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To Whom It May Concern

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Notice Regarding Misconduct by a Former Employee

We have recently discovered that a former executive-level employee (hereinafter referred to as the “**Former Employee**”) of GungHo Online Entertainment, Inc. (hereinafter referred to as the “**Company**”), who has already been dismissed for cause, had engaged in misconduct over the past several years. This misconduct included misappropriating company funds through fictitious business orders.

Upon becoming aware of possible misconduct by the Former Employee, we conducted an initial investigation with the assistance of an external law firm and a forensic team from an accounting firm. The investigation aimed to clarify whether any misconduct has occurred as well as to ascertain the relevant facts. As a result, we confirmed that the Former Employee had embezzled the majority of the funds paid out by the Company as outsourcing fees. The Former Employee did so by issuing fictitious business orders through a work-matching service site operated by a third-party company, with the Company as the client, and with the Former Employee oneself acting as the contractor (total damage: approximately 246 million yen). Additionally, we confirmed that the Former Employee caused an outflow of approximately 100 million yen of the Company's money by improperly paying outsourcing fees to a certain business partner, despite the fact that no actual business being conducted (these acts are collectively hereinafter referred to as the “**Misconduct**”).

Following the discovery of the Misconduct as a result of the initial investigation, we formed an internal investigation team led by two independent outside company auditors. With the support of an external law firm and a forensic team from an accounting firm, the internal investigation team, during the course of a detailed investigation into the facts surrounding the Misconduct. They conducted interviews with relevant parties, including the Former Employee, and performed digital forensics on devices used by the Former Employee. The internal investigation team checked for the existence of similar cases of Misconduct, analyzed their underlying causes, and formulated a proposal of measures to prevent recurrence (hereinafter referred to as the “**Investigation**”).

We have taken strict measures in response to the Misconduct. The Former Employee was dismissed for cause as of July 24, 2025. Immediately after the Misconduct was identified through the initial investigation, we have begun consulting with a criminal investigative authority and discussing the possibility of filing for a criminal complaint. Additionally, we are fully cooperating with the criminal investigative authority in its investigative activities. In consideration of potential interference with the ongoing investigation, we must currently refrain from disclosing detailed information regarding the Misconduct.

We sincerely apologize for the tremendous concern and inconvenience caused to our shareholders, investors, business partners, and all other stakeholders.

The impact of the Misconduct on the consolidated financial results for the fiscal year ending in March 2026 is deemed immaterial. Should any matters requiring disclosure arise in the future, they will promptly be disclosed. In addition, a status update reporting on the progress made regarding the implemented measures to prevent recurrence will be disclosed by the end of this year.

In response to the Misconduct, we have implemented the following actions, including the above-mentioned Investigation, preventive measures, and a reduction in executive compensation.

Details

1. Summary of the Results of Investigation Conducted by the Internal Investigation Team

As a result of the Investigation, it was found that the Misconduct was committed solely by the Former Employee, and the Company was not involved in any misconduct. Furthermore, after consultations with the accounting auditor, we conducted a thorough review of purchase transactions involving the Former Employee, as well as investigations into similar cases involving the Former Employee. No other case similar to the Misconduct were detected by the Former Employee or any other employees of the Company.

The Misconduct in question was maliciously and independently perpetrated by the Former Employee, who held discretionary powers and authority as an executive-level employee. The Former Employee also engaged in deliberate acts of concealment to avoid detection, which made it extremely difficult for us to identify the wrongdoing. Nevertheless, in response to the Misconduct, we have conducted a transparent review of internal systems to determine whether there were any other issues that contributed to these unfortunate events. As a result of this examination, we have analyzed and identified the following factors as underlying causes or contributing circumstances to the occurrence of the Misconduct:

- A marked disregard for compliance safeguards on the part of the Former Employee, as noted above.
- In the approval process for order placement and payment with external vendors, we

had adopted a mechanism whereby the department responsible for placing orders was tasked with verifying and judging the appropriateness of certain approval items. However, this system was unable to effectively prevent the malicious Misconduct by an executive-level employee who possessed discretionary powers and authority, as well as thorough knowledge of the process.

- From the perspectives of facilitating business operations and ensuring information confidentiality, authority became concentrated with the Former Employee. As a result, other employees had difficulty accessing relevant information of the kind that could have helped them identify the Former Employee's Misconduct. Consequently, sufficient verification was not carried out.
- Due to the insufficient recognition and assessment of transaction fraud risks, individual transaction monitoring by the internal audit function, which was intended to address fraud risks, did not function adequately.

2. Recurrence Preventive Measures and Future Actions

In response to the findings of the Investigation, we have decided to implement the following recurrence preventive measures. Going forward, we will ensure thorough prevention of recurrences by appropriately maintaining and operating these measures.

(1) Enhancement of compliance education and training programs

To foster compliance awareness throughout our group, we will enhance our internal education and training programs.

Specifically, through these programs, the Company will inform employees that, when misconduct is discovered, the Company will take strict actions such as disciplinary dismissal and the filing of criminal complaints, and that such misconduct may result in serious consequences for the individual. Additionally, we will conduct education and training programs that include introducing concrete cases of misconduct from other companies to raise employees' awareness of fraud risks, and encouraging active use of our internal whistleblower system.

(2) Improvement of internal controls over the approval process for order placement and payment with external vendors

As the first line of defense, we will review the necessity of revising the approval authority limit in transactions with external vendors, and based on this review, implement improvements to the internal rules. Additionally, in order to strengthen the checks and balances in the payment approval process in our Finance and Accounting Division, which serves as a second line of defense, we will specifically improve the payment approval procedures for transactions lacking inspection certificates.

(3) Strengthening Monitoring in Internal Audits

We will review our fraud risk assessment based on precedents and strengthen internal audits using a risk-based approach. Additionally, we will conduct retrospective monitoring by extracting transactions similar in nature to the Misconduct and by confirming that future transactions are genuine and substantiated.

Furthermore, we have already initiated recovery efforts for the damages caused by the Misconduct of the Former Employee. We will cooperate fully with the criminal investigative authority and will take legal actions and other appropriate actions in response to the Misconduct.

3. Reduction in Executive Compensation

The Former Employee has already been dismissed with disciplinary action on July 24, 2025. The result of the Investigation confirmed that the Misconduct was committed solely by the Former Employee and that no other officers or employees were involved. However, based on the deliberations of the Nomination and Compensation Committee, we have reduced the executive compensation of five directors to clarify management responsibility, as follows:

- Representative Director and President, CEO: 30% reduction in the monthly base salary for three months starting August 2025
- Executive Director: 10% reduction in the monthly base salary for three months starting August 2025

End.