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August 12, 2022

Consolidated Financial Results for the Three Months Ended June 30, 2022 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4777
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 Scheduled date to file quarterly securities report: August 12, 2022
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
June 30, 2022	701	548.1	136	—	88	—	99	—
June 30, 2021	102	△28.8	△145	—	△180	—	△172	—

Note: Comprehensive income For the three months ended June 30, 2022: ¥75 million [—%]
 For the three months ended June 30, 2021: △¥180 million [—%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2022	4.78	—
June 30, 2021	△9.03	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
June 30, 2022	2,848	1,792	49.7	56.57
March 31, 2022	1,047	438	△2.8	△1.53

Reference: Equity

As of June 30, 2022: ¥ 1,415 million
 As of March 31, 2022: △¥ 29 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	—	0.00	—	0.00	0.00
Fiscal year ending March 31, 2022	—				
Fiscal year ending March 31, 2022 (Forecast)		0.00	—	0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2023 (From April 1, 2022 to March 31, 2023)

Consolidated earnings forecast for the current fiscal year is not stated due to the difficulty of calculating a reasonable earnings forecast. For details, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information" of the Additional Information.

* **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: — companies (Company name)

Excluded: — companies (Company name)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2022	25,016,800 shares
As of March 31, 2022	19,060,800 shares

(ii) Number of treasury shares at the end of the period

As of June 30, 2022	— shares
As of March 31, 2022	— shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2022	20,916,425 shares
Three months ended June 30, 2021	19,060,800 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Cautionary Statement Regarding Forward-Looking Statements)

The forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Actual results may differ significantly due to various factors.

(How to obtain supplementary information on quarterly financial results)

Supplementary materials for quarterly financial results will be posted on the Company's website after the announcement of financial results.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

As for the operating results of Gala Inc. (the "Company") and its consolidated subsidiaries (collectively, the "Group"), the Group's net sales for the three months ended June 30, 2022 have significantly increased to 701,658 thousand yen (584.1% increase year-on-year).

The year-on-year sales increase was mainly due to the launch of "Flyff Universe", an HTML5 game.

Cost of sales has increased due to an increase in channeling fees paid in relation to the HTML5 game business and the Online game business.

Selling, general and administrative expenses have increased year-on-year due to an increase in value-added tax resulting from sales growth and an increase in software amortization expenses.

As a result, the Group achieved a positive operating profit, ordinary profit and a profit attributable to owners of parent, recording an operating profit of 136,267 thousand yen (operating loss of 145,642 thousand yen in the previous first quarter), an ordinary profit of 88,886 thousand yen (ordinary loss of 180,036 thousand yen in the previous first quarter), and a profit attributable to owners of parent of 99,988 thousand yen (loss attributable to owners of parent of 172,041 thousand yen in the previous first quarter).

The Group's operating results by each segment are summarized as follows:

1) Japan

In October 2021, the Japan segment started offering "Rappelz", a smartphone game app developed by Gala Lab Corp., a consolidated subsidiary of the Company, in the US and Canada, although the release date had been delayed since its development period was extended to improve the quality of the game and achieve other enhancements. The segment is currently preparing for the renewal and global release of "Rappelz" as an NFT game/blockchain game (*1) by incorporating blockchain technology. In the NFT games/blockchain games, in-game items are "converted to NFT (*3)" by the blockchain (*2), a fundamental technology of crypto assets, and users can change the items obtained in the game to crypto assets that can be traded on an exchange or other markets. The segment will further enhance the appeal of games through these measures and focus on the monetization of the Smartphone app business. The start of the service is expected to be in the second quarter of the fiscal year ending March 2023 for re-release in the US and the third quarter of the same fiscal year for release in the EU and Korea.

The Group has also launched the Treehouse resort business as a new business since Treeful Inc. has become a subsidiary of the Company in the previous fiscal year. The Treehouse resort business is a resort business in Nago City, Okinawa operated by Treeful Inc., a consolidated subsidiary of the Company. The business offers a combination of Treehouse and Aerohouse built on the ground as one set to the guests. Treeful Inc. is licensed for the business of operation of an inn according to the Hotel Business Act since July 2021 and opened the Treehouse Resort in August 2021 as the first paid treehouse accommodation provider in Japan.

With the concept of a "Sustainable Resort", the Treehouse Resort aims the establishment of a sustainable society by using electricity instead of fossil fuel and generating solar power larger than actual usage. The Group has found a growth strategy for the Treehouse resort business and aims to increase its enterprise value.

Net sales of the segment (including inter-segment transactions) increased year-on-year mainly due to sales from the aforementioned Treehouse resort business.

As for the expenses, selling, general and administrative expenses increased mainly due to increases in allowance for doubtful accounts and outsourcing expenses.

As a result, net sales of the Japan segment (including inter-segment transactions) increased by 10,324 thousand yen or 86.7% year-on-year to 22,239 thousand yen and the segment recorded a loss of 60,146 thousand yen (loss of 36,818 thousand yen in the previous first quarter).

2) Korea

The Korea segment started offering an HTML5 game "Fliff Universe" in Southeast Asia in May 2022 and in the global area in June 2022. HTML5 games are highly accessible games that enable users to play the games on PCs and smartphones without downloading. The net sales of the HTML5 game "Fliff Universe" for the three months ended June 30, 2022 amounted to 502,592 thousand yen, achieving 840

thousand dollars (equivalent to 100 million yen at the exchange rate at the time) sales in 13 days after the service release in Southeast Asia and 746 thousand dollars (equivalent to 100 million yen at the exchange rate at the time) sales, including Southeast Asia area, during 5 days after the service release in the global area. The cumulative number of registered users has also steadily increased and achieved 1 million users as of July 15, 2022. The segment is currently developing an NFT game/blockchain game "Flyff Universe" which combines the element of the HTML5 game of "Flyff Universe" and the element of Play To Earn (P2E) (*4) using the blockchain technology, aiming at its release in the fourth quarter of the fiscal year ending March 2023.

In the Smartphone app business, Gala Lab Corp. entered into an agreement with METABORA Co., Ltd. on April 1, 2022 to reacquire the right of the "Flyff Legacy" smartphone game app. Gala Lab Corp. had transferred the license and operational rights of the app in the past fiscal year. Following the reacquisition, Gala Lab Corp. has become a provider of the game. In addition, the "winwalk" pedometer app and "winQuiz" smartphone app, each developed by Gala Mix Inc., a consolidated subsidiary of the Company, have been deployed in multiple languages using the Company's global network and contributed to the stable sales trend. As a result, net sales of the segment (including inter-segment transactions) increased year-on-year.

In the Online game business, the segment proceeded with the license deployment and channeling (*5) deployment. As for Gala Lab Corp.'s major games "Flyff Online" and "Rappelz Online", Gala Lab Corp has entered into a channeling agreement with BPMG Co., Ltd. on April 1, 2022, following the expiration of a license agreement with METABORA Co., Ltd. According to the contract change, a publisher of the games in the major areas has been changed from a licensee to Gala Lab Corp. and therefore the revenue recognition method has been changed from license sales based on license fees received to publishing sales as a publisher. As a result, net sales of the segment (including inter-segment transactions) increased year-on-year.

As for the license deployment, Digeam Co., Ltd., a game service provider in Taiwan offers a service of "Flyff Online" from June 2021 which is a multilingual service provision leveraging the Company's strong global network.

As another measure for future revenues, Gala Lab Corp. has entered into a development agreement in April 2021 with METABORA Co., Ltd. and Barunson Co., Ltd., a Korean entertainment company, as a metaverse (*6) project that covers the development of "Flyff World for Metaverse" and "Rappelz World for Metaverse" offered on the blockchain-based metaverse platform. In the metaverse project, Barunson Co., Ltd. develops and implements a metaverse 3D virtual space, offers and operates the metaverse platform, and develops and builds a system that enables crypto assets "BORA" to be used in the metaverse. METABORA Co., Ltd. is responsible for the development and support of blockchain technology usable in the metaverse. Gala Lab Corp. is responsible for the development, content creation and service operation of "Flyff World for Metaverse" and "Rappelz World for Metaverse", the games offered on the metaverse platform that will be provided by Barunson Co., Ltd., using the IP of "Flyff Online" and "Rappelz Online", the PC online games offered globally.

The segment will increase customers of the games through these measures and focus on stable monetization of the Online game business.

As for expenses, selling, general and administrative expenses have increased year-on-year due to an increase in value-added tax resulting from sales growth and an increase in software amortization expenses.

As a result, net sales of the Korea segment (including inter-segment transactions) increased by 603,117 thousand yen or 638.6% year-on-year to 697,565 thousand yen and the segment recorded a profit of 200,286 thousand yen (loss of 106,426 thousand yen in the previous first quarter).

(*1) NFT game/blockchain game is the game in which in-game items are "converted to NFT" using the blockchain (*2), a fundamental technology of crypto assets. It is also called as GameFi (a coinage combining the words Game and Decentralized Finance).

(*2) Blockchain is a method of synchronizing and recording data (such as transaction information) by combining cryptography and multiple computers comprising a distributed network. In this mechanism, transaction data during a certain period is gathered into a block unit and correct records are connected like chains and accumulated while validated among computers.

(*3) NFT (Non-Fungible Token) is "digital data with an unforgeable certificate of authenticity or proof of ownership". As

with crypto assets, it is digital data issued and traded on the blockchain.

(*4) A blockchain game is called Play To Earn (P2E) if income and points obtained in the game can be changed to crypto assets and traded on an exchange or other market so that users can earn an income by playing the game.

(*5) Channeling is a service that enables users to play online games and other games on the game portal site of other companies.

(*6) Metaverse is a combination term derived from "meta" and "universe" and refers to a 3D virtual space structured on the Internet where massive users can join and act on their own. The users can explore the Metaverse world and communicate with other users by joining the virtual space via their own avatars. The users can also create their own games and monetize them by inviting other users to play the games or create a mechanism in which users can purchase and sell the in-game items as an NFT (*3) using crypto assets.

(2) Explanation of Financial Positions

The Group's net assets at the end of the current first quarter amounted to 1,792,475 thousand yen, an increase of 1,354,035 thousand yen from the end of the previous fiscal year.

Major fluctuations in assets were increases in cash and deposits by 1,326,894 thousand yen, accounts receivable - trade by 347,216 thousand yen, software by 203,333 thousand yen and a decrease in crypto assets by 96,764 thousand yen. Cash and deposits increased mainly due to cash receipt for a third-party allotment of new shares under the resolution of the Company's Board of Directors held on May 13, 2022 and cash receipt from the exercise of the 6th series of share acquisition rights. Accounts receivable - trade increased mainly due to the service release of the HTML5 game "Flyff Universe" Software increase represents the amount capitalized for the reacquisition of the smartphone app "Flyff Legacy". Crypto assets decreased by realization through sales and revaluation at the end of the current first quarter.

As for liabilities, accounts payable - other and long-term unearned revenue increased by 192,056 thousand yen and 130,042 thousand yen, respectively. Accounts payable - other increased mainly due to an increase in server costs and long-term unearned revenue increased mainly due to contract amounts arising from the channeling agreements of "Flyff Legacy", "Flyff Online" and "Rappelz Online".

As for net assets, capital stock and capital surplus each increased by 677,378 thousand yen and retained earnings increased by 99,988 thousand yen while share acquisition rights decreased by 76,299 thousand yen. Increases in capital stock and capital surplus were mainly due to a third-party allotment of new shares under the resolution of the Company's Board of Directors held on May 13, 2022 and the exercise of the 6th series of share acquisition rights. A decrease in share acquisition rights was mainly due to the exercise of the right.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

In the Smartphone app business, it is extremely difficult for the Group to predict the possibility of delays in development and download delivery as well as income from app charges after the start of download delivery. In the Online game business, it is extremely difficult for the Group to forecast the financial results of the upgrade of existing titles. In addition, for the Group's new businesses, the Cloud-related business and the Treehouse resort business, it is extremely difficult for the Group to forecast the financial results appropriately as their profit or loss is highly contingent on changes in the environment surrounding the businesses and other factors. Therefore, the Group withholds publication of the forecasts of the financial results.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	FY2022 As of March 31, 2022	1 st Quarter of FY2023 As of June 30, 2022
Assets		
Current assets		
Cash and deposits	288,934	1,615,828
Accounts receivable - trade	63,524	410,740
Inventories	1,954	2,065
Accounts receivable - other	6,882	889
Crypto assets	126,205	29,440
Prepaid expenses	3,546	6,350
Other	9,592	21,322
Allowance for doubtful accounts	△398	△435
Total current assets	500,241	2,086,202
Non-current assets		
Property, plant and equipment		
Buildings, net	152,211	149,269
Land	46,294	46,294
Other, net	45,463	57,726
Total property, plant and equipment	243,969	253,291
Intangible assets		
Goodwill	108,109	104,293
Software	10,190	213,524
Other	898	862
Total intangible assets	119,198	318,680
Investments and other assets		
Investment securities	279	244
Lease and guarantee deposits	10,271	10,678
Long-term prepaid expenses	173,698	179,529
Total investments and other assets	184,249	190,451
Total non-current assets	547,417	762,423
Total assets	1,047,658	2,848,625
Liabilities		
Current liabilities		
Accounts payable-trade	571	131
Current portion of long-term loans payable	—	9,600
Accounts payable - other	121,401	313,458
Accrued expenses	13,140	10,507
Advances received	43,827	78,758
Advances received	—	69,999
Income taxes payable	2,140	1,656
Provision for reward	—	8,124
Provision for bonuses	1,814	1,214
Other	8,539	12,274
Total current liabilities	191,434	505,726
Non-current liabilities		
Long-term loans payable	48,000	38,400
Long-term unearned revenue	190,435	320,477
Deferred tax liabilities	85	74
Net defined benefit liability	179,263	191,471
Total non-current liabilities	417,783	550,423
Total liabilities	609,218	1,056,150

(Thousands of yen)

	FY2022 As of March 31, 2022	1st Quarter of FY2023 As of June 30, 2022
Net assets		
Shareholders' equity		
Capital stock	3,531,085	4,208,464
Capital surplus	2,176,690	2,854,069
Retained earnings	△5,211,361	△5,111,372
Total shareholders' equity	496,414	1,951,160
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	192	168
Foreign currency translation adjustment	△525,793	△536,075
Total accumulated other comprehensive income	△525,600	△535,906
Share acquisition rights	110,027	33,728
Non-controlling interests	357,597	343,492
Total net assets	438,439	1,792,475
Total liabilities and net assets	1,047,658	2,848,625

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
Quarterly Consolidated Statement of Income
(For the Three-month Period)

(Thousands of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022
Net sales	102,572	701,658
Cost of sales	30,451	262,335
Gross profit	72,121	439,323
Selling, general and administrative expenses	217,763	303,055
Operating profit (loss)	△145,642	136,267
Non-operating income		
Interest income	215	52
Foreign exchange gains	2,714	13,958
Other	418	536
Total non-operating income	3,348	14,548
Non-operating expenses		
Interest expenses	24	37
Loss on sales of crypto assets	—	6,735
Loss on valuation of crypto assets	37,601	54,686
Other	116	469
Total non-operating expenses	37,743	61,929
Ordinary profit (loss)	△180,036	88,886
Extraordinary income		
Gain on reversal of share acquisition rights	2,129	2,270
Total extraordinary income	2,129	2,270
Extraordinary losses		
Loss on retirement of non-current assets	—	4,196
Total extraordinary losses	—	4,196
Profit (loss) before income taxes	△177,906	86,960
Income taxes - current	744	1,552
Total income taxes	744	1,552
Profit (loss)	△178,651	85,408
Loss attributable to non-controlling interests	△6,610	△14,580
Profit (loss) attributable to owners of parent	△172,041	99,988

Quarterly Consolidated Statement of Comprehensive Income
(For the Three-month Period)

(Thousands of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022
Profit (loss)	△178,651	85,408
Other comprehensive income		
Valuation difference on available-for-sale securities	33	△24
Foreign currency translation adjustment	△2,318	△9,806
Total other comprehensive income	△2,284	△9,830
Comprehensive income	△180,936	75,577
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	△174,325	89,682
Comprehensive income attributable to owners of parent	△6,610	△14,104

(3) Notes on the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

In the previous fiscal year, Gala Inc. (the "Company") and its consolidated subsidiaries (collectively, the "Group") recorded an operating loss of 297,865 thousand yen and a loss attributable to owners of parent of 186,142 thousand yen. Meanwhile, in the three months ended June 2022, net sales increased by 584.1% year-on-year to 701,658 thousand yen and the Group achieved a positive operating profit and a profit attributable to owners of parent, recording an operating profit of 136,267 thousand yen and a profit attributable to owners of parent of 99,988 thousand yen. Cash and deposits at the end of the current first quarter amounted to 1,615,828 thousand yen, which represents a significant improvement of the Group's financial position driven by the exercise of all of the 6th series of share acquisition rights and part of the 15th and 16th series of share acquisition rights. However, the Group is on the way to establishing a stable revenue base since it has only been a few months since the release of the HTML5 game "Flyff Universe" in the current first quarter. Therefore, the Group recognizes that there remain events or conditions that raise substantial doubt about the Group's ability to continue as a going concern.

The Group has taken measures to eliminate or mitigate the conditions promptly, however, there is a material uncertainty about the Group's ability to continue as a going concern at the current moment. The Group will take the following measures to eliminate or mitigate the conditions promptly.

Firstly, for the Smartphone app business, the Group will proceed with the global deployment of the smartphone game app "Flyff Legacy". In addition, the Group is currently preparing for the global release of "Rappelz", a smartphone game app developed by a consolidated subsidiary Gala Lab Corp., as an NFT game/blockchain game by incorporating blockchain technology. NFT games/blockchain games have the Play To Earn (P2E) element where in-game items are "converted to NFT" by the blockchain, a fundamental technology of crypto assets, and users can change the items obtained in the game to crypto assets that can be traded on an exchange or other markets. The Group will further enhance the appeal of games through these measures and focus on the monetization of the Smartphone app business. The start of the service is expected to be in the second quarter of the fiscal year ending March 2023 for re-release in the US and the third quarter of the same fiscal year for release in the EU and Korea.

Secondly, for the Online game business, the Group proceeded with the channeling deployment of "Flyff Online" and "Rappelz Online" which enable users to play the games on the platforms of other companies. The Group also plans to release an NFT game/blockchain game "Flyff Universe" which is based on "Flyff Online" and combines the element of HTML5 game, which enables users to play the game on PCs and smartphones without downloading, and the element of Play To Earn (P2E) using the blockchain technology. Moreover, the Group aims for the early development of "Flyff World for Metaverse" and "Rappelz World for Metaverse" offered on the blockchain-based metaverse platform as a metaverse project. The Group will increase customers of the games through these measures and focus on stable monetization of the Online game business.

Thirdly, the Group will proceed with the Blockchain-related business, the Cloud-related business and the Treehouse resort business as new businesses to establish a new revenue base other than the Game businesses.

In the Blockchain-related business, the Group will provide various content including communities and games on the blockchain-based metaverse platform (metaverse 3D virtual space). The Cloud-related business will support Megazone Cloud Corporation, a Korean cloud business company, in deploying its cloud business in Japan and offer support for sales, operations, hiring and human resources and events in Japan. The Group concluded a business alliance with Megazone Cloud Corporation in May 2019. The Treehouse resort business is a resort business in Nago City, Okinawa operated by Treeful Inc., a consolidated subsidiary of the Company. The business offers a combination of Treehouse and Aerohouse built on the ground as one set to the guests and will increase the accommodations by building additional Treehouses and Aerohouses. The Group will focus on securing the new revenue base from these measures.

In addition to the above measures, we will continue taking possible effective measures actively.

However, while implementing these measures, there is a material uncertainty about the Group's ability to continue as a going concern at the current moment since the future recovery of net sales and profit through the establishment of a stable revenue base is dependent upon the development status of the Game business, the progress of the new businesses, the changes in the market environment and other factors.

The Group's quarterly consolidated financial statements have been prepared on a going concern basis and the effect of material uncertainty about the Group's ability to continue as a going concern was not reflected in the quarterly consolidated financial statements.

(Notes in Case of Significant Changes in Shareholders' Equity)

On May 30, 2022, the Company received payment for a third-party allotment of new shares from Megazone Cloud Corporation and Satoru Kikukawa. In addition, all of the 6th series of share acquisition rights and part of the 15th and 16th series of share acquisition rights were issued new shares upon exercise of the rights. As a result, capital stock and capital surplus increased by 677,378 thousand yen and 677,378 thousand yen respectively during the current first quarter, resulting in a total of 4,208,464 thousand yen in capital stock and 2,348,033 thousand yen in capital surplus as of the end of the current first quarter.

(Segment Information)

I Information on net sales and profit (loss), assets, liabilities and other items by reportable segment
1. For the Three-Month Period Ended June 30, 2021

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amount recorded in quarterly consolidated financial statements (Note 2)
	Japan	Korea	Total		
Net sales					
Online game business	—	64,519	64,519	—	64,519
Smartphone app business	—	20,579	20,579	—	20,579
Other business	8,154	9,319	17,474	—	17,474
Revenue from contracts with customers	8,154	94,418	102,572	—	102,572
Net sales to external customers	8,154	94,418	102,572	—	102,572
Intersegment net sales and transfer	3,760	29	3,789	△3,789	—
Total	11,915	94,447	106,362	△3,789	102,572
Segment loss	△36,818	△106,426	△143,244	△2,397	△145,642

(Note 1) Adjustment of segment loss of △2,397 thousand yen consists of elimination of inter-segment transactions of 145 thousand yen and amortization of goodwill of △2,543 thousand yen.

(Note 2) Segment loss is adjusted with operating loss in the quarterly consolidated statements of income.

2. Information on Assets by Reportable Segment

In the current first quarter, the Company acquired shares of Treefull Inc. and made it a subsidiary, and thus included it in the scope of consolidation.

As a result, the amount of assets in the "Japan" segment increased by 480,375 thousand yen in the current first quarter compared to the end of the previous fiscal year.

3. Information on Impairment Loss on Noncurrent Assets or Goodwill, etc. by Reportable Segment (Significant changes in the amount of goodwill)

In the "Japan" segment, the Company acquired shares of Treefull Inc. and made it a subsidiary during the current first quarter, including in the scope of consolidation. The increase in goodwill due to this event was 119,556 thousand yen in the three months ended June 30, 2021.

II Information on net sales and profit (loss), assets, liabilities and other items by reportable segment

1. For the three-month period ended June 30, 2022

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amount recorded in quarterly consolidated financial statements (Note 2)
	Japan	Korea	Total		
Net sales					
Online game business	—	100,545	100,545	—	100,545
Smartphone app business	883	77,795	78,679	—	78,679
HTML5 game business	—	502,592	502,592	—	502,592
Other business	12,122	7,718	19,841	—	19,841
Revenue from contracts with customers	13,006	688,652	701,658	—	701,658
Net sales to external customers	13,006	688,652	701,658	—	701,658
Intersegment net sales and transfer	9,233	8,912	18,145	△18,145	—
Total	22,239	697,565	719,804	△18,145	701,658
Segment profit (loss)	△60,146	200,286	140,139	△3,871	136,267

(Note 1) The segment loss adjustment of △3,871 thousand yen consists of elimination of intersegment transactions of △56 thousand yen and amortization of goodwill of △3,815 thousand yen.

(Note 2) Segment income (loss) is adjusted with operating income (loss) in the quarterly consolidated statements of income.

2. Information on Assets by Reportable Segment

During the current first quarter, cash and deposits increased due to the allocation of new shares to a third party and the exercise of share acquisition rights. In addition, accounts receivable increased mainly due to the launch of the HTML5 game, "Flyff Universe", and software increased due to the reacquisition of the rights to "Flyff Legacy".

As a result, the amount of assets in the "Japan" and "Korea" segments increased by 1,219,848 thousand yen and 579,747 thousand yen, respectively, in the current first quarter compared to the end of the previous fiscal year.