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February 16, 2024

Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4777
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 Scheduled date of annual general meeting of shareholders: March 23, 2024
 Scheduled date to commence dividend payments: —
 Scheduled date to file annual securities report: March 25, 2024
 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 December 31, 2023 (from April 1, 2023 to December 31, 2023)

(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	%
December 31, 2023	1,497	—	△296	—	△262	—	△230	—
March 31, 2023	3,207	433.8	437	—	400	—	320	—

Note: Comprehensive income For the fiscal year ended December 31, 2023: △¥250 million [—%]
 For the fiscal year ended March 31, 2023: ¥511 million [—%]

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	%	%	%
December 31, 2023	△9.20	—	△13.5	△8.2	△19.8
March 31, 2023	13.35	12.14	35.8	19.7	13.7

Reference: Share of profit (loss) of entities accounted for using equity method
 For the fiscal year ended December 31, 2023: ¥— million
 For the fiscal year ended March 31, 2023: ¥— million

(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
December 31, 2023	3,355	2,014	47.7	63.92
March 31, 2023	3,023	2,234	60.1	72.63

Reference: Equity
 As of December 31, 2023: ¥1,600 million
 As of March 31, 2023: ¥1,818 million

(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
December 31, 2023	△130	△831	20	932
March 31, 2023	546	△271	1,280	1,839

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, 2023	—	0.00	—	0.00	0.00	—	—	—
Fiscal year ended December 31, 2023	—	0.00	—	0.00	0.00	—	—	—
Fiscal year ending December 31, 2024 (Forecast)	—	—	—	—	—		—	

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2024 (from January 1, 2024 to December 31, 2024)

In the Smartphone app business, there is a possibility that the development and download distribution of apps will not proceed as planned. Therefore, it is extremely difficult to predict billing revenues from apps after download distribution has started. In the Online game business, it is extremely difficult to forecast earnings from upgrades to existing titles. There is also a possibility that the development of the HTML5 game business will not proceed as planned and it is extremely difficult to predict billing revenues for the business. In addition, for the Group's new businesses, the Cloud-related business, the Treehouse resort business, the Meta Campus business and the VFX business, it is extremely difficult to forecast earnings appropriately as their profit or loss is highly contingent on changes in the environment surrounding the business and other factors. Therefore, we have refrained from announcing earnings forecasts for these businesses.

* **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): No

Newly included: —

Excluded: —

(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: None

(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 December 31, 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 December 31, 2023	— shares
As of March 31, 2023	— shares

(iii) Average number of shares outstanding during the period

Fiscal year ended December 31, 2023	25,035,700 shares
Fiscal year ended March 31, 2023	24,004,594 shares

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

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

(Change in fiscal year-end)

Due to a change in the fiscal year end, the fiscal year ended December 31, 2023 was a nine-month period from April 1, 2023 to December 31, 2023. Therefore, the year-on-year percentage increase/decrease for the fiscal year ended December 31, 2023 is not shown in (1) Consolidated operating results.

(Disclaimer on forward-looking statements, etc.)

The forward-looking statements 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 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

At the 30th annual meeting of shareholders held on June 24, 2023, Gala Inc. (the "Company") and its consolidated subsidiaries (hereinafter referred to as the "Group") partially amended its Articles of Incorporation and changed its fiscal year end from March 31 to December 31, effective from the current fiscal year. As a result, the current fiscal year is a nine-month period from April 1, 2023 to December 31, 2023, and therefore, the year-on-year comparisons in (1) Summary of Current Period Operating Results and (3) Summary of Current Period Cash Flows have been omitted.

(1) Summary of Current Period Operating Results

During the current fiscal year, the Japanese economy showed a gradual recovery with the normalization of economic and social activities. On the other hand, the future of the economy remains uncertain due to the prolonged situation in Ukraine and soaring prices. Under these circumstances, the Group has advanced its businesses including the Online game business, Smartphone app business, HTML5 game business, Meta Campus business, and newly added VFX 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:

Consolidated net sales for the current fiscal year totaled 1,497,932 thousand yen. This was mainly due to sales of "Flyff Universe," an HTML5 game released in the previous fiscal year.

Cost of sales was 539,821 thousand yen. This was mainly due to royalties paid for the HTML5 game "Flyff Universe."

Selling, general and administrative expenses totaled 1,254,558 thousand yen. The main components were directors' compensations of 234,055 thousand yen, salaries and allowances of 323,323 thousand yen, advertising expenses of 160,577 thousand yen, and commission fees of 159,251 thousand yen. Advertising expenses are mainly marketing expenses for "Flyff Universe" and commission fees are mainly outsourcing expenses for Meta Campus business.

In addition, non-operating income/expenses and extraordinary income/losses included interest income of 13,689 thousand yen, foreign exchange gains of 9,529 thousand yen, secondment fee income of 7,958 thousand yen, and gain on valuation of crypto assets of 5,655 thousand yen as non-operating income, interest expenses of 4,982 thousand yen as non-operating expenses, and loss on retirement of non-current assets of 3,372 thousand yen as extraordinary loss.

As a result, the Group's operating loss was 296,448 thousand yen, ordinary loss was 262,323 thousand yen, and loss attributable to owners of parent was 230,422 thousand yen.

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

(i) Japan

In the Japan segment, the Company launched the smartphone game application "Rappelz" developed by a 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 "Rappelz Universe," an NFT game/blockchain game (*1) by combining blockchain technology with "Rappelz" and is being prepared for release in the global area. The NFT game/blockchain game is a game in which items in the game are converted to NFT (*3) using blockchain (*2), a crypto asset infrastructure technology, and users can buy and sell items obtained in the game on exchanges and other venues by converting them into crypto assets. The segment will further enhance the appeal of games through these measures and focus on the monetization of the Smartphone app business. We are currently preparing for the release of "Rappelz Universe", however, the service launch date has not been determined at this time due to the time required to study the legal and tax aspects in Korea for the crypto assets used in the game.

In addition, Treeful Inc., a consolidated subsidiary of the Company, is engaged in a new business, the Treehouse resort business in Nago City, Okinawa Prefecture, which offers guests a treehouse and an aero-house, a building on the ground, as a single set. Following the approval of the "Application for Ryokan Business License under the Ryokan Business Law" in July 2021, Treeful Inc. 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 intends to deploy the Treehouse resort business not only in Japan but also overseas and halt deforestation overseas by creating value in the forest business. As a first step in the overseas expansion of the Treehouse resort business, Treeful Inc. established TREEFUL (CAMBODIA) Co., Ltd. in Cambodia in November 2023. It aims to generate stable revenue through treehouses as a sustainable luxury resort hotel and create a path to coexistence between forests and human society.

In terms of expenses, the segment recorded 3,101 thousand yen in cost of sales and 313,295 thousand yen in selling, general and administrative expenses. The main components of selling, general and administrative expenses were 136,854 thousand yen in directors' compensations, 42,069 thousand yen in salaries and allowances, 28,509 thousand yen in fee expenses, and 26,788 thousand yen in outsourcing expenses.

As a result, net sales in the Japan segment totaled 47,695 thousand yen (including internal transactions), and the segment loss amounted to 294,358 thousand yen.

(ii) Korea

In the Korea segment, net sales of the HTML5 game "Flyff Universe," launched in May 2022, amounted to 837,642 thousand yen. HTML5 games are highly accessible games that can be played from various devices, including PCs and smartphones, without downloading. In July 2023, Gala Lab Corp., BPMG Co., Ltd., and Wemade Connect Co., Ltd. signed a strategic partnership agreement on publishing and game business for the NFT game/blockchain game "Flyff Universe," which combines elements of the HTML5 game "Flyff Universe" with Play To Earn (P2E) (*4) elements using blockchain technology. We are currently preparing for the release of the NFT game/blockchain game "Flyff Universe," however, the service launch date has not been determined at this time for the same reason as "Rappelz Universe."

In November 2023, Gala Lab Corp. signed an agreement with Wemade Play Co., Ltd. to develop an HTML5 version game utilizing the IP of the mobile game "AniPang" developed by the company which became a big hit in Korea. We will also focus on the development of HTML5 games using IPs of other companies' games and the Group's HTML5 game development capabilities.

In the Smartphone app business, net sales totaled 180,846 thousand yen. Currently, Gala Lab Corp. provides the smartphone game application "Flyff Legacy," and consolidated subsidiary Gala Mix Inc. provides the pedometer application "winwalk" and the smartphone applications "winQuiz" and "Poll Cash".

In the Online Game business, net sales totaled 269,265 thousand yen. The Company provides services for "Flyff Online" and "Rappelz Online," the flagship games of Gala Lab Corp., and is currently advancing the licensing and channeling (*5) deployment.

As another measure to contribute to earnings, Gala Lab Corp. is engaged in the Metaverse (*6) campus platform "UVERSE" business (the "Meta Campus business") with LG Uplus Corp., a major Korean electronics and telecommunications company, and Megazone Corporation, one of the largest Korean digital IT companies. The Meta Campus business will develop and build a virtual campus using the Metaverse platform, and provide educational institutions such as universities with the Metaverse platform as a community space for students and as a venue for events such as entrance exam information sessions. 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, Gala Lab Corp. has contracts with several well-known universities to provide services, and the Meta Campus business recorded net sales of 121,687 thousand yen.

At the Board of Directors meeting held on September 11, 2023, the Company resolved to underwrite a third-party allotment of new shares to be conducted by ROAD101 Co., Ltd. in Korea and to make the company a subsidiary. On September 14, 2023, the Company acquired shares in the company. With this acquisition, the Group started the VFX business as a new business.

VFX stands for visual effects and refers to the technology used to achieve screen effects that cannot be seen in reality in movies, TV dramas and other visual productions. The VFX business produces a movie, commercial and other content using the VFX technology.

In terms of expenses, the segment recorded 536,720 thousand yen in cost of sales and 928,726 thousand yen in selling, general and administrative expenses. Selling, general and administrative expenses consisted mainly of 97,200 thousand yen in directors' compensations, 281,254 thousand yen in salaries and allowances, 171,533 thousand yen in fee expenses, and 160,520 thousand yen in advertising expenses. Advertising expenses were mainly for marketing activities related to "Flyff Universe."

As a result, net sales in the Korea segment totaled 1,485,489 thousand yen (including internal transactions), and segment profit totaled 20,042 thousand yen.

(*1) NFT games/blockchain games are games in which in-game items are "NFT-ized" using blockchain (*2), a crypto asset infrastructure technology. It is also referred to as GameFi (a combination of Game and Decentralized Finance).

(*2) Blockchain is a method of synchronously recording transaction information and other data by combining cryptographic technology with multiple computers that make up a decentralized network. The data of transactions over a certain period of time is compiled into blocks, which are verified by computers to accumulate correct records in a chain-like manner.

(*3) NFT (Non-Fungible Token) refers to "digital data with a certificate of authenticity and ownership that cannot be forged" and, like crypto assets, is digital data issued and traded on the blockchain.

(*4) Blockchain games are called Play To Earn (P2E) if income or points earned in the blockchain games can be converted into crypto assets and traded on exchanges, etc.

(*5) Channeling is a service that allows users to play online games on other companies' game portals.

(*6) Metaverse is a synthetic word made up of meta (meaning "super") and universe, and it is a multi-player 3D virtual space built on the Internet in which multiple people can participate and act freely. Users can explore the world and communicate with other users by entering the virtual space through their alter egos, called avatars. In addition, users can create their own games and monetize them by letting other users play them, and users can build a system that allows them to buy and sell in-game items and other items as NFT (*3) with other users using crypto assets.

Sales by business segment are as follows:

	For the fiscal year ended March 31, 2023 (April 1, 2022 to March 31, 2023)		For the fiscal year ended December 31, 2023 (April 1, 2023 to December 31, 2023)	
	Amount (Thousands of yen)	Composition ratio (%)	Amount (Thousands of yen)	Composition ratio (%)
Online game business	359,466	11.2	269,265	18.0
Smartphone app business	255,330	8.0	180,846	12.1
HTML5 game business	2,443,327	76.2	837,642	55.9
Meta Campus business	50,356	1.6	121,687	8.1
VFX business	—	—	37,453	2.5
Other businesses	99,299	3.0	51,035	3.4
Total	3,207,780	100.0	1,497,932	100.0

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

(2) Summary of Current Period Financial Positions

(a) Assets

Current assets decreased by 21.1% from the end of the previous fiscal year to 1,721,174 thousand yen. This was mainly due to a decrease of 494,070 thousand yen in cash and deposits partially offset by increases of 24,146 thousand yen in prepaid expenses and 19,454 thousand yen in accounts receivable-other. The decrease in cash and deposits was mainly due to 223,133 thousand yen in purchase of shares of subsidiaries resulting in change in scope of consolidation as a result of the inclusion of ROAD101 Co., Ltd. in the scope of consolidation and 188,275 thousand yen in purchase of property, plant and equipment.

Non-current assets increased by 94.2% from the end of the previous fiscal year to 1,634,668 thousand yen. This was mainly due to increases of 84,448 thousand yen in machinery, equipment and vehicles, 36,555 thousand yen in tools, furniture and fixtures, 171,226 thousand yen in construction in progress, 354,449 thousand yen in goodwill, and 55,239 thousand yen in lease and guarantee deposits. The increases in machinery, tools, furniture and fixtures, goodwill, and lease and guarantee deposits were mainly due to the inclusion of ROAD101 Co., Ltd. in the scope of consolidation. The increase in construction in progress was due to the recording of construction in progress related to the treehouses and aero-houses under construction by Treeful Inc.

As a result, total assets increased by 11.0% from the end of the previous fiscal year to 3,355,843 thousand yen.

(b) Liabilities

Current liabilities increased by 155.5% from the end of the previous fiscal year to 796,134 thousand yen. This was mainly due to increases in short-term loans payable by 270,000 thousand yen, accrued expenses by 65,497 thousand yen, advances received by 36,984 thousand yen, and unearned revenue by 59,666 thousand yen. The increases in short-term loans payable, accrued expenses, and advances received were mainly due to the inclusion of ROAD101 Co., Ltd. in the scope of consolidation. The increase in unearned revenue was due to the signing of a strategic alliance agreement for publishing and game business related to NFT games/blockchain games.

Non-current liabilities increased by 14.3% from the end of the previous fiscal year to 545,152 thousand yen. This was mainly due to a 19,979 thousand yen increase in long-term loans payable and a 42,360 thousand yen increase in net defined benefit liability. The increase in long-term loans payable was mainly due to the inclusion of ROAD101 Co., Ltd. in the scope of consolidation. The increase in net defined benefit liability was mainly due to an increase in retirement benefit obligations at Gala Lab Corp.

As a result, total liabilities increased by 70.1% from the end of the previous fiscal year to 1,341,287 thousand yen.

(c) Net Assets

Net assets decreased by 9.9% from the end of the previous fiscal year to 2,014,555 thousand yen. This was mainly due to a decrease in retained earnings of 230,422 thousand yen. Retained earnings were due to loss attributable to owners of parent.

(3) Summary of Current Period Cash Flows

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the current fiscal year amounted to 932,628 thousand yen.

(a) Cash Flows from Operating Activities

Net cash used in operating activities totaled 130,852 thousand yen. This was mainly due to cash inflows from 39,224 thousand yen in depreciation, 49,025 thousand yen increase in unearned revenue, and 29,661 thousand yen increase in net defined benefit liability, as well as cash outflows from 265,379 thousand yen in loss before income taxes, 30,578 thousand yen decrease in accounts

payable-other, 22,250 thousand yen increase in prepaid expenses, and 20,770 thousand yen decrease in long-term unearned revenue.

(b) Cash Flows from Investing Activities

Net cash used in investing activities totaled 831,409 thousand yen. The main cash outflows were payments into time deposits of 411,448 thousand yen, purchase of property, plant and equipment of 188,275 thousand yen, and purchase of shares of subsidiaries resulting in change in scope of consolidation of 223,133 thousand yen.

(c) Cash Flows from Financing Activities

Net cash provided by financing activities amounted to 20,761 thousand yen. This was mainly due to cash inflows from an increase in short-term loans payable of 28,000 thousand yen and proceeds from share issuance to non-controlling shareholders of 4,954 thousand yen, as well as cash outflows from repayments of long-term loans payable of 12,193 thousand yen.

2. Basic Approach to Selection of Accounting Standards

The Group prepares its consolidated financial statements in accordance with Japanese GAAP. The Group intends to consider the application of International Financial Reporting Standards (IFRS) in light of various circumstances in Japan and overseas.

3. Consolidated Financial Statements and Principal Notes

(2) Consolidated Balance Sheet

(Thousands of yen)

	Previous fiscal year As of March 31, 2023	Current fiscal year As of December 31, 2023
Assets		
Current assets		
Cash and deposits	1,839,156	1,345,086
Accounts receivable – trade	259,666	262,512
Inventories	1,277	3,735
Accounts receivable – other	2,672	22,126
Prepaid expenses	5,084	29,231
Crypto assets	26,037	33,514
Other	48,105	25,821
Allowance for doubtful accounts	△294	△853
Total current assets	2,181,705	1,721,174
Non-current assets		
Property, plant and equipment		
Buildings and structures	188,462	217,906
Accumulated depreciation	△15,578	△50,072
Buildings and structures, net	172,883	167,834
Machinery, equipment and vehicles	11,025	236,357
Accumulated depreciation	△4,776	△145,659
Machinery, equipment and vehicles, net	6,249	90,698
Tools, furniture and fixtures	36,409	190,230
Accumulated depreciation	△24,475	△141,740
Tools, furniture and fixtures, net	11,934	48,489
Land	46,294	46,294
Construction in progress	35,971	207,197
Total property, plant and equipment	273,334	560,514
Intangible assets		
Goodwill	92,846	447,296
Other	16,420	64,027
Total intangible assets	109,267	511,324
Investments and other assets		
Investment securities	229	250
Lease and guarantee deposits	10,480	65,719
Long-term prepaid expenses	175,666	208,175
Deferred tax assets	272,693	288,684
Total investments and other assets	459,069	562,829
Total non-current assets	841,671	1,634,668
Total assets	3,023,377	3,355,843

(Thousands of yen)

	Previous fiscal year As of March 31, 2023	Current fiscal year As of December 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	18	3,321
Short-term loans payable	—	270,000
Current portion of long-term loans payable	9,600	15,623
Accounts payable - other	159,582	173,614
Accrued expenses	16,597	82,095
Advances received	29,815	66,800
Unearned revenue	68,666	128,333
Income taxes payable	6,624	5,914
Provision for reward	13,251	20,446
Provision for bonuses	2,543	820
Other	4,900	29,165
Total current liabilities	311,600	796,134
Non-current liabilities		
Long-term loans payable	31,200	51,179
Long-term unearned revenue	262,873	260,385
Deferred tax liabilities	69	5,751
Net defined benefit liability	182,862	225,223
Other	—	2,612
Total non-current liabilities	477,005	545,152
Total liabilities	788,605	1,341,287
Total liabilities		
Shareholders' equity		
Capital stock	4,213,860	4,213,860
Capital surplus	2,859,465	2,857,691
Retained earnings	△4,890,961	△5,121,383
Total shareholders' equity	2,182,364	1,950,168
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	158	172
Foreign currency translation adjustment	△364,278	△350,117
Total accumulated other comprehensive income	△364,120	△349,945
Share acquisition rights	29,438	29,438
Non-controlling interests	387,088	384,894
Total net assets	2,234,771	2,014,555
Total liabilities and net assets	3,023,377	3,355,843

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

(Thousands of yen)

	Previous fiscal year (April 1, 2022 to March 31, 2023)	Current fiscal year (April 1, 2023 to December 31, 2023)
Net sales	3,207,780	1,497,932
Cost of sales	1,077,263	539,821
Gross profit	2,130,517	958,110
Selling, general and administrative expenses	1,692,598	1,254,558
Operating profit (loss)	437,919	△296,448
Non-operating income		
Interest income	4,774	13,689
Gain on valuation of crypto assets	—	5,655
Foreign exchange gains	8,991	9,529
Secondment fee income	7,458	7,958
Other	8,246	2,273
Total non-operating income	29,470	39,107
Non-operating expenses		
Interest expenses	139	4,982
Loss on sales of crypto assets	6,916	—
Loss on valuation of crypto assets	58,141	—
Other	1,404	—
Total non-operating expenses	66,602	4,982
Ordinary profit (loss)	400,787	△262,323
Extraordinary income		
Gain on sales of non-current assets	—	536
Gain on reversal of share acquisition rights	2,270	—
Total extraordinary income	2,270	536
Extraordinary losses		
Loss on retirement of non-current assets	4,196	3,372
Impairment loss	138,666	219
Total extraordinary losses	142,862	3,591
Profit (loss) before income taxes	260,195	△265,379
Income taxes - current	9,845	4,154
Income taxes - deferred	△275,340	1,506
Total income taxes	△265,495	5,661
Profit (loss)	525,690	△271,040
Profit (loss) attributable to non-controlling interests	205,289	△40,618
Profit (loss) attributable to owners of parent	320,400	△230,422

(Consolidated Statement of Comprehensive Income)

(Thousands of yen)

	Previous fiscal year (April 1, 2022 to March 31, 2023)	Current fiscal year (April 1, 2023 to December 31, 2023)
Profit (loss)	525,690	△271,040
Other comprehensive income		
Valuation difference on available-for-sale securities	△34	14
Foreign currency translation adjustment	△14,283	20,545
Total other comprehensive income	△14,318	20,559
Comprehensive income	511,371	△250,481
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	481,880	△216,247
Comprehensive income attributable to non-controlling interests	29,491	△34,233

(3) Consolidated Statement of Changes in Equity
 Previous fiscal year (April 1, 2022 to March 31, 2023)

(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	△5,211,361	496,414
Changes of items during period				
Issuance of new shares	90,012	90,012		180,025
Issuance of new shares - exercise of share acquisition rights	592,761	592,761		1,185,523
Profit attributable to owners of parent			320,400	320,400
Net changes of items other than shareholders' equity				—
Total changes of items during period	682,774	682,774	320,400	1,685,949
Balance at end of current period	4,213,860	2,859,465	△4,890,961	2,182,364

	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	192	△525,793	△525,600	110,027	357,597	438,439
Changes of items during period						
Issuance of new shares			—			180,025
Issuance of new shares - exercise of share acquisition rights			—			1,185,523
Profit attributable to owners of parent			—			320,400
Net changes of items other than shareholders' equity	△34	161,514	161,480	△80,589	29,491	110,381
Total changes of items during period	△34	161,514	161,480	△80,589	29,491	1,796,331
Balance at end of current period	158	△364,278	△364,120	29,438	387,088	2,234,771

Current fiscal year (April 1, 2023 to December 31, 2023)

(Thousands of yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance at beginning of current period	4,213,860	2,859,465	△4,890,961	2,182,364
Changes of items during period				
Loss attributable to owners of parent			△230,422	△230,422
Change in ownership interest of parent due to transactions with non-controlling interests		△1,773		△1,773
Net changes of items other than shareholders' equity				—
Total changes of items during period	—	△1,773	△230,422	△232,196
Balance at end of current period	4,213,860	2,857,691	△5,121,383	1,950,168

	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	158	△364,278	△364,120	29,438	387,088	2,234,771
Changes of items during period						
Loss attributable to owners of parent			—			△230,422
Change in ownership interest of parent due to transactions with non-controlling interests			—			△1,773
Net changes of items other than shareholders' equity	14	14,160	14,175	—	△2,194	11,980
Total changes of items during period	14	14,160	14,175	—	△2,194	△220,215
Balance at end of current period	172	△350,117	△349,945	29,438	384,894	2,014,555

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Previous fiscal year (April 1, 2022 to March 31, 2023)	Current fiscal year (April 1, 2023 to December 31, 2023)
Cash flows from operating activities		
Profit (loss) before income taxes	260,195	△265,379
Depreciation	93,295	39,224
Impairment loss	138,666	219
Amortization of goodwill	15,262	20,743
Increase (decrease) in allowance for doubtful accounts	△111	32
Increase (decrease) in provision for reward	13,380	6,237
Increase (decrease) in provision for bonuses	729	△1,723
Increase (decrease) in net defined benefit liability	50	29,661
Interest and dividend income	△4,787	△13,689
Interest expenses	139	4,982
Loss (gain) on sales of crypto assets	6,916	—
Loss (gain) on valuation of crypto assets	58,141	△5,655
Loss (gain) on sales of property, plant and equipment	—	△536
Loss on retirement of property, plant and equipment	4,196	3,372
Gain on reversal of share acquisition rights	△2,270	—
Decrease (increase) in notes and accounts receivable – trade	△196,862	14,956
Decrease (increase) in inventories	676	△2,458
Decrease (increase) in prepaid expenses	△1,504	△22,250
Decrease (increase) in long-term prepaid expenses	1,442	△8,175
Increase (decrease) in notes and accounts payable - trade	△553	△6,878
Increase (decrease) in accounts payable - other	32,676	△30,578
Increase (decrease) in advances received	△16,268	△6,191
Increase (decrease) in unearned revenue	69,333	49,025
Increase (decrease) in long-term unearned revenue	68,529	△20,770
Other	7,207	86,775
Subtotal	548,482	△129,054
Interest and dividend income received	4,787	11,099
Interest expenses paid	△141	△3,965
Income taxes refund	76	616
Income taxes paid	△7,053	△9,549
Cash flows from operating activities	546,151	△130,852
Cash flows from investing activities		
Payments into time deposits	—	△411,448
Purchase of property, plant and equipment	△51,492	△188,275
Proceeds from sales of property, plant and equipment	—	2,368
Purchase of intangible assets	△219,638	△6,594
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	△223,133
Payments for guarantee deposits	△5	△4,360
Proceeds from collection of guarantee deposits	—	32
Cash flows from investing activities	△271,136	△831,409
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	—	28,000
Repayments of long-term loans payable	△7,200	△12,193
Proceeds from issuance of common shares	180,025	—
Proceeds from issuance of share acquisition rights	5,231	—
Proceeds from issuance of shares resulting from exercise of share acquisition rights	1,101,973	—
Proceeds from share issuance to non-controlling shareholders	—	4,954
Cash flows from financing activities	1,280,029	20,761
Effect of exchange rate change on cash and cash equivalents	△4,822	34,973

Net increase (decrease) in cash and cash equivalents	1,550,222	△906,528
Cash and cash equivalents at beginning of period	288,934	1,839,156
Cash and cash equivalents at end of period	1,839,156	932,628

(5) Notes to the Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Segment Information)

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 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 of each reportable segment are summarized as follows:

Japan: Smartphone app publishing and licensing businesses, Cloud-related business, and Treehouse resort business

Korea: Online game publishing, development and licensing businesses, Smartphone app publishing, operation, development and licensing businesses, HTML5 game publishing and development businesses, Meta Campus development business, and VFX business.

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

The accounting treatment for the reported business segments is in accordance with those 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 and information on disaggregated revenue

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Japan	Korea	Total	Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
Net sales					
Online game business	—	359,466	359,466	—	359,466
Smartphone app business	1,635	253,694	255,330	—	255,330
HTML5 game business	—	2,443,327	2,443,327	—	2,443,327
Meta Campus business	—	50,356	50,356	—	50,356
Other businesses	31,771	67,527	99,299	—	99,299
Revenue from contracts with customers	33,407	3,174,373	3,207,780	—	3,207,780
Net sales to external customers	33,407	3,174,373	3,207,780	—	3,207,780
Intersegment net sales and transfer	44,284	30,486	74,771	△74,771	—
Total	77,692	3,204,859	3,282,551	△74,771	3,207,780
Segment profit (loss)	△229,113	681,187	452,073	△14,154	437,919
Segment assets	1,883,441	1,374,528	3,257,969	△234,592	3,023,377
Other items					
Depreciation	15,187	78,108	93,295	—	93,295
Amortization of goodwill	—	—	—	15,262	15,262
Increase in property, plant and equipment and intangible assets	49,014	222,116	271,131	—	271,131

(Notes) 1. Figures are adjusted as follows:

- (1) Adjustment of segment profit (loss) of △14,154 thousand yen consists of elimination of intersegment transactions of 1,108 thousand yen and amortization of goodwill of △15,262 thousand yen.
 - (2) Adjustment of segment assets of △234,592 thousand yen consists of elimination of inter-segment receivables and payables of △327,439 thousand yen and goodwill of 92,846 thousand yen.
2. Segment profit (loss) is adjusted with operating profit in the consolidated financial statements.

Current fiscal year (From April 1, 2023 to December 31, 2023)

(Thousands of yen)

	Japan	Korea	Total	Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
Net sales					
Online game business	—	269,265	269,265	—	269,265
Smartphone app business	—	180,846	180,846	—	180,846
HTML5 game business	—	837,642	837,642	—	837,642
Meta Campus business	—	121,687	121,687	—	121,687
VFX business	—	37,453	37,453	—	37,453
Other businesses	28,965	22,070	51,035	—	51,035
Revenue from contracts with customers	28,965	1,468,966	1,497,932	—	1,497,932
Net sales to external customers	28,965	1,468,966	1,497,932	—	1,497,932
Intersegment net sales and transfer	18,729	16,522	35,252	△35,252	—
Total	47,695	1,485,489	1,533,184	△35,252	1,497,932
Segment profit (loss)	△294,358	20,042	△274,315	△22,132	△296,448
Segment assets	1,250,732	2,004,439	3,255,171	100,671	3,355,843
Other items					
Depreciation	12,418	26,806	39,224	—	39,224
Amortization of goodwill	—	—	—	20,743	20,743
Increase in property, plant and equipment and intangible assets	186,666	8,203	194,869	—	194,869

(Notes) 1. Figures are adjusted as follows:

- (1) Adjustment of segment profit (loss) of △22,132 thousand yen consists of elimination of intersegment transactions of △1,389 thousand yen and amortization of goodwill of △20,743 thousand yen.
 - (2) Adjustment of segment assets of 100,671 thousand yen consists of elimination of intersegment receivables and payables of △346,624 thousand yen and goodwill of 447,296 thousand yen.
2. Segment profit (loss) is adjusted with operating loss in the consolidated financial statements.

(Per Share Information)

	Previous fiscal year (April 1, 2022 to March 31, 2023)	Current fiscal year (April 1, 2023 to December 31, 2023)
Net assets per share	72.63 yen	63,92 yen
Basic earnings (loss) per share	13.35 yen	△9.20 yen
Diluted earnings per share	12.14 yen	Diluted earnings per share are not presented since earnings per share were negative although potential shares exist.

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

	Previous fiscal year (As of March 31, 2023)	Current fiscal year (As of December 31, 2023)
Total net assets (Thousands of yen)	2,234,771	2,014,555
Amount deducted from the total net assets (Thousands of yen)	416,527	414,332
(Share acquisition rights (Thousands of yen))	(29,438)	(29,438)
(Non-controlling interests (Thousands of yen))	(387,088)	(384,894)
Amount of net assets related to common stock as of the end of the period (Thousands of yen)	1,818,244	1,600,223
Number of shares of common stock used in the calculation of net assets per share (Shares)	25,035,700	25,035,700

2. The basis for the calculation of earnings (loss) per share and diluted earnings per share is as follows:

	Previous fiscal year (April 1, 2022 to March 31, 2023)	Current fiscal year (April 1, 2023 to December 31, 2023)
(1) Basic earnings (loss) per share		
Profit (loss) attributable to owners of parent (Thousands of yen)	320,400	△230,422
Amount not attributable to common shareholders (Thousands of yen)	—	—
Profit (loss) related to common stock attributable to owners of parent (Thousands of yen)	320,400	△230,422
Average number of shares of common stock outstanding during the period (Shares)	24,004,594	25,035,700
(2) Diluted earnings per share		
Adjustment of profit attributable to owners of parent (Thousands of yen)	—	—
Increase in common stock (Shares)	2,395,725	—
(Share acquisition rights (Shares))	(2,395,725)	(—)
Potential shares not included in the calculation of diluted earnings per share as they have no dilutive effect	—	—

(Significant Subsequent Events)

(Underwriting of a third-party allotment of new shares of a consolidated subsidiary)

At the Board of Directors meeting held on January 31, 2024, the Company resolved to underwrite a third-party allotment of new shares to be conducted by its consolidated subsidiary, Treeful Inc. On the same day, the Company completed the payment and provision procedures. The summary of the transaction is as follows.

1. Overview of the transaction

(1) Name and business of the acquiree

Name of the acquiree: Treeful Inc.

Nature of its business: Treehouse resort business

(2) Business combination date

January 31, 2024 (the date of additional share acquisition)

(3) Legal form of the business combination

Acquisition of shares with cash consideration and loans receivable as in-kind consideration

(4) Name of the company after business combination

No change

(5) Other matters related to overview of the transaction

The Company determined that underwriting Treeful Inc.'s third-party allotment of new shares would lead to increasing the Group's corporate value by accelerating the building investment in treehouses and aero-houses and enhancing the collaborative relationship between the Group and Treehouse Inc. Therefore, the Company acquired an additional 15.7% of the shares of Treeful Inc., increasing its interests to 24.4%.

2. Overview of accounting treatment applied

The transaction is accounted for as a transaction with non-controlling shareholders in accordance with accounting treatment stipulated in the section "Transactions under common control and with non-controlling shareholders" in "Accounting Standard for Business Combinations" and related guidance in "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

3. Matters regarding additional acquisition of subsidiary shares

Acquisition cost of the acquiree and its breakdown by type of considerations

Consideration for acquisition	Cash and deposits	200,000 thousand yen
	Loans receivable (in-kind consideration)	199,999
Acquisition cost		400,000

4. Matters regarding the changes in the Company's interest related to the transaction with non-controlling shareholders

(1) Major reasons for changes in capital surplus

Additional acquisition of subsidiary shares

(2) Amount of capital surplus decreased by the transaction with non-controlling shareholders

266,992 thousand yen