

The 27th Annual General Meeting of Shareholders

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(From January 1 2023, to December 31 2023)

GungHo Online Entertainment, Inc.

System to secure the appropriateness of operations and an outline of the system operation

Pursuant to the Companies Act and the Companies Act Enforcement Regulations, the Company has in place a basic policy to develop a system to secure the appropriateness of its operations (the Basic Policy on Development of Internal Control System). The contents of it and an outline of its operation are as shown below.

(1) System to secure the appropriateness of operations

1) System to ensure that the execution of duties of Directors and employees adheres to laws and ordinances and the Articles of Incorporation

- a. In addition to ensuring the sharing of the corporate philosophy of the GungHo Group, we have established the GungHo Online Entertainment Group Charter, a charter that stipulates matters relating to the enhancement of its corporate governance platform and compliance, as well as the GungHo Group Compliance Code for Directors and Employees as compliance-related behavior guidelines obliged to be adhered to by all Directors and employees, as well as other relevant regulations.
- b. The Company elects a Chief Compliance Officer (CCO) as manager charged with promoting compliance.
- c. The Company develops whistleblowing internal/external contact points (hotline) to which a compliance-related whistleblowing report can be submitted by Directors or employees and at which any of them can have the relevant consultation. Moreover, the Company ensures that no such whistleblowing or consulting members become subjected to disadvantageous treatment.
- d. The Company's Internal Auditing Department performs an audit on the effectiveness of the organization's framework to comply with laws and ordinances and the Articles of Incorporation, and reports the audit results to the President & CEO and board meetings. Moreover, the Internal Auditing Department reports the audit results to Auditors, thereby collaborating with the latter.

2) System for storage and management of information related to the execution of duties of the Company's Directors

- a. In addition to putting in place standards required for storing and managing documents, the Company develops a system to appropriately store and manage documents and other material information that are related to Directors' execution of duties, including minutes of Board of Directors meetings and approval procedure documents, pursuant to the Document Storage Management Regulations, regulations aimed to ensure the efficient operation of duties to store and manage documents.
- b. The Company elects the Chief Information Security Officer (CISO) as an officer to lead its information security activities pursuant to the Basic Information Security Regulations. Moreover, the Company puts in place the Information Security Committee chaired by CISO, thereby pursuing its information security activities.

3) Regulations on and other system for management of loss risk

- a. The Company prescribes the Regulations on Risk Management System in order to avoid, mitigate and take necessary actions against various risks for its business operation. As for risk prevention, the Company establishes, pursuant to these regulations, the Risk Management Committee as a deliberation body to address risks. Further, individual business units, each responsible for handling different types of risks, perform risk management, striving to mitigate risks and prevent them from occurring.
- b. In the event of an unforeseen incident or an emergency, the Company will immediately

establish the countermeasure headquarters pursuant to the Regulations on Risk Management System. In turn, the Chief Crisis Management Officer (CCMO), the top crisis manager under the Chairman of the headquarters (President & CEO), will lead the efforts to put in place a system to deal with the situation in a well-supervised manner.

- c. The Internal Auditing Department performs an audit on the state of the Company's risk management before reporting the audit results to President & CEO board meetings and Auditors.

4) System to ensure that the duties of Directors are executed efficiently

The Company has established the Regulations on Segregation of Duties and the Regulations on Official Authority, in addition to the Regulations on Board of Directors. Thus, the Company strives to clarify the scope of procedure for entity-level decision-making and that of duties required for executing operations as well as authority and responsibilities, thereby developing a system for Directors to execute their duties efficiently.

5) System to secure the appropriateness of operations of the corporate group comprising the Company and its subsidiaries

- a. The Company has established the Related Company Management Regulations to secure the appropriateness of its group companies' operations under the GungHo Online Entertainment Group Charter. Moreover, the Company develops a system to manage each of its subsidiaries in a manner befitting its size and importance.
- b. Subsidiaries of the Company prescribe to various regulations obliged to be complied with by Directors and employees, and develop a system in which, for determining a significant matter for its business management, the subsidiary engages in prior consultation with the Company while keeping the former's operational autonomy and independence respected. Each of the subsidiaries also develops a system in which its operating results and financial position are periodically reported to the Company with any significant event experienced by its operations being reported to the latter when appropriate.
- c. The Company guides each of its subsidiaries to develop a system equivalent to the former's risk management system according to the latter's size and importance in order to avoid, mitigate and take necessary steps against risks. Further, the Company develops a system in which each subsidiary's risk management-related information is delivered to the former appropriately.
- d. The Company installs compliance officers at each of its subsidiaries in light of its size and importance, thereby solidifying and bolstering the group's compliance platform. Moreover, the Company arranges for the subsidiary to develop its unique whistleblowing internal/external contact points (hotlines) to which a compliance-related whistleblowing report can be submitted by its Directors or employees and at which relevant consultation can be obtained by them. At the same time, the Company ensures that no such whistleblowing or consulting members become subjected to disadvantageous treatment.
- e. The Company checks its subsidiaries with respect to the appropriateness of the financial reporting of the former and the latter, thus securing the appropriateness of the contents of the Company's Securities Report while developing its internal controls. If any internal control problem occurs, the organization will strive to develop its structure in an effort to improve the situation.
- f. The Company's Internal Auditing Department performs an internal audit on each of its subsidiaries according to its past internal audit results and to its size and importance.

6) Matters on employees obliged to assist Auditors' duties and matters on the securing of such employees' independence from Directors as well as the effectiveness of instructions issued to the employees

- a. The Company may install employees as assistants dedicated to assisting Auditors' duties or appoint employees in the Internal Auditing Division as such assistants with regard to individual audit items upon consulting with the Internal Auditing Division.
- b. If the Company has installed dedicated assistants for Auditors' duties or appointed such assistants with regard to individual audit items, the Company has audit duties-related directions and orders issued by Auditors, thereby securing the appropriateness of the relevant instructions. Personnel change and employee evaluation for such assistants require the consent of Auditors.

7) System for reporting to Auditors and a system to ensure that no members reporting to them becomes subjected to disadvantageous treatment on account of having provided the report

- a. The Company secures a system in which Directors and employees of it and its subsidiaries report the following matters to Auditors:
 - a) Material matter relating to the business management, finances and business execution of the Company and its subsidiaries;
 - b) Matter that is feared to cause serious damage to the Company;
 - c) Information on the state of development of internal control system;
 - d) Matter breaching laws or ordinances or the Articles of Incorporation;
 - e) Matter associated with compliance system and information on the state of reporting to the hotline;
 - f) Internal audit results;
 - g) Any matter deemed by any of Auditors necessary to be reported for the purpose of executing its duties.
- b. The Company ensures that no member reporting to any Corporate Auditor as mentioned above becomes subjected to disadvantageous treatment on account of having provided the report.

8) System to ensure that Auditors' audits are carried out effectively

- a. The Company provides an opportunity for the President & CEO and Auditors to exchange opinions with each other on a periodic basis, as well as an opportunity to hold hearing sessions with subsidiary Directors and employees if deemed necessary by any Auditor. Auditors have an opportunity to exchange information with the Accounting Auditor and Auditors of significant subsidiaries of the Company, thus collaborating with them.
- b. Expenses deemed necessary for Auditors to execute their duties are borne by the Company through a prescribed procedure.

9) System for excluding anti-social forces

The GungHo Group Compliance Code for Directors and Employees declares the Company's intention to maintain a sound relationship with local communities and battle anti-social forces in a resolute manner. If the Company receives any unfair demand from an anti-social force entity, the former's relevant business unit responds to it sternly and resolutely rejects the demand by collaborating with the police and other external specialized agencies.

(2) Outline of the operation of the system to secure the appropriateness of the Company's business operations

1) Execution of Directors' duties

Pursuant to the Regulations on Board of Directors, the Company holds an Ordinary Meeting of Directors on a monthly basis and an Extraordinary Meeting of Directors as required. In this way, it

makes decisions on matters stipulated in laws or ordinances or the Articles of Incorporation as well as matters for execution of significant duties while overseeing the execution of duties by Directors.

2) Compliance system

The Company periodically provides compliance training to Directors and employees to enhance their understanding and awareness about compliance. As for its whistleblowing system, the Company has in place contact points (hotlines) composed partly of outside lawyers while running the system with whistleblower protection stipulated in its relevant internal regulations.

3) Risk management

In addition to having in place the Regulations on Crisis Management System, the Company strives to reduce and prevent risks through the process of identifying risks, devising countermeasures and periodically revising them. Moreover, the Company implements a disaster scenario-based training program when appropriate.

4) Business management of subsidiaries

As for business management of the Company's subsidiaries, it arranges for its Director or employees to be appointed as a Director or Auditor of each subsidiary, thereby securing the appropriateness of the subsidiary. Under the Related Company Management Regulations, material business management information of subsidiaries is reported to the Company's Board of Directors in an appropriate manner.

5) Auditors

Auditors periodically exchange opinions with the President & CEO and collaborate with the Accounting Auditor and the Internal Auditing Department, thus securing the effectiveness of audits. The Auditors ascertain the state of development and operation of the Company's internal controls and provide advice for securing a sounder business management structure by attending Board of Directors meetings, having Full-time Corporate Auditors attend significant meetings and having hearing sessions with Directors and employees.

Consolidated Statement of Changes in Equity

(January 1, 2023 through
December 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	5,338	5,487	195,829	(90,157)	116,498
Changes of items during the period					
Dividends of surplus			(1,856)		(1,856)
Profit attributable to owners of parent			16,433		16,433
Subscription rights to shares		(2)		16	13
Acquisition of treasury shares				(5,016)	(5,016)
Disposal of treasury shares		(0)		0	0
Cancellation of treasury shares		(11,988)		11,988	—
Transfer to capital surplus from retained earnings		11,991	(11,991)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	2,586	6,988	9,574
Balance at the end of current period	5,338	5,487	198,415	(83,168)	126,073

(Note) Figures shown in millions of yen are rounded down to the nearest million.

	Accumulated other comprehensive income			Stock Option	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at the beginning of current period	(0)	752	752	1,130	11,453	132,834
Changes of items during the period						
Dividends of surplus						(1,856)
Profit attributable to owners of parent						16,433
Subscription rights to shares						13
Acquisition of treasury shares						(5,016)
Disposal of treasury shares						0
Cancellation of treasury shares						—
Transfer to capital surplus from retained earnings						—
Net changes of items other than shareholders' equity	0	637	637	169	6,278	7,085
Total changes of items during the period	0	637	637	169	6,278	16,660
Balance at the end of current period	—	1,390	1,390	1,300	20,731	149,495

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Notes on consolidated financial statements

1. Significant matters serving as basis for the preparation for consolidated financial statements

(1) Matters concerning the coverage of consolidation

- Number of consolidated companies 16
- Major consolidated subsidiaries
 - GAME ARTS Co., Ltd.
 - Gravity Co.,Ltd.
 - Gravity Interactive, Inc.
 - Gravity Communications Co.,Ltd.
 - Gravity NeoCyon, Inc.
 - PT Gravity Game Link
 - Gravity Game Tech Co.,Ltd.
 - Gravity Game Arise Co.,Ltd.
 - Gravity Game Hub PTE.,Ltd.
 - Gravity Game Vison Limited.
 - GungHo Online Entertainment America, Inc.
 - SUPERTRICK GAMES, Inc.
 - GungHo Online Entertainment Asia Pacific Pte.Ltd.
 - SQUAD STARS, Inc.

During the consolidated fiscal year under review, the newly established SQUAD STARS, Inc. is included in the scope of consolidation.
ACQUIRE Corp. is excluded from the scope of consolidation due to the transfer of all shares held by the company in the current fiscal year.

- There are no non-consolidated subsidiaries.

(2) Matters concerning equity method

- Number of equity method affiliated companies
None

(3) Matters concerning consolidated subsidiaries' fiscal years, etc.

Consolidated subsidiaries have a fiscal year that ends on the same date as the consolidated financial statements.

(4) Matters concerning accounting principles and standards

1) Appraisal standards and appraisal methods for principal assets

a. Marketable securities

- Held-to-maturity bonds Cost method
- Other marketable securities
 - Other than stocks with no market price available Market value method
(The full amount of the valuation difference is charged to net assets using the direct transfer to capital method, with the disposal cost determined by the moving average method.)
 - Stocks with no market price available Stated at cost by using the moving-average method, except for securities held in some of subsidiaries overseas that are stated at cost by using the gross average method.

- b. Inventory assets
 - Merchandise and Work in process

Stated at cost by using the specific cost method (the carrying amount on the balance sheet is reduced for decrease in profitability)
Please note that some overseas subsidiaries use the lower-of-cost-or-market method by the gross average method.

2) Methods for depreciation of significant depreciable assets

- a. Tangible fixed assets except lease assets
 - a. Assets acquired prior to or on March 31, 2007: The former declining-balance method is used.
 - b. Assets acquired on or after April 1, 2007: The declining-balance method is used.
The straight-line method is used for some of the overseas subsidiaries.
However, the straight-line method is used for building fixtures and structures acquired on or after April 1, 2016.
Shown below are principal useful lives:
Buildings: 3 to 4 years
Others: 2 to 10 years
- b. Intangible fixed assets except lease assets

Stated by using primarily the straight-line method, and software for internal use is depreciated over the period from one to five years based on its availability period.
However, intangible fixed assets related to portable device games are depreciated based on expected proceeds from sales.
- c. Lease assets

Lease assets are depreciated by using the straight-line method over the useful lives of the respective lease period with zero residual value. Note some overseas subsidiaries use the economic useful lives up to the lease period.

3) Accounting standards for significant allowances

- Allowance for doubtful accounts

To prepare for potential credit loss on receivables, the Company records allowances for doubtful accounts at an estimated uncollectable amount determined based on past credit loss experiences for general debts, and in consideration of their collectability of each for specific receivables such as doubtful receivables.
- Allowance for performance linked compensation

To prepare for provision of performance linked compensation for directors, the Company records reserves at an amount subject to fiscal year 2023 based on estimated future obligation.

4) Basis for recording significant profits and expenses

The GungHo Group recognizes revenue based on the following five-step approach:

Step 1: Identify the contract with the customer

Step 2: Identify performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to performance obligations in the contract

Step 5: Recognize revenue when (or as) performance obligations are satisfied.

As for our group's main titles, we offer them by free of charge, and payments are required for some characters and items. The Company recognizes it has an obligation in contract with users that we maintain the condition of game in which users can use characters and items etc. Therefore, we recognize revenues in accordance with estimated character usage period based on actual usage record of users.

However, when our user behavior, etc. analysis found that the estimated character usage period is extremely short, the Company considers that the revenue recognition for the estimated character usage period may not generate a material difference from revenue recognition at the time of obtainment of characters and items etc. by users.

5) Standards for translation of principal assets and liabilities denominated in foreign-currencies into yen

Monetary receivables and payables denominated in foreign currencies were translated into yen at a spot exchange rate on the consolidated fiscal year settlement date and resulting exchange gains and losses were charged to profit (loss).

2. Notes on changes in accounting policies

(Application of Accounting Standard for Revenue Recognition, etc.)

Standards including the "Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereafter "Implementation Guidance on Accounting Standard for Fair Value Measurement") were applied from the beginning of the current consolidated fiscal year. In accordance with the transitional treatment specified in Implementation Guidance on Accounting Standard for Fair Value Measurement Paragraph 27-2, the new accounting policies specified in Implementation Guidance on Accounting Standard shall be applied in the future. However, this will have no effect on consolidated financial statements.

3. Notes on accounting estimates

(Recoverability of deferred tax assets)

(1) Amount recorded in the consolidated financial statements for the fiscal year under review

Deferred tax assets	5,604 million yen
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(2) Information on the content of significant accounting estimates for identified items

Deferred tax assets are recorded at amounts deemed highly recoverable based on future taxable income estimates, etc. Since the recoverability of deferred tax assets depends on future taxable income, etc., it is possible that deferred tax assets will be adjusted and recorded as a tax expense if conditions or assumptions change and the amount decreases.

4. Notes to consolidated balance sheets

(1)

Cumulative depreciation of property, plant and equipment	3,590 million yen
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- (2) Accounts receivable-trade, and amount of receivables arising from contracts with customers included in contract assets

Accounts receivable -trade	13,379 million yen
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- (3)

Amount of contract liabilities included in "Other" of current liabilities	3,988 million yen
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5. Notes to consolidated changes in net assets

- (1) Total number of shares outstanding

Number of shares as of December 31, 2023 (shares)	87,255,916 shares
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- (2) Dividends

- 1) Dividends from retained earnings paid out in the consolidated fiscal year under review

Resolution	Share class	Total dividends	Dividend per share	Record date	Date of coming into effect
Board of Directors meeting held on February 14, 2023	Common shares	1,856 million yen	30.00 yen	December 31, 2022	March 14, 2023

- 2) Dividends that would come into effect in the next fiscal year, among dividends whose record date fell in the consolidated fiscal year under review

The Board of Directors meeting held on February 14, 2024 adopted the following proposed resolution for the payment of dividends on common shares.

1. Total dividends	1,796 million yen
2. Dividend per share	30.00 yen
3. Record date	December 31, 2023
4. Date of coming into effect	March 12, 2024
5. Source of dividends	Retained earnings

- (3) The type and number of shares issuable upon the exercise of share subscription rights at the end of the consolidated fiscal year under review (excluding these rights whose start date of the exercise period has not yet arrived)
Common stock: 364,270 shares

6. Notes on financial instruments

- (1) Matters pertaining to the state of financial instruments

- 1) Policy on handling financial instruments

Although essentially using internal reserves to fund operations, the GungHo Group obtains bank loans to fund some of them. It invests temporarily available excess cash mainly in financial instruments offering high stability.

2) Description of financial products, risks involved and risk management platform

Accounts receivable-trade representing operating receivables are exposed to credit risk associated with potential default by customers. With respect to this type of risk, the GungHo Group continues to monitor the state of its principal customers on a periodic basis, managing payment due dates and the balance of receivables on a customer-by-customer basis. Moreover, the Group strives to detect early and rein in any potential case of low recoverability due to deterioration of customer finances, among other factors. Foreign currency-denominated accounts receivable-trade are exposed to foreign exchange fluctuation risk.

Marketable securities and investment securities are exposed to price fluctuation risk and issuer credit risk. To manage this type of risk, the GungHo Group continuously monitors market values and issuer companies' financial positions.

Deposits are guaranteed mainly as security deposit and security money concerning lease contract and are exposed to credit risk of debtor.

Accounts payable-trade representing operating payables are mostly due within 1 year.

Income taxes payable is the unpaid amount of income taxes etc. and due date of them is within one year.

3) Supplementary information on market prices of financial instruments

Market values of financial instruments include, in addition to those based on market prices, reasonably computed values for cases where no market price is available. With certain assumptions employed to compute market values, using different assumptions may alter the values.

(2) Information on the market prices of financial instruments

The following shows the values of financial instruments recorded on the consolidated balance sheet as of December 31, 2023, their market values on the same date and the difference between the former and latter.

(Millions of yen)

	Value recorded on consolidated balance sheets	Market value	Difference
Marketable securities & investment securities			
Held-to-maturity bonds	3,834	3,834	—
Other securities	0	0	—
Deposit	1,172	1,088	(84)
	5,008	4,924	(84)

Note1) Information about "Cash and deposits," "Accounts receivable-trade," "Accounts payable-trade," and "Income taxes payable" are omitted because they are cash in nature; their fair values approximate their book values: and they are settled in a short period of time.

Note2) Stocks, etc. with no market price are not included in "Marketable securities & investment securities." The value of such financial instruments recorded on consolidated balance sheets is as follows:

(Millions of yen)

Category	Value recorded on consolidated balance sheets
Unlisted shares	0

Note3) Values of monetary claims and securities with maturity expected to be redeemed after the consolidated closing date

(Millions of yen)

	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
Cash and deposits	136,198	—	—	—
Accounts receivable-trade	13,379	—	—	—
Marketable securities and investment securities				
Held-to-maturity bonds	3,834	—	—	—
Deposit	—	1,172	—	—
Total	153,413	1,172	—	—

(3) Matters regarding the breakdown, etc. by the level of fair value of financial instruments

The fair value of financial instruments is categorized into three levels stated below in accordance with the observability and significance of input regarding market value calculation.

Level 1 fair value: Fair value calculated using the market price of assets or liabilities whose fair value is being calculated that is formed in an active market as an observable input

Level 2 fair value: Fair value calculated using other observable inputs than those for level 1

Level 3 fair value: Fair value calculated using input that are unobservable

In the event that multiple inputs significantly affect the measurement of fair value, choosing from among the respective levels those inputs belong to, the Company classifies the fair value to the level with the lowest position of hierarchy in the measurement of fair value.

1) Financial instruments recorded at fair value on consolidated balance sheets

Not applicable

2) Financial instruments other than those recorded at fair value on consolidated balance sheets

(Millions of yen)

Category	Market price			
	Level1	Level2	Level3	Total
Marketable securities and investment securities				
Held-to-maturity bonds	—	3,834	—	3,834
Other Securities	—	0	—	0
Deposit	—	1,088	—	1,088
Total assets	—	4,924	—	4,924

Note: Explanation of the valuation method and input used in the fair value measurement

Marketable securities and investment securities

Valuation of government bonds and corporate bonds are based on quoted prices. Since government bonds are traded on an active market, their valuation is categorized as Level 1. On the other hand, the valuation of corporate bonds held by the Company is categorized as Level 2 because they are not frequently traded and their quoted values are not deemed to be ones of an active market.

Deposit

The market value of deposits is calculated using the present value obtained by discounting future cash flows at an interest rate based on an appropriate indicator, such as the yield on government bonds, and is classified as Level 2 market value.

7. Notes regarding revenue recognition

(1) Information that disaggregates revenue arising from contracts with customers

(Millions of yen)

	Net sales
Japan	45,001
Asia	41,039
Taiwan	19,449
Thailand	14,752
North America	3,762
Other regions	1,310
Revenue arising from contracts with customers	125,315
Other revenue	—
Sales to external customers	125,315

Note: Net sales are classified by country or region based on the customer's location

(Change of Display Method)

"Taiwan" and "Thailand," which were included in "Asia" in the consolidated fiscal year under review, have become more important and are therefore described separately.

(2) Useful information in understanding revenue from contracts with customers

Useful information in understanding revenue from contracts with customers is presented in 4) Basis for recording significant profits and expenses under "(4) Matters concerning accounting principles and standards" in "1. Significant matters serving as basis for the preparation for consolidated financial statements under "

(3) Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the fiscal year under review and are expected to be recognized in the following fiscal year or later

1) Balance of contract assets and contract liabilities, etc.

(Millions of yen)

	Amount
Receivables arising from contracts with customers (balance at beginning of period)	12,983
Receivables arising from contracts with customers (balance at end of period)	13,379
Contract assets (balance at beginning of period)	4
Contract assets (balance at end of period)	—
Contract liabilities (balance at beginning of period)	3,572
Contract liabilities (balance at end of period)	3,988

Note: Contract liabilities are mainly unused game currencies and the remaining amount of in-app items etc. as deferred revenue.

Of the amount of revenue recognized for the fiscal year under review, the amount included in the balance of contract liabilities at the beginning of the period is 3,572 million yen.

2) Transaction price allocated to remaining performance obligations

The GungHo Group has no significant transactions of which individual contracts exceed one year. Moreover, there are no significant amounts of consideration from contracts with customers that are not included in the transaction price.

8. Notes on per-share information

(1) Net assets per share	2,127.98 yen
(2) Net profit per share	272.65 yen

9. Notes on significant subsequent events

Acquisition of treasury shares

At the meeting of the Board of Directors held on February 14, 2024, the Company resolved to repurchase its own shares pursuant to Article 156 of the Companies Act of Japan, as applied pursuant to Article 165, Paragraph 3 of the same. The details are as follows:

(1) Reasons for acquisition

To improve shareholder profits by implementing capital policies flexibly in response to changes in the business environment and by improving capital efficiency.

(2) Details of acquisition of treasury shares

1) Type of shares to be acquired	Common stock of our company
2) Total number of shares to be acquired	2,200,000 shares (maximum)
3) Total purchase price of shares	5 billion yen (maximum)
4) Acquisition period	February 15, 2024–March 22, 2024
5) Acquisition method	Market purchase

Non-Consolidated Statement of Changes in Equity

(January 1, 2023 through
December 31, 2023)

(Units: Million yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
		Gains on sales of treasury shares			Retained earnings brought forward			
Balance at the beginning of current period	5,338	5,331	—	5,331	176,745	176,745	(90,157)	97,258
Changes of items during the period								
Dividends of surplus					(1,856)	(1,856)		(1,856)
Net Income					7,494	7,494		7,494
Subscription rights to shares			(2)	(2)			16	13
Acquisition of treasury shares							(5,016)	(5,016)
Disposal of treasury shares			(0)	(0)			0	0
Cancellation of treasury shares			(11,988)	(11,988)			11,988	—
Transfer to capital surplus from retained earnings			11,991	11,991	(11,991)	(11,991)		—
Net changes of items other than shareholders' equity								
Total changes of items during the period	—	—	—	—	(6,353)	(6,353)	6,988	635
Balance at the end of current period	5,338	5,331	—	5,331	170,391	170,391	(83,168)	97,893

	Stock option	Total net assets
Balance at the beginning of current period	1,130	98,388
Changes of items during the period		
Dividends of surplus		(1,856)
Net Income		7,494
Subscription rights to shares		13
Acquisition of treasury shares		(5,016)
Disposal of treasury shares		0
Cancellation of treasury shares		—
Transfer to capital surplus from retained earnings		—
Net changes of items other than shareholders' equity	169	169
Total changes of items during the period	169	805
Balance at the end of current period	1,300	99,194

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Notes to non-consolidated financial statements

1. Notes on matters pertaining to significant accounting policies

(1) Valuation standard and method for securities

Shares in subsidiaries	Stated at cost by using the moving-average method
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(2) Methods for depreciation and amortization of non-current assets

- | | |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1) Property, plant and equipment other than lease assets | <p>a. Assets acquired prior to or on March 31, 2007: The former declining-balance method is used.</p> <p>b. Assets acquired on or after April 1, 2007: The declining-balance method is used.</p> <p>However, the straight-line method is used for building fixtures and structures acquired on or after April 1, 2016</p> <p>Shown below are principal useful lives:</p> <p>Buildings: 4 years</p> <p>Tools and fixtures: 2 to 10 years</p> |
| 2) Intangible non-current assets other than lease assets | Amortized mainly by using the straight-line method. Software for in-house use is amortized based on available period (1 to 5 years); provided, however, that intangible non-current assets for portable device games are amortized based on expected sales. |
| 3) Lease assets | Lease assets are depreciated by using the straight-line method with the lease period as the useful life and with the residual value at zero. |

(3) Accounting standards of allowances

Allowance for doubtful accounts	To prepare for potential credit losses on receivables, the Company records allowances for doubtful accounts at an estimated uncollectable amount determined based on the post credit loss experiences for general debt, their collectability for specific receivables such as doubtful receivables.
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Allowance for performance linked compensation	To prepare for provision of performance linked compensation for directors, the Company records reserves at an amount subject to fiscal year 2023 based on estimated future obligation.
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(4) Basis for recording significant profits and expenses

The Company recognizes revenue based on the following five-step approach:

Step 1: Identify the contract with the customer

Step 2: Identify revenue to performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to performance obligations in the contract

Step 5: Recognize revenue when (or as) performance obligations are satisfied.

As for the company's main titles, we offer them by free of charge, and payments are required for some characters and items. The Company recognizes that it has an obligation in contract with users that we maintain the condition of game in which users can use characters and items etc. Therefore, we recognize revenues in accordance with estimated character usage period based on actual usage record of users.

However, since our user behavior, etc. analysis found that the estimated character usage period is extremely short, the Company considers that the revenue recognition for the estimated character usage period may not generate a material difference from revenue recognition at the time of obtainment of characters and items etc. by users.

(5) Standard for translation of foreign currency-denominated assets and liabilities into yen

Foreign currency-denominated monetary claims and liabilities are translated into yen by using the spot foreign exchange rate prevailing on the closing date with any translation difference accounted for as a profit or loss.

2. Notes on changes in accounting policies

(Application of Accounting Standard for Revenue Recognition, etc.)

Standards including the "Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereafter "Implementation Guidance on Accounting Standard for Fair Value Measurement") were applied from the beginning of the current consolidated fiscal year. In accordance with the transitional treatment specified in Implementation Guidance on Accounting Standard for Fair Value Measurement Paragraph 27-2, the new accounting policies specified in Implementation Guidance on Accounting Standard shall be applied in the future. However, this will have no effect on consolidated financial statements.

3. Notes on accounting estimates

(Recoverability of deferred tax assets)

(1) Amount recorded in the non-consolidated financial statements for the fiscal year under review

Deferred tax assets	4,934million yen
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(2) Information on the content of significant accounting estimates for identified items

The contents are the same as those in "3. Notes on accounting estimates" (Notes on consolidated financial estimates).

4. Notes on balance sheet

(1) Cumulative depreciation of property, plant and equipment, 1,375 million yen

(2) Monetary claims and liabilities to related companies

Short-term monetary claims	112 million yen
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Short-term monetary liabilities	446 million yen
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5. Notes to profit and loss statement

Transactions with related companies

Operating transactions (income)	0 million yen
Operating transactions (expenditure)	3,792 million yen
Non-operating transactions (income)	131 million yen

6. Notes to changes in net assets

Number of treasury shares as of December 31, 2023	27,357,153 shares
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7. Notes on tax effect accounting

Breakdown of deferred tax assets by cause

Deferred tax assets

Enterprise taxes payable	61 million yen
Depreciation & amortization excess value	1,777 million yen
Allowance of doubtful accounts	6 million yen
Loss on valuation of shares in related companies	2,979 million yen
Stock-based compensation expenses	398 million yen
Other	884 million yen
Subtotal	6,107 million yen
Valuation provision	(1,173 million yen)
Total deferred tax assets	4,934 million yen

8. Notes on transactions with interested parties

Subsidiaries and affiliates

Category	Company name	Voting rights holding ratio (%)	Relationship with interested party	Transaction description	Transaction value (millions of yen)	Account	Period-end balance (millions of yen)
Subsidiary	GungHo Online Entertainment America, Inc.	100.00	Concurrent service as director Provision of loans	Note 2	6,048	—	—

Terms and conditions of transaction and policy on determining terms and conditions

- Notes:
- Consumption taxes are not included in transaction values and period-end balances.
 - The Company transferred its loans and accrued interest from the said company to Additional-paid-in-capital in order to improve the financial structure of the said company. As a result, the loss on support to subsidiaries and affiliates is recorded regarding 880 million yen, which is the amount of difference between the recorded 5,168 million yen allowance for doubtful accounts, and the long-term loans and accrued interest to the said company.

9. Notes regarding revenue recognition

Useful information in understanding revenue from contracts with customers

Useful information in understanding revenue from contracts with customers is presented in (4) Basis for recording significant profits and expenses” under “1. Notes on pertaining to significant accounting policies”.

10. Notes on per-share information

(1) Net assets per share	1,634.31 yen
(2) Net income per share	124.34 yen

11. Notes on companies to which regulation on consolidated dividend applies

Consolidated Dividend Regulations are applied to the Company.

12. Notes on significant subsequent events

Acquisition of treasury shares

At the meeting of the Board of Directors held on February 14, 2024, the Company resolved to repurchase its own shares pursuant to Article 156 of the Companies Act of Japan, as applied pursuant to Article 165, Paragraph 3 of the same. The details were as follows:

(1) Reasons for acquisition

To improve shareholder profits by implementing capital policies flexibly in response to changes in the business environment and by improving capital efficiency.

(2) Details of acquisition of treasury shares

1) Type of shares to be acquired	Common stock of our company
2) Total number of shares to be acquired	2,200,000 shares (maximum)
3) Total purchase price of shares	5 billion yen (maximum)
4) Acquisition period	February 15, 2024–March 22, 2024
5) Acquisition method	Market purchase