1. Results of Operations

(1) Analysis of Results of Operations

I Market Environment

a. Japanese Mobile Internet Market

The number of mobile phone subscriptions in Japan reached 96.71 million at the end of March 2007. Of this amount, the proportion of Internet-enabled handset accounts was 87.2%. The number of third generation (3G) mobile phone subscriptions at the end of March 2007 totaled 70.5 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 ¥128.4 billion in 2011. That was approximately 3.3 times as ¥39 billion in 2006. (Source: The Telecommunications Carriers Association (TCA), Mobile Content Forum, Nomura Research Institute, Ltd, MultiMedia Communications (FMMC) and DENTSU INC. prepared by CYBIRD Holdings)

b. The Japanese Direct Sales Market

In 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))

II Results of Operation

Overview of Performance for Fiscal Year Ended March 2007

✧ Major businesses expanded, consolidated operating income and cash flow from operations increased substantially
- Commerce revenues from tie up with JIMOS CO.,LTD., grew
- Core Mobile Content Business posted double-digit growth and record high sales
- Number of unprofitable group subsidiaries declined

✧ Amortization of goodwill of subsidiaries impacted significantly on consolidated ordinary income and net income in the period under review
- Progress made with amortization of the goodwill from JIMOS CO., LTD., and influence on financial results will be significantly reduced starting with the next fiscal year
- Write down of goodwill regarding overseas subsidiary Airborne Entertainment Inc. proceeding from a conservative view of business performance.

✧ Built mobile commerce platform by expanding group customer base centered on mobile advertising distribution business customers and by acquiring S-CREW Inc. and converting it to a subsidiary

(Annual) (Unit: Millions of yen, Round down)

	FY ended March 31, 2006		FY ended March 31, 2007		Changes	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Net Sales	15,089	100.0	23,571	100.0	8,482	56.2
Gross Profit	5,562	36.9	10,702	45.4	5,140	92.4
Operating Income (Loss)	(247)	(1.6)	786	3.3	1,033	-
Ordinary Income (Loss)	35	0.2	(1,552)	(6.6)	(1,588)	-
Net Income	(143)	(1.0)	(7,830)	(33.2)	(7,687)	-

Effective October 1, 2006, CYBIRD and JIMOS integrated their businesses and the sales of JIMOS started to be included for the first time in consolidation in the second half, resulting in substantial sales growth mainly in the Commerce Business. In addition, existing businesses expanded, with the core Mobile Content Business registering double-digit growth, reaching a record high. Moreover, growth of the still small-scale new businesses, Advertising and Investment, grew favorably during the period under review, resulting in consolidated net sales expanding substantially, rising 56.2%, or ¥8,482 million, to ¥23,571 million.

Gross profit jumped 92.4%, or ¥5,140 million, from the previous fiscal year, to ¥10,702 million. The increase in profitability can be attributed to the continued improvement in the cost of sales ratio of CYBIRD's Mobile Content Business. The low cost of sales ratio of the core cosmetic products of JIMOS's direct sales business also contributed to greater profitability. The consolidated gross profit margin was 45.4%, increasing 8.5 percentage points from the previous year.

Operating income rose ¥1,033 million from the operating loss recorded in the previous fiscal year, to ¥786 million, Although expenses increased because of the additional advertising expenses of the Commerce Business and a rise in straight-line amortization expenses due to new consolidated subsidiaries, an increase in the earning power of the Mobile Content and Commerce businesses and a reduction in the number of unprofitable subsidiaries produced an overall gain.

On the other hand, the Company recorded an ordinary loss of ¥1,552 million due to a translation adjustment loss booked in the first quarter regarding a transaction with an overseas subsidiary and additional amortization of goodwill (Note 1) of JIMOS CO., LTD., posted in the second quarter.

The Company registered a consolidated loss for the period of ¥7,830 million. The loss could mainly be attributed to an impairment loss of ¥4,985 million (Note 2) on goodwill of JIMOS and an impairment loss of ¥435 million (Note 3) on the goodwill of an overseas subsidiary taken at the end of the fiscal year.

In this manner, the impairment loss taken on goodwill of JIMOS due to the integration of its businesses impacted substantially on consolidated performance for the period under review. However, the balance of goodwill at the end of the period had been reduced to about ¥24 million, and will have little or no effect on financial statements from the next fiscal year. In addition, the business performance of core businesses is improving. As indicated by the significant improvement in consolidated operating income and the ¥1,228 million increase in cash flow from operating activities, earning power centered on existing businesses is steadily growing. Furthermore, the acquisition of customers for the mobile advertising distribution business and improvement in the customer retention ratio—important strategic issues—proceeded well during the fiscal year. With the acquisition and conversion to a subsidiary of S-CREW Inc. in the second half, the Company established a mobile commerce platform. During the fiscal year, the Group continued to further expand its customer base assets in each of its businesses, and plans to maximize the use of those customer bases by the Group to achieve more growth in existing businesses and the early achievement of profitability of new businesses.

Note 1: At the end of the interim period (September 30, 2006) JIMOS CO., LTD., was an affiliate of the Company accounted for by the equity method. The closing price of JIMOS shares on the last business day (September 25, 2006) immediately before the end of the interim period fell slightly below the Company's agreed purchase price for the shares. Based on accounting standards for financial instruments, this difference resulted in the recording of a non-operating amortization expense (equity in loss in investment).

Note 2: In accordance with accounting principles for financial instruments, the price of shares of JIMOS traded under the share exchange agreement on October 1, 2006, was calculated using the share price on the business day immediately prior to the date of the signing of the share exchange agreement (May 15, 2006). In consideration of the decline of the price of JIMOS stock following the share exchange and the delisting of the shares of JIMOS, an extraordinary loss on impairment of goodwill related to the stock was taken at the end of the fiscal year based on impairment accounting standards for fixed assets.

Note 3: The Group is developing its Mobile Content Business in North America through Airborne Entertainment Inc., which the Company has a 85% stake in through its wholly owned overseas subsidiary CYB INVESTMENT INC. Airborne Entertainment became a consolidated subsidiary in the second half of the previous fiscal year, and has been achieving steady growth in earnings. Currently, Airborne Entertainment is concentrating on development of 3G video content development and B-to-B mobile business. Although the overall North American content market is expected to expand, content providers anticipated to have to adapt to changes in the market caused by the advanced functionality of mobile phones and to the possible changes in user preferences as well as intensified competition. In that regard, the Company decided to take a conservative stance regarding consolidated performance for the period under review, posting an extraordinary loss on impairment of goodwill related to Airborne Entertainment's stock at the end of the fiscal year based on impairment accounting standards for fixed assets.

(Reference)

	Net Income per share (yen)	ROE (%)	EBITDA (million of yen)
FY ended March 31, 2007	(30,073.51)	(59.4)	1,906

(Note)EBITA: Operating income + Depreciation + straight-line amortization of goodwill

Sales by Business Segment (Unit: Millions of yen, Round down)

	FY ended March 31, 2006		FY ended March 31, 2007		Change	
	millions of yen	%	millions of yen	%	millions of yen	%
Mobile Content Business	10,808	71.6	12,047	51.1	1,238	11.5
Commerce Business	253	1.7	6,191	26.3	5,937	-
Solution Business	3,074	20.4	2,750	11.7	(323)	(10.5)
Advertising Business	67	0.4	256	1.1	189	281.3
Investment Business	-	-	148	0.6	148	-
International Business	885	5.9	2,176	9.2	1,291	145.9
Total	15,089	100.0	23,571	100.0	8,482	56.2

a. Mobile Content Business

The Mobile Content Business continued to achieve double-digit revenue growth, setting a record high on a fiscal basis. Consolidated net sales totaled ¥12,047 million, climbing ¥1,238 million, or 11.5%, year on year. Performance continued to be favorable, supported by the continued growth in subscribers due effective promotion of core content, such as "Hiroyuki Ehara Spiritual Message" and the launch of new content. During the fiscal year, after becoming a construction partner of the official Hanshin Tigers mobile site, the Company undertook a renewal of the site content, and commenced running the site with new and forceful content that is continually appropriate for site members.

b. Commerce Business

Net sales of the Commerce Business in the fiscal year amounted to ¥6,191 million, climbing ¥5,937 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 previous fiscal year. JIMOS's direct sales business focused on building earning power for the next fiscal year, introducing new merchandise, particularly cosmetics, and actively implementing measures to acquire new customers. According to a survey by Fuji-Keizai Co., Ltd., the core cosmetic product MACCHIALb.clear esthe veil, a beauty liquid foundation lotion, was No. 1 in sales in the beauty liquid foundation market.

On the other hand, in the Mobile Commerce and Mobile Commerce Platform Business, S-CREW Inc.,（Note 1) which became a subsidiary in the second half of the fiscal year, was positioned as a strategic subsidiary for the Group in this business. During the period, the Group worked to strengthen the promotional system and resources for developing this the business. By injecting the mobile service know-how of CYBIRD Co., Inc. and the direct sales know-how of JIMOS CO., LTD., into this business, the Group plans to make it a full-scale earnings source.

Notes: 1. Targeting F0 to F1 consumer groups, S-CREW operates a commerce site that has won top-level rankings in three months from the commencement of the service 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.

Notes: 2. Beginning with the second half, the E-Commerce Business changed its name to the Commerce Business.

c. Solution Business

Consolidated net sales of the Solution Business declined ¥323 million, or 10.5%, year on year to ¥2,750 million. Starting in the second half, new revenues from support services for JIMOS's direct sales business and from services related to the development of a e-commerce sites the second half began contributing to consolidated net sales. However, reorganization of unprofitable subsidiaries resulted in an overall decline.

Revenues from commissioned development of mobile sites for corporations decreased in reaction to the large projects booked in the previous fiscal year, but site operation revenues remained stable. Moreover, the Group is proceeding with major site development projects for corporation that will result in sales starting in the next fiscal year.

Note: 1. Starting with the second half, the Marketing Solution Business changed its name to the Solution Business.

d. Advertising Business

In the fiscal year, consolidated net sales of the Advertising Business amounted to ¥256 million, rising ¥189 million, or 281.3%. The main source of revenues was the sales of the subsidiary PLUS MOBILE COMMUNICATIONS Co., Ltd. Although results are still limited, the business started distributing several video e-mail magazines during the fiscal year. In addition, through a tie-up with Nissen Co., Ltd., the business began distributing a e-mail magazine to that company's customer base. By these various measures, the business made progress with the acquisition of customers for the mobile advertising distribution business and improvement in the customer retention ratio during the fiscal year. At March 31, 2007, the Advertising Business had acquired a membership totaling more than 3 million, expanding customer base assets that will generate revenues in future.

The business also made progress with development of new types of new mobile advertising, such as advertising using video solutions and listing advertising that links advertising to user searches.

e. Investment Business

The Company has set up and operates the CYBIRD Plus Mobile Fund Investment Business Limited Partnership under the management and supervision of CYBIRD Investment Partners Inc., a wholly owned subsidiary. The

Investment Business recorded revenues of ¥148 million during the period under review based on the sale of one of its investment in a company. The Investment Business has invested in six other companies, and is continuing to search for other companies that meet its investment criteria.

f. International Business

Supported by the fee-based revenues of North America content provider Airborne Entertainment Inc., from its popular characters, game content, and other content services in the region, International Business sales amounted to ¥2,176 million. This represents a 145.9%, or ¥1,291 million increase from the previous fiscal year. 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 concentrating such strategies as developing 3G moving picture content and providing high-value-added services in its mobile-based B-to-B business.

III Earning Forecasts

For the next fiscal year (ending March 31, 2008), the Group is aiming to achieve further growth in consolidated net sales. To do so, the Group is planning to achieve stable performances by the existing core Mobile Content and Commerce businesses and an upswing in performances by the Advertising and Mobile Commerce businesses based on the expanding of the Group's customer base assets and maximized sharing of these assets. In the core Mobile Content Business, the Group is targeting continued double-digit growth through effective use of promotional measures and of the Group's customer base assets. In the Commerce Business, the Group will focus on its cosmetics business, and plans to continue to improve profitability based on introducing more efficient promotional methods and strengthening profit management. In the Solution Business, the Group will proceed with development of a business model for corporate services that combines 1) mobile marketing support services, 2) commissioned site development and operation services, and 3) direct sales support services. As a result of these actions, the Group forecasts that for the next fiscal year consolidated net sales will amount to ¥32,000 million, operating income will be ¥1,200 million, and ordinary income will total ¥1,000 million. The Company estimates that consolidated net income will be ¥550 million.

As in the past, the Company is managing its performance on a fiscal basis, and has not announced performance forecasts for the interim period. In addition, because the Company has become a holding company for the Group based on a corporate split, non-consolidated information has very limited value for investment decisions. Therefore, commencing with the next fiscal year, it will be the Company's policy not to announce non-consolidated performance forecasts.

Consolidated Earnings Forecast (Unit: Millions of yen)

	Net Sales	Operating income	Ordinary income	Net Income
FY ending March 2008	32,000	1,200	1,000	550

(2) Financial Condition

I Condition of Assets, Liabilities and Net Assets

Total assets for the fiscal year under review amounted to ¥22,578 million. While the total liabilities amounted to ¥7,762 million and total net assets including subscription right and minority interests amounted to ¥14,815 million.

At the start of the second half (October 1, 2006), total assets expanded substantially compared with the same point in the previous fiscal year because JIMOS CO., LTD., which previously had been an affiliate accounted for by the equity method, became a wholly owned subsidiary based on a share exchange (acquisition value about ¥8.9 billion). Because of the write off of approximately ¥7.0 billion of goodwill related to the shares of JIMOS during the fiscal year, however, the balance of goodwill at the end of the fiscal year has already been reduced to about ¥24 million.

	March 31, 2006	March 31, 2007
Equity ratio (%)	65.5	61.7
Equity ratio on a market value basis (%)	224.0	73.2
Debt Redemption (years)	-	2.6
Interest Coverage Ratio (times)	-	8.5

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 fiscal year.

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 March 31, 2006 are not mentioned due to a negative cash flow from operating activities..

II Primary Lender

a. CYBIRD Holdings Co., Ltd. (Unit: Thousands of yen, Round down)

Lender	Amount
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Foreign currency) (Note)	1,762,486
Sumitomo Mitsui Banking Corporation (Foreign currency) (Note)	590,250
Sumitomo Mitsui Banking Corporation	300,000

(Note) Figures are calculated at the middle rate ¥118.05 on March 31, 2007.

b. GiGAFLOPS Japan Inc. (Unit: Thousands of yen, Round down)

Lender	Amount
CYBIRD Holdings Co., Ltd. (Note)	120,000

(Note) The above transaction has been eliminated from the consolidated balance sheets due to offsetting amounts.

c. CYB INVESTMENT INC. (Unit: Thousands of yen, Round down)

Lender	Amount
CYBIRD Holdings Co., Ltd. (Note 1,2)	2,373,862

(Note 1) Figures are calculated at the middle rate ¥119.11 on December 31, 2006.
(Note 2) The above transaction has been eliminated from the consolidated balance sheets due to offsetting amounts.

d. Airborne Entertainment Inc. (Unit: Thousands of yen, Round down)

Name of bonds	Amount
FY2006 Corporate Bond (Note)	340,456

(Note) Figures are calculated at the middle rate ¥119.11 on December 31, 2006.

e. Outlet Plaza Co., Ltd. (Unit: Thousands of yen, Round down)

Name of bonds	Amount
CYBIRD Holdings Co., Ltd. (Note)	358,500

(Note) The above transaction has been eliminated from the consolidated balance sheets due to offsetting amounts.

f. Doctor's Bio Laboratory Co., Ltd. (Unit: Thousands of yen, Round down)

Name of bonds	Amount
JIMOS CO., LTD. (Note)	349,000

(Note) The above transaction has been eliminated from the consolidated balance sheets due to offsetting amounts.

g. S-CREW INC. (Unit: Thousands of yen, Round down)

Lender	Amount
Sumitomo Mitsui Banking Corporation	106,940
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	66,676
SEIBU SHINKIN BANK	1,521
The Tokyo Tomin Bank Limited	46,199

(Unit: Thousands of yen)

Name of bonds	Amount
No.1 Unsecured Corporate Bond (Note)	100,000

(Note) The above transaction has been eliminated from the consolidated balance sheets due to offsetting amounts.

III Consolidated Cash Flow Statement

At the end of March 2007, cash and cash equivalents totaled ¥5,164 million, increasing by ¥3,466 million, 204.1%, from the same period in the previous year, and by ¥1,017 million, 24.5%, from the third quarter in same year. Conditions/contributing factors in each cash flow segment for the period under review are as follows. Consolidated cash and cash equivalents at the end of the fiscal year increased by ¥1,953 million due to the share exchange with JIMOS CO., LTD., and conversion of the company to a subsidiary.

(Cash flow from operating activities)

Cash flows from operating activities for the fiscal year totaled ¥1,228 million compared with a decrease of ¥1,628 million in the same period in the previous fiscal year. Among the factors contributing to this result in addition to operating income of ¥786 million were non-operating expenses, such as depreciation and goodwill amortization, totaling approximately ¥1.1 billion, and the payment of income taxes and interests etc. totaling approximately ¥500 million.

(Cash flow from investing activities)

Cash flow from investing activities fell by ¥2,579 million compared with a decrease of ¥4,919 million in the same period in the prior fiscal year. The cash outflow resulted from expenditures for the payment of arrears totaling US$20 million (¥2,357 million) from the purchase of shares of an overseas subsidiary and expenditures for the purchase of software.

(Cash flow from financing activities)

Cash flow from financing activities expanded ¥2,876 million compared with an increase of ¥5,064 million in the prior fiscal year. The increase was primarily due to proceeds from short-term borrowings made to finance the payment of the arrears from the purchase of shares of an overseas subsidiary that was the cause of the cash outflow in investing activities.

(3) Dividend Policy

We recognize returning profits to our shareholders as a top priority issue. Our basic dividend policy is to determine dividends after consideration of our business performance, financial position and the need to expand internal reserves for future business development. For the fiscal year under review, as part of the process of returning profits to shareholders, we plan to issue an annual cash dividend of ¥167 per share. For the next fiscal year, following its policy of consistent and stable dividend payments, at this point in time the Company plans to continue make an ordinary annual dividend payment of ¥167.00 per share.

(4) Risk Factors

I Risks Related to Mobile Content Business

a. Dependence on External Information Provider

We rely on third parties to provide the content we offer to our subscribers. There is no guarantee that our content suppliers will continue to maintain the relationships and contractual agreements with us.

b. Dependence on Specific Operators

We provide multiple content services to i-mode of NTT DoCoMo Inc., EZweb of KDDI CORPORATION and Yahoo! Keitai of SOFTBANK MOBILE Corp. NTT DoCoMo alone accounted for larger portion in our consolidated sales. Therefore change in NTT DoCoMo’s business strategy and/or in business climate could impact negatively on our business strategies and performance.

c. Obsolescence of Content Services

The mobile content services that we provide can be rather short-lived due to rapid changes in technology and consumer preferences. If we are unable to maintain, improve and develop our services, our investments may not produce returns for us.

d. Dependence on Specific Popular Content Services

Although we provide a broad range of content, some popular content services tend to be focused. Therefore change in the market may reduce the number of subscribers and content popularity, thereby adversely affecting our business strategy and revenue.

e. Regarding a change in the business environment for the Mobile Content Business

The business environment for the Group’s Mobile Content Business is undergoing a major period of change along with the increased availability of high quality free content, the introduction of full Web browser capabilities on mobile phones, the start of one segment terrestrial TV reception services for mobile terminals, the kick-off of the mobile number portability system, and the start up of the mobile virtual network operator business. At this point, it is difficult to estimate the impact of these changes on the competitive environment, and it is possible that they could have a negative impact on the business strategies of the CYBIRD Group and business performance.

II Risk Related to the Commerce Business

a. Dependence on a core merchandise line

Although the Group is actively pursuing the planning and sales of merchandise other than the MACCHIALABEL series, the sales proportion of the MACCHIALABEL series is high because of consistent purchases, and is expected to remain high in future. Consequently, if the preferences of consumers should change or for some reason the degree of public trust in the brand should decline, the Group’s business strategies or business performance could be affected.

b. Risk Related to the Planning and Development of Merchandise

Many of the private brands handled by the Group’s Commerce Business are planned based on customer demand and information collected from manufacturers or are planned by subcontracted manufacturers. Since these manufacturers take into account the wishes and ideas of the Group in doing the final production of these merchandise items, the Group is actually responsible for the commercialization of the items. Therefore, should these private brands not meet the needs of customers and not be accepted in the market or should their competitiveness decline comparatively because of the start of sales of competitive products, it could negatively impact the business strategies and performance of the Group.

c. Risk Regarding Dependence on Certain Merchandise Suppliers

The Group sources all its merchandise from manufacturers, but the proportion of supplies that is purchased from specified suppliers has become high. Because the Group uses one company as supplier for each item, the suppliers of items that account for a large proportion of sales also rank high on the list of suppliers. As a result, should the contract with such suppliers be suddenly terminated or should these suppliers not be able to maintain stable supplies of items due to damage to their production facilities from natural disasters or some unforeseen event and an alternative supplier is not found promptly, it could have an adverse influence on the Group's business strategies and performance.

d. Risk Related to Quality Control

The Group sources all the merchandise it handles from manufacturers. To maintain and improve the quality of its cosmetics and food products, including health food products, the Group has established quality standards and requires each of its manufacturers to comply with those standards in their manufacturing. The Group has also set up a Quality Control Department within the Group organization, which evaluates the quality control systems of the manufacturers and checks the quality control inspection reports issued by the manufacturers.

To further strengthen and expand quality control of cosmetics and food products, including health foods, the Group receives quality inspection reports from an independent body other than the manufacturers. In addition, private brand cosmetics undergo quality inspections by Dr.'s Bio Laboratory Co., Ltd., which has been a consolidated subsidiary since April 2005.

In this manner, the Group is planning to strengthen and expand its quality control system. However, should customers lose confidence in the Group's merchandise due to some unforeseen incident, such as contamination by a foreign object, it could have a negative impact on the Group's business strategies and performance.

e. Risk Regarding the Patent for Kangensui

Kangensui (regenerated water) is an ingredient used in some of the products of the MACCHIALABEL series, such as Active Micron Water Plus and Protect Barrier. Mr. Shoji Kubota and Natural Co., Ltd., have applied for a patent for Kangensui. The Group has acquired an exclusive license to use Kangensui and have concluded an agreement allowing the Group to exclusively manufacture and sell moisturizers or cosmetics using Kangensui. However, the patent has not yet been approved, and it is possible to manufacture and sell a similar product. Even if the product received the patent, the Group cannot say for certain that no other products with the same or similar efficacy will not be manufactured or sold. If such a situation occurred, it could adversely affect the Group's business strategies and performance.

III Risks Related to the Group's other business

a. Solution Business

A countless number of companies are competing in this market, and in addition to the strong demand for improved quality there is fierce price competition. Therefore, the possibility that there will be a marked decline in profitability in the future can not be denied. Furthermore, should a "bug" occur in some delivered software program, the Group might face legal action, which could have a detrimental impact on the performance of the Group.

b. Advertising Business

The Group does not have a long history in the advertising business, and is still in the process of developing its business model. It is possible that if competitors or related businesses enter the market or there are sudden changes in the business environment or lack of growth that the business will not achieve projected sales or profits.

c. Investment Business

In an environment where many investment companies are vying for a limited number of high growth potential investment opportunities, it is not easy to discover investment candidates and make investments. As a result, it is possible that not all of the funds raised will be invested. In addition, the Group may not be able to achieve the anticipated yield from an investment in a company even though adequate assessment of the value of the company was done.

d. International Business

The Group is maintaining a certain level of control and corporate governance in its international operations, which primarily are centered on the operations of Airborne Entertainment Inc., which is based in Canada, through the placement of its own directors and staff in those operations. Nevertheless, the Group is subject to the risks of conducting business in a foreign country, such as local economies, politics, laws and regulations, cultures, business customs, competitors, currency fluctuations, and others. Any of these factors could have a negative impact on the Group's business strategies and performance.

If we fail to overcome any of the foregoing risks due to occurrence of any unexpected event, our investment may not produce anticipated returns for us, which may result in an adverse effect on our financial condition.

IV Risks Related to Technological Changes

There is a markedly high pace of technological advance and change in the mobile Internet market in which the Group operates. It is essential for the business development of the Group that the technologies demanded by the market be introduced in a timely fashion. If for some reason the Group lags behind in the introduction of new technology, it could have an adverse consequence for business performance.

V Risks Related to System Failure

The businesses being developed by the Group provide customers with services on a 24-hour basis. Should the operations of the Group's data center or other facilities be disrupted by a natural disaster or unforeseeable accident, it would make it difficult for the Group to continue its services and cause a variety of damages not only to the Group, but also to users and customers, mobile carriers, and other associated businesses.

In addition, there are other potential causes of system failures that lie beyond control. Our security system could be bypassed by virus attacks by hackers and such.

VI Risks Related to Financial Condition and Quarterly Results of Operations

The Group intends to further expand its operations around its Mobile Content, Solutions, Commerce, and Advertising, Investment, and International businesses. However, the business environment of the Mobile Content and other businesses is extremely volatile, and the business scale of individual businesses is relatively small. Consequently, quarterly performance may fluctuate significantly. Should the Group not be able to produce the projected amount of cash flow due to changes in its business plan and other related factors, it could have a damaging effect on future business operations.

VII Risk Related to Fund Raising

In raising funds, the Group takes into consideration the balance among its business strategies, financial plan, conditions in financial markets, and the financing method. The Group has a good relationship with financial institutions and other lenders and has no difficulties raising necessary funds. However, there is no guarantee that the Group always will be able to raise funds whenever necessary.

VIII Risks Related to Investments

The Group may invest in equipment, subsidiaries, joint ventures, and M&A to expand our business. Due to the risks involved, there remains the possibility that we may fail to gain sufficient returns from these investments.

IX Risks Related to Subsidiaries and Affiliate

There are a few un-wholly owned subsidiaries in the Group. This situation may contribute to a conflict of interest or difference in priorities between these companies and us.

X Risks Related to Competition

In all of the business domains in which the Group operates, there are many competitors or companies with the potential to be competitors in the future. Because of the many competitors and new entrances into the market, competition is steadily intensifying. This situation could have a negative impact on the Group's business performance.

XI Risks Related to Laws and Regulations

The major legal frameworks for the Group's businesses include the basic laws on the formation of an advanced information and telecommunications network society, the law regarding special commercial transactions, the pharmaceutical affairs law, the food sanitation law, and the act against unjustified premiums and misleading representations. The Group thoroughly complies with these laws, but it is possible that the application of laws and ordinances or the formation of new laws and ordinances affecting the regulation of business could restrict the scope of business activity or result in more severe monitoring or inspection by the authorities. In addition, self-regulatory rules set up by businesses or associations could hamper the business activities of the Group. This could result in a reduction in the services provided by the Group, which could have a detrimental effect on the Group's business or performance.

XII Risk Related to the Acquisition of Personnel and Expansion of Organizational Systems

To expand its operations to keep up with the growth in the markets it is involved with, the Group plans to strengthen and expand its personnel, organizations, and physical structures. However, there is no guarantee that the Group will be able to achieve this in a timely manner when necessary. Conversely, even if the Group can expand its staff and organizations, personnel expenses will increase and may place downward pressure on profitability. This may in turn, adversely affect the Group's business performance.

XIII Risk Related to Intellectual Property

The Group conducts business activities in such as way as to avoid infringing on the intellectual property rights of the third parties. However, it is possible that the Group may do so in some unforeseen circumstances.

Moreover, it is difficult to foresee how intellectual property rights, including patent rights, utility model rights, trademark rights, and copyrights, will be applied to the Group's businesses. Accordingly, if a third party acquires a patent in future that result in the Group infringing on the patent or if the Group is unknowingly infringing in its businesses on the patent of a third party that already exists, the third party may take legal action against the Group, or prevent the Group from using the property rights, or demand royalty payments. As a result, the Group may be required to halt its business or it may have a detrimental impact on the Group's business performance..

XIV Risks Related to Lawsuit and Claims

Although our legal section takes preventive actions, the Group may be subject to actions for damages. Depending upon the nature of the action and upon the degree of damage or damages incurred, our business may suffer. The following are possible examples.

- Damages suffered by content subscribers or wireless network operators due to failure of our network operator's server
- Compensation to consumers for defective merchandise or business transaction problems related to the Commerce Business
- Damages to our clients due to any delays on our part in developing systems, or failures in commissioned development projects and failed consultation and campaign support services

XV Risk in Managing Personal Information

As a special feature of its businesses, the Group holds records of the personal information of many individuals. As a result, the Group has created rules regarding the protection of personal information in accordance with the required items for the compliance program regarding personal information protection set out in the Japan Industrial Standard JIS-Q-15001 and in accordance with Version 3 of the Information Service Industry—Personal Information Protection Guidelines. In addition, the Group has set up an internal management system and regularly hold study groups on the subject for directors. The Group has also received certification under the Privacy Mark® system of the Japan Information Processing Development Corporation (JIPDEC) and the Japan Information Technology Services Industry Association (JISA). In this manner, the Group has set up a management system to prevent the leakage of personal information outside the Group. However, should personal information held by the Group be leaked outside the Group due to some unforeseen situation, it might have an adverse impact on the performance of the Group due to sales declines resulting from the drop in public trust or to compensation expenses paid.

XVI Others

a. Stock price volatility

Because the liquidity of the Group’s shares is not particularly high, the volatility risk of its stock price is high. It is possible that large fluctuation in the Group’s stock price could affect the financial activities of the Group.

b. Disclosure

Due to the internal delay in the communication of information and other factors, the Group might fail to disclose material information properly or in a timely manner. As a result, trading in the Group’s stock could be suspended, or the Group could be assessed some other penalty.