



December 17, 2025

To Whom It May Concern

Company Name	GungHo Online Entertainment, Inc.
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Notice Regarding Misconduct by a Former Employee
(progress made in previously disclosed matter)

In the press release dated August 14, 2025 titled “Notice Regarding Misconduct by a Former Employee” (hereinafter referred to as the “**August Press Release**”), we disclosed that a former employee of the Company (an executive-level employee who has already been dismissed for cause; hereinafter referred to as the “**Former Employee**”) had, acting alone over the past several years, engaged in misconduct including the misappropriation of the Company funds through fictitious business orders (hereinafter referred to as the “**Misconduct**”). We sincerely apologize for the tremendous concern and inconvenience caused to our shareholders, investors, business partners, and all other stakeholders.

As announced in our August Press Release, an investigation confirmed that the Company was not involved in the Misconduct. The Company has, despite this fact, reviewed its internal systems sincerely in response and intends to implement preventative measures. We hereby provide the following update on the progress of the measures.

The Company’s Board of Directors has been actively discussing and reviewing measures to prevent recurrence of the Misconduct, and the Company will continue efforts to prevent recurrence and strive to restore the trust of all stakeholders.

We will continue to fully cooperate with the criminal investigative authorities in their investigative activities to clarify the full circumstances of the matter, in conjunction with our efforts to recover the damage caused by the Misconduct.

1. Prevention of Concentration of Authority in Certain Employees

The Misconduct stemmed from the concentration of authority in the Former Employee, which led to insufficient checks during the order placement and payment authorization processes. This likely hindered the early detection of the Misconduct. Based on this understanding, we implemented a review of the organizational structure and decentralization of authority as one of the preventative measures. Specifically, as of June 2025, we abolished the department to which the Former Employee belonged and transferred its functions to other departments. Additionally, while revising the practice of concentrating certain system administrator privileges

in specific employees for operational efficiency and information confidentiality, we are carefully considering appropriate allocation of authority to maintain operational speed and clear delineation of responsibility. Since August of this year, we have been implementing measures such as allocation of authority to multiple personnel and establishment of a co-monitoring system. We plan to complete the implementation of these measures by March 2026.

2. Enhancement of Compliance Education and Training Programs

The Company conducts compliance training on a regular and continued basis throughout the Company group to foster and strengthen awareness of compliance across the entire group. However, in response to the fact that the Misconduct occurred in Japan, we have implemented the following compliance training for full-time officers and employees (regular, contract, part-time, and dispatched employees) of the Company and its domestic subsidiaries to further reinforce awareness within the country. As of today, all target personnel have completed the training.

- Online training focused on improper transactions via video viewing (additionally conducted twice in September and October 2025)
- E-learning (conducted once in the form of a test from November to December 2025)

Through these compliance training programs, we reaffirmed and reinforced awareness of compliance, including through heightening sensitivity to risks of misconduct and encouraging active use of our internal whistleblowing system. We will continue to implement compliance training (including programs we have been previously conducting) from the next fiscal year onwards.

3. Improvement of Internal Controls over the Approval Process for Order Placement and Payment with External Vendors

- To ensure that high-value transactions deemed relatively high-risk within the order placement process of each first line defense are carefully reviewed by higher-level executives, in October 2025, we revised the upper limit of the amount for transactions with external vendors that each department heads can authorize.
- To strengthen checks in payment approvals, starting in August 2025, the Finance Accounting Division (which is a second-line department) reviewed the payment approval process. Going forward, we will further enhance our process and thoroughly verify the existence and validity of transactions.

4. Strengthening Monitoring in Internal Audits

We are working to strengthen internal audits based on precedent-based misconduct risk assessments and using a risk-based approach. The Internal Audit Department is currently conducting individual audits in addition to the regular annual internal audit, to verify the actual status of each of our transactions. Such audits will not be limited to this fiscal period and will be conducted on an ongoing basis, the result of which will be reported to the Board of Directors.

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