

ZAPPALLAS

Financial Results of Operations for the Third
Quarter of the Year Ending April 30, 2014

(2013.5.1-2014.1.31 The 15th term)

TSE 1st Section:3770 <http://www.zappallas.com/>

CONTENTS

- I. Overview of Results for the Third Quarter of the Year Ending April 30, 2014
 - 01 Consolidated PL Summary p.4
 - 02 Concerning the Correction to the Results Forecast p.5
 - 03 Consolidated Sales by Quarter p.6
 - 04 Consolidated Cost of Sales by Quarter p.7
 - 05 Consolidated SG&A by Quarter p.8
 - 06 Consolidated Numbers of Employees by Quarter p.9
 - 07 Consolidated Operating Income by Quarter p.10
 - 08 Consolidated B/S Summary p.11
- II. Overview of Main Business Areas
 - 09-13 Content Business p.13-17
 - 14-15 Commerce Business p.18-19
 - 16 Overseas Business p.20
- III. Future Plans p.22-23
- IV. Reference Materials p.25-30

I. Overview of Results for the Third Quarter of the Year Ending April 30, 2014

01 Consolidated P/L Summary (Comparison with Previous Quarter)

(Units: Millions yen)	2Q (Aug. - Oct.), year ending April 30, 2014		3Q (Nov. - Jan.), year ending April 30, 2014		Percentage change
	Amount	% of sales	Amount	% of sales	
Sales	2,017	100.0%	1,912	100.0%	-5.2%
Net gross profit	1,367	67.8%	1,329	69.5%	-2.8%
SG&A	1,274	63.2%	1,138	59.5%	-10.7%
Operating income	93	4.6%	190	9.9%	104.3%
Ordinary income	100	5.0%	247	12.9%	147.0%
Net income	71	3.5%	160	8.4%	125.4%

Points

- Sales were down from the previous quarter due to a decline in wholesale sales at our subsidiary BxE, and to a decline in the number of FP members in the content business.
- Operating income rose due to a decrease in advertising and other costs compared with the previous quarter.

02 Concerning the Correction to the Results Forecast

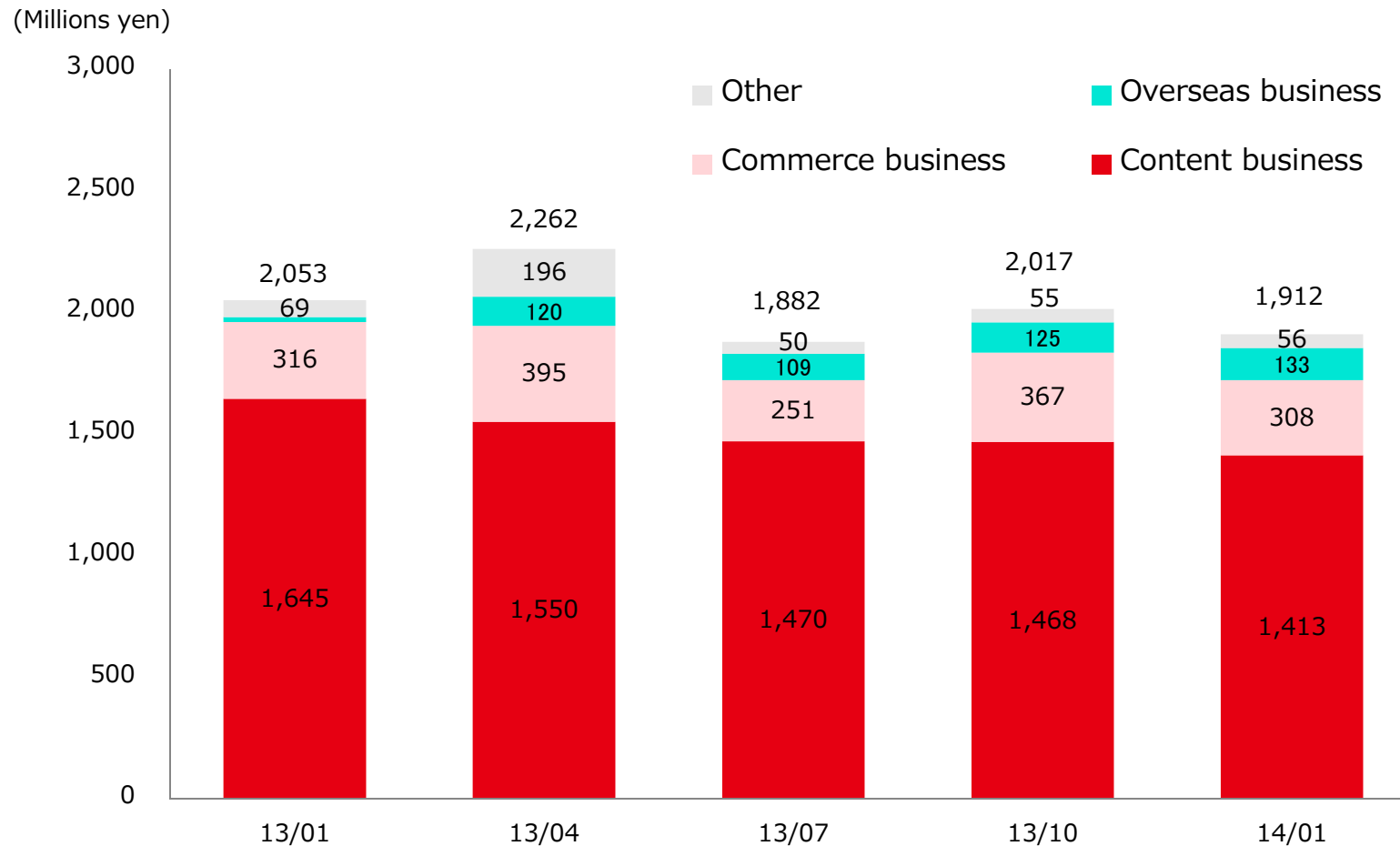
(Units: Millions yen)	Year ending April 30, 2014 (full-year results forecast)				Amount of change	Year ending April 30, 2014: Cumulative first 3Q (May - Jan.)	
	(Before correction)		(After correction)		(Before correction) - (After correction)	Amount	Progress after correction
	Amount	% of sales	Amount	% of sales	Amount		
Sales	10,100	100.0%	8,200	100.0%	-1,900	5,811	70.9%
Operating income	1,000	9.9%	700	8.5%	-300	459	65.6%
Ordinary income	1,000	9.9%	710	8.7%	-290	499	70.3%
Net income	620	6.1%	386	4.7%	-234	319	82.6%

Points

- The sales result is expected to be below the forecast level, primarily for sales in the commerce business. The reasons include sales at e-commerce sites which were below expectations, delays in the opening of new e-commerce sites, as well as other factors such as delays in the launch of new products at our consolidated subsidiary BxE.
- Operating income is also expected to be below the forecast level as a result of continued advertising and other investment in the content business, in addition to the factors above.

03 Consolidated Sales by Quarter

Sales declined due primarily to lower wholesale sales at our subsidiary BxE and a decline in the number of FP members.

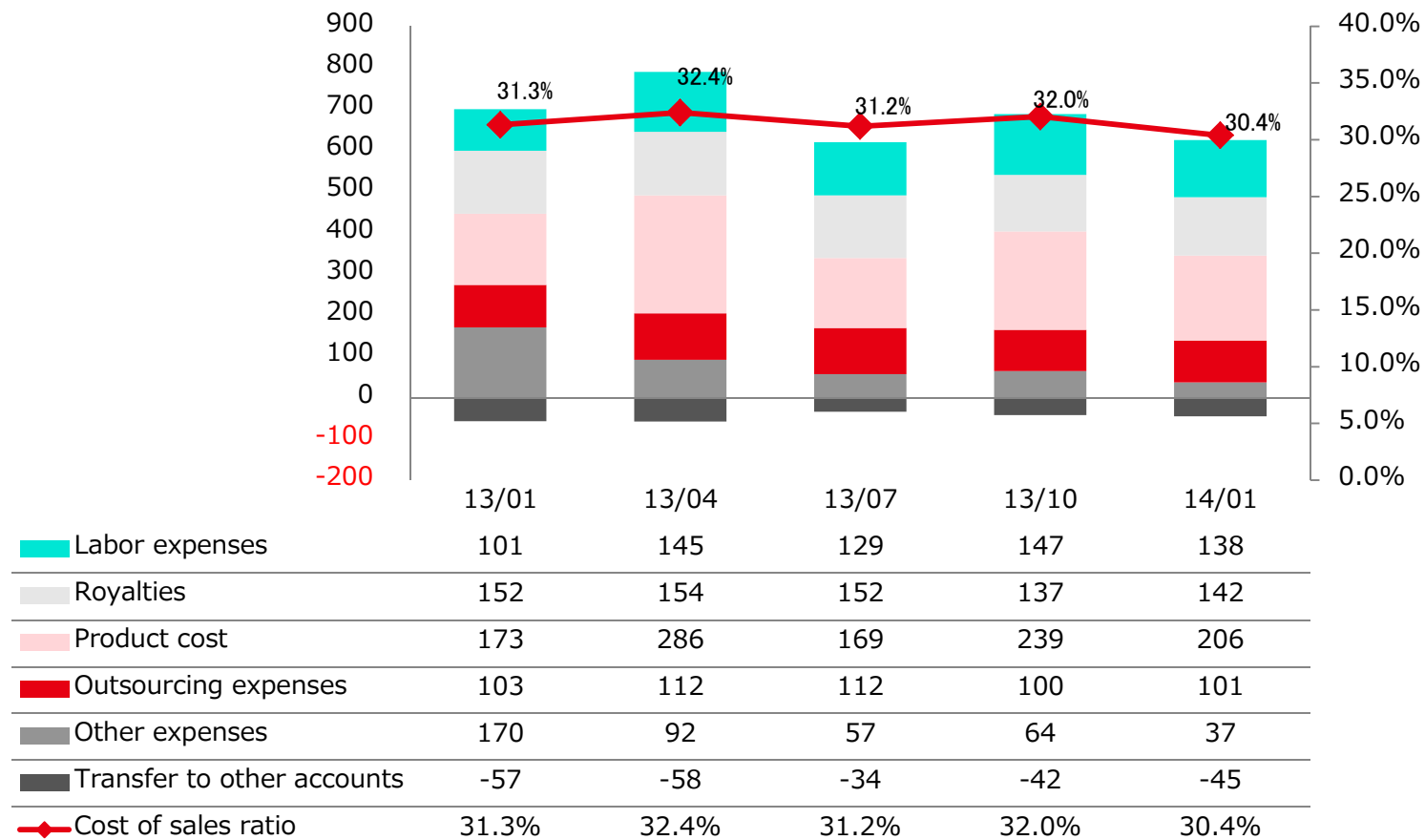


(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

04 Consolidated Cost of Sales by Quarter

Cost of sales decreased due to the decline in commerce sales.

(Millions yen)

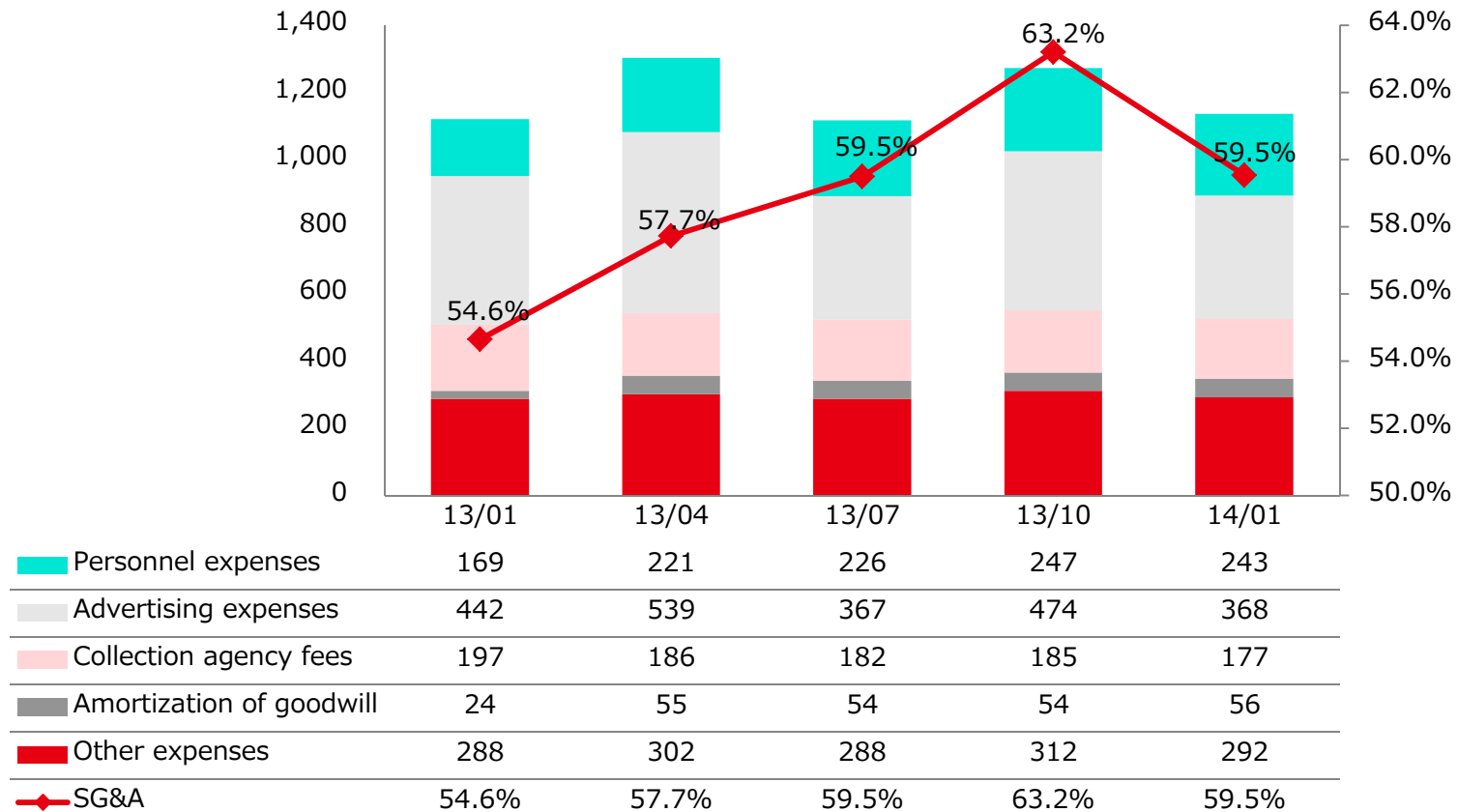


(*1)] Does not include reversal of allowance for sales returns

05 Consolidated SG&A by Quarter

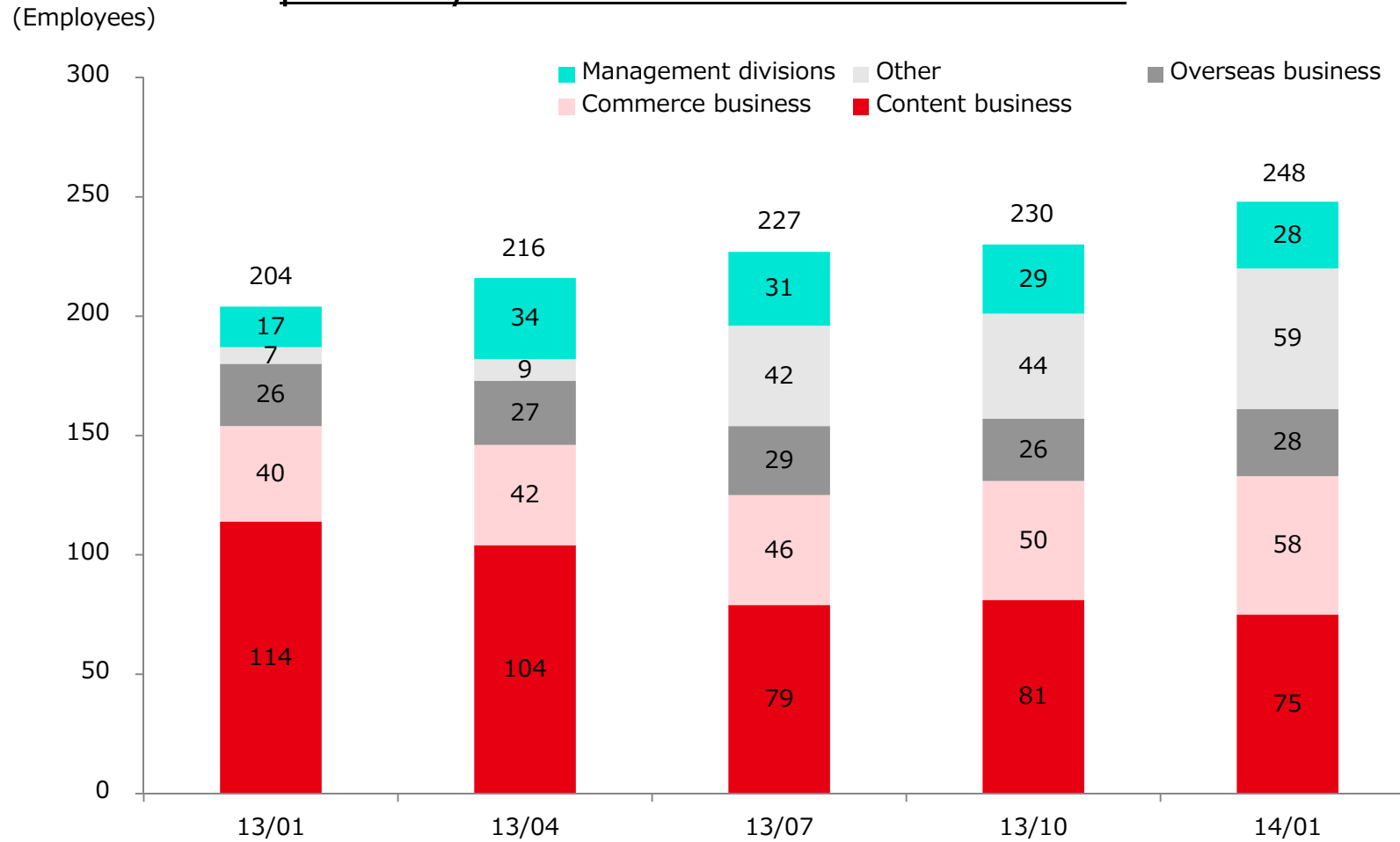
SG&A declined due to lower advertising and other expenses compared with the previous quarter.

(Millions yen)



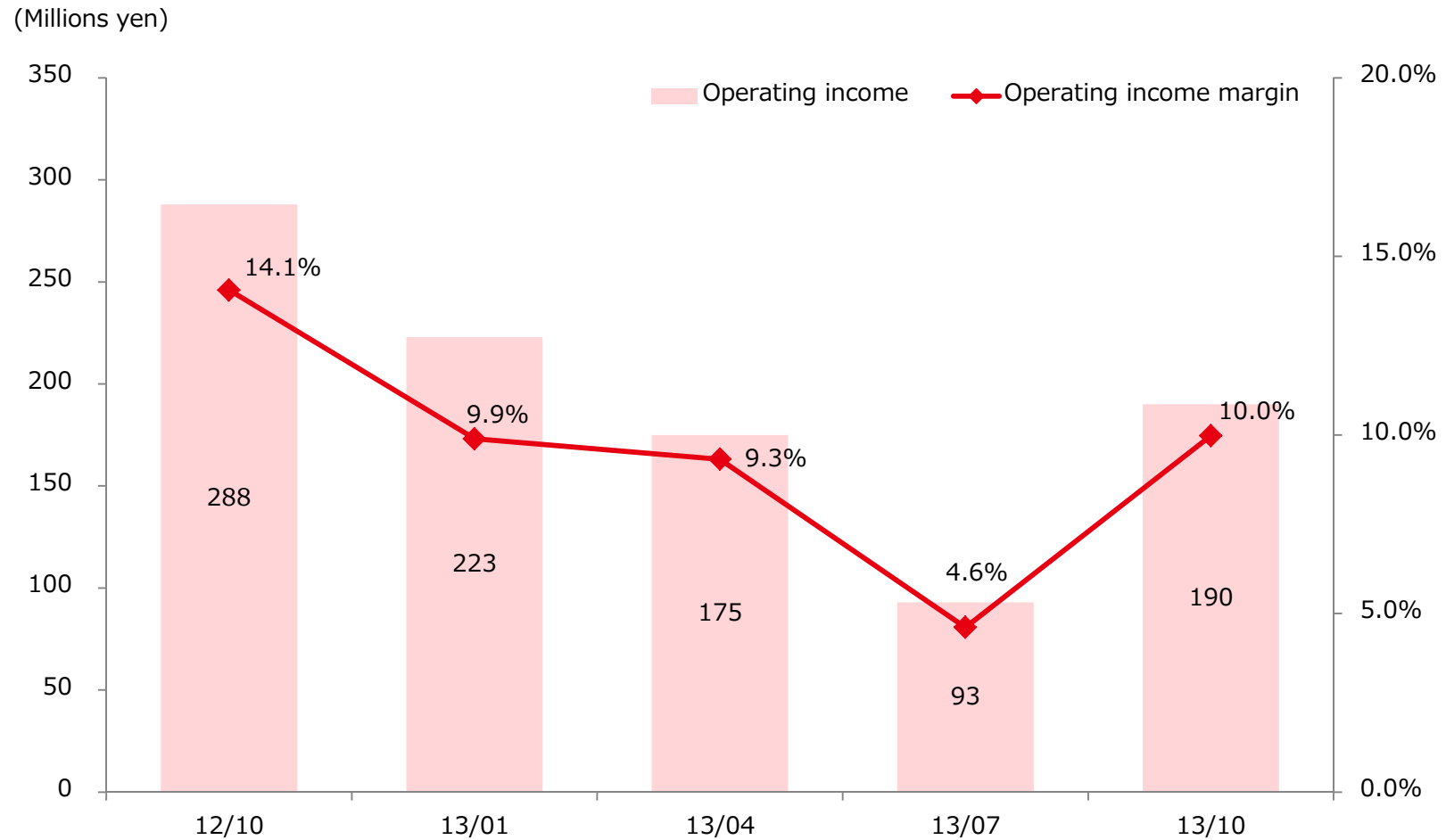
06 Consolidated Numbers of Employees by Quarter

The number of employees increased, primarily media and e-commerce staff.



(*1): The above numbers of employees indicates full-time employees and contract employees only. It does not include junior employees.

07 Consolidated Operating Income by Quarter



08 Consolidated B/S Summary

<Assets>

	End of year ended April 30, 2013 ①	End of 3Q, year ending April 30, 2014 ②	Amount of change (② - ①)
(Units: Millions yen)	(April 30, 2013)	(Jan. 31, 2014)	
Cash and cash equivalents	4,188	4,291	103
Accounts receivable	1,696	1,269	-427
Marketable securities	503	504	0
Merchandise and products	67	110	+43
Other	270	152	-118
Total current assets	6,724	6,326	-398
Total tangible fixed assets	137	148	11
Software	369	260	-109
Goodwill	1,991	2,039	48
Other	53	57	+4
Total intangible fixed assets	2,414	2,356	-58
Investment securities	500	499	-1
Other	350	389	+39
Total investments and other assets	850	888	+38
Total fixed assets	3,401	3,393	-8
Total assets	10,126	9,719	-407

Point 1

- Declined due to a decline in sales

<Liabilities and net assets>

	End of year ended April 30, 2013 ①	End of 3Q, year ending April 30, 2014 ②	Amount of change (② - ①)
(Units: Millions yen)	(April 30, 2013)	(Jan. 31, 2014)	
Accounts payable - trade	304	231	-73
Accounts payable - other	454	294	-160
Corporate tax payable	0	23	+23
Long-term loans payable scheduled for repayment within 1 year	190	186	-4
Others	134	118	-16
Total current liabilities	1,084	852	-232
Long-term loans payable	630	530	-100
Others	1	0	-1
Total fixed liabilities	631	530	-101
Total liabilities	1,716	1,383	-333
Capital stock	1,464	1,470	+6
Capital surplus	1,389	1,395	+6
Retained earnings	6,952	6,742	-210
Treasury stock	-1,418	-1,418	0
Total shareholders' assets	8,388	8,189	-199
Net unrealized holding gains on	-1	1	+2
Foreign currency translation	-39	92	+131
Minority interests	62	53	-9
Total net assets	8,409	8,335	-74
Total liabilities and net assets	10,126	9,719	-407

Point 2

- Declined due to factors including payment of dividends.

II. Overview of Main Business Areas

09 Content Business (1): Comparison with Previous Quarter

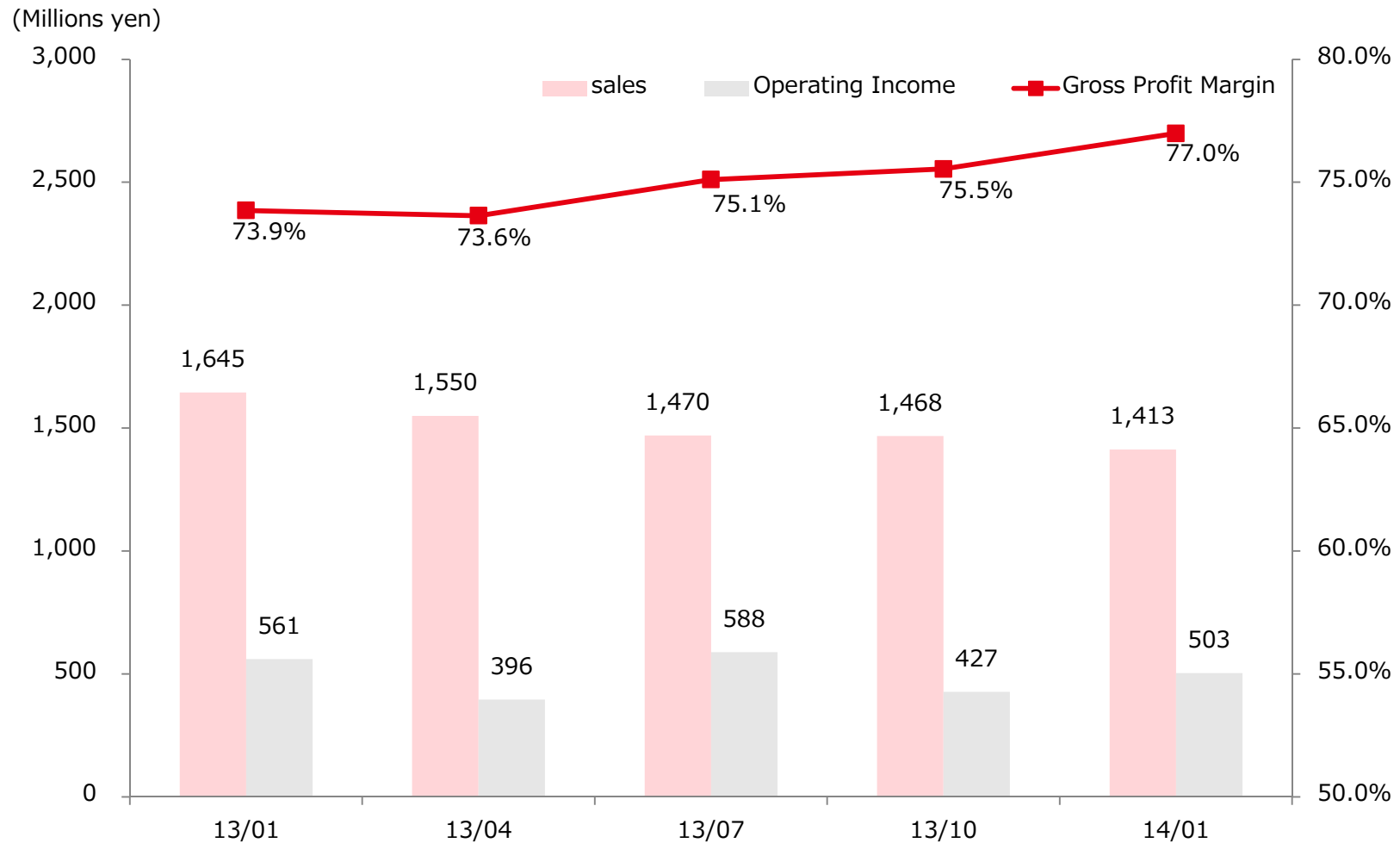
(Units: Millions yen)		2Q of year ending April 30, 2014 (Aug. - Oct.)	% of sales	3Q of year ending April 30, 2014 (Nov. - Jan.)	% of sales
Sales		1,468	100.0%	1,413	100.0%
Costs	Labor expenses	91	6.2%	82	5.8%
	Royalties	131	8.9%	136	9.6%
	Outsourcing expenses	75	5.1%	76	5.4%
	Other	54	3.7%	30	2.1%
SG&A	Personnel expenses	34	2.3%	29	2.1%
	Advertising expenses	415	28.3%	327	23.1%
	Collection agency fees	184	12.5%	177	12.5%
	Other	47	3.2%	51	3.6%
Operating income		427	29.1%	503	35.6%

(*1): Comparison is of figures before consolidation adjustments.

Points

- Despite growth in SP sales, overall sales were lower due to a decline in the number of FP members.
- Communications costs and other expenses were reduced as a result of transferring the data center.
- Operating income increased due to an increase in advertising expenses (primarily for FP) compared with the previous quarter.

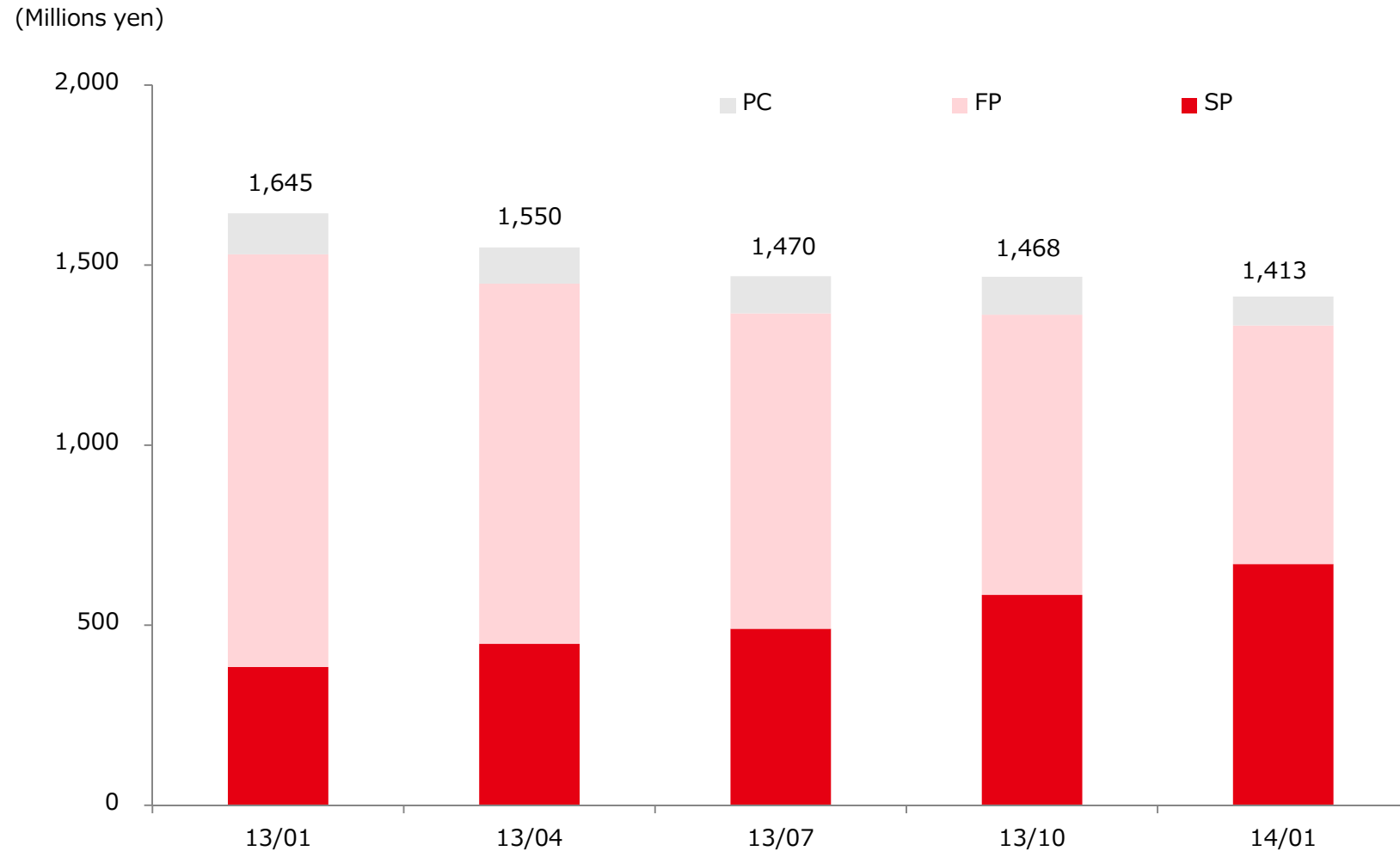
10 Content Business (2): Quarterly Results



(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

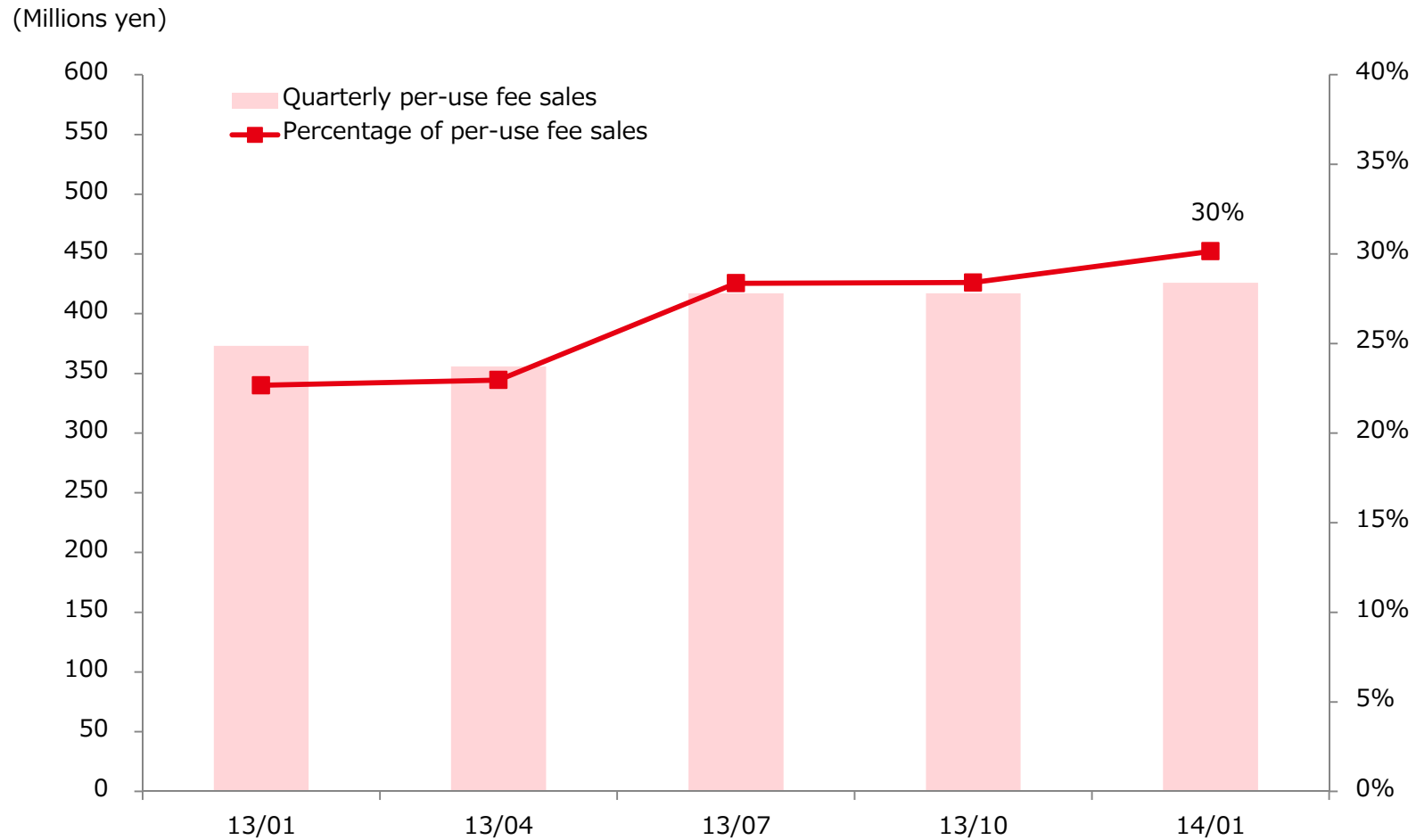
11 Content Business Sales by Device

During 3Q, SP sales exceeded FP sales for the first time.



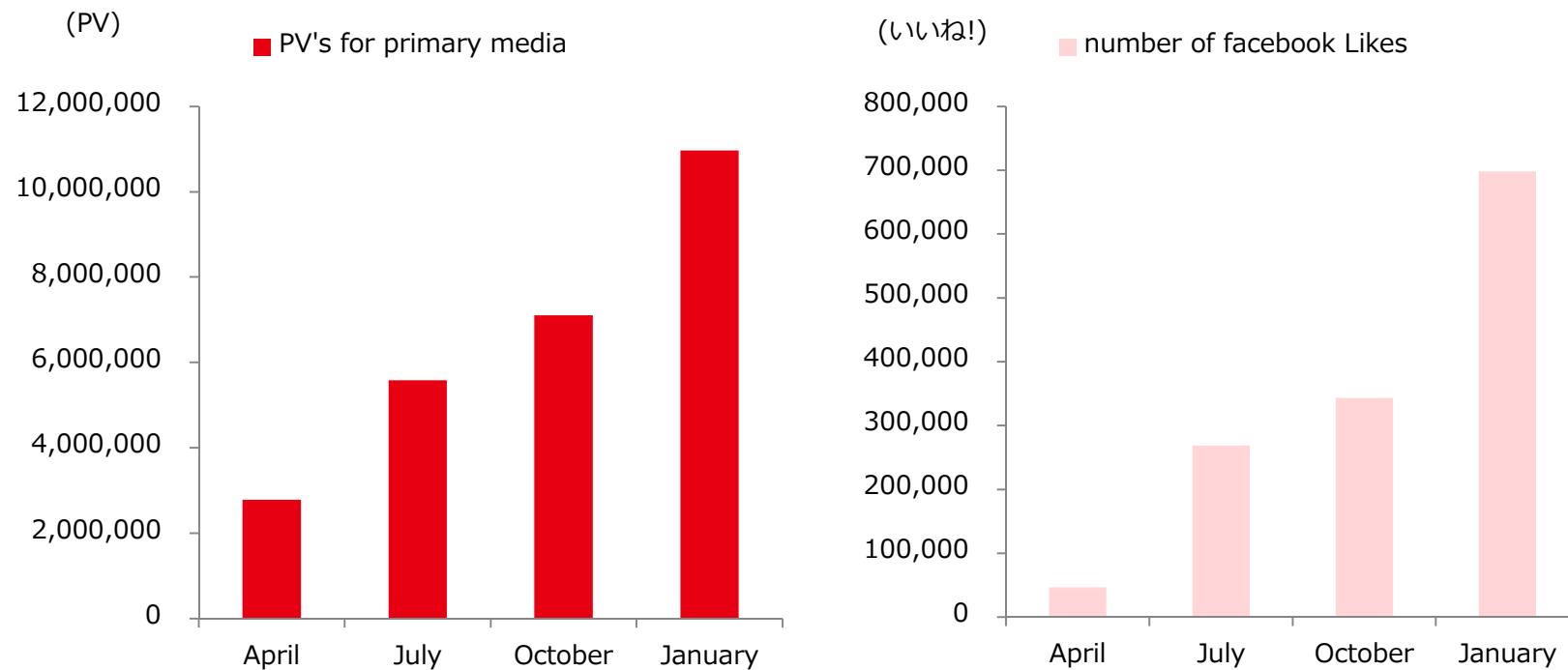
12 Quarterly Per-use Fee Sales

Sales of smartphone apps (Sugotoku, Smartpass, Line) grew, increasing the ratio of per-use fee sales.



13 Expanding Points of Contact

Numbers of PVs and "Likes" for free divination sites are growing rapidly.



(*1): PVs for primary media are the total for *i-Muryo Uranai* (PC/SP) and *cocoloni PROLO* (PC/SP).

(*2): The number of Facebook "Likes" is the total for *i-Muryo Uranai* and *cocoloni PROLO*.

14 Commerce Business (1): Comparison with Previous Quarter

(Units: Millions yen)		2Q of year ending April 30, 2014 (Aug. - Oct.)	% of sales	3Q of year ending April 30, 2014 (Nov. - Jan.)	% of sales
Sales		367	100.0%	308	100.0%
Costs	Product cost	191	52.0%	161	52.3%
	Packaging and transport exp	7	1.9%	7	2.3%
	Other	2	0.5%	1	0%
	Personnel expenses	75	20.4%	78	25.3%
SG&A	Advertising expenses	38	10.4%	31	10.1%
	Commission fees	14	3.8%	12	3.9%
	Rents	17	4.6%	16	5.2%
	Other	80	21.8%	64	20.8%
Operating income		-68	-18.5%	-75	-24.4%

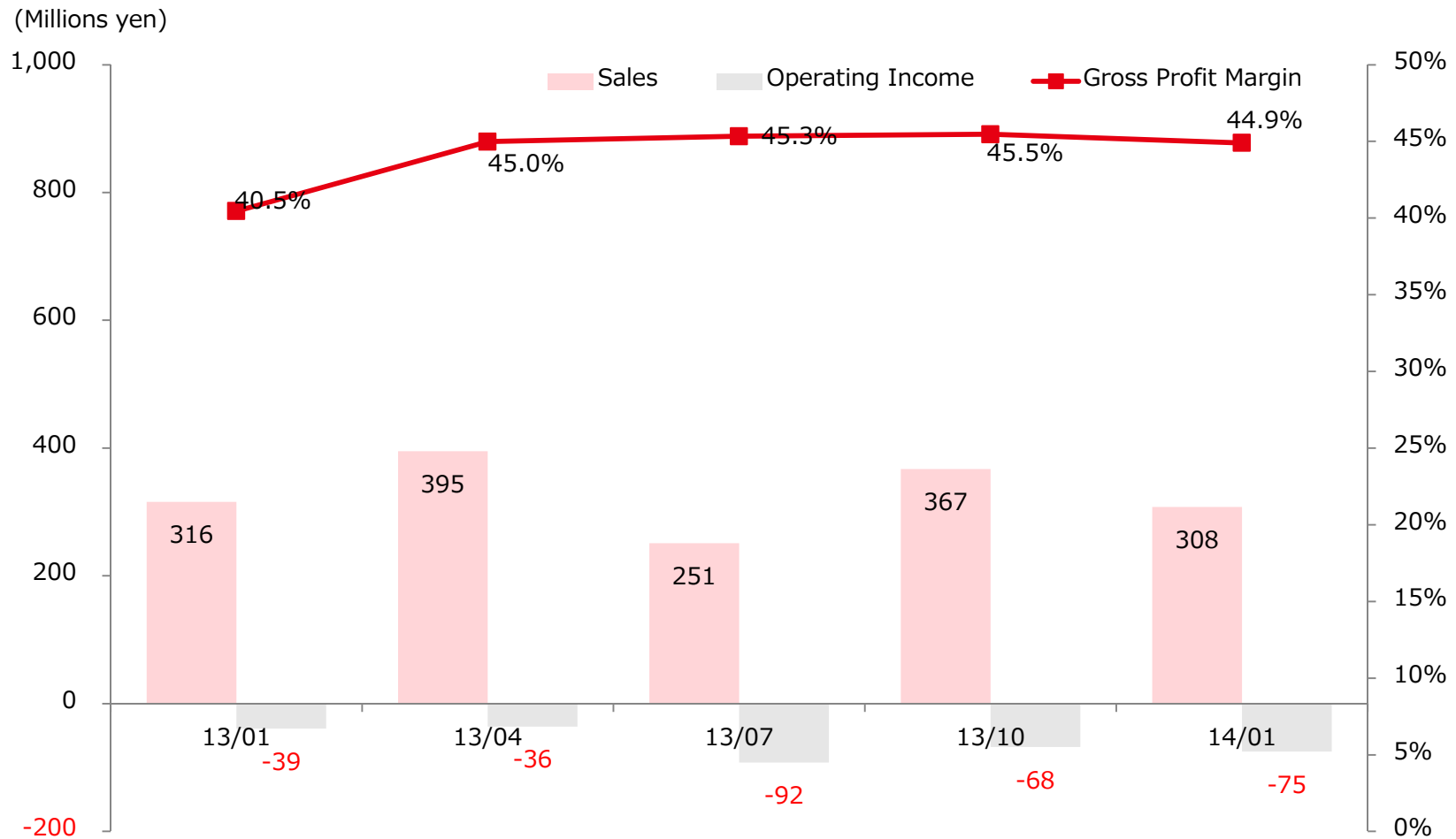
(*1): Comparison is of figures before consolidation adjustments.

(*2): Costs include reversal of allowance for sales returns (subsidiary BxE).

Points

- Sales declined at BxE, a company engaged in wholesale and retail sales of organic and natural cosmetics.
- In the e-commerce business, mobile commerce sales continued to decline despite growing sales at Fujimaki Department Store, Stylest, and other sites.

15 Commerce Business (2): Quarterly Results



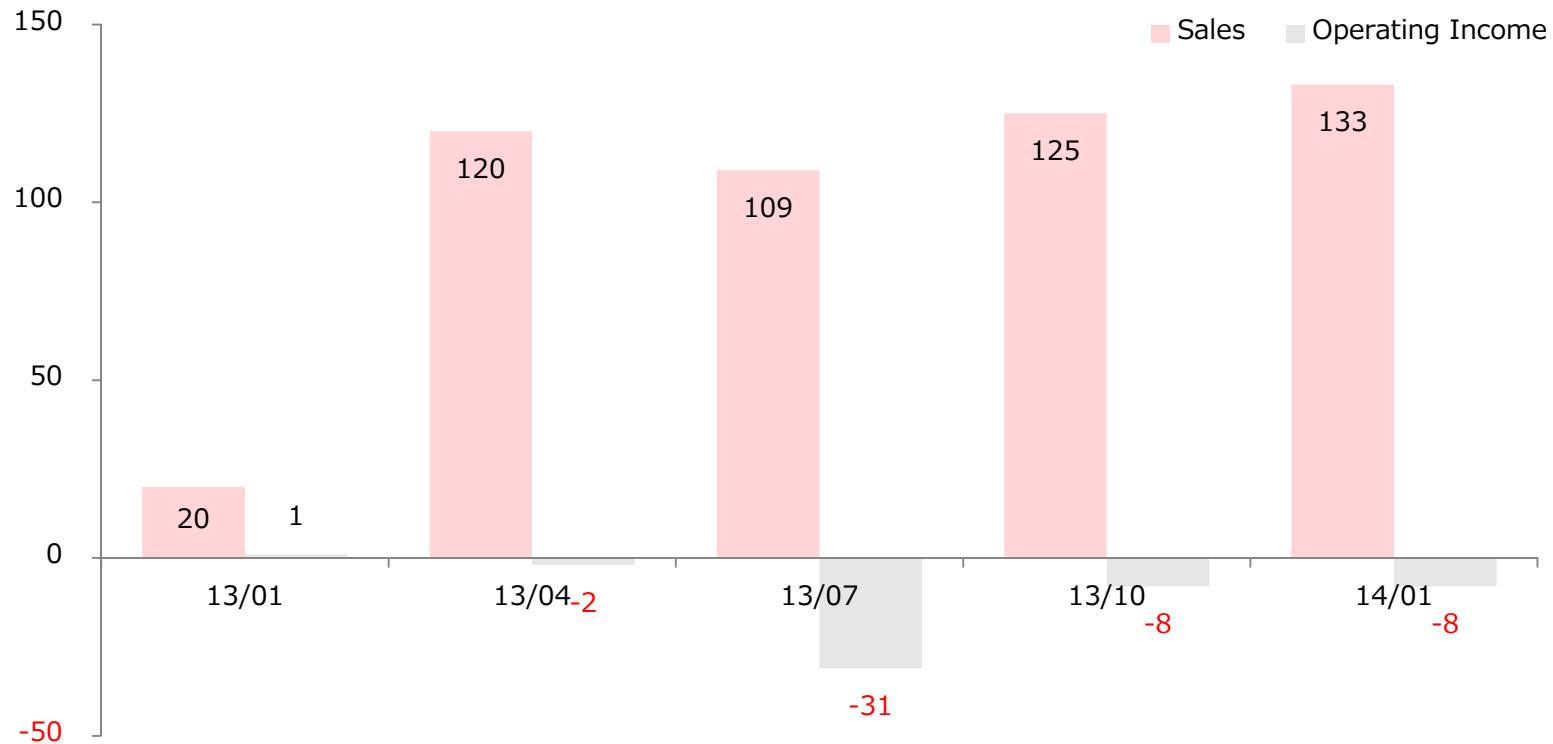
(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

(*2): Costs include reversal of allowance for sales returns (subsidiary BxE).

16 Overseas Business

Sales grew as a result of increased advertising. (Sales +6.5% from 2Q and +8.9% on exchange adjustment base)

(Millions yen)

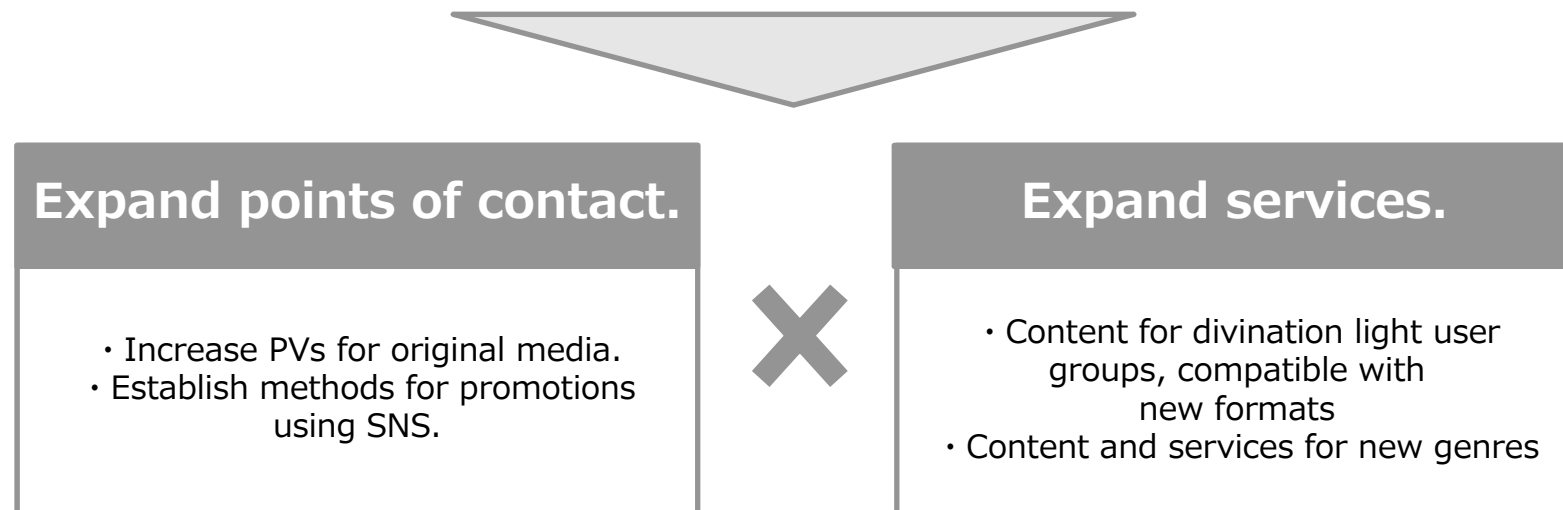


(*1): Sales and operating income for overseas business utilizes quarterly figures converted to Japanese yen at the average exchange rate during the quarter and following consolidation adjustments.

III. Future Plans

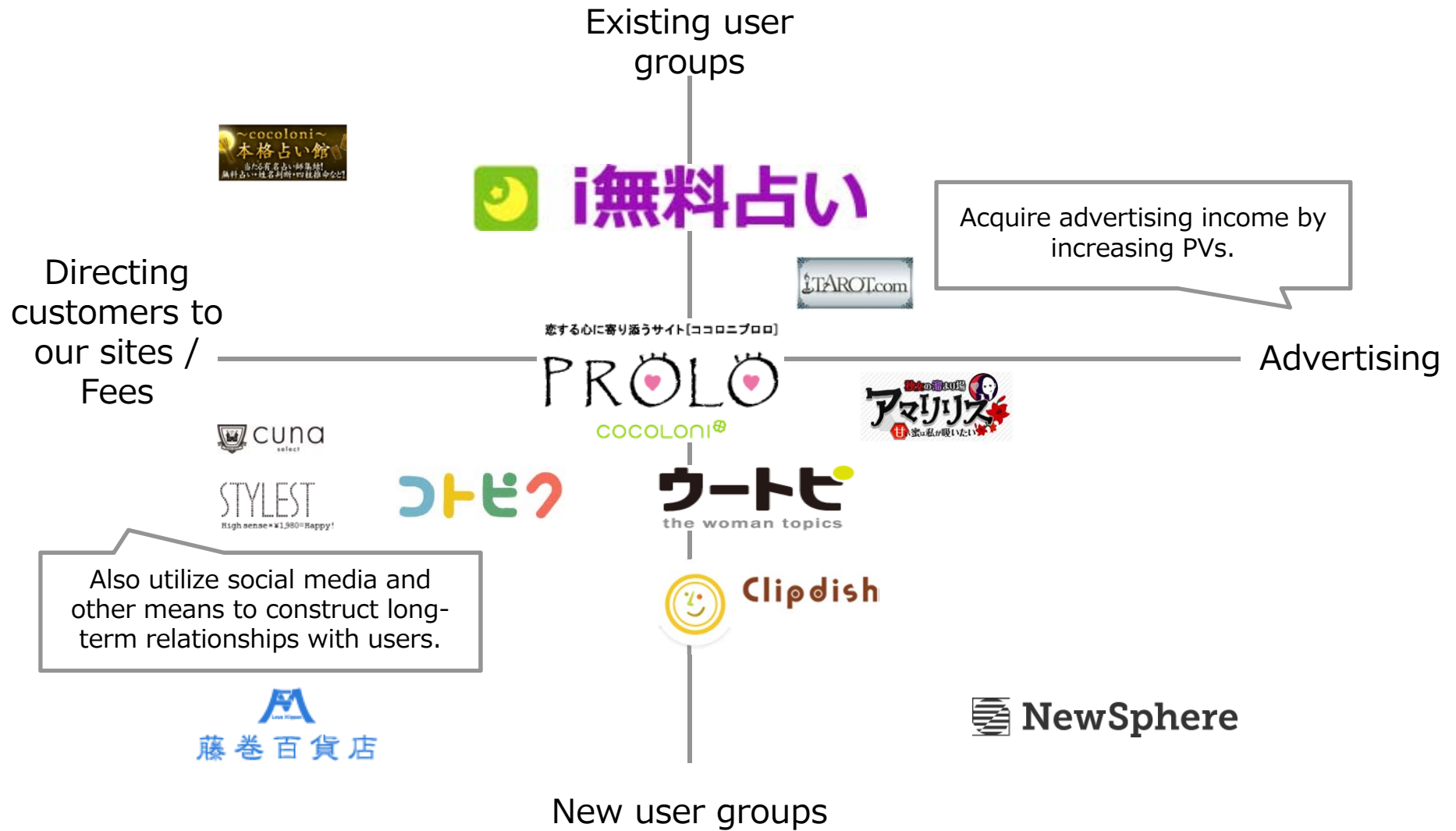
17 Policy for the Second Half of the Year

Acquire new customer groups.



Return the content business to growth.

18 Expanding Points of Contact



IV. Reference Materials

01 Company Profile

- Company name Zappallas Inc.
- Head office Token International Bldg., 2-12-19 Shibuya, Shibuya-ku, Tokyo
- Established March 2000
- Capital 1,464,434,000 yen (as of April 30, 2013)
- No. of employees 216 (as of April 30, 2013)
- Officials

President & CEO	Mari Tamaki (Kawashima)
Director	Hirohiko Ogusu
Director	Sachio Shibata
Director	Akira Nakamura
Director	Masato Kobayashi
Director (outside)	Shinichi Misawa
Standing auditor (outside)	Toyoyoshi Yamaguchi
Auditor	Hirofumi Yamazaki
Auditor (outside)	Masaharu Inoue (attorney)

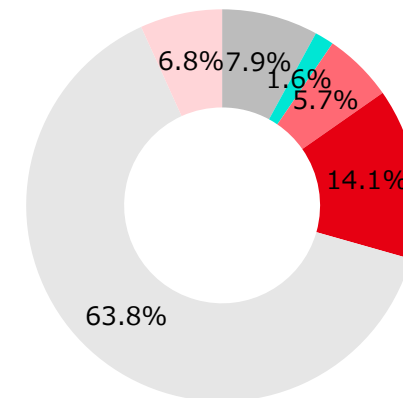
02 Shareholders (as of October 31, 2013)

Shares issued: 135,310
Shareholders: 8,885

Major shareholders

	Number of stocks	Ratio of stocks
Mari Kawashima	27,920	20.63%
BBH for Fidelity Puritan, Fidelity Series, Intrinsic Opportunities Fund	8,800	6.50%
Crimsongroup LLC	6,682	4.94%
Japan Trustee Services Bank, Ltd.	1,878	1.39%
JPMorgan Chase Bank 385093	1,748	1.29%
The Master Trust Bank of Japan, Ltd.	1,391	1.03%
Yuichi Yamada	1,319	0.98%
The Chase Manhattan Bank NA London	1,303	0.96%
Japan Securities Finance Co. Ltd.	1,231	0.91%
Japan Trustee Services Bank, Ltd.(Account 1)	1,140	0.84%

Shareholder distribution (percentage ownership)



- Financial institutions
- Financial instruments businesses
- Other Corporate bodies
- Foreign corporate bodies
- Individuals, other
- Treasury stock

03 Business Areas

Operation of information sites and other sites utilizing mobile devices

Content business

Operation of for-fee divination sites and other sites

Commerce business

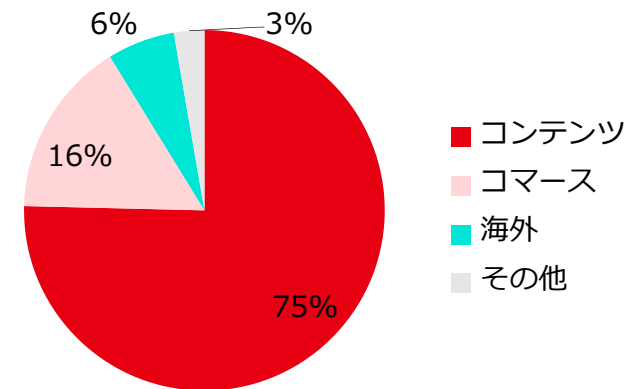
Operation of shopping sites
Sales of natural cosmetics and other products (subsidiary BxE)

Overseas business

Operation of divination sites in the U.S. (U.S. subsidiary)

Other business

Contracted website development
Operation of free media (advertising income), etc.



[Sales by business area] (End of Jan. 2014)

04 Strengths (1) Product Power (No. 1 Divination Sites)

Zappallas divination sites control an overwhelming majority of the top rankings.

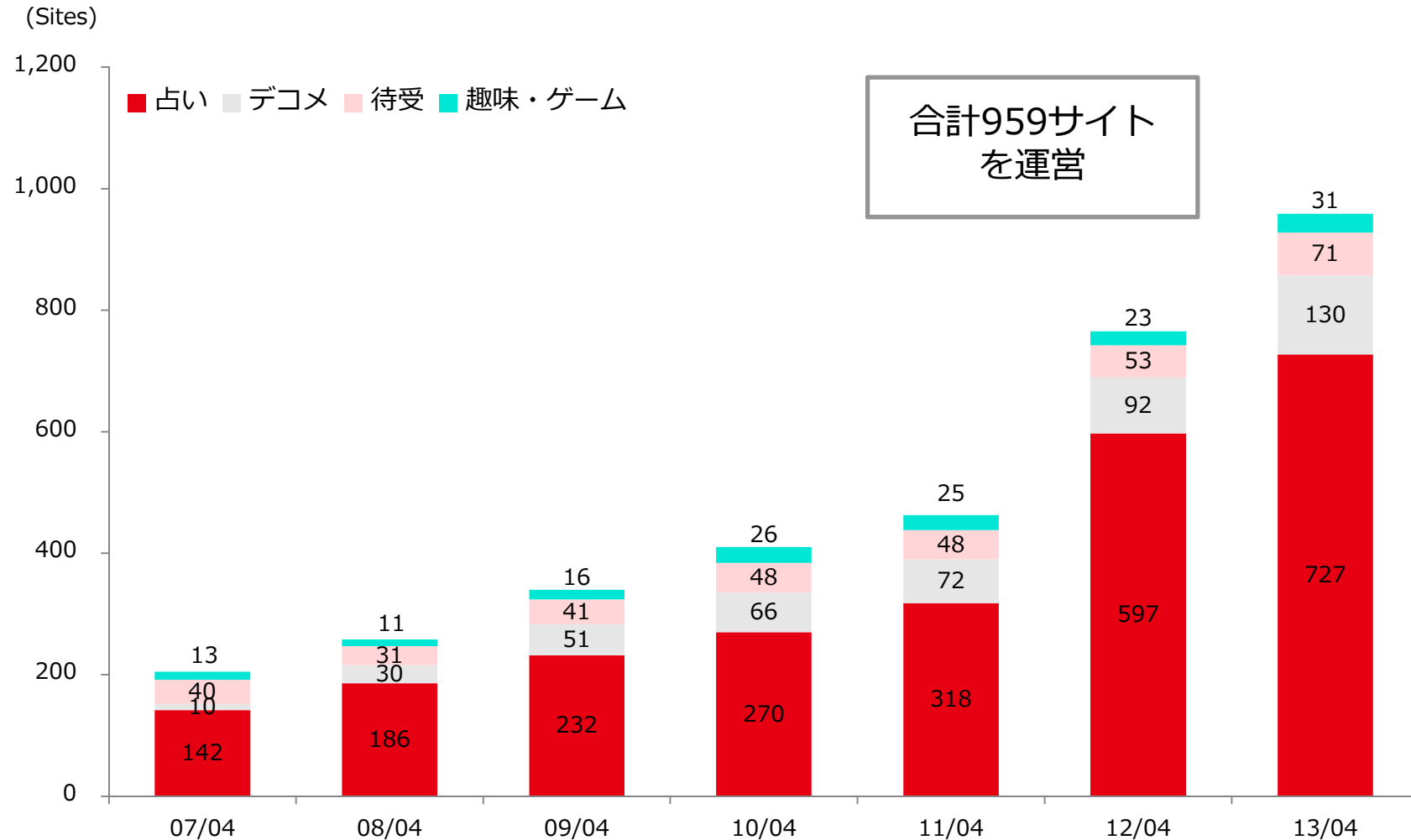
Western divination	Oriental divination	Diagnosis, psychology
1 Today's Fortune DX	1 Kazuko Hosoki's 6-Star Astrology	1 ☆Hiroyuki Ehara☆
2 365 Birthday Grand Divination	2 Smart Divination DX	2 Getters Iida Style
3 Astrology by Yukari Ishii	3 Power of Miracles◆Kazumi Uechi	3 Dream Divination for Good Fortune
4 Goddess of Love DX	4 Divination by Getters Iida	4 Animal Divination
5 Ryuji Kagami Astrology	5 Shuehei Shimada's Palm Reading	5 Relationships for Adults
6 Blood-type Compatibility Diagnosis	6 7 Planets◆Name Divination	6 Animal Character Navi
7 The Last Ryukyu Yuta◇Haru	7 Ansei-Style Fortune Telling	7 Truth and Lies in the Male Mind
8 Karin's Million Person Deeply Moving Salon	8 Mother of Shinjuku	8 Spiritual Dream Interpretation
9 John Hayes England Astrology	9 Kyomei Hashimoto: The Last Yin-Yang Master	9 Rules for Personality Beauty
10 Destiny Love Divination	10 Father of Okinawa◆Miracle Appraisal	10 Real Psychology Tests
11 HAPPY! Divination	11 Mother of Ginza◆Yoshie Yokota	11 Rika Kayama's Deep-Mind Psychology
12 Dates of Fate	12 Mother of Ginza◇Names for Good Fortune	12 Nami Kagawa★Good Fortune Predictions
13 Destiny and Prophecy	13 Yoshiko Shimo-Style Living	13 Male Brain × Female Brain
14 My Birthday	14 Ultimate Name Divination: Journey to Shangri-La	14 Love Psychology for Women
15 Shinbashi Mama◆Spiritual Divination	15 Accurate Mother of Hong Kong! Yan Jing	15 Yasufumi Nakoshi's Laboratory of the Heart
16 Yoshiyuki Hamaguchi's Tarot Divination	16 Miracle Appraiser Karin	16 The Ultimate Love Science
17 Mademoiselle Ai◆Astrology	17 Feng Shui Artist◆Okuni Izumo	17 Past Life Therapy
18 Miyoko Sensei, Goddess of Fuchu◆Messages of Love	18 Mother of Asakusabashi - Name Divination	18 The Brain's Switches
19 7 Persons who Guide Your Fate	19 Mother of Nishi-Shinjuku	19 Goddess of Aomori◆Fujiko Kimura
20 The Future in 3 Months	20 Yumily Naoi's Love and Feng Shui	20 99 Rules for Finding Love
21 Promises from Past Lives	21 Pleasure and Delight! Sakana-chan	21 Blood-Type Human Science DX
22 Egyptian Astrology	22 Mama of Dazaifu	22 Jucelino's Future Predictions
23 Ayako Izumiya [Ultimate Predictions]	23 The Smiling Medium◆Baramon	23 Counseling for Persons Hopeless at Love
24 True Colors of Adults	24 Good Fortune★Name Divination	24 Encyclopedia of Dream Divination
25 Stella Kaoruko◆Happy Fate	25 Economic Feng Shui	25 Sexy Psychology

Source: NTT DoCoMo menu list (dmenu) (January2014)

■ indicates content provided by Zappallas.

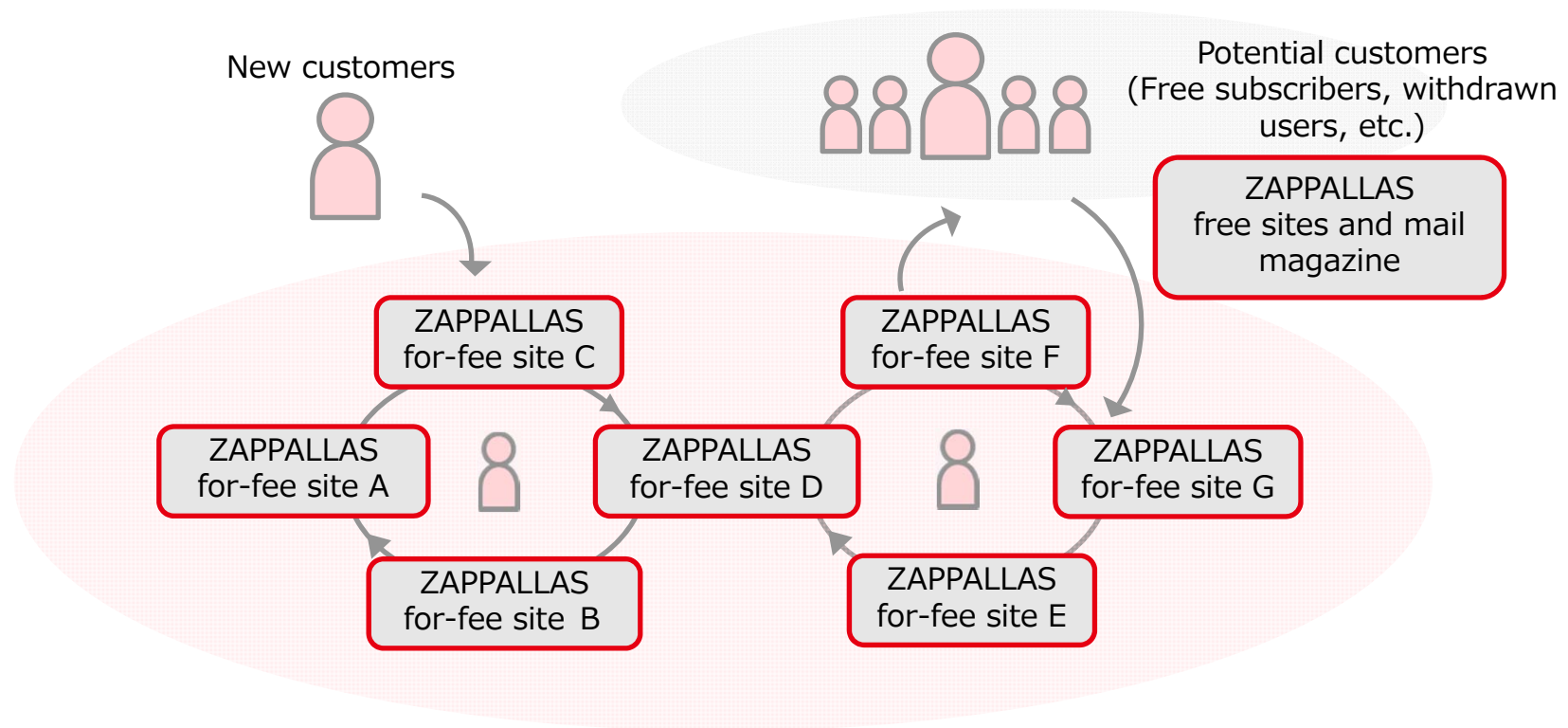
05 Strengths (2) Development and Operations Capabilities

We have created a system capable of developing and operating large numbers of sites.



06 Strengths (3) Marketing Power (Customer Circulation Model)

We have constructed a mechanism which circulates customers among our sites.



Forecasts and other information contained in these materials which are not past results are based on our company's confidential business plan, available information, postulations regarding uncertain factors that may influence future results, and other information which is current as of the date of announcement. Actual results may differ as a result of various future factors.

IR Contact

Management Group, Business Planning Division

TEL: 03-6434-1036 (operator)

MAIL: ir@zappallas.com