

Improvement Report

Jul.23.2025

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

Gala Inc.
Hyunsu Kim, Group CEO

In accordance with the provisions of Article 505, Paragraph 1 of the Securities Listing Regulations, we hereby submit this Report on the Status of Improvement Measures, describing the implementation and operational status of the improvement measures stated in the *Report on Improvement Measures* submitted on January 20, 2025.

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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 statements

① Corrected financial results summaries and 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)

First quarter financial results summary for the fiscal year ended 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)	Change Rate (%)
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)	Change Rate (%)
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)	Change Rate (%)
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.

(4) Causes of inappropriate disclosure

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

① Insufficient awareness by management regarding compliance with accounting standards

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

①The project was expected to incur significant development costs; ②Determining 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 and the status of their implementation and operation

(1) Improvement measures to prevent recurrence

【Improvement measures described in the previous Report on Improvement Measures】

The improvement measures to prevent recurrence are as follows. The overall progress management of these measures is being conducted by the Representative Director and CEO, Mr. Hyunsu Kim, and the CFO. Specifically, the progress of implementation is reported periodically by the responsible departments, reviewed during meetings between the CFO and CEO, and further reported at the Group Strategy Meeting.
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【Status of implementation and operation】

To prevent recurrence, the Company has formulated and implemented the following improvement measures and progress management processes. The progress of these measures has been reported to the CFO by the responsible departments, including the Administration Department of the Company and the Administration Department of Gala Lab (Glab), each time a measure has been implemented. The CFO and CEO have confirmed such progress during their meetings, and the results have been reported at the Group Strategy Meeting.

In addition, the minutes of these meetings have been shared with the Audit and Supervisory Board Members and Outside Directors to ensure transparency.

Going forward, the Company will continue to monitor the progress of these improvement measures on a quarterly basis at the Group Strategy Meeting.

Date	Meeting Body	Agenda / Discussion Items
October 15, 2024	CEO-CFO MTG	Confirmation of the approach and schedule for formulating improvement measures to prevent recurrence
October 21, 2024	CEO-CFO MTG	Analysis of executive survey results related to improvement measures
October 21, 2024	Group Strategy Meeting	Confirmation of the approach for formulating improvement measures
October 23, 2024	Board of Directors	Discussion on improvement measures to prevent recurrence
October 30, 2024	Board of Directors	Resolution on improvement measures to prevent recurrence
December 2, 2024	CEO-CFO MTG	Review of draft revisions to internal regulations (Board of Directors Rules, Budget Management Rules) and confirmation of progress
December 9, 2024	CEO-CFO MTG	Review of draft revisions to internal regulations (Board of Directors Rules, Budget Management Rules) and draft rules related to improvement measures (Accounting Policy for Game Development and R&D Costs, Development Process Management Rules); confirmation of progress
December 16, 2024	CEO-CFO MTG	Review of draft regulations and confirmation of progress
December 18, 2024	Board of Directors	Discussion on draft revision to the Board of Directors Rules; resolution on draft revision to the Budget Management Rules
December 24, 2024	Board of Directors	Resolution on draft revision to the Board of Directors Rules
January 20, 2025	Group Strategy Meeting	Sharing of the contents of the Report on Improvement Measures
January 28, 2025	CEO-CFO MTG	Review of draft rules related to contract management
February 3, 2025	CEO-CFO MTG	Dissemination of the rules related to contract management
February 17, 2025	CEO-CFO MTG	Confirmation of progress status of improvement measures
May 12, 2025	CEO-CFO MTG	Confirmation of progress status of improvement measures
May 19, 2025	CEO-CFO MTG	Confirmation of progress status of improvement measures
May 19, 2025	Group Strategy Meeting	Report on progress status of improvement measures
July 7, 2025	CEO-CFO MTG	Review of the draft of the Report on the Status of Improvement Measures

- ① Strengthening management's awareness of compliance with accounting standards (Corresponding to 1(4)①)

【Improvement measures described in the previous report on improvement measures】

• Discussion of significant accounting issues at the Board of Directors meetings

A process has been established whereby directors themselves can deepen their understanding of significant accounting issues, conduct sufficient discussion, and make decisions based on such discussions. Specifically, to promote a deeper understanding of significant accounting issues—such as the recognition of major impairment losses and the recoverability of deferred tax assets—these topics are reported to the Board of Directors. The materials distributed at the meetings clearly describe “an overview of the issue, the applicable accounting standards, application to the Company, and the conclusion,” in order to ensure that even non-accounting specialists among the directors can fully understand the content.

These materials are primarily prepared by the CFO, who is a certified public accountant, and their accuracy is ensured through consultation with the audit firm and, when necessary, review by external accounting experts.

(Responsible Department)

Board of Directors

Overall coordination is handled by Representative Director and CEO, Mr. Hyunsu Kim, while the CFO is responsible for operational management.

(Schedule)

At the Board of Directors meeting held in December 2024, the Board of Directors Rules were revised, establishing a process for reporting significant accounting issues. From the Board meeting in February 2025 onward, sufficient discussion on significant accounting matters is scheduled to be conducted.

In addition, the relevant internal regulations have been uploaded to the Company's portal site and stored in a shared internal folder accessible to all employees.

【Status of implementation and operation】

(Revision of the Board of Directors rules)

At the Board of Directors meeting held on December 24, 2024, the Board of Directors Rules were revised to include items related to significant accounting issues as matters to be reported to the Board.

Specifically, the following items were added to enhance management's awareness of compliance with accounting standards and to enable even non-accounting specialists among directors to better understand significant accounting topics. The meeting materials for these items now clearly present “an overview of the issue, the accounting standards, application to the Company, and the conclusion.”

- a. Changes in the scope of consolidation (subsidiaries and associates)
- b. Changes in significant accounting policies
- c. Application of new revenue recognition standards for new business models (material items only)
- d. Significant accounting estimates
- e. Results of impairment loss assessments on material fixed assets
- f. Results of assessments on the recoverability of significant deferred tax assets
- g. Capitalization of internally developed software
- h. Accounting issues applicable to new business models
- i. Other significant accounting matters (primarily those disclosed as major items in the consolidated financial statements and notes in the Annual Securities Report)

The above items were selected as significant accounting issues likely to be included in the consolidated financial statements and related notes in the Annual Securities Report.

The revised rules have been uploaded to the Company's internal portal and stored in the shared internal regulations folder accessible to employees.

(Discussion of significant accounting issues at the Board of Directors)

At the Board of Directors meeting held on February 14, 2025, a report was presented regarding a significant accounting issue for the fiscal year ended December 31, 2024 — the recognition of goodwill impairment losses for two consolidated subsidiaries.

Prior to the meeting, the CFO and the Company's advisors (refer to “2(1)② Strengthening Administrative Departments – Strengthening the Administrative Department Structure of the Company”) discussed this matter with

the audit firm and reached agreement regarding the recognition of the goodwill impairment loss. Subsequently, the CFO prepared the Board materials, which were reviewed by the Company's advisors to ensure accuracy, and reported the issue at the Board meeting.

During the meeting, the CFO carefully explained the following:

(Overview of the issue)

For two consolidated subsidiaries, the actual results for the fiscal year ended December 31, 2024 significantly deviated from the budget, and in estimating future cash flows, adjustments to the business plan approved by the Board were required, resulting in the recognition of goodwill impairment losses.

(Applicable accounting standard)

Future cash flows are to be estimated based on figures underlying medium- to long-term plans approved by the Board of Directors, with appropriate adjustments made to reflect consistency with both external factors and internal information, while considering current usage and rational operating plans of each asset or asset group.

(Application to the Company)

Future cash flows involving high uncertainty were adjusted based on actual historical performance ratios to ensure reasonableness, and because the total discounted future cash flows for the asset group, including goodwill, fell below its carrying amount, a goodwill impairment loss was recognized.

Through this revision of the Board of Directors Rules, the Company has institutionalized the process of bringing significant accounting issues to the Board for discussion.

This enables management to deepen its understanding of accounting treatments and allows each director to exercise monitoring functions to ensure that accounting practices are appropriate.

The Company will continue to maintain a structure that allows directors to deepen their understanding of significant accounting issues and engage in sufficient discussion.

【Improvement measures described in the previous report on improvement measures】

- Budget Allocation to Ensure an Adequate Staffing Structure in the Accounting Department

Management recognizes the importance of compliance with accounting standards and understands that establishing a sufficient staffing structure in the accounting department, as well as utilizing external accounting experts, will incur costs. Accordingly, a budget has been allocated to secure an appropriate personnel structure.

(Responsible Department)

Administration Department of the Company

(Schedule)

At the Board of Directors meeting held in December 2024, the budget for the fiscal year ending December 31, 2025 was approved.

【Status of implementation and operation】

(Budget allocation to ensure an adequate staffing structure in the accounting department)

At the Board of Directors meeting held on December 18, 2024, a resolution was passed approving the budget for the fiscal year ending December 31, 2025.

Under this budget, the Company approved allocations for entering into advisory contracts with **two external certified public accountants** as accounting experts.

Additionally, Gala Lab Corp. (Glab) approved a budget including the personnel cost for hiring **one professional with practical IFRS experience** to strengthen its administrative structure.

- Management discussions

Previously, management discussions (between the Representative Director, CFO, and the audit firm) had been held approximately twice a year — during audit planning and at the fiscal year-end. Going forward, such meetings are held on a quarterly basis to allow for sufficient exchange of views on the importance of compliance with accounting standards and on the structure of the Accounting Department.

(Responsible Department) Administration Department of the Company (Schedule) Quarterly management discussions have been conducted since the interim review for the third quarter of the fiscal year ended December 31, 2024, including discussions on management's awareness of the importance of compliance with accounting standards and the status of the Group's administrative structure.
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【Status of implementation and operation】

The Company has held management discussions with the audit firm as outlined below, engaging in sufficient exchanges of opinions regarding the importance of compliance with accounting standards and the accounting structure.

By responding to the audit firm's requests to enhance management's awareness of accounting standards compliance and to strengthen staffing within the administrative departments, the Company has achieved tangible improvements.

Date	Participants	Main Topics and Summary
October 23, 2024 ※ 1	Two partners from Ks Lab. (audit firm) Director and CFO	(Status of Improvement Measures) Discussion on the overall content of improvement measures to prevent recurrence. (Accounting Department Structure) Shared views on strengthening the accounting department structure and explained the plan to enter into advisory contracts with external certified public accountants.
November 6, 2024	Two partners from Ks Lab Representative Director and Group CEO Director and CSO Director and CFO	(Importance of Compliance with Accounting Standards) Discussion on management's views on the importance of complying with accounting standards. (Status of Accounting Structure) Discussion on strengthening the accounting framework at both the Company and Glab. (Progress of Improvement Measures) Report on the implementation status of the improvement measures.
January 22, 2025 ※ 2	Two partners from Ks Lab Company Director and CFO Two Company Advisors	(Status of Year-End Closing) Discussion on the fiscal year-end closing schedule. (Status of Improvement Measures) Shared updates on revisions to internal regulations and newly established rules related to the improvement measures.
January 25, 2025 ※ 2	Two partners from Ks Lab Company Director and CFO Two Company Advisors	(Goodwill Impairment Loss) Discussion on the recognition of goodwill impairment loss for the fiscal year ended December 31, 2024, identified as a significant accounting issue.
May 8, 2025	Two partners from Ks Lab Representative Director and Group CEO Director and CSO Director and CFO Two Company Advisors	(Importance of Compliance with Accounting Standards) Confirmation of continued efforts to enhance awareness of the importance of compliance with accounting standards. (Accounting Structure) Discussion on strengthening coordination between the Company and its Korea branch. (New J-SOX Compliance) Discussion on responses to the revised internal control implementation standards.
July 14, 2025	Three partners from Ks Lab Representative Director and Group CEO	(Accounting Structure) Discussion on the practical implementation of organizing and

	Director and CSO Director and CFO One Company Advisor	monitoring the timeline and procedures of accounting and closing operations.
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※ 1 : The Representative Director and Group CEO of the Company did not attend the meeting on October 23, 2024, as a separate discussion with two partners of the audit firm Ks Lab. was scheduled for November 6, 2024.

※ 2 : The Representative Director and Group CEO of the Company did not attend the meetings on January 22 and January 25, 2025, as the agenda items concerned technical accounting matters such as the progress of financial closing and the recognition of goodwill impairment losses.

【Improvement measures described in the improvement report】

• Training Sessions Based on Accounting Case Examples from Other Companies

As part of the Company's compliance training program, the CFO will conduct training for management using relevant accounting case examples selected from the *Casebook on Disclosure Inspection Cases* published annually by the Securities and Exchange Surveillance Commission (SESC).

Through this training, management will deepen its understanding of the importance of compliance with accounting standards.

Following each training session, a questionnaire will be administered promptly to confirm whether management's awareness of the importance of compliance with accounting standards has improved.

(Responsible Department)
Administrative Division of the Company

(Schedule)
To be implemented starting from the compliance training session in March 2025, and conducted once a year thereafter.

【Status of implementation and operation】

(Training Sessions Based on Accounting Case Examples from Other Companies)

On March 28, 2025, as part of a training session organized by the Compliance Committee, the Company's CFO conducted a training session serving as lecturer. The training focused on key accounting issues relevant to the Company, selected from the *Casebook on Disclosure Inspection Cases* published annually by the Securities and Exchange Surveillance Commission (SESC).

During the session, the CFO introduced several case studies, including a case in the retail industry where headquarters expenses that should have been allocated to individual stores were improperly manipulated so that expenses for certain stores were understated, thereby avoiding the recognition of impairment losses; a case in which profits were overstated by excluding unprofitable subsidiaries from the scope of consolidation; and a case in which, despite the existence of events or circumstances giving rise to significant doubt about the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainties"), improper accounting treatment was applied to report operating income, and the existence and details of such material uncertainties were not disclosed.

For each of these cases, the CFO explained how the relevant accounting standards were defined and how appropriate accounting treatment should have been applied. Furthermore, following the training, a questionnaire was conducted to confirm whether the management's awareness of the importance of compliance with accounting standards had deepened as a result of the training. The questionnaire items and results (average scores for each item among all directors and officers) are as follows.

(1) **Participants:** All Directors (14) and all Audit & Supervisory Board Members (3)

(2) **Method:** Written questionnaire (signed)

(3) **Timing:** March 2025

(4) **Questionnaire Items:**

- 1 . Increased awareness of compliance with accounting standards
- 2 . Appropriateness of the training method and frequency
- 3 . Other

The questionnaire used a five-point evaluation scale (※) for each question and included a free comment section for all items.

(※) ① 5 points: Very appropriate, ② 4 points: Appropriate, ③ 3 points: Somewhat insufficient, ④ 2 points: Insufficient, ⑤ 1 point: Inappropriate

(5) Results of the questionnaire

1. Increased awareness of compliance with accounting standards – 4.1 points
2. Appropriateness of the training method and frequency – 3.8 points
3. Other

The main comments provided in the questionnaire were as follows:

- It would be desirable to hold the training sessions twice a year.
- The training should also include consideration of what problems existed among the directors and boards of companies where accounting fraud occurred.
- It may be beneficial to include opinions and suggestions from the audit firm during training or exchange sessions.
- In addition to accounting compliance, there should be opportunities for directors to discuss the Company's compliance issues and areas for improvement.
- The KPI and performance-linked compensation system should incorporate elements related to compliance with accounting standards (such as reflecting the appropriateness of financial reporting and internal control assessments in director evaluations).
- It is important to understand the risks associated with violations of accounting standards and to enhance awareness by learning what actions the Board of Directors should take and what omissions could constitute a breach of fiduciary duty.

Based on the results of this questionnaire, the Company will continue to enhance management's awareness of the importance of compliance with accounting standards by updating future training sessions in terms of frequency (to twice a year), format (to include discussion-based sessions), and content (to incorporate the Company's specific compliance issues and analyses of problems faced by other companies' boards of directors in accounting fraud cases).

② Strengthening the administrative division (Corresponding to 1 (4) ②)

【Improvement measures stated in the improvement report】

- Establishment of internal rules regarding capitalization of self-developed software

The Company established internal rules (Accounting Policy Manual) in December 2024, with the assistance of two external certified public accountants. These rules define capitalization criteria for internally developed software based on both IFRS standards and Japanese GAAP, as well as the "Practical Solution on Accounting for the Overseas Subsidiaries in Consolidated Financial Statements" (PITF No. 18).

The Accounting Policy Manual also sets forth the Company's accounting policy on research and development expenses under Japanese GAAP. The appropriateness of these internal rules was reviewed and confirmed by the audit firm Ks Lab. The Company will henceforth perform its accounting treatment in accordance with these internal rules.

The capitalization rules for software development apply to the following types of development activities:

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

The Company Group's accounting policy stipulates that capitalization shall be applied only to post-CBT (Closed Beta Test) additional development when it is reasonably certain that future revenue generation is assured based on external evidence such as pre-launch test marketing results. Specifically, an evaluation meeting (the "CBT Evaluation Meeting") is convened, attended by the representative director, the head of the development division, and the development team members. At this meeting, the retention rate and other key performance indicators (forecast vs. actual figures) are assessed, and based on external evidence (such as test marketing results), if future revenue generation is deemed to be reasonably certain, capitalization will be applied to additional development costs incurred between CBT and product release.

Since the evaluation indicators and required performance levels differ depending on the project, and it is difficult to define uniform numerical thresholds (such as acceptable variance between forecast and actual results), no

quantitative benchmark is set. However, each project's development lead will establish reference indicators based on past experience. In principle, when actual results meet or exceed forecast levels to a reasonable degree, and the business plan is deemed feasible for release, future revenue generation is considered assured.

The minutes of each CBT Evaluation Meeting are prepared by Glab's Administrative Division, which serves as the secretariat, and retained as accounting evidence. Their validity is ensured through review by both Glab's auditor, BDO Sunghyun LLC, and the Company's audit firm, Ks Lab.

Furthermore, in addition to these capitalization-related rules, the Company will continue to document the application of accounting standards as needed in the future.

(Responsible Department)

Administrative Division of the Company / Administrative Division of Glab

(Schedule)

The internal rules (Accounting Policy Manual) were completed in December 2024, and their validity was confirmed by Ks Lab.

Operation in accordance with these internal rules commenced with the fiscal year ended December 31, 2024.

A Korean-language version of the internal rules was also prepared and made accessible through the Company and its subsidiaries' portals and shared folders to ensure full awareness among employees.

【Status of implementation and operation】

(Establishment of internal rules for capitalization of self-developed software)

As stated in the Improvement Report, in December 2024, the Company prepared both Japanese and Korean versions of the "Internal Rules for Capitalization of Self-Developed Software." These rules were posted on the Company's and its subsidiaries' internal portals (bulletin boards), announced via email, and stored in folders accessible to all employees so that they can be viewed at any time.

(Operation of the internal rules for capitalization of self-developed software)

The rules have been applied beginning with the fiscal year ended December 31, 2024. According to the rules, the point at which capitalization of software begins—when the generation of future revenue or cost reduction is deemed reasonably certain—is defined as the time when the results of the Closed Beta Test (CBT) are evaluated and confirmed by the CBT Evaluation Meeting.

However, in both the fiscal year ended December 31, 2024, and the first quarter of the fiscal year ending December 31, 2025, no development projects reached the CBT stage at Glab or any other subsidiaries; therefore, no self-developed software qualified for capitalization. Going forward, when a development project reaches the CBT stage, the CFO and the Administrative Division will review its profitability based on the CBT Evaluation Meeting's results.

【Improvement measures stated in the improvement report】

▪Strengthening the administrative structure within the Company

The Company's current administrative structure consists of four personnel: the CFO, one person in charge of consolidation and disclosure, one accounting staff member, and one HR staff member. In addition, the Company entered into advisory agreements with two external certified public accountants to support finance and management strategy, thereby utilizing external resources.

The scope of the advisory agreements includes:

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

Specifically, the external certified public accountants review documents such as internal accounting issue analyses, consolidated trial balances, accounting basis documents, and disclosure materials prepared internally. While the Company currently separates the preparation and approval of accounting materials among different personnel, the CFO had been responsible for preparing certain documents, such as impairment testing materials.

Going forward, the external certified public accountants will review these materials under the advisory agreements, thereby ensuring greater accuracy and validity in accounting treatments.

The external advisors participate in weekly Group Strategy Meetings and CEO–CFO meetings to stay informed of business operations, and they also communicate through meetings and emails during each financial closing cycle. The accounting department conducts regular study sessions to stay updated on accounting standard changes, and when such changes require revisions to internal rules, internal staff will prepare position papers, which will then be reviewed by the external advisors for accuracy.

The decision to utilize external resources instead of hiring additional accounting personnel was made to strengthen the administrative function of the Group more rapidly and efficiently by saving time associated with recruitment. With two certified public accountants reviewing key financial documents, the Company believes its accounting structure is now both qualitatively and quantitatively sufficient.

(Responsible Department)
Administrative Division of the Company

(Schedule)
Advisory agreements were concluded in December 2024.

【Status of implementation and operation】

As stated in the Improvement Report, in December 2024, the Company entered into advisory agreements with two external certified public accountants for financial and management strategy support. These advisors have been actively involved as follows, not only by attending meetings and reviewing financial statements but also by providing a broad range of professional support — including risk assessment for new business ventures, introductions to new legal counsel, and advice on selecting external advisory firms for IFRS implementation. Furthermore, as described in “② Strengthening the Administrative Division (Corresponding to 1(4)②) – Internal Audit (J-SOX),” they have contributed to strengthening the administrative framework through review of J-SOX documentation and refinement of internal control materials in coordination with the audit firm.

Their specific involvement includes the following:

- Participation in weekly Group Strategy Meetings
- Participation in weekly CEO–CFO meetings
- Attendance at financial closing meetings and management discussions with the audit firm
- Review of supporting materials for financial closing
- Review of financial disclosure documents
- Review of J-SOX documentation
- Support for audit firm coordination on J-SOX matters
- Review of Board of Directors materials (important accounting matters)
- Advisory support on IFRS implementation

【Improvement measures stated in the improvement report】

- Strengthening the administrative framework at Glab

At Glab, in addition to the existing structure of one accounting manager and two accounting staff, one professional with practical experience in IFRS has been hired to enable independent judgment on the application of IFRS accounting standards. Furthermore, four members of Glab’s administrative division will be transferred to the Company’s Korea Branch to establish an integrated management structure overseeing both subsidiary and branch accounting and administrative operations.

The administrative division of the Korea Branch will handle accounting and HR functions for both the Company’s Korean subsidiaries and the branch itself. The Company’s administrative division and the Korea Branch administrative division hold weekly meetings to ensure close coordination. Through this structure, the Company aims to strengthen collaboration between the head office and overseas subsidiaries, thereby establishing a robust system of consolidated management and oversight.

(Responsible Department)
Administrative Division of Glab

(Schedule)
An individual with practical IFRS experience from multiple listed companies in Korea was hired in January 2025. The transfer of Glab's administrative personnel to the Company's Korea Branch is scheduled for April 2025.

【Status of implementation and operation】

As stated in the Improvement Report, Glab hired one professional with practical IFRS experience in January 2025. In April 2025, four members of Glab's administrative division were transferred to the Company's Korea Branch. This transfer was aimed at (1) establishing an integrated management structure for the accounting and administrative functions (including HR and general affairs) of the Korean consolidated subsidiaries—Glab, Gala Mix Inc., and ROAD101 Co., Ltd.—and (2) strengthening coordination with the Company's headquarters in Japan.

As a result of this transfer, the Korea Branch has assumed unified responsibility for accounting and administrative operations across the Korean subsidiaries. By providing these back-office services as a shared service and receiving compensation from the subsidiaries, the Korea Branch has enhanced its accountability and operational effectiveness in managing such functions.

In addition, this reorganization has produced several tangible improvements in coordination. The administrative divisions of the Company and the Korea Branch now hold weekly CEO–CFO meetings attended by the Group CEO, CSO, CFO, and the Company's advisors, with participation from the IFRS-experienced staff member at the Korea Branch, who is fluent in Japanese. This arrangement enables the teams to share and discuss day-to-day accounting and operational matters between the head office and overseas subsidiaries.

Moreover, the two divisions collaborate closely through web meetings, chat, and email communications to review the preparation of materials such as daily cash flow statements, procedures for financial closing, and entries in the consolidation package. Whereas communication had previously relied primarily on emails and phone calls among Korean staff, the introduction of regular Japanese-language web meetings and chat communication has significantly improved coordination between the Korea Branch (which oversees overseas subsidiary management) and the Company's administrative division. As a result, the Company has further strengthened its ability to appropriately manage its overseas subsidiaries.

【Improvement measures stated in the improvement report】

• Internal Audit (J-SOX)

Internal audits (J-SOX) are now conducted by a three-person team, consisting of one internal auditor and two external certified public accountants retained under advisory agreements.

(Responsible Department)
Internal Audit Office

(Schedule)
Advisory agreements were concluded in the fiscal year ended December 31, 2024, and starting in January 2025, internal audits (J-SOX) have been carried out under the three-person structure, including the two external advisors. The internal auditor conducts the evaluation procedures, while the external advisors provide support and review.

The two external certified public accountants also attend the weekly Group Strategy Meetings and CEO–CFO meetings to support overall accounting operations. This enables them to deepen their understanding of the Company's business and accounting processes and to provide more effective assistance with internal control (J-SOX) activities.

Furthermore, the Company plans to include the following items as company-wide controls within its financial reporting process and to complete audits of their implementation by March 2025:

- ① Strengthening management's awareness of compliance with accounting standards

- | | |
|---|--|
| ② | Strengthening the administrative division |
| ③ | Enhancing management of development projects and organization of contractual relationships |
| ④ | Strengthening directors' monitoring functions |

【Status of implementation and operation】

In the internal audit (J-SOX) for the fiscal year ended December 31, 2024, the Company outsourced the J-SOX evaluation work to an external accounting consulting firm. Internal reviews were conducted under a three-person structure starting in January 2025, consisting of one internal auditor and two external advisors (prior to the implementation of the preventive measures, internal reviews had been performed solely by one staff member of the Internal Audit Office).

The implementation status of the preventive measures was evaluated by adding the four items stated in the Improvement Report as controls within the financial reporting process from a company-wide perspective. However, for the fiscal year ended December 31, 2024, the item “Rules on Contract Management,” which corresponds to item (3) above, was not included in the scope of evaluation, as it was established only on January 31, 2025.

As a result of the internal control evaluation related to financial reporting for the fiscal year ended December 31, 2024, the Company determined that the internal controls over financial reporting within the Group were effective. The audit firm, Ks Lab., also concluded that the Company’s internal control over financial reporting was fairly presented in all material respects.

The internal auditor primarily checked the content and consistency of documentation, while the Company’s advisors focused mainly on reviewing the J-SOX risk control matrix, verifying supporting evidence, and coordinating with the audit firm. The J-SOX audit for the fiscal year ended December 31, 2024, has been completed.

For the fiscal year ending December 31, 2025, the Company continues to outsource the evaluation work to the same external accounting consulting firm. In addition to the internal auditor’s review of documentation and consistency checks, the Company’s advisors continue to participate by reviewing the risk control matrix, verifying supporting documents, and managing communications with the audit firm.

The Company’s advisors have reviewed the current annual J-SOX plan and scope of evaluation. Based on this, a kickoff meeting was held with the audit firm in April 2025, during which the scope of evaluation was agreed upon.

Furthermore, in the internal audit (J-SOX) for the fiscal year ending December 31, 2025, the Company will continue to include the four items described above within the scope of evaluation regarding their establishment and operation.

【Improvement measures stated in the improvement report】

- Implementation of internal study sessions

The Group Management Department’s Consolidation Team shall hold study sessions either in person or through online meetings.

The sessions are to be conducted by the Company’s CFO, who will share information with accounting personnel regarding amendments to consolidated accounting and disclosure standards. Specifically, the sessions will cover matters related to consolidated financial statements (such as understanding the mechanism of consolidation journal entries, including offsetting of investments and capital), as well as matters related to disclosure (such as accounting considerations for quarterly and annual financial reporting, and understanding newly applicable accounting standards).

The implementation status of these study sessions shall be retained as evidence within the company-wide controls under J-SOX, so that they can be evaluated during internal audits and J-SOX assessments. In addition, the level of understanding of accounting personnel regarding the contents of the study sessions shall be verified through on-the-job training (OJT).

(Responsible Division)

Administrative Division of the Company

(Schedule)

The study sessions shall be held four times a year (once every three months), beginning in November 2024.

【Status of implementation and operation】

As shown below, the Company conducted study sessions for members of the Group Management Department's Consolidation Team and individual accounting staff through online meetings.

During these sessions, the CFO explained key points to be noted regarding disclosures in securities reports for companies with fiscal years ending December 2024, as well as accounting considerations relevant to the fiscal year ending December 2025, focusing on revisions to accounting standards and disclosure requirements in securities reports. The CFO provided updates on accounting standards and related matters.

Through daily operations and on-the-job training following the sessions, the accounting staff of the Administrative Division demonstrated improved understanding of accounting standards, and the CFO evaluated their proficiency as having advanced.

Furthermore, for the fiscal year ended December 31, 2024, the implementation status of the study sessions was maintained as evidence of company-wide controls under J-SOX and was evaluated as part of the J-SOX assessment items.

Date	Participants	Main Topics
December 25, 2024	CFO; one member of the Group Management Department's Consolidation Team; one individual accounting staff member	Key disclosure points in securities reports for companies with fiscal years ending December 2024
April 17, 2025	CFO; one member of the Group Management Department's Consolidation Team; one individual accounting staff member	Accounting considerations for the fiscal year ending March 2025
July 8, 2025	CFO; one member of the Group Management Department's Consolidation Team; one individual accounting staff member	Explanation of the "Proposed Accounting Standard for Interim Financial Statements," etc.

③ Strengthening management of development projects and organization of contractual arrangements
(Corresponding to 1(4)③)

【Improvement measures stated in the improvement report】

- Establishment of internal rules for managing development projects

In the development process for game production and related projects, the Company has established internal rules that define judgment criteria after organizing accounting-related issues required by accounting standards. These internal rules specify, within the business flow from planning and development to sales, the timing, milestones, matters to be discussed, the relevant decision-making body and responsible persons, and the evidentiary documents to be used for discussion and approval. Based on these rules, accounting treatment is to be performed appropriately. Two external advisors (Certified Public Accountants) with specialized expertise were engaged in the establishment of these internal rules.

The key elements of the internal management rules for development projects are as follows:

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

The development process is divided into distinct stages, and requirements are defined for each stage as follows:

- **Project proposal**

The target audience, regions, and languages of the service are determined, and a detailed development schedule and budget are prepared. A proposal is then submitted to the Board of Directors, and the minutes of the board meeting are recorded.

- **Alpha version development**

Development proceeds with mandatory components in accordance with the development plan. If there are any changes to the development period or budget, such changes must be approved by the Board of Directors.

- **Closed Beta Test (CBT)**

After conducting a test for selected users and regions with limited content, service performance is verified through log collection and user surveys. A CBT evaluation meeting is held based on the CBT results (including projected and actual figures of key performance indicators such as retention rates), and the minutes of such meetings are recorded.

- **Clarification of the approval body for project proposals**

Project proposals must be approved by the Board of Directors.

- **Explicit documentation of accounting treatment**

It has been clearly stipulated that accounting treatment shall be conducted in accordance with the internal rules regarding capitalization of internally developed software and the scope of research and development expenses as set forth in the Company's accounting policy manual.

(Responsible Division)

Administrative Division of the Company

(Schedule)

Internal rules for managing development projects were formulated in December 2024 with the assistance of external experts. Korean-language versions were also prepared and disseminated by posting on the subsidiaries' internal portals and storing them in folders accessible to employees to ensure awareness and adherence.

【Status of implementation and operation】

(Formulation of Rules for Managing the Development Process)

As stated in the Improvement Report, the Company formulated the *Development Process Management Regulations* (internal rules for managing development projects) in December 2024, in both Japanese and Korean. These were posted on the Company's and subsidiaries' internal portals (bulletin boards), notified by e-mail, and stored in folders accessible to employees for continuous reference.

(Operation of internal rules for managing development projects)

The regulations divide the development process into twelve stages. Beginning with the *brainstorming and ideation stage* (Stage 1), where service ideas are generated, and the *prototype creation stage* (Stage 2), where ideas are shaped into prototypes, the process then proceeds to the *project proposal stage* (Stage 3), in which the development budget is resolved and approved by the Board of Directors, marking the commencement of the full-scale development process.

The Group has applied these regulations from the fiscal year ended December 31, 2024. In that fiscal year, Glab initiated a new project; however, it did not reach the project proposal stage. The same project continued during the fiscal year ending December 31, 2025, but has not yet progressed to the project proposal stage. Furthermore, no developments subject to these regulations occurred at Gala Mix Inc. or ROAD101 Co., Ltd. during the fiscal year ended December 31, 2024, or the first quarter of the fiscal year ending December 31, 2025.

【Improvement measures stated in the improvement report】

- Formulation of rules for comparing and monitoring project budgets against actual results

The Company has established rules for analyzing variances between project budgets and actual results ("budget-to-actual analysis"), monitoring total project costs, and setting procedures for cases where a project is extended or total project costs exceed the original budget.

When a project is to be extended, the CEO of the relevant subsidiary, who serves as the project manager, shall report to the Board of Directors on the project's status—including the reasons for the extension and a comparison between the project budget and total project costs—as a reporting item to the Board. Furthermore, if total project costs exceed the original budget, the project manager (the CEO of the relevant subsidiary) shall review the project budget and explain to the Board whether the project should be continued or terminated, and obtain the Board's approval.

Currently, budget-to-actual variances are reported weekly at the Group Strategy Meeting, attended by the Group CEO, each company's CEO, and the CFO. In cases where significant variances occur, the reasons for such variances are confirmed at the meeting. In addition to this existing process, beginning in December 2024, each company's administrative division conducts annual analyses comparing project budgets and actual results.

Where material variances are identified, the CEO of the respective company reports the reasons to the Board of Directors, thereby establishing a monitoring mechanism.

Through these procedures, it has been determined that revisions to business plans in line with changes in development content are appropriately deliberated by the Board of Directors.

(Responsible Division)

Administrative Division of the Company / Glab Administrative Division

(Schedule)

Revisions to the *Board of Directors Rules and Budget Management Regulations* were made in December 2024, and an analysis of variances between the budget and actual (or estimated) figures for the fiscal year ended December 31, 2024 was conducted at the December 2024 meeting of the Board of Directors.

The internal regulations were also stored in the Company's internal portal and folders accessible to employees to ensure proper dissemination and adherence.

【Status of implementation and operation】

(Revision of budget management regulations)

At the Board of Directors meeting held on December 18, 2024, the Budget Management Regulations were amended to include the following provisions:

- **Formulation of project budgets**
In preparing budgets, sales and profit plans shall, in principle, be prepared for each project ("project budget").
- **Budget-to-actual analysis**
Variances between project budgets and actual results shall be analyzed at the fiscal year-end, and any material variances and their causes shall be reported to the Board of Directors.
- **Projects spanning multiple fiscal years**
For multi-year projects, total project costs (actual figures) from the start of the project shall be aggregated, and any year-end reports on material variances shall include an analysis of budget-to-actual variances over the entire project period.
- **Budget overruns**
If total project costs exceed the original budget, the project manager (the CEO of the relevant subsidiary) shall review the project budget and obtain the Board's approval on whether to continue or terminate the project.
- **Project extensions**
In cases where the project period is extended, the project manager shall report to the Board of Directors on the project's status, including the reasons for extension and a comparison of the project budget and total project costs.

The revised regulations were circulated to all officers and employees via e-mail and posted on the Company's internal portal. They were also stored on the internal regulations file server, where employees can access them at any time.

(Analysis of Budget-to-Actual Variances)

In addition to the weekly budget-to-actual variance analysis that has been conducted on an ongoing basis, the Company reported annual figures (with estimates for the most recent month) at the Board of Directors meeting held on December 18, 2024, comparing each company's budget and actual results for the fiscal year ended December 31, 2024.

At this meeting, in addition to analyzing company-level variances between budget and actual results, the CFO presented an analysis of the causes of variances in sales and expenses (including cost of sales and selling, general and administrative expenses) on a project-by-project basis. The CFO also provided explanations regarding material variances in sales. No cases of budget overruns were identified.

The reasons for establishing the Company's policy to conduct variance analysis reporting only at the fiscal year-end are as follows:

- Determining whether total project costs exceed the budget requires comparison between the budgeted figures and the current total projected costs for the entire duration of the project (including actual results to date and projected figures for the remaining period), rather than a month-by-month comparison of budget and actual figures. Accordingly, detailed project-level variance analyses are not performed on a monthly basis.
- As variance analyses for each project are conducted quarterly, any significant discrepancies can be identified in a timely manner.
- Regarding the progress of development projects, when there are significant delays or substantial outsourcing costs exceeding the budget, the CEO of each company is immediately informed. Such situations are reported and shared through the Group Strategy Meeting.
- Therefore, if it is anticipated that total project costs will exceed the budget due to significant project delays or higher-than-expected outsourcing costs, a detailed review of actual project cost data is conducted, and an interim determination is made as to whether the budget will be exceeded.

Furthermore, beginning with the fiscal year ending December 31, 2025, the Company has revised the budget formulation and performance management templates to enable entry of budget and actual figures on a project-by-project basis. This revision aims to facilitate easier and more accurate analysis of budget-to-actual variances for each project, thereby enhancing the effectiveness of project-level budget management going forward.

【Improvement measures stated in the improvement report】

▪ Legal review and management of important contracts

The Company will continue to manage contracts through the existing contract ledger system and conduct legal reviews by its external legal counsel.

Glab will appropriately monitor and manage the status of contracts within its Administrative Division, regardless of the level of materiality. Specifically, Glab will ensure a proper approval process for all contracts and maintain appropriate storage of contracts through its contract management ledger.

In addition, for important contracts related to complex transactions or new business arrangements that require confirmation of legal interpretation, Glab will, in addition to the legal review conducted by the Company's legal counsel, consider entering into a legal advisory agreement with its own external counsel or, as necessary, engage outside lawyers for legal reviews on a case-by-case basis.

Furthermore, the Company will establish an internal framework and procedures for reviewing important contracts (from both legal and accounting perspectives), as well as internal rules requiring the documentation of review results.

Where necessary, external experts—including lawyers, certified public accountants, and tax accountants—will be engaged to organize legal, accounting, and tax issues related to important contracts and prepare legal memoranda or position papers. These will then be presented and explained to the Board of Directors by the responsible director or the CFO, who will also provide explanations to external parties such as the Company's audit firm.

Specifically, reviews of important contracts (legal and accounting aspects) will be coordinated between the Company's Administrative Division and the administrative divisions of each subsidiary. Together, they will assess the need for legal memoranda or position papers and, where necessary, commission external professionals—such as lawyers, certified public accountants, and tax accountants—to prepare supporting materials on accounting and tax-related issues.

If such materials relate to significant accounting matters, they will be reported to the Company's Board of Directors for discussion and monitoring.

Additionally, for important contracts that require approval or reporting to the Company's Board of Directors, the Administrative Division will obtain copies of relevant subsidiary contracts as needed to confirm and monitor contract status.

For subsidiaries other than Glab, important contracts at domestic subsidiaries will undergo legal review by the Company's legal counsel as necessary, while overseas subsidiaries will engage external lawyers or other legal professionals for legal review when appropriate.

Although no specific materiality threshold has been established for the involvement of external experts in the review of important subsidiary contracts (legal and accounting aspects), such involvement is generally expected for matters requiring the parent company's prior approval under the subsidiary's board resolutions, particularly those involving complex transactions or new business arrangements where legal interpretation needs to be confirmed.

(Responsible Division)

Administrative Division of the Company / Glab Administrative Division

(Schedule)

In January 2025, Glab will select its legal counsel or law firm. The internal rules governing the review and management of important contracts will also be established in January 2025 and disseminated through posting on the Company's and subsidiaries' internal portals, as well as by storing them in folders accessible to employees. Monitoring and management of the status of important contracts will commence in February 2025.

【Status of implementation and operation】

(Rules on contract management)

On January 31, 2025, the Company established the *Rules on Contract Management*. These rules were published on the Company's and its subsidiaries' internal portals (bulletin boards), announced by e-mail, and stored in folders accessible to employees so that they may be viewed at any time.

The rules set forth the following provisions:

- **Contract management**
Each company within the Group must ensure adherence to its prescribed approval procedures for contracts and appropriately maintain and store contracts using the contract management ledger.
- **Legal review**
Each company within the Group shall undergo a legal review, as stipulated in these rules, when entering into new contracts or important contracts.
- **Confirmation of legal regulations and licenses related to significant transactions**
When initiating a new business or engaging in complex transactions that require confirmation of legal interpretation, each company within the Group must obtain legal confirmation from a lawyer regarding applicable laws, regulations, and required licenses or permits related to such significant transactions.
- **Review of important contracts (legal and accounting aspects)**
When entering into important contracts, each company within the Group shall cooperate with the Company's Administrative Division to determine whether it is necessary to prepare a legal memorandum or position paper. Where appropriate, external experts such as lawyers, certified public accountants, or tax accountants shall be engaged to prepare supporting documentation concerning accounting or tax issues. The results of such reviews shall be documented.
If the matters involved constitute significant accounting issues, the materials shall be reported to the Company's Board of Directors, which shall conduct monitoring.
- **Understanding of the status of important contracts**
With respect to important contracts that require approval or reporting to the Company's Board of Directors, the Company shall, when necessary, obtain copies of the relevant subsidiary contracts in order to confirm and monitor their status.

(Enhancement of the legal review framework)

The Company

The Company has continued to conduct legal reviews by its external legal counsel upon the execution of new contracts, as has been customary. In order to accommodate contracts and transactions executed in Korea, the Company entered into a legal advisory agreement in May 2025 with a Korean attorney who possesses in-depth knowledge of Korean commercial practice.

The Administrative Division of the Company maintains and manages a contract management ledger to record and track all such occurrences. In addition, the Secretariat of the Board of Directors (comprising the CFO and responsible staff) verifies whether legal reviews have been conducted.

Glab

As a general rule, new contracts at Glab are subject to legal review by an attorney from the Legal Team of Megazone Cloud Corporation. Furthermore, in May 2025, Glab entered into a legal advisory agreement with a Korean law firm to serve as its external legal counsel. Going forward, Glab will seek legal advice and conduct legal reviews concerning its contracts under this arrangement.

The Administrative Division of the Gala Korea Branch maintains and manages a contract management ledger to record and track such activities, while the Secretariat of the Company's Board of Directors (comprising the CFO and responsible staff) confirms whether legal reviews have been conducted.

Other Domestic Subsidiaries

As a general rule, important contracts (*) are subject to legal review by the Company's external legal counsel. For applicable contracts, such reviews have been duly conducted by the Company's legal counsel.

The Administrative Division of each subsidiary maintains and manages its own contract management ledger, while the Secretariat of the Company's Board of Directors (comprising the CFO and responsible staff) verifies whether legal reviews have been conducted.

Other Overseas Subsidiaries

As a general rule, important contracts (*) are subject to legal review by either the Company's external legal counsel or Glab's legal counsel. However, no such contracts have arisen to date.

The Administrative Division of the Gala Korea Branch maintains and manages a contract management ledger to track any occurrences, and the Secretariat of the Company's Board of Directors (comprising the CFO and responsible staff) confirms whether legal reviews have been conducted.

(※) Refers to matters requiring the prior approval of the Company's Board of Directors.

(Operation of the rules on contract management)

Each company within the Group ensures adherence to its prescribed approval procedures for contracts and appropriately maintains and stores contracts through its contract management ledger. The administrative divisions of the Group companies periodically review these ledgers to confirm that contract management is being conducted appropriately.

Regarding legal reviews, each company within the Group properly carries out legal reviews in accordance with its prescribed procedures.

Furthermore, for transactions requiring confirmation of applicable laws, regulations, and licenses in connection with significant transactions, as well as for transactions requiring legal and accounting review of important contracts, the Administrative Division of the Gala Korea Branch and the administrative divisions of the domestic subsidiaries consult with the CFO via e-mail or teleconference. The CFO determines whether such reviews are necessary. As of the date of this report, no such cases have arisen.

④ Strengthening the monitoring function by directors (Corresponding to ④)

【Improvement measures stated in the improvement report】

- Establishment of rules to facilitate discussion and monitoring of significant accounting issues

At the Board meetings for the approval of quarterly and year-end financial statements, the Chairperson, Mr. Hyunsu Kim, Representative Director and Group CEO, explains the supplementary materials related to financial results, thereby sharing information regarding the financial statements. In addition, at the Group Strategy Meetings, the CFO reports, as appropriate, on significant accounting matters such as the recognition of impairment losses.

However, under the previous version of the Board of Directors Rules, significant accounting matters (for example, the recognition of material impairment losses and the recoverability of deferred tax assets) were not specifically stipulated as items requiring resolution or reporting to the Board. Accordingly, there was a risk that such important accounting matters might not be sufficiently discussed at Board meetings. To address this issue, in December 2024, the Company revised the Board of Directors Rules to require that significant accounting matters be treated as reporting items.

Following this revision, the Company has ensured that, at Board meetings convened for the approval of financial statements, sufficient discussions are held regarding significant accounting matters, thereby enabling other

directors to exercise effective monitoring functions. Moreover, under the J-SOX and internal audit frameworks, the appropriateness of such monitoring activities will be added as a control point within the Company-wide financial reporting process and will be subject to evaluation.

This initiative—to have significant accounting matters discussed by the Board—was introduced in reflection of the past failure to recognize the issue as a significant accounting matter, which consequently was not even brought to the attention of the Board at that time. By establishing this rule, the Company aims to ensure that all significant accounting matters are formally discussed at the Board level, thereby enhancing directors' awareness of compliance with accounting standards through active deliberation.

(Responsible Division)

Board of Directors

Overall coordination will be undertaken by Representative Director Mr. Hyunsu Kim, while explanations regarding significant accounting matters will be provided by the CFO.

(Schedule)

The Board of Directors Rules were revised at the Board meeting held in December 2024 to establish a process whereby significant accounting matters are designated as reporting items. Sufficient discussions on significant accounting matters relating to the financial results for the fiscal year ended December 31, 2024, will be conducted at the Board meeting scheduled for February 2025, followed by evaluation of the process.

The revised internal regulations have been disseminated to all officers and employees by e-mail, posted on the Company's internal portal, and stored in folders accessible to employees to ensure thorough awareness and compliance.

【Status of implementation and operation】

(Revision of the Board of Directors rules)

As stated in “(1) Improvement Measures to Prevent Recurrence (including those already implemented), ① Strengthening Management's Awareness of Compliance with Accounting Standards — [Status of Implementation and Operation],” the Board of Directors Rules were revised to designate matters related to significant accounting issues as reporting items to the Board. The revised rules were communicated to all officers and employees by e-mail, posted on the internal portal, and stored in the internal regulation file server accessible to employees.

(Monitoring of significant accounting matters at the Board of Directors)

As also stated in the above section, at the Board meeting held on February 14, 2025, the CFO reported on “Recognition of Impairment Loss on Goodwill of Consolidated Subsidiaries” as a significant accounting matter for the fiscal year ended December 31, 2024. During the meeting, one Audit & Supervisory Board Member inquired whether there had been any differences in opinion or discussions with the audit firm on the matter. The CFO responded that there had been no differences of opinion and that agreement had been reached with the audit firm.

⑤ Unification of applicable accounting standards (Corresponding to 1 (4) ⑤)

【Improvement measures stated in the improvement report】

• Consideration of voluntary adoption of IFRS

Given that the Company's principal subsidiary, Glab, as well as its ultimate parent company under IFRS, Megazone Cloud Corporation, are both incorporated in the Republic of Korea, the Company recognizes the necessity of strengthening the functions of its administrative division in Japan and establishing a system that enables close coordination with the administrative divisions of its overseas subsidiaries.

By unifying the accounting standards applied within the Group under IFRS, the Company aims to eliminate the complexity arising from the coexistence of multiple accounting standards and to enhance efficiency in accounting and auditing processes, as Megazone Cloud Corporation also applies IFRS. Accordingly, the Company plans to examine the voluntary adoption of IFRS, with the goal of implementing it from the fiscal year ending December 31, 2026.

(Responsible Divisions)

Administrative Division of the Company and Administrative Division of Glab

(Schedule)

The Company will examine the voluntary adoption of IFRS by December 2025, with the goal of applying IFRS beginning with the fiscal year ending December 31, 2026.

【Status of implementation and operation】

(Consideration of Voluntary Adoption of IFRS)

In March 2025, the Company held a meeting with its accounting advisor to discuss the voluntary adoption of IFRS. At this meeting, the advisor provided an explanation regarding potential implementation timelines, matters to be considered prior to adoption, and anticipated implementation costs.

Following this discussion, deliberations have been ongoing among the Company's Representative Director and Group CEO, Mr. Hyunsu Kim, the CFO, and the Company's advisors regarding the timing and costs associated with IFRS adoption.

Meanwhile, as the accounting auditor of Megazone Cloud Corporation—the Company's parent company under IFRS—was replaced starting with the fiscal year ended December 31, 2024, the Company has been holding discussions with Megazone Cloud Corporation on the advantages and disadvantages of changing its own accounting auditor to a member firm of the same audit network from the perspective of group auditing.

Because it would be most efficient to proceed with IFRS adoption in close coordination with the accounting auditor, the Company is also considering a potential change of its accounting auditor as one of the available options.

The Company will continue discussions with the objective of determining, by December 2025, whether to proceed with the voluntary adoption of IFRS, aiming for implementation beginning with the fiscal year ending December 31, 2026.

Even in the event that the Company decides by December 2025 **not** to proceed with voluntary adoption of IFRS, it intends to continue preventing the recurrence of inappropriate disclosures caused, in part, by the coexistence of multiple accounting standards. In addition to the ongoing recurrence prevention measures, the Company will take the following actions:

- **Workshops**

The Company will conduct joint workshops—twice annually—in an online or in-person format for the Administrative Division of the Company and the Administrative Division of the Korea Branch. These workshops, led by the CFO, will cover the *Practical Response Report No. 18: "Tentative Treatment of Accounting for Overseas Subsidiaries in the Preparation of Consolidated Financial Statements"*, to deepen understanding of the accounting treatments applied by overseas subsidiaries and promote consistency in consolidated accounting procedures.

- **Participation in IFRS Seminars**

The Company's Administrative Division will regularly attend IFRS seminars conducted by the audit firm or external advisors to further enhance knowledge and understanding of IFRS.

【Improvement measures stated in the improvement report】

- Monitoring of the appropriateness of accounting treatment at Glab

With respect to significant accounting matters under IFRS (which are expected to include transactions involving new frameworks, large-scale transactions, or transactions involving higher risk), the Company will conduct monitoring of the appropriateness of accounting treatment through discussions with certified public accountants belonging to the Administrative Division of Megazone Cloud Corporation, which is another affiliated company of the Group.

The reason for holding such discussions with Megazone Cloud Corporation is that the company, being an IFRS-applying entity and the Company's parent company under IFRS, is required to adopt consistent accounting policies for significant accounting matters under IFRS, as such matters also affect the consolidated financial statements of Megazone Cloud Corporation.

Under this system, information on accounting matters will be shared during the weekly meetings held among the Administrative Divisions of the Company, Glab, and Megazone Cloud Corporation. When a matter is recognized as a significant accounting issue, the CFO of the Company and the General Manager of the Finance Division of Megazone Cloud Corporation (who holds a certified public accountant qualification) will jointly discuss the matter to determine the appropriate accounting treatment. The minutes of such weekly meetings will be shared

with Mr. Hyunsu Kim, Representative Director and Group CEO of the Company, as well as with the Director and CFO of Megazone Cloud Corporation.

(Responsible Divisions)

Administrative Division of the Company and Administrative Division of Glab

(Schedule)

Weekly meetings have been held since October 2024.

【Status of implementation and operation】

(Holding of Weekly Meetings)

Since October 2024, the Company has been holding weekly meetings with Megazone Cloud Corporation, during which monthly financial performance figures and cash flow reports are shared, and accounting matters are discussed and monitored. In addition, discussions have been held regarding the direction of IFRS adoption, with the estimate from the accounting advisor being shared during these meetings.

Starting from March 2025, as the Company and Megazone Cloud Corporation have deepened their mutual understanding of monthly performance figures, cash flow management, and accounting issues, the frequency of these meetings has been changed from weekly to biweekly in principle.

• Record of discussions on significant accounting matters

Date	Participants	Main Agenda
October 11, 2024	General Manager of Finance Division, Head of Consolidated Accounting Team, and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; Group CEO, CFO, one member of the Group Management Division of the Company; Accounting Manager of Glab	Identification of accounting and tax issues related to the acquisition of investment property
December 23, 2024	General Manager of Finance Division, Head of Consolidated Accounting Team, and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; Group CEO, CFO, one member of the Group Management Division of the Company; Accounting Manager of Glab	Recognition of impairment loss on goodwill
February 3, 2025	General Manager of Finance Division, Head of Consolidated Accounting Team, and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; Group CEO, CFO, one member of the Group Management Division of the Company; Accounting Manager of Glab	Recognition of impairment loss on goodwill
May 26, 2025	Head of Consolidated Accounting Team and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; Accounting Manager and one accounting staff member of the Company's Korea Branch	Determination of whether Megazone Cloud Corporation qualifies as the parent company

• Record of discussions on consideration of IFRS adoption

Date	Participants	Main Agenda
January 6, 2025	Head of Consolidated Accounting Team and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; Group CEO, CFO, one member of the Group Management Division of the Company; Accounting Manager of Glab	Consideration of voluntary IFRS adoption and review of Glab's administrative staffing structure
February 10, 2025	Head of Consolidated Accounting Team and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; CFO, one member of the Group Management Division of the Company; Accounting Manager of Glab; one accounting staff member of the Company's Korea Branch	Confirmation of progress in considering voluntary IFRS adoption
February 17, 2025	Head of Consolidated Accounting Team and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; Group CEO, CFO, one member of the Group Management Division of the Company; Accounting Manager of Glab; one accounting staff member of the Company's Korea Branch	Clarification of the Company Group's structure for preparing IFRS-based financial statements to be submitted to Megazone Cloud Corporation
April 28, 2025	Head of Consolidated Accounting Team and one member of the Consolidated Accounting Team of Megazone Cloud Corporation;	Review of IFRS implementation cost estimates and confirmation of direction

	Accounting Manager of Glab; one accounting staff member of the Company's Korea Branch	
May 26, 2025	Head of Consolidated Accounting Team and one member of the Consolidated Accounting Team of Megazone Cloud Corporation; Accounting Manager and one accounting staff member of the Company's Korea Branch	Final confirmation of IFRS adoption policy and cost summary

(2) Evaluation by the listed company regarding the implementation and operational status of the improvement measures

The Company sincerely apologizes to its shareholders and all related parties for the significant inconvenience and concern caused by the inappropriate accounting treatment, which necessitated restatement of prior fiscal years' financial statements and resulted in delays in the announcement of financial results and submission of disclosure documents, including the Quarterly Report for the second quarter of the fiscal year ended December 31, 2024.

The Company has since implemented and operated the recurrence prevention measures described in the improvement report to ensure that such an incident will never be repeated. The Company evaluates that these measures have begun to yield tangible results. The Company will continue its efforts toward ongoing improvement.

Going forward, the Company remains committed to strengthening its internal controls and corporate governance befitting a listed company, and will strive to restore trust and enhance corporate value.

End