Translation

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Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2024 (IFRS)

November 14, 2024

Company name: Monstarlab Holdings Inc.
Stock exchange listing: Tokyo Stock Exchange
Stock code: 5255 URL https://monstar-lab.com/jp/
Representative: Representative Director/Group CEO Hiroki Inagawa
Inquiries: Director/Executive Vice President and CFO Sumito Suzuki TEL 03(4455)7243
Scheduled date to file Quarterly Securities Report: —
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results meeting: Yes (for analysts and institutional investors [on-demand video])

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine months Ended September 30, 2024 (January 1, 2024, to September 30, 2024)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Profit before tax		Profit (loss)		Profit attributable to owners of parent		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2024	7,942	-21.4	- 7,766	—	- 7,804	—	-7,765	—	-7,735	—	-6,844	—
Nine months ended September 30, 2023	10,110	-0.2	-1,494	—	-896	—	-1,053	—	-1,090	—	-1,197	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2024	-225.34	-225.34
Nine months ended September 30, 2023	-32.68	-32.68

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. The basic earnings per share and diluted earnings per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 18th fiscal period (ended December 2023).

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of total equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of September 30, 2024	9,362	-3,011	-2,975	-31.8
As of December 31, 2023	14,461	3,706	3,711	25.7

2. Dividends

	Dividends per share				
	Third Quarter	Second quarter	Third quarter	Fourth quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	—	0.00	—	0.00	0.00
Fiscal year ended December 31, 2024	—	0.00	—		
Fiscal year ended December 31, 2024 (forecast)				0.00	0.00

Revision of most recent dividend forecast: No

Notes

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): Yes

Newly included: -

Excluded: 4 companies (Monstarlab Denmark ApS, Monstarlab UK Limited, Monstarlab Czech Republic s.r.o, and Monstarlab Middle East DMCC.)

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies requested by IFRS : No

(ii) Changes in accounting polices other than (i) above : No

(iii) Changes in accounting estimates : No

(3) Number of issued shares (common stock)

(i) Number of issued shares at end of period (including treasury stock)

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

(iii) Average number of shares outstanding during the period

As of September 30, 2024	34,326,950 shares	As of December 31, 2023	34,326,950 shares
As of September 30, 2024	0 shares	As of December 31, 2023	0 shares
Nine months ended September 30, 2024	34,326,950 shares	Nine months ended September 30, 2023	33,376,320 shares

Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None

Explanation regarding appropriate use of earnings forecasts and other special notes

(Cautionary Statement Regarding Forward-Looking Statements)

The forward-looking statements in this document, including earnings forecasts, are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Therefore, it is not intended to promise its achievement. Actual results may differ materially due to various factors. For the assumptions underlying earnings forecasts and disclaimers concerning the use of earnings forecasts, refer to Section 1, “Qualitative Information on Quarterly Financial Results,” Subsection 3, “Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information” on pg. 5 of the Appendix.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The mission of the Monstarlab Group (the "Group") is "Empower talent everywhere to engineer awesome products, services and ecosystems; building a brighter world for us all." We aim to realize a better world by working with our clients as their digital partner to create products, services, and ecosystems that will resolve global issues while providing people with opportunities to work, grow, and participate in projects tackling global issues across national borders.

During the Nine months ended September 30, 2023, the global economy and the Japanese economy continued to face uncertain outlook as they were affected the protracted situation in Ukraine and Russia and the acceleration of monetary tightening in response to global inflation, although normalization of social and economic activities were well underway due in part to the reclassification of COVID-19 in Category 5, the same category as seasonal flu, under the Infectious Diseases Prevention Act. On the other hand, in the IT industry, there continues to be a healthy corporate appetite for investment in digital transformation (DX) on the back of increasing demand for DX that is directly linked to management strategies.

In the current business environment, the Group is focusing on the digital consultancy business as its main business, primarily targeting corporations and local governments to support DX aligned with their business issues and new business needs. The Group is also pursuing other business, including product business, globally across 19 countries and regions (as of September 30, 2024). The Group has divided the geographic areas in which it operates its digital consultancy business into three regions: APAC (Japan and Asia Pacific), EMEA (Europe, Middle East, and Africa), and AMER (North, Central, and South America).

For this third quarter consolidated period, in APAC, like the previous second quarter, the impact of revenue decline due to the completion of existing development projects was significant, resulting in an 11.3% decrease in revenue compared to the same period last year. However, development projects acquired in the previous second quarter are progressing as planned, and new development projects are being successfully acquired, indicating a recovery trend from the lows of the previous second quarter. In AMER, collaboration with a payment solutions company has been progressing well, resulting in a 29.6% increase in revenue compared to the same period last year. In EMEA, due to continued losses even after structural reforms implemented in the previous second quarter, comprehensive structural reforms including closure and deconsolidation of locations were carried out on September 19 and September 30, 2024, as disclosed in a timely manner, and most business activities were suspended during this third quarter. As a result, EMEA's revenue significantly decreased by 44.4% compared to the same period last year, leading to a 21.4% decrease in consolidated revenue year-over-year.

As a result, the operating loss amounted to approximately 770 million yen due to the decrease in revenue and the restructuring costs disclosed separately. Additionally, due to the rapid appreciation of the yen, we have recorded a foreign exchange loss of approximately 1.2 billion yen for this third quarter accounting period.

Consequently, for this third quarter consolidated period, our group's revenue was 7,942,630 thousand yen (a decrease of 21.4% from the same period last year), operating loss was 7,766,992 thousand yen (compared to an operating loss of 1,494,148 thousand yen from the same period last year), pre-tax quarterly loss was 7,804,946 thousand yen (compared to a pre-tax quarterly loss of 896,259 thousand yen from the same period last year), and the quarterly loss attributable to the parent company's owners was 7,735,278 thousand yen (compared to a quarterly loss of 1,090,748 thousand yen attributable to the parent company's owners from the same period last year).

The operating results for the digital consultancy business by region are as shown below.

1. APAC

For this third quarter consolidated period, revenue amounted to 4,758,439 thousand yen (a decrease of 11.3% compared to the same period last year), and the operating loss was 305,998 thousand yen (compared to an operating profit of 160,357 thousand yen in the previous year).

The decrease in revenue is primarily due to the completion of existing projects that began in the first quarter consolidated period. However, the reduction in revenue due to project completions has stabilized, and new development projects acquired during the previous second quarter are progressing as planned, contributing to a recovery trend in revenue.

On the operating profit front, we incurred approximately 290 million yen in losses from debt forgiveness at closed EMEA locations, in addition to personnel reduction costs in Bangladesh. Despite these costs, our strict cost control measures have limited the increase in expenses relative to the rise in revenue, resulting in improved operating profits.

In the short term, we are focusing on enhancing our sales organization and marketing specifically for development projects, aiming to restore revenue levels. Looking ahead to 2025, we are working on strengthening our data and enterprise systems areas and leveraging APAC development hubs for direct global sales, aiming to return to the high growth business levels seen prior to 2022.

2. EMEA

During this third quarter consolidated period, revenue was 2,139,383 thousand yen (a decrease of 44.4% compared to the same period last year), while operating profit was 4,460,726 thousand yen (compared to an operating loss of 1,650,492 thousand yen in the previous year).

We implemented closures and deconsolidations of certain locations, drastically reducing the scale of operations. Some revenue recognition will occur as closures and deconsolidations are finalized in the fourth quarter consolidated period, but the level of business activities and revenue for the fourth quarter is expected to be minimized to the extent that it will have little impact on the consolidated income statement.

On the operating profit side, while the restructuring through closures and deconsolidation led to a decrease in revenue and incurred restructuring costs, the recognition of gains from debt forgiveness associated with closures and bankruptcies has temporarily resulted in significant operating profit.

Going forward, the focus will shift primarily to APAC and AMER, and we expect both revenue and operating profit to be minimized to a level that will have little impact on the consolidated income statements beyond the fourth quarter consolidated period.

3. AMER

During this third quarter consolidated period, revenue was 749,434 thousand yen (an increase of 29.6% compared to the same period last year), and the operating loss was 75,092 thousand yen (compared to an operating loss of 268,114 thousand yen in the previous year).

Existing customer projects have entered the development phase, beginning a trajectory of stable revenue growth. Additionally, collaboration with a major payment solutions company is progressing well, leading to a steady increase in revenue.

Regarding operating profit, the cost structure has improved due to the structural reforms implemented in the previous second quarter consolidated period, resulting in a positive operating profit for this third quarter, excluding the costs associated with the restructuring.

(2) Explanation of Financial Position

1) Status of assets, liabilities, and equity

The status of various items at the end of the consolidated first quarter under review are as shown below.

(Current assets)

The balance of current assets was 4,532,137 thousand yen (vs. 5,836,139 thousand yen at the end of the previous fiscal year). This includes cash and cash equivalents of 1,293,855 thousand yen (vs. 1,783,264 thousand yen at the end of the previous fiscal year) and trade and other receivables of 1,900,756 thousand yen (vs. 2,600,114 thousand yen at the end of the previous fiscal year).

(Non-current assets)

The balance of non-current assets was 4,829,975 thousand yen (vs. 8,624,916 thousand yen at the end of the previous fiscal year). This includes goodwill of 699,354 thousand yen (vs. 3,964,762 thousand yen at the end of the previous fiscal year) and other financial assets of 3,040,080 thousand yen (vs. 3,083,563 thousand yen at the end of the previous fiscal year).

(Current liabilities)

The balance of current liabilities was 10,612,505 thousand yen (vs. 7,932,462 thousand yen at the end of the previous fiscal year). This includes trade and other payables of 690,672 thousand yen (vs. 1,132,648 thousand yen at the end of the previous fiscal year) and bonds and borrowings of 8,542,816 thousand yen (vs. 4,739,564 thousand yen at the end of the previous fiscal year).

(Non-current liabilities)

The balance of non-current liabilities was 1,761,522 thousand yen (vs. 2,822,565 thousand yen at the end of the previous fiscal year). This includes bonds and borrowings of 942,210 thousand yen (vs. 1,493,246 thousand yen at the end of the previous fiscal year) and lease liabilities of 232,936 thousand yen (vs. 549,435 thousand yen at the end of the previous fiscal year).

(Total equity)

Total equity was minus 3,011,916 thousand yen (vs. 3,706,027 thousand yen at the end of the previous fiscal year). This includes share capital of 1,922,586 thousand yen (vs. 1,922,586 thousand yen at the end of the previous fiscal year), capital surplus of 10,625,872 thousand yen (vs. 10,499,729 thousand yen at the end of the previous fiscal year), and retained earnings of minus 16,293,641 thousand yen (vs. minus 8,558,362 thousand yen at the end of the previous fiscal year).

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as "net cash") at the end of the consolidated First quarter of the fiscal year under review was 1,293,855 thousand yen (vs. 1,783,264 thousand yen at the end of the previous consolidated fiscal year).

Cash flow activities and contributing factors during the consolidated First quarter of the fiscal year under review were as shown below.

(Cash flows from operating activities)

Net cash used in operating activities totaled 3,191,224 thousand yen (vs. 2,842,821 thousand yen in the same period last year). The main factors were a pre-tax quarterly loss of minus 7,804,946 thousand yen (vs. minus 896,259 thousand yen for the same period last year), impairment losses of 4,141,999 thousand yen (vs. zero for the same period last year), profit from sale of subsidiary shares of minus 295,517 thousand yen (vs. minus 762,438 thousand yen for the same period last year), subsidiary liquidation losses of 49,522 thousand yen (vs. zero for the same period last year), foreign exchange losses of minus 25,381 thousand yen (vs. minus 885,282 thousand yen for the same period last year), a change in trade and other receivables of 437,783 thousand yen (vs. 661,228 thousand yen for the same period last year), a change in trade and other payables of 80,168 thousand yen (vs. minus 513,556 thousand yen for the same period last year), and income taxes paid of minus 92,032 thousand yen (vs. minus 345,158 thousand yen for the same period last year).

(Cash flows from investing activities)

Net cash used in investing activities totaled 336,359 thousand yen (vs. 816,457 thousand yen in the same period last year). The main factors include the purchase of property, plant, and equipment of 26,920 thousand yen (vs. 67,652 thousand yen for the same period last year), the purchase of intangible assets of 106,449 thousand yen (vs. 303,541 thousand yen for the same period last year), the cash outflow from the sale of subsidiary shares of 29,757 thousand yen (vs. 4,282 thousand yen for the same period last year), and the costs related to the liquidation of subsidiaries of 99,163 thousand yen (vs. zero for the same period last year).

(Cash flows from financing activities)

Net cash provided by financing activities totaled 3,027,441 thousand yen (vs. 4,001,509 thousand yen in the same period last year). The main factors include proceeds from short-term borrowings of 3,808,243 thousand yen (vs. 2,574,330 thousand yen for the same period last year), repayments of long-term borrowings of 504,537 thousand yen (vs. 473,282 thousand yen for the same period last year), income from the issuance of bonds of 200,000 thousand yen (vs. zero for the same period last year), redemption of bonds of 250,000 thousand yen (vs. 114,500 thousand yen for the same period last year), and repayments of lease liabilities of 226,264 thousand yen (vs. 289,365 thousand yen for the same period last year).

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

The Group has achieved an average annual revenue growth rate of over 40% from 2016 to 2022. However, the fiscal year ended December 31, 2023, marked a period of slowed growth, during which we revised our strategies, including adjusting the balance of project phases and focusing on large, long-term projects, and implemented structural reforms aimed at improving profitability over revenue growth. Moving forward, we aim to continue our story of high growth while ensuring profitability. Therefore, for the fiscal year ending December 31, 2024, we are designating this as a period to establish a foundation for achieving high growth with assured profitability starting from the fiscal year ending December 31, 2025. This involves formulating a medium- to long-term business strategy that includes revising the business portfolios across all regions (APAC/EMEA/AMER), along with investments to strengthen capabilities and organizational restructuring, and reconstructing our profit structure. Specifically, we plan to invest in differentiating technologies, enhance our capabilities in the enterprise domain, and strengthen our talent acquisition. Moreover, we are considering implementing organizational and structural reforms aimed at fundamentally enhancing our profit structure. Consequently, given the uncertainties related to implementing these strategies, we find it challenging to revise our forecasts reasonably at this time and have decided to defer the earnings forecast for the fiscal year ending December 31, 2024. We will announce it promptly once we are prepared to disclose a reasonable forecast.

(4) Significant Matters Regarding the Assumption of Going Concern

There exist circumstances that cast significant doubt on the assumption that our group can continue as a going concern. Please refer to Note 11, " Notes about Premise of a Going Concern" for further details.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Statement of Financial Position

(Unit: Thousand yen)

	Note	As of December 31, 2023	As of September 30, 2024
Assets			\
Current assets			
Cash and cash equivalents		1,783,264	1,293,855
Trade and other receivables		2,600,114	1,900,756
Contract assets		922,131	919,731
Inventories		60,345	62,789
Other current assets		470,282	355,004
Total current assets		5,836,139	4,532,137
Non-current assets			
Property, plant, and equipment		258,783	125,219
Right-of-use assets		356,249	71,943
Goodwill		3,964,762	699,354
Intangible assets		651,053	584,517
Other financial assets	5	3,083,563	3,040,080
Deferred tax assets		49,099	61,157
Other non-current assets		261,403	247,703
Total non-current assets		8,624,916	4,829,975
Total assets		14,461,055	9,362,112

(Unit: Thousand yen)

	Note	As of December 31, 2023	As of September 30, 2024
Liabilities and equity			
Current liabilities			
Trade and other payables		1,132,648	690,672
Contract liabilities		211,462	216,084
Bonds and borrowings	5	4,739,564	8,542,816
Lease liabilities		294,579	131,197
Income taxes payable		181,006	20,295
Allowance		51,885	59,554
Other current liabilities		1,321,315	951,885
Total current liabilities		7,932,462	10,612,505
Non-current liabilities			
Bonds and borrowings		1,493,246	942,210
Lease liabilities		549,435	232,936
Allowance		130,966	113,147
Deferred tax liabilities		108,878	158,011
Other non-current liabilities		540,039	315,215
Total non-current liabilities		2,822,565	1,761,522
Total liabilities		10,755,027	12,374,028
Equity			
Share capital		1,922,586	1,922,586
Capital surplus		10,499,729	10,625,872
Retained earnings		-8,558,362	-16,293,641
Other components of equity		-152,870	769,594
Total equity attributable to owners of parent		3,711,083	-2,975,587
Non-controlling interests		-5,055	-36,328
Total equity		3,706,027	-3,011,916
Total liabilities and equity		14,461,055	9,362,112

(2) Quarterly Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

(Quarterly Consolidated Statement of Profit or Loss)

(Unit: Thousand yen)

	Note	Nine months ended September 30, 2023	Nine months ended September 30, 2024
Revenue	7	10,110,558	7,942,630
Cost of sales		-7,466,145	-7,129,659
Gross profit		2,644,413	812,971
Selling, general, and administrative expenses		-4,825,417	-4,722,316
Other income		850,054	1,193,101
Other expenses		-163,198	-5,050,748
Operating profit (loss)		-1,494,148	-7,766,992
Finance income		664,898	103,112
Finance costs		-66,770	-109,212
Share of loss (profit) of entities accounted for using equity method		-239	-31,852
Profit (loss) before tax		-896,259	-7,804,946
Income tax expenses		-156,884	39,026
Profit (loss)		-1,053,144	-7,765,919
Profit (loss) attributable to			
Owners of parent		-1,090,748	-7,735,278
Non-controlling interests		37,604	-30,640
Profit (loss)		-1,053,144	-7,765,919
Earnings (loss) per share			
Basic earnings (loss) per share (yen)	8	-32.68	-225.34
Diluted earnings (loss) per share (yen)	8	-32.68	-225.34

(Quarterly Consolidated Statement of Comprehensive Income)

(Unit: Thousand yen)

	Note	Nine months ended September 30, 2023	Nine months ended September 30, 2024
Profit (loss)		-1,053,144	-7,765,919
Other comprehensive income			
Items that may not be reclassified to profit or loss:			
Remeasurement of defined benefit plans		92	-15
Total of items		92	-15
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		-144,913	921,811
Total of items		-144,913	921,811
Other comprehensive income, net of tax		-144,820	921,795
Total comprehensive income		-1,197,964	-6,844,123
Total comprehensive income attributable to			
Owners of parent		-1,235,699	-6,812,814
Non-controlling interests		37,734	-31,309
Total comprehensive income		-1,197,964	-6,844,123

(3) Quarterly Consolidated Statement of Changes in Equity

For the Nine months ended September 30, 2023 (From January 1, 2023 to September 30, 2023)

(Unit: Thousand yen)

	Note	Equity attributable to owners of parent							Non-controlling interests	Total equity
		Share capital	Capital surplus	Retained earnings	Other components of equity			Total equity attributable to owners of parent		
					Exchange differences on translation of foreign operations	Remeasurement of defined benefit plans	Total other components of equity			
Balance as of January 1, 2023		1,065,754	9,708,785	-6,203,033	12,137	513	12,651	4,584,158	-491,733	4,092,424
Profit (loss)		—	—	-1,090,748	—	—	—	-1,090,748	37,604	-1,053,144
Other comprehensive income		—	—	—	-145,043	92	-144,950	-144,950	130	-144,820
Total comprehensive income		—	—	-1,090,748	-145,043	92	-144,950	-1,235,699	37,734	-1,197,964
Issuance of new shares		854,164	844,564	—	—	—	—	1,698,729	—	1,698,729
Share-based payment Transactions		—	202,858	—	—	—	—	202,858	—	202,858
Loss of control of subsidiaries		—	131,326	—	—	—	—	131,326	4,025	135,352
Other		—	-446,735	—	—	—	—	-446,735	439,523	-7,212
Total transactions with owners and other transactions		854,164	732,014	—	—	—	—	1,586,179	443,548	2,029,728
Balance as of September 30, 2023		1,919,919	10,440,799	-7,293,781	-132,906	606	-132,299	4,934,638	-10,450	4,924,187

For the Nine months ended September 30, 2024 (From January 1, 2024 to September 30, 2024)

(Unit: Thousand yen)

	Note	Equity attributable to owners of parent							Non-controlling interests	Total equity
		Share capital	Capital surplus	Retained earnings	Other components of equity			Total equity attributable to owners of parent		
					Exchange differences on translation of foreign operations	Remeasurement of defined benefit plans	Total other components of equity			
Balance as of January 1, 2024		1,922,586	10,499,729	-8,558,362	-153,474	604	-152,870	3,711,083	-5,055	3,706,027
Profit (loss)		—	—	-7,735,278	—	—	—	-7,735,278	-30,640	-7,765,919
Other comprehensive income		—	—	—	922,480	-15	922,464	922,464	-668	921,795
Total comprehensive income		—	—	-7,735,278	922,480	-15	922,464	-6,812,814	-31,309	-6,844,123
Issuance of new shares		—	—	—	—	—	—	—	—	—
Share-based payment Transactions		—	126,143	—	—	—	—	126,143	—	126,143
Loss of control of subsidiaries		—	—	—	—	—	—	—	—	—
Other		—	—	—	—	—	—	—	36	36
Total transactions with owners and other transactions		—	126,143	—	—	—	—	126,143	36	126,179
Balance as of September 30, 2024		1,922,586	10,625,872	-16,293,641	769,005	589	769,594	-2,975,587	-36,328	-3,011,916

(4) Quarterly Consolidated Statement of Cash Flows

(Unit: Thousand yen)

	Note	Nine months ended September 30, 2023	Nine months ended September 30, 2023
Cash flows from operating activities			
Profit (loss) before tax		−896,259	−7,804,946
Depreciation and amortization		288,468	258,639
Impairment losses		—	4,141,999
Financial income and financial costs		65,674	106,916
Financial instrument valuation losses (gains)		−266,392	−19,241
Foreign exchange losses (gains)		−885,282	−25,381
Gain on sale of shares of subsidiaries		−762,438	−295,517
Loss on liquidation of subsidiary		—	49,522
Decrease (increase) in trade and other receivables		661,228	437,783
Increase (decrease) in trade and other payables		−513,556	80,168
Decrease (increase) in inventories		−51,665	−2,430
Decrease (increase) in contract assets		—	−9,317
Increase (decrease) in provisions		−534,520	−123
Other changes		440,133	90,339
Subtotal		−2,454,610	−2,991,588
Interest received		1,095	2,296
Interest paid		−44,148	−109,899
Corporate income taxes paid		−345,158	−92,032
Cash flows from operating activities		−2,842,821	−3,191,224
Cash flows from investing activities			
Purchase of property, plant, and equipment		-67,652	-26,920
Purchase of intangible assets		-303,541	-106,449
Purchase of investment securities		-392,919	—
Sales of shares of subsidiaries resulting in change in scope of consolidation		-4,282	-29,757
Expenditure from the liquidation of a subsidiary		—	-99,163
Other		-48,062	-74,069
Cash flows from investing activities		-816,457	-336,359
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		2,574,330	3,808,243
Proceeds from long-term borrowings		600,000	—
Repayments of long-term borrowings		-473,282	-504,537
Proceeds from issuance of bonds		—	200,000
Redemption of bonds		-114,500	-250,000
Repayment of lease liabilities		-289,365	-226,264
Issuance of new shares		1,708,329	—
Cash flows from financing activities		4,001,509	3,027,441
Effect of exchange rate changes on cash and cash equivalents		129,700	10,733
Net increase (decrease) in cash and cash equivalents		471,930	-489,409
Cash and cash equivalents at beginning of period		2,724,484	1,783,264
Cash and cash equivalents at end of period		3,196,415	1,293,855

(5) Notes about Quarterly Consolidated Financial Statements

1. Reporting entity

Monstarlab Holdings Inc. (the "Company") is a corporation (*kabushikikaisha*) located in Japan. The Company's registered head office is located in Shibuya-ku, Tokyo. The consolidated financial statements for the Nine months ended September 30, 2024, cover the Company and its subsidiaries (collectively referred to as the "Group"). The principal business activities of the Group are described in “7. Operating Segments.”

2. Basis of preparation of consolidated financial statements

(1) Compliance with IFRS

The consolidated quarterly financial statements of the Group have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as set forth in Article 5, Paragraph 2 of the Rules on Quarterly Financial Reporting of the Tokyo Stock Exchange, Inc.

As the quarterly financial statements do not include all information required for annual consolidated financial statements, they should be used in combination with the consolidated financial statements for the fiscal year ended December 31, 2023.

The quarterly consolidated financial statements were approved by Representative Director/Group CEO Hiroki Inagawa and Director/Executive Vice President and CFO Sumito Suzuki on November 14 , 2024.

(2) Functional currency and presentation currency

The Group's quarterly consolidated financial statements are presented in Japanese yen, which is the Group's functional currency. All financial information presented in Japanese yen is rounded to the nearest thousand yen.

3. Material accounting policies

The material accounting policies applied to the Group's quarterly consolidated financial statements are the same as those applied to the consolidated financial statements for the previous consolidated fiscal year.

4. Significant accounting judgements, estimates, and assumptions

In preparing the Group's quarterly consolidated financial statements, management is required to make judgments, estimates, and assumptions that affect the application of the Group's accounting policies and reported amounts of income, expenses, assets, and liabilities, as well as the disclosure of contingent liabilities. However, uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the book values of assets or liabilities in future periods.

Any judgements, estimates, and assumptions that have a significant impact on the amounts of the quarterly consolidated financial statements are, in principle, the same as those pertaining to the consolidated financial statements for the previous fiscal year.

5. Fair values of financial instruments

1) Fair value measurement method

The fair values of financial instruments are measured as follows:

a. Cash and cash equivalents, trade and other receivables, short-term loans receivable, trade and other payables, and borrowings (current liabilities)

These are valued at their book values, which approximate the fair values due to their short maturities.

b. Equity shares

The fair values of equity shares for which an active market exists are calculated based on market price. The fair values of equity shares for which no active market exists are evaluated mainly based on the price in recent transactions between independent third parties.

c. Leasehold and guarantee deposits

The fair values of leasehold and guarantee deposits are determined by discounting future cash flows using interest rates based on appropriate indicators, such as deposit period and government bond yields.

d. Bonds

The fair values of bonds are determined by discounting the total amount of principal and interest using a rate that reflects the time to maturity and credit risk of the bond.

e. Long-term borrowings

The fair values of long-term borrowings are determined by discounting the total amount of principal and interest using the assumed rate that would be applied to a similar new loan.

2) Fair value hierarchy

Fair values of financial instruments are categorized as Level 1 to Level 3 based on a fair value hierarchy as follows:

Level 1: Fair values measured by quoted prices on active markets.

Level 2: Fair values calculated using observable prices other than those included in Level 1, either directly or indirectly.

Level 3: Fair values calculated using a valuation technique that includes inputs which are not based on observable market data.

3) Financial Instruments measured at fair value on a recurring basis

(1) Fair value hierarchy

The following tables provide a breakdown of financial instruments by fair value hierarchy level.

For the fiscal year ended December 31, 2023

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Equity shares	—	—	2,619,451	2,619,451
Total	—	—	2,619,451	2,619,451
Liabilities:				
Financial liabilities measured with fair value through profit or loss				
Contingent consideration*	—	—	419,055	419,055
Total	—	—	419,055	419,055

For the Nine months ended September 30, 2024

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Equity shares	—	—	2,638,693	2,638,693
Total	—	—	2,638,693	2,638,693
Liabilities:				
Financial liabilities measured with fair value through profit or loss				
Contingent consideration*	—	—	201,630	201,630
Total	—	—	201,630	201,630

* The Group may enter into an agreement to pay additional consideration for acquisition to other shareholders on the condition that the acquired subsidiary has achieved a certain level of financial results (e.g., revenue, EBITDA, retained earnings) for each fiscal year. The fair values of such contingent consideration are determined by using a discounted cash flow model or the like, based on the amounts of future payments under the agreement, and are classified as Level 3. Contingent consideration is included in “trade and other receivables” or “other non-current liabilities” in the quarterly consolidated statement of financial position.

(2) Reconciliation of Level 3 fair values

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2023	245,120	698,536
Purchase	2,221,183	—
Sale	-33,033	—
Comprehensive income		
Profit (loss)	266,392	103,226
Other comprehensive income	—	—
Other	—	-357,955
Balance as of September 30, 2022	2,699,663	443,807
Gains or losses recognized in profit or loss in relation to financial instruments held on September 30, 2023	266,392	103,226

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2024	2,619,451	419,055
Purchase	—	—
Sale	—	—
Comprehensive income		
Profit (loss)	19,241	-217,424
Other comprehensive income	—	—
Other	—	—
Balance as of September 30, 2024	2,638,693	201,630
Gains or losses recognized in profit or loss in relation to financial instruments held on September 30, 2024	19,241	-217,424

(3) Sensitivity analysis of changes in significant unobservable inputs

Among fair values of assets classified as Level 3 that are measured with fair value, the fair values of securities investments evaluated based on their discounted future cash flows decrease (increase) as the discount rate rises (falls).

We do not expect any significant change in the fair values of financial instruments classified as Level 3 if their unobservable inputs are replaced with alternative assumptions that may be considered reasonable.

4) Financial Instruments Measured with Amortized Cost

The book values and fair values of financial instruments measured with amortized cost are as shown below. Note that the tables below do not include financial instruments for which the book value approximates the fair value.

(Unit: Thousand yen)

	As of December 31, 2023	
	Book value	Fair value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	277,200	276,669
Liabilities:		
Bonds and borrowings	6,232,810	6,221,294

(Unit: Thousand yen)

	As of September 30, 2024	
	Book value	Fair value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	177,112	176,150
Liabilities:		
Bonds and borrowings	9,485,027	9,464,769

6. Revenue

Disaggregation of revenue

This information is omitted since similar information is disclosed in “7. Operating Segments.”

7. Operating segments

(1) Outline of reportable segments

The reportable segments are components of the Group for which separate financial information is available and regularly reviewed by the Board of Directors to make decisions about the allocation of management resources and evaluate business results. The Group has two reportable segments: digital consultancy business and other business. The digital consultancy business provides a full range of services, from consulting to system development and operation, to promote digital transformation (DX), which aims to transform business models using IT.

Other business includes product businesses such as RPA (robot-based business automation) tools, self-ordering systems, and music distribution business.

(2) Information on Profit by Reportable Segment

For the Nine months ended September 30, 2023 (From January 1, 2023 to September 30, 2023)

(Unit: Thousand yen)

	Digital consultancy business	Other business	Total	Adjustments	Amount on quarterly consolidated financial statement
Revenue					
Revenue from external customers	9,781,608	315,088	10,096,697	13,861	10,110,558
Inter-segment revenue	35,353	—	35,353	-35,353	—
Total	9,816,962	315,088	10,132,050	-21,491	10,110,558
Segment profit (loss)	-1,758,248	740,168	-1,018,079	-476,068	-1,494,148
Finance income					664,898
Finance costs					-66,770
Share of loss (profit) of entities accounted for using equity method					-239
Profit (loss) before tax					-896,259

For the Nine months ended September 30, 2024 (From January 1, 2024 to September 30, 2024)

(Unit: Thousand yen)

	Digital consultancy business	Other business	Total	Adjustments	Amount on quarterly consolidated financial statement
Revenue					
Revenue from external customers	7,629,184	295,373	7,924,557	18,072	7,942,630
Inter-segment revenue	5,205	—	5,205	-5,205	—
Total	7,634,390	295,373	7,929,763	12,866	7,942,630
Segment profit (loss)	-3,514,939	39,873	-3,475,065	-4,291,927	-7,766,992
Finance income					103,112
Finance costs					-109,212
Share of loss (profit) of entities accounted for using equity method					-31,852
Profit (loss) before tax					-7,804,946

(3) Information by Region

The breakdown of revenue from external customers by region is as follows:

(Unit: Thousand yen)

		Nine months ended September 30, 2023	Nine months ended September 30 2024
Digital consultancy business	APAC	5,363,213	4,758,439
	EMEA	3,854,180	2,139,383
	AMER	578,076	749,434
Other business	APAC	293,816	295,373
	AMER	21,272	—
Total		10,110,558	7,942,630

Figures for APAC, EMEA, and AMER are external revenues of the offices in each region.

8. Earnings per Share

(1) Basis for Calculating Basic Earnings per Share

Basic earnings per share and the basis for calculation are as follows:

(Unit: Thousand yen)

	Nine months ended September 30, 2023
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	-1,090,748
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	-1,090,748
Average number of shares outstanding during the period	33,376,320 shares
Basic earnings (loss) per share	
Basic earnings (loss) per share	-32.68 yen

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. Basic earnings (loss) per share, and diluted earnings (loss) per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 18th term (fiscal year ended December 2023).

(Unit: Thousand yen)

	Nine months ended September 30, 2024
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	-7,735,278
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	-7,735,278
Average number of shares outstanding during the period	34,326,950 shares
Basic earnings (loss) per share	
Basic earnings (loss) per share	-225.34 yen

No transaction affecting the earnings per share took place between the end of the first quarter of the consolidated fiscal year under review and the date on which the quarterly consolidated financial statements were approved.

(2) Basis for Calculating Diluted Earnings per Share

Diluted earnings per share and the basis for calculation are as follows:

(Unit: Thousand yen)

	Nine months ended September 30, 2023
Profit (loss) attributable to ordinary shareholders (diluted)	
Profit used for calculation of basic earnings per share	-1,090,748
Adjustments to profit	—
Profit used for calculating diluted earnings per share	-1,090,748
Average number of shares outstanding during the period	33,376,320 shares
Dilutive effect	— shares
After adjustment for dilutive effect	33,376,320 shares
Diluted earnings per share	
Diluted earnings per share	-32.68 yen

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. Basic earnings (loss) per share, and diluted earnings (loss) per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 18th term (fiscal year ended December 2023).

(Unit: Thousand yen)

	Nine months ended September 30, 2024
Profit (loss) attributable to ordinary shareholders (diluted)	
Profit used for calculation of basic earnings per share	-7,735,278
Adjustments to profit	—
Profit used for calculating diluted earnings per share	-7,735,278
Average number of shares outstanding during the period	34,326,950 shares
Dilutive effect	— shares
After adjustment for dilutive effect	34,326,950 shares
Diluted earnings per share	
Diluted earnings per share	-225.34 yen

No transaction affecting the earnings per share took place between the end of the first quarter of the consolidated fiscal year under review and the date on which the quarterly consolidated financial statements were approved.

9. Loss of Control

a. Nine months ended September 30, 2023 (From January 1, 2023 to September 30, 2023)

Consolidation-Type Merger

(1) Outline of the consolidation-type merger

The Board of Directors of the Company resolved at its meeting held on January 20, 2023, to carry out a consolidation-type merger ("the Transaction") in which Koala Labs, Inc, a consolidated subsidiary of the Company, was the absorbed company and Chowly Merger Sub, Inc., a wholly owned subsidiary of Chowly, Inc., was the surviving company, and the Transaction was completed on January 31, 2023. As a result, the Company forfeited control of Koala Labs, Inc. and received an allotment of shares of Chowly, Inc. as consideration.

1) Name of the acquiring company and its business

Name of the acquiring company: Chowly, Inc.

Business: Provision of POS integration software for restaurant chains

2) Name of the acquired company and its business

Name of the acquired company: Koala Labs, Inc

Business: Provision of order platform products for the food and beverage industry

3) Main reason for the consolidation-type merger

The Company decided to carry out the consolidation-type merger because it anticipated synergy between Koala, an order platform product for the food and beverage industry developed by its consolidated subsidiary Koala Labs, Inc., and Chowly, Inc., which provides POS integration software targeted at restaurant chains that is a different solution from Koala, which would drive further product growth.

4) Date of consolidation-type merger

January 31, 2023

5) Legal form of business combination

Consolidation-type merger between Chowly Merger Sub, Inc. and Koala Labs, Inc. with the former as the surviving company and the latter as the absorbed company

6) Other matters concerning the transaction overview

Number of shares owned and ratio of voting rights held by the Company before and after the consolidation-type merger

	Number of shares owned	Voting rights ownership ratio
Before the consolidation-type merger	—	—
After the consolidation-type merger	2,813,756 shares	9.8%

(2) Outline of applied accounting process

1) Amount of gain (loss) on sale

768,061 thousand yen

2) Fair book values of assets and liabilities pertaining to the sold subsidiary and breakdown of major categories

Assets held for sale: 834,430 thousand yen

Total assets: 834,430 thousand yen

Liabilities directly associated with assets held for sale: 15,347 thousand yen

Total liabilities: 15,347 thousand yen

3) Accounting process

The difference between the consolidated book value of the shares of Koala Labs, Inc. and fair value of the shares of Chowly, Inc. was recognized in “Other income” in the quarterly consolidated statement of profit or loss.

b. Nine months ended September 30, 2024 (From January 1, 2024 to September 30, 2024)

Bankruptcy of a Consolidated Subsidiary

(1) Overview of the Bankruptcy of a Consolidated Subsidiary

On September 19, 2024, our Board of Directors resolved to file for the initiation of bankruptcy proceedings for our consolidated subsidiary, Monstarlab Denmark ApS ("MLDK"). On September 27, 2024, the commencement of bankruptcy was approved for MLDK. Consequently, we have lost control over MLDK and its wholly-owned subsidiaries (our indirect subsidiaries), namely Monstarlab UK Limited ("MLUK"), Monstarlab Czech Republic. s.r.o ("MLCZ"), Monstarlab Germany GmbH ("MLDE"), Monstarlab Netherlands B.V. ("MLNL"), and Monstarlab Middle East DMCC ("MLUAE").

(2) Reason for the Petition

Our group, which operates under the mission to "change the world with diversity and technology," and is divided into the three regions of APAC, EMEA, and AMER, has been engaged in the digital consulting business across 12 countries globally. However, as reported in the "Notice on Rationalization and Dissolution of Consolidated Subsidiaries" published on May 31, 2024, due to significant delays in the start of major projects in the high-growth-anticipated regions of EMEA and AMER, operational rates have dropped, leading to losses. To achieve rapid profitability improvement, we decided to undertake significant cost structure revisions in EMEA and AMER, including workforce reductions focusing on non-operational staff, downsizing offices, and revising IT costs.

Within this context, as disclosed in the "Notice on One-time Costs and Impairment Losses Due to Rationalization Including Personnel Reduction, and Reduction in Directors' Remuneration" published on August 14, 2024, anticipated revenues in EMEA and AMER could no longer be realized. This resulted in the recording of impairment losses on goodwill held by our consolidated subsidiaries Monstarlab LLC and Genieology Design DMCC totaling JPY 1,018 million and JPY 1,743 million respectively, and an impairment loss of JPY 938 million on goodwill held by Monstarlab Information Technology LLC. Additionally, fixed asset impairment losses totaling JPY 441 million were recorded across several consolidated and indirect subsidiaries.

As a result, our group recognized a total impairment loss of JPY 4,140 million and as of the end of the second quarter of the fiscal year 2024, our consolidated net assets had a deficit of JPY 2,593 million. Under these circumstances, to focus on highly profitable and growth-oriented businesses and reduce management risks, leading to a balanced management approach between healthy profit generation and growth, we obtained a decision to initiate bankruptcy proceedings for MLDK, which is part of EMEA, during the third quarter.

The bankruptcy proceedings will be conducted by the court and the appointed bankruptcy trustee going forward.

(3) Overview and Total Liabilities of the Subsidiaries Losing Control

① MLDK

a. Overview:

1. Name	Monstarlab Denmark ApS		
2. Location	2150 Nordhavn Orientkaj 4, 1.		
3. Representative's Position and Name	CEO, Director Anders Elnegaard Birch		
4. Business	Digital Consulting		
5. Capital	81,000 DKK (Approx. 1.8 million yen)		
6. Date of Establishment	November 27, 2013		
7. Financial Performance and Condition for the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	1,905	4,648	6,919
Net Assets (million yen)	-560	-42	-48
Per Share Net Asset Value (yen)	–	–	–
Revenue (million yen)	945	846	981
Operating Profit (million yen)	-67	-141	-197
Net Profit (million yen)	-399	-75	74
Per Share Net Profit (yen)	–	–	–

b. Total Liabilities (at the time of loss of control)

8,352 million yen

② MLUK

a. Overview:

1. Name	Monstarlab UK Limited		
2. Location	1st Floor 33 Grey Street, Newcastle Upon Tyne, Tyne and Wear, NE1 6EE		
3. Representative's Position and Name	CEO, Director Hiroki Inagawa		
4. Business	Digital Consulting Business		
5. Capital	1 GBP (Approx. 203 JPY)		
6. Date of Establishment	May 9, 2012		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	744	994	1,092
Net Assets (million yen)	-468	-761	-1,465
Per Share Net Asset Value (yen)	-	-	-
Revenue (million yen)	735	764	637
Operating Profit (million yen)	-285	-224	-543
Net Profit (million yen)	-283	-299	-561
Per Share Net Profit (yen)	-292	-299	-560

b. Total Liabilities (at the time of loss of control)

3,252 million yen

③ MLCZ

a. Overview:

1. Name	Monstarlab Czech Republic. s.r.o		
2. Location	Boudníkova 2514/7, Libeň, 180 00 Prague 8		
3. Representative's Position and Name	CEO, Director MARKÉTA OHNIŠTOVÁ		
4. Business	Digital Consulting Services		
5. Capital	200,000 CZK (approximately 1.3 million yen)		
6. Date of Establishment	April 17, 2018		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	272	596	746
Net Assets (million yen)	318	503	791
Per Share Net Assets (yen)	-	-	-
Sales (million yen)	153	233	377
Operating Income (million yen)	124	155	202
Ordinary Income (million yen)	229	142	250
Net Income Per Share (yen)	-	-	-

b. Total Liabilities (at the time of loss of control)

2,247 million yen

④ MLDE

a. Overview:

1. Name	Monstarlab Germany GmbH		
2. Location	c/o Mindspace, Friedrichstrasse 68, 10117 Berlin Germany		
3. Representative's Position and Name	CEO, Director Martin Kahl		
4. Business	Digital Consulting Business		
5. Capital	3 million EUR		
6. Date of Establishment	December 22, 2017		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December

Total Assets (million yen)	155	138	147
Net Assets (million yen)	261	274	436
Per Share Net Assets (yen)	-10,461	-10,965	-17,477
Sales (million yen)	131	285	316
Operating Income (million yen)	-69	3	-131
Ordinary Income (million yen)	-84	6	-128
Net Income Per Share (yen)	-3,366	265	-5,141

b. Total Liabilities (at the time of loss of control)

2,247 million yen

⑤ MLNL

a. Overview:

1. Name	Monstarlab Netherlands B.V.		
2. Location	Prinsengracht 769 A, 1017JZ Amsterdam		
3. Representative's Position and Name	CEO, Yildiz Cem		
4. Business	Digital Consulting Business		
5. Capital	1 EUR (approx. 172 JPY)		
6. Date of Establishment	September 8, 2018		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	157	334	325
Net Assets (million yen)	-211	-361	-516
Per Share Net Assets (yen)	—	—	—
Sales (million yen)	123	137	18
Operating Income (million yen)	-99	-130	-113
Ordinary Income (million yen)	-102	-130	-111
Net Income Per Share (yen)	—	—	—

b. Total Liabilities (at the time of loss of control)

844 million yen

⑥ MLUAE

a. Overview:

1. Name	Monstarlab Middle East DMCC		
2. Location	Jumeirah Lakes Towers, Dubai		
3. Representative's Position and Name	CEO, Director Mark Jones		
4. Business	Digital Consulting Business		
5. Capital	50,000 AED (approx. 2.2 million JPY)		
6. Date of Establishment	October 15, 2019		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	826	1,559	1,957
Net Assets (million yen)	-110	-730	-1,836
Per Share Net Assets (yen)	-2,206,519	-14,590,864	-36,720,996
Sales (million yen)	299	959	1,665
Operating Income (million yen)	-213	-590	-978
Ordinary Income (million yen)	-262	-609	-1,031
Net Income Per Share (yen)	-5,230,289	-12,176,866	-20,617,766

b. Total Liabilities (at the time of loss of control)

5,219 million yen

(4) Our Company's Losses

Our company has already fully written down the shares of MLDK, and their book value is now zero yen. Furthermore, we anticipate booking bad debt losses due to the write-off of receivables from subsidiaries and sub-subsidiaries over which we have lost control. While some provisions for bad debts have already been recorded, we continue to make efforts towards recovery. Note that these bad debt losses will be eliminated in the consolidated financial statements, hence they will not impact the consolidated profit and loss.

Transfer of Subsidiary Shares

(1) Overview of the Subsidiary Share Transfer

On September 19, 2024, at a board of directors meeting, our company resolved to transfer the shares of our consolidated subsidiary, Genieology Design DMCC (hereinafter referred to as "GO"). A share transfer agreement was signed on September 20, 2024, and the share transfer was executed on September 23, 2024.

1) Number of shares and percentage of voting rights owned by the company before and after the transfer

	Number of shares owned	Percentage of voting rights
Before the Transfer	80 shares	100%
After the Transfer	-%	-%

2) Transfer Price

The transfer price for the shares and interests in Genieology Design DMCC ("GO") and its subsidiary Genieology Design Yazılım Limited Şirketi ("TR") combined amounted to 223 million yen. To ensure fairness, the valuation was based on a third-party valuation by Univis Consulting, which amounted to 161 million yen. The valuation was determined through fair negotiation processes and is recognized as a fair value. The valuation was conducted using the income approach (DCF method).

(2) Main Reasons for the Subsidiary Share Transfer

The group is committed to transforming the world through technology leveraging diversity, operating digital consulting businesses in 12 countries across APAC, EMEA, and AMER. As previously announced on May 31, 2024, in "Notice on Rationalization of Personnel Reduction and Policy Decision on Dissolution of Consolidated Subsidiaries," we have been working to drastically review the cost structure in EMEA and AMER to achieve early profitability. In the current climate, where prioritizing profitability is paramount, it is essential to reduce management risks. After negotiations with Mr. Calvin, the founder of GO who was centrally involved in design consulting in the Middle East, we decided to transfer all shares of GO held by our company to Mr. Calvin, in light of cost reduction and early realization of organizational restructuring within the group. As a result of this share transfer, GO and its subsidiary TR have been excluded from our consolidation scope.

(3) Overview of Subsidiaries Losing Control

① GO

Overview

1. Name	Genieology Design DMCC		
2. Location	Jumeirah Lakes Towers, Dubai		
3. Representative's Position and Name	CEO, Director Calvin Rodney Sylvinus Hart		
4. Business	Design Consulting Business		
5. Capital	80,000 AED (approximately 3.5 million yen)		
6. Date of Establishment	October 16, 2018		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	-	495	459
Net Assets (million yen)	-	353	275
Per Share Net Assets (yen)	-	4,415,605	3,438,246
Sales (million yen)	-	539	557

Operating Income (million yen)	-	336	Δ101
Ordinary Income (million yen)	-	335	Δ102
Net Income Per Share (yen)	-	7,180,101	Δ1,278,538

② TR

Overview

1. Name	Genieology Design Yazılım Limited Şirketi		
2. Location	TURKEY ISTANBUL SISLI ESENTEPE MAH. TALAT PASA CAD.		
3. Representative's Position and Name	CEO, Director Calvin Rodney Sylvanus Hart		
4. Business	Digital Consulting Services		
5. Capital	50,000 TL (Approx. 240,000 JPY)		
6. Date of Establishment	January 31, 2024		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	-	-	-
Net Assets (million yen)	-	-	-
Per Share Net Assets (yen)	-	-	-
Sales (million yen)	-	-	-
Operating Income (million yen)	-	-	-
Ordinary Income (million yen)	-	-	-
Net Income Per Share (yen)	-	-	-

(4) Overview of the Counterparty in the Subsidiary Share Transfer

1. Name	Calvin Rodney Sylvinus Hart
2. Address	Dubai, United Arab Emirates
3. Current Position and Role	Chief Executive Officer (CEO)

(5) Overview of the Accounting Treatment Implemented

1) Gain on Sale

JPY 295,517 thousand

2) Accounting Treatment

The difference between the consolidated book value of the GO shares and the transfer consideration has been recorded under "Other Income" in the summary consolidated statement of profit and loss.

10. Subsequent Events

1) Issuance of Stock Acquisition Rights

Our company, at the board meeting held on September 19, 2024 (hereinafter referred to as the "Resolution Date"), decided on the issuance of the 81st series of stock acquisition rights (hereinafter referred to as "these stock acquisition rights"), designated to EVO FUND. The total issuance price (JPY 14,400,000) was paid on October 7, 2024. For further details regarding these stock acquisition rights, please refer to the notice published on September 19, 2024, titled "Announcement Concerning the Issuance of the 81st Series Stock Acquisition Rights (with Exercise Price Adjustment Clause) through Third-Party Allocation."

The specifics of these stock acquisition rights are as follows:

1. Issue Date	October 7, 2024
2. Number of Warrants Issued	300,000 warrants
3. Issue Price	Total amount 14,400,000 yen (48 yen per warrant)
4. Potential Shares Issuable	30,000,000 shares (100 shares per warrant)
5. Amount of Financing	4,220,650,000 yen
6. Exercise Price and Conditions for Adjustment of the Exercise Price	The initial exercise price is set at 141 yen. The exercise price of these newly issued stock options will be adjusted for the first time on the trading day following the allotment day (a "trading day" refers to a day on which trading is conducted at the Tokyo Stock Exchange, hereinafter referred to as the "Exchange"). Subsequently, the price will be adjusted every three trading days. If an adjustment is made according to this clause, the exercise price will be recalculated based on the simple average of the closing prices of our ordinary shares on the Exchange during the three consecutive trading days preceding the adjustment day (hereinafter referred to as the "pricing period"), excluding any days without a closing price. This recalculated amount, rounded down to the nearest yen less than 95% of this average, sets the new exercise price, provided that it does not fall below the minimum exercise price. If no closing prices are available on any of the trading days within the pricing period, no adjustment to the exercise price will be made. Moreover, if an event that triggers an adjustment under clause 11 of the terms of issue of these stock options occurs during the pricing period, the closing prices used for the calculations will be adjusted accordingly to account for such events. Under these adjustment conditions, while it cannot be ruled out that the adjusted exercise price may fall below 90% of the closing price on the day before the adjustment day, it is expected that the total proceeds from the exercise of these stock options will increase beyond merely adjusting to 90% of the prior day’s closing price each time. This expectation justifies the adoption of these adjustment conditions.
7. Method of Offering or Allocation (Allocatee)	All of these new share options will be allocated to EVO FUND through a third-party allotment method.
8. Other	After the effectiveness of the notification by securities registration statement under the Financial Instruments and Exchange Act, we have entered into a repurchase agreement (hereinafter referred to as 'the Repurchase Agreement') with the allocatee that requires our board of directors' approval for any transfer of these new share subscription rights by the allocatee. In addition to the above, the Repurchase Agreement stipulates terms regarding the acquisition of the new share subscription rights, lock-up provisions, and restrictions on the exercise of the new share subscription rights. *Acquisition Conditions The new share subscription rights come with an acquisition clause that allows our company to acquire the rights at its discretion. However, under the Repurchase Agreement, acquisition using this clause requires prior written consent from the allocatee. Nevertheless, if the 5th and 6th unsecured corporate bonds (private placement) no longer exist, our company may acquire up to 200,000 of these new share subscription rights without the allocatee's consent, and the remaining 100,000 can also be acquired if there is written consent from the allocatee.

	*Lock-Up Our company will not, directly or indirectly, solicit, offer as security, issue, sell, contract to sell, grant purchase options, grant rights to purchase, grant underwriting rights, lend, or otherwise transfer or dispose of our ordinary shares or securities convertible into or exchangeable for our ordinary shares without prior written consent from the allocatee or EVOLUTION JAPAN Securities Co., Ltd. (address: 4-1 Kioicho, Chiyoda-ku, Tokyo, President: Sean Lawson), from the day following the execution date of the repurchase agreement (including the same day) for a period of six months. Furthermore, we will not engage in swaps or other arrangements transferring all or part of the economic results of ownership of our ordinary shares to a third party, nor will we permit any action by any person acting on our instructions to undertake such activities. However, these restrictions do not apply in cases where the ordinary shares or securities convertible into or exchangeable for ordinary shares are allocated to our capital and business partners who have pledged to hold them for over one year upon conversion or exchange, or for the issuance of class shares intended as capital contribution involving monetary claims existing at the time of signing the repurchase agreement (including those convertible into ordinary shares), equivalent to the repayment of such monetary claims with the issuance of class shares intended for contribution, the company issues or delivers its ordinary shares through a stock split, the company makes a gratuitous allotment of its ordinary shares, the company transfers treasury shares under Article 194, Paragraph 3 of the Companies Act, the company issues or delivers its ordinary shares under a restricted stock compensation scheme, the company issues or delivers new share subscription rights or ordinary shares under a stock option scheme, the issuance of new share subscription rights, the exercise of new share subscription rights leading to the issuance or delivery of the company’s ordinary shares, and other cases where necessary under applicable laws. *Exercise Restriction Measures for New Share Subscription Rights The following terms have been established under the repurchase agreement: A. In accordance with Article 434, Paragraph 1 and Articles 436, Paragraphs 1 through 5 of the Securities Listing Regulations set by the exchange, our company will not allow the exercise of new share subscription rights that would result in the acquisition of a number of shares exceeding 10% of the listed shares at the time of payment for these rights within a single calendar month (referred to as "excess exercise limit"). B. The allocatee agrees not to exercise the new share subscription rights in excess of the limit, except under the following conditions, and will confirm with our company in advance whether the exercise of these rights would constitute an excess exercise: (a) From the time a merger, stock exchange, or transfer that would result in delisting is announced, until the time the merger or similar transaction is completed or announced not to be completed. (b) From the time a public tender offer is announced against our company until the time the offer is completed or announced to be discontinued. (c) From the time the relevant shares are designated as under supervision or under reorganization by the stock exchange until the designation is lifted. (d) If the exercise price of the new share subscription rights on the day after the issuance resolution date is greater than the closing price of the related shares on the stock market (adjustments will be made fairly and rationally in case of a stock split, consolidation, or free assignment).

	C. The allocatee will ensure that any transferees of the new share subscription rights agree to assume the same obligations related to excess exercise limits before transferring these rights, and require any subsequent transferees to also undertake these obligations to our company.

2) Exercise Status of New Share Subscription Rights

Some of the new share subscription rights issued on October 7, 2024, allocated to EVO FUND (herein after referred to as "these rights"), have been exercised. The status of their exercise as of the end of October is as follows:

1. Type and Number of Issued Shares	Common Shares - 2,025,000 shares
2. Total Exercise Price Amount	237,832,000 yen
3. Capital Increase Amount	118,916,000 yen
4. Capital Surplus Increase Amount	117,944,000 yen

As a result, as of October 31, 2024, the total number of issued common shares is 36,351,950, the capital is 2,041,502,000 yen, and the capital surplus is 10,743,816,000 yen.

3) Changes in Consolidated Subsidiaries

As previously announced in our May 31, 2024 release 'Notification of Rationalization and Dissolution Policies for Consolidated Subsidiaries,' our group has been striving to achieve early profitability by fundamentally reviewing the cost structures in the EMEA and AMER regions. Given the current priority of achieving profitability and the importance of reducing management risk, we have decided to exclude our operations in Spain, located in Europe where most closures are happening, from the consolidated scope and treat it as an equity method affiliate.

Specifically, for Monstarlab Spain S.L. (hereinafter 'MLS'), a debt-to-equity swap was carried out on part of the loans to MLS, and new equity has been allocated to our company. Concurrently, MLS received investments from its director, Joan Daura Cros (hereinafter 'Joan'), and its employee, Maurizio Straneo (hereinafter 'Mauri'), reducing our equity stake, and as a result, MLS will be excluded from our consolidated scope from the end of the current fiscal period.

On November 4, 2024, MLS completed additional investments from Joan and a debt-to-equity swap transaction with Mauri.

The purpose of this debt-to-equity swap is to reduce interest-bearing debt and eliminate the situation of excess liabilities (as of the end of the second quarter of the fiscal year 2024, MLS had excess liabilities of 22 million yen), improve the financial constitution of MLS as our consolidated subsidiary, and ensure its sustainable growth and our continued receipt of license fees.

The details of the subsidiary undergoing changes are as follows.

1. Name	Monstarlab Spain S.L.		
2. Location	RABIA 3, SARRIA FORUM, EDIFICIO B, PLANTA 4, BARCELONA, SPAIN		
3. Representative's Position and Name	Director, Joan Daura Cros		
4. Business	Digital Consulting Business		
5. Capital	3,000 EUR (approximately 517,000 JPY)		
6. Date of Establishment	July 24, 2003		
7. Financial Performance and Financial Position in the Last Three Years			
Fiscal Year	FY 2021 December	FY 2022 December	FY 2023 December
Total Assets (million yen)	-	-	360
Net Assets (million yen)	-	-	15
Per Share Net Assets (yen)	-	-	―
Sales (million yen)	-	-	156
Operating Income (million yen)	-	-	18
Ordinary Income (million yen)	-	-	15
Net Income Per Share (yen)	-	-	5,295

Additional information is as follows.

1.Before the Transaction

Investor	Capital (EUR)	Ownership
Our Company	3,000 (approximately 517 thousand yen)	100.00%

2.After the Transaction

Investor	Capital (EUR)	Details
Our Company	157,000 (approximately 27 million yen)	Debt-to-Equity Swap
Mauri	250,050 (approximately 43 million yen)	Debt-to-Equity Swap
Joan	89,950 (approximately 15 million yen)	Third-party Capital Increase

3.Ownership Ratios After the Changes

Investor	Capital (EUR)	Details
Our Company	160,000 (approximately 27 million yen)	32.00%
Mauri	250,050 (approximately 43 million yen)	50.01%
Joan	89,950 (approximately 15 million yen)	17.99%
Total	500,000 (approximately 86 million yen)	100.00%

4.Ownership Ratios After the Changes

Name	Maurizio Straneo	Joan Daura Cros
Address	Barcelona, Spain	Dubai, United Arab Emirates
Relationship with the Listed Company	Employee of a Consolidated Subsidiary	CEO of a Consolidated Subsidiary

11. Notes about Premise of a Going Concern

As stated in the "Notes to Condensed Quarterly Consolidated Financial Statements, Item 10: Subsequent Events" of the 19th Semi-Annual Report, our group has been undergoing organizational transformations and structural reforms as part of efforts to swiftly address the significant operating losses and negative operating cash flows recorded for two consecutive periods. This has involved a thorough review of the profitability of each subsidiary within the region, leading to a decision to further execute a radical group organizational restructuring.

As a result, during this interim consolidated accounting period, we recorded an impairment loss of JPY 4,140,388 thousand primarily on goodwill and fixed assets. Additionally, due to significant operating losses and quarterly losses recorded in the third-quarter cumulative period, we ended the third-quarter consolidated period with a negative debt of JPY 3,011,916 thousand.

Thus, a situation has arisen that casts significant doubt on the assumption of our company as a going concern.

Our group is implementing the following measures to resolve this situation:

1. Measures for Revenue Improvement

As announced on May 31, 2024, in the "Announcement Regarding the Rationalization and Dissolution of Consolidated Subsidiaries," our group is increasingly focusing on acquiring projects in areas where we are establishing strengths, such as healthcare, life sciences, and finance.

Additionally, we aim to establish a growth foundation within 2024 by investing in our proprietary technologies that allow for differentiation in areas like geolocation and pricing strategies and by globalizing solutions developed from past DX projects.

Furthermore, from 2025 onwards, we intend to increase sales and profits by enhancing the value of the SoE areas we specialize in, strengthening data domains such as geolocation data, price sensitivity, and other consumer behavior data, and enhancing enterprise system development using generative AI. We are also leveraging investments, partnerships with leading technology companies, consulting firms, and business corporations to continuously strengthen our technical and sales capabilities.

2. Cost Reduction Measures Across the Entire Company

As previously announced, focusing mainly on non-operational personnel, we are reducing our workforce by more than 50% in the EMEA region by September 30, 2024, based on conditions as of March 31, 2024, along with reducing fixed costs by downsizing offices and revising IT costs.

For continuing consolidated subsidiaries, we expect a monthly cost reduction of approximately JPY 270 million from personnel cost savings, and we plan further cost reductions through office downsizing and IT cost revisions.

3. Financing

As mentioned in the "Notes to Condensed Quarterly Consolidated Financial Statements, Item 10: Subsequent Events" of the 19th Semi-Annual Report, we plan to obtain necessary funds for our group reorganization through additional external borrowing and equity financing to swiftly improve our group's profitability and financial situation.

Also, as announced on September 27, 2024, in the "Announcement of Completion of Payment for the Fifth Unsecured Bonds (Private Placement)," we raised JPY 200,000 thousand by issuing the fifth unsecured bonds (private placement) underwritten by EVO FUND.

Additionally, we continue to maintain close relationships with financial institutions, requesting deferrals and discussing business and funding plans to ensure ongoing support.

4. Business Consolidation

As noted in "Notes to Condensed Quarterly Consolidated Financial Statements, Item 9: Loss of Control," we are focusing on high-profit and high-growth businesses to reduce management risks and transition to management that balances sound profit generation with growth. This involves the commencement of bankruptcy proceedings and stock transfers of consolidated subsidiaries in the EMEA.

However, these measures are still in the process of implementation, and final agreements have not been reached with all parties involved, hence significant uncertainties exist regarding the assumption of our company as a going concern.

Note: The condensed quarterly consolidated financial statements are prepared on a going concern basis and do not reflect the impact of significant uncertainties related to the going concern assumption.