

Improvement Report

Jan.20.2025

To: Mr. Moriyuki Iwanaga
President & CEO
Tokyo Stock Exchange, Inc.

Gala Inc.
Hyunsu Kim, Group CEO

We hereby submit this Improvement Report, pursuant to Article 504, Paragraph 3 of the Securities Listing Regulations, with respect to the corrections to our past earnings reports (Summary of Financial Results) and quarterly earnings reports, as well as our Annual Securities Report and Quarterly Securities Reports, outlining the background and the measures for improvement.

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1. Background

As announced in the release dated September 9, 2024 titled “Notice of Receipt of Investigation Report from the Special Investigation Committee and Future Response”, Gala Inc. (hereinafter the “Company”) received the “Investigation Report” from the external investigation committee, and on November 12 of the same year, the Company corrected its past financial statements. The past financial statements that were corrected and the impact of such corrections on business performance are as follows:

(1) Details of Corrections to Past Financial Results

① Corrected Past Financial Reports

a. Annual Securities Reports

27th Fiscal Year (from April 1, 2019 to March 31, 2020)

28th Fiscal Year (from April 1, 2020 to March 31, 2021)

29th Fiscal Year (from April 1, 2021 to March 31, 2022)

30th Fiscal Year (from April 1, 2022 to March 31, 2023)

31st Fiscal Year (from April 1, 2023 to December 31, 2023)

b. Annual Securities Reports

29th Fiscal Year, 3rd Quarter (from October 1, 2021 to December 31, 2021)

30th Fiscal Year, 1st Quarter (from April 1, 2022 to June 30, 2022)

30th Fiscal Year, 2nd Quarter (from July 1, 2022 to September 30, 2022)

30th Fiscal Year, 3rd Quarter (from October 1, 2022 to December 31, 2022)

31st Fiscal Year, 1st Quarter (from April 1, 2023 to June 30, 2023)

31st Fiscal Year, 2nd Quarter (from July 1, 2023 to September 30, 2023)

32nd Fiscal Year, 1st Quarter (from January 1, 2024 to March 31, 2024)

c. Financial Results Summaries and Quarterly Financial Results Summaries Subject to Correction

Financial Results Summary for the Fiscal Year Ended December 31, 2023 (from April 1, 2023 to December 31, 2023)

Financial Results Summary for the First Quarter of the Fiscal Year Ending December 31, 2024 (from January 1, 2024 to March 31, 2024)

② Impact of Corrections to Past Financial Results

(Unit: million yen)

Period	Item	Consolidated			
		Before Correction (A)	After Correction (B)	Impact (B-A)	Before Correction (A)
26th Fiscal Year (Fiscal Year Ended March 31, 2019) (※)	Net Sales	854	854	—	—
	Operating Income	△250	△383	△132	△53.0%
	Ordinary Income	△250	△383	△132	△53.0%
	Net Income Attributable to Owners of Parent	△283	△415	△132	△47.0%
	Net Assets	195	△161	△357	△182.9%
	Total Assets	765	407	△357	△46.7%
27th Fiscal Year (Fiscal Year Ended March 31, 2020)	Net Sales	412	412	—	—
	Operating Income	△273	△395	△122	△44.7%
	Ordinary Income	△287	△410	△122	△42.5%
	Net Income Attributable to Owners of Parent	△432	△445	△13	△3.1%
	Net Assets	114	△224	△338	△296.8%
	Total Assets	719	381	△338	△47.0%

(Unit: million yen)

Period	Item	Consolidated			
		Before Correction (A)	After Correction (B)	Impact (B-A)	Before Correction (A)
28th Fiscal Year (Fiscal Year Ended March 31, 2021)	Net Sales	985	985	—	—
	Operating Income	26	146	120	457.3%
	Ordinary Income	93	213	120	128.8%
	Net Income Attributable to Owners of Parent	△131	217	348	265.8%
	Net Assets	303	303	—	—
	Total Assets	1,085	1,085	—	—
29th Fiscal Year (Fiscal Year Ended March 31, 2022), Third Quarter	Net Sales	358	358	—	—
	Operating Income	△362	△362	—	—
	Ordinary Income	△292	△292	—	—
	Net Income Attributable to Owners of Parent	△266	△266	—	—
	Net Assets	389	389	—	—
	Total Assets	1,163	1,163	—	—
29th Fiscal Year (Fiscal Year Ended March 31, 2022)	Net Sales	600	600	—	—
	Operating Income	△297	△297	—	—
	Ordinary Income	△220	△220	—	—
	Net Income Attributable to Owners of Parent	△186	△186	—	—
	Net Assets	438	438	—	—
	Total Assets	1,047	1,047	—	—
30th Fiscal Year (Fiscal Year Ended March 31, 2023), First Quarter	Net Sales	701	701	—	—
	Operating Income	136	136	—	—
	Ordinary Income	88	88	—	—
	Net Income Attributable to Owners of Parent	99	99	—	—
	Net Assets	1,792	1,792	—	—
	Total Assets	2,848	2,848	—	—
30th Fiscal Year (Fiscal Year Ended March 31, 2023), Second Quarter	Net Sales	1,810	1,810	—	—
	Operating Income	280	280	—	—
	Ordinary Income	263	263	—	—
	Net Income Attributable to Owners of Parent	172	183	10	5.9%
	Net Assets	1,968	1,968	—	—
	Total Assets	2,860	2,860	—	—

(Unit: million yen)

Period	Item	Consolidated			
		Before Correction (A)	After Correction (B)	Impact (B-A)	Before Correction (A)
30th Fiscal Year (Fiscal Year Ended March 31, 2023), Third Quarter	Net Sales	2,525	2,525	—	—
	Operating Income	353	353	—	—
	Ordinary Income	293	293	—	—
	Net Income Attributable to Owners of Parent	183	193	10	5.6%
	Net Assets	2,004	2,004	—	—
	Total Assets	2,872	2,872	—	—
30th Fiscal Year (Fiscal Year Ended March 31, 2023)	Net Sales	3,207	3,207	—	—
	Operating Income	437	437	—	—
	Ordinary Income	400	400	—	—
	Net Income Attributable to Owners of Parent	320	330	10	3.2%
	Net Assets	2,234	2,234	—	—
	Total Assets	3,023	3,023	—	—
31st Fiscal Year (Fiscal Year Ended December 31, 2023), First Quarter	Net Sales	545	545	—	—
	Operating Income	△10	△10	—	—
	Ordinary Income	9	9	—	—
	Net Income Attributable to Owners of Parent	1	1	—	—
	Net Assets	2,268	2,268	—	—
	Total Assets	3,085	3,085	—	—
31st Fiscal Year (Fiscal Year Ended December 31, 2023), Second Quarter	Net Sales	982	982	—	—
	Operating Income	△111	△111	—	—
	Ordinary Income	△78	△78	—	—
	Net Income Attributable to Owners of Parent	△71	△71	—	—
	Net Assets	2,225	2,225	—	—
	Total Assets	3,559	3,559	—	—
31st Fiscal Year (Fiscal Year Ended December 31, 2023)	Net Sales	1,497	1,497	—	—
	Operating Income	△296	△296	—	—
	Ordinary Income	△262	△262	—	—
	Net Income Attributable to Owners of Parent	△230	△230	—	—
	Net Assets	2,014	2,014	—	—
	Total Assets	3,355	3,355	—	—

(Unit: million yen)

Period	Item	Consolidated			
		Before Correction (A)	After Correction (B)	Impact (B-A)	Change Rate (%)
32nd Fiscal Year (Fiscal Year Ending December 31, 2024), First Quarter	Net Sales	505	505	—	—
	Operating Income	△130	△130	—	—
	Ordinary Income	△80	△80	—	—
	Net Income Attributable to Owners of Parent	△106	△106	—	—
	Net Assets	2,054	2,054	—	—
	Total Assets	3,384	3,384	—	—

(※) The corrections for the fiscal year ended March 31, 2019 (26th fiscal year) represent adjustments to comparative information contained in the corrected Annual Securities Report for the fiscal year ended March 31, 2020.

(2) Circumstances Leading to the Corrections of Past Financial Results

① Circumstances of Discovery

Between October 2023 and May 2024, the Company received indications from external parties regarding potential issues in its past consolidated financial statements, as follows:

- (1) With respect to the intangible fixed assets related to the development of the smartphone MMORPG application “X (Mobile Version),” for which capitalization began in the fiscal year ended March 2016 at Gala Lab Corp. (“Glab”), a consolidated subsidiary of the Company located in the Republic of Korea, there were doubts as to whether such capitalization was appropriate. Furthermore, concerns were raised that this inappropriate capitalization may have been strongly influenced by the intentions of the management of Gala at that time (hereinafter referred to as the “Suspicion regarding the capitalization of X (Mobile Version)”).
- (2) With respect to the smartphone MMORPG application “Y (Mobile Version),” which Glab developed and operated in-house, Glab transferred its license and operating rights in January 2021 to Company K for KRW 2,500 million, and subsequently re-acquired them in April 2022 for KRW 2,000 million. It was suspected that there may have been an agreement for re-acquisition from the outset of the transfer, raising concerns that the accounting treatment of this series of transactions was inappropriate (hereinafter referred to as the “Suspicion regarding the transfer and re-acquisition of Y (Mobile Version)”).

In light of these suspicions (collectively, the “Suspicion”), the Company determined on May 30, 2024 that it was necessary to conduct an independent and objective investigation by outside experts. Accordingly, the Company established a Special Investigation Committee and entrusted it with conducting an investigation into the Suspicion (the “Investigation”).

② Composition, Purpose, and Period of the Special Investigation Committee

a. Composition of the Special Investigation Committee

Chairman: Toraki Inoue (Certified Public Accountant, Accounting Advisory Corporation)

Member: Nanako Ito (Attorney-at-Law, Iwata Godo Law Office)

Member: Yuki Muto (Attorney-at-Law/Certified Public Accountant, Iwata Godo Law Office)

b. Purpose of the Investigation

The Special Investigation Committee was entrusted by the Company with the following purposes:

- Investigation of the facts relating to the Suspicion
- Investigation into whether similar issues exist beyond the Suspicion
- Calculation of the impact of the Suspicion (and similar issues, if any) on the consolidated financial statements
- Analysis of the causes of the Suspicion (and similar issues) and recommendations for recurrence prevention measures

- Any other matters deemed necessary by the Committee

c. Investigation Period

The Special Investigation Committee conducted the Investigation from May 30, 2024, the date of its establishment, through September 6, 2024. During this period, the Committee held a total of 23 meetings, in which discussions were carried out among the members and investigation staff.

(3) Overview of Inappropriate Accounting Treatment

As a result of the Investigation, the following inappropriate accounting treatments were identified:

Glab capitalized the costs associated with the development of “X (Mobile Version),” a smartphone MMORPG application, as software (intangible fixed assets) from the fiscal year ended March 2016 through the fiscal year ended March 2020, following the approval of development at Glab’s board of directors meeting held on December 17, 2015.

However, in commencing capitalization of “X (Mobile Version)” as internally developed software, it should have been necessary to examine not only ① whether the acquisition of future revenue was reasonably assured, but also ② whether such assurance could be objectively demonstrated. Despite the existence of a future revenue forecast for “X (Mobile Version)” submitted to Glab’s board of directors on December 17, 2015, there is no evidence that sufficient examination was conducted with respect to ① and ② at the time of capitalization. Accordingly, the requirements for capitalization of internally developed software—namely, objective proof that the acquisition of future revenue was assured—were not met. Therefore, the costs should not have been capitalized as internally developed software.

With respect to the suspicions regarding the transfer and re-acquisition of “Y (Mobile Version),” the Investigation Report concluded that the Company’s accounting treatment was not denied, and no correction was deemed necessary.

2. Improvement Measures

(1) Causes of Inappropriate Disclosure

The causes of inappropriate disclosure are considered to be as follows:

With respect to the accounting treatment of “X (Mobile Version),” the following background factors existed:

① The project was expected to incur significant development costs; ② Determining the appropriate timing for capitalization of game development costs requires a high degree of judgment based on the reliability of business plans. In particular, the “Accounting Standard for Research and Development Costs” was established in 1999 and, even in 2015, contained many aspects not aligned with the prevailing economic and technological environment. This situation required companies to make case-by-case judgments.

Despite the need for complex accounting judgments, the Group did not have an established accounting policy regarding the capitalization of game development costs. Furthermore, in the fiscal year ended March 2016, the Company’s finance organization faced a shortage: the head of finance resigned in March 2016, leaving the position vacant. As a result, preparation of consolidated trial balances and financial statements was outsourced to external providers, and accounting judgments under the relevant standards were not made proactively by management, including the CFO.

In such circumstances, management should have recognized the heightened risk of erroneous accounting judgments and considered strengthening the finance function, such as by hiring accounting professionals. The lack of sufficient understanding by management of critical accounting issues, and their insufficient awareness of compliance with accounting standards, is considered to be one of the reasons why inappropriate capitalization of “X (Mobile Version)” development costs was not prevented.

② Weaknesses in the Administrative Division

In the fiscal year ended March 2016, the Company’s administrative division consisted of one head of finance and one to two finance staff members. The head of finance was primarily responsible for consolidated reporting and disclosure, while finance staff mainly handled stand-alone financial reporting, including daily journal entries and closing entries.

At Glab, the finance function was limited to stand-alone reporting, as Glab did not prepare consolidated accounts, and the work was carried out by around three staff members. Thus, both the Company and Glab had only limited personnel in their finance functions. Moreover, the head of finance lacked expertise in the accounting standards relevant to the capitalization of game development costs, and followed the instructions of the audit firm without independently examining or judging the appropriateness of capitalization for “X (Mobile Version).”

Although Glab, as the business division, submitted business plans and budgets to its board of directors as evidence supporting the certainty of revenue acquisition at the time of capitalization, the Company’s finance division, lacking sufficient expertise and structure, was unable to verify through necessary discussions whether such business plans constituted objective proof of revenue certainty under accounting standards. This failure contributed to the inappropriate capitalization.

In summary, the Company's finance division did not have an adequately robust organization, either in terms of quality or quantity of resources. As a result, it was unable to conduct sufficient examination of accounting issues, establish clear accounting policies (e.g., position papers or accounting manuals), or maintain appropriate documentation (i.e., evidential support for the validity of capitalization). Therefore, the finance function was insufficient.

Furthermore, as noted under “⑤ Complexity Arising from the Coexistence of Multiple Accounting Standards,” the coexistence of multiple accounting standards is considered to have further complicated accounting audits and internal control audits.

With respect to internal control audits, in addition to the complexity caused by multiple standards, the Company—although listed on the Tokyo Stock Exchange—has its principal subsidiary, Glab, in Korea. Therefore, it is necessary to establish a framework ensuring proper coordination between the Company's administrative division in Japan and the finance division of its overseas subsidiary. However, at present, internal control assessments are conducted by only one internal auditor together with outsourced providers. Consequently, the Company must strengthen its internal framework, including by utilizing external experts with a deeper understanding of the Company's business and accounting operations.

③ Inadequate Management of Development Projects and Contractual Arrangements

In the course of development processes such as game production, the Company should have established internal rules defining criteria for accounting judgments after organizing the relevant accounting issues, and should have performed accounting treatment in accordance with such rules. However, no such internal rules existed.

Specifically, the timing of capitalization of internally developed software should be determined at the point when ①the acquisition of future revenue or the realization of cost savings is reasonably assured, and ②such assurance can be substantiated by appropriate evidential documentation. In practice, such criteria were not organized internally, and judgments were made on a case-by-case basis by finance personnel. Moreover, in the case of capitalization of “X (Mobile Version),” this judgment process itself was not appropriately implemented. Development proceeded without a finalized deliverable or sales plan, with significant uncertainties remaining, and there is no evidence that sufficient discussion took place regarding the budgets and future business plans that were presented.

In addition, monitoring of development status—including planning, budgeting, deliverables, and cost progress—was not adequately performed in a timely manner. Consequently, there is no evidence that sufficient discussion was held regarding the aggregation of actual development costs, confirmation of overruns, or revisions to future business plans in line with changes in development content.

With respect to contractual arrangements, the Special Investigation Committee pointed out deficiencies in organization, which are considered to be one of the causes of this matter. In relation to “Y (Mobile Version),” which Glab developed and operated in-house, Glab transferred the license and operating rights for ¥227,500 thousand to a business partner in January 2021, and subsequently re-acquired them in April 2022 for ¥208,000 thousand. According to the termination agreement dated April 1, 2022, all rights to “Y (Mobile Version)” (including secondary work rights) were to be transferred back to Glab as of March 31, 2022. However, based on an oral agreement that the transfer would take effect on April 1, the transaction was accounted for as a repurchase on April 1 and capitalized as software. While the Special Investigation Committee's report did not deny the accounting treatment itself, it pointed out that no memorandum or similar document amending the termination agreement existed.

Whereas the Company's contracts are, in principle, subject to legal review by outside counsel, Glab did not have external legal counsel, and contract reviews were therefore not appropriately performed. This lack of legal review is considered to be one of the causes of the matter.

④ Insufficient Monitoring Function by Directors

With respect to the capitalization of “X (Mobile Version),” in the fiscal year ended March 2016, the head of finance was not a director, and no discussion or monitoring regarding accounting issues was conducted at the Board of Directors.

Furthermore, after the head of finance consulted the audit firm on the accounting treatment in November 2015, capitalization of “X (Mobile Version)” was not treated as a significant accounting issue in subsequent discussions between the Company and the audit firm. No records exist of discussions between the head of finance and the then-representative director regarding the appropriateness of capitalization. As a result, the matter was not raised as an agenda item of the Board of Directors, and other directors were not aware that the appropriateness of capitalization of “X (Mobile Version)” constituted a significant accounting issue in the fiscal year ended March 2016. This lack of recognition is considered to be the reason why the matter was neither discussed nor monitored at the Board of Directors.

⑤ Complexity Arising from the Coexistence of Multiple Accounting Standards

Within the Group, multiple accounting standards have been applied: the Company and its domestic subsidiaries adopted Japanese GAAP, while overseas subsidiaries applied IFRS and the Practical Solution on Accounting for Certain Subsidiaries and Affiliates (Practical Solution No. 18) in preparing consolidated financial statements. The coexistence of multiple accounting standards within the Group is considered to have been one factor that further complicated accounting judgments.

(2) Improvement Measures to Prevent Recurrence (Including Those Already Implemented)

The improvement measures to prevent recurrence are as follows. Overall progress will be managed by Representative Director & CEO Hyunsu Kim and the CFO. Concretely, implementation units will report on a regular basis; the CFO and CEO will confirm progress in one-on-one meetings, and progress reports will also be made at the Group Strategy Meeting.

① Strengthening Management’s Awareness of Compliance with Accounting Standards (Corresponding to 2(1)①)

• Deliberation on Significant Accounting Matters at the Board of Directors

We will establish a process whereby directors themselves deepen their understanding of significant accounting issues and make decisions only after sufficient deliberation. Concretely, significant accounting matters (e.g., recognition of material impairment losses, recoverability of deferred tax assets) will be reported to the Board of Directors, and board materials will clearly describe “issue overview, applicable accounting standards, application/analysis, and conclusion,” enabling even non-specialist directors to understand them. These materials will be prepared primarily by the CFO (a Certified Public Accountant). In preparing them, the CFO will consult the audit firm and, as necessary, obtain reviews from external accounting experts to ensure accuracy.

Responsible division: Board of Directors (overall coordination by CEO Hyunsu Kim; operational management by the CFO)

Schedule: In December 2024, we amended the Board of Directors Regulations and established a reporting process for significant accounting matters. Beginning with the February 2025 board meeting, we plan to conduct full deliberations on significant accounting matters. Internal rules are stored on the Company portal and in folders accessible to employees and have been communicated internally.

• Budgeting for Adequate Staffing in the Finance Function

Management recognizes the importance of complying with accounting standards and that building an adequately staffed finance function and utilizing external professional resources entail costs. We have budgeted the funds necessary to establish appropriate staffing.

Responsible division: Administrative Division (Head Office)

Schedule: The FY2025 (year ending December 31, 2025) budget was approved at the December 2024 Board meeting.

• Management Discussions

Management discussions (meetings of the CEO/CFO with the audit firm), previously held about twice a year (at audit planning and year-end), will be held quarterly to ensure sufficient exchange of views on the importance of compliance with accounting standards and on the finance organization.

Responsible division: Administrative Division (Head Office)

Schedule: Implemented starting with the interim review of the third quarter of FY2024, including discussions on management’s awareness of compliance and the status of establishing the Group’s administrative/finance framework.

• Training on External Accounting Case Studies

As part of Compliance Committee training, the CFO will share with management the significant accounting issues relevant to the Company from the Securities and Exchange Surveillance Commission’s annual “Casebook of

Disclosure Inspection Findings,” to deepen awareness of the importance of compliance with accounting standards. To confirm the effect, a post-training questionnaire will be administered promptly.

Responsible division: Administrative Division (Head Office)

Schedule: Implement from the March 2025 compliance training and conduct annually thereafter.

② Strengthening the Administrative Division (Corresponding to 2(1)②)

- Formulation of Internal Rules on Capitalization of Internally Developed Software

In December 2024, with the support of two external CPAs, we prepared internal rules (an Accounting Policy Manual) covering:

Capitalization rules for game and similar development (reflecting IFRS requirements, Japanese GAAP requirements for internally used software, and Practical Solution No. 18 on accounting for overseas subsidiaries in consolidation), and

Accounting policies for recognizing research and development costs (defining the scope under Japanese GAAP). Audit Corporation Ks Lab. has confirmed the appropriateness of these rules. Going forward, accounting treatment will comply with these rules.

The capitalization rules for game and similar development apply to the following development activities:

- Game development by Glab
- Metaverse development by Glab
- App development by Gala Mix Inc.
- New technology development by ROAD101 Co., Ltd.

Group accounting policy for capitalization in game development: Capitalization is permitted only for additional development after CBT (Closed Beta Test) when monetization is deemed reasonably assured based on external evidence, such as results of pre-release test marketing. Specifically, a CBT Evaluation Meeting will be held—attended by the Representative Director, Head of Development, and relevant development staff—to evaluate CBT results (e.g., forecast vs. actual values for key metrics such as retention). If, based on external evidence (e.g., test-marketing results), the acquisition of future revenue is deemed reasonably assured, additional development from post-CBT to release will be capitalized.

Because applicable metrics vary by project and setting uniform numerical thresholds (e.g., required levels, acceptable variance vs. forecasts) is impracticable, no fixed numerical thresholds are established. However, the development lead will set project-specific evaluation metrics based on past experience, and, as a rule, where actual results meet or exceed forecast levels and the business plan is deemed feasible such that release is justified, future revenue will be considered reasonably assured. Minutes of the CBT Evaluation Meeting will be compiled by Glab’s administrative division (serving as secretariat) and kept as accounting evidence; their appropriateness will be assured through reviews by BDO Sunghyun LLC (Glab’s auditor) and Audit Corporation Ks Lab. (the Company’s accounting auditor).

Beyond the above, we will document applications of accounting standards as necessary.

Responsible divisions: Administrative Division (Head Office) and Glab Administrative Division

Schedule: The Accounting Policy Manual was prepared in December 2024 and its appropriateness confirmed by Audit Corporation Ks Lab. Operations under these rules will commence with the FY2024 year-end closing. A Korean-language version has been prepared and stored on the Company and subsidiaries’ portals and in folders accessible to employees for dissemination.

- Strengthening the Head Office Administrative Division

The current organization consists of the CFO, one consolidation/disclosure staff member, one accounting staff member, and one HR staff member (total four). In addition, we have entered into advisory agreements with two external CPAs to utilize external resources for finance and corporate/financial strategy support.

Scope of advisory services:

- Accounting support services
- Internal control audit support (including J-SOX readiness)
- Tax advisory services
- Other services necessary for execution of CFO duties

Concretely, external CPAs will review internally prepared materials on accounting issues, the consolidated trial balance, accounting support/evidence documents, and disclosure materials. While preparation and approval of

accounting documents are segregated internally, certain materials (e.g., impairment analysis) were prepared by the CFO; going forward, external CPA review under the advisory agreements will further ensure accuracy and appropriateness. External advisors will attend the weekly Group Strategy Meeting and CEO-CFO one-on-one, share business updates, and coordinate by meetings/email during each closing. For updates to accounting standards, the finance team will hold study sessions; where internal rules must be revised, position papers will be prepared internally and reviewed by external advisors to ensure accuracy.

We chose to leverage external resources rather than immediately hire additional staff to shorten lead time and rapidly strengthen the Group's administrative function. With two CPAs reviewing the above materials, we consider the finance function to be sufficient in quality and quantity.

Responsible division: Administrative Division (Head Office)

Schedule: Advisory agreements were executed in December 2024.

• **Strengthening the Administrative Division at Glab**

In addition to Glab's current staffing (one head of finance and two accounting staff), Glab has hired one practitioner with IFRS experience so that IFRS applications can be evaluated independently. Furthermore, Glab's four administrative personnel will be transferred to the Company's Korea Branch, establishing an integrated framework to manage subsidiary accounting and administrative operations. The Korea Branch administrative division will handle accounting/HR for the Group companies in Korea and for the Korea Branch itself. The Head Office Administrative Division and the Korea Branch Administrative Division will hold weekly meetings to ensure close coordination. This will strengthen collaboration between the Head Office and overseas subsidiary administrative divisions and establish a robust framework for coordination with overseas subsidiaries.

Responsible division: Glab Administrative Division

Schedule: A practitioner with IFRS experience (with experience at multiple listed companies in Korea) was hired in January 2025. The transfer of Glab administrative personnel to the Korea Branch is planned for April 2025.

- Internal Audit (J-SOX)

Internal audit (J-SOX) will be conducted by a three-person structure consisting of one internal auditor (current Internal Audit Office staff) and two external Certified Public Accountants engaged under advisory agreements.
Responsible division: Internal Audit Office

Schedule: Advisory agreements were executed for the fiscal year ended December 31, 2024. From January 2025, internal audit (J-SOX) will be conducted by the three-person team including the two external advisors. J-SOX evaluation procedures will be performed by the Company's internal auditor, with support and review by the external advisors. Because the two external CPAs attend the weekly Group Strategy Meeting and CEO–CFO one-on-one meetings and support the Company's accounting operations broadly, they gain a deeper understanding of the Company's business and finance processes; accordingly, they are expected to provide more effective support for internal controls (J-SOX).

Further, with respect to the implementation status of the recurrence prevention measures, the following items will be added as company-level controls within the financial reporting process, and audits are scheduled to be conducted by March 2025:

- ① Strengthening management's awareness of compliance with accounting standards
- ② Strengthening the administrative division
- ③ Strengthening management of development projects and organization of contractual arrangements
- ④ Strengthening the monitoring function by directors

- Implementation of In-House Study Sessions

The Group Management Division (Consolidation Team) will hold training sessions in person or via online meetings. The CFO will share with accounting staff updates on consolidation and disclosure requirements. Specific topics include matters related to consolidated closing (understanding the mechanics of consolidation entries such as eliminations of investments and equity), and disclosure matters (understanding quarterly and annual accounting considerations, and new accounting standards to be applied). Records of these sessions will be retained as evidence under J-SOX entity-level controls so that they can be assessed under J-SOX/internal audit. Staff proficiency will be confirmed through OJT.

Responsible division: Administrative Division (Head Office)

Schedule: Commencing November 2024 and held four times per year (once every three months).

- ③ Strengthening Management of Development Projects and Organization of Contractual Arrangements
(Corresponding to 2(1)③)

- Establishment of Internal Rules for Managing Development Projects

We have established internal rules that define decision criteria—after organizing accounting issues required in development processes such as game production—covering the business flow from planning and development through sales (e.g., which milestones, what matters, which governance body and responsible person, and what evidential documents are required for deliberation and approval). Two external advisors (CPAs) with specialized expertise were engaged in formulating these internal rules.

Key elements of the project management rules are as follows:

- Clarification of requirements at each stage of the development process:

The process is divided into stages, with requirements defined for each. Principal items include:

- Project initiation: Define primary target users, target regions and languages, prepare development period and detailed budget, obtain board approval, and record minutes
- Alpha development: Proceed with development of required items in accordance with the plan. If the development period or budget changes, obtain board approval for the changes.
- CBT (Closed Beta Test): Conduct tests in limited regions and with selected users for short-term play, collect logs and user survey results to assess service status, then hold a CBT Evaluation Meeting based on CBT results (forecast vs. actual values for key metrics such as retention). Record minutes of the CBT Evaluation Meeting.

- Clarification of the approval body for project initiation:

Project initiation requires approval by the Board of Directors.

- Codification that accounting treatment follows the Accounting Policy Manual:

It is expressly stipulated that accounting shall follow internal rules on capitalization of internally used software and on the scope of research and development costs.

Responsible division: Administrative Division (Head Office)

Schedule: Using external experts, the internal rules for development projects were formulated in December 2024. A Korean-language version has been prepared and stored on subsidiary portals and in folders accessible to employees; dissemination and enforcement are underway.

- Formulation of Budget vs. Actual Comparison and Monitoring Rules for Projects

We have established rules for variance analysis of project budgets versus actuals, understanding total project costs, and procedures when a project is extended or when total project costs exceed the initial budget. If a project is extended, the responsible subsidiary's CEO (as project owner) must report to the Board of Directors on project status (including reasons for extension and comparison of budget vs. total costs). If total project costs exceed the initial budget, the responsible subsidiary's CEO must review the budget and then explain to the Board whether to continue or terminate the project, and obtain Board approval.

Currently, budget-actual variances are reported weekly at the Group Strategy Meeting attended by the Group CEO, each company's CEO, and the CFO; when significant variances arise, their causes are confirmed. In addition, as of December 2024, each company's administrative division will conduct annual budget-actual analyses by project, and where significant variances occur, the respective CEO will report the reasons to the Board, thereby enhancing monitoring. These procedures will ensure that revisions to business plans reflecting changes in development content are appropriately deliberated by the Board.

Responsible divisions: Administrative Division (Head Office) and Glab Administrative Division

Schedule: The Board Regulations and Budget Management Regulations were amended in December 2024, and variance analysis for the FY2024 budget versus results (estimates) was performed at the December 2024 Board meeting. Internal rules have been stored on the Company portal and in employee-accessible folders and communicated thoroughly.

- Legal Review of Material Contracts and Management/Tracking of Contract Status

At the parent company, we will continue managing contracts via a contract ledger and maintaining legal reviews by outside counsel. At Glab, the administrative division will appropriately identify and manage contract status—regardless of materiality—by enforcing proper approval processes and proper retention through a contract management ledger. Additionally, for complex transactions or new-business transactions where legal views are needed for material contracts, in addition to legal review by the Company's outside counsel, Glab will consider entering into an advisory agreement with outside counsel or, as needed, engage external attorneys to review individual contracts.

We will also establish an internal rule to set up a framework and process for considering material contracts (legal and accounting) and to document the results. As necessary, external experts (attorneys, CPAs, and tax accountants) will be engaged to organize legal, accounting, and tax issues related to material contracts, and to prepare legal memoranda and position papers. The responsible director or the CFO will present these to the Board, and the responsible director or CFO will also explain them to external parties such as the audit firm.

Concretely, the Head Office Administrative Division will coordinate with each company's administrative division to determine the need for legal memoranda and position papers and, as necessary, request external experts (attorneys/CPAs/tax accountants) to prepare materials on accounting/tax issues. If the matter constitutes a significant accounting issue, it will be reported to the Board for monitoring. For material contracts requiring Board approval/reporting, the Head Office Administrative Division will, as needed, obtain subsidiary contracts to ascertain contract status. For subsidiaries other than Glab, domestic subsidiaries will obtain legal reviews from the Company's outside counsel as necessary, and overseas subsidiaries will obtain reviews from external counsel as necessary.

While no quantitative threshold is set for engaging external experts in reviewing material subsidiary contracts, the primary scope envisaged includes matters requiring the parent company's prior approval among subsidiary board resolution items, where legal views are needed due to complex transactions or new-business transactions.

Responsible divisions: Administrative Division (Head Office) and Glab Administrative Division

Schedule: Selection of outside counsel or a law firm for Glab will be conducted in January 2025. Related internal rules will be established in January 2025 and stored on the Company and subsidiary portals and in employee-accessible folders for thorough dissemination. Tracking/management of contract status for material contracts will commence in February 2025.

④ Strengthening the Monitoring Function by Directors (Corresponding to 2(1)④)

- Establishing Regulations for Deliberation/Monitoring of Significant Accounting Matters

At Board meetings for quarterly and year-end approvals of financial statements, the Chair (Group CEO Hyunsoo Kim) presents supplemental materials explaining the financial results to share the contents. In the Group Strategy Meeting, the CFO also reports, as appropriate, on significant accounting matters such as recognition of significant impairment losses.

However, since the Board Regulations did not designate significant accounting matters (e.g., recognition of significant impairment losses, recoverability of deferred tax assets) as resolution or reporting items, sufficient deliberation might not occur. Therefore, in December 2024, we amended the Board Regulations to designate significant accounting matters as reporting items. In line with this amendment, at Board meetings for approval of financial results, we will conduct full deliberations on significant accounting matters so that other directors can effectively perform monitoring functions. J-SOX/internal audit will also add this monitoring as a company-level control within the financial reporting process and assess its operation.

By ensuring that significant accounting matters are deliberated at the Board, we aim to enable monitoring by other directors—reflecting on the fact that the matter at issue was not even recognized as a significant accounting matter or brought to the Board at the time. Through ongoing Board deliberations, we intend to raise directors' awareness regarding compliance with accounting standards.

Responsible division: Board of Directors (overall coordination by CEO Hyunsoo Kim; explanations on significant accounting matters by the CFO)

Schedule: In December 2024, the Board Regulations were amended to establish the process of reporting significant accounting matters. Sufficient deliberation on significant accounting matters related to the FY2024 financial statements will be conducted by the February 2025 Board meeting and evaluated thereafter. Internal rules have been stored on the Company portal and in employee-accessible folders and have been thoroughly communicated.

⑤ Unification of Applicable Accounting Standards (Corresponding to 2(1)⑤)

• Consideration of Voluntary Adoption of IFRS

Given that the Company's principal subsidiary Glab and its IFRS parent Megazone Cloud Corporation are Korean companies, it is necessary to strengthen the Company's administrative function in Japan and establish a robust framework for coordination with overseas subsidiaries' administrative divisions. By unifying the Group's accounting standards under IFRS, we aim to eliminate complexity arising from multiple coexisting standards and improve efficiency in accounting and audit by adopting the same framework as Megazone Cloud Corporation. We will therefore consider voluntary adoption of IFRS with the goal of applying IFRS from the fiscal year ending December 31, 2026.

Responsible divisions: Administrative Division (Head Office) and Glab Administrative Division

Schedule: We will consider voluntary adoption of IFRS through December 2025, targeting application from the fiscal year ending December 31, 2026.

• Monitoring the Appropriateness of Accounting Treatment at Glab

For significant IFRS accounting matters (envisioned to include novel transaction structures, large transactions, and transactions with heightened risk), we will consult with CPAs in the administrative division of Megazone Cloud Corporation, an other affiliated company of the Company. Because Megazone Cloud Corporation applies IFRS and is the Company's parent under IFRS, it is necessary to adopt consistent accounting policies on significant IFRS matters; the outcome also affects Megazone's consolidated closing.

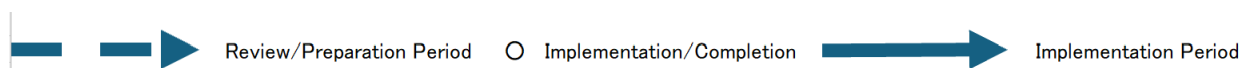
In practice, agenda information on accounting matters will be shared in weekly meetings among the Head Office Administrative Division, Glab Administrative Division, and Megazone Cloud Corporation Administrative Division. Where a matter is recognized as a significant accounting issue, the Company's CFO and Megazone Cloud Corporation's Head of Finance (a CPA) will confer on matters requiring accounting analysis. Minutes of the weekly meetings will be shared with Group CEO Hyunsoo Kim and the Director/CFO of Megazone Cloud Corporation.

Responsible divisions: Administrative Division (Head Office) and Glab Administrative Division

Schedule: Weekly meetings have been held since October 2024.

(3) Implementation Schedule for Improvement Measures

Recurrence Prevention Measures	2024				2025					
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
① Strengthening Management's Awareness of Compliance with Accounting Standards										
• Deliberation on significant accounting matters at the Board of Directors	■	■	■	➡	○	■	■	■	■	■
• Budgeting for adequate staffing in the Finance Division	■	■	➡	○	■	■	■	■	■	■
• Management discussions	■	➡	○	■	■	■	■	■	■	■
• Training sessions on external accounting case studies	■	■	■	■	➡	○	■	■	■	■
② Strengthening the Administrative Division										
• Formulation of internal rules for capitalization of internally developed software	■	■	➡	○	■	■	■	■	■	■
• Strengthening of the administrative division at the Company	■	■	➡	○	■	■	■	■	■	■
• Strengthening of the administrative division at Glab	■	■	➡	○	■	■	■	■	■	■
• Internal audit (J-SOX)	■	■	➡	○	■	■	■	■	■	■
• Implementation of in-house study sessions	■	■	➡	○	■	■	■	■	■	■
③ Strengthening Management of Development Projects and Organization of Contractual Relationships										
• Establishment of internal rules for managing development projects	■	■	➡	○	■	■	■	■	■	■
• Formulation of rules for monitoring and comparing project budgets against actual results	■	■	➡	○	■	■	■	■	■	■
• Legal review of important contracts and monitoring/management of contract status	■	■	■	➡	○	■	■	■	■	■
④ Strengthening Monitoring Functions by Directors										
• Establishment of rules to enable deliberation and monitoring of significant accounting matters	■	■	➡	○	■	■	■	■	■	■
⑤ Unification of Applicable Accounting Standards										
• Examination of voluntary adoption of IFRS	■	■	■	■	■	■	■	■	■	➡
• Monitoring the appropriateness of accounting treatment at Glab	■	○	■	■	■	■	■	■	■	■



3. Recognition of the Impact of Inappropriate Disclosure on Investors and the Securities Market

We sincerely apologize to our shareholders, investors, and all other stakeholders for the significant inconvenience and concern caused by the inappropriate accounting treatments that necessitated corrections to our past financial statements.

The Company will faithfully implement the recurrence prevention measures announced in the “Notice Regarding the Formulation of Recurrence Prevention Measures” dated October 30, 2024, as well as those set forth in this report, and will devote its utmost efforts to restoring trust. We respectfully ask for your understanding.

End.