

TSE Urgent Notice



Jan. 11, 2022
Listing Department
Tokyo Stock Exchange, Inc.

Request for Improvement Report, Alteration of Listing Market (from the 1st Section to Mothers), and Imposition of Listing Agreement Violation Penalty

TSE has requested an Improvement Report, decided on alteration of listing market (from the 1st Section to Mothers), and imposed a listing agreement violation penalty as follows.

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

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| 1. | Issue Name | EduLab, Inc.
(Code: 4427, Market Division: 1st Section) |
| 2. | Improvement Report Submission Deadline | Jan. 25, 2022 (Tue.) |
| | 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 Alteration | Feb. 12, 2022 (Sat.) |
| | Provision | Securities Listing Regulations, Rule 315-8, Paragraph 1, Item (2)
(due to falling under cases where a company has committed a breach of matters taken on oath in the written oath pertaining to application for assignment to the First Section, etc. and the company is requested to submit an Improvement Report due to said breach) |
| 4. | Listing Agreement Violation Penalty Total | JPY 48 million |
| | Provision | Securities Listing Regulations, Rule 509, Paragraph 1, Item (3) |

(due to falling under a case where TSE deems that the listed company has violated the matters in the written oath and has undermined the confidence of shareholders and investors in the TSE market)

5. Reason

EduLab, Inc. (hereinafter "the Company") disclosed about the establishment of a special investigation committee on Aug. 2, 2021, and on Oct. 15 the same year, disclosed about the receipt of an interim report from the committee concerning inappropriate accounting processing by the Company and the continuation of the investigation, in addition to corrections to financial results for past fiscal years. These disclosures revealed such facts as that provisions for business losses in joint operations with a business partner were not recorded, sales figures from an affiliated company of the Company were overstated, and the scope of consolidation of subsidiaries was adjusted, by the Company and its subsidiaries. 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 Sep. 2019 to the fiscal year ended Sep. 2020 and as a result of consequent corrections to past earnings reports, the Company's net income attributable to owners of the parent company was found to have decreased by at least 40% for the fiscal year ended Sep. 2019 and at least 60% for the fiscal year ended Sep. 2020.

In addition, on the same day, the Company corrected the securities registration statement submitted at the time of the initial listing and past securities reports, and disclosed the fact of having received audit reports and other reports with disclaimers of opinion regarding corrections to consolidated financial statements for the fiscal year ended Sep. 2016 through to the fiscal year ended Sep. 2020, as well as a quarterly review report containing a disclaimer of conclusion regarding the consolidated financial statements for the third quarter of the fiscal year ended Sep. 2021. Through these actions, it was also revealed that the Company had included falsified financial statements in the application for initial listing of the stock of the Company and application for alteration of listing market, and conducted a public offering to raise capital based on said false earnings information, despite having submitted written oaths stating that the contents of all documents submitted to TSE were truthful.

Furthermore, on Dec. 24, 2021, the Company disclosed that it did not expect to be able to submit the securities report for the fiscal year ended Sep. 2021 by the deadline because it became aware of the necessity or possible necessity of further corrections to past accounting processing regarding sales figures from multiple transactions and other things that had not been previously investigated, and would therefore be expanding the scope of investigation by the special investigation committee. On Dec. 28, 2021, the Company applied to the Kanto Local Finance Bureau to postpone the submission deadline for the securities report to Feb. 28, 2022 and received approval for said postponement on Jan. 4, 2022.

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

- There was inadequate awareness of compliance throughout the Company group, as demonstrated by, for example, not considering it a problem when contents of contracts were different from the actual transactions, and dates of contracts or vouchers such as delivery notes were different from the actual date in transactions with affiliated companies, multiple business partners, and others.
- There are material deficiencies in the internal control system of the Company, as instanced by the fact that there are doubts about the authenticity of vouchers in transactions with multiple business partners, leading to doubts about the existence of sales and the appropriateness of cut off in reporting.

- Due to the aforementioned growing doubts, the Company has repeatedly extended the investigation by the special investigation committee on its inappropriate accounting processing, meaning that the accounting auditor of the Company has not yet been able to express its opinion.

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. TSE requires the Company to submit a report containing the events leading up to the issues and improvement measures.

In addition, as mentioned above, because the Company has committed a breach of the matters in the written oath pertaining to listing market alteration application and does not meet the formal requirement on audit opinions for alteration of listing market, and the Company has been requested to submit an Improvement Report due to said breach, TSE has decided to change the listing market of the stock of the Company from the 1st Section to Mothers.

Furthermore, in light of the fact that the Company has committed a breach of the matters in the written oaths by providing financial statements containing falsehoods in the application documents in the course of initial listing examination and examination for alteration of listing market, and conducted a public offering to raise capital based on the false earnings information, TSE deems that this case has undermined the confidence of shareholders and investors in the TSE market. As such, TSE shall impose a listing agreement violation penalty on the Company.

As the investigation by the special investigation committee of the Company is ongoing, depending on the investigation results, new facts may be found and past earnings information may be corrected again in the future. Therefore, Japan Exchange Regulation will continue examining disclosure of corporate information made by the Company and how the Company is ensuring its effectiveness. If any new problems with the internal management system of the Company are found, TSE may take action such as additional measures including designation of the stock of the Company as a Security on Alert.

* 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/measures/improvement-reports/index.html>) (available only in Japanese).

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