



Financial Results for the 2nd Quarter of Fiscal Year Ending December 31, 2017 [Japanese GAAP] (Consolidated)

July 28, 2017

Name of listed company: GungHo Online Entertainment, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3765

URL: <http://www.gungho.co.jp/>

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Quarterly securities report issuing date: August 7, 2017

Dividend payment date: -

Supplemental information for quarterly financial statements: Yes

Quarterly financial results briefing session: Yes (For institutional investors and analysts)

(Amounts are rounded off to the nearest million yen)

1. Consolidated financial results for the first half of fiscal year ending December 31, 2017 (January 1, 2017 through June 30, 2017)

(1) Consolidated operating results (accumulated) (Percentages indicate the changes from previous year)

	Net sales		Operating profit		Ordinary profit		Quarterly profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2017	49,156	Δ20.0	19,438	Δ27.1	19,349	Δ26.5	12,033	Δ28.4
Six months ended June 30, 2016	61,443	Δ25.4	26,666	Δ35.7	26,334	Δ36.6	16,807	Δ36.1

(Note) Comprehensive income Six months ended June 30, 2017 12,328 million yen (Δ23.5%) Six months ended June 30, 2016 16,112 million yen (Δ38.0%)

	Quarterly net profit per share	Diluted quarterly net profit per share
	Yen	Yen
Six months ended June 30, 2017	16.92	16.88
Six months ended June 30, 2016	17.52	17.50

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Six months ended June 30, 2017	64,480	51,338	75.8
Fiscal year ended December 31, 2016	55,032	40,984	70.6

(Note) Shareholders' equity Six months ended June 30, 2017 48,854 million yen Fiscal year ended December 31, 2016 38,859 million yen

2. Dividends

	Dividends per share				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2016	—	0.00	—	3.00	3.00
Fiscal year ending December 31, 2017	—	0.00			
Fiscal year ending December 31, 2017 (Forecast)			—	—	—

(Note1) Revision of forecasts for dividends most recently announced : No

(Note2) The company has decided to pay no interim dividend for the Q2 period at the Board of Directors held on July 28, 2017. Dividend forecasts for the fiscal year ending December 31, 2017 have yet to be determined.

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2017 (From January 1, 2017 to December 31, 2017)

The GungHo Group engages in the content business that is highly innovative in nature and is subject to facing sudden, short-term changes during the operation. Since this makes it difficult to calculate proper and rational earnings forecasts, the Company adopts the policy of providing timely disclosure of financial results and summary of operations on a quarterly basis while refraining from disclosing its full-year consolidated earnings forecast.

*Notes

- (1) Changes in significant subsidiaries during the period : No
- (2) Adoption of any particular accounting methods for the preparation of quarterly consolidated financial statements : No
- (3) Changes in accounting policies, changes in accounting estimates and restatements
- 1) Changes in accounting policies due to revisions of accounting standards : No
- 2) Changes in accounting policies due to reasons other than 1) : No
- 3) Changes in accounting estimates : No
- 4) Restatements : No

(4) Number of shares of common stock issued

1) Number of shares of common stock outstanding at the end of the period (including treasury shares)	As of June 30, 2017	952,103,160 shares	Fiscal year ended December 31, 2016	952,103,160 shares
2) Number of treasury shares at the end of the period	As of June 30, 2017	240,928,438 shares	Fiscal year ended December 31, 2016	240,928,438 shares
3) Average number of shares during the first quarter	As of June 30, 2017	711,174,722 shares	As of June 30, 2016	959,474,722 shares

- * This quarterly Summary of Consolidated Financial Results (Quarterly “Tanshin”) is outside the scope of the external auditor’s quarterly review
- * Appropriate use of earnings forecast and other matters to note
 - This document contains forward-looking statements including forecasts in relation to the results of operations and they are based on information available to the Company at the time of preparing the document along with assumptions that are deemed to be rational. Actual results may differ materially from those expressed or implied by this statement due to various factors. For the assumptions underlying the earnings forecast presented and other information regarding the use of such forecasts, please refer to “Information Related to the Consolidated Earnings Forecast and Other Future Projections” on page 3 of the Appendix.
 - The Company plans on holding a financial results briefing session for investors as follows. All documents, videos, etc. distributed at the session will be posted on the Company’s website after the session is held.
 - Financial results briefing session for institutional investors and analysts: Friday, July 28, 2017

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1. Qualitative Information Concerning Consolidated Financial Results for the Quarter under Review

(1) Description of Operating Results

While the Japanese smartphone game market continued to grow rapidly in parallel with the increasing popularization of smartphones, and is expected to reach ¥960 billion in size in 2017 according to Yano Research Institute Ltd., the speed of that growth has become more gradual in comparison to that taking place thus far, and the market is now transitioning stably.

Meanwhile, the Japanese market for console games had continued to gradually decrease; however, new technologies and ways to enjoy games (such as new kinds of gaming consoles and virtual reality consoles) have been presented to consumers and the creation of new markets is being anticipated.

With respect to net sales for the group during the consolidated cumulative second quarter of this year, our core game Puzzle & Dragons (hereinafter referred to as "P&D") experienced a decrease in net sales, meaning that we saw a decrease in income year-on-year. Amidst this situation, we have been focusing on initiatives geared toward the development and distribution of new games produced on the presumption of global distribution along with maintaining and expanding our MAU (Monthly Active Users: users who log in to games at least once per month) figures for existing games in order to work toward the creation of new value.

In terms of new games, we commenced distribution in Japan and Asia on February 2, 2017 for LET IT DIE, an online action game for the PlayStation® 4 that we began distributing in North America and Europe on December 3, 2016; the game has been downloaded more than 3 million times across the globe on a cumulative basis as of May 15, 2017. Our initiatives for the online game LET IT DIE include constant planning of events, addition of in-game items, and major updates including an addition of a new area on June 29, 2017, all of which are aimed at a future expansion of the global user base and contribution to long-term user satisfaction.

In terms of our existing games, P&D is celebrating the fifth year since its release back on February 20, 2012. We have been seeing a firm transition in terms of MAU figures for the title since holding constant events commemorating its fifth year anniversary, collaborating with a popular character from our competitor and implementing updates including the capability of trading monsters. As of July 1, 2017, the game has been downloaded more than 46 million times on a cumulative basis in Japan. In the summer of 2017, we developed the new sensation panel RPG for smartphones, Divine Gate, into a more fast-moving, user-friendly Divine Gate Zero having a new chapter with a new story line.

At GungHo Festival 2017 held at Makuhari Messe on May 28, 2017, we conducted an annual P&D JAPAN CUP, or a P&D contest in Japan, and a new live stage by a list of top artists related to our game.

As a result, first half of the fiscal year 2017 ended with the net sales of 49,156 million yen (20.0% down from last year), the operating income of 19,438 million yen (27.1% down from last year), the ordinary income 19,349 million yen (26.5% down from last year), and the quarterly profit attributable to owners of parent of 12,033 million yen (28.4% down from last year).

Description of segment information is omitted as the Company engages in a single segment.

(2) Description of Financial Position

Total assets for the period under review resulted in 64,480 million yen, an increase of 9,447 million yen from the end of the previous fiscal year. This was mainly attributable to the increase in cash and deposit due to the recognition of net profit attributable to owners of parent company

Total liabilities amounted to 13,142 million yen, a decrease of 905million yen from the end of the previous fiscal year. This was primarily attributable to a decrease in income taxes payable due to the payment of income taxes.

Net assets were 51,338 million yen, an increase of 10,353 million yen from the end of the previous fiscal year. This was mainly attributable to the increase of retained earnings due to the recognition of net profit attributable to owners of parent company.

(3) Information Related to the Consolidated Earnings Forecast and Other Future Projections

The GungHo Group engages in the content business that is highly innovative in nature and is subject to facing sudden, short-term changes in the operating environment. Since this makes it difficult to calculate proper and rational earnings forecasts, the Company adopts the policy of providing timely disclosure of financial results and summary of operations on a quarterly basis while refraining from disclosing its full-year consolidated earnings forecast.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the quarter under review

N/A

(2) Adoption of any particular accounting methods for the preparation of quarterly consolidated financial statements

N/A

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

N/A

3. Quarterly Consolidated Financial Statements and main notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of December 31, 2016)	2 nd quarter of this Fiscal Year (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	33,876	44,613
Accounts receivable-trade	9,063	10,518
Short-term investment securities	1,302	1,326
Merchandise	4	7
Work in process	82	103
Deferred tax assets	517	307
Other	2,362	1,391
Allowance for doubtful accounts	△25	△28
Total current assets	47,183	58,240
Fixed assets		
Property, plant and equipment	814	665
Intangible assets		
Software	1,876	184
Software in progress	433	599
Other	88	96
Total intangible assets	2,397	880
Investments and other assets		
Investment securities	349	334
Deferred tax assets	1,116	1,497
Other	3,286	2,979
Allowance for doubtful accounts	△115	△118
Total investments and other assets	4,636	4,694
Total non-current assets	7,848	6,240
Total assets	55,032	64,480

(Millions of yen)

	Previous Fiscal Year (As of December 31, 2016)	2 nd quarter of this Fiscal Year (As of June 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	561	1,334
Short-term loans payable	804	200
Payable within this year against long-term loans	195	143
Corporate income taxes payable	6,948	6,150
Provision for bonuses	6	7
Other	4,306	3,781
Total current liabilities	12,822	11,617
Fixed liabilities		
Long-term loans payable	123	139
Liabilities for retirement benefits	10	14
Other	1,091	1,370
Total fixed liabilities	1,225	1,524
Total liabilities	14,047	13,142
Net assets		
Shareholders' equity		
Capital stock	5,338	5,338
Capital surplus	5,469	5,469
Retained earnings	108,346	118,246
Treasury shares	△80,130	△80,130
Total shareholders' equity	39,023	48,923
Accumulated other comprehensive income		
Foreign currency translation adjustment	△164	△68
Total accumulated other comprehensive income	△164	△68
Stock Options	429	588
Non-controlling interests	1,696	1,894
Total net assets	40,984	51,338
Total liabilities and net assets	55,032	64,480

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Statements of Income

Six-months Period

(Millions of yen)

	First half of the Fiscal Year 2016 (From January 1, 2016 to June 30, 2016)	First half of the Fiscal Year 2017 (From January 1, 2017 to June 30, 2017)
Net sales	61,443	49,156
Cost of sales	20,461	17,772
Gross profit	40,981	31,384
Selling, general and administrative expenses	14,314	11,945
Operating income	26,666	19,438
Non-operating income		
Interest income	35	27
Other	22	23
Total non-operating profit	57	51
Non-operating expenses		
Interest expenses	14	9
Foreign exchange losses	365	122
Other	9	8
Total non-operating expenses	389	140
Ordinary income	26,334	19,349
Extraordinary loss		
Impairment loss	514	1,385
Total extraordinary loss	514	1,385
Income before income taxes and minority interests	25,820	17,963
Income taxes - current	9,346	5,921
Income taxes - deferred	△190	△171
Total income taxes	9,156	5,750
Profit	16,663	12,213
Profit attributable to non-controlling interests or loss attributable to non-controlling interests	△143	179
Profit attributable to owners of parent	16,807	12,033

Quarterly Statements of Comprehensive Income
Six-months Period

	(Millions of yen)	
	First half of the Fiscal Year 2016 (From January 1, 2016 to June 30, 2016)	First half of the Fiscal Year 2017 (From January 1, 2017 to June 30, 2017)
Profit	16,663	12,213
Other comprehensive income		
Valuation difference on available-for-sale securities	Δ121	—
Foreign currency translation adjustment	Δ430	115
Total other comprehensive income	Δ551	115
Comprehensive income	16,112	12,328
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,414	12,128
Comprehensive income attributable to non-controlling interests	Δ302	199

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on the Going-concern Assumption)

N/A

(Notes on Any Significant Changes to the Amount of Shareholders' Equity)

N/A

(Segment Information)

Segment information has been omitted as the GungHo Group is comprised of a single segment.

(Significant Subsequent Events)

N/A