

3. Financial Condition and Results of Operations

3-1 Market Environment

(1) Japanese Mobile Internet Market

The number of mobile phone subscriptions in Japan reached 94.93 million at the end of December 2006. Of this amount, the proportion of Internet-enabled handset accounts was 87.0%. The number of third generation (3G) mobile phone subscriptions at the end of December 2006 totaled 63.87 million. Third generation services are expected to be the catalyst that accelerates growth of the mobile Internet market.

Against the backdrop of the popularization of 3G and fixed packet rate system, the content market expanded to ¥315 billion in 2005, and could grow to ¥370.6 billion by 2008. In calendar 2005, the mobile commerce market grew 57%, to ¥407.4 billion compared to the previous year, as a result of installing electric money and credit-card transactions. Of that amount, the mobile shopping market, excluding ticket purchasing and auction fees, jumped 59%, to ¥154.2 billion compared to the previous year.

The advertising market expanded to ¥28.8 billion in 2005. That was approximately three times as ¥10.0 billion in 2003.

(Source: The Telecommunications Carriers Association (TCA), Mobile Content Forum, Nomura Research Institute, Ltd, MultiMedia Communications (FMMC) and DENTSU INC. prepared by CYBIRD Holdings)

(2) The Japanese Direct Sales Market

In the 2005, total estimated sales of the direct sales market amounted to ¥3.36 trillion, rising 10% from the previous year. Expansion of Internet sales through personal computers and mobile phones drove growth in the market, with sales of health foods, cosmetics, and pharmaceuticals taking the top sales spots. In particular, cosmetics and pharmaceuticals sales rose a substantial 32% year on year.

(Source: Prepared by CYBIRD Holdings from materials from the Telecommunications Carrier Association (TCA))

3-2 Consolidated Business Results (Quarter)

(Unit: Millions of yen, Round down)

	3 rd Quarter, FY ended March 31, 2006		3 rd Quarter, FY ending March 31, 2007		Changes	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Net Sales	3,823	100.0	7,608	100	3,785	99.0
Gross Profit	1,306	34.2	3,570	46.9	2,263	173.3
Operating Income	(127)	(3.3)	306	4.0	433	-
Ordinary Income	120	3.2	256	3.4	135	112.0
Net Income	30	0.8	(47)	(0.6)	(77)	-

Effective October 1, 2006, CYBIRD and JIMOS integrated their businesses, with the sales of JIMOS starting to be included for the first time in consolidation, mainly in the Commerce Business. In addition, the sales of the Mobile Content Business of CYBIRD expanded during the period under review, resulting in consolidated net sales expanding substantially, rising 99.0%, or ¥3,785 million, to ¥7,608 million.

Gross profit surged 173.3%, or ¥2,263 million, from the previous fiscal year, to ¥3,570 million. The increase in profitability can be attributed to the low cost of sales ratio of the core cosmetic products of JIMOS's direct sales business. In addition, the continued improvement in the cost of sales ratio of CYBIRD's Mobile Content Business was another major contributing factor. The consolidated gross profit margin was 46.9%, advancing 12.8% from the previous year.

Operating income and ordinary income improved substantially despite some losses being recorded related to investments in new business start ups, such as the Advertising Business, thanks to the stronger earning power of the Mobile Content and Commerce businesses and a decrease in the number of unprofitable subsidiaries in the Group. Operating income increased ¥433 million to ¥306 million, compared to an operating loss last year, while ordinary

income climbed 112.0% year on year, or ¥135 million, to ¥256 million.

The Group posted a consolidated loss for the quarter of ¥47 million. The loss resulted from extraordinary losses related to expenses incurred in the integration of businesses and the application of revised standards for tax benefit accounting.

(Reference)

	Net Income per share	ROE (%)	EBITDA (million of yen)
3 rd Quarter, FY ending March 31, 2007	(162.99)	(0.3)	656

Based on the Company becoming a pure holding company through a corporate split, its main sources of earnings starting with the period under review are shared service fees collected from the subsidiaries in charge of individual businesses and management guidance commissions, etc. As a result, non-consolidated operating income was ¥659 million, while ordinary income amounted to ¥33 million. The Company also posted a consolidated loss of ¥9 million for the quarter, however, because of extraordinary losses related to business integration expenses.

Business Results by Operation (Quarter)

(Unit: Millions of yen, Round down)

	3 rd Quarter, FY ended March 31, 2006 (From October 1, 2005 to December 31, 2005)		3 rd Quarter, FY ending March 31, 2007 (From October 1, 2006 to December 31, 2006)		Change	
	millions of yen	%	millions of yen	%	millions of yen	%
Mobile Content Business	2,717	71.0	2,960	38.9	243	9.0
Commerce Business	64	1.7	3,160	41.6	3,096	-
Solution Business	618	16.2	892	11.7	273	44.2
Advertising Business	14	0.4	56	0.7	41	290.4
Investment Business	-	-	5	0.1	5	-
International Business	408	10.7	533	7.0	124	30.5
Total	3,823	100.0	7,608	100.0	3,785	99.0

(1) Mobile Content Business

In the quarter under review, the Mobile Content Business set a record high for sales on a quarter basis. Consolidated net sales totaled ¥2,960 million, rising ¥243 million, or 9.0%, year on year. Performance continued to be favorable, supported by the continued growth in subscribers to high brand-power core content, such as “Hiroyuki Ehara Spiritual Message” and “Kagami Ryuji Kensuijutsu.” The introduction of mobile number portability during the quarter by the mobile carriers had only a minor impact on the Group’s business due to strengthening of promotional activities, including measures implemented in response to the new system.

(2) Commerce Business

Net sales of the Commerce Business in the third quarter amounted to ¥3,160 million, climbing ¥3,096 million from the same period in the previous fiscal year. Following the start of consolidation of JIMOS, the inclusion of new revenue from its core business of direct sales and from its subsidiary Outlet Plaza Co., Ltd., resulted in a substantial increase in net sales compared with the third quarter last year. The direct sales business of JIMOS did face such issues as tardiness in the development and discovery of new products and a decline in acquisition of new members during the quarter. However, the direct sales business did achieve growth in profitability due to the introduction of new products, mainly cosmetics, and the implementation of aggressive measures to acquire new customers. The Group’s mobile commerce business has not yet gotten fully off the ground, but several important steps were taken in

the quarter. The newly consolidated subsidiary S-CREW Inc. (See Note 1) was positioned as the strategy consolidated subsidiary responsible for this business and the related commerce business was fully transferred to the subsidiary. In addition, the promotional system and resources for developing the business were strengthened.

Notes: 1. Targeting F0 to F1 consumer groups, S-CREW operates a commerce site that has won top-level rankings by the i-mode and EZweb mobile Internet service providers. The commercial site features the highly popular Nutty collection and JELLY, a service that combines magazine, personal computer, and mobile content. S-CREW also operates a content service that has received top ranking for its popular song ringing tone service FARMIX Full Sound and many other content services.

The business results of S-CREW will be consolidated from this fourth quarter.

2. Beginning with the quarter under review, the E-Commerce Business changed its name to the Commerce Business.

(3) Solution Business

Consolidated net sales of the Solution Business surged ¥273 million, or 44.2%, year on year to ¥892 million. These figures are adjusted for the elimination from consolidation of the customer support subsidiary. Revenues for the development and operation of mobile sites of corporate clients were firm and the business received new revenues from support services for JIMOS's direct sales business and services related to the development of e-commerce sites.

The Company sold all its shares of AXISOFT Corporation in the fourth quarter (January 31, 2007). The Group had originally purchased a stake in AXISOFT for the purpose of acquiring technology development capabilities in the mobile field, but sold the shares after determining that the Group now had adequate technological capabilities internally.

Note: Starting with the quarter under review, the Marketing Solution Business changed its name to the Solution Business.

(4) Advertising Business

In the third quarter, consolidated net sales of the Advertising Business amounted to ¥56 million, rising ¥41 million, or 290.4%. The main source of revenues was the sales of the subsidiary PLUS MOBILE COMMUNICATIONS Co., Ltd. The scope of the business is still small, but during the period the business continued to focus on building a client base of advertisers. Steps taken included the start of distribution of free moving picture content and the forming of a business alliance with Nissen Co., Ltd. In addition, the business is constantly pursuing the development of new and original mobile advertising, including the use of video solutions.

(5) Investment Business

In December 2005, the Company established CYBIRD Investment Partners Inc. as a wholly owned subsidiary for the purpose of developing its Investment Business. Under the management and supervision of this subsidiary, the Company has set up and operates the CYBIRD Plus Mobile Fund Investment Business Limited Partnership. The Investment Business recorded revenues of ¥5 million during the period under review. Including the ¥143 million earned in the interim period, the business expect to record total revenues of ¥148 million during the current fiscal year. In addition to the company that yielded a gain of sale during the fiscal year, the Investment Business has invested in five other companies, and is continuing to search for other companies that meet its investment criteria.

(6) International Business

Supported by the earnings of North America content provider Airborne Entertainment Inc., International Business sales grew 30.5%, or ¥124 million year on year, to ¥533 million. Airborne Entertainment continued to demonstrate growth by strengthening its marketing and reorganizing internal systems. Along with the introduction of advanced mobile devices, 3G moving picture content is expanding while 2G services are cooling off. As a result, Airborne Entertainment is preparing to shift its emphasis from 2G services to high-value-added services, including 3G

services.

3-3 Financial Condition (Quarter)

Total assets for the quarter under review amounted to ¥28,178 million. While the total liabilities amounted to ¥7,888 million and total net assets including subscription right and minority interests amounted to ¥20,289 million.

Total assets increased substantially as a result of the share exchange (Acquisition cost: ¥8.9 billion) through which the JIMOS CO., LTD. is converted to a wholly owned subsidiary, which took place at the beginning of the quarter under review (October 1, 2006).

	December 31, 2005	December 31, 2006
Equity ratio (%)	69.0	69.2
Equity ratio on a market value basis (%)	338.4	52.9
Debt Redemption (years)	-	1.8
Interest Coverage Ratio (times)	-	13.1

Equity ratio: shareholders' equity / total assets

Equity ratio on a market value basis: aggregate market value / total assets

Debt redemption (years): interest-bearing debt / operating cash flow

Interest coverage ratio: operating cash flow / interest payment

Note 1) Aggregate market value was calculated by using total issued and outstanding shares at the end of the period multiplied by the closing price for CYBIRD Holdings' stock on the last day of business in this quarter.

2) Operating cash flow is used in the calculation of Debt Redemption and Interest Coverage Ratio. "Interest-bearing debt" includes all balance sheet debt with interest payment.

3) Debt Redemption and Interest Coverage Ratio of the interim period ended December 30, 2005 are not mentioned due to a negative cash flow from operating activities..

3-4 Consolidated Cash Flow Statement

At the end of December 2006, cash and cash equivalents totaled ¥4,146 million, increasing by ¥2,489 million, 150.3%, from the same period in the previous year, and by ¥2,334 million, 128.9%, from the interim in same year. Conditions/contributing factors in each cash flow segment for this interim under review are as follows.

(Cash flow from operating activities)

Cash flows from operating activities for the third quarter totaled ¥508 million compared with a decrease of ¥24 million in the same period in the previous fiscal year. Among the factors contributing to this result in addition to operating income of ¥167 million were depreciation expenses and goodwill amortization expenses of an overseas subsidiary totaling approximately ¥300 million.

(Cash flow from investing activities)

Cash flow from investing activities increased by ¥1,706 million compared with a decrease of ¥318 million in the same period in the prior fiscal year. The increase resulted from the inclusion of JIMOS as a consolidated subsidiary in the third quarter due a share exchange.

(Cash flow from financing activities)

Cash flow from financing activities expanded ¥135 million compared with a decrease of ¥10 million in the previous third quarter. The increase was primarily due to proceeds from short-term borrowings.

3-5 Earning Forecasts

The Company announced following Revision of Fiscal Earnings Forecasts on November 17, 2006 and remains the same at the end of this quarter.

Consolidated Earnings Forecast		(Unit: Millions of yen)	
	Net Sales	Ordinary income	Net Income
FY ending March 2007	24,450	(1,850)	(7,200)

Non-Consolidated Earnings Forecast		(Unit: Millions of yen)	
	Net Sales	Ordinary income	Net Income
FY ending March 2007	7,950	50	(6,950)

Based on the booking in the period of additional amortization charges related to the goodwill of JIMOS, the Company recorded a loss on investment in subsidiary of ¥1,900 million in the interim period. In addition, the Company anticipates an extraordinary loss of ¥4.6 billion in the second half. Consequently, a significant ordinary loss and overall loss are projected for the full fiscal year based on performance forecasts as shown above. On the other hand, because of the favorable performance of core business operations, the Company predicts consolidated net income of approximately ¥500 million for the fiscal year based on the above performance forecasts for these core businesses. At this point, there is no change in the net income forecast for these businesses.

Forecasts included here are forward looking statements and contain elements of risk and uncertainty. Readers are cautioned that actual performance could vary significantly from these forecasts due to changes in a variety of factors.