TSE Urgent Notice

Jul. 10, 2020
Listing Department
Tokyo Stock Exchange, Inc.

Request for Improvement Report and Imposition of Listing Agreement Violation Penalty

TSE has requested an Improvement Report and imposed a listing agreement violation penalty as follows.
*This decision is based on the results of the examination by Japan Exchange Regulation.

1.	Company Name	Japan Display Inc. (Code: 6740, Market Division: 1st Section)
2.	Improvement Report Submission Deadline	Jul. 28, 2020 (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.	Listing Agreement Violation Penalty Total	JPY 62.4 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)
4.	Reason	Japan Display Inc. (hereinafter "the Company") disclosed an investigation report of a third party committee concerning inappropriate accounting processing by the Company, and corrections to past earnings reports, etc. on Apr. 13, 2020. These disclosures revealed that for the purpose of achieving the disclosed goal of operating income, etc., the Company conducted inappropriate accounting processing which included overstating inventories, capitalizing expenses, delaying the reporting of expenses and avoiding valuation loss on inventories as well as non-booking of impairment loss etc. from instructions or approval of the General Manager of the accounting department or an Executive Officer & CFO, in addition to other inappropriate accounting processing including capitalizing expenses and recording sales that did not meet the requirement of revenue recognition from instructions of a Managing Executive Officer or decision of a staff member or the President at the

subsidiary in China (hereinafter referred to as "the inappropriate accounting case" together with inappropriate accounting processing including overstating inventories)

As a result, it was deemed that the Company had violated the listing rules by disclosing false earnings reports, etc. from the fiscal year ended Mar. 2015 through to the second quarter of the fiscal year ended Mar. 2020, and found that the Company's operating income had decreased by over 40% for the fiscal year ended Mar. 2017 and that the Company had fallen under excess liabilities in the fiscal year ended Mar. 2019.

It was also revealed that the Executive Officer & CFO who had provided instructions or approved a part of the inappropriate accounting cases also played a role as officer responsible for listing preparations during an initial listing application process for listing the Company's stock on the main market of the Tokyo Stock Exchange, and the Company included false financial statements in the initial listing application documents despite having submitted a written oath stating that the contents of all the documents submitted to Tokyo Stock Exchange, Inc. were truthful, while a part of the inappropriate accounting case had been conducted continuously since the third quarter of the fiscal year ended Mar. 2014, which was before the new listing of the Company's stock on the First Section of the Tokyo Stock Exchange (Mar. 19, 2014).

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

・The Company, mainly the accounting department, was lacking in awareness for conducting appropriate accounting processing, including making false explanations and providing forged vouchers to accounting auditors as part of the method for inappropriate accounting processing that was instructed or conducted mainly by the Executive Officer & CFO and the General Manager of the accounting department whose position was to prepare proper financial statements which were caused by, among other reasons, the then CEO's requests for excessive reductions in fixed costs for the entire Company.

・Authority was concentrated on the accounting responsible person for a long time and thereby check and balance system inside accounting department as well as from senior supervisors became merely a formality because of the fact that , among other reasons, the Company had lacked human resources in the accounting department due to an increase in retirees, etc. as well as the fact that the CFO who was unfamiliar with accounting practice left all accounting operations up to the discretion of the accounting responsible person.

・The check and balance system from outside the accounting department was inadequate evidenced by the fact, among other reasons, that internal audits at headquarters including the accounting department had not been conducted for the most part since the establishment of the Company, and that audits by the company auditor was limited to, among other reasons, interviews with the General Manager of the accounting department based on his self-evaluation.

・Until a former part-time Director, who was sent by the largest shareholder, resigned due to the expiration of his term of office in Jun. 2017, the autonomy of the Company had been adversely affected and its governance had been distorted due to the fact that the director had veto rights in the advisory committee which required unanimous decision regarding matters including finance, investment and human resources, and had excessively intervened on decisions of important matters of the Company, which resulted in, combined with the struggling performance of the Company, the excessive requests by the then CEO for the purpose of achieving the goal of operating income for the entire company.

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. Therefore, TSE requires the Company to submit a report containing the events leading to the issue and improvement measures.

Furthermore, in light of the situation that the Company prepared false financial statements in its initial listing application documents by violating the written oath, TSE deems that the Company 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.