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August 10, 2023

Consolidated Financial Results for the Three Months Ended June 30, 2023 (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 10, 2023
 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, 2023 (from April 1, 2023 to June 30, 2023)

(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, 2023	545	△22.2	△10	—	9	△89.8	1	△98.8
June 30, 2022	701	548.1	136	—	88	—	99	—

Note: Comprehensive income For the three months ended June 30, 2023: ¥33 million [△56.0%]
 For the three months ended June 30, 2022: ¥75 million [—%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2023	0.05	0.05
June 30, 2022	4.78	4.12

(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, 2023	3,085	2,268	59.7	73.53
March 31, 2023	3,023	2,234	60.1	72.63

Reference: Equity

As of June 30, 2023: ¥1,840 million
 As of March 31, 2023: ¥1,818 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, 2022	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2023	—				
Fiscal year ending December 31, 2023 (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 December 31, 2023 (From April 1, 2023 to December 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, 2023	25,035,700 shares
As of March 31, 2023	25,035,700 shares

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

As of June 30, 2023	— shares
As of March 31, 2023	— shares

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

Three months ended June 30, 2023	25,035,700 shares
Three months ended June 30, 2022	20,916,425 shares

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

* Proper use of earnings forecasts, and other special matters
(Disclaimer on forward-looking statements, etc.)

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.

○Additional Information

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The Company and its consolidated subsidiaries (hereinafter referred to as the "Group") reported a decline in consolidated net sales during the three-month period ended June 30, 2023, with consolidated net sales of 545,611 thousand yen (down 22.2% from the same period of the previous fiscal year).

This was mainly due to a decrease in sales of "Flyff Universe," an HTML5 game released in the first quarter of the previous fiscal year, compared to the same quarter of the previous fiscal year.

In addition, cost of sales decreased due to a decrease in channeling fees paid for the HTML5 game business.

Selling, general and administrative expenses increased mainly due to an increase in expenses for marketing activities related to "Flyff Universe."

As a result, the Company reported an operating loss of 10,777 thousand yen (operating profit of 136,267 thousand yen for the same period last year), ordinary profit of 9,053 thousand yen (ordinary profit of 88,886 thousand yen for the same period last year), and profit attributable to owners of parent of 1,233 thousand yen (profit attributable to owners of parent of 99,988 thousand yen for the same period last year).

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

1) Japan

In the Japan segment, the Company launched the smartphone game application "Rappelz" developed by consolidated subsidiary Gala Lab Corp. in the U.S. and Canada in October 2021, but the service was temporarily terminated in November 2022. Currently, "Rappelz" is being renewed as an NFT game/blockchain game (*1) by combining blockchain technology with "Rappelz" and is being prepared for release in the global area. In NFT games/blockchain games, in-game items and other items are "NFT (*3)ized" using blockchain (*2), a crypto asset infrastructure technology, and users can convert items and other items obtained in the game into crypto assets and trade them on exchanges and other venues. This will further enhance the appeal of the game and will be the focus of our efforts to monetize the Smartphone app business. The service is scheduled to be re-released in Southeast Asia and the U.S. in the second quarter of the fiscal year ending December 31, 2023(*), and in the EU and Taiwan in the third quarter of the fiscal year ending December 31, 2023(*).

In addition, the Treehouse resort business conducted by consolidated subsidiary Treeful Inc. in Nago City, Okinawa Prefecture is a new resort business that provides guests with a tree house and an aero-house, a building on the ground, as a single set. Treeful Inc. was approved in July 2021 for an "application for a Ryokan business license based on the Ryokan Business Law" and opened the Treehouse Resort in August 2021 as the first tree house resort in Japan that allows guests to stay overnight for a fee.

The concept of the Treehouse Resort is a "sustainable resort" that does not use fossil fuels, but instead uses electricity, and aims to build a sustainable society by generating more solar power than it uses. The Group is committed to finding a growth strategy for the Treehouse resort business to enhance the corporate value of the Group.

In the three-month period ended June 30, 2023, net sales (including internal transactions) decreased compared to the same period of the previous fiscal year due to the impact of changes in the form of contracts in the Cloud-related business made in the previous fiscal year, despite the above-mentioned Treehouse resort business recording net sales.

On the expense side, selling, general and administrative expenses decreased mainly due to a decrease in provision of allowance for doubtful accounts.

As a result, net sales in the Japan segment decreased by 8,255 thousand yen (37.1%) year on year to 13,984 thousand yen (including internal transactions), and segment loss amounted to 68,881 thousand yen (60,146 thousand yen segment loss in the same period last year)

2) Korea

In the Korea segment, sales of "Flyff Universe," an HTML5 game launched in May 2022, remained strong, but sales (including internal transactions) decreased compared to the same quarter of the previous year due to the large sales after the launch of the service in the same quarter of the previous year. HTML5 games are highly accessible games that can be played on a variety of devices, including PCs and

smartphones, without the need for downloading. We are currently developing an NFT game/blockchain game “Flyff Universe” that combines the HTML5 game elements of “Flyff Universe” with Play To Earn (P2E) (*4) elements using blockchain technology and is scheduled for release in the third quarter of the fiscal year ending December 31, 2023 (*).

In the Smartphone app business, Gala Lab Corp. currently provides the smartphone game application “Flyff Legacy,” and consolidated subsidiary Gala Mix Inc. provides the pedometer application “winwalk,” the smartphone application “winQuiz,” and the smartphone application “Poll Cash”. Although we are promoting distribution through multilingual development utilizing our global network, sales (including internal transactions) decreased compared to the same quarter of the previous year.

In the Online game business, the Company provides services for “Flyff Online” and “Rappelz Online,” the flagship games of Gala Lab Corp. Currently, the Company is promoting licensing and channeling (*5) development, but sales (including internal transactions) decreased compared to the same quarter of the previous year.

In addition, as another measure to contribute to earnings of the Group, Gala Lab Corp. has entered into the Metaverse (*6) campus platform “UVERSE” business (hereinafter referred to as “Meta Campus business”) with LG Uplus Corp., a major electronics and telecommunications company in South Korea, and Megazone Corporation, one of the largest digital IT companies in South Korea. The Meta Campus business develops and builds virtual campuses using the Metaverse Platform, and provides universities and other educational institutions with the Metaverse Platform as a community space for students and a venue for events such as university entrance exam briefings. Gala Lab Corp. will develop the metaverse platform, LG Uplus Corp. will be in charge of attracting schools and marketing, and Megazone Corporation will provide cloud computing and other infrastructure. Currently, contracts have been signed with a number of prestigious universities and preparations are underway to provide the service.

In terms of expenses, selling, general and administrative expenses increased mainly due to an increase in expenses for marketing activities related to “Flyff Universe.”

As a result, net sales in the Korea segment decreased by 153,335 thousand yen (22.0%) year on year to 544,229 thousand yen (including internal transactions), and segment profit amounted to 62,145 thousand yen (segment profit of 200,286 thousand yen in the same period last year).

(*) The fiscal year end of the Group has been changed from March to December.

(*1) NFT game/blockchain game is the game in which in-game items are “NFT(*3)ized” 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 Position

The Group's net assets at the end of the current first quarter increased by 33,231 thousand yen from the end of the previous fiscal year to 2,268,003 thousand yen.

Major changes in assets included a 45,428 thousand yen increase in cash and deposits and a 67,796 thousand yen increase in other property, plant and equipment, net, while accounts receivable – trade decreased by 72,444 thousand yen. Cash and deposits increased mainly due to the receipt of accounts receivable – trade. Other property, plant and equipment, net, increased mainly due to an increase in construction in progress related to a treehouse under construction by Treeful Inc. Accounts receivable-trade decreased mainly due to a decrease in sales of “Flyff Universe”.

In liabilities, advances received increased by 7,669 thousand yen and net defined benefit liability increased by 22,263 thousand yen. Advances received are mainly related to accommodation reservations. Net defined benefit liability increased mainly due to an increase in service cost.

In net assets, foreign currency translation adjustment increased by 21,526 thousand yen, non-controlling interests increased by 10,486 thousand yen, and retained earnings increased by 1,233 thousand yen. Retained earnings increased due to the recording of profit attributable to owners of parent.

(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 the HTML5 game business, it is extremely difficult to predict the possibility that development will not proceed as planned or the revenues from billing. In addition, for the Group's new businesses, the Cloud-related business, the Treehouse resort business, and the Meta Campus 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)

	Previous fiscal year As of March 31, 2023	Current first quarter As of June 30, 2023
Assets		
Current assets		
Cash and deposits	1,839,156	1,884,585
Accounts receivable - trade	259,666	187,222
Inventories	1,277	2,420
Accounts receivable - other	2,672	2,724
Crypto assets	26,037	25,411
Prepaid expenses	5,084	9,826
Other	48,105	40,926
Allowance for doubtful accounts	△294	△302
Total current assets	2,181,705	2,152,815
Non-current assets		
Property, plant and equipment		
Buildings, net	172,883	170,138
Land	46,294	46,294
Other, net	54,155	121,951
Total property, plant and equipment	273,334	338,385
Intangible assets		
Goodwill	92,846	89,031
Other	16,420	19,536
Total intangible assets	109,267	108,567
Investments and other assets		
Investment securities	229	207
Lease and guarantee deposits	10,480	11,159
Long-term prepaid expenses	175,666	187,605
Deferred tax assets	272,693	286,650
Total investments and other assets	459,069	485,621
Total non-current assets	841,671	932,574
Total assets	3,023,377	3,085,389
Liabilities		
Current liabilities		
Accounts payable-trade	18	25
Current portion of long-term loans payable	9,600	9,600
Accounts payable - other	159,582	160,771
Accrued expenses	16,597	12,276
Advances received	29,815	37,485
Unearned revenue	68,666	73,333
Income taxes payable	6,624	3,933
Provision for reward	13,251	17,180
Provision for bonuses	2,543	760
Other	4,900	5,626
Total current liabilities	311,600	320,992
Non-current liabilities		
Long-term loans payable	31,200	28,800
Long-term unearned revenue	262,873	262,405
Deferred tax liabilities	69	63
Net defined benefit liability	182,862	205,125
Total non-current liabilities	477,005	496,393
Total liabilities	788,605	817,385

(Thousands of yen)

	Previous fiscal year As of March 31, 2023	Current first quarter As of June 30, 2023
Net assets		
Shareholders' equity		
Capital stock	4,213,860	4,213,860
Capital surplus	2,859,465	2,859,465
Retained earnings	Δ 4,890,961	Δ 4,889,727
Total shareholders' equity	2,182,364	2,183,598
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	158	142
Foreign currency translation adjustment	Δ 364,278	Δ 342,751
Total accumulated other comprehensive income	Δ 364,120	Δ 342,608
Share acquisition rights	29,438	29,438
Non-controlling interests	387,088	397,575
Total net assets	2,234,771	2,268,003
Total liabilities and net assets	3,023,377	3,085,389

(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, 2022	Three-month period ended June 30, 2023
Net sales	701,658	545,611
Cost of sales	262,335	200,234
Gross profit	439,323	345,377
Selling, general and administrative expenses	303,055	356,154
Operating profit (loss)	136,267	△10,777
Non-operating income		
Interest income	52	3,227
Foreign exchange gains	13,958	16,130
Other	536	3,122
Total non-operating income	14,548	22,480
Non-operating expenses		
Interest expenses	37	30
Loss on sales of crypto assets	6,735	—
Loss on valuation of crypto assets	54,686	2,286
Other	469	331
Total non-operating expenses	61,929	2,648
Ordinary profit	88,886	9,053
Extraordinary income		
Gain on reversal of share acquisition rights	2,270	—
Total extraordinary income	2,270	—
Extraordinary losses		
Loss on retirement of non-current assets	4,196	—
Total extraordinary losses	4,196	—
Profit before income taxes	86,960	9,053
Income taxes - current	1,552	1,775
Income taxes – deferred	—	4,368
Total income taxes	1,552	6,143
Profit	85,408	2,910
Profit (loss) attributable to non-controlling interests	△14,580	1,676
Profit attributable to owners of parent	99,988	1,233

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

(Thousands of yen)

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2023
Profit	85,408	2,910
Other comprehensive income		
Valuation difference on available-for-sale securities	△24	△15
Foreign currency translation adjustment	△9,806	30,336
Total other comprehensive income	△9,830	30,321
Comprehensive income	75,577	33,231
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	89,682	22,745
Comprehensive income attributable to non-controlling interests	△14,104	10,486

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

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

Not applicable.

(Segment Information)

I For the three-month period ended June 30, 2022

1. Information on the Amount of Net Sales and Profit (loss) and Disaggregated Information on Revenues by Reportable Segment

(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 profit (loss) adjustment of △3,871 thousand yen consists of the elimination of intersegment transactions of △56 thousand yen and the amortization of goodwill of △3,815 thousand yen

(Note 2) Segment profit (loss) is adjusted with operating profit 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.

II For the three-month period ended June 30, 2023

1. Information on the Amount of Net Sales and Profit (loss) and Disaggregated Information on Revenues by Reportable Segment

(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	—	69,230	69,230	—	69,230
Smartphone app business	—	57,360	57,360	—	57,360
HTML5 game business	—	410,204	410,204	—	410,204
Other business	6,686	2,128	8,815	—	8,815
Revenue from contracts with customers	6,686	538,924	545,611	—	545,611
Net sales to external Customers	6,686	538,924	545,611	—	545,611
Intersegment net sales and transfer	7,297	5,305	12,603	△12,603	—
Total	13,984	544,229	558,214	△12,603	545,611
Segment profit (loss)	△68,881	62,145	△6,735	△4,041	△10,777

(Note 1) The segment profit (loss) adjustment of △4,041 thousand yen consists of the elimination of intersegment transactions of △226 thousand yen and the amortization of goodwill of △3,815 thousand yen.

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

2. Information on Assets by Reportable Segment

Not applicable.