

TSE Urgent Notice



May 12, 2022
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.

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| Company Name | SAKAI Holdings CO.,LTD
(Code: 9446, Market Segment: Standard Market) |
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| Improvement Report Submission Deadline | May 26, 2022 (Thu.) |
| Provision | Securities Listing Regulations, Rule 504, Paragraph 1, Item (1)
(Due to disclosed information containing false statements and improvements being deemed highly necessary) |
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| Date of Public Announcement Measure | May 12, 2022 (Thu.) |
| Provision | Securities Listing Regulations, Rule 508, Paragraph 1, Item (1)
(Due to disclosed information containing false statements and public announcement being deemed necessary) |
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| Reason | SAKAI Holdings CO.,LTD (hereinafter "the Company") disclosed an investigation report of the independent investigation committee concerning suspicion of overstatement of account receivables at a consolidated subsidiary on Mar. 25, 2022 and disclosed corrections to past earnings reports on Mar. 31, 2022.
These disclosures revealed that the president of the subsidiary of the Company had instructed the manager of the accounting division of the subsidiary and others to revise financial statements so that operating income was consistent with the reported achievement status of its business plan and earnings targets, and that sales and account receivables were overstated. |
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As a result, the Company was found to have made false disclosures in violation of the listing rules for quarterly earnings reports, etc., from the fiscal year ended Sep. 2017 to the fiscal year ended Sep. 2021, overstating consolidated ordinary profit as JPY 722 million instead of JPY 476 million for the fiscal year ended Sep. 2018 and that for the fiscal year ended Sep. 2019 as JPY 787 million instead of JPY 484 million, among other things.

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

- The subsidiary's accounting system had an inadequate mutual checks and balances system, which is attributable to a shortage of human resources and staffers.
- There had been inadequacies in that the scope of the audit by the internal audit office of the Company covered only some of the Company's subsidiaries, excluding the subsidiary which overstated sales and account receivables, and that there were no personnel fully in charge of audits assigned to the internal audit office.
- The full-time auditors of the Company had not been able to state tough opinions to the management and hardly communicated with the auditors of the subsidiary to exchange information.
- The information given to outside officers had been limited, and the Company had not fully capitalized on the expertise of outside officers to understand the Company's problems.
- The Company had fostered an atmosphere where it prioritized maintaining favorable business performance over enforcing compliance.

In tandem with this, subsequent to the investigation by the independent investigation committee, the following discussion points concerning the internal control system were identified.

- The Company had not created appropriate and practical rules and systems aimed at checks and balances on the scopes of authority of directors and employees; for example, the Company had amended rules on administrative authority to give more authority to the representative director in the Board of Directors, without enough explanation to outside officers.
- Several scandals in the Company's subsidiary had previously been exposed, and despite the fact that the necessity of establishing governance structures and the lack of an internal control system had been pointed out at each of these times, the Company had not established an effective subsidiary management system.

Based on the above, this case involves inappropriate disclosure that has considerable impact on investment decisions caused by inadequacies in the system of the Company for appropriately conducting timely disclosure, and improvements in the Company's system for timely disclosure are deemed highly necessary.

Although the Company has established concrete recurrence prevention measures in line with the investigation result and opinions of the independent investigation committee and clarified planned initiatives to beef up the governance and management systems, as well as disclosing the recurrence prevention measures on Mar. 31, 2022, from the viewpoint of promoting thorough implementation of efforts made by the Company from now on, TSE decided to require 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/measures/improvement-reports/index.html>) (available only in Japanese).

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