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February 10, 2023

Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4777
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 Scheduled date to file quarterly securities report: February 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 nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2022	2,525	604.7	353	—	293	—	183	—
December 31, 2021	358	△37.3	△362	—	△292	—	△266	—

Note: Comprehensive income For the nine months ended December 31, 2022: ¥281 million [—%]
 For the nine months ended December 31, 2021: △¥310 million [—%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	7.75	7.00
December 31, 2021	△13.96	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2022	2,872	2,004	57.9	66.40
March 31, 2022	1,047	438	△2.8	△1.53

Reference: Equity
 As of December 31, 2022: ¥ 1,662 million
 As of March 31, 2022: △¥ 29 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	0.00	—	0.00	0.00
Fiscal year ending March 31, 2023	—	0.00	—		
Fiscal year ending March 31, 2023 (Forecast)				0.00	0.00

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

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

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

* **Notes**

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

Newly included: — companies (Company name)

Excluded: — companies (Company name)

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

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

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

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

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

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

As of December 31, 2022	25,035,700 shares
As of March 31, 2022	19,060,800 shares

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

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

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

Nine months ended December 31, 2022	23,667,141 shares
Nine months ended December 31, 2021	19,060,800 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

(Cautionary Statement Regarding Forward-Looking Statements)

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

(How to obtain supplementary information on quarterly financial results)

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

○Additional Information

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

As for the operating results of Gala Inc. (the "Company") and its consolidated subsidiaries (collectively, the "Group"), the Group's net sales for the nine-month period ended December 31, 2022 have significantly increased to 2,525,510 thousand yen (604.7% increase year-on-year).

The year-on-year sales increase was mainly due to the launch of "Flyff Universe", an HTML5 game. Cost of sales has increased due to increases in royalty fees paid in relation to the HTML5 game and channeling fees paid for the Online game business.

Selling, general and administrative expenses have increased year-on-year mainly due to increases in advertising expenses led by strengthened marketing activities for "Flyff Universe", value-added tax resulting from sales growth and software amortization expenses.

As a result, the Group achieved a positive operating profit, ordinary profit and a profit attributable to owners of parent, recording an operating profit of 353,609 thousand yen (operating loss of 362,885 thousand yen in the previous same period), an ordinary profit of 293,120 thousand yen (ordinary loss of 292,057 thousand yen in the previous same period), and a profit attributable to owners of parent of 183,481 thousand yen (loss attributable to owners of parent of 266,060 thousand yen in the previous same period).

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

1) Japan

In October 2021, the Japan segment started offering "Rappelz", a smartphone game app developed by Gala Lab Corp., a consolidated subsidiary of the Company, in the US and Canada. The segment is currently preparing for the renewal and global release of "Rappelz" as an NFT game/blockchain game (*1) by incorporating blockchain technology. In the NFT games/blockchain games, in-game items are "converted to NFT (*3)" by the blockchain (*2), a fundamental technology of crypto assets, and users can change the items obtained in the game to crypto assets that can be traded on an exchange or other markets. The segment will further enhance the appeal of games through these measures and focus on the monetization of the Smartphone app business. The start of the service is expected to be in the first quarter of the fiscal year ending March 2024 for re-release in Southeast Asia and the US, and the second quarter of the same fiscal year for release in the EU and Taiwan.

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

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

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

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

As a result, net sales of the Japan segment (including inter-segment transactions) increased by 4,240 thousand yen or 7.3% year-on-year to 62,003 thousand yen and the segment recorded a loss of 170,039 thousand yen (loss of 133,911 thousand yen in the previous same period).

2) Korea

The Korea segment started offering an HTML5 game "Flyff Universe" in Southeast Asia in May 2022 and in the global area in June 2022. HTML5 games are highly accessible games that enable users to play the games on various devices including PCs and smartphones without downloading. The cumulative number of registered users of the HTML5 game "Flyff Universe" has increased steadily since its service

release and achieved 1 million users on July 15, 2022, 1.5 million users on October 3, 2022, and 2 million users on December 28, 2022. Net sales have also increased steadily and the net sales for the nine-month period ended December 31, 2022 amounted to 1,963,631 thousand yen. The segment is currently developing an NFT game/blockchain game "Flyff Universe" which combines the element of the HTML5 game of "Flyff Universe" and the element of Play To Earn (P2E) (*4) using the blockchain technology, aiming at its release in the first quarter of the fiscal year ending March 2024.

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

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

As for the license deployment, Digeam Co., Ltd., a game service provider in Taiwan, has been offering services of "Rappelz Online" since July 2020 and "Flyff Online" since June 2021, which is multilingual service provision leveraging the Company's strong global network.

As another measure to increase revenue, the Group will focus on Blockchain-related business as a major business since its market scale is expected to expand in the future. Gala Lab Corp. signed a letter of intent in September 2022 and executed an agreement in December 2022 to establish a business alliance for the metaverse (*6) campus platform business (the "Meta Campus business") with LG Uplus Corp., a major Korean telecommunication company, and Megazone Corporation, one of the largest Korean digital IT companies. The Meta Campus business is positioned as a Blockchain-related business. It will develop and establish virtual campuses on metaverse platforms and provide the metaverse platforms to educational institutions including universities as a community space for students or a place of events such as information sessions for entrance examinations to the university. Operation of the business is allocated to each company and Gala Lab Corp. develops metaverse platforms, LG Uplus Corp. attracts schools and provides marketing, and Megazone Corporation provides infrastructures such as clouds.

In addition, the segment will proceed with the development of "Flyff World for Metaverse" and "Rappelz World for Metaverse" offered on the blockchain-based metaverse platform in accordance with the development agreement (the "Metaverse project") concluded in April 2021 among Gala Lab Corp., METABORA Co., Ltd. and Barunson Co., Ltd., a Korean entertainment company. In the Metaverse project, Barunson Co., Ltd. develops, offers and operates the metaverse platform that enables crypto assets "BORA" to be used in the metaverse and METABORA Co., Ltd. develops and supports the blockchain technology. Gala Lab Corp. is responsible for the development, content creation and service operation of the games offered on the metaverse platform, "Flyff World for Metaverse" and "Rappelz World for Metaverse", using the IP of PC online games "Flyff Online" and "Rappelz Online".

As for expenses, selling, general and administrative expenses have increased mainly due to increases in advertising expenses led by strengthened marketing activities for "Flyff Universe", value-added tax resulting from sales growth and software amortization expenses.

As a result, net sales of the Korea segment (including inter-segment transactions) increased by 2,189,168 thousand yen or 654.0% year-on-year to 2,523,924 thousand yen and the segment recorded a profit of 534,452 thousand yen (loss of 219,187 thousand yen in the previous same period).

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

Decentralized Finance).

- (*2) Blockchain is a method of synchronizing and recording data (such as transaction information) by combining cryptography and multiple computers comprising a distributed network. In this mechanism, transaction data during a certain period is gathered into a block unit and correct records are connected like chains and accumulated while validated among computers.
- (*3) NFT (Non-Fungible Token) is "digital data with an unforgeable certificate of authenticity or proof of ownership". As with crypto assets, it is digital data issued and traded on the blockchain.
- (*4) A blockchain game is called Play To Earn (P2E) if income and points obtained in the game can be changed to crypto assets and traded on an exchange or other market so that users can earn an income by playing the game.
- (*5) Channeling is a service that enables users to play online games and other games on the game portal site of other companies.
- (*6) Metaverse is a combination term derived from "meta" and "universe" and refers to a 3D virtual space structured on the Internet where massive users can join and act on their own. The users can explore the Metaverse world and communicate with other users by joining the virtual space via their own avatars. The users can also create their own games and monetize them by inviting other users to play the games or create a mechanism in which users can purchase and sell the in-game items as an NFT (*3) using crypto assets.

(2) Explanation of Financial Positions

The Group's net assets at the end of the current third quarter amounted to 2,004,892 thousand yen, an increase of 1,566,452 thousand yen from the end of the previous fiscal year.

Major fluctuations in assets were increases in cash and deposits by 1,518,400 thousand yen, accounts receivable - trade by 198,311 thousand yen, software by 164,680 thousand yen and a decrease in crypto assets by 111,205 thousand yen. Cash and deposits increased mainly due to cash receipt for a third-party allotment of new shares under the resolution of the Company's Board of Directors held on May 13, 2022 and cash receipt from the exercise of the 6th series of share acquisition rights. Accounts receivable - trade increased mainly due to the service release of the HTML5 game "Flyff Universe" and software increased by reacquisition of the right to the "Flyff Legacy" smartphone app. Crypto assets decreased by realization through sales and revaluation.

As for liabilities, accounts payable - other and long-term unearned revenue increased by 81,759 thousand yen and 95,042 thousand yen, respectively. Accounts payable - other increased mainly due to an increase in server costs and long-term unearned revenue increased mainly due to contract amounts arising from the channeling agreements of "Flyff Legacy", "Flyff Online" and "Rappelz Online".

As for net assets, capital stock and capital surplus each increased by 682,774 thousand yen and retained earnings increased by 183,481 thousand yen while share acquisition rights decreased by 80,589 thousand yen. Increases in capital stock and capital surplus were mainly due to a third-party allotment of new shares under the resolution of the Company's Board of Directors held on May 13, 2022 and the exercise of the 6th series of share acquisition rights. A decrease in share acquisition rights was mainly due to the exercise of the right.

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

In the Smartphone app business, it is extremely difficult for the Group to predict the possibility of delays in development and download delivery as well as income from app charges after the start of download delivery. In the Online game business, it is extremely difficult for the Group to forecast the financial results of the upgrade of existing titles. In 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 VR 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)

	FY2022 As of March 31, 2022	3 rd Quarter of FY2023 As of December 31, 2022
Assets		
Current assets		
Cash and deposits	288,934	1,807,334
Accounts receivable - trade	63,524	261,836
Inventories	1,954	2,897
Accounts receivable - other	6,882	4,873
Crypto assets	126,205	14,999
Prepaid expenses	3,546	6,032
Other	9,592	45,332
Allowance for doubtful accounts	△398	△300
Total current assets	500,241	2,143,005
Non-current assets		
Property, plant and equipment		
Buildings, net	152,211	175,629
Land	46,294	46,294
Other, net	45,463	45,162
Total property, plant and equipment	243,969	267,086
Intangible assets		
Goodwill	108,109	96,662
Software	10,190	174,871
Other	898	791
Total intangible assets	119,198	272,325
Investments and other assets		
Investment securities	279	243
Lease and guarantee deposits	10,271	10,678
Long-term prepaid expenses	173,698	179,077
Total investments and other assets	184,249	189,999
Total non-current assets	547,417	729,411
Total assets	1,047,658	2,872,417
Liabilities		
Current liabilities		
Accounts payable-trade	571	57
Current portion of long-term loans payable	—	9,600
Accounts payable - other	121,401	203,160
Accrued expenses	13,140	9,974
Advances received	43,827	30,717
Unearned revenue	—	69,999
Income taxes payable	2,140	2,551
Provision for reward	—	10,212
Provision for bonuses	1,814	1,185
Other	8,539	5,337
Total current liabilities	191,434	342,796
Non-current liabilities		
Long-term loans payable	48,000	33,600
Long-term unearned revenue	190,435	285,477
Deferred tax liabilities	85	74
Net defined benefit liability	179,263	205,576
Total non-current liabilities	417,783	524,728
Total liabilities	609,218	867,524

(Thousands of yen)

	FY2022 As of March 31, 2022	3 rd Quarter of FY2023 As of December 31, 2022
Net assets		
Shareholders' equity		
Capital stock	3,531,085	4,213,860
Capital surplus	2,176,690	2,859,465
Retained earnings	△5,211,361	△5,027,879
Total shareholders' equity	496,414	2,045,446
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	192	168
Foreign currency translation adjustment	△525,793	△383,299
Total accumulated other comprehensive income	△525,600	△383,131
Share acquisition rights	110,027	29,438
Non-controlling interests	357,597	313,139
Total net assets	438,439	2,004,892
Total liabilities and net assets	1,047,658	2,872,417

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

(Thousands of yen)

	Nine-month period ended December 31, 2021	Nine-month period ended December 31, 2022
Net sales	358,376	2,525,510
Cost of sales	100,832	847,758
Gross profit	257,543	1,677,752
Selling, general and administrative expenses	620,429	1,324,143
Operating profit (loss)	△362,885	353,609
Non-operating income		
Interest income	423	2,972
Gain on sales of crypto assets	39,447	—
Gain on valuation of crypto assets	20,458	—
Foreign exchange gains	9,297	2,764
Secondment fee income	—	4,913
Other	1,733	5,915
Total non-operating income	71,361	16,566
Non-operating expenses		
Interest expenses	112	107
Loss on sales of crypto assets	—	6,850
Loss on valuation of crypto assets	—	68,905
Other	421	1,190
Total non-operating expenses	533	77,054
Ordinary profit (loss)	△292,057	293,120
Extraordinary income		
Gain on reversal of share acquisition rights	2,129	2,270
Total extraordinary income	2,129	2,270
Extraordinary losses		
Loss on retirement of non-current assets	—	4,196
Total extraordinary losses	—	4,196
Profit (loss) before income taxes	△289,928	291,194
Income taxes - current	10,580	5,291
Total income taxes	10,580	5,291
Profit (loss)	△300,508	285,902
Profit (loss) attributable to non-controlling interests	△34,447	102,421
Profit (loss) attributable to owners of parent	△266,060	183,481

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

(Thousands of yen)

	Nine-month period ended December 31, 2021	Nine-month period ended December 31, 2022
Profit (loss)	△300,508	285,902
Other comprehensive income		
Valuation difference on available-for-sale securities	△95	△24
Foreign currency translation adjustment	△9,769	△4,385
Total other comprehensive income	△9,864	△4,410
Comprehensive income	△310,373	281,492
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	△275,950	325,950
Comprehensive income attributable to non-controlling interests	△34,422	△44,458

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

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

On May 30, 2022, the Company received payment for a third-party allotment of new shares from Megazone Cloud Corporation and Satoru Kikugawa. In addition, all of the 6th series of share acquisition rights and part of the 15th and 16th series of share acquisition rights were issued new shares upon the exercise of the rights. As a result, capital stock and capital surplus increased by 682,774 thousand yen and 682,774 thousand yen respectively during the nine-month period ended December 31, 2022, resulting in a total of 4,213,860 thousand yen in capital stock and 2,353,429 thousand yen in capital surplus as of the end of the current third quarter.

(Segment Information)

I For the Nine-month Period Ended December 31, 2021

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	—	217,417	217,417	—	217,417
Smartphone app business	10,340	63,603	73,944	—	73,944
Other business	30,006	37,008	67,014	—	67,014
Revenue from contracts with customers	40,346	318,029	358,376	—	358,376
Net sales to external customers	40,346	318,029	358,376	—	358,376
Intersegment net sales and transfer	17,416	16,726	34,142	△34,142	—
Total	57,762	334,755	392,518	△34,142	358,376
Segment loss	△133,911	△219,187	△353,098	△9,787	△362,885

(Note 1) Adjustment of segment loss of △9,787 thousand yen consists of the elimination of inter-segment transactions of 387 thousand yen and the amortization of goodwill of △10,175 thousand yen.

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

2. Information on Assets by Reportable Segment

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

As a result, the amount of assets in the "Japan" segment increased by 460,775 thousand yen in the nine-month period ended December 31, 2021 compared to the end of the previous fiscal year.

II For the Nine-month Period Ended December 31, 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	—	260,128	260,128	—	260,128
Smartphone app business	1,635	196,276	197,912	—	197,912
HTML5 game business	—	1,963,631	1,963,631	—	1,963,631
Meta Campus business	—	15,305	15,305	—	15,305
Other business	24,931	63,600	88,532	—	88,532
Revenue from contracts with customers	26,567	2,498,943	2,525,510	—	2,525,510
Net sales to external customers	26,567	2,498,943	2,525,510	—	2,525,510
Intersegment net sales and transfer	35,435	24,980	60,416	△60,416	—
Total	62,003	2,523,924	2,585,927	△60,416	2,525,510
Segment profit (loss)	△170,039	534,452	364,412	△10,803	353,609

(Note 1) The segment loss adjustment of △10,803 thousand yen consists of the elimination of intersegment transactions of 643 thousand yen and the amortization of goodwill of △11,446 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

In the 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 1,081,161 thousand yen and 738,949 thousand yen, respectively, in the nine-month period ended December 31, 2022 compared to the end of the previous fiscal year.