

TSE Urgent Notice



May 17, 2024
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 TOKYO SANGYO CO.,LTD.
(Code: 8070, Market Segment: Prime Market)
2. Improvement Report Submission Deadline Jun. 14, 2024(Fri.)

Reason (Related Clause) Due to disclosed information containing false statements, the company breaching the listing rules, and improvements being deemed highly necessary (Securities Listing Regulations, Rule 504, Paragraph 1, Item (1))
3. Date of Public Announcement Measure May 17, 2024 (Fri.)

Reason (Related Clause) Due to disclosed information containing false statements and public announcement that the company breached the listing rules being deemed necessary (Securities Listing Regulations, Rule 508, Paragraph 1, Item (1))
4. Details of Reason

TOKYO SANGYO CO.,LTD. (hereinafter "the Company") disclosed an external investigation committee's interim investigation report concerning inappropriate accounting processing at the Company on Jan. 15, 2024, a final investigation report on Apr. 1, 2024, and corrections to past earnings reports on Apr. 15, 2024.

These disclosures revealed such facts as that the Company had not properly recorded an allowance for doubtful accounts against long-term accounts receivable related to a solar power generation project, and that for contracted projects for construction of solar power facilities, even after the total costs and progress of construction could no longer be reasonably estimated, the Company had continued to apply the percentage-of-completion method instead of the cost recovery method that should normally be applied in that situation.

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 first quarter of the fiscal year ended Mar. 2022 to the third quarter of the fiscal year ended Mar. 2024, and as a result of the consequent corrections to past earnings reports, it became clear that the Company's operating profit and ordinary profit for the fiscal year ended Mar. 2023 would fall by more than 70%, and net income attributable to owners of the parent company for the same period would fall to negative instead of positive, among other things.

The following deficiencies were acknowledged to be largely behind the disclosures.

- The solar power generation project and contracted project for construction of solar power facilities that led to the inappropriate accounting processing were new businesses for the Company in terms of the form and scale of the transactions, but officers and employees lacked risk awareness and did not conduct careful risk assessments.
- When unexpected events occurred in the solar power generation project, such as unauthorized transfer of a collateral asset by a debtor's cosigner, the Company did not properly analyze the causes of the events and failed to consider or implement adequate responses.
- Regarding the contracted project to which the percentage-of-completion method was applied, due to insufficient accounting literacy among officers and employees, the Company did not adequately consider the possibility of additional costs affecting the total construction cost.

As described above, this case involves false disclosures that can be considered to have a substantial impact on investors' investment decisions caused by a lack of risk awareness and insufficient accounting literacy among officers and employees, and TSE deems that improvements to the Company's timely disclosure system are highly necessary. While the Company has already made disclosure on Apr. 15, 2024 regarding recurrence prevention measures and other things in response to the results of the external investigation committee's investigation and its suggestions, TSE has decided to require the Company to submit a report that includes the circumstances behind the incident and the Company's measures for improvement in order to encourage the Company to thoroughly implement them to prevent recurrence.

Furthermore, TSE has decided to make a public announcement regarding this incident since it deems such an announcement is necessary.

* 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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