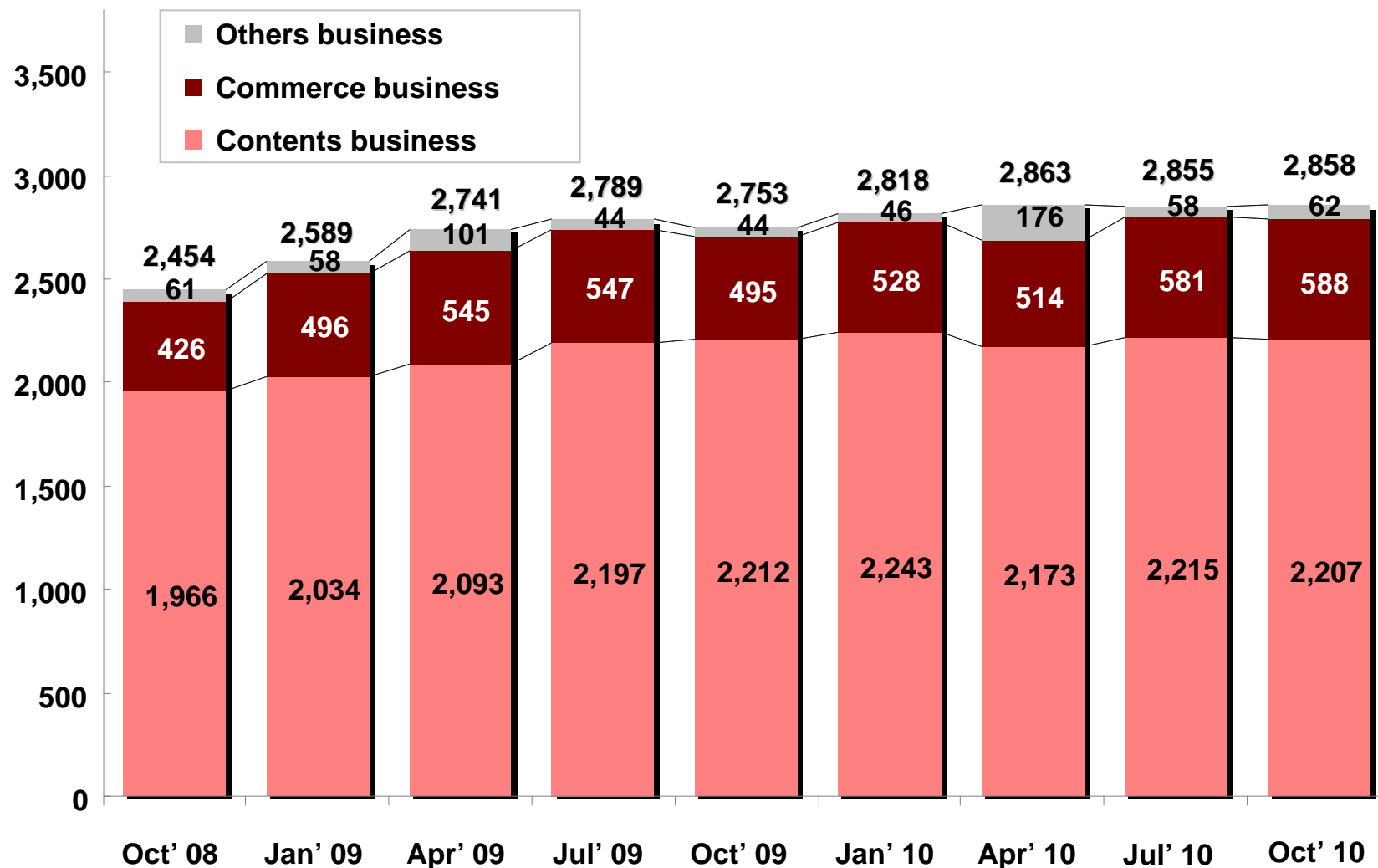
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2Q / FY2011 Consolidated Statements of Income

	FY2011 2Q (six months)		FY2010 2Q (six months)		YoY change	FY2011 2Q (three months)	
	Million yen	%	Million yen	%	%	Million yen	%
Net sales	5,714	100.0	5,542	100.0	103.1	2,858	100.0
Gross profit	3,838	67.2	3,746	67.6	102.4	1,914	67.0
SG&A expenses	2,201	38.5	2,248	40.6	97.9	1,070	37.5
Operating income	1,637	28.6	1,498	27.0	109.3	843	29.5
Ordinary income	1,648	28.8	1,497	27.0	110.1	849	29.7
Net income	973	17.0	878	15.9	110.8	500	17.5

Consolidated Net Sales Transition (Quarterly Base)

(Millions of yen)

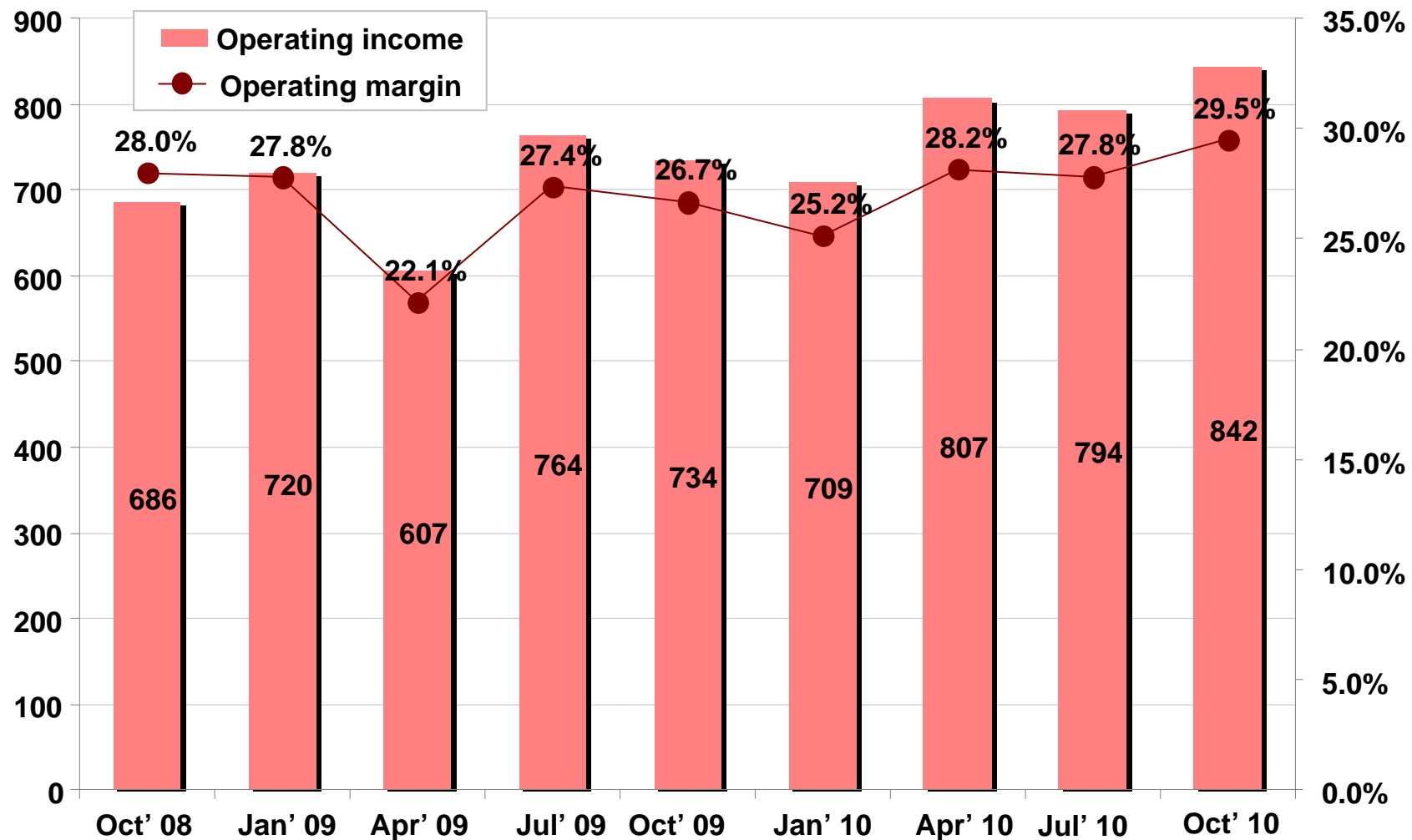


※ The effects of the segment change are small, and so the values before the change are used for the data before the term ended Apr. 2010.

Consolidated Operating Income Transition (Quarterly Base)

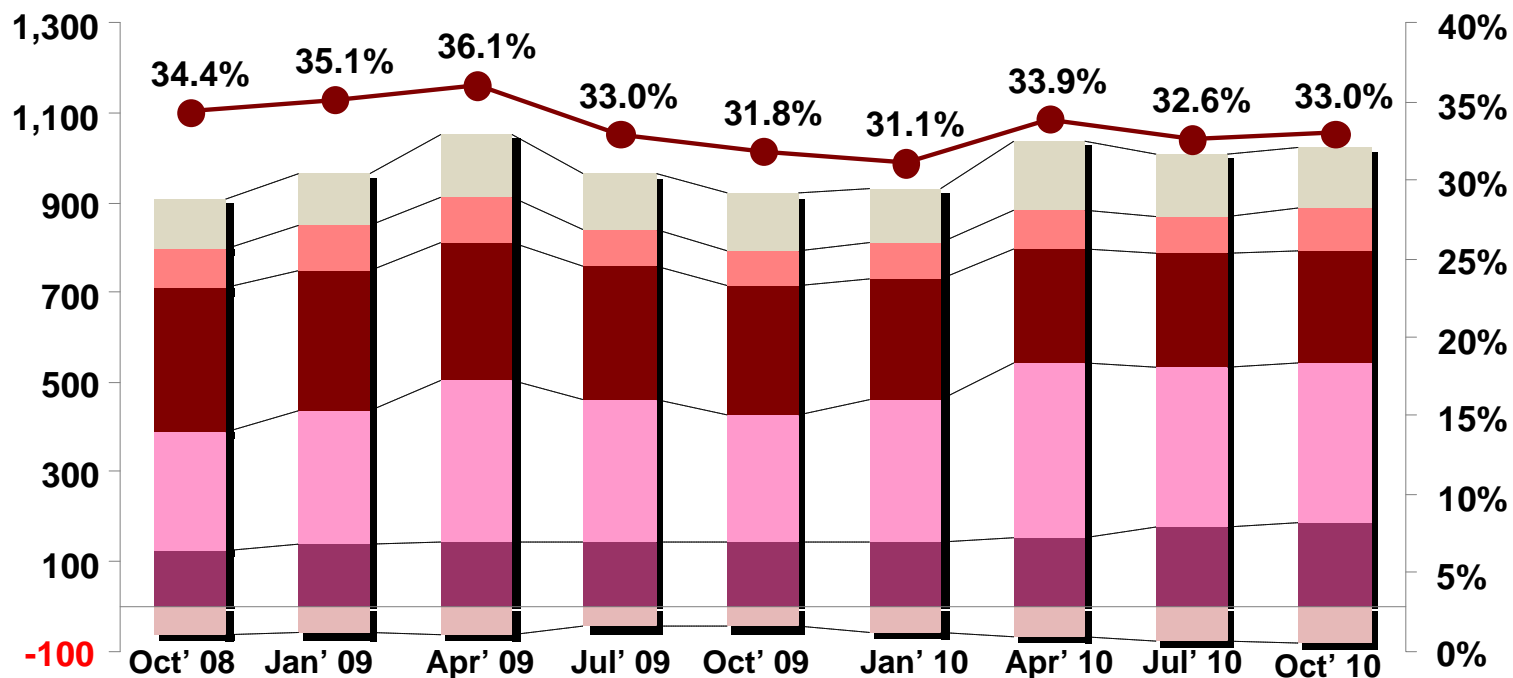
Operating income and operating margin reached a record high.

(Millions of yen)



Consolidated Cost of Sales Transition (Quarterly Base)

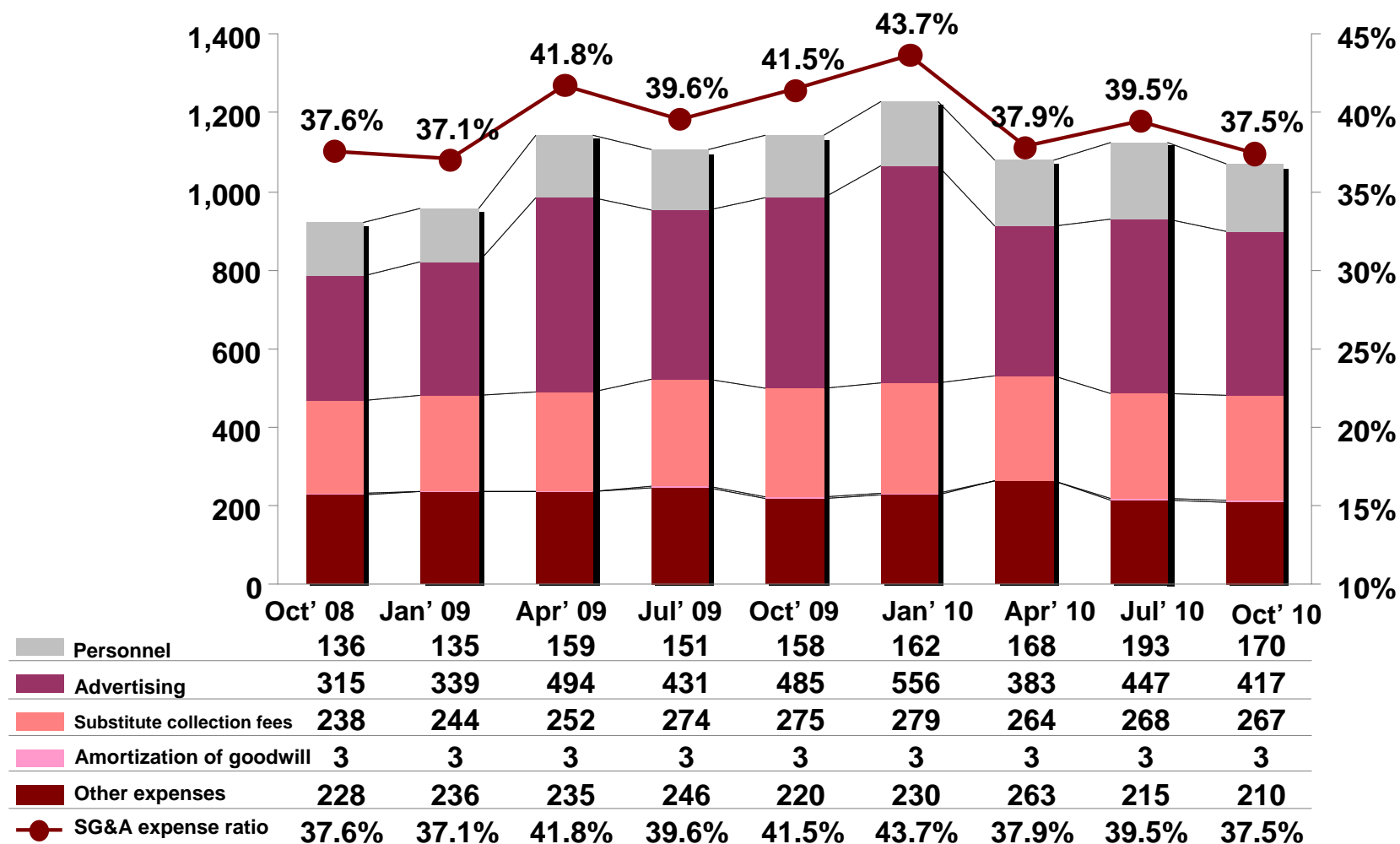
(Millions of yen)



Labor costs	109	115	140	124	129	123	154	139	139
Subcontract expenses	90	101	101	82	76	79	85	82	95
Royalties	318	314	305	297	286	268	258	254	248
Cost of goods	265	296	360	317	285	316	389	357	357
Other costs	126	140	145	144	144	146	151	176	186
Transfer to other account	-62	-60	-64	-46	-46	-57	-67	-78	-82
Cost of sales ratio	34.4%	35.1%	36.1%	33.0%	31.8%	31.1%	33.9%	32.6%	33.0%

Consolidated SG&A Expenses Transition (Quarterly Base)

(Millions of yen)



2Q / FY2011 Quarterly Consolidated Balance Sheets

	As of Oct. 31, 2010		As of Apr. 30, 2010		Change		
	(Millions of yen)						
Current assets	6,247	79.2%	5,880	77.9%	367		
Non-current assets	1,640	20.8%	1,663	22.1%	(22)	Increase of accounts receivable, trade 449 million	
Property, plant and equipment	139	1.8%	143	1.9%	(4)		
Intangible assets	503	6.4%	467	6.2%	36		
Software	265	3.4%	211	2.8%	54		
Goodwill	206	2.6%	213	2.8%	(6)		
Other	31	0.4%	42	0.6%	(11)		
Investments and other assets	997	12.6%	1,052	14.0%	(54)	Decrease of retirement directors' benefits payable (143) million	
Total assets	7,888	100.0%	7,543	100.0%	344		
Total liabilities			1,737	23.0%	(111)		
Total net assets	1,625	20.6%	5,806	77.0%	456	Increase of retained earnings 453 million	
Total liabilities and net assets	6,263	79.4%	7,543	100.0%	344		
	7,888	100.0%					

2Q / FY2011 Quarterly Consolidated Cash Flows

(Millions of yen)

	FY2011 2Q (six months)	FY2010 2Q (six months)
Cash flows from operating activities	596	775
Cash flows from investing activities	(215)	(248)
Cash flows from financing activities	(517)	(528)
Increase (decrease) in cash and cash equivalents	(136)	(1)
Cash and cash equivalents at end of period	3,644	4,042

■ Main factors of increase/decrease in cash flows from operating activities

Income before income taxes	1,642 million yen
Depreciation and amortization	138million yen
Decrease in notes and accounts receivable, trade etc.	(449) million yen
Income taxes paid	(626) million yen

■ Main factors of increase/decrease in cash flows from investing activities

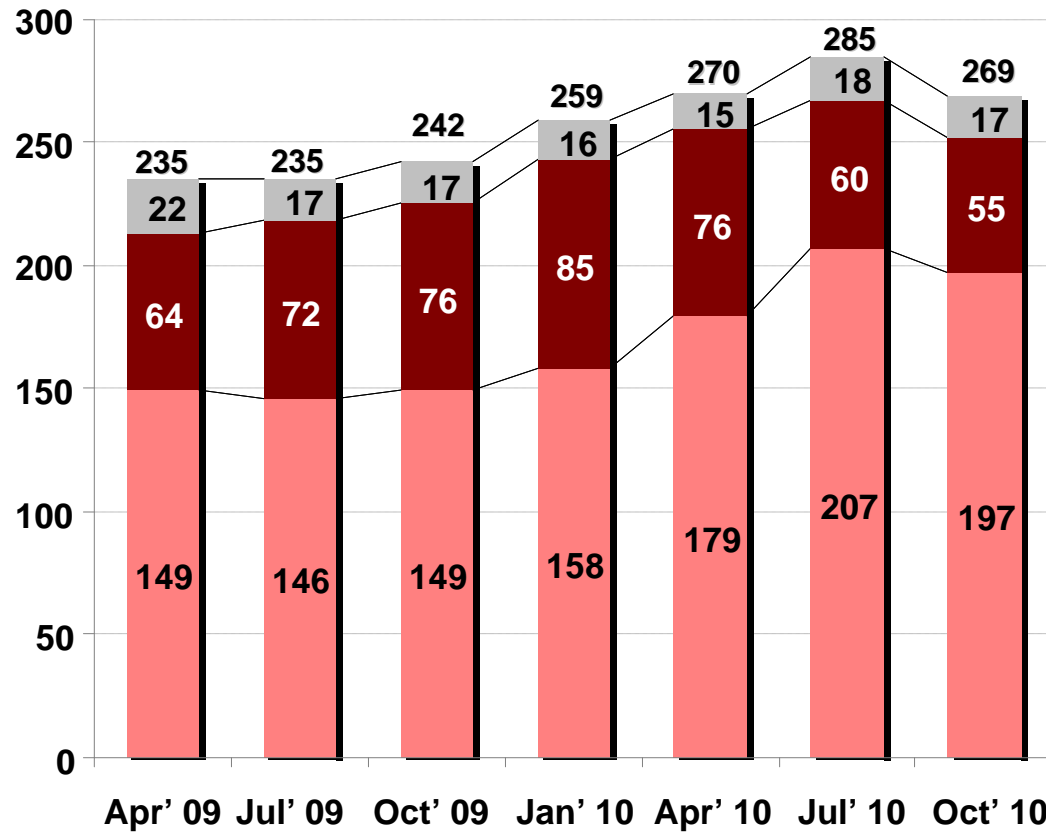
Purchase of intangible assets	(158) million yen
Purchase of property, plant and equipment	(31) million yen
Purchase of investment securities	(19) million yen

■ Main factor of increase/decrease in cash flows from financing activities

Cash dividends paid	(516) million yen
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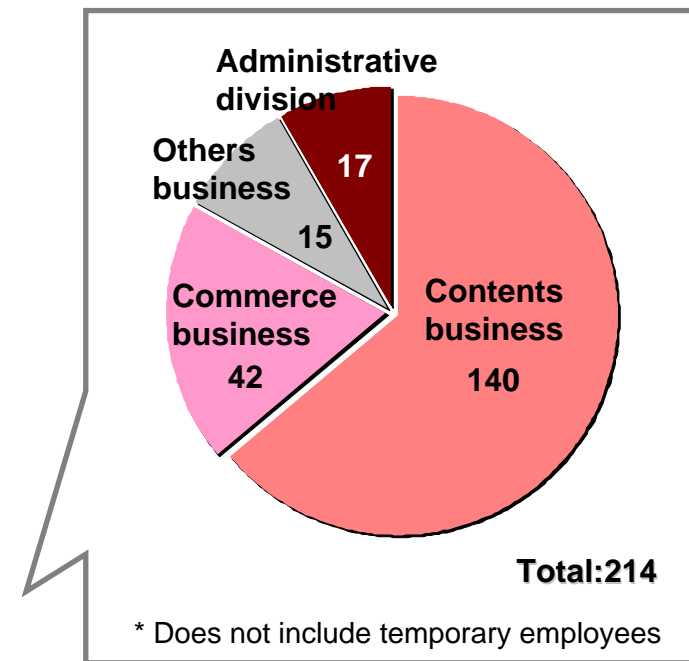
Number of Employees Transition (Consolidated)

(Employees)



■ Employees ■ Temporary employees ■ Subsidiaries

※ The effects of the segment change are small, and so the values before the change are used for the data before the term ended Apr. 2010.



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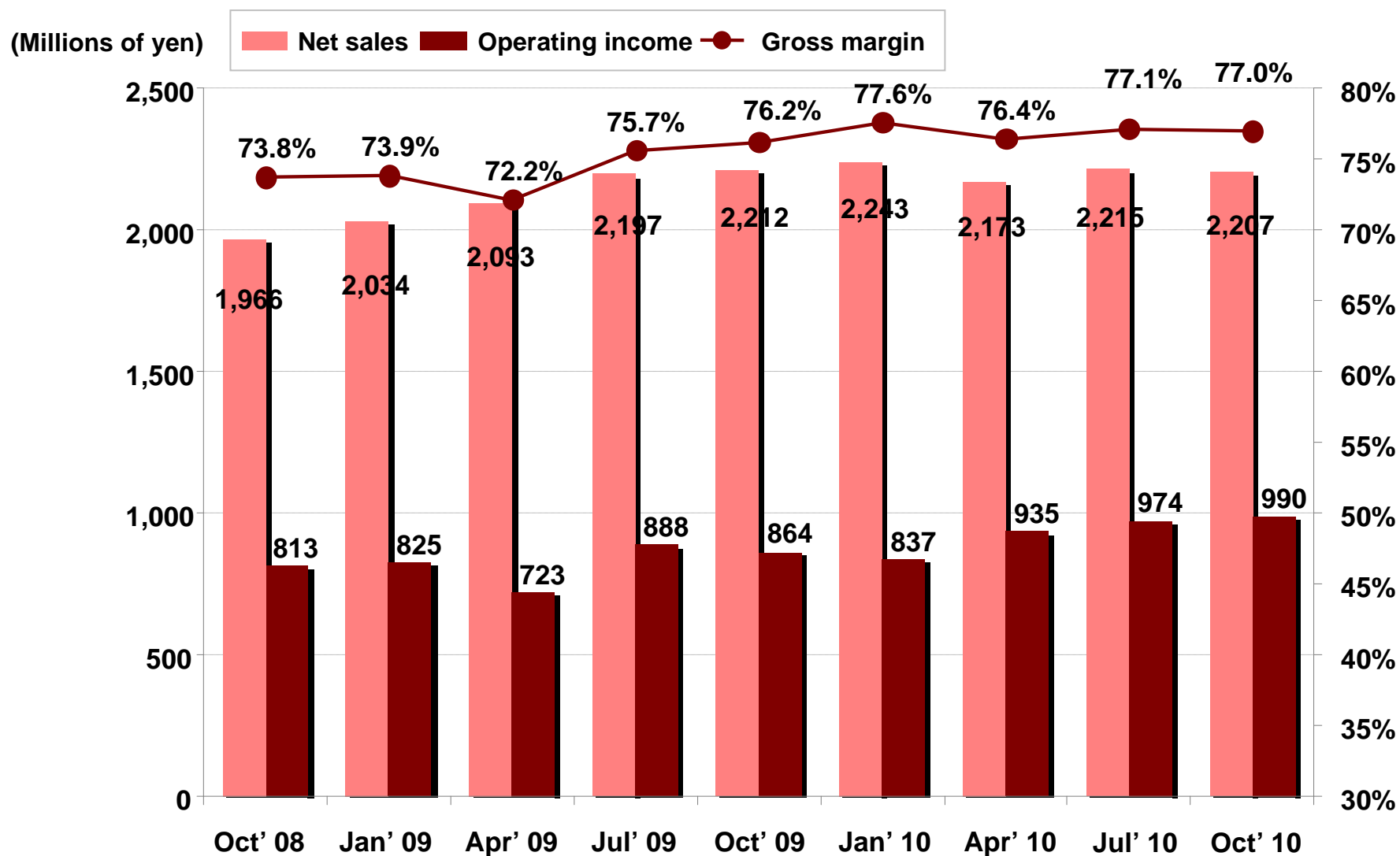
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Contents Business – Performance Transition (Quarterly Base)



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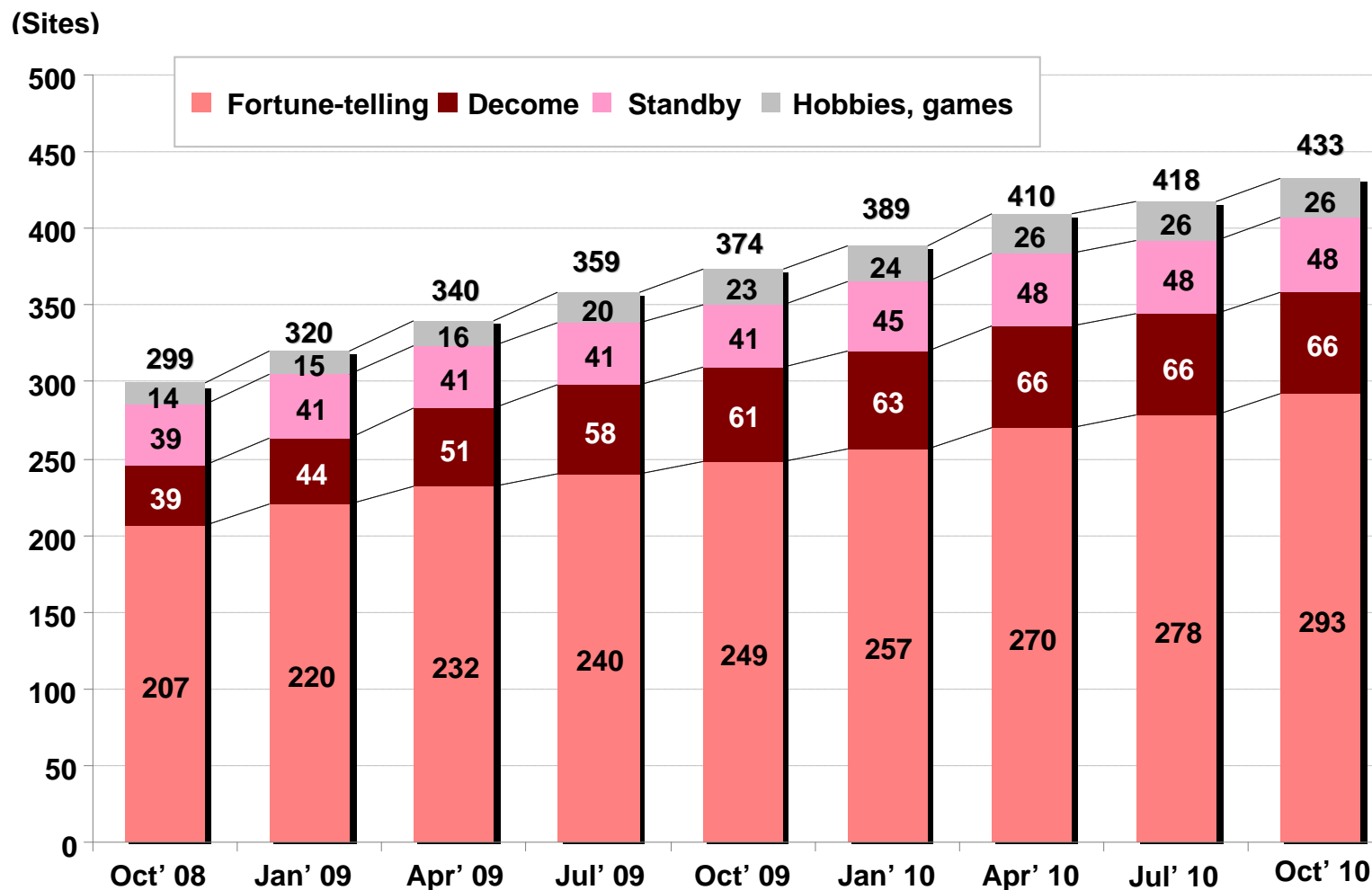
Main Items of Expense in Contents Business

(Millions of yen)

Item		FY2011 2Q (six months)	% to net sales	FY2010 2Q (six months)	% to net sales
Cost of sales	Labor	236	5.3%	243	5.5%
	Royalties	502	11.4%	584	13.3%
	Subcontract	144	3.3%	140	3.2%
	Other	130	3.0%	92	2.1%
SG&A expenses	Personnel	40	0.9%	55	1.3%
	Advertising	769	17.4%	856	19.4%
	Substitute collection fees	535	12.1%	549	12.5%
	Other	98	2.2%	135	3.1%

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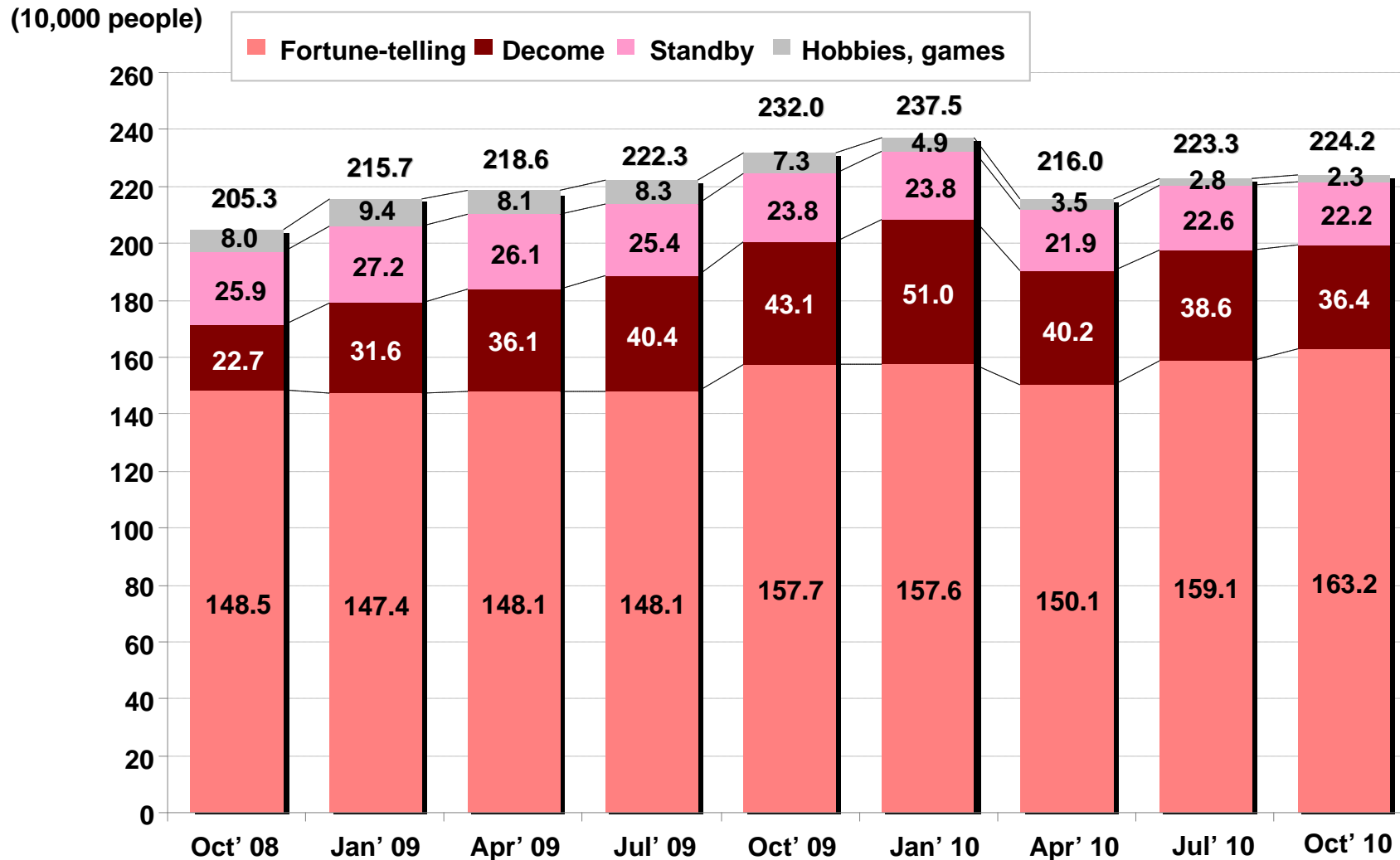
Number of Sites Supplied Transition (Quarterly Base)



Number of newly launched PC contents	Oct' 08	Jan' 09	Apr' 09	Jul' 09	Oct' 09	Jan' 10	Apr' 10	Jul' 10	Oct' 10
	12	14	16	24	29	29	26	29	33

Subscriber Numbers for Zappallas' Fee-paying Contents Transition (Monthly Fee)

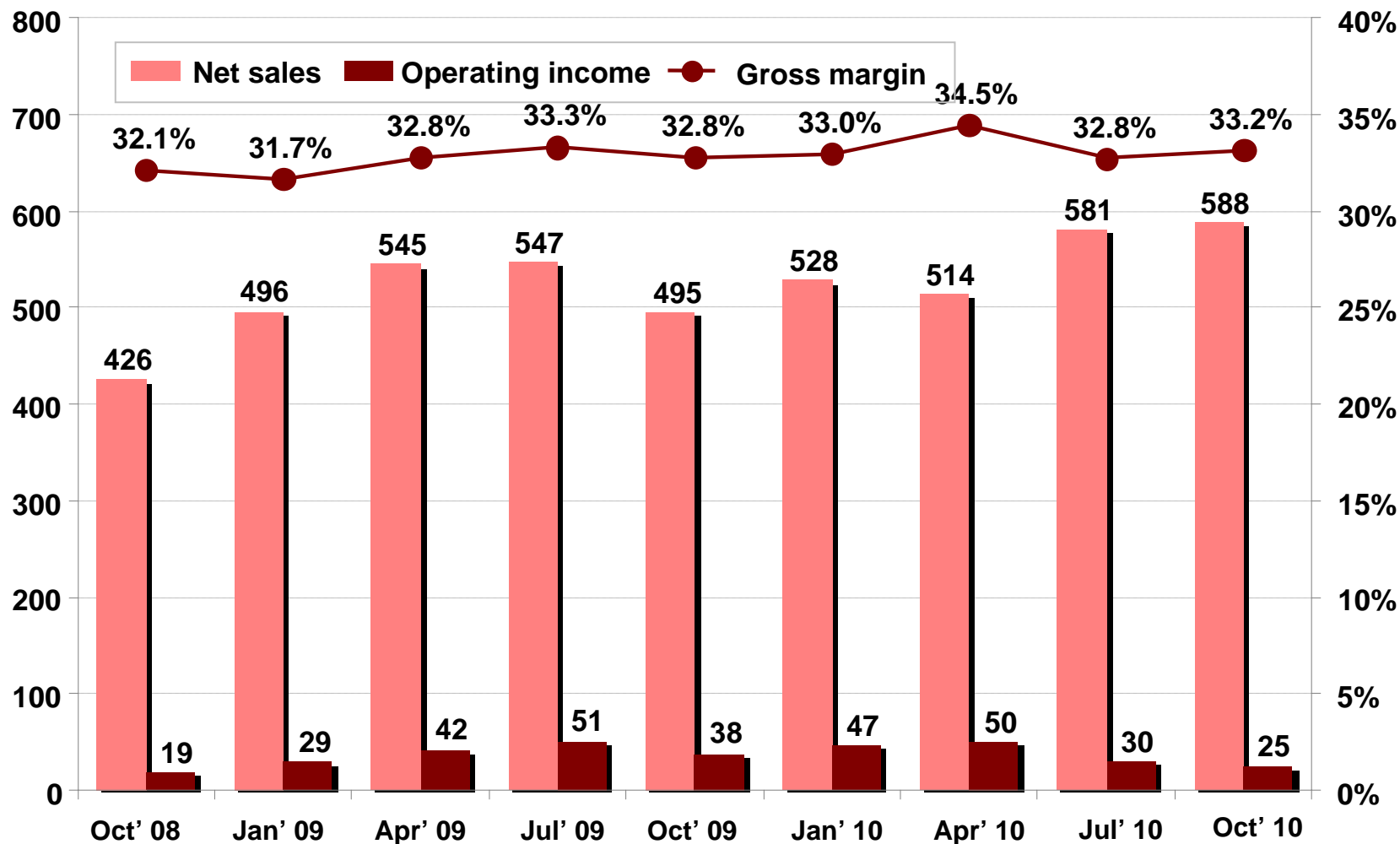
Fortune-telling contents subscribers increased by 41,000 compared to previous quarter.



Commerce Business – Performance Transition (Quarterly Base)

Sales in E-commerce increased thanks to new services and web deployment, etc.

(Millions of yen)



Main Items of Expenses in Commerce Business

(Millions of yen)

Item		FY2011 2Q (six months)	% to net sales	FY2010 2Q (six months)	% to net sales
Cost of sales	Cost of goods	676	57.8%	598	57.4%
	Packing and transportation	108	9.3%	99	9.5%
	Other	0	0.0%	0	0.0%
SG&A expenses	Personnel	94	8.1%	74	7.1%
	Advertising	91	7.8%	53	5.1%
	Commission fee	34	2.9%	39	3.7%
	Rents	26	2.2%	19	1.8%
	Other	83	7.1%	69	6.7%

Breakdown of Commerce Related Business

◆ Commerce Business (Zappallas)

(Millions of yen)

	FY2010 2Q	FY2010 3Q	FY2010 4Q	FY2011 1Q	FY2011 2Q
Net sales	330	364	335	424	438
Operating income	27	41	44	29	20

◆ Mobile phone sales (G-plus Co., Ltd.)

(Millions of yen)

	FY2010 2Q	FY2010 3Q	FY2010 4Q	FY2011 1Q	FY2011 2Q
Net sales	163	163	178	157	150
Operating income	12	8	8	3	7

*** This data is based on internal information prior to allocation of administrative costs and consolidated balancing.**

Progress Towards Business Forecasts for the Year Ending April 2011

(Millions of yen)

		FY2011 First-half Forecast		FY2011 Full-year Forecast		FY2011 2Q (six months) Result		First-half rate of progress	Full-year rate of progress
Consolidated	Net sales	5,390	100.0%	11,230	100.0%	5,714	100.0%	106.0%	50.9%
	Operating income	1,450	26.9%	3,020	26.9%	1,637	28.6%	112.9%	54.2%
	Ordinary income	1,455	27.0%	3,030	27.0%	1,648	28.8%	113.3%	54.4%
	Net income	860	16.0%	1,790	15.9%	973	17.0%	113.1%	54.4%
Non-Consolidated	Net sales	5,010	100.0%	10,600	100.0%	5,406	100.0%	107.9%	51.0%
	Operating income	1,440	28.7%	3,000	28.3%	1,632	30.2%	113.3%	54.4%
	Ordinary income	1,440	28.7%	3,000	28.3%	1,635	30.2%	113.5%	54.5%
	Net income	850	17.0%	1,770	16.7%	964	17.8%	113.4%	54.5%