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May 13, 2022

## Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (Under Japanese GAAP)

Company name: Gala Inc.  
 Listing: Tokyo Stock Exchange  
 Securities code: 4777  
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 Scheduled date of annual general meeting of shareholders: June 25, 2022  
 Scheduled date to commence dividend payments: —  
 Scheduled date to file annual securities report: June 27, 2022  
 Preparation of supplementary material on financial results: Yes  
 Holding of financial results briefing: None

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

### 1. Consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2022	600	△39.0	△297	—	△220	—	△186	—
March 31, 2021	985	138.8	26	—	93	—	△131	—

Note: Comprehensive income For the fiscal year ended March 31, 2022: △260 million yen [—%]  
 For the fiscal year ended March 31, 2021: △138 million yen [—%]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
March 31, 2022	△9.77	—	△235.3	△20.7	△49.6
March 31, 2021	△6.98	—	△121.2	10.3	2.7

Reference: Share of profit (loss) of entities accounted for using equity method  
 For the fiscal year ended March 31, 2022: — million yen  
 For the fiscal year ended March 31, 2021: — million yen

#### (2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2022	1,047	438	△2.8	△1.53
March 31, 2021	1,085	303	17.3	9.83

Reference: Equity  
 As of March 31, 2022: △29 million yen  
 As of March 31, 2021: 187 million yen

**(3) Consolidated cash flows**

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2022	△595	62	—	288
March 31, 2021	381	0	310	825

**2. Cash dividends**

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2021	—	0.00	—	0.00	0.00	—	—	—
Fiscal year ended March 31, 2022	—	0.00	—	0.00	0.00	—	—	—
Fiscal year ending March 31, 2023 (Forecast)	—	0.00	—	0.00	0.00		—	

\* **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

Newly included: 1 company (Treeful Inc.)

Excluded: — companies (Company name)

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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

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

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

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

As of March 31, 2022	19,060,800 shares
As of March 31, 2021	19,060,800 shares

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

As of March 31, 2022	— shares
As of March 31, 2021	— shares

(iii) Average number of shares outstanding during the period

Fiscal year ended March 31, 2022	19,060,800 shares
Fiscal year ended March 31, 2021	18,791,942 shares

\* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

\* Proper use of earnings forecasts, and other special matters:

(Disclaimer on forward-looking statements, etc.)

These materials contain forward-looking information including earnings projections based on information currently available to the Company and certain assumptions considered reasonable in the judgment of the Company. Nothing contained in these materials is meant to suggest that the Company promises to attain the said projections. Moreover, due to various factors, actual results may materially differ from projections.

(How to obtain supplementary documents on financial results)

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

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## 1. Summary of Operating Results

### (1) Summary of Current Period Operating Results

During the current fiscal year, Japanese economic activities have been significantly restricted by the declaration of a state of emergency and the application of pre-emergency measures due to the spreading of COVID-19. Although the Japanese economy showed a partial recovery following the gradual restart of economic activities as a result of increased vaccination coverage and termination of the state of emergency, uncertainty over the future still exists due to major concerns about the spreading of new mutant viruses, increased raw material price, and situations in Ukraine, etc. In these circumstances, Gala Inc. (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) have proceeded with the Online Game business and the Smartphone App business with the aim of becoming the *World’s No.1 global online community company*.

The Group’s operating results for the current fiscal year are summarized as follows:

The Group’s consolidated net sales have significantly decreased to ¥600,958 thousand, a 39.0% decrease from the previous fiscal year. The decrease was mainly due to a sales decrease in the Smartphone App business since one-off license transfer sale was recognized in the previous fiscal year, and furthermore, current fiscal year sales in the Smartphone App business declined as a result of the license transfer.

The cost of sales decreased due to a royalty payment decrease, which is in line with the Smartphone App business sales decline following the license transfer stated above.

Selling, general and administrative expenses decreased from the previous fiscal year due to a decrease in software amortization expenses, despite an increase in the outsourcing costs of *Rappelz* (\*1).

In addition, gain on sales of crypto assets of ¥24,925 thousand, gain on valuation of crypto assets of ¥24,979 thousand, and foreign exchange gains of ¥25,981 thousand were recorded in the non-operating income.

As a result, the Group recorded an operating loss of ¥297,865 thousand (operating profit of ¥26,265 thousand in the previous fiscal year), ordinary loss of ¥220,339 thousand (ordinary profit of ¥93,273 thousand in the previous fiscal year), and loss attributable to owners of parent of ¥186,142 thousand (loss attributable to owners of parent of ¥131,087 thousand in the previous fiscal year).

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

#### (i) 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 by incorporating blockchain technology. In the NFT games/blockchain games, in-game items are “converted to NFT” by the blockchain, a fundamental technology of cryptocurrencies, 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.

Following the resolution at the Board of Directors meeting held on April 2, 2021 to make Treeful Inc. a subsidiary of the Company by accepting its third-party allocation of shares, the Company acquired shares of Treeful Inc. on April 30, 2021. Accordingly, the Group launched the Treehouse Resort business as a new business. 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 from the previous fiscal year since the above sales have been recorded and the Cloud-related business sales have increased. The Cloud-related business supports the Megazone Group, a Korean business group, in deploying its cloud business in Japan and offers support for sales, operations, hiring and human resources, and events in Japan.

As for expenses, selling, general and administrative expenses have increased mainly due to increases in payroll costs and depreciation expenses as a result of consolidating Treeful Inc.

As a result, net sales of the Japan segment (including inter-segment transactions) increased by ¥22,098 thousand or 40.4% year-on-year to ¥76,747 thousand and the segment recorded a loss of ¥185,479 thousand (loss of ¥164,138 thousand in the previous fiscal year).



(ii) Korea

In the Korea segment, *winwalk* pedometer app, *wingift* smartphone app and *winQuiz* smartphone app of the Smartphone App business, 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. However, net sales of the Smartphone App business (including inter-segment transactions) have decreased year-on-year due to a license transfer in the previous fiscal year, which resulted in the one-off license transfer sale recorded in the previous fiscal year and declined Smartphone App business sales in the current fiscal year. The license transfer was according to the Company's agreement in January 2021 with a Korean company, METABORA Co., Ltd. (name of the company was WAY2BIT Co., Ltd. as of the contract date. Hereinafter referred to as "METABORA Co., Ltd.") to transfer the license and operation of *Flyff Legacy*, a smartphone app developed by Gala Lab Corp.

It might also be noted that on April 1, 2022, Gala Lab Corp. entered into an agreement with METABORA Co., Ltd. to reacquire the right of *Flyff Legacy*.

In the Online Game business, the segment proceeded with the license deployment and channeling deployment of *Flyff Online* and *Rappelz Online*, Gala Lab Corp.'s major games. However, as the business recorded larger sales in the previous fiscal year in favor of consumption from staying home as well as one-off sales from monetization of the license fee, net sales of the Online Game business (including inter-segment transactions) have decreased year-on-year.

As for the license deployment, Digeam Co., Ltd., a game service provider in Taiwan, started a service offering of *Flyff Online* in June 2021 which was a multilingual service provision leveraging the Company's strong global network.

In the channeling deployment, based on the global license agreement, channeling agreement and operational support agreement entered into with METABORA Co., Ltd. in January 2021, METABORA Co., Ltd. proceeded with the service deployment of *Flyff Online* and *Rappelz Online* on *LINE POD*, the platform offered by LINE Corporation, and released Japanese version in June 2021. Gala Lab Corp. has received license fees and operational support fees in the business.

As a measure to contribute to future revenues, Gala Lab Corp. plans to release *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 NFT game/blockchain game using the blockchain technology. 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 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.

Selling, general and administrative expenses decreased due to a decrease in software amortization expenses, despite an increase in the outsourcing costs of *Rappelz*.

As a result, net sales of the Korea segment (including inter-segment transactions) decreased by ¥392,687 thousand or 40.7% year-on-year to ¥571,885 thousand and the segment recorded a loss of ¥98,993 thousand (profit of ¥190,181 thousand in the previous fiscal year).

(\*1) Southeast Asian version of *Rappelz M* has been significantly updated and renewed as *Rappelz*.

Sales by business segment are as follows:

	For the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)		For the fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	
	Amount (Thousands of yen)	Composition ratio (%)	Amount (Thousands of yen)	Composition ratio (%)
Online Game business	397,226	40.3	371,970	61.9
Smartphone App business	510,687	51.8	113,086	18.8
Other business	77,499	7.9	115,901	19.3
Total	985,413	100.0	600,958	100.0

(Note) In the breakdown of sales by business segment, amounts less than one thousand yen are rounded down.





## 2. Consolidated Financial Statements and Principal Notes

### (1) Consolidated Balance Sheet

(Thousands of yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	825,375	288,934
Accounts receivable - trade	49,403	63,524
Inventories	—	1,954
Accounts receivable - other	4,677	6,882
Prepaid expenses	14,527	3,546
Crypto assets	—	126,205
Other	7,973	9,592
Allowance for doubtful accounts	△251	△398
Total current assets	901,705	500,241
Non-current assets		
Property, plant and equipment		
Buildings and structures	—	158,654
Accumulated depreciation	—	△6,443
Buildings and structures, net	—	152,211
Machinery, equipment and vehicles	—	11,025
Accumulated depreciation	—	△3,041
Machinery, equipment and vehicles, net	—	7,984
Tools, furniture and fixtures	16,168	30,271
Accumulated depreciation	△11,320	△18,022
Tools, furniture and fixtures, net	4,847	12,249
Land	—	46,294
Construction in progress	—	25,228
Total property, plant and equipment	4,847	243,969
Intangible assets		
Goodwill	—	108,109
Other	68	11,089
Total intangible assets	68	119,198
Investments and other assets		
Investment securities	401	279
Lease and guarantee deposits	9,864	10,271
Long-term prepaid expenses	168,511	173,698
Total investments and other assets	178,777	184,249
Total non-current assets	183,694	547,417
Total assets	1,085,399	1,047,658

(Thousands of yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	30	571
Accounts payable	84,892	121,401
Accrued expenses	16,953	13,140
Advances received	37,852	43,827
Unearned revenue	116,039	—
Income taxes payable	1,731	2,140
Provision for bonuses	—	1,814
Other	45,552	8,539
Total current liabilities	303,052	191,434
Non-current liabilities		
Long-term loans payable	—	48,000
Long-term unearned revenue	255,372	190,435
Deferred tax liabilities	122	85
Net defined benefit liability	223,041	179,263
Total non-current liabilities	478,536	417,783
Total liabilities	781,589	609,218
<b>Total liabilities</b>		
Shareholders' equity		
Capital stock	3,531,085	3,531,085
Capital surplus	2,176,690	2,176,690
Retained earnings	△5,025,218	△5,211,361
Total shareholders' equity	682,557	496,414
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	277	192
Foreign currency translation adjustment	△495,419	△525,793
Total accumulated other comprehensive income	△495,142	△525,600
Share acquisition rights	112,148	110,027
Non-controlling interests	4,246	357,597
Total net assets	303,810	438,439
Total liabilities and net assets	1,085,399	1,047,658

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income  
(Consolidated Statement of Income)

(Thousands of yen)

	For the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the fiscal year ended March 31, 2021 (April 1, 2021 to March 31, 2022)
Net sales	985,413	600,958
Cost of sales	167,390	128,525
Gross profit	818,023	472,432
Selling, general and administrative expenses	791,758	770,298
Operating profit (loss)	26,265	△297,865
Non-operating income		
Interest income	492	464
Gain on sales of crypto assets	46,960	24,925
Gain on valuation of crypto assets	—	24,979
Foreign exchange gains	14,129	25,981
Subsidy income	3,044	—
Receipt benefit	2,000	—
Other	381	2,086
Total non-operating income	67,008	78,438
Non-operating expenses		
Interest expenses	—	148
Other	—	763
Total non-operating expenses	—	912
Ordinary profit (loss)	93,273	△220,339
Extraordinary income		
Gain on reversal of share acquisition rights	9,323	2,129
Gain on sales of investment securities	4,999	—
Total extraordinary income	14,323	2,129
Extraordinary losses		
Impairment loss	228,257	424
Loss on retirement of non-current assets	91	—
Loss on head office relocation	3,167	—
Total extraordinary losses	231,515	424
Loss before income taxes	△123,918	△218,633
Income taxes - current	4,758	12,339
Total income taxes	4,758	12,339
Loss	△128,677	△230,972
Profit (loss) attributable to non-controlling interests	2,409	△44,829
Loss attributable to owners of parent	△131,087	△186,142

## (Consolidated Statement of Comprehensive Income)

(Thousands of yen)

	For the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the fiscal year ended March 31, 2021 (April 1, 2021 to March 31, 2022)
Loss	△128,677	△230,972
Other comprehensive income		
Valuation difference on available-for-sale securities	87	△84
Foreign currency translation adjustment	△10,142	△29,924
Total other comprehensive income	△10,055	△30,008
Comprehensive income	△138,732	△260,981
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	△141,439	△216,600
Comprehensive income attributable to non-controlling interests	2,707	△44,380

## (3) Consolidated Statement of Changes in Equity

For the fiscal year ended March 31, 2020 (April 1, 2020 to March 31, 2021)

(Thousands of yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance at beginning of current period	3,381,082	2,026,687	△4,894,131	513,637
Changes of items during period				
Issuance of new shares	150,003	150,003		300,006
Loss attributable to owners of parent			△131,087	△131,087
Net changes of items other than shareholders' equity				—
Total changes of items during period	150,003	150,003	△131,087	168,919
Balance at end of current period	3,531,085	2,176,690	△5,025,218	682,557

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	190	△484,979	△484,789	83,616	1,539	114,004
Changes of items during period						
Issuance of new shares			—			300,006
Loss attributable to owners of parent			—			△131,087
Net changes of items other than shareholders' equity	87	△10,440	△10,352	28,532	2,707	20,886
Total changes of items during period	87	△10,440	△10,352	28,532	2,707	189,806
Balance at end of current period	277	△495,419	△495,142	112,148	4,246	303,810

For the fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(Thousands of yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance at beginning of current period	3,531,085	2,176,690	△5,025,218	682,557
Changes of items during period				
Loss attributable to owners of parent			△186,142	△186,142
Net changes of items other than shareholders' equity				—
Total changes of items during period	—	—	△186,142	△186,142
Balance at end of current period	3,531,085	2,176,690	△5,211,361	496,414

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	277	△495,419	△495,142	112,148	4,246	303,810
Changes of items during period						
Loss attributable to owners of parent			—			△186,142
Net changes of items other than shareholders' equity	△84	△30,373	△30,458	△2,120	353,351	320,771
Total changes of items during period	△84	△30,373	△30,458	△2,120	353,351	134,629
Balance at end of current period	192	△525,793	△525,600	110,027	357,597	438,439

## (4) Consolidated Statement of Cash Flows

(Thousands of yen)

	For the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
<b>Cash flows from operating activities</b>		
Loss before income taxes	△123,918	△218,633
Depreciation	123,117	14,816
Amortization of goodwill	—	13,990
Impairment loss	228,257	424
Increase (decrease) in allowance for doubtful accounts	△86	130
Increase (decrease) in provision for bonuses	—	1,814
Increase (decrease) in net defined benefit liability	16,791	△50,353
Share-based compensation expenses	27,763	—
Interest and dividend income	△499	△484
Interest expenses	—	148
Loss (gain) on sales of crypto assets	—	△24,925
Loss (gain) on valuation of crypto assets	—	△24,979
Loss on retirement of property, plant and equipment	91	—
Loss (gain) on sales of investment securities	△4,999	—
Gain on reversal of share acquisition rights	△9,323	△2,129
Decrease (increase) in notes and accounts receivable - trade	4,208	△11,641
Decrease (increase) in inventories	—	△1,954
Decrease (increase) in prepaid expenses	△9,136	10,972
Decrease (increase) in long-term prepaid expenses	2,317	1,635
Increase (decrease) in notes and accounts payable - trade	△277	429
Increase (decrease) in accounts payable - other	95,487	18,928
Increase (decrease) in advances received	△21,338	1,719
Increase (decrease) in unearned revenue	102,485	△95,555
Increase (decrease) in long-term unearned revenue	△29,394	△72,636
Other	△15,649	△145,397
<b>Subtotal</b>	<b>385,892</b>	<b>△583,682</b>
Interest and dividend income received	499	484
Interest expenses paid	—	△136
Income taxes refund	64	79
Income taxes paid	△4,602	△12,638
<b>Cash flows from operating activities</b>	<b>381,854</b>	<b>△595,893</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	△4,088	△41,353
Purchase of intangible assets	△510	△9,839
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	113,504
Proceeds from sales of investment securities	5,250	—
Payments for guarantee deposits	△27	—
<b>Cash flows from investing activities</b>	<b>623</b>	<b>62,311</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common shares	300,006	—
Proceeds from issuance of share acquisition rights	10,093	—
<b>Cash flows from financing activities</b>	<b>310,100</b>	<b>—</b>
Effect of exchange rate change on cash and cash equivalents	36,687	△2,859
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>729,265</b>	<b>△536,441</b>
Cash and cash equivalents at beginning of period	96,110	825,375
<b>Cash and cash equivalents at end of period</b>	<b>825,375</b>	<b>288,934</b>

(5) Notes on the 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 a loss attributable to owners of parent of ¥131,087 thousand despite recording an operating profit of ¥26,265 thousand. In the current fiscal year, net sales decreased by 39.0% year-on-year to ¥600,958 thousand and recorded an operating loss of ¥297,865 thousand and a loss attributable to owners of parent of ¥186,142 thousand. If the lower sales level continues, the Group would continue recording operating losses and face funding difficulties. Considering these situations, there are events or conditions that raise substantial doubt about the Group’s ability to continue as a going concern.

The Group will take the following measures to eliminate or mitigate the conditions promptly.

At first, for the Smartphone App business, the Group started offering *Rappelz*, the smartphone game app developed by Gala Lab Corp., a consolidated subsidiary of the Company, in the US and Canada in October 2021, 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 Group is currently preparing for the global release of *Rappelz* as an NFT game/blockchain game by incorporating blockchain technology. In the NFT games/blockchain games, in-game items are “converted to NFT” by the blockchain, a fundamental technology of cryptocurrencies, 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 *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 NFT game/blockchain game 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 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 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 consolidated financial statements.



(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Group has applied *Accounting Standard for Revenue Recognition* (ASBJ Statement No. 29, March 31, 2020, the “Revenue Recognition Accounting Standard”) and related guidance from the beginning of the current fiscal year and recognized revenues when control of promised goods or services were transferred to a customer at the amount of consideration which the Group expected to receive in exchange for the goods or services. Since the transactions subject to the Revenue Recognition Accounting Standard are those for which revenue is recognized at a point in time or over time, the revenue recognition method was unchanged from the previous method. Therefore, the application of the Revenue Recognition Accounting Standard, etc. did not have any effect on the consolidated financial statements.

Disaggregated information of revenue from contracts with customers for the previous fiscal year is not disclosed in accordance with the transitional treatment provided in Paragraph 89-3 of the Revenue Recognition Accounting Standard.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Group has applied *Accounting Standard for Fair Value Measurement* (ASBJ Statement No. 30, July 4, 2019, the “Fair Value Measurement Accounting Standard”) and related guidance from the beginning of the current fiscal year and has applied the new accounting policy stipulated under the Fair Value Measurement Accounting Standard prospectively in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Accounting Standard and the Paragraph 44-2 of *Accounting Standard for Financial Instruments* (ASBJ Statement No. 10, July 4, 2019). There was no effect on the consolidated financial statements.

(Segment Information, etc.)

1. Overview of the reportable segment

The reportable segments of the Group are components for which separate financial information is available, and which the Group’s chief executive officer (representative director) regularly reviews to determine the allocation of management resources and evaluate their performance.

The Group’s major business is the Internet-related business and each of the Japan and Korea areas is managed by a local entity in the area. Each local entity is an independent management unit and carries out business operations according to the comprehensive plans developed for services provided in each area.

Therefore, the Group is comprised of the geographic segment based on the service structure and has two reportable segments of *Japan* and *Korea*. The Group’s major businesses by each reportable segment are summarized as follows:

Japan: Smartphone App Publishing and Licensing businesses, Cloud-related business, VR business and Treehouse esort business

Korea: Online Game Publishing, Development and Licensing businesses, and Smartphone App Publishing, Operation, Development and Licensing businesses

2. Calculation method of net sales, profit (loss), assets, liabilities and other items by reportable segment

Accounting treatment of the reported business segment is in accordance with accounting policies applied in preparing the consolidated financial statements.

The profit (loss) of the reportable segment is the amount based on operating profit (loss).

Inter-segment revenues and transfers are based on the actual market price.

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

For the fiscal year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)

(Thousands of yen)

	Japan	Korea	Total	Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
Net sales					
Net sales to external customers	27,802	957,611	985,413	—	985,413
Intersegment net sales or transfers	26,846	6,961	33,808	△33,808	—
Total	54,649	964,573	1,019,222	△33,808	985,413
Segment profit (loss)	△164,138	190,181	26,042	222	26,265
Segment assets	494,673	817,633	1,312,307	△226,907	1,085,399
Other items					
Increase in tangible/intangible fixed assets	129	3,959	4,088	—	4,088

(Notes) 1. Figures are adjusted as follows:

- (1) Adjustment of segment profit (loss) of 222 thousand yen represents elimination of inter-segment transactions.
- (2) Adjustment of segment assets of 226,907 thousand yen represents elimination of inter-segment receivables and payables, etc.

2. Segment profit (loss) is adjusted with operating income in the consolidated financial statements.

For the fiscal year ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

(Thousands of yen)

	Japan	Korea	Total	Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
Net sales					
Online Game business	—	371,970	371,970	—	371,970
Smartphone App business	14,261	98,825	113,086	—	113,086
Other business	41,190	74,711	115,901	—	115,901
Revenue from contracts with customers	55,451	545,507	600,958	—	600,958
Net sales to external customers	55,451	545,507	600,958	—	600,958
Intersegment net sales and transfer	21,296	26,378	47,674	△47,674	—
Total	76,747	571,885	648,633	△47,674	600,958
Segment loss	△185,479	△98,993	△284,473	△13,391	△297,865
Segment assets	634,762	421,059	1,055,821	△8,163	1,047,658
Other items					
Increase in tangible/intangible fixed assets	40,529	10,663	51,192	—	51,192

(Notes) 1. Figures are adjusted as follows:

- (1) Adjustment of segment loss of 13,391 thousand yen consists of elimination of intersegment transactions of 598 thousand yen and amortization of goodwill of 13,990 thousand yen.
  - (2) Adjustment of segment assets of 8,163 thousand yen is due to elimination of inter-segment receivables and payables, etc.
2. Segment loss is adjusted with operating income in the consolidated financial statements.

## (Per Share Information)

	For the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Net assets per share	9.83 yen	△1.53 yen
Loss per share	△6.98 yen	△9.77 yen
Diluted net income per share	Diluted net income per share is not shown in the above table, because net income per share was negative although there are residual shares.	Diluted net income per share is not shown in the above table, because net income per share was negative although there are residual shares.

(Notes) 1. The basis for calculation of net assets per share is as follows:

	For the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Total net assets (Thousands of yen)	303,810	438,439
Amount deducted from the total net assets (Thousands of yen)	116,395	467,625
(Share acquisition rights (Thousands of yen))	(112,148)	(110,027)
(Non-controlling interests included in the above (Thousands of yen))	(4,246)	(357,597)
Amount of net assets related to common stock as of the end of the fiscal year (Thousands of yen)	187,415	△29,185
Number of shares of common stock used in the calculation of net assets per share as of the end of the fiscal year (Share)	19,060,800	19,060,800

2. The basis for calculation of loss per share is as follows:

	For the fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Loss per share		
Loss attributable to owners of parent (Thousands of yen)	△131,087	△186,142
Amount not attributable to common shareholders (Thousands of yen)	—	—
Loss related to common stock attributable to owners of parent (Thousands of yen)	△131,087	△186,142
Average number of shares of common stock outstanding during the fiscal year (Share)	18,791,942	19,060,800