June 8, 2011

Summary of Consolidated Financial Results for the Fiscal Year Ended April 30, 2011 (FY4/2010)

Company name:	ZAPPALLAS, INC.	Stock listing: Tokyo Stock Exchange (First Section)	
Securities code:	3770	URL: http://www.zappallas.com	
Representative:	Yoichiro Hirai, President, Chief Executive Officer		
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Scheduled date of Annual Shareholders' Meeting: July 28, 2011
Scheduled date of filing of Annual Securities Report: July 29, 2011
Scheduled date of payment of dividend: July 29, 2011
Supplementary materials for the quarterly financial results: Yes
Investor conference for the quarterly financial results Yes (For institutional investors)

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

FINANCIAL HIGHLIGHTS
(As of and for the fiscal years ended April 30, 2011)

1. Consolidated Performance

	FY4/2010	FY4/2011	YoY	FY4/2011
	(millions of yen)		*(percentage change)*	*(thousands of U.S. dollars)*
(1) Consolidated financial results				
Net sales	11,224	11,813	5.2%	$143,924
Operating income	3,015	3,073	1.9%	37,444
Ordinary income	3,040	3,089	1.6%	37,640
Net income	1,532	1,626	6.1%	19,815
Net income per share *(yen, U.S. dollars)*	11,600.12	13,111.58		159.74
Diluted net income per share *(yen, U.S. dollars)*	11,336.50	12,870.65		156.81
Return on equity (ROE)	25.5%	25.7%		
Return on assets (ROA)	38.8%	37.9%		
Operating income on net sales	26.9%	26.0%		
(2) Consolidated financial position				
Total assets	7,543	8,774		106,896
Net assets	5,806	6,927		84,403
Shareholders' equity ratio	76.3	78.4		
Net assets per share *(yen, U.S. dollars)*	46,518.04	55,257.83		673.21
(3) Consolidated cash flows				
Cash flows from operating activities	2,083	1,725		21,021
Cash flows from investing activities	(328)	(411)		(5,009)
Cash flows from financing activities	(2,018)	(508)		(6,190)
Cash and cash equivalents at end of period	3,780	4,587		55,886

(Note)	Comprehensive income (million yen)	FY4/2011:	1,682 (5.5%)	FY4/2010:	1,543 (－%)
(Reference)	Equity in earnings (losses) of affiliates (million yen)	FY4/2011:	9	FY4/2010:	(183)
	Shareholders' equity (million yen)	As of Apr. 30, 2011:	6,875	As of Apr. 30, 2010:	5,757

2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	(yen)				
FY4/2010	－	0.00	－	4,200.00	4,200.00
FY4/2011	－	0.00	－	4,200.00	4,200.00
FY4/2012 (Forecast)	－	0.00	－	4,200.00	4,200.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	(millions of yen)	*(%)*	*(%)*
FY4/2010	519	36.2	9.0
FY4/2011	522	32.0	8.3
FY4/2012 (Forecast)		－	

3. Consolidated Forecast for the Fiscal Year Ending April 30, 2012 (May 1, 2011 – April 30, 2012)

	FY4/2012	
	Six months	Annual
	(millions of yen)	
Net sales	—	11,200 –12,600
Operating income	—	2,550 – 3,080
Ordinary income	—	2,550 – 3,080
Net income	—	1,510 – 1,830
Net income per share *(yen)*	—	12,135.82 – 14,707.66

(Note) Earnings forecasts for the six months are not prepared. For detail, please refer to appendix page 3, "1. Business Results (1) Analysis of Business Results (Outlook for the Next Term)".

4. Other

1) Changes in important subsidiaries during the period: None
Newly included: — companies (Company name:), Removed: — companies (Company name:)

2) Changes in accounting principles, procedures and presentation methods, etc.
1) Changes caused by revision of accounting standards: Yes
2) Other changes: Yes
(Note) For details, please see "(7) Significant Accounting Policies in the Preparation of Consolidated Financial Statements" on page 19 of "Appendix."

3) Number of outstanding shares (common stocks)
1) Number of shares outstanding at the end of period (including treasury stock)
As of April 30, 2011: 134,110 shares
As of April 30, 2010: 133,460 shares
2) Number of treasury stock at the end of period
As of April 30, 2011: 9,685 shares
As of April 30, 2010: 9,685 shares
3) Average number of shares during the period (cumulative figure for consolidated quarterly period)
As of April 30, 2011: 124,048 shares
As of April 30, 2010: 132,108 shares

* Status of Implementation of Audit Process
This financial report ("Kessan Tanshin") is outside the scope of audit procedures based on the Financial Instruments and Exchange Act, and at the time of the release of this financial report the process of auditing financial statements based on the Financial Instruments and Exchange Act has not yet been completed.

* Explanations and Special Instructions on the Appropriate Use of Earnings Forecasts
1. The statements contained in this report related to the future, including earnings expectations, are based on the information currently possessed by the Company and certain assumptions which have been deemed logical. Actual performance may vary greatly due to many factors. Important items pertaining to the use of earnings forecasts and the conditions which form the earnings forecast assumptions may be found on page 3 of the documents attached to this financial report under "1. Business Results (1) Analysis of Business Results (Outlook for the Next Term)"
2. The Company has scheduled a briefing on its financial statements for institutional investors on June 9, 2011. The documents being used at the briefing session will be promptly posted to the Company's homepage.

* U.S. dollar amounts have been translated from Japanese yen, for readers' convenience only, at the exchange rate of ¥82.08=US$1, the approximate exchange rate of TTM of Bank of Tokyo-Mitsubishi UFJ, Ltd. as of April 28, 2011.

○Table of contents of the appendix

1. Business Results

(1) Analysis of Business Results

While some movement towards a rally in the Japanese economy was observed during the consolidated fiscal year ended April 30, 2011, the possibility of an additional economic contraction strengthened due to the effects of the Great East Japan Earthquake. In addition, the severe employment conditions characterized by the high unemployment rate continued to persist.

Regarding the environment surrounding the mobile business, the total number of mobile phone subscriptions at the end of April 30, 2011 was 120.17 million, and third-generation mobile phones accounted for 118.88 million of these subscriptions (+8.2% year-on-year), or 98.9% of the total. The mobile content-related market (mobile content markets and mobile commerce markets) have continued to expand, and combined for a total of 1.5206 trillion yen in fiscal 2009 (+12.4% year-over-year) (Note 2). Also, the number of smartphones (Note 3) shipped in fiscal year 2010 increased to 8.55 million, accounting for 22.7% of the mobile phones shipped domestically in Japan (Note 4). The possibility of major changes in the environment surrounding the mobile content-related market is expected. These changes include a forecast expansion of the mobile content-related market for smartphones.

In this environment, Zappallas Group seeks to grow through the creation of additional earning capacity and has taken on the further strengthening of its earning capacity base as the theme of the fiscal year ended April 30, 2011.

As a result, net sales in the consolidated fiscal year 11,813,348 thousand yen (+5.2% year-on-year), operating income 3,073,468 thousand yen (+1.9%), ordinary income 3,089,534 thousand yen (+1.6%), and net income 1,626,464 thousand yen (+6.1%).

An overview of each segment is given below. From the fiscal year ended April 30, 2011, the classification of segment information has changed along with the introduction of a management approach that follows the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No.17) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No.20). Also, when comparing data with the previous period, the values from the previous period reflect the classification of reported segments after the application of these accounting standards.

(Note 1) Data obtained from a Telecommunications Carriers Association survey.
(Note 2) Data obtained from a Mobile Content Forum survey.
(Note 3) This refers to multifunction mobile phones that possess functions similar to personal computers, such as the iPhone and Android phones.
(Note 4) Data based on an MM Research Institute, Ltd. survey.

1) Contents Business

The business policy of Zappallas for the contents business is to concentrate resources for spreading “Spiritaiment”(Note 5), which we have created as a new entertainment genre, and in other areas, to maintain a balance of investment in new businesses and profitability, by further increasing our profit rate, while also growing our overall business. In this consolidated fiscal year, we addressed the issues of improving customer attraction by launching new sites, and optimizing advertising, and newly launched 54 official mobile sites, as well as 142 PC sites. As of the end of this consolidated accounting period, our group ran 463 official mobile sites and total number of monthly-fee subscribers at the end of the consolidated fiscal year stood at 2.22 million.

As a result, net sales in the contents business for the the consolidated fiscal year totaled 8,920,221 thousand yen (+1.0% year-on-year), and segment income 3,786,356 thousand yen (+4.7%).

(Note 5) Spiritaiment is a coined term combining ‘spirit’ and ‘entertainment.’ It is a new entertainment genre that Zappallas creates, and like “fortune-telling,” it adheres to an old form, and offers entertaining contents that are highly pure, and are made with an awareness of nature and natural forms.

2) Commerce Business

Zappallas Group’s commerce business can be divided into mobile commerce business and mobile phone sales. The mobile commerce business is attempting to improve its ability to attract customers and to release new sites. In order to increase membership numbers over the previous period, it is implementing an active advertising plan. G-plus Co., Ltd., our subsidiary in charge of mobile phone sales, continued to work towards increased earnings and profits.

As a result, net sales in the commerce business for the consolidated fiscal year totaled 2,639,899 thousand yen (+26.7% year-on-year), and segment income 92,513 thousand yen (-50.2%).

3) Other Business

Among other business, Zappallas jointly operated sites such as “Y! Suica” and “Sakutto Cinema Search” with other companies.

As a result of these activities, net sales for this consolidated fiscal year totaled 253,227 thousand yen (-19.2% year-on-year), while segment income totaled 42,053 thousand yen (+322.2%).

(Outlook for the Next Term)

In the next term, a further movement from feature phones (Note 6) to smartphones is expected. The possibility of major shifts in the environment surrounding the mobile business is expected to accompany this move to smartphones. Going forward, the Group business plan is to strengthen the Group's strong point, content, while also moving into business areas with a high affinity to this. The Group will also work towards the establishment and strengthening of its revenue base through multifaceted development. Additionally, the Group is moving forward with reassessments of costs, such as the optimization of selling, general and administrative expenses, which includes advertising and marketing costs. At the same time, the Group is actively working to strengthen its management base by investing in core fields that will be focused on in the future.

Furthermore, there are currently many predictions on the timing and rate of the user migration from feature phones to smartphones, and the Group intends to perform reevaluations of its business plans as required while being attentive to changes in the business environment. At the present time, the Group is disclosing its earnings forecasts for the full business year within a certain range. Regarding the earnings forecasts for the six months, the Group is withholding the disclosure as it is difficult to estimate the timing of above transfer.

Fiscal year ending April, 2012 Full-year earnings forecasts (May 1, 2011 – April 30, 2012)

Net sales	11,200 million yen～12,600 million yen
Operating income	2,550 million yen～3,080 million yen
Ordinary income	2,550 million yen～3,080 million yen
Net income	1,510 million yen～1,830 million yen

(Note 6) Feature phone refers to the existing mobile phone type that mainly consists of a talk feature and also has functions onboard such as a camera and 1 SEG.

(2) Analysis of Financial Condition

1) Assets, Liabilities and Net Assets

Total assets were valued at 8,774,052 thousand yen as of the end of the consolidated fiscal year, an increase of 1,230,090 thousand yen from the end of the previous fiscal year. This is mainly because of an 805,807 thousand yen increase in cash and deposits and a 494,801 thousand yen increase in trade accounts receivable, despite a 164,235 thousand yen decrease in goodwill.

Total liabilities were 1,846,206 thousand yen, an increase of 108,699 thousand yen, mainly due to a 191,770 thousand yen increase in account payable, other.

Net assets totaled 6,927,846 thousand yen, an increase of 1,121,391 thousand yen. This can be attributed to a 1,106,609 thousand yen increase in retained earnings.

2) Cash flows

Cash and cash equivalents ("cash" hereinafter), at the end of this consolidated fiscal year totaled 4,587,155 thousand yen, representing an increase of 806,194 thousand yen from the amount recorded at the end of the previous fiscal year. Among increase factors, income before income taxes of 2,863,543 thousand yen (+5.3% year-on-year) and depreciation and amortization of 290,314 thousand yen (+26.1%). Among decrease factors, payment of income tax of 1,233,483 thousand yen (-8.6%), and the increase in notes and accounts receivable resulting from temporary early collection of accounts receivable due to long vacations in the previous fiscal year totaled 494,801 thousand yen (344,046 thousand yen decrease in the previous fiscal year).

Cash flow from operating activities

Cash provided by operating activities was 1,725,479 thousand yen (-17.2% year-on-year). The main negative factor was income taxes paid of 1,233,483 thousand yen. The main positive factors were income before income taxes of 2,863,543 thousand yen, and depreciation and amortization of 290,314 thousand yen.

Cash flow from investing activities

Net cash used in investing activities was 411,161 thousand yen (+25.1% year-on-year). The main factor for this was 344,847 thousand yen in purchase of intangible assets.

Cash flow from financing activities

Net cash used in financing activities was 508,123 thousand yen (-74.8% year-on-year). This can mostly be accounted for by cash dividends paid of 518,453 thousand yen.

Reference: Trend in cash flow indicators

	FY4/2007	FY4/2008	FY4/2009	FY4/2010	FY4/2011
Shareholders’ equity ratio (%)	74.0	73.8	76.6	76.3	78.4
Shareholders’ equity ratio based on market prices (%)	263.6	517.8	332.4	238.7	156.0
Interest-bearing debt to cash flow ratio (%)	−	−	−	−	−
Interest coverage ratio	61,372.9	−	−	8,197.2	638.3

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 current fiscal year dividend of 4,200 yen per common share at the 12th Annual Shareholders’ Meeting scheduled for July 28, 2011, for shareholders on record as of April 30, 2011. This would translate into a payout ratio (consolidated base) of 32.0%.

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 Zappallas Group 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, 2011).

1) Risks related to the Company’s business content

a. Risks related to the contents business

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

In the mobile content market in which the Zappallas Group’s contents business participates, there are many competing companies in the fields of “fortune telling,” “Deco-mail,” “screen backgrounds,” and “hobbies” in which the Group offers products. Additionally, there is a major possibility that the market environment will change drastically if the pace of adoption of smartphones over feature phones greatly exceeds the Company’s assumptions.

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.

Zappallas Group intends to decrease dependence on specific outsourcee to diversify risks.

iii. Risks related to dependence on specific telecom carriers

The Zappallas Group supplies a variety of content to NTT DoCoMo, Inc. (hereinafter “NTT docomo”) “i-mode,” SOFTBANK MOBILE Corp. (hereinafter “SoftBank Mobile”) “Yahoo! Keitai,” and KDDI CORPORATION (hereinafter “KDDI”) “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	FY4/2010 (May 1, 2009 – Apr. 30, 2010)		FY4/2011 (May 1, 2010 – Apr. 30, 2011)	
	Amount	Share	Amount	Share
NTT DoCoMo, Inc.	4,988,893	44.4	5,136,964	43.5
KDDI CORPORATION	1,961,039	17.5	1,972,126	16.7
SOFTBANK MOBILE Corp.	1,127,028	10.0	1,045,200	8.8

(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 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 0.8% of total sales in the contents business in the fiscal year under review (see Note). Also in the event NTT docomo or KDDI stop the collection of fees on behalf of the Group, it is possible to directly bill the non-paying users for information fees. Therefore, the Group will bill for uncollected information fees by entering into an outsourcing contract with a lawyer for each case in which a user has a high amount of unpaid fees from several thousand to several tens of thousands of yen. Through this, the Group believes that it is possible to mitigate the risk of reduced earnings due to uncollected information fees. However, it is difficult to collect the entire unpaid amount through such information fee collection activities. If the amount of uncollected information fees increases in the future, there is a possibility it will negatively affect the Group’s earnings.

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 69,747 thousand yen in the fiscal year under review, and this was equivalent to approximately 0.8% of contents business sales of 8,920,221 thousand yen.

v. Risks related to coping with technological innovation

The pace of development of recent mobile phones is remarkable, and the development of new technology and the introduction of new services based on such technology are occurring continuously. This makes the industry highly volatile. “Fortune telling,” which is the Group’s chief category, is believed to be immune to large influence from the evolution of mobile phones, because fortune telling is text-based content. The Group plans to continue working to actively respond to new technologies and offer content which makes use of such technology.

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 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 overseas business developments

The Zappallas Group sees the Chinese market as a promising market that will likely undergo major growth in the future. The Group is exploring content distribution in China through cooperation with GGwan Company and MMclick Company through investment in a Hong Kong based corporation. The occurrence or emergence of things in these counties such as disasters, cultural or religious friction, political or economic uncertainties, as well as new establishment or modification to laws or regulations may affect the Group's business or performance.

d. 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.

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 confirm to corporate ethics, and has operated 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.

v. Human resources

In order for the Group to respond to the further diversification of duties and expansion of tasks, there is considered to be a need for the additional strengthening and increasing of personnel in each department in the Group. However in the event that the training of personnel inside the Group or appointment of external personnel in response to the expansion of duties does not proceed as planned, this difficulty in placing appropriate personnel may negatively influence the Group's projects or earnings in the event such difficulties lead to a reduction in competitiveness or are a factor in restricting the further expansion of the business.

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 2,400 shares as of the end of the current fiscal year under review, and this is equivalent to 1.8% of the total number of outstanding shares of 134,110 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 30, 2010.

3. Management Policy

(1) Basic Management Policy

Zappallas Group respects the individuality of all its customers, and places high value on supplying services and products that can be enjoyed safely, and on remaining a trustworthy partner. As well as striving to increase revenue opportunities, with the basic policy of creating elegance and spiritual vitality in customers' daily lives through these efforts, and thereby providing value to society, we will work to increase both the Company's corporate value and its 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

With our "contents first" attitude, Zappallas will create services and products that could be potential market-leaders and full of originality, and will demonstrate the superiority of its contents. In future, we will strive to increase revenue opportunities by further enhancing our contents, and by increasing exposure and recognition for them, and engaging in multifaceted development.

Furthermore, by developing new business models and media that could lead to new sales of contents and revenue, we will develop new services for subscribers held by Zappallas. Also, we intend to actively pursue overseas developments, such as our ongoing efforts with contents distribution in the Chinese market.

(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) Further enhancing contents

At Zappallas Group, in addition to continual growth for our existing contents, we believe that we can expect further growth through newly accumulating and acquiring customers by developing new contents. Furthermore, we recognize increasing exposure and recognition for contents, and optimum advertising through our unique marketing, as being issues worthy of attention.

2) Response to smartphones

Given that the transition from feature phones to smartphones is expected to proceed quickly, the Group considers the swift development of a response to smartphones as being important to the future development of the business. The Group plans to actively respond to new technologies and services while closely observing trends in the market.

3) Expanding the development area

The Group offers service to customers who are mainly 20- to 30-year-old women, but going forward the Group plans to move into business areas with a high affinity to work towards the establishment and strengthening of its revenue base through multifaceted development.

(5) Other Important Management Matters

Not applicable.

4. Consolidated Financial Statement
(1) Consolidated Balance Sheets

(Thousands of yen)

	Fiscal year ended April 2010 (At April 30, 2010)	Fiscal year ended April 2011 (At April 30, 2011)
ASSETS		
Current Assets		
Cash and deposits	3,278,121	4,083,929
Accounts receivable, trade	1,917,830	2,412,631
Short-term investment securities	502,839	603,226
Merchandise and finished goods	16,874	45,614
Deferred tax assets	141,486	100,230
Other	54,232	54,550
Allowance for doubtful accounts	(31,237)	(36,329)
Total Current Assets	**5,880,149**	**7,263,852**
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	149,598	154,611
Accumulated depreciation	(54,121)	(72,451)
Buildings and structures, net	95,477	82,159
Tools, furniture and fixtures	250,757	290,555
Accumulated depreciation	(202,337)	(235,931)
Tools, furniture and fixtures, net	48,419	54,623
Total property, plant and equipment	**143,897**	**136,783**
Intangible Assets		
Software	211,670	244,301
Goodwill	213,504	49,269
Other	42,354	37,567
Total Intangible Assets	**467,529**	**331,138**
Investments and Other Assets		
Investment securities	* 697,483	* 629,095
Deferred tax assets	133,296	189,193
Other	221,606	223,988
Total Investments and Other Assets	**1,052,386**	**1,042,278**
Total Non-current Assets	**1,663,813**	**1,510,200**
Total Assets	**7,543,962**	**8,774,052**

(Thousands of yen)

	Fiscal year ended April 2010 (At April 30, 2010)	Fiscal year ended April 2011 (At April 30, 2011)
LIABILITIES		
Current Liabilities		
Accounts payable, trade	480,490	486,879
Account payable, other	345,631	537,401
Provision for bonuses	—	50,525
Income taxes payable	635,280	645,625
Provision for directors' retirement benefits	143,300	—
Other	132,804	125,774
Total Current Liabilities	**1,737,507**	**1,846,206**
Total Liabilities	**1,737,507**	**1,846,206**
NET ASSETS		
Shareholder’s Equity		
Capital stock	1,445,843	1,452,343
Capital surplus	1,371,218	1,377,718
Retained earnings	4,436,373	5,542,983
Treasury stock	(1,495,870)	(1,495,870)
Total Shareholders’ Equity	**5,757,565**	**6,877,175**
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	204	(1,720)
Accumulated other comprehensive income	**204**	**(1,720)**
Minority Interests	**48,684**	**52,391**
Total Net Assets	**5,806,454**	**6,927,846**
Total Liabilities and Net Assets	**7,543,962**	**8,774,052**

(2) Consolidated Statements of Income
(For the Fiscal Year Ended April 30, 2010)

(Thousands of yen)

	Fiscal year Ended April 30, 2010 (May 1, 2009 – Apr. 30, 2010)	Fiscal year Ended April 30, 2011 (May 1, 2010 – Apr. 30, 2011)
Net Sales	**11,224,851**	**11,813,348**
Cost of Sales	**3,644,398**	**4,013,620**
Gross Profit	**7,580,453**	**7,799,728**
Selling, General and Administrative Expenses	*1 **4,564,790**	*1 **4,726,259**
Operating Income	**3,015,662**	**3,073,468**
Non-operating Income		
Interest income	12,750	2,655
Insurance premiums refunded cancellation	21,322	—
Profit from investment-equity method	—	9,347
Profit on investments partnerships	—	1,069
Technical support fee	—	2,745
Other	6,204	3,240
Total Non-operating Income	**40,277**	**19,059**
Non-operating Expenses		
Interest expenses	254	2,703
Stock issuance cost	401	178
Loss on investments in partnership	457	—
Equity in losses of affiliates	8,698	—
Acquisition expense of treasury stock	5,044	—
Other	140	112
Total Non-operating Expenses	**14,998**	**2,993**
Ordinary Income	**3,040,942**	**3,089,534**
Extraordinary Income		
Reversal of allowance for doubtful accounts	1,729	—
Bad debts recovered	—	7,358
Total Extraordinary Income	**1,729**	**7,358**
Extraordinary Loss		
Loss on sales and retirement of non-current assets	*2 660	*2 12,648
Impairment loss	—	*4 70,097
Equity in losses of affiliates	*3 174,688	—
Loss on cancellation of subcontracting	3,333	—
Amortization of goodwill	—	*5 150,604
Loss on valuation of investment securities	7	—
Provision for directors' retirement benefits	143,300	—
Total Extraordinary Loss	**321,989**	**233,349**
Income before Income Taxes	**2,720,682**	**2,863,543**
Income taxes, current	1,208,837	1,246,832
Income taxes, deferred	(32,176)	(13,460)
Total Income Taxes	**1,176,660**	**1,233,372**
Income Before Minority Interests	—	**1,630,170**
Minority Interests in Income	**11,553**	**3,706**
Net Income	**1,532,468**	**1,626,464**

(Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	Fiscal year Ended April 30, 2010 (May 1, 2009 – Apr. 30, 2010)	Fiscal year Ended April 30, 2011 (May 1, 2010 – Apr. 30, 2011)
Income Before Minority Interests	—	1,630,170
Other Comprehensive Income		
Valuation difference on available-for-sale securities	—	(1,924)
Total other comprehensive income	**—**	*2 **(1,924)**
Comprehensive Income	**—**	*1 **1,628,246**
Comprehensive Income Attributable to		
Owners of the parent	—	1,624,540
Minority interests	—	3,706

(3) Consolidated Statements of Shareholders' Equity

(Thousands of yen)

	Fiscal year Ended April 30, 2010 (May 1, 2009 – Apr. 30, 2010)	Fiscal year Ended April 30, 2011 (May 1, 2010 – Apr. 30, 2011)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	1,438,843	1,445,843
Changes of items during the period		
Issuance of new shares	7,000	6,500
Changes of items during the period	7,000	6,500
Balance at the end of current period	**1,445,843**	**1,452,343**
Capital surplus		
Balance at the end of previous period	1,364,218	1,371,218
Changes of items during the period		
Issuance of new shares	7,000	6,500
Total changes of items during the period	7,000	6,500
Balance at the end of current period	**1,371,218**	**1,377,718**
Retained earnings		
Balance at the end of previous period	3,434,945	4,436,373
Changes of items during the period		
Dividends from surplus	(531,040)	(519,855)
Net income	1,532,468	1,626,464
Total changes of items during the period	1,001,428	1,106,609
Balance at the end of current period	**4,436,373**	**5,542,983**
Treasury stock		
Balance at the end of previous period	—	(1,495,870)
Changes of items during the period		
Purchase of treasury stock	(1,495,870)	—
Total changes of items during the period	(1,495,870)	—
Balance at the end of current period	**(1,495,870)**	**(1,495,870)**
Total shareholders' equity		
Balance at the end of previous period	6,238,007	5,757,565
Changes of items during the period		
Issuance of new shares	14,000	13,000
Dividends from surplus	(531,040)	(519,855)
Net income	1,532,468	1,626,464
Purchase of treasury stock	(1,495,870)	—
Total changes of items during the period	(480,441)	1,119,609
Balance at the end of current period	**5,757,565**	**6,877,175**

(Thousands of yen)

	Fiscal year Ended April 30, 2010 (May 1, 2009 – Apr. 30, 2010)	Fiscal year Ended April 30, 2011 (May 1, 2010 – Apr. 30, 2011)
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	1,076	204
Changes of items during the period		
Net changes of items other than shareholders' equity	(872)	(1,924)
Total changes of items during the period	(872)	(1,924)
Balance at the end of current period	**204**	**(1,720)**
Accumulated other comprehensive income		
Balance at the end of previous period	1,076	204
Balance at the end of current period		
Net changes of items other than shareholders' equity	(872)	(1,924)
Total changes of items during the period	(872)	(1,924)
Balance at the end of current period	**204**	**(1,720)**
Minority interests		
Balance at the end of previous period	37,131	48,684
Changes of items during the period		
Net changes of items other than shareholders' equity	11,553	3,706
Total changes of items during the period	11,553	3,706
Balance at the end of current period	**48,684**	**52,391**
Total net assets		
Balance at the end of previous period	6,276,215	5,806,454
Changes of items during the period		
Issuance of new shares	14,000	13,000
Dividends from surplus	(531,040)	(519,855)
Net income	1,532,468	1,626,464
Purchase of treasury stock	(1,495,870)	—
Net changes of items other than shareholders' equity	10,680	1,782
Total changes of items during the period	(469,760)	1,121,391
Balance at the end of current period	**5,806,454**	**6,927,846**

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year Ended April 30, 2010 (May 1, 2009 – Apr. 30, 2010)	Fiscal year Ended April 30, 2011 (May 1, 2010 – Apr. 30, 2011)
Net cash provided by (used in) operating activities		
Income before income taxes	2,720,682	2,863,543
Depreciation and amortization	230,137	290,314
Amortization of goodwill	13,631	164,235
Amortization of long-term prepaid expenses	296	1,899
Stock issuance cost	401	178
Loss (gain) on cancellation of insurance contract	(21,322)	—
Increase (decrease) in allowance for doubtful accounts	(1,729)	5,092
Increase (decrease) in provision for directors' retirement benefits	143,300	(143,300)
Interest income	(12,750)	(2,655)
Interest expenses	254	2,703
Loss (gain) on sales and retirement of property, plant and equipment	660	12,648
Loss (gain) on valuation of investment securities	7	—
Loss (gain) on investments in partnership	457	(1,069)
Impairment loss	—	70,097
Equity in (earnings) losses of affiliates	183,386	(9,347)
Decrease (increase) in notes and accounts receivable-trade	344,046	(494,801)
Decrease (increase) in inventories	(4,117)	(27,950)
Increase (decrease) in notes and accounts payable-trade	(59,462)	6,389
Increase (decrease) in accounts payable-other	(66,887)	179,125
Increase (decrease) in accrued consumption taxes	(21,559)	(7,017)
Other	(22,712)	48,881
Subtotal	**3,426,719**	**2,958,965**
Interest income received	6,348	2,700
Interest income payment	(254)	(2,703)
Income taxes paid	(1,349,292)	(1,233,483)
Net cash provided by (used in) operating activities	**2,083,521**	**1,725,479**
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(79,095)	(39,200)
Purchase of intangible assets	(223,578)	(344,847)
Proceeds from redemption of short-term investment securities	300,000	—
Purchase of investment securities	(446,979)	(24,683)
Proceeds from redemption of investment securities	165,000	—
Payments for guarantee deposits	(79,478)	(256)
Proceeds from collection of guarantee deposits	4,074	4,354
Proceeds from maturity of insurance funds	21,322	—
Proceeds from sales of investment securities	10,200	—
Expenditures due to loans	—	(12,000)
Collection of loans receivable	—	5,471
Net cash provided by (used in) investing activities	**(328,535)**	**(411,161)**
Net cash provided by (used in) financing activities		
Proceeds from issuance of common stock	13,672	12,747
Purchase of treasury stock	(1,499,655)	—
Cash dividends paid	(529,672)	(518,453)
Other	(2,417)	(2,417)
Net cash provided by (used in) financing activities	**(2,018,072)**	**(508,123)**
Net increase (decrease) in cash and cash equivalents	**(263,086)**	**806,194**
Cash and cash equivalents at beginning of period	**4,044,047**	**3,780,961**
Cash and cash equivalents at end of period	*1 **3,780,961**	*1 **4,587,155**

(5) Going Concern Assumption

Not applicable.

(6) Significant Accounting Policies in the Preparation of Consolidated Financial Statements

Item	Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
1. Scope of consolidation	Number of consolidated subsidiary: 1 Major consolidated subsidiary G-plus Co., Ltd.	Same as on the left.
2. Application of equity method	Number of affiliate accounted for under equity method: 1 Name of affiliate: Ares & Mercury Co., Ltd.	Same as on the left.
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 i. Held-to-maturity debt securities Stated at the amortized cost method (straight-line method). ii. 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 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. 2) Inventories 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).	1) Short-term investment securities i. Held-to-maturity debt securities Same as on the left. ii. Available-for-sale securities Securities with market quotations Same as on the left. Securities without market quotations Same as on the left. 2) Inventories i. Merchandise Same as on the left.

Item	Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
(2) Depreciation and amortization of principal depreciable assets	1) Property, plant and equipment (excluding lease assets) 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 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 from two to five years. 3) Long-term prepaid expenses Amortization of long-term prepaid expenses is calculated using the straight-line method. 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.	1) Property, plant and equipment (excluding lease assets) 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 to five 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 2) Intangible assets Same as on the left. 3) Long-term prepaid expenses Same as on the left. 4) Lease assets Same as on the left.
(3) Recognition of significant allowances	1) Allowance for doubtful accounts 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 collectibles. 2) Reserves for Retirement Benefits for Board Members In order to prepare for payments of retirement benefits for board members, we have recorded amounts payable at term-end based on internal regulations.	1) Allowance for doubtful accounts Same as on the left. ―――
(4) Method and period of amortization of goodwill	―――	Amortization of goodwill is conducted by the straight-line method over a period of 20 years
(5) Definition of cash in consolidated cash flow statement	―――	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.

Item	Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
(6) Other significant accounting policies in the preparation of financial statements	Consumption taxes are accounted by the tax-exclusion method.	Same as on the left.
5. Valuations on assets and liabilities of consolidated subsidiary	Assets and liabilities in consolidated subsidiary are evaluated based on their full market value.	――――――
6. Amortization of goodwill and negative goodwill	Goodwill is amortized equally over the period of its effects.	――――――
7. Scope of cash and cash equivalents on statements of cash flows	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.	――――――

(7) Change in Significant Accounting Policies in the Preparation of Consolidated Financial Statements

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
―――――	(Accounting Standards for Business Combinations) Effective from fiscal year ended April 30, 2011, "the Accounting Standard for Equity Method of Accounting for Investment" (ASBJ statement No.16; March 10, 2008) and "the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No.24; March 10, 2008) were applied. The impact of this change on the consolidated financial statements is immaterial.
―――――	(Accounting Standards for Asset Retirement Obligations) Effective from fiscal year ended April 30, 2011, "the Accounting Standard for Asset Retirement Obligations" (ASBJ statement No.18; March 31, 2008) and "the Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21; March 31, 2008) was applied. The impact of this change on the consolidated financial statements is immaterial.

(8) Reclassifications

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
―――――	(Consolidated Income Statement) Due to the application of the "Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements (Cabinet Office Ordinance No. 5, March 24, 2009) based on "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), "Income before minority interest" was presented on the consolidated financial statements for the fiscal year ended April 30, 2011. "Technical support fee," which was reported aggregately in non-operating income during the previous fiscal year, was reported separately because it accounted for one tenth of total non-operating income. During the previous fiscal year, "Technical support fee" was 2,230 thousand yen.

(9) Additional information

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
(Reserves for Retirement Benefits for Board Members) In this consolidated fiscal year, in accordance with the internal regulations concerning retirement benefits for directors that were decided upon at board meetings, amounts payable at term-end based on internal regulations have been recorded in Reserves for Retirement Benefits for Board Members. Payment of retirement benefits for directors is planned to be approved at the general shareholders' meeting held on July 29, 2010, and abolishment of internal regulations is planned to be approved at board meetings held on the same day. As a result, we posted 143,300 thousand yen as an extraordinary loss in this fiscal year.	―――
―――	(Application of "Accounting Standards for Presentation of Comprehensive Income") Effective for the fiscal year ended April 30, 2011, "the Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010) was applied. However, the value of "Accumulated Other Comprehensive Income" and "Total Other Comprehensive Income" for the previous fiscal year are posted under "Difference on Revaluation of Other Marketable Securities" and "Total Difference on Revaluation of Other Marketable Securities"

(10) Notes to Consolidated Financial Statements

Notes to Consolidated Balance Sheets

(Thousands of yen)

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)		Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)	
*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)	89,389	Investment securities (equity)	98,737
*2. At Zappallas, in order to efficiently procure operating funds, we have signed overdraft agreements for the accounts that we hold at the four banks that we do business with. Based on these contracts, our unused loan balances for the fiscal year under review are as follows.		*2. At Zappallas, in order to efficiently procure operating funds, we have signed overdraft agreements for the accounts that we hold at the five banks that we do business with. Based on these contracts, our unused loan balances for the fiscal year under review are as follows.	
Maximum amount overdrawn from accounts	2,500,000	Maximum amount overdrawn from accounts	2,800,000
Unused loan balance	—	Unused loan balance	—
Balance	2,500,000	Balance	2,800,000

Notes to Consolidated Statements of Income

(Thousands of yen)

<table>
<tr><th>Fiscal Year Ended April 30, 2010
(May 1, 2009 – April 30, 2010)</th><th>Fiscal Year Ended April 30, 2011
(May 1, 2010 – April 30, 2011)</th></tr>
<tr><td>*1. Major items of selling, general and administrative expenses
Substitute collection fees 1,093,377
Advertising expenses 1,856,379</td><td>*1. Major items of selling, general and administrative expenses
Substitute collection fees 1,065,239
Advertising expenses 1,963,901
Provision of allowance for doubtful accounts 5,092
Salaries and allowances 506,126</td></tr>
<tr><td>*2. Breakdown of loss on sales and retirement of non-current assets
Tools, furniture and fixtures 134
Software 526</td><td>*2. Breakdown of loss on sales and retirement of non-current assets
Tools, furniture and fixtures 409
Software 1,228
Software suspense account 11,009</td></tr>
<tr><td>*3. Investment Loss on Equity Method
These result from one-time depreciations of goodwill equivalents for affiliate companies.</td><td>―――――</td></tr>
<tr><td>―――――</td><td>*4. Impairment loss
In the fiscal year ended April 30, 2011, the Group posted impairment loss for the following asset group.
<table><tr><th>Location</th><th>Use</th><th>Type</th></tr><tr><td>Shibuya-ku, Tokyo</td><td>Business asset</td><td>Software</td></tr></table>
(Sequence of events leading to the recognition of an impairment loss)
In general, the Group creates independent cash flows, and asset grouping is conducted based on the smallest unit for which income and expenditure can be continuously comprehended. In the content business, the same site for separate platforms is treated as one unit, and the business asset’s income potential fell, so the amount of the decrease for this period was posted as an extraordinary loss (70,097 thousand yen).
The calculation of the potentially collectable amount for measuring impairment loss was estimated based on the utilized values, and future cash flow are discounted using 7.84%.
(Additional Information)
Change in Grouping Unit Related to Impairment of Fixed Assets
In the content business, grouping was refined along with the commencement of new services that responded to changes in the market environment. In conjunction with this, the grouping unit was changed to a single unit for the same site for each platform in the fiscal year ended April 30, 2011.
As a result, income before taxes and other adjustments decreased by 70,097 thousand yen.</td></tr>
</table>

――――――	*5. Amortization of Goodwill In the fiscal year ended April 30, 2011, the real value of the stocks of consolidated subsidiary G-plus Co., Ltd. fell by more than 50% below the Company's purchase value. Accordingly, the Company posted the loss of value in an associated company in its individual financial statements. In conjunction with this, the book value of goodwill was reduced, and the amortization of goodwill incurred by the same company (150,604 thousand yen) was posted as an extraordinary loss.

Notes to Consolidated Statements of Comprehensive Income

This Fiscal Year (From May 1, 2010 to April 30, 2011)

* 1 Comprehensive income in the fiscal year immediately preceding this one attributable to

	(Thousands of yen)
Owners of the parent	1,531,596
Minority interest	11,553
Total	1,543,149

* 2 Other comprehensive income in the fiscal year immediately preceding this one

	(Thousands of yen)
Valuation difference on available-for-sale securities	-872
Total	-872

Notes to Consolidated Statements of Changes in Net Assets

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)

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

	Number of shares as of Apr. 30, 2009	Increase during the fiscal year	Decrease during the fiscal year	Number of shares as of Apr. 30, 2010
Outstanding shares				
Common shares (Note 1)	132,760	700	—	133,460
Total	132,760	700	—	133,460
Treasury stocks				
Common shares (Note 2)	—	9,685	—	9,685
Total	—	9,685	—	9,685

Note: 1. The 700-share increase in outstanding shares of common shares represents in an increase due to the issuance of new shares upon exercise of rights.
2. The 9,865 shares increase in own shares of common shares represents a 9,685 share increase in acquirement of treasury stocks by resolution of board of directors.

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, 2009	Common shares	531,040	4,000	Apr. 30, 2009	Jul. 31, 2009

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

(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. 29, 2010	Common shares	519,855	Retained earnings	4,200	Apr. 30, 2010	Jul. 30, 2010

Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)

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

	Number of shares as of Apr. 30, 2010	Increase during the fiscal year	Decrease during the fiscal year	Number of shares as of Apr. 30, 2011
Outstanding shares				
Common shares (Note1)	133,460	650	—	134,110
Total	133,460	650	—	134,110
Treasury stocks				
Common shares (Note2)	9,685	—	—	9,685
Total	9,685	—	—	9,685

Note: 1. The 650-share increase in outstanding shares of common shares represents in an increase due to the issuance of new shares upon exercise of rights.

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. 29, 2010	Common shares	519,855	4,200	Apr. 30, 2010	Jul. 30, 2010

(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. 28, 2011	Common shares	522,585	Retained earnings	4,200	Apr. 30, 2011	Jul. 29, 2011

Notes to Consolidated Statements of Cash Flows

(Thousands of yen)

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
*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. (As of Apr. 30, 2010) Cash and deposits 3,278,121 Short-term investments (securities) with original maturities of less than three months 502,839 Cash and cash equivalents 3,780,961	*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. (As of Apr. 30, 2011) Cash and deposits 4,083,929 Short-term investments (securities) with original maturities of less than three months 503,226 Cash and cash equivalents 4,587,155

Segment Informations

a. Operating segment information

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)

(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	8,827,572	2,085,444	311,834	11,224,851	—	11,224,851
(2) Inter-segment sales and transfers	—	—	—	—	—	—
Total	8,827,572	2,085,444	311,834	11,224,851	—	11,224,851
Operating expenses	5,301,765	1,898,668	312,820	7,513,254	695,934	8,209,189
Operating income (loss)	3,525,806	186,776	(986)	3,711,597	(695,934)	3,015,662
II. Assets, depreciation, and capital expenditures						
Assets	1,998,335	599,092	200,526	2,797,954	4,746,007	7,543,962
Depreciation	187,601	17,814	3,665	209,081	21,055	230,137
Capital expenditures	195,750	1,731	8,286	205,768	82,671	288,439

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
Commerce business	Sale of merchandise over the Internet and at stores
Others business	Business activities excluding those mentioned above

3. Unallocated operating expenses 695,934 thousand 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 4,746,007 thousand yen included in “Elimination or corporate” consist primarily of surplus fund (cash and deposits) and assets of the administration divisions at the Company.

b. Geographical segment information

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)

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

c. Overseas sales

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)

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

d. Segment information

Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)

1. Overview of Reporting Segments

The Company's reporting segments are separate segments within the Company's structure, for which financial information is available, and which are periodically subjected to reviews, in order to allow the board of directors to make decisions on how to allocate management resources, and to conduct performance evaluations.

Zappallas is primarily developing its business activities by focusing on supplying contents etc. on the Internet. Two of our reporting segments are "Contents business" and "Commerce business." "Contents business" mainly supplies contents services for mobile phones and PC, while "commerce business" sells products etc. through mobile phones, PC and real store.

2. Calculation Methods for Amounts of Sales, Profits, Losses, Assets, Liabilities, and Other Items by Reported Segment

The method of account processing for reported business segments are roughly the same as those listed under "Important Fundamental Items for the Preparation of Consolidated Financial Statements."

The reported segment profits are the numerical values of the bases of operating profits.

3. Information Concerning Sales and Income or Loss Amount by Reporting Segment

Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)

(Thousands of yen)

	Reporting segment			Others business (Note 1)	Total	Adjustment amounts (Note 2)	Quarterly consolidated income/loss statement amount (Note 3)
	Contents business	Commerce business	Total				
Sales							
Sales to outside customers	8,920,221	2,639,899	11,560,121	253,227	11,813,348	—	11,813,348
Sales and transfer-Inter-segment	—	—	—	—	—	—	—
Total	8,920,221	2,639,899	11,560,121	253,227	11,813,348	—	11,813,348
Segment income (loss)	3,786,356	92,513	3,878,869	42,053	3,920,923	(847,454)	3,073,468
Segment assets	2,536,758	565,248	3,102,007	81,255	3,183,262	5,590,790	8,774,052
Other items							
Depreciation	234,654	17,341	251,995	2,911	254,907	35,407	290,314
Impairment loss	68,226	—	68,226	1,871	70,097	—	70,097
Amortization of goodwill	—	164,235	164,235	—	164,235	—	164,235
Increase in value of tangible fixed assets and intangible fixed assets	383,103	13,939	397,043	5,645	402,689	22,406	425,096

Notes 1. The classification "Other business" refers to business segments that are not included in reporting segments, and includes commissioned work and advertising businesses etc.

2. Adjustment amounts for segment earnings are company expenses. Overall company expenses are general management expenses that in general cannot be attributed to a reported segment, and adjustments to the segment assets are for the overall assets of the Company that are not distributed to the reported segments.

3. Segment income is adjusted with operating incomes calculated in consolidated quarterly statements of income.

(Additional information)

As of first quarter of the current fiscal year, we are applying "Accounting Standards Concerning Disclosure of Segment Information" (ASBJ, No. 17, March 27, 2009) and "Application Guide for Accounting Standards Concerning Disclosure of Segment Information" (ASBJ Guidance, No. 20, March 21, 2008).

Per Share Information

(Yen)

Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)		Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)	
Net assets per share	46,518.04	Net assets per share	55,257.83
Net income per share	11,600.12	Net income per share	13,111.58
Diluted net income per share	11,336.50	Diluted net income per share	12,870.65

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

(Thousands of yen)

	Fiscal Year Ended April 30, 2010 (May 1, 2009 – April 30, 2010)	Fiscal Year Ended April 30, 2011 (May 1, 2010 – April 30, 2011)
Net income per share		
Net income	1,532,468	1,626,464
Amounts not available to common shareholders	—	—
Net income available to common shares	1,532,468	1,626,464
Average number of common shares outstanding during the period (shares)	132,108	124,048
Diluted net income per share		
Adjustment to net income	—	—
Increase in the number of common shares (shares)	3,072	2,322
(of which stock subscription rights to shares)	[3,072]	[2,322]
Summary of potential stock not included in the calculation of "Diluted net income per share" since there was no dilutive effect.	――――――	――――――

Subsequent Events

Not applicable

Omission of Disclosure

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

5. Other

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.*