

TSE Urgent Notice



Mar. 31, 2021
Listing Department
Tokyo Stock Exchange, Inc.

Request for Improvement Report and Public Announcement Measure

TSE has requested an Improvement Report and taken the Public Announcement Measure as follows.

*This decision is based on the results of the examination by Japan Exchange Regulation.

- | | |
|-----------------|--|
| 1. Company Name | Hiramatsu Inc.
(Code: 2764, Market Division: 1st Section) |
|-----------------|--|
- | | |
|---|--|
| 2. Improvement Report Submission Deadline | Apr. 14, 2021 (Wed.) |
| Provision | Securities Listing Regulations, Rule 502, Paragraph 1, Item (1)
(Due to disclosed information containing false statements and improvements being deemed highly necessary) |
- | | |
|--|--|
| 3. Date of Public Announcement Measure | Mar. 31, 2021 (Wed.) |
| Provision | Securities Listing Regulations, Rule 508, Paragraph 1, Item (1)
(Due to disclosed information containing false statements and public announcement being deemed necessary) |
- | | |
|-----------|--|
| 4. Reason | Hiramatsu Inc. (hereinafter "the Company") disclosed an investigation report of the external investigation committee on Dec. 28, 2020 concerning inappropriate accounting processing at the Company and corrections to financial results for past fiscal years on January 12, 2021.
These disclosures revealed that, (i) in relation to the transfer of two of the Company's Kyoto stores to a company run by the founder of the Company (hereinafter referred to as "the transfer"), the representative director and another executive of the Company at the time (hereinafter collectively referred to as "representative director, etc.") entered into an outsourcing agreement with the company run by the founder for the purpose of creating an arrangement for the |
|-----------|--|

payment of the consideration for the transfer, and a memorandum of understanding to the effect that the consideration for the transfer shall be reduced in the future under certain conditions (hereinafter referred to as the "outsourcing agreement, etc.") without the approval of the board of directors of the Company, and (ii) while the transactions under the outsourcing agreement did not end up being executed, the Company prepared incorrect financial statements without properly explaining the facts pertaining to the outsourcing agreement, etc. to its accounting auditor. As a result, the Company was found to have made false disclosures in violation of the listing rules for earnings reports, etc. from the fiscal year ended Mar. 2017 to the first quarter of the year ending Mar. 2021, and the Company was also found to have falsely reported negative net income attributable to owners of the parent company as positive, among other matters for the fiscal year ended Mar. 2019.

It was deemed that the following points contributed to the occurrence of these disclosures:

- The internal control system of the Company had been rendered ineffective, as evidenced by, among others, the fact that the then representative director, etc., who were the top management executives, did not present the outsourcing agreement, etc. accordingly to relevant bodies of the Company such as the board of directors.
- The board of directors, including outside directors, failed to appropriately fulfil their oversight duties in a situation where the then representative director, etc. lacked management experience, had a strong tendency to depend on the instruction and ideas of the founder, and whose qualities and abilities were questionable.
- The board of company auditors failed to fulfill their check and balance duties sufficiently on activities related to conflicts of interest due to the then standing statutory auditor's lack of expertise in audit.
- With regard to related party transactions, the details of the transactions were not sufficiently examined, and regardless of the fact that careful decision should have been made on accounting processing of matters, including the transfer, due to the nature of the transactions, the Company failed to deliberate sufficiently on such matters.

Based on the above, this case involves disclosures that were deemed to be false caused by inadequacies in the system of the Company to appropriately conduct timely disclosure, thereby considerably impacting investor decisions. Improvements in the Company's system for timely disclosure are deemed highly necessary. While the then representative director, etc. have already left the Company and the outsourcing agreement, etc. have already been terminated by the Company, in order to ensure the thorough implementation of measures to prevent a recurrence, TSE requires the Company to submit a report containing the events leading to the issue and improvement measures.

In addition, as this case is deemed to require public announcement, TSE implements the public announcement measure.

* After submission of the Improvement Report, etc. by the Company, they will be made available on the JPX website and through the TDnet database service.

Improvement Report, etc. that are currently available for public inspection can be found on the following page of the JPX website (<https://www.jpx.co.jp/listing/market-alerts/improvement-reports/index.html>) (available only in Japanese).

DISCLAIMER: This translation may be used for reference purposes only. This English version is not an official translation of the original Japanese document. In cases where any differences occur between the English version and the original Japanese version, the Japanese version shall prevail. This translation is subject to change without notice. Tokyo Stock Exchange, Inc. and/or Japan Exchange Regulation shall individually or jointly accept no responsibility or liability for damage or loss caused by any error,

inaccuracy, misunderstanding, or changes with regard to this translation.