



New Listing Guidebook

GROWTH

Tokyo Stock Exchange

2022

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Introduction

This guidebook describes relevant criteria for listing examination concerning listing on Growth Market and the contents thereof for persons related to the listing including companies which consider listing.

Generally, a company can benefit from listing its stock including smooth and diversified fund raising, enhanced credit quality, and company profile. On the other hand, listing of stock means that the company will be a choice of investments by a large number of investors, including individual investors.

Thus Tokyo Stock Exchange, Inc. requires a company which applies for listing to meet certain eligibility when listing its shares from the perspective of investor protection, and will implement the examination of listing application in accordance with the criteria for listing examination.

A company which considers listing is encouraged to obtain a sufficient understanding of listing examination criteria and carry out preparation for listing. We are very grateful if this guidebook contributes to deepening the understanding of relevant aspects of listing examination and will be useful for you.

If contents of this guidebook are changed following the amendments to regulations and rules after the issuance of this guidebook, we will update “New Listing Guidebook” available in the homepage of TSE.

April 2022
Tokyo Stock Exchange, Inc.

Legend:

Regulations: Securities Listing Regulations

Rules: Enforcement Rules for Securities Listing Regulations

Guidelines: Guidelines Concerning Listing Examination, etc.

Information window relating to listing eligibility of new listing applicants

If you identify any window dressing or other issues which may have significant effect on listing eligibility concerning a company filing listing application with TSE, please provide such information to information window mentioned below. We would use information given for improvement to listing examination. If TSE determines that any information provided would be necessary for the purpose of listing examination, TSE may inquire related parties about the contents thereof. TSE is committed to apply utmost attention to the use of information so that the information provider would not be identified. However, please note that an applicant may be able to presume that investigation has been started because of such information.

https://form.jpx.co.jp/webapp/form/18913_lzbb_9/index.do

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I About Listing

1 Benefits of Listing

By listing on Tokyo Stock Exchange (TSE)'s Growth Market your company can:

(1) Smooth and Diversified Fundraising

Once listed on Growth Market, your company will have access to direct finance, including publicly offering stock or issuing subscription warrants or convertible bonds. Our highly liquid market can bring more efficient and diverse fund-raising capacity for your company to grow further.

(2) Enhance Corporate Value

Becoming a public company means that a company will be recognized as a socially responsible company and will gain the status of a company with future growth potential as well as higher degree of trust and confidence of customers, trading partners and financial institutions.

Coverage by media, including market news of newspapers, will allow your company to enhance its corporate and product reputation in Japan. An improved corporate reputation also aids listed companies in retaining and attracting excellent human resources. Coverage by media, including market news of newspapers, will allow your company to enhance its corporate and product reputation in Japan. An improved corporate reputation also aids listed companies in retaining and attracting excellent human resources.

(3) Improve its Internal Management System and Enhance the Employees' Motivation

Corporate disclosure will allow investors and other third parties to examine your company's corporate management. Therefore, your company has an obligation to continue to improve and strengthen its management system as well as its internal management. Becoming a public company will also help boost the morale of the officers and employees of the company.

Please keep in mind that since the shares issued by a listed company will be a choice of investment by a large number of public investors, going public also involves taking on new social responsibilities and duties for the purpose of investor protection. Your company will be required, among other things, to disclose earnings information and corporate details in an appropriate and timely manner.

2 Mechanism for Initial Listing

(1) Mechanism for Initial Listing

Listing of stock is effected on the basis of application filed by a company issuing the stock (hereinafter referred to as an “applicant”). When the stock is listed, it will be an investment choice for a large number of general investors. Thus, TSE (Note) will examine whether an applicant is eligible for listing on TSE from the perspective of investor protection. TSE has developed and set forth various regulations and rules for initial listing. The listing examination will be conducted based on them.

Various rules concerning initial listing comprise “Securities Listing Regulations,” “Enforcement Rules for Securities Listing Regulations” and “Guidelines for Listing Examinations, etc.”

The standards for listing examination specified by various rules provide for “Formal Requirements” which specify quantitative requirements for the number of shareholders, amount of profit, etc. and standards for “Substantive Examination Standards” which represent the qualitative criteria for assessing disclosure systems, corporate governance practices and so on. Please refer to “III Formal Requirements” and “IV Listing Examination,” respectively, in this guidebook.

As a result of listing examination, when an applicant is determined to meet the eligibility for listing, TSE will approve and announce the listing of the applicant. Subsequently the applicant will be listed through the process of public offering or secondary distribution.

(Note) Actual examination will be conducted by JPXR to which the role of examination is delegated by TSE.

(2) Composition of Markets

TSE operates four markets of Standard Market, Prime Market, Growth Market and TOKYO PRO Market.

1) Standard Market

Standard Market is fit for companies that maintain a certain level of market capitalization (liquidity) required of choice of investments on a public market, satisfy fundamental level of governance practices and are committed to sustainable growth and mid- and long-term enhancement of corporate value.

2) Prime Market

Prime Market is fit for companies that maintain a size of market capitalization (liquidity) in which many institutional investors indicate interest in choosing appropriate investments, have higher level of governance practices in place, and are committed to sustainable growth and mid- and long-term enhancement of corporate value driven by constructive discussions with investors.

3) Growth Market

Growth Market is fit for companies that are exposed to a relatively high risks from the perspective of historical business performances while obtaining a certain level of market evaluation as they make timely and appropriate disclosures of business plans to realize high growth potential and its progress.

* For listing on Standard Market, Prime Market and Tokyo Pro Market, please refer to “Standard Market”, “Prime Market” and “Tokyo Pro Market,” respectively, included in New Listing Guidebook.

Furthermore, any company which successfully lists its stock can alter its listed market according to the stage of business development and growth after initial listing as follows.



3 Parties Involved in Listing and Their Roles

Various related parties including securities companies will be involved in applying for listing. Their primary roles are as follows:

(1) Securities Companies

There are a number of roles of a securities company before listing. At the stage of preparation for listing, the securities company will provide advice to the applicant on capital policy and internal systems and also carry out the examination of the corporate details of the applicant to determine whether the securities company can perform the required listing procedures for the listing and underwrite the public offering and sales (underwriting examination). When the securities company decides to underwrite the public offering and secondary distribution, it has to implement a series of tasks according to the listing schedule. Even after the applicant successfully lists their shares on Growth Market, it will assist the applicant in various aspects, including raising secondary funds and investors relation or IR activities.

The securities companies that assist the applicant in carrying out various tasks for listing procedures are called an “underwriter”. (If the securities company is a TSE’s member, it is also called a “trading participant”) The main underwriter among them is called the “lead underwriter (lead trading participant)”. A securities company which enters into a prime contract for underwriting for public offering, etc. with the applicant is called the “principal underwriter (principal trading participant)”. Furthermore, a lead underwriter is required to submit to TSE its “Sponsor’s Letter of Recommendation.”

(2) Certified Public Accountants (Auditing Firms) (CPAs)

Certified public accountants (auditing firms) express their audit opinion on the applicant’s financial statements to be submitted to TSE, in compliance with the Regulations. They will also advise the applicant on its accounting practices and internal managements.

For the purpose of Regulations, the applicant is required to attach an audit report on financial statements described in Securities Report for Initial Listing Application (Part I) “hereinafter referred to as “Part I” documents) as prescribed in the Financial Instruments and Exchange Act.

(3) Shareholder Services Agent

A shareholder services agent is an entity which is required to be appointed in order to implement smooth services related to shareholders. Their services include preparation of

shareholders' list, and handling of various rights granted to shareholders including voting rights and dividend payments to shareholders. The applicant is required to outsource services related to shareholders to a shareholder service agent or to receive preliminary consent to the acceptance of services provided to shareholders from a shareholder service agent by the date when the listing application is filed (please refer to section 7 "Establishment of a Shareholder Services Agent" at III Formal Requirements).

4 Schedule from the listing approval to the listing

In general, the following steps will be taken when listing on the Growth Market. The following provides the overview of steps

[Model schedule from listing application entry to listing approval]

<First half>

X month			(X+1) month		
1	Wed		1	Sat	∞ Business days
2	Thu		2	Sun	
3	Fri		3	Mon	
4	Sat		4	Tue	
5	Sun		5	Wed	4 Business days
6	Mon		6	Thu	
7	Tue		7	Fri	
8	Wed		8	Sat	
9	Thu		9	Sun	
10	Fri		10	Mon	
11	Sat		11	Tue	
12	Sun		12	Wed	Date for submission of responses to the first round of questions, interview
13	Mon	Holiday	13	Thu	
14	Tue		14	Fri	
15	Wed		15	Sat	
16	Thu	Listing application entry	16	Sun	
17	Fri	About 2 weeks	17	Mon	Sending of the second round of questions
18	Sat		18	Tue	
19	Sun		19	Wed	
20	Mon		20	Thu	
21	Tue	About 1 week	21	Fri	
22	Wed		22	Sat	
23	Thu		23	Sun	
24	Fri		24	Mon	Date for submission of responses to the first round of questions, physical inspection, interview
25	Sat		25	Tue	
26	Sun		26	Wed	
27	Mon		27	Thu	Sending of the third round of questions
28	Tue		28	Fri	
29	Wed		29	Sat	
30	Thu	Listing application, receipt of documents pertaining to application, interview	30	Sun	
31	Fri				

<Second half>

(X+2) month		
1	Mon	
2	Tue	
3	Wed	
4	Thu	Date for submission of responses to the third round of questions, interview
5	Fri	
6	Sat	
7	Sun	
8	Mon	
9	Tue	
10	Wed	
11	Thu	
12	Fri	Various meetings
13	Sat	
14	Sun	
15	Mon	
16	Tue	
17	Wed	
18	Thu	
19	Fri	
20	Sat	
21	Sun	
22	Mon	
23	Tue	
24	Wed	Presentation by president
25	Thu	
26	Fri	
27	Sat	
28	Sun	
29	Mon	
30	Tue	Listing approval
31	Wed	

(Note 1) For finance schedule following the listing approval, please refer to [Model schedule from the listing approval to the listing] at the end of Chapter I.

(Note 2) Sponsor's Letter of Recommendation (prepared by lead underwriter) must be submitted to TSE at least three business days prior to the listing approval date.

(1) Before the Listing Application

The applicant may proceed with the preparation process for the filing of application is primarily responsible for this preparation with necessary assistance and advice offered by the applicant's lead underwriter and audit firms. Should you have any questions regarding examination standards before you file the application, please contact New Listings of TSE or the Listing Examination Division of JPXR either directly or via your lead underwriter before the listing application (Note 1).

When all the required preparation work is complete, the lead underwriter makes an entry for the listing application at least two weeks prior to the listing application (for the purpose of the entry, the lead underwriter sends e-mail to TSE with attached the "Listing Application Entry Sheet" including the descriptions of the trade name of the applicant; contact of the lead underwriter; expected listing schedule (listing application date, listing approval date, listing date) and other necessary matters (Note 2)(Note 3).

(Note 1) TSE will express its view on your questions in consideration of facts and circumstances disclosed to TSE at the time of consultation. Therefore, if any fact not disclosed at the time of consultation emerges or changes in conditions of the applicant or environments surrounding the applicant including any revision of the criteria for listing subsequent to the consultation take place, some views derived from the listing examination would likely be different from the views expressed by TSE at the time of consultation.

(Note 2): If TSE (i.e., New Listings of TSE or the Listing Examination Division of JPXR) is concerned that some significant issues may take place in the context of substantive listing examination criteria before the listing application, TSE believes that the applicant must stand ready to clearly address these issues before the listing application.

(Note 3) The entry sheet should be accompanied by the consolidated financial statements for the preceding two fiscal years (when no consolidated financial statements are prepared, financial statements data) in Microsoft Word format(*).

(Note 4) If there was any non-compliance with Oath Statement detected during the new listing examination in the past, TSE may determine that the Applicant ensure a significant period of time for its operations before it re-applies for listing.

* Microsoft Word is registered trademarks or trademarks of Microsoft Corporation in the US and other countries.

(2) Preliminary Review

When JPXR is satisfied with the explanations of the lead underwriter of matters related to 1) the applicant's main business lines with high growth potential, 2) appropriate instructions and advice on going public, 3) no ties or relationship with any anti-social or criminal organization and 4) listing schedule, JPXR will accept the listing application.

In the meantime, at the stage of preliminary review, the applicant is requested to submit relevant draft copies of pages addressing questions asked for various explanatory materials at the time of acceptance of listing application via the lead underwriter before the interview at the time of listing application.

1) High Growth Potential

The securities company acting as the lead underwriter is required to assess whether the applicant has high growth potential to meet the criteria for listing on the Growth Market.

TSE will examine the listing application of the applicant based on the determination of the lead underwriting with respect to the high growth potential.

2) Report related to the Contents of Instructions on Going Public and Underwriting Examination

The lead underwriter reviews any matters considered during the process of instructions on going public or underwriting examination carried out by the lead underwriter by the time of listing application on the basis of the descriptions (draft permitted) included in the "Report Related to the Contents of Instructions on Going Public and Underwriting Examination." Practically, the lead underwriter is requested to discuss the matters especially considered in light of factors specific to the applicant such as lines and category of business and growth stage of the company and any other matters on which the lead underwriter focused its considerations (e.g., design and implementation of significant internal management systems, adoption of special accounting treatments, existence of material breach of laws and regulations) on the basis of the descriptions included in this report.

If the lead underwriter does not submit "Sponsor's Letter of Recommendation" at the listing application date and there are any issues for which confirmation has not been completed (for example, the lead underwriter is at the stage of review or improvement of system put in place for new listing application), the lead underwriter is required to explain the nature of issues, the confirmation made to date and expected completion date of confirmation.

JPXR may request the lead underwriter to explain the reasons why it commenced its instructions on going public and the timing thereof (the background why the lead underwriter began contacting the applicant and its timing), going public, the background for which the lead underwriter contacted the applicant and its timing.

3) Ties with Criminal and Extremist Elements

In evaluating where there any ties with criminal organizations, JPXR will review the following points on the basis of "Draft of Sponsor's Letter of Confirmation," prepared by the lead underwriter, and the "Draft of Declaration of No Ties with Criminal Organizations" prepared by the applicant to the effect that the applicant has no ties with any criminal organizations (attached separately).

a. Scope of related persons for whom the lead underwriter checked their personal records and backgrounds and attributes (board members, executive officers, corporate auditors, shareholders and trading partners); Or contents if the lead underwriter considered the background for founding the listing applicant and its customers, suppliers and other trading partners, and industry and trading conventions specific to the applicant; and

b. Contents and nature of investigations to ensure that the applicant has no ties with any criminal and extremist elements (including the contents of investigations of

assessments of any customers, suppliers and other trading partners with listing applicant, if any)

4) Review of Listing Schedule

In consideration of listing schedule described in the listing application entry sheet, TSE will indicate the proposed examination schedule for relevant listing application date, interview date and so on.

The lead underwriter is encouraged to appropriately develop and adjust a schedule which will not lead to any irregularities in consideration of routine and ordinary businesses of the applicant.

(Note 1): The standard duration of an examination period is two months. However, the examination period and interview process may be adjusted in consideration of the size of the applicant group, seasonal peaks, and normal business operations. As a result of adjustments, the overall examination period may change (in case of application by non-listed company, if 40 business days or more are not available for the examination period from the listing application to the completion of the examination of Part I due to national holidays and others, please inform TSE to the effect beforehand. The applicant is also requested to develop sufficiently flexible examination schedule to address overseas field inspection, if any. Standard examination period is based on the assumption that no particular issues were found during the examination process. However, if any issues are found or if there is new information on the applicant, including from external parties such as in media reports, the duration of the examination may be extended.

If a change in the schedule results in the determination of listing date beyond the date of final accounts (generally, it is presumed to be the date of general regular meeting of shareholders), the procedures for re-application will be triggered.

(Note 2) For any applicants expected to significantly influence the market or investors, at the Board of Directors, the Listing Examination Division of JPXR will make the conclusion on the listing after making several rounds of discussions. For example, such applicants include: Privatized enterprise applicants; Applicants adopting any scheme requiring considerations in terms of the corporate governance such as the use of class stocks with voting rights; Re-listing applicant; Applicants concerned with compliance as a company of the applicant group or the management of the applicant committed serious incident or breach of laws and regulations in the past; Other applicants requiring considerations for other issues; or Applicants with the market capitalization of 100 billion yen or more expected at the time of listing. For such companies, a large number of various issues must be discussed and confirmed at the listing examination. Therefore TSE would request such applicants to take one month or more in addition to standard listing examination period.

(Note 3) If the applicant identifies any issues requiring relevant adjustments concerning schedule including cases in (Note 1) and (Note 2) above or encounters any uncertain cases, please consult with the lead underwriter and then contact TSE via the lead underwriter.

(Note 4) However, if, for some reasons, such as the lead underwriter's examination process on applicant's revenue outlook taking longer than expected, the timing of application may be close to the end of the fiscal year, the application may be allowed where the listing date is scheduled after the end of the fiscal year, but the application is required to be made within the fiscal year in which the listing application is filed.. The preliminary release of earnings for application year needs to be appropriately included in "Part I" documents; and

(3) Listing Application

Listing application can be divided in normal application and preliminary application. Although some procedures, for example, those related to documents to be submitted may differ between them, the nature of examination is the same.

1) Normal Application

In principle, the listing application should be made after the regular general shareholders' meeting for the previous year. At the time of application, for the applicant, president (CEO), officers in charge of listing application, persons to be contact, and for the lead underwriter, officers responsible for listing will be present in carrying out relevant application procedures. At the meeting for listing application between TSE officers, the applicant, and the underwriter, TSE will accept documents to be filed for the purpose of listing application and examination officers will brief the applicant on the prospective listing examination and overview of listing examination as well as practical procedures for examination (written schedule and examination items will also be provided).

Then the applicant is requested to explain the reasons for listing application, business lines, business environment and prospective growth plan. Then the examination officers will make additional questions with reference to the explanation. Actual questions are as follows:

[Questions at the time of acceptance of application]

a. Reasons, etc. for Listing Application

- ▶ The applicant is required to specifically describe the reasons for filing listing application (including purpose and expected effect).
- ▶ The applicant is required to specifically describe size and use of funds expected to be raised at the time of listing (only its outline will suffice)

b. Company history

- ▶ The applicant is required to describe the background, purpose, and history to date (including how business models have been developed). In describing them, please apply the items included in Part I, as appropriately.

c. Nature of businesses, conditions of the industry to which the applicant belongs, and future business plan

- ▶ The applicant is required to describe the following by applying disclosure draft for "Business Plan and Matters Concerning Growth Potential".

[Nature of business]

- The applicant is required to specifically discuss the nature of business and business model. (In describing them, the applicant is allowed to use presentation materials for explaining its own products and services, in addition to disclosure draft for "Business Plan and Matters Concerning Growth Potential".)

[Current status of the market]

- The applicant is required to specifically describe the size of market targeted by the corporate group of applicant (to the extent known), current industry developments including the movements of market prices and future prospectus.

- The applicant is required to describe the position status within the industry, and characteristics and strong points compared to competitors (if any).

[Future business plan]

- The applicant is required to describe the business plan developed in order to realize high growth (including growth strategy, specific nature of policy measures, management indicators focused on (if developed), earnings plan and preconditions, measures to address risks detected).

d. The status of officers and large shareholders

- ▶ For the current incumbent officers, the applicant is required to describe the background for their appointment, while explaining their previous careers and the reasons why they have been requested to serve as officers, using “various explanatory data concerning the applicant”.
- ▶ The applicant is required to describe the background and reasons why large shareholders decided to invest in the applicant by using “Part I” and “various explanatory data concerning the applicant”.

2) Preliminary Application

Preliminary application is a system developed to address some inconveniences from the concentration of listing applications. Preliminary application may be made prospectively from three months prior to the end of the fiscal year preceding the listing application, and a relevant examination is carried out on the basis of materials required for the preliminary application (including preliminary application form for listing securities, draft of materials required for normal application and others) Then, listing application will be re-filed when the accounts for the preceding fiscal year are finalized after the completion of regular general meeting of shareholders (after the submission of securities report in case of listed companies on other markets or making continuous disclosures consistently).

When a preliminary application is made, the standard examination period will be determined based on the period from the preliminary application date to desired listing approval date.

(4) Listing Examination

Actual listing examination will be implemented as follows:

1) Interview

Examination officers will determine whether the application meets the listing criteria while obtaining the understanding of the nature of the applicant based on the documents submitted at the time of listing application (in particular, “various explanatory data concerning applicant”). If there are any issues uncertain to understand only from the application documents, or requiring the confirmation of details, the examination officers may make relevant inquiries and the applicant prepares responses to them, based on which the examination will be carried out. The examination officers are certain to verify the descriptions included in the disclosure draft of “Matters Concerning Business Plan and Growth Potential”.

The standard number of interviews to be held with the applicant is three. By the third round of interviews, the examiners will examine and confirm the matters required by “Questions asked at the time of acceptance of listing application in section “V Checklists Before Applying for Listing on Growth Market.”

Meanwhile, TSE will advise the applicant of any matters inquired at each of the interviews at least five business days prior to the interview. If TSE deems it necessary to assess more details even after the fourth round of interviews is completed, TSE may conduct an additional interview.

2) Field Inspection (physical inspection)

Typically, examination officers will visit headquarter, plants, stores, laboratories, offices and other of the applicant to accurately obtain the understanding of the nature of its businesses and confirm accounting procedures by reviewing relevant accounting vouchers, evidences and others, as appropriately.

3) Attending e-learning Courses

Officers and directors of a listed company are required to provide insights on a wide variety of matters on company management. Especially, they are requested to attend e-learning courses to help them deepen their understanding of the issues to which they have to pay close attention during the examination period for a listing application. They include the duties and attitudes of mind entailed in listing, the need to develop and appropriately operate a management system meeting all the requirements of a listed company, suitable attitude towards corporate governance as a listed company, and preventive measures against insider trading, communication of information and issuance of trading recommendations.

4) Interviews with Certified Public Accountants (CPAs)

Interviews will be carried out with certified public accountants that carry out audit of the applicant to understand the background to their engagement as auditors, communications between company management and company auditors, and the internal control, management, and disclosure systems. The interviews will be conducted only with the Certified Public Accountants. Timing of execution of the interviews will not be notified to an applicant and a lead underwriter.

5) Interviews with the President (CEO), the Company auditors and independent directors/auditors

For the purpose of meetings with the president (CEO), the examiners will visit the applicant and meet the president (representative director, chief executives). During the interviews the examiners will ask the following issues: The overview of the company and industry; What vision does the president as the management have on the operation and management of the company; Measures to address investors (shareholders) when it

becomes a listed company (including IR activities); A policy, a current organizational framework and a management status regarding corporate governance and compliance of an applicant; and Systems to disclose operating results and ensure control of internal information. During the interviews with company auditors, the examiners will, in principle, ask full time company auditors of the status of audits they perform and any challenges faced by the applicant.

In addition, during the interviews with independent directors/auditors, the examiners will, in principle, ask them of the following:

Policies, present status and implementation conditions for the corporate governance practices of the applicant; Management's awareness of compliance issues; Status of development and improvement of environments for independent directors/auditors to execute their duties (provision of information, sufficient time to review, etc.); How they assess the existence of transactions involving the management and check and balance system over the transactions; and How they recognize the roles and functions, etc. expected of them after the listing. In addition when the examiners find it necessary to have interviews with other officers on any specific matter, they may have interviews with such other officers. In addition, if an applicant has accounting advisors, the examiners may have interviews about the development and operation of accounting organization of the applicant and the status of involvement thereof in them. If the applicant has large shareholders or a parent company, the examiners will make relevant interviews with such large shareholders or the parent company in the context of measures to ensure the effectiveness of governance practices and the future policy to hold shares of the applicant.

A three business day interval will be provided between the interview (final round) and the meetings with the president, company auditors and independent directors.

6) Presentation by the President

TSE will ask the president (representative directors, chief executives) to visit JPXR and make a presentation on the company in terms of the characteristics, management policies, and business plans, etc. of the company. Then TSE will decide to proceed with the final determination of the listing based on the result of questions and answers session regarding them. In addition, the executive officers of JPXR will ask some questions concerning the presentation and explain the issues the applicant should consider and the requirements that it should satisfy as a listed company. As issues to be considered and requested to address may include those related to the disclosure system and corporate governance, TSE will request the officer charged with information handling and full time corporate auditors of the applicant (Note) to attend the presentation.

(Note) Listed companies are required to select and appoint an officer charged with information handling from among directors, executives or those in a similar capacity, and register them with TSE.

The officer charged with information handling shall be responsible for reports in response to inquiries by TSE and other communication in relation to the disclosure of corporate information. In practice, the officer will be the point of contact with TSE and also be responsible for internal management and disclosure of material information.

7) Items yet to be Reported (items to be inquired)

If there are any changes in descriptions of submitted documents including various explanatory data concerning the new listing applicant submitted or responses to inquiries at the interviews or the applicant discovers any items to be newly described after the listing application is made, the applicant is required to report them as promptly as possible. For such reports to cover all relevant items, the examination officers will make necessary inquiries as to whether there are any items yet to be reported.

If any confirmation or investigation of facts and circumstances or assessment by specialists are required in making responses to such inquiries, the applicant is required to submit the responses after necessary confirmation, investigation or assessment is completed. In addition, if the applicant discovers any new items to be reported by the listing date, the applicant shall report such items at the point they are discovered.

If the applicant fails to make relevant reports, the applicant will be subject to the measures to ensure the effectiveness if the applicant is determined to be in-compliance with the written oath statement. For more information, please refer to X "Measures to Ensure Effectiveness of the Examination of New Listing."

(5) After TSE's Listing Approval

1) Announcements on Listing Approval

TSE will announce the approval of the listing of the applicant on Growth Market through its website and other media (TSE will inform the applicant of approval of listing after completion of internal procedures of TSE before the announcement thereof). This will be followed by a public offering and subscription for sales. The applicant will formally become a listed company on Growth Market approximately four weeks after listing approval.

For the period until the listing date arrives at, the applicant needs to submit documents continuously required and when the applicant recognizes any items to newly report in the context of inquiries, the applicant shall make the reports at the time. Furthermore, after the announcement of listing approval, TSE will cancel the listing if any of listing examination criteria are breached (Note), for example, because of the suspension of public offering or sales.

(Note) Such breach may include any changes in the determination concerning the satisfaction of substantive examination criteria as the composition or ratio of shareholders expected to be at the time of listing significantly changes, in addition to the non-fulfillment of formal requirements.

2) Meetings with Listing Department of TSE and Market Surveillance and Compliance Department of JPXR

Between the approval and the actual listing, the TSE Listing Department will meet officers charged with information handling and those responsible for communications with TSE in relation to timely disclosure, etc. following listing and explain various procedures in terms of timely disclosures and earnings announcements.

In order to prevent any insider trading, the Market Surveillance and Compliance Department of JPXR will explain the regulations on prevention of insider trading.

3) Public Offering or Secondary Distribution

TSE will assess whether the company meets criteria for liquidity (number of shareholders, criteria for tradable shares, and the number of offered shares) through the public offering or secondary distribution. In addition TSE ensures that for a company before listing, public offering or public offering and sales have been carried out according to various rules set forth for public offering and sales, etc.

4) Listing

The Listing Agreement entered into by and between the company and TSE requires the company to comply with various rules set forth for timely disclosures, etc. effective from the listing day.

On the listing date, the recent financial information, etc. will be disclosed through the TDnet as the "Earnings Release" (including the contents of future forecast information

(information related to the forecast for company's future performance results and financial position; the same shall apply hereinafter) if it is disclosed). A listing ceremony will also be held where TSE will present the company with a listing certificate and other items to commemorate the listing.

(6) Disclosures on the Listing Date (Matters Related to Growth Potential)

A company newly listing on Growth Market is required to disclose “Matters Concerning Business Plan and Growth Potential” (Rule 408) The disclosures shall include the descriptions of business models, market environments, sources of competitive power, business plans, risk information and others (Note).

The data shall be submitted on listing (preliminary) application date. The examination will be carried out focusing on whether the descriptions of the data are consistent when compared with the substance of the company and the business plan and the assessment of lead underwriter on the growth potential explained for the purpose of listing examination, whether they are quite understandable, and whether they contain appropriate descriptions of information suitable, in particular for the investment decisions of investors and assessment of high growth potential. If necessary, the examiners may require the applicant to improve the descriptions.

(Note) After the listing, the applicant is required to disclose the descriptions of latest developments reflecting the progress minimum once a fiscal year (it should be disclosed within three months after the end of fiscal year. Furthermore, whenever significant changes in the descriptions take place as the applicant revises the business plan or there are significant changes in the nature of business, the applicant needs to disclose such changes promptly.

(7) Follow-ups after Listing

Given that a newly listed company is required to continuously carry out appropriate business activities after listing, TSE will continue to follow up on the business activities of the listed company for approximately three years after listing. Such follow-ups will mainly focus on the matters requested by TSE to be addressed during the process of listing examination.

In practice, TSE will continuously follow up material business activities after listing and the status quo of matters requested by TSE to be addressed during the process of listing examination on the basis of timely disclosures. If necessary and appropriate, TSE will make inquiries and interviews with the listed company and the lead underwriter.

As a result of the follow-ups, if TSE detects any inappropriate business activities after listing or some issues identified to be corrected in the listing examination remain uncorrected, TSE will require improvements and corrections of such matters.

In response to such requirements, the listed company should provide a written response outlining the prospective corrective measures.

[Material business activities after listing (examples)]

- Resignation of chief executive officer (such as president)
- Corporate reorganization through mergers and other transactions (stock swap, share transfer, merger and company split)
- Material business partnership or its termination
- Changes in the parent company, changes in controlling shareholders (excluding the parent company) or changes in other related companies ▪ Changes in the parent company, changes in controlling shareholders (excluding the parent company) or changes in other related companies

[Issues detected during the examination process, to be addressed by the applicant (examples)]

- Appropriate operation of internal management system improved during the examination period
- Gradual decrease and elimination of transactions with related parties, which should eventually be

eliminated

[Timely disclosures after listing (examples)]

- Revision of future prospective information including earnings forecast
- Modifications and/or reviews of business plan and mid-term management plan presented at the listing examination.

Listed companies are encouraged to review and update the contents of the securities report, as appropriate, after listing in consideration of external and internal environments surrounding them.

As a part of TSE's follow-ups after listing, it will ensure that listed companies have appropriately reviewed and updated the securities reports filed after listing, especially the "Risks, etc. associated with business" section in consideration of their specific conditions and environment.

[Model schedule from the listing approval to the listing]

(Note) The above merely illustrates a model schedule and actual financing schedules (pre-marketing period or book building period, board meeting to determine terms and conditions or timing of securities registration statement) may differ from one applicant to another.

(Y) month			(Y+1) month		
1	Wed	Listing approval, resolution at the Board of Directors to issue new shares, filing of Securities Registration Statement (filing with the Financial Services Agency by the applicant)	1	Fri	Subscription period
2	Thu	6 Business days	2	Sat	4 Business days
3	Fri		3	Sun	
4	Sat		4	Mon	
5	Sun		5	Tue	
6	Mon		6	Wed	Payment date and date when new shares take effect
7	Tue	Premarketing period	7	Thu	Listing date
8	Wed	More than 15 days	8	Fri	
9	Thu		9	Sat	
10	Fri		10	Sun	
11	Sat		11	Mon	
12	Sun		12	Tue	
13	Mon		13	Wed	
14	Tue		14	Thu	
15	Wed	Meeting of the Board of Directors to determine provisional terms and conditions (payment amounts under Companies Act)	15	Fri	
16	Thu	Filing of (primary) Amended Registration Statement (filing with the Financial Services Agency by the applicant)	16	Sat	
17	Fri	5 Business days	17	Sun	
18	Sat		18	Mon	Holiday
19	Sun		19	Tue	
20	Mon		20	Wed	
21	Tue		21	Thu	
22	Wed		22	Fri	
23	Thu	Book building period	23	Sat	
24	Fri	Determination of issue price and underwriting price	24	Sun	
25	Sat		25	Mon	
26	Sun		26	Tue	
27	Mon	Filing of (secondary) Amended Registration Statement (filing with the Financial Services Agency by the applicant)	27	Wed	
28	Tue	Date when the registration statement to take effect	28	Thu	
29	Wed		29	Fri	
30	Thu		30	Sat	
			31	Sun	

II Matters Concerning High Growth Potential

1 High Growth Potential

II

The securities company acting as the lead underwriter is required to assess whether the applicant has high growth potential to meet the criteria for listing on the Growth Market.

The lead underwriter submits to TSE the Report on Listing Eligibility in the form designated by TSE to the effect that the applicant has high growth potential with the attachment including the descriptions of business line assessed in the context of growth of the applicant and the reasons why it decided the business has high growth potential; provided,

At the pre-confirmation, the lead underwriter is required to give the explanations of the following based on the draft attachment of the Report on Listing Eligibility (document including the descriptions of business lines assessed in the context of growth of the applicant): - Nature (business model (business lines, revenue generating structure of business), business environments (market size, competition environments), sources of competition (management resources, competitive advantages), risk information (risks identified, measures to address risks) and others) of business assessed by the lead underwriter as business with high growth potential (hereinafter referred to as "Growth Business") and the reasons for its selection;

- ▶ Significant indicators reflecting the progress of growth strategies on which the management focuses, the reasons for selecting the indicators, actual results and specific target of the indicators for the recent three years
- ▶ Basis on which the lead underwriter determined that Growth Business has high growth potential;
- ▶ Nature of business plan and pre-conditions;
- ▶ Key factors based on which the lead underwriter concluded that the business plan has been reasonably developed;
- ▶ Earnings plan and pre-conditions (if any)

TSE will examine the listing application of the applicant based on the determination of the lead underwriting with respect to the high growth potential. For the purpose of listing examination, TSE will make interviews with the applicant to ensure that the business plan of the applicant has been reasonably developed in consideration of business models, economic environment surrounding business, risk factors and other relevant matters.

If after the listing application, the descriptions concerning the assessment of high growth potential included in the attachment of Report on Listing Eligibility significantly depart from the current status of the applicant, TSE may require the lead underwriter to provide extra explanation, if necessary.

2 Frequently Asked Questions and Answers Relation to Determination of High Growth Potential

Considerations which the lead underwriter should make when discussing the basis to determine that the applicant has high growth potential are addressed in the Q&A form below (since the Q&A has been made to illustrate key points, it may have to be modified in consideration of characteristics of the applicant).

Q1: Are there any measures by which the applicant is determined to be high growth potential?

A1: In general, the degree or level of growth (including period required for growth or growth rate) of a company varies depending on the industry or characteristics of the business of the company. Therefore no numerical thresholds have been set as indicators to determine high growth potential.

Q2: The lead underwriter evaluates the following in order to assess high growth potential of the applicant in consideration of reasonableness of the business plan of the applicant:

We understand that the assessment of high growth potential is delegated to a lead underwriter while TSE examines the reasonableness of its business plan. What are differences between the items to be assessed by the underwriter and those examined by TSE?

A2: Based on relevant objective facts, the underwriter assesses high growth potential in consideration of issues including "prospectus of future market size (including data and others prepared by an independent institution)", "business model or characteristics of products, goods or services traded", "sources of competitive power (including management resources and competitive advantages)", "expected management indicators on which the applicant focuses for the purpose of management", "prospectus for future business developments and growth strategies" and others.

With respect to evidence which directly demonstrates such high growth potential, TSE will examine the reasonableness of the business plan developed by the applicant (mid-term business plan from three to five years (Note)) on the basis of the assessment made by the lead underwriter (excluding any cases where the assessment significantly lacks in reasonableness).

Note: In general many companies have developed mid-term business plans for approximately three years. However the periods for which business plans are developed depend on individual applicants.

- "VI Listing Examination Q&A 1. Relating to V Checklists Before Applying for Listing on Growth (1) Business Plan Q 3" further discusses the above diagram by illustrating questions specific to individual industries. Please refer to the above in conjunction with section V.

The assessment of high growth potential is made by respective lead underwriters using their proprietary tools and judgments. In addition any items related to "Reasonableness of Business Plan" examined by JPXR can also constitute the matters to sufficiently be verified by the lead underwriters.

Q 3: What considerations should be made when discussing the reason why the lead underwriter determined that the applicant has high growth potential?

A 3: An applicant is assumed to have high growth potential if the market where it operates is expected to expand or any products or goods, services of the applicant are expected to benefit from any factors differentiating the applicant from its peers.

When the applicant and the lead underwriter explains these situations, please consider the following points:

[Market environments]

When the applicant and the lead underwriter explains the current status of the market where the growth business operates, it is encouraged to do so by using highly credible and objective data. In cases where market data by an independent third agency is lacking, any data measured by the lead underwriter on a proprietary basis will be sufficient.

[Management resources]

Differentiating factors are to be explained in the context of “characteristics and strengths which enable the applicant to provide any products with higher value added compared to peers” or “characteristics and strengths which enable the applicant to prove lower cost products compared to other companies” on the basis of objective facts. They include “technologies,” “business models,” “know-how” or “brand,” etc.

Q 4: What considerations should be made when selecting growth business?

A 4: When determining high growth potential, a plan demonstrating that the applicant as a whole will grow (in addition to growth business) must be developed and adopted.

Thus, in cases where the size of the market in which the applicant operates is very small and the growth is expected to reach a marginal point in a few years, or where the increase in earnings is apparently attributed to management factors such as enhanced management efficiency or restraints on investments (where the sales of the growth business almost remains flat), cautious and prudential assessment is required.

Also any cases where a business with high growth potential is immaterial and does not contribute to growth of the applicant as a whole must fully be considered. In such cases, conditions and environments differ from one company to another, so the lead underwriter is encouraged to consult with JPXR beforehand.

III Formal Requirements (relating to Rule 217 of the Regulations)

In making a listing application, the applicant shall meet the requirements of Rule 217 of the Regulations and should not meet the requirements for non-acceptance or cancellation of the application included in various rules developed by TSE concerning public offering or secondary distribution, etc. before listing (see “VII Acquisition or Transfer of Stocks Before Listing and Allocation of Offered Stocks by Third-Party Allotment” and “VIII Public Offering or Secondary Distribution, etc. Before Listing”).

This paragraph discusses the requirements of each item of Rule 217 of the Regulations (hereinafter “Formal Requirements”).

In the meantime, JPXR will assess the satisfaction of formal requirements based on data submitted by the applicant at the time of listing application and other occasions. In addition, even when the applicant satisfies the formal requirements at initial listing, and if the level of satisfaction is similar to that of satisfaction of listing maintenance criteria, JPXR may assess the applicant’s relevant policies such that the applicant would not breach the listing maintenance criteria soon after listing.

List of formal requirements

Item	Criteria
1) Number of shareholders (Expected at the time of listing)	150 shareholders or more
2) Number of tradable shares (Expected at the time of listing)	a. Over 1,000 trading units or more b. Market capitalization of tradable shares: ¥500 million or more (In principle the amount derived by multiplying the expected value of public offering, etc. related to listing by the expected number of tradable shares at the time of listing) c. Percentage of tradable shares of the listed stocks: 25% or more
3) Implementation of public offering	The applicant must carry out a public offering of a stock, etc. of at least 500 units pertaining to an initial listing application.
4) Number of consecutive years of doing business	The business activities have been continuously carried out by setting up a board of directors from one year ago or more.
5) False statement or qualified opinion	a. The audit report attached to a "Securities Report for Initial Listing Application" (excluding an audit report attached to financial statements, etc. for the business year or the consolidated business year which ended in the last year) shall contain an "unqualified opinion" or a "qualified opinion with exceptions". b. The audit report (limited to an audit report attached to financial statements, etc. for the business year or the consolidated business year which ended in the last year), an interim audit report or a quarterly review report attached to a "Securities Report for Initial Listing Application" shall contain an "unqualified opinion", an "opinion that the interim financial statements, etc. provide useful information" or an "unqualified conclusion". c. No “false statement” shall be included in the securities report including or referring to financial statements, interim financial statements or

	<p>quarterly financial statements in relation the audit report, interim audit report or quarterly review report, as mentioned “a” or “b” above.</p> <p>d. Where a stock, etc. pertaining to an initial listing applicant is listed on any other financial instruments exchange in Japan, such stock, etc. shall not fall under the following (a) and (b):</p> <p>(a) The internal control report pertaining to the business year ending in the last year contains the fact that “appraisal results cannot be provided”; and</p> <p>(b) The internal audit pertaining to the business year ending in the last year contains “disclaimer of opinion”.</p>
6) Audit by a Listed Company Audit Firm	<p>The financial statement, etc., an interim financial statement, etc. or a quarterly financial statement contained in or attached to a “Securities Report for Initial Listing Application” have undergone audit, interim audit or quarterly review equivalent to that in the provisions of Rule 193-2 of the Act by a listed company audit firm (including audit firms registered in the list of associate registered audit firms based on the Registration System for Listed Company Audit Firms of The Japanese Institute of Certified Public Accountants (limited to those which have undergone quality control reviews by The Japanese Institute of Certified Public Accountants)) (excluding those deemed inappropriate by the Exchange).</p>
7) Establishment of a Shareholder Services Agent	<p>Shareholder services have been entrusted to an institution specified by the Enforcement Rules as the applicant’s shareholder services agent, or an informal consent of undertaking the entrustment of such shareholder services from the shareholder services agent has been received.</p>
8) Share Unit	<p>The Share Unit shall be expected to be 100 shares.</p>
9) Classes of stocks, etc.	<p>In the case that a stock, etc. pertaining to the initial listing application, such stock, etc. shall be, as a general rule, any of stocks referred to in the following a. through c.</p> <p>a. In the case of a company issuing only one class of stock with voting rights, said stock with voting rights;</p> <p>b. In the case of a company issuing multiple classes of stocks with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits is higher than any other classes of stock;</p> <p>c. Stock with no voting rights</p>
10) Restrictions on Transfer of Shares	<p>Transfer of shares pertaining to an initial listing application is not restricted or it is expected that there will be no restriction by the time of listing;</p>
11) Handling by the Designated Book-Entry Transfer Institution	<p>The relevant issue is subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so by the time of listing.</p>

The following discusses each item of formal requirements.

1 Number of Shareholders

(Rule 217, Item 1 of the Regulations)

The number of shareholders is expected to reach 150 or more by the time of listing;

(Rule 217, Item 1 of the Regulations)

The number of shareholders is expected to reach at least 150 by the time of listing (a shareholder shall be the one holding the number of shares comprising one Share Unit (Note 1); the same shall apply hereinafter)(Note 2).

The effect of this criterion for the number of shareholders is that the shares of the applicant shall be owned by a certain number of diversified shareholders. The number of shareholders required by this criterion is to be counted on the number of shareholders recorded in the shareholders' list as of the immediate preceding record date (Note 3). Since the objective of this criterion is to ensure smooth distribution and fair pricing of stocks after listing, it will be sufficient to satisfy this criterion by the time of listing even when it is not met as of the immediate preceding record date.

(Note 1) One unit means the number of shares comprising one Share Unit when it is determined and one stock if the number of shares comprising one Share Unit is not determined.

(Note 2) If the applicant issues any depository receipts (DRs) denoting rights, etc. attached to stock certificates and other similar instruments, the number of holders who hold DRs denoting rights equivalent to those attached to stock certificates comprising one trading unit or more can be included in counting the number of shareholders.

(Note 3) "Record date" means the record date prescribed by the Company Act of Japan or Act on Preferred Equity Contribution of Japan and the base date when the convocation notice of the general shareholders' meeting is issued by a book-entry transfer institution prescribed by Rule 2, Paragraph 2 of the Act on Book-Entry Transfer of Corporate Bonds, Shares, etc. (hereinafter referred to as the "Book-Entry Transfer Act") pursuant to Rule 151, Paragraph 1 or Paragraph 8 of the same Act (including cases where Rule 235 of the same Act applies mutatis mutandis)(the same shall apply hereinafter).

(Note 4) Unless the applicant accurately understands the latest status of shareholders as of the record date, etc., the number of shareholders may be determined based on the number of shareholders as of the immediately preceding record date when the status of shareholders was fully understood.

In addition, if the applicant buys back treasury shares according to the resolution on the acquisition of treasury shares or the applicant resolves at its board meeting to dispose of its treasury shares owned by the applicant (*), the number of shareholders is determined as follows:

- * Resolution authorizing the disposal, etc. of treasury stocks includes the resolution specified in Articles 199, Paragraph 1 of the Companies Act concerning the disposal of treasury stocks (including the decision of the board of directors in case of companies with audit committee system and the decision of executives in case of companies with nomination committee system) or the resolutions specified in Article 749, Paragraph 1, Item 2 of the Companies Act when the applicant delivers its treasury shares as cash, etc. in Article 795, Paragraph 1 (including the resolution of the board of directors on the terms of absorption and merger-type arrangement, absorption and split-type arrangement or stock swap arrangement if the requirements of Article 796, Paragraph 1 or Paragraph 2 of the Companies Act do not require such resolutions (including the decision of the board of directors in case of companies with

audit committee system and the decision of executives in case of companies with nomination committee system)).

Or the resolution refers to the one as prescribed in Article 816-3, Paragraph 1 of the Companies Act where the applicant delivers treasury stocks for consideration provided in Article 774-3, Paragraph 1, Item 3 of the Companies Act (including the resolution of the board of directors on the nature of share delivery plan (including the decision of the board of directors in case of companies with audit committee system and the decision of executives in case of companies with nomination committee system); the same shall apply hereinafter).

1) Applicant purchases its own stocks

The number of shareholders which is reduced as a result of purchase of its own stocks shall be reduced from the number of shareholders as of the immediate preceding record date.

The number of shareholders to be reduced is determined as follows:

<An applicant is a non-listed company>

The number of sellers pertaining to the resolution authorizing acquisition of own stocks (excluding sellers who are certain not to sell any of their holding stocks, etc. in response to the offer of said purchase).

<An applicant is a listed company>

The number of shareholders to be reduced is basically determined as if the number of stocks held by shareholders holding the smallest number of stocks was reduced first. This is typically carried out as follows.

- The number of shareholders determined by dividing the “number of its own stocks purchased” by the “average number per shareholder of shares classified into the smallest trading unit category as per the table which shows the number of shareholders for respective trading units.
- However, in cases where the number of own stocks purchased equals or exceeds the number of shares held by the shareholders classified into the smallest trading unit section, add the number of shareholders classified into the next smallest trading unit section and repeat until the total shares held by them exceeds the number of treasury shares bought back, then count the number of shareholders up to the sections just before exceeding the number of treasury shares bought back (a). Next determine the number of shareholders obtained by dividing the number of shares derived by deducting the number of in (a) from the number of treasury shares bought back, by the average number of shares held per shareholder in the section exceeding the number of treasury shares bought back (b). The number of shareholders to be reduced will be the total of shareholders in (a) and (b).
- When a tender offer bid (TOB) is effected and if the number of shareholders who sold shares can be confirmed based on the TOB report, the number of shareholders reduced through the TOB

Examples: Case where the number of shareholders classified into respective sections of trading units are as follows:

Sections	The status of stocks								Shares comprising less than one trading unit
	1,000 – Shares comprising over one trading unit	500 – Shares comprising over one trading unit	100 – Shares comprising over one trading unit	50 – Shares comprising over one trading unit	10 – Shares comprising over one trading unit	Over 5 trading units or more	Over 1 trading units or more	Total	
Number of shareholders	7 shareholders	3 –	35 –	43 –	86 –	63 –	3,164 –	3,401 –	
Number of shares held	Unit 24,055	1,847 –	7,837 –	2,762 –	1,760 –	388 –	3,862 –	42,511 –	399 –

Example 1: Where the number of treasury shares acquired is equivalent to the number of shares comprising 2,000 trading units:

The number of shareholders to be reduced through the acquisition of treasury shares
 $= 2,000 \text{ units} \div (3,862 \text{ units} \div 3,164 \text{ people})$
 $= 1,638.5 \text{ shareholders}$
 $* 1,639 \text{ shareholders (rounded up)}$

Example 2: Where the number of treasury shares acquired is equivalent to the number of shares comprising 4,500 trading units:

The number of shareholders to be reduced through the acquisition of treasury shares
 $= 3,164 \text{ people} + 63 \text{ people} + \{(4,500 \text{ units} - 3,862 \text{ units} - 388 \text{ units}) \div (1,760 \text{ units} \div 86 \text{ people})\}$
 $= 3,227 \text{ people} + \{250 \text{ units} \div (1,760 \text{ units} \div 86 \text{ people})\}$
 $= 3,227 \text{ people} + 12.2 \text{ people}$
 $* 3,240 \text{ people (rounded up)}$

As indicated above, on the basis of the criteria for the number of shareholders, the number of shareholders which is theoretically reduced is treated as the "number of shareholders to be reduced through the acquisition of treasury shares" if the applicant acquires treasury shares after the latest record date.

2) An applicant makes a resolution authorizing disposal, etc. of treasury stocks held

In cases where a resolution authorizing disposal, etc. of treasury stocks held relates to the transfer thereof to specified entities, the number of such persons shall be added to the number of shareholders as of the record date as if they held the treasury stocks.

(Reference) Formula for determining the number of shareholders

Total number of shareholders holding shares comprising one trading unit or more

-) the number of shareholders to be reduced when treasury shares are acquired based on a resolution to acquire treasury shares
- +) the number of shareholders expected to increase when the resolution is made that the shares acquired will be transferred to specified entities

The number of shareholders

2 Number of Tradable shares (Rule 217, Item 2 of the Regulations)

The following a. through c. must be satisfied:

- a The number of tradable shares is expected to reach 1,000 units or more by the time of listing;
- b The market capitalization of the tradable shares as of the listing day is expected to reach 500 million yen or more; and
- c The number of tradable shares is expected to reach 25% or more of the shares of the listed stock, etc. by the time of listing;

(Rule 217, Item 2 of the Regulations)

Tradable shares represent the shares of securities excluding stocks whose ownership is almost fixed and which are unlikely to be publicly traded such as securities owned by large shareholders and executive officers and treasury shares held by the applicant.

The criteria for the tradable shares require that a certain number of shares must be available for active public trading in order to ensure smooth trading of stocks and form fair stock prices after listing and is ensured and at the same time the number of shares whose ownership is almost fixed and which are not expected to be available for active public trading shall be constrained to a certain level or less.

With respect to this criterion, the number of tradable shares will, in principle, be determined based on the number of shares available for active public trading as of most recent record date, consistent with the criteria for the number of shareholders (for details, please refer to the section below). Even if the applicant does not meet the criteria, the satisfaction thereof by the time of listing would suffice.

Specifically the following (1) through (3) must be satisfied:

(1) Calculation of the Number of Tradable Shares

The number of tradable shares is expected to reach at least 1,000 units by the time of listing;

► Calculation of the number of tradable shares

The number of tradable shares shall be determined as the difference between the total number of shares outstanding of the applicant as of the immediately preceding record date and the aggregated number of shares of stock certificates which are not traded actively.

(Note) When the applicant resolved at its board meeting to authorize the retirement, etc. of treasury stocks held by the applicant, such treasury stocks are deemed to have been retired and they would be deducted from the treasury stocks held after the retirement even if they are yet to be cancelled.

<Number of shares of stock certificates which are not actively traded>

The applicant aggregates the number of shares of stock certificates which TSE determines are not traded actively. In practice, the number of shares held by the persons mentioned below will be aggregated.

Meanwhile, the number of shares held by the same persons should not be counted twice (Note1).

- Applicant (treasury shares owned by the applicant) (Notes 2, 3, 4, and 5)
- Executives of the applicant (referring to the Board of Directors, accounting advisors ((including employees of an accounting advisor who are in charge of accounting advice if the accounting advisor is a corporation), company auditors, and executive officers (including governor, auditor, and a person who can be regarded as equivalent thereto), including the shareholding association of directors and officers)
- Spouse and relatives by blood within the second degree of kinship of an officer of the applicant
- Company for which spouses and relatives by blood within the second degree of kinship of officers of the applicant hold the majority of voting rights held by all the shareholders (Note 6)
- Related companies of the applicant (related companies defined in Rule 8, Paragraph 8 of the Regulations on Terminology, Forms and Methods of Preparation of Financial Statements (hereinafter referred to as the "Regulation of Financial Statements")) and their executives (Note 6)
- Japanese commercial banks, insurance companies, business corporations and others (Notes 7, 8, 9 and 10)
- Shareholders or associations holding 10% or more of the number of securities (Note 11)

(Note 1) Suppose that President A who is an officer of the applicant holds 20% of shares eligible for listing application. When the number of shares held by A is added to Statements (of shares held by officers of the applicant," it will not be added to the number of shares held by "shareholders or associations holding 10% or more of the number of securities."

(Note 2) The treasury shares to be excluded from the tradable shares represent the treasury shares currently held by the applicant. Even if resolutions to acquire treasury shares (resolutions prescribed in Rule 156, Paragraph 1 of the Companies Act concerning the acquisition of treasury shares (including cases where the Rule would be applicable by rewording pursuant to Rule 165, Paragraph 3 of the same act; the same shall apply hereinafter)) have been made, those which are not currently held by the applicant cannot be included in the number of treasury shares.

(Note 3) When the applicant has resolved at its board meeting to authorize the disposal of treasury stocks held by the applicant, the number of stocks subject to the resolution authorizing the disposal, etc. of treasury stocks would be treated as if the applicant did not hold them. Even if they are not disposed of, the applicant deducts the number of stocks subject to the resolution from the number of treasury stocks held.

(Note 4) When the applicant resolved at its board meeting to authorize the disposal, etc. of treasury stocks held by the applicant after the recent record date and the resolution was intended to transfer treasury stocks to some specified entities, the number of treasury stocks is to be calculated as if such specified entities held the treasury stocks. Therefore, when the transfer according to the resolution is made to the persons who hold the stocks which TSE determines are not actively traded, the number of stocks to be transferred will be included in the number of stocks which are not actively traded.

(Note 5) When the applicant resolved at its board meeting to authorize the retirement, etc. of treasury stocks held by the applicant, such treasury stocks are deemed to have been retired and they would be deducted from the treasury stocks held after the retirement even if they are yet to be cancelled.

(Reference) Formula for determining the number of treasury stocks held by the applicant

The number of treasury stocks held (limited to those currently held)

-) The number of treasury stocks pertaining to the resolution authorizing the disposal, etc.
-) The number of treasury stocks pertaining to the resolution authorizing the retirement, etc.

The number of treasury stocks held by the applicant

- (Note 6) For example, if the applicant faces some difficulties in obtaining the accurate understanding of stocks which are not traded actively as the applicant is not able to contact relevant relatives of executives, in some cases the applicant may be relieved of additional investigation by reporting to TSE the extent and reasons why the understanding is not obtained. So please consult TSE via the lead underwriter.
- (Note 7) Commercial banks refer to city banks or regional banks and do not include trust and banking companies (including trust units), shinkin banks, credit association, include city banks, labor credit association, agricultural financial institutions, government-related financial institutions, securities finance companies and other similar institutions.
- (Note 8) Insurance companies refer to life insurance companies defined in Article 2, Paragraph 3 of Insurance Business Act (No.105 of 1995) and non-life insurance companies defined in Paragraph 4 of the same article.
- (Note 9) Business corporations and other similar entities refer to all corporations other than financial institutions and financial instruments trading companies and include, for example, legal entities such as incorporated foundations and incorporate schools (any unincorporated entities such as investment limited partnership are not included in business corporations).
- (Note 10) Shares held by domestic commercial banks, insurance companies and business corporations, which are clearly held for pure investments purposes, and TSE deems appropriate in consideration of trading conditions, may be treated as tradable shares (excluding cases where 10% or more are held). JPXR will assess holding purposes, actual trading results within five years and others based on relevant "report on shareholding status" in the form required by TSE in which shareholders describe their actual trading results for recent five years and holding purposes, in addition to substantial shareholding report and any amended report submitted for recent five years. In assessing, JPXR may inquire of shareholders preparing substantial shareholding report about the relationship with the applicant and future holding policies. In addition TSE will not require any actual trading results in cases where the applicant is not listed on any financial instruments exchanges including TSE. Consistent with this, TSE will not require shareholders at initial listing to provide actual trading results for five years following initial listing.
- (Note 11) Of the securities held by the persons who hold more than 10%, the following are excluded from the number of shares not actively traded. In such cases, the applicant is required to submit written documents certifying that such shares are currently held by the persons below (e.g., for any securities embedded into investment trust or pension trust, written documents reflecting such embeddedness). Employee share ownership plans shall not be included in the number of tradable shares when its percentage exceeds 10% and shall be treated as shares which are not actively traded.
- ▶ Securities included in an investment trust or pension trust and other securities included in a trust that is organized for the purpose of investment management of trust assets by an investment advisor or a bank engaging in the trust business, or an entity deemed equivalent thereto who is authorized to manage investments of the trust assets under a discretionary investment contract or other contracts, or pursuant to provisions of law;
 - ▶ Securities held in the course of its business by an entity that engages in business operations related to custody of assets of an investment corporation or foreign investment corporation;
 - ▶ Securities held by a securities finance company or a financial instruments firm that pertain to margin trading

- ▶ Securities in the account of a depository pertaining to depository receipts (including registered holders of the depository); or
- ▶ Other securities substantially held by entities other than an entity that holds 10% or more of the total number of said security that are deemed appropriate

In addition, some securities which TSE deems are not appropriate to be included in tradable shares may be included in the number of stock certificates which are not traded actively.

(2) Calculation of the Market Capitalization of Tradable Shares

The market capitalization of the tradable shares on the listing day is expected to reach at least 500 million yen.

► Calculation of Market Capitalization of Tradable Shares

The market capitalization is determined by multiplying the number of tradable shares (same as the number of tradable shares in (1) above) by the share price.

The following prices are used for the determination of market capitalization.

Item	Governing regulations	Share price to be used
Calculation of the market capitalization of tradable shares	(Rule 239, Item 2 of the Regulations)	"Expected issue price"(price used as the basis for determining expected gross amount of issue prices of stock certificates or secondary distribution values described in the Securities Registration Statement)

(3) Tradable Shares as a Percentage of Listed Stock Certificates

The number of tradable shares is expected to reach at least 25% of the shares of the listed stock, etc. by the time of listing;

► Calculation of tradable shares as a percentage of listed stock certificates

The percentage is determined by dividing the number of tradable shares (same as the number in (1) above) by the number of shares for which the listing application is filed.

(Note) The number of shares pertaining to the listing application represents the total number of issued shares outstanding of the applicant expected on the listing date. It is determined adding or deducting expected changes in the number of shares by the time of listing to or from the total number of issued shares outstanding as of the immediately preceding record date.

(Reference) Calculation method of the number of tradable shares (example)

1) Number of shares related to listing application

Total number of issued shares outstanding as of the immediately preceding record date = **12,325,000 shares (A)** (100 shares comprising one Share Unit)

2) Number of shares which are not actively traded

(i) Number of treasury shares held

Number of shares	100,000
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2) Large shareholders holding 10% or more (not adding the underlined parts)

(In share)

Name	Attributes	Number of shares held (ratio)	Reasons for not adding
αBank	<u>Japanese commercial bank</u>	<u>1,972,000 (16.0%)</u>	←As it is added in (iii)
<u>Trust and banking companies (trust unit)</u>		<u>1,848,750 (15.0%)</u>	←It is an investment trust unit (*)
A	<u>Representative director and president</u>	<u>1,479,000 (12.0%)</u>	←As added in (iii)
Employee share ownership plans		1,355,750 (11.0%)	

* Data certifying that it is an investment trust unit needs to be submitted separately.

(iii) Shares that are specified as securities not traded actively in Execution Rules for Securities Listing Regulations (*)

(In share)

Name	Attributes	Number of shares held (ratio)
αBank	Japanese commercial bank	1,972,000 (16.0%)
A	Representative director and president	1,479,000 (12.0%)
B	Senior managing director	123,250 (1.0%)
C	Wife of A	61,625 (0.5%)
βLimited Liability Company	Company where A holds the majority of voting rights	61,625 (0.5%)
Total		3,697,500 (30.0%)

* For more information concerning relevant shareholders and others, please see “(1) Number of stock certificates which are not actively traded”.

$$= (i)100,000 \text{ shares} + (ii)355,750 \text{ shares} + (iii)3,697,500 \text{ shares} = \textbf{(B) 5,153,250 shares}$$

3) Calculation of the number of tradable shares

- Number of tradable shares (trading units) (A)-(b)

$$(A) 12,325,000 \text{ shares} - (B) 5,153,250 \text{ shares} = 7,171,750 \text{ shares} \Rightarrow \textbf{71,717 trading units}$$

(Rounding off the number of shares less than those comprising one trading unit)

- Ratio of tradable shares $\{(A)-(B)\} / (A) \times 100$

$$\{(A)12,325,000 \text{ shares} - (B)5,153,250 \text{ shares}\} \div (A) 12,325,000 \text{ shares} \times 100$$

$$= 7,171,750 \text{ shares} \div 12,325,000 \text{ shares} \times 100 = 58.1886... \Rightarrow \textbf{58.18\%}$$

«Increase in the number of shareholders and tradable shares: public offering or secondary distribution and others»

The satisfaction of the criteria for the number of shareholders and those for tradable shares are assessed based on the expected conditions at the listing date, rather than at the time of listing application.

Therefore, though an applicant does not meet these criteria at the immediately preceding base date, etc., a listing application will be accepted if the applicant is expected to meet them by listing day.

In this case, increase in the number of shareholders and tradable shares may be achieved by public offering or secondary distribution before listing.

In cases where the number of shareholders does not reach 150, tradable shares do not constitute 1,000 trading units or accounts for 25% or more of listed stock certificates or the market capitalization of tradable shares does not represent 500 million yen or more as of the immediately preceding record date, the applicant needs to effect public offering or secondary distribution, or off-floor distribution (referring to off-floor distribution where the volume of trading is restricted down to 50 trading units traded by a company listed on other financial instruments exchange) so that they will be met by the time of listing.

- (Note 1) When the applicant intends to meet the criteria for the number of shareholders or tradable shares by effecting public offering or secondary distribution, or off-floor distribution made at other financial instruments exchange after the approval date of listing, the applicant is required to submit “Scheduled Plan for Public Offering or Secondary Distribution” before effecting such offering or distribution and “Notice of Execution of Public Offering or Secondary Distribution, etc.” or “Table of Share ownership Distribution of Stock Certificates after Execution of Limited Distribution” immediately after effecting such offering or distribution.
- (Note 2) In cases where a company listed on a financial instruments exchange in Japan meets the criteria for the number of shareholders and tradable shares by public offering or secondary distribution effected before the approval of listing or effecting off-floor distribution on other financial instruments exchange in Japan, the applicant is required to submit to TSE “Notice of Execution of Public Offering or Secondary distribution, etc.” or “Table of Share ownership Distribution of Stock Certificates after Execution of Limited Distribution”.
- (Note 3) For a non-trading participant financial instruments firm or a foreign securities broker, the applicant may only describe the volume underwriter or traded by the non-trading participant financial instruments firm or a foreign securities broker with which the applicant has entered into a contract specifying the report of actual conditions of such public offering (secondary distribution) in “Scheduled Plan for Public Offering or Secondary Distribution” or “Notice of Execution of Public Offering or Secondary Distribution, etc.”
- (Note 4) TSE will not consider any changes in the number of shareholders and tradable shares associated with “secondary distribution through over allotment” at the time of public offering or secondary distribution (additional secondary distribution to address the movements of demand at the time of public offering or secondary distribution) implemented after the approval day of listing and matters related to such transactions (syndicated covered trading, green shoe option).
- (Note 5) Since it may be difficult for the applicant to clarify the number of shares to be allotted to Japanese commercial banks, insurance companies, business corporations and other corporations before the public offering or secondary distribution, shares related to public offering or secondary distribution are accounted for as tradable shares. However, if the level of such public offering or secondary distribution is likely to result in the breach of the listing maintenance criteria after listing, TSE may inquire relevant underwriters of the policy on their distribution.

Furthermore, if an applicant that effected or plans to effect public offering, secondary distribution or others acquires treasury shares based on the resolution at the general meeting of shareholders, the objective of respective transaction must be reasonable as the public offering and secondary distribution, and the acquisition of treasury shares may give rise to conflict of interest. In addition, even if they are determined to be reasonable, the acquisition of treasury shares may lead to in-compliance with the prevention of insider trading, so the applicant is encouraged to sufficiently pay attention to the timing and method of the acquisition of treasury shares.

► Exceptions relating to initial listing with substantial public offering or secondary distribution

TSE provides for relevant mitigation measures to achieve the level where the public offering or secondary distribution of shares are smoothly absorbed in light of the demand and supply conditions of markets. (Rule 715 of the Regulations)

Specifically, when the size of public offering or secondary distribution of shares at the time of initial listing is expected to be 100 billion yen or more, the applicant is required to submit “Plan to meet the criteria for the ratio of tradable shares” so that the tradable shares as a percentage of all the stocks are expected to be 10% or more by the time of listing. “Plan documents to meet the criteria for the ratio of tradable shares” must, in principle, include specific plan to meet the criteria for the ratio of tradable shares within five years following the listing and the expected timing of implementation of individual actions included in the plan.

In addition, the plan documents submitted will be available for public inspection from the date of initial listing, and the applicant is required to disclose the progress (including significant changes in the plan, if any) of the plans contemplated in the plan documents at least once a fiscal year until the ratio of tradable shares reaches 25% or more.

3 Implementation of Public Offering (Rule 217, Item 3 of the Regulations)

The applicant must carry out a public offering of a stock, etc. of at least 500 units pertaining to an initial listing application during the period from the initial listing application day to the day preceding the listing day.

(Rule 217, Item 3 of the Regulations)

For the purpose of listing, the applicant is required to carry out a public offering for a stock, etc. of at least 500 units. The effect of this criterion is that while Growth Market ensure floating shares at a certain level, the applicant is expected to leverage the proceeds from the public offering in the course of listing to grow further.

- (Note 1) One trading unit represents the number of shares comprising one Share Unit when an applicant provides for the number of shares per Share Unit, and it represents one share if the applicant does determine the number of shares comprising one Share Unit.
- (Note 2) In cases where the applicant is a company expected to the business of a listed company upon a shareholder-directed spin-off, and the listing application is carried out before the spin-off, public offering or secondary distribution may not be required as a significant change of corporate structure from a demerger and the requirements for public offering may be an excessive burden for the applicant.

4. Number of Consecutive Years of Doing Business (Rule 217, Item 4 of the Regulations)

The applicant has conducted the business activities, setting up a board of directors from at least a year before the initial listing application day.

(Rule 217, Item 4 of the Regulations)

The applicant is required to have conducted the business activities, setting up a board of directors from at least one year before the initial listing application day. Meanwhile, in cases where an applicant is a company which has maintained a Board of Directors for one year or more as of the listing application date and continued to operate the business line, the applicant may meet the criteria for continuous business activities even if the business period of the business subject to the assessment of high growth potential is below one year.

- (Note 1) For example, when an initial listing application date is April 1, 20X1, a date corresponding to the day of one year ago is April 2, 20X0, so the applicant is required to have set up the Board of Directors before such date.
- (Note 2) If the applicant effected a merger in the past, the applicant may determine the consecutive years of doing business by adding the period of activities of the merger company (of entities involved in the merger, the company of the largest size (in consideration of total assets, net assets, sales, profits and others)).
- (Note 3) If an applicant is a holding company, the applicant may determine the consecutive years of doing business by adding the period of activities at the company controlled by the holding company (principal company).

In this context, the holding company refers to Japanese companies and other entities which TSE determines are similar to them, of holding companies prescribed in Rule 9, Paragraph 4, Item 1 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947); the same shall apply hereinafter, irrespective of whether the applicant was established as a holding company (the same shall apply hereinafter).

- (Note 4) If an applicant is a company which succeeds or receives the business of another company upon the demerger (including subsequent establishment or in-kind establishment) (limited to cases where main business of the another company is only succeeded or received), the applicant may determine the number of consecutive years of doing business by adding the activity period of the another company.
- (Note 5) If an applicant is a company which succeeds the business of a listed company upon the shareholder-directed spin-off and the listing application is made before the spin-off, the applicant may include the period of activities associated with major business at the time of demerger within the scope of examination and determine the number of consecutive years of doing business by adding the period of such business activities.
- (Note 6) If an applicant has repeated the acts enumerated Notes 2 to 5 above during the examination period or since the beginning of the business year to which the listing application date belongs, the applicant may determine the number of consecutive years of doing business by adding the period of major business activities of a company which TSE would deem appropriate.

5 False Statement or Adverse Opinion (Rule 217, Item 5 of the Regulations)

1) False statement, etc.

- a The audit report attached to a "Securities Report for Initial Listing Application" (excluding an audit report attached to financial statements, etc. for the business year or the consolidated business year ending in the last year) shall contain an "unqualified opinion" or a "qualified opinion with exceptions" of certified public accountants, etc.; provided, however, that the same shall not apply to cases where the Enforcement Rules specify otherwise;

(Rule 217, Item 5 of the Regulations)

- b The audit report (limited to an audit report attached to financial statements, etc. for the business year or the consolidated business year ended in the last year), an interim audit report or a quarterly review report attached to a "Securities Report for Initial Listing Application" shall contain an "unqualified opinion", an "opinion that the interim financial statements, etc. provide useful information" or an "unqualified conclusion" of certified public accountants, etc.; provided, however, that the same shall not apply to cases specified by the Enforcement Rules;

(Rule 217, Item 5 of the Regulations)

An audit opinion expressed by audit firm shall, in principle, meet the following requirements:

- The audit report attached to a "Securities Report for Initial Listing Application" (excluding an audit report attached to financial statements, etc. for the business year or the consolidated business year ending in the last year) shall contain an "unqualified opinion" or a "qualified opinion with exceptions" of certified public accountants, etc.; provided, however, that the same shall not apply to cases where the Enforcement Rules specify otherwise;
- The audit report (limited to an audit report attached to financial statements, etc. for the business year or the consolidated business year ended in the last year), an interim audit report or a quarterly review report attached to a "Securities Report for Initial Listing Application" shall contain an "unqualified opinion", an "opinion that the interim financial statements, etc. provide useful information" or an "unqualified conclusion" of certified public accountants, etc.; provided, however, that the same shall not apply to cases specified by the Enforcement Rules;

This is because the applicant is required to address all accounting issues under the instructions of audit firm in particular in the immediately preceding fiscal year.

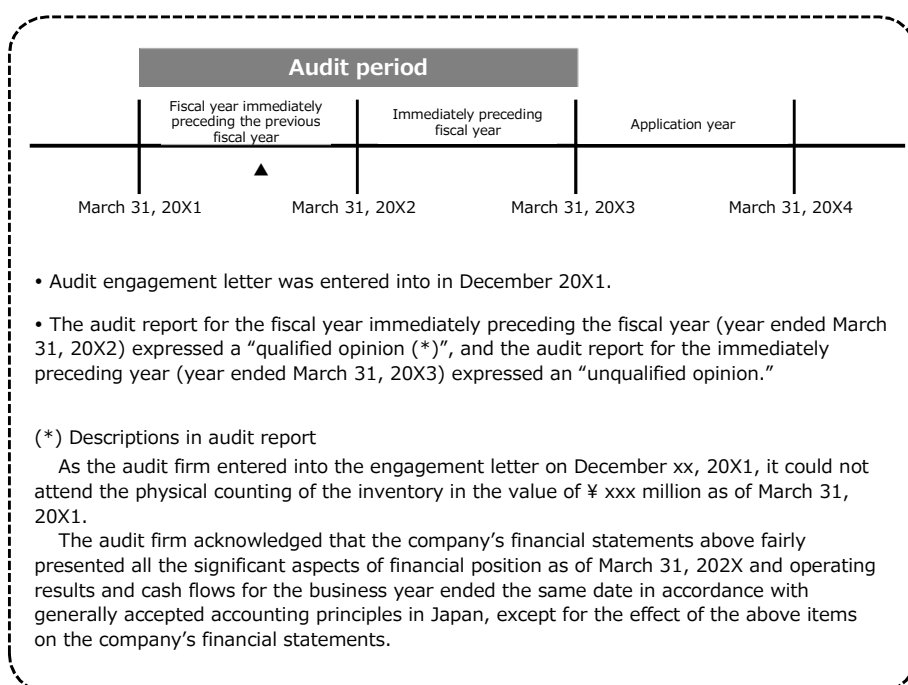
Given that Growth Market is operated for companies with future high growth potential, if an audit report includes an additional information paragraph reflecting significant uncertainty over a going concern despite an unqualified opinion expressed in the audit report, the listing examination requires the elimination of any events giving rise to significant uncertainty over a going concern. For example, such additional information has ceased to be described in the quarterly review report, etc. for application year. Even if the audit report attached to a "Securities Report for Initial Listing Application" (excluding an audit report attached to financial statements, etc. for the business year or the consolidated business year ending in the last year) does not contain an "unqualified opinion" because of any events associated with going concern assumptions, an application will be allowed, but for such cases TSE will review facts and circumstances leading to no descriptions of "unqualified opinion" in the course of examination. However, when no interim audit report or quarterly review report is attached to the "Securities Report for Listing Application", the audit report attached to financial statements for the immediately preceding fiscal year or consolidated fiscal year shall contain the description of "unqualified opinion".

(Table) Overview of requirements for listing application related to audit opinion

Audit report attached to a "Securities Report for Initial Listing Application"	
Periods other than those mentioned below	Unqualified opinion or qualified opinion with exceptions (Note1) (Note2)
For the last year	Unqualified opinion (Note 3) (Note 4)
Immediately preceding period	Unqualified opinion (Note 4)

(Note 1) For example, since an audit engagement letter was entered into after the beginning of the year before the preceding the previous year, the verification of adequacy of opening balances was difficult or sufficient time required for audit was not taken. Even if, as a result, the audit report for the year before the previous year expressed a "qualified opinion," a listing application would be allowed.

Example: Successful listing in case of a "qualified opinion with exceptions" expressed in the audit report, etc. for the fiscal year immediately preceding the previous fiscal year



(Note 2) Even when the audit report expresses the disclaimer of opinion due to any events beyond the control of the applicant such as natural disaster or contains "adverse opinion," the application would be allowed.

(Note 3) If auditors express a "qualified opinion" or "qualified opinion with exceptions" only because of any reasons associate with comparative information, the application would be allowed.

(Note 4) Even if an audit report attached to "Securities Report for Initial Listing Application"(limited to audit report attached to financial statements, etc. for the business year or the consolidated business year ending in the last year) does not contain the description of "unqualified opinion" due to any events associate with going concern assumptions, the application would be allowed; provided that if an interim audit report or quarterly review report is not attached, the audit report attached to financial statements, etc. for the business year or the consolidated business year ending in the last year" shall contain the descriptions of "unqualified opinion." .

2) False statement

- c No false statement shall be made in a Securities Report, etc. containing or making reference to financial statements, etc., interim financial statements, etc., or quarterly financial statements, etc. pertaining to the audit report, the interim audit report, or the quarterly review report prescribed by a. and the preceding b.

(Rule 217, Item 5 of the Regulations)

No “false statement”(Note 5) shall be made in a Securities Report, etc.(Note 4) containing or making reference to financial statements, etc.(Note 1), interim financial statements, etc.(Note 2), or quarterly financial statements, etc.(Note 3) pertaining to the audit report, the interim audit report, or the quarterly review report attached to “Securities Report for Initial Listing Application”.

(Note 1) Financial statements, etc. refer to financial statements and consolidated financial statements.

(Note 2) Interim financial statements, etc. refer to interim financial statements and interim consolidated financial statements.

(Note 3) Quarterly financial statements, etc. refer to quarterly financial statements and quarterly consolidated financial statements (including interim financial statements, etc. for specified business companies).

(Note 4) Securities reports, etc. include the following:

- Securities registration statement and attachments thereto and reference documents related thereto;
- Shelf registration statement and attachments thereto and reference documents related thereto;
- Supplementary documents to the shelf registration statement and attachments thereto and reference documents related thereto;
- Securities report and attachments thereto;
- Half-year report
- Quarterly report; and
- Prospectus

(Note 5) “False statement” represents statements included in securities reports, etc. whose correction is deemed to be material when a correction order, order for the payment of penalty or accusation is issued by the Prime Minister or the applicant issues an amended registration statement.

3) Internal control report, etc.

- d Where a stock, etc. pertaining to an initial listing applicant is listed on any other financial instruments exchange in Japan, such stock, etc. shall not fall under the following (a) and (b):
- (a) The internal control report pertaining to the business year ending in the last year contains the fact that “appraisal results cannot be provided”; and
 - (b) The internal control audit report regarding an internal control report pertaining to a business year ending in the last year contains the fact that “opinions are not expressed”.

(Rule 217, Item 5 of the Regulations)

For the interpretation of "internal control pertaining to financial report," where stock certificates, etc. pertaining to an initial listing applicant is listed on any other financial instruments exchange in Japan, they shall not fall under the following (a) and (b):

- (a) The internal control report pertaining to the business year ended in the last year contains the fact that "appraisal results cannot be provided"; and
- (b) The internal control audit report regarding an internal control report pertaining to a business year ended in the last year contains the fact that opinions are not expressed". (*)

(*) This shall not apply to cases where the audit certificate is exempted over the period for which the applicant is allowed to elect to apply the exemption from the audit certificate over the internal control report.

6 Audit by a Listed Company Audit Firm (Rule 217, Item 6 of the Regulations)

The financial statement, etc., an interim financial statement, etc. or a quarterly financial statement contained in or attached to a "Securities Report for Initial Listing Application" have undergone audit, interim audit or quarterly review equivalent to that in the provisions of Article 193-2 of the Act by a listed company audit firm (including audit firms registered in the list of associate registered audit firms based on the Registration System for Listed Company Audit Firms of The Japanese Institute of Certified Public Accountants (limited to those which have undergone quality control reviews by The Japanese Institute of Certified Public Accountants)) (excluding those deemed inappropriate by the Exchange); and

(Rule 217, Item 6 of the Regulations)

The financial statement, etc., an interim financial statement, etc. or a quarterly financial statement contained in or attached to a "Securities Report for Initial Listing Application" have undergone audit, interim audit or quarterly review equivalent to that in the provisions of Rule 193-2 of the Act by a listed company audit firm including audit firms registered in the list of associate registered audit firms based on the Registration System for Listed Company Audit Firms of The Japanese Institute of Certified Public Accountants (limited to those which have undergone quality control reviews by The Japanese Institute of Certified Public Accountants)) (excluding those deemed inappropriate by the Exchange). (Rule 212, Item 6-2 of the Regulations)

Globalization of capital markets and business activities, sophistication of IT used by companies, and adoption of international accounting standards, significant amendments to accounting and auditing standards or exposed embellishments of large companies have significantly changed the practices of CPAs. Thus reliability of audits performed by CPAs as independent auditors over financial statements, etc. issued by companies must be further enhanced.

Given evolving circumstances surrounding companies, accounting and audits, a more organized audit system than ever is required. It is not desirable that the same firms, leaders or partners are engaged in the audits of the same company for a long time from the perspective of independence.

Therefore, TSE requires a listing applicant to receive the audits of listed company audit firms (including audit firms which are registered in the quasi-registered firms list (limited only to those which have received the Quality Control Review of JICPA)) and to have joint audits performed by audit firms and several CPAs.

In addition, in order to ensure an enhanced audit system and independence, TSE has encouraged the Committee on Listed Company Audit Firms to select audit firms or joint CPA offices as independent auditors, whose organizations have been registered as an audit firm or joint CPA office with an organization-level audit system properly designed and implemented.

Meanwhile, TSE has not set the requirements for continuous audits within the criteria, and the timing of the conclusion of audit engagement letters is left to the decision of audit firms, etc.

7 Establishment of a Shareholder Services Agent (Rule 217, Item 7 of the Regulations (Rule 205, Item 8 of the Regulations))

Shareholder services have been entrusted to an institution specified by the Enforcement Rules as the applicant's shareholder services agent, or an informal consent of undertaking the entrustment of such shareholder services from the shareholder services agent has been received.

(Rule 217, Item 7 of the Regulations (Rule 205, Item 8 of the Regulations))

Shareholder services are required to be entrusted to shareholder services agent approved by TSE, or an informal consent of accepting the entrustment of such shareholder services from the shareholder services agent has been received by the date of listing application.

(Note) Shareholder service agents approved by TSE include trust and banking companies, Tokyo Securities Transfer Co., Ltd., Japan Securities Agent, Inc., and IR Japan, Inc.

8 Share Unit (Rule 217, Item 7 of the Regulations (Rule 205, Item 9 of the Regulations))

The Share Unit shall be expected to be 100 shares at the time of listing; provided, however, that the same shall not apply to the cases specified by the Enforcement Rules.

(Rule 217, Item 7 of the Regulations (Rule 205, Item 9 of the Regulations))

The Share Unit shall be expected to be 100 shares at the time of listing; provided, however, that the same shall not apply to the cases specified by the Enforcement Rules (Note1).

With a view to enhancing conveniences for market participants including investors, TSE aims to eventually align the number of shares comprising one trading unit for all the listed companies (Note2) to 100 shares. In this regard, TSE encourages initial listing applicants to initially set the trading unit (the number of share per Share Unit) at 100 shares.

In practice, at the time of listing application, JPXR will check the adoption of the number of shares unit per Share Unit and the number on the basis of the rules prescribed in the Articles of Incorporation and listing application documents including certificates of registered items. When the applicant does not adopt any trading unit system or it applies a trading unit system where the number of shares comprising

one trading unit is not 100 shares at the time of listing application, TSE will require the applicant to adopt a trading unit system or change the number of shares comprising one trading unit (Note 3).

Even if the applicant has listed its shares on other financial instruments exchanges in Japan, the number of shares comprising one trading unit must be 100 shares.

- (Note 1) The cases specified by the Enforcement Rules include cases where a large number of holders of fractional Share Units are expected to occur at the time of listing as in the case when a mutual company converts into a stock corporation,
- (Note 2) Trading on financial instruments exchanges is effected in the integral multiple of the unit determined for each company. This unit is referred to as the trading unit. Usually, the trading unit relates to the number of shares comprising one Share Unit system in cases of companies which have adopted a Share Unit system, while it is one share in cases of those which have not adopted the system.
- (Note 3) The applicant is required to amend documents associated with the listing application including the Articles of Incorporation, certificates of registered items, various internal rules and "Part I" documents with respect to the adoption of a trading unit system and submit them during the period for the listing examination.
- (Note 4) Procedures required to adopt the number of shares per Share Unit system and change the number of shares per Share Unit are as summarized in the table below:

Table: Procedures for changing the number of shares comprising one trading unit to 100 shares

Handling of the number of shares per Share Unit	How to implement procedures			
Only increase and setting	Special resolution at the general meeting of shareholders			
Increase and setting effected concurrently with share split	Split ratio equals or exceeds increase or setting ratio of the number of shares comprising one Share Unit	No increase in the total number of issued shares outstanding is required.	<u>Resolution of the Board of Directors Required</u>	
			Two or more classes of stock have been issued	<u>Special resolution at the general meeting of shareholders</u>
			Two or more classes of stock have not been issued	<u>Resolution of the Board of Directors Required</u>
		Below the above	Special resolution at the general meeting of shareholders	
Only decrease	<u>Resolution of the Board of Directors Required</u>			
Decrease effected concurrent with the share consolidation	<u>Special resolution at the general meeting of shareholders</u>			

9 Classes of Stocks (Rule 217, Item 7 of the Regulations (Rule 205, Item 10 of the Regulations))

Domestic stock certificates pertaining to the initial listing application shall be, as a general rule, any of stocks referenced in the following a. through c. In this case, for stock certificates, etc. mentioned in b below, there are no other classes of stocks to be issued other than such stock certificates, etc. in listing application.

- a. In the case of a company issuing one class of stock with voting rights, said stock with voting rights;
- b. In the case of a company issuing multiple classes of stock with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits including claim for surplus dividend pertaining to the number of shares that enables exercise of one (1) voting right at a general shareholders meeting with regard to important matters including selection and dismissal of board members is higher than any other class of stock; or
- c. Stock with no voting rights

(Rule 217, Item 7 of the Regulations (Rule 205, Item 10 of the Regulations))

Domestic stock certificates pertaining to the initial listing application shall be, as a general rule, any of stocks referenced in the following a. through c.

- a. In the case of a company issuing one class of stock with voting rights, said stock with voting rights;
- b. In the case of a company issuing multiple classes of stock with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits including claim for surplus dividend pertaining to the number of shares that enables exercise of one voting right at a general shareholders meeting with regard to important matters including selection and dismissal of board members is higher than any other class of stock; or
- c. Stock with no voting rights

(Note) In case of stock certificates, etc. mentioned in b above, there are no other securities for which any listing application is made.

10 Restriction on Transfer of Shares (Rule 217, Item 7 of the Regulations (Rule 205, Item 11 of the Regulations))

Transfer of shares pertaining to an initial listing application is not restricted or it is expected that there will be no restriction by the time of listing;

(Rule 217, Item 7 of the Regulations (Rule 205, Item 11 of the Regulations))

A company may impose restrictions on transfer shares of stocks in the Articles of Incorporation. However, financial instruments exchanges provide open marketplaces where a large number of public investors can participate freely. Therefore, restrictions on transfer of stocks associated with any trading are not fit for the system of such exchanges. Therefore it is required that the applicant has not imposed or is not expected to impose any restrictions on the transfer of shares for which the listing application is made.

So any applicant which has imposed certain restrictions on transfer of stocks for which the listing application is made will be required to revise the Articles of Incorporation and submit the certificate of revised registered items reflecting such revised items during the examination period.

(Note) An exception to this criterion would be provided when the transfer of shares of stocks is restricted by virtue of laws such as the Broadcasting Act or Aviation Act and if such restrictions may not hamper trading on markets operated by TSE.

11 Handling by the Designated Book-Entry Transfer Institution (Rule 217, Item 7 of the Regulations (Rule 205, Item 12 of the Regulations))

The relevant issue is subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so by the time of listing.

(Rule 217, Item 7 of the Regulations (Rule 205, Item 12 of the Regulations))

Japanese stocks listed on financial instruments exchanges will be subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so by the time of listing..

The designated depository institution under the Book-Entry Transfer Act is the Japan Securities Depository Center, Inc. (hereinafter referred to as "JASDEC").

An applicant is required to dematerialize its stock certificates, such that they are eligible for the book-entry transfer of JASDEC. So, if the applicant has issued materialized stocks and has not completed the procedures for the dematerialization of stock certificates, the applicant shall complete the procedures by the end of examination period. After the listing approval (listing approval date, in principle), the applicant is required to submit consent in the form designated by JASDEC to the effect that the applicant agrees that JASDEC will handle its listed stock.

IV Listing Examination (relating to Rule 219 of the Regulations)

Listing examination should be implemented for the corporate group of applicant (Note) meeting formal requirements (Rule 217 of the Regulations based on the requirements of Rule 219 of the Regulations (hereinafter referred to as “Substantive Examination Criteria”).

(Note) It refers to the applicant, its subsidiaries and associates.

Substantive Examination Criteria provide for five eligibility requirements and the “Guidelines for Listing Examination, etc.” prescribe specific aspects based on which each eligibility criterion is assessed to be satisfied.

In due course of examination, JPXR will examine whether the applicant meets the criteria based on descriptions included in disclosure draft of “Securities Report for Initial Application (Part I)”, “Various Explanatory Data Concerning the Applicant” and “Matters Relating to Business Plan and Growth Potential” as main items for the examination and also through relevant interviews with the applicant.

In addition, even if the corporate group of applicant is determined to meet the criteria, JPXR may require the applicant to become more desirable company as a listed company.

The following explain the relevant requirements associated with the Substantive Examination Criteria and focus of listing examination.

List of Substantive Criteria

Rule 219 of the Securities Listing Regulations	Guidelines for Listing Examination, etc.
<p>1. Appropriateness of the Disclosure of Corporate Information, Risk Information, etc. (Rule 214, Paragraph 1, Item 1 of the Regulations)</p> <p>The company is able to make disclosure of the corporate information, risk information, etc.</p>	<p>(1) The applicant is able to properly manage the corporate information, including facts, etc. which will have a material effect on management and to disclose it in a timely and appropriate manner, In addition, a system for the prevention of insider trading has been developed and operated appropriately.</p> <p>(2) Documents pertaining to disclosure of corporate information, out of initial listing application documents, are deemed be to be prepared in compliance with laws and regulations, and contain the matters to be considered as risk factors and other matters appropriately in consideration of the state of business line and the business condition in an understandable and concise manner.</p> <p>(3) A listing applicant has not distorted the disclosure of substance of the corporate group by adjusting transactions between related parties and other specified entities and stock ownership ratios, etc.</p> <p>(4) When a listing applicant has a parent company, etc., the applicant is deemed to be able to properly obtain the understanding of corporate information of facts, etc. which will have a material effect on management and to disclose it to investors in a timely and appropriate manner.</p>
<p>2. Soundness of Corporate Management</p> <p>A business is carried out fairly and faithfully</p>	<p>(1) The corporate group of an initial listing applicant is recognized not to give or receive profits wrongfully through a trading act or any other management activities with relevant parties and other specific entities</p> <p>(2) The mutual relationship of relatives, the state of concurrent posts with any other company are recognized not to impair the fair, faithful and full execution of duties of executives and effective audit practices.</p> <p>(3) Where an initial listing applicant has a parent company, etc. , management activities of the corporate group of an initial listing applicant are recognized to be carried out independently from such parent company, etc.</p>
<p>3. Effectiveness of Corporate Governance and Internal Management System of an Enterprise</p> <p>Corporate governance and internal management system are properly prepared and functioning in accordance with its size and maturity.</p>	<p>(1) The system to ensure the appropriate execution of duties of officers of the corporate group of an initial listing applicant is recognized to be appropriately prepared and operated.</p> <p>(2) The internal management system is recognized to be reasonably developed and appropriately operated to carry out effective management activities.</p> <p>(3) Necessary personnel are deemed to be secured in order to carry out stable and continuous execution of management activities of the corporate group of an initial listing applicant and to maintain its appropriate internal management system.</p> <p>(4) The corporate group of an initial listing applicant adopts accounting treatment standards adaptable to its actual condition, and a necessary accounting system is deemed to be developed and operated appropriately.</p> <p>(5) It is deemed that an effective system to comply with laws and regulations, etc. concerning management activities in the corporate group of an initial listing applicant is prepared and operated appropriately, and that no material breach of laws and regulations has recently been made, and no act which is likely to become a material breach of laws and regulations in the future is being carried out.</p>

<p>4. Reasonability of the Business Plan</p> <p>The listing applicant has developed reasonable and suitable business plans, and has developed the operating base necessary for executing such business plans, or there is reasonable expectation that it will develop such operating base.</p>	<p>(1) The business plan of corporate group of an initial listing applicant is appropriately drawn up in light of its business model, business environment, risk factors, etc.;</p> <p>(2) The operating base necessary for executing the business plan of the business group of the initial listing applicant is deemed to have been developed or that there is reasonable expectation that such operating base will be developed.</p>
<p>5. Other Matters Deemed Necessary by the Exchange from the Viewpoint of the Public Interest or the Protection of Investors.</p>	<p>(1) The contents of the rights of shareholders and the state of their exercise are deemed appropriate from the viewpoints of the public interest or the protection of investors.</p> <p>(2) The corporate group of an initial listing applicant does not have an ongoing lawsuit or dispute, etc. which may have a material effect on management activities and business results.</p> <p>(3) Concerning the matters which are the premises of the main business activities of the corporate group of an initial listing applicant, there is no factor which hinders their continuity.</p> <p>(4) The corporate group of an initial listing applicant is recognized to develop an internal system to prevent criminal and extremist elements from being involved in management activities, and making efforts to prevent such involvement and their actual state is recognized as appropriate from the viewpoints of the public interest or the protection of investors.</p> <p>(5) When domestic stocks pertaining to initial listing application are stocks with no voting rights (limited to cases where there are no types of stocks other than the domestic stocks for which the listing application is made) or stocks with a small number of voting rights, they must satisfy each item enumerated in Guidelines III. 6. (5).</p> <p>(6) When domestic stocks pertaining to initial listing application are stocks with no voting rights (limited cases to where there are stocks other than the domestic stocks for which the listing application is made), they must satisfy each item enumerated in Guidelines IV. 6. (6).</p> <p>(7) Other – it is deemed appropriate from the viewpoints of the public interest or the protection of investors.</p>

1 Appropriateness of the Disclosure of Corporate Information, Risk Information, etc. (Rule 219, Paragraph 1, Item 1 of the Regulations)

JPXR will examine whether an applicant is in a position to appropriately make the disclosure of the corporate information and risk information, etc. associated with the applicant and its corporate group.

Growth Market is fit for companies that are exposed to a relatively high risks from the perspective of historical business performances while obtaining a certain level of market evaluation as they make timely and appropriate disclosures of business plans to realize high growth potential and its progress, as well as for institutional investors and public investors making investments in such companies. Since appropriate disclosures of corporate information, risk information, etc. by a listed company are important, relevant criteria for disclosures come first in substantive criteria.

In practice, JPXR will assess whether the applicant meets the following criteria:

- (1) The corporate group of an initial listing applicant is deemed to be able to properly manage corporate information of facts, etc. which will have a material effect on management and to disclose it to investors in a timely and appropriate manner. Moreover, its system for the preemptive prevention of insider trading, etc. is deemed to be developed and operated appropriately

(Guidelines IV 2.(1))

Requirements of criterion and focus of examination

The objective of this criterion is to confirm whether after listing the applicant will be able to disclose corporate information which may significantly affect investment decisions of investors in a timely and appropriate manner and to appropriately manage corporate information until it is published in order to prevent any insider trading, communication of information and recommendation of any trading (hereinafter referred to as "insider trading").

The following summarize important aspects in confirming them.

JPXR will first confirm a system of the applicant to make statutory disclosures and timely disclosures. In doing so, JPXR will consider who is responsible for obtaining the understanding of, collecting and managing corporate information to be disclosed and what internal procedures the applicant implements in disclosing collected information. In addition, JPXR will also assess how the applicant manages the budget and actual operating results in order to accurately understand the trends in performance of the applicant's corporate group. The management method and the degree of precision may vary depending on the nature and size of businesses of the applicant. At least, the applicant is required to develop systems where it can appropriately identify the need to revise any disclosed information and it can appropriately determine what revisions should be made, if any.

JPXR requires in its Securities Listing Regulations that "A listed company shall make efforts to carry out such faithful execution of business as strengthening prompt, accurate and fair disclosure of corporate information at all times from the viewpoint of investors with full recognition that timely and appropriate disclosure of corporate information to investors is the basis of a sound market for financial instruments."

Therefore, JPXR will examine whether the applicant has developed systems to comply with relevant rules concerning timely disclosure including earnings reports after listing and is able to meet other requirements.

Then, with respect to systems to prevent insider trading, etc., JPXR will assess the following:

- whether the applicant has developed and implemented any regulations on the management of insider information and prevention of insider trading, etc.;

- whether the nature of such regulations are appropriate in light of laws and regulations;

- whether the applicant has provided or expects to provide sufficient education and training to company-related persons such as officers and employees in terms of the prevention of insider trading, etc.;

- whether the applicant intends to continuously provide such education and training after listing; and

- whether officers and persons in management division charged with insider trading and information are fully familiar with the meaning and nature of regulations concerning insider trading.

Furthermore, if an applicant has listed on another exchange, JPXR will assess whether the applicant has appropriately reviewed the trading of treasury shares by company-related persons, which should be registered beforehand.

Recently, the number of insider trading scandals involving officers and employees has been increasing and they are naturally subject to legal accusation and payment of penalties. The applicant must pay further attention as any instances of incompliance such as insider trading, etc. by company related parties may impair the reputation of company and degrade trust and confidence in overall financial instruments markets.

In addition, in carrying out examination based on these criteria, JPXR will also review the development of system in consideration of fair disclosure rules and security environments to ensure security of information available for website before the expected time of issuance of corporate information. For considerations in ensuring security environments, please see "Reference Data: Considerations in making corporate information available via website, etc."

- (2) Documents pertaining to disclosure of corporate information, out of initial listing application documents, are deemed to be prepared in compliance with laws and regulations, and contain the matters enumerated in the following a to d and other matters appropriately in consideration of the state of the business lines and the business conditions of an initial listing applicant and its corporate group:
- a Useful matters for investment decisions of investors such as analysis and explanation pertaining to the financial condition, management performance & cash flow, the conditions of the related companies, the conditions of R&D activities, the conditions of large of large shareholders, the conditions of officers & employees, the dividend policy, the appropriation of proceeds from increase in paid-in capital through a public offering concerning an initial listing applicant and its corporate group;
 - b Matters that should be considered as a risk factor of an initial listing applicant, when investors make investment decisions, such as the small number of years in business operations, the state of the occurrence of cumulative losses or business losses, dependence on a specific officer, the state of competition for business with other companies, uncertainties of markets and technologies, and the state of support for the purpose of the administration of business from a specific entity, etc., concerning an initial listing applicant;
 - c Useful matters in investors making investment decisions with respect to the business plan and growth potential of initial listing applicant and its corporate group;
 - d Matters enumerated in the following (a) to (d) with respect to pre-conditions of major business activities of an initial listing applicant and its corporate group; and
 - (a) Details of the matters which are the pre-conditions of major business activities of an initial listing applicant and its corporate group;
 - (b) Where the validity period of permission and authorization, etc. and any other time limit is specified by laws and regulations or a contract, etc., such time limit;
 - (c) Where cancellation, rescission, and any other event of permission and authorization, etc. are stipulated by laws and regulations or a contract, etc., such fact; and
 - (d) The effect that there is no factor which hinders their continuity concerning the matters which are the premises of the main business activities of the corporate group of an initial listing applicant, and if there is such factor, the effect that it will have a material effect on business activities;

(Guidelines IV 2. (2))

Requirements of criterion and focus of examination

In examination on the basis of this criterion, JPXR will examine whether useful information for investment decisions such as the corporate information, risk factor information and business plan developed to realize growth, etc. included in the disclosure package to be provided to investors including “Part I” documents or “Matters concerning business plan and growth potential” have been prepared accurately on an understandable basis.

In practice, an applicant is required to explain the substance of business and business plan based on disclosure draft of “Matters concerning business plan and growth potential”, and the examiners will obtain a deeper understanding of the business content and conditions of the industry and future business developments of the applicant based on the data (various explanatory data pertaining to the initial listing applicant, business plan documents, etc.) submitted at the time of application.

Then they will examine whether information such as the business content, business model (characteristics of business and revenue generating structure, etc.), business environments (market size, competitions, etc.), sources of competitive power (management resources, competitive advantages, etc.) and risk factors (risks identified and measures to address them) have been appropriately described in “Part I” documents and “Matters concerning business plan and growth potential” while making interviews with the applicant.

At these interviews the examiners may request the applicant to improve the descriptions tailored to actual conditions. In addition, it is required that any information likely to significantly affect any investment decision should be described in "Part I" documents appropriately in addition to disclosures in "Matters concerning business plan and growth potential." Furthermore it is contemplated that disclosures in "Matters concerning business plan and growth potential" may describe information supplementing the descriptions in "Part I" documents or may make relevant explanations using tables, charts and graphics. In such cases the disclosures must be consistent with descriptions in "Part I" documents.

Information with inherent risk information in "Part 1" can be related to information related to matters regarded as risk factors of the applicant in making investment decisions, including shortness of operation period, conditions of occurrence of accumulated deficits or losses on businesses, dependence of the management on specific officers, competitiveness with peers, uncertainties over markets and technologies, or support from specific persons for the management, and pre-conditions underlying the major business activities of the corporate group of the applicant. And "Matters concerning business plan and growth potential" should include the descriptions of major risks determined to be likely to significantly affect the realization of growth and implementation of business plan.

Descriptions associated with risk information are expected to be much more diversified and their disclosures must be tailored to actual conditions of the applicant. For reference, we illustrate some example of descriptions after page 55. However, they are only one of illustrative examples and the applicant is encouraged to undertake innovative efforts to describe risk factors such that they faithfully reflect the business content and facts from time to time.

Meanwhile, the applicant is required to describe in the section of the "Substance of business" or "Risks associated with business, etc." in the "Securities Report for Initial Listing Application (Part I)" the nature of relevant matters if there are matters underlying the major business activities of the corporate group of the applicant (permits, authorizations, licenses or registration for major businesses or sales agent agreements or original equipment manufacturing agreement) which are pre-conditions of major businesses, valid periods if valid periods are provided for permissions, etc., any events resulting in the cancellation of permissions, etc. if they are prescribed in laws and regulation, and the effect that no factors have occurred which would continuously impede the continuity of business and the effect that such events would significantly affect the business activities if any take place.

Given that the applicant is now growing with high growth potential, the applicant is required to describe the matters considered to be useful for investment decisions "in a concise and understandable manner and in a manner not giving rise to any misunderstanding" in describing the corporate information. Disclosure data are intended for use by a variety of investors for the purpose of investment decision. As such, it would be inappropriate to provide any descriptions that may be difficult to understand at a glance due to the use of unduly abstract expressions or technical terminology or ambiguous meanings left open to a reader's interpretation. If JPXR finds such a description, it will request the applicant to amend the description during the examination process. Furthermore, JPXR may request the applicant to have disclosure systems in place to avoid such descriptions, if appropriate.

When an applicant has a "parent company, etc.," it is likely that the applicant may be influenced in various ways through its business relationship with the parent company. As such, information on the business relationship with the parent company, etc. will be useful investment information. Therefore, JPXR will assess whether the business relationship with the parent company is described in the section of "Status of related companies" or "Risks associated with business, etc." in the "Securities Report for Initial Listing Application (Part I)" in an understandable manner according to the significance of such influence.

In actual examination, JPXR will assess whether the descriptions are prepared in an appropriate manner mainly in the context of the following: in the case of business relationships, their substance, transaction amounts, and the terms and conditions of transactions and policies for determining them; in the case of executives holding concurrent positions at other companies, their names, positions and reasons for such concurrent positions; in the case of secondments, the number of seconded persons received and their positions at the applicant; and concepts of securing employees from the perspective of ensuring stability in business execution. In addition, if there are entities in the corporate group of the parent company, etc. which carry out business contents similar to those of the applicant, JPXR will assess the descriptions on the applicant's roles and position in the corporate group of the parent. Furthermore, JPXR will assess whether relevant reports concerning corporate governance includes appropriate descriptions of concepts and measures to ensure necessary independence from the parent from the perspective of protection of minority shareholders (when the parent is a listed company, the parent is required to disclose the meaning to the parent of holding a listed subsidiary and policies to ensure effectiveness of governance system of the listed parent, considering the concepts and policies of group management).

The applicant is required to prepare the disclosure data in a sincere and proactive manner and JPXR will assess such preparation in the course of examination.

Since such corporate information and risk information, etc. is very useful for investment decisions, the applicant is required to provide the information not only at the time of initial listing but continuously after the listing. Growth Market applicants are required to develop systems in place to regularly review such disclosure information and make appropriate revisions thereto. In the examination process, JPXR will also assess whether the applicant is expected to continuously disclose such matters as disclosure policies of progress after listing concerning "Matters relating to business plan and growth potential" after listing.

JPXR will assess whether Growth Market listed companies regularly review such disclosure information and make appropriate amendments thereto through the implementation of follow-up system after listing (please refer to "I. About Listing, 4 Steps to be Taken Before Listing, (7) Follow-ups after Listing").

Reference: Examples of matters to be described in the section of “Risks associated with risks, etc.” in “Part I”

For example, if there are events mentioned below or other matters which may have significant effect on the management of the corporate group of the applicant, the applicant is required to state the fact and describe the expected risks in an understandable and concise manner. And for any risks recognized by the applicant as risks likely to significantly affect the conditions of performance results, etc. of corporate group of the applicant, the applicant is required to specifically describe the probability and timing of such risks and the nature of effect on the performance results, etc. of corporate group of the applicant if such risks materialize, and measures to address such risks.

- ▶ Risks associated with short history and business operations of the applicant:
 - The applicant was established recently and a financial guarantee by the president and others is required.
 - Business operations have not been implemented substantially since establishment.
- ▶ Risks related to financial position, operating results, and cash flows
 - Where the applicant is not currently profitable or has cumulative losses;
 - Based on its business plan, the company may be likely to continue to be unable to recognize income; or
 - High financial dependence on borrowings and debt (including contingent liabilities)
- ▶ Risks associated with lower or reduced degree of usefulness of past business record for the purpose of investment judgment
 - Sufficient financial information to compare results from one period with another is not available due to short history of operation;
 - Past performance results did not generate income due to some reasons;
 - The applicant is considering significantly modifying business operations.
- ▶ Risks associated with significant changes in environments surrounding the industry
 - The industry to which the applicant belongs is likely to change dramatically because of a new entrant or changes in the circumstances surrounding the industry.
- ▶ Risks associated with high dependence on specific persons or those having special skills
 - As the number of executives and employees is small, company management or operation is heavily dependent on specific persons and replacement of such persons would be difficult.
- ▶ Risks associated with a long period of time required for the development and commercialization of new products and technologies
 - As the applicant is currently developing new products or technologies, it is expected to take a longer time for commercialization. Thus, R&D expenses would be incurred over many years or many years would be required before the full operation of a new factory.
- ▶ Risks associated with high dependence on specific products and technologies whose future prospects are uncertain
 - Although an applicant has been performing its business based on the sales of specific products or specifically developed technologies, it is possible that there may be new entrants or others that sell them under license from another company as the applicant has not protected the products under a relevant patent.
 - Since the applicant depends on a certain product, it cannot supply its product stably as circumstances surrounding the industry may change or agreements with suppliers may be modified.

- ▶ Risks associated with high dependence on specific business partners whose continuity is uncertain
 - As an applicant depends heavily on specific business partners in terms of procurement or sales, continuous transactions therewith might be difficult or a replacement cannot be found easily.
- ▶ Risks associated with special legal regulations or business conventions
 - Some legal regulations may or are expected to be imposed on business operations.
- ▶ Risks associated with matters related to pre-conditions of major business activities
 - Permit, authorization, license, registration, dealer agreement or original equipment manufacturing agreement (collectively "permission") relates to major businesses or products and goods of the applicant, and the business activities of the applicant may be impeded due to the revocation of such permission.
- ▶ Risks associated with significant lawsuit
 - A lawsuit has been filed and it may have a material effect on the performance results of applicant.
 - Though the applicant has no ongoing lawsuit, it is possible that a lawsuit may be filed against the applicant due to changes in the industry.
- ▶ Risks associated with significant business relationships, etc. with related parties and other specific parties
 - An officer or person in a similar capacity of the applicant has issued a financial guarantee and the business operations of the applicant might be adversely affected depending on the amount or timing of expiry.
- ▶ Risks associated with large shareholders
 - The involvement of large shareholders in the management of applicant is likely to have some effect on the future business development of the applicant.
 - The applicant's business and management is heavily dependent on a large shareholder, and transactions with such large shareholder may be discontinued due to some reason.
- ▶ Risks associated with current or future business developments
 - The applicant has entered into partnership arrangements with business partners who play important roles in the business development of the applicant, including procurement, production, or sales.
 - There are businesses which the applicant will place emphasis on or intend to expand into other business fields in the context of businesses currently carried out or expected to be carried out in future and some business or legal risks can be expected.
- ▶ Such other risks associated with matters that may have significant effect on the judgment of investors
 - As the applicant has allocated stock options, their exercise may result in earnings per share dilutions and change the short-term availability of the stock in the market, and stock price formation might be affected.
 - Shareholders and the applicant have entered into agreements so that shareholders would not sell their shares for a certain time of period after listing.

- (3) The corporate group of an initial listing applicant does not make distorted information disclosure on the actual state of the corporate group of the initial listing applicant by carrying out a trading act with its related party (Note 1) or any other specified entity (Note 2) or adjustment of the stock ownership ratios, etc.;

(Guidelines IV 2.(3))

(Note 1) "Related party" means any "related party" mentioned in Article 8, Paragraph 17 of the Financial Statements Rules.

(Note 2) "Other specified entity" means entity which is not within the scope of related party, but which has strong human and capital association with the corporate group of the applicant.

Requirements of criterion and focus of examination

In the examination based on the criterion, JPXR will assess whether the applicant has intentionally carried out any transactions which would distort the disclosure of the corporate information of the applicant or made adjustments to capital contributions to any companies under their control.

The following summarize important aspects in confirming them.

For transactional acts, JPXR will review further details when an unusual nature of various transactions in business activities of the applicant are acknowledged or unusual changes in line items in financial statements are acknowledged. In addition, if any case is detected where some transactions have been made so that the financial statements of the corporate group of applicant can be inappropriately flattered.

For adjustments to capital contributions, JPXR will review the equity structure of the corporate group of applicant. In doing so, JPXR will check the history of and reasons for such contributions when the contribution by the applicant corporate group is not 100%, that is, there are some other investors. As a result, if reasons for capital contribution are not clear, for example, some investment was made to exclude a subsidiary whose performance results are deteriorating from the consolidation, JPXR may request the applicant to improve the equity structure so that the conditions of applicant corporate group would be disclosed appropriately.

► When the applicant has a parent company, etc. (Note):

- (4) Where an initial listing applicant has a parent company, etc., any one of the following a or b shall be met on the premise that disclosure of such parent company, etc. is valid, unless the business relationship between the initial listing applicant and such parent company, etc. is weak and, in addition, it is clear that the ownership of the stock of the initial listing applicant by such parent company, etc. is for the purpose of encouraging investment, not for the substantial control of business activities of the initial listing applicant:
- a A stock, etc. issued by a parent company, etc. of an initial listing applicant (where there are multiple parent companies, etc., a company which is deemed to have the greatest influence on the initial listing applicant, or where their influence is deemed to be the same, it means one of such companies; the same shall apply hereinafter in these a. and b.) is listed on a domestic financial instruments exchange (including where a stock, etc. issued by such parent company, etc. is listed or continuously traded on such foreign financial instruments exchange, etc., and the state of disclosure on corporate affairs in a country in which such parent company, etc. or such foreign financial instruments exchange, etc. is located is not deemed to conspicuously lack investor protection); and
 - b An initial listing applicant can appropriately grasp company information such as facts and information concerning the parent company, etc. which has a material effect on its management (excluding a parent company, etc. which falls under the preceding a.), and the initial listing applicant pledges in writing that such parent company, etc. agrees to its disclosure of company information which has a material effect on its management, out of such company information concerning the parent company, etc., to investors in an appropriate manner.

(Note) "Parent company, etc." means any "parent company" mentioned in Article 8, Paragraph 3 of the Financial Statements Rules and other related companies or their parent company mentioned in Article 8, Paragraph 17, Item 4 of the same Rules, unless it is likely that the applicant will not have any parent by the end of the business year first ending after the listing through the public offering or secondary distribution before listing (the same shall apply hereinafter in this chapter).

Requirements of criterion and focus of examination

It is likely that the applicant will be influenced by the parent company through the business relationship with its parent, etc. in various ways after listing. Thus in addition to the information concerning the substance of the applicant, information on the parent company, etc. would be useful for investment decisions made by investors who invest in the applicant.

This criterion requires that the applicant be in a position to disclose information of the parent company, etc. in the listing of the applicant.

By the way, a parent company, etc. to which this criteria apply refers to a company which is acknowledged to have the most significant effect on the applicant. If the degree of effect is identical among such companies, one of them could be identified as the parent company, etc.

In determining the company which has the most significant effect on the applicant, the determination will be based on the positions of the applicant and parent companies in the corporate group, and relationships between the applicant and parent companies in terms of capital contributions, financing, human resources, technologies, transactions and so on.

- Matters related to controlling shareholders and financial information of non-listed parent company, etc.

An applicant who has a parent company, controlling shareholders (excluding the parent company) and other related companies (hereinafter referred to as “controlling shareholders, etc.”) is required to submit the “Matters related to controlling shareholders, etc.” (Note 1)

When the applicant has a parent company, etc., which is a non-listed company, the applicant is required to submit the documents describing the financial information related to the immediately preceding accounts of the parent company for the business year or half-year accounting period (Note 2) or consolidated accounting period or half-year consolidated accounting period (Note 2) (hereinafter referred to as the “financial information of non-listed parent company, etc.” in addition to “Matters related to controlling shareholders” at the time of listing application. (Note 3)

However, if it is likely that the applicant will not have any controlling shareholder, etc. or parent company, etc. at the end of the business year first coming after the listing, the applicant is not required to submit any of them. For requirements requiring (including the definitions, etc. of “controlling shareholders, etc.” or “non-listed parent company, etc.”), procedures for describing submitted documents and their formats, please refer to “Matters Related to Controlling Shareholders, etc.” in “A Documents to be Submitted, etc. Pertaining to Initial Listing Application”, “Financial Information of a Non-Listed Parent Company.”

(Note 1) If any change in descriptions takes place during the listing examination, the applicant is requested to update the contents and re-submit them.

(Note 2) When the parent company, etc. is an entity which files quarterly financial statements, the half-year period represents the period totaling relevant quarterly periods.

(Note 3) When a non-listed parent company, etc. is an entity which files quarterly financial statements, and if the financial information is updated during the examination period, the applicant is required to re-submit the financial information of a non-listed parent company, etc.

2 Soundness of Corporate Management (Rule 219, Paragraph 1, Item 2 of the Regulations)

JPXR will examine whether the applicant and its corporate group fairly and faithfully carry out their businesses.

Specifically, JPXR will evaluate whether the applicant meets the criteria below.

- (1) The corporate group of an initial listing applicant is recognized not to give or receive profits wrongfully through a trading act (including indirect trading acts and free supply of services and its reception; the same shall apply hereinafter) or any other management activities with related parties and other specific entities, in light of matters including those referred to in the following a. and b.:
 - a Where a transaction has taken place between the corporate group of an initial listing applicant and its related parties (meaning related parties referenced in Rule 8, Paragraph 17 of the Financial Statements, etc. Rules; the same shall apply hereinafter) or any other specific entities, and such transaction has rationality of continuing the transaction and reasonability of trading terms including trading prices; and
 - b Benefits of the corporate group of an initial listing applicant are not lost wrongfully because related parties and any other specific entities of the corporate group of an initial listing applicant give priority to their own benefits;

(Guidelines IV 3.(1))

- (Note 1) "Related party" means any "related party" mentioned in Article 8, Paragraph 17 of the Financial Statements Rules.
- (Note 2) "Other specified entities" refer to any person who has a strong relationship with the corporate group of the applicant in terms of human and financial resources, though they are not within the scope of related parties (hereinafter collectively referred to "related party, etc.")
- (Note 3) "Transactional acts" refer to operational transactions, financing transaction, lease transactions of real estate, transactions associated with the use of industrial property rights. "Transactional acts" include transactions which the applicant corporate group does not carry out directly, but which could be regarded as those indirectly entered into by the group, provision of works simply as services without any consideration and rendering or receipt of services for free. The same shall apply hereinafter.
- (Note 4) They represent any operating activities, investment activities and financial activities. The same shall apply hereinafter.

Requirements of criterion and focus of examination

Since transactions with related parties represent a transaction with a person having a special relationship with the applicant corporate group, it is concerned that the applicant is forced to enter into transactions which are primarily unnecessary or the terms and conditions of the transaction may be distorted. Therefore such transactions could be alleged to be transactions for which the applicant is required to exercise a high degree of caution.

On the other hand, there are cases where it is reasonable to continue transactions with related parties after listing because the applicant finds it difficult to identify an alternative partner as transactions have continuously been carried out, starting at the time before the preparation of the listing or as the applicant cannot identify any partner who shows more favorable terms and conditions of transactions.

In such cases JPXR will assess the reasonableness (necessity for the purpose of its business) of the transactions and appropriateness of the terms and conditions thereof mainly by determining “whether any benefits which should primarily be attributed to the shareholders of the applicant have not unduly flowed to specified entities because transactions are entered into under terms and conditions clearly unfavorable to the applicant.”

The focus herein is that even though the terms and conditions of the transaction are judged to be appropriate compared to those with any third party, if the transactional act does not have any reasonableness (necessity of business) by itself, such transaction may be determined to be the undue grant of benefits.

In making the listing examination on the basis of this criterion, one factor to determine whether a transactional act represents an act to grant undue benefits relates to whether the individual managers of the applicant could explain the transactional act as a proper act when they first consider benefits to the company, rather than benefits to such individuals.

Especially in cases of a company controlled solely by its owner, the ownership and management are identical when it is a non-listed company. This situation does not give rise to any problem as the applicant does not need to consider whether a transactional act is a necessary act to the company or to the owner as an individual. However in cases of a listed company which has a large number of public investors, it is required to sharply distinguish the assets belonging to the company from those to the owner, etc., and all transactions are required to be implemented for the benefit of shareholders, including general shareholders.

In light of the above, when the applicant has entered into any related party transaction, the applicant must make organization-level reassessment as to whether there is reasonableness in continuing the transaction and whether the terms and conditions of the transaction are adequate.

In the meantime, where no related party transaction has taken place or the reasonableness of existing transactions or appropriateness of the terms and conditions are recognized, JPXR will assess whether the applicant has proper knowledge on related party transactions (recognizing that they are transactions for which the applicant is required to exercise a high degree of caution) and has in place a check and balance system such that any transaction lacking in reasonableness or having inappropriate terms and conditions would not be entered into.

However, when related company, etc. carries out transactions with the applicant under terms favorable to the applicant with a view to supporting the applicant, given the purpose of Growth Market that it lists companies with high growth potential, especially emerging companies, JPXR may allow such transactions under the conditions that the applicant discloses the nature of such transactions appropriately to investors.

However, if the corporate group of applicant significantly increases its influence over group companies of the applicant including related parties, etc. by receiving benefits attributable to the corporate group, such receipt may be determined to be an undue receipt of benefits.

For any transaction involving the management (e.g., any business acquired or planned through the efforts of the management in itself, or any project whose necessary matters are exceptionally determined by the management), any internal check is unlikely to be properly applied, which may result in some frauds. Therefore, JPXR will assess whether an appropriate system has been developed and operated where such project will be considered at the corporate level and appropriate check and balance functions will be applied properly, and whether or not any transactions actually carried out are inappropriate one.

- (2) The mutual relationship of relatives of officers of an initial listing applicant, its composition, actual situation of providing services or the state of concurrent posts as officers and employees, etc. with any other company, etc. are recognized not to impair the fair, faithful and full execution of duties or the implementation of effective auditing as officers of such initial listing applicant. In this case, if a spouse, a blood relative within the second degree of kinship, or a relative by affinity within the same degree of kinship of a board member, an accounting advisor, an executive officer of an initial listing applicant, or a person equivalent thereto takes a position as an auditor, an audit and supervisory committee member, a member of an audit committee, or any other positions equivalent thereto, it shall be deemed to impair the implementation of an effective auditing; and

(Guidelines IV 3. (2))

Requirements of criterion and focus of examination

For the purpose of examination on the basis of this criterion, JPXR will assess whether the status of officers of applicant is not to impair faithful and sufficient execution of duties. This criterion might be infringed if the decision making of applicant is highly likely to be distorted because of biased composition of officers of applicant (because family members or relatives of the management account for a large portion of the Board of Directors) or because of any decision favorable to a specific interest group, or if a flexible and fair decision in the due course of ordinary business is highly likely to be impeded, including the decision on the holding of meeting of the Board of Directors of applicant, as officers of the applicant concurrently hold positions of directors or officers of another company.

The following summarize important aspects in confirming them.

First, since it is assumed that for a company for which family members or relatives of the management account for a large portion of the Board of Directors, the influence thereof over the company would be strong, JPXR will assess whether the interest of officers from family members or relatives of the management would be preferred to that of company as a whole in consideration of the background for the election thereof and the status of related party transactions therewith. Especially in case where the family members or relatives of the management who serve as officers account for the majority of the Board of Directors, JPXR will more closely examine resolutions made by the Board of Directors as their influence over the company is strong.

For company auditors or the committee of company auditors, in considering their functions, it is desirable to avoid the assignment of any family members to such capacities. Especially in the event that any spouse or blood relative of a second degree of directors, officers, or accounting advisors are appointed to the offices of company auditors or members of the committee of company auditors, such appointment will be determined to be a self-audit, giving rise to situations where the effective implementation of audit would be impaired.

Next, if any executive of the applicant concurrently holds the position of officer at another company, JPXR will assess whether such officers execute their required supervision duties properly in consideration of attendances at the board meetings of the applicant and for full-time officers, assess whether the mobility of the execution of their duties has not been impaired.

If the applicant has any business relationship with such another company, JPXR will assess in the listing examination whether the applicant has in place any governance system to exercise checks and balances on any such business relationship, and whether or not the applicant is forced to make any onerous decisions in consideration of the procedures for the determination of the terms and conditions of the transaction. If JPXR affirms the relevant systems and implementation, it may determine that such concurrent holding of positions could be permitted.

Meanwhile, if the applicant has a parent company, etc. (the listing of the applicant is so called as “subsidiary listing” and the total number of the officers at the parent company, etc. and directors concurrently holding positions of officers at the parent company, etc. or those seconded from the parent company, etc. account for the majority of the board members of the applicant (in case of a company with a committee system, including respective committees), or if the full-time officers are seconded from the parent company, etc., JPXR will carefully address such situations as it is likely that free business activities or managerial judgment of the applicant may be impeded.

In considering the composition of executive offices or concurrent holding of positions, the applicant should fully recognize the importance of corporate governance inherent in a listed company and address them from the perspective of enhancement of management efficiency, establishment of business ethics and ensuring effective check function in the context of management.

Though rare, officers or employees of the parent company, etc. may have made capital contributions to the applicant or the applicant may have granted some subscription warrants to officers or employees thereof. Any capital contribution by officers or employees of the parent company, etc. who are not involved in the management of the applicant may lack in clarified ownership of management responsibility or reasonableness and necessity for granting incentives. Thus JPXR will more carefully examine these issues.

- ▶ An Applicant Has a Parent Company, etc.

(3) Where an initial listing applicant has a parent company, etc. (excluding cases where such applicant is expected to cease to have the parent company, etc. by the end of the first business year after listing), management activities of the corporate group of an initial listing applicant are recognized to have independence from such parent company, etc. for the reason of the matters referred to in the following a. to c. or any other matters

(Guidelines IV 3. (3))

Requirements of criterion and focus of examination

Where an applicant has a parent company, etc. (i.e., in the case of a “subsidiary listing”), the relationship is assumed to entail potential conflicts between the interests of the parent company, etc. and the minority interests of the applicant. In examining a “subsidiary listing” JPXR will therefore evaluate whether the applicant meet the following criteria in a to c below for the independence from the parent company, etc. because of the requirements that the rights and benefits of the minority interests of the applicant should not be impaired.

With respect to a “subsidiary listing,” the parent company, etc. may hold a large percentage of the voting rights of the applicant after the listing. Likewise, some of the officers and employees of the parent company, etc. may concurrently hold positions as directors and employees of the subsidiary. Under these circumstances, the applicant will not be permitted ideally to make decisions at its discretion. Substantively, it is not desired for the purpose of governance of a listed company that specific parent company, etc. has significant influence over an applicant. Rather, it would be preferable for the applicant to have the discretion to develop and transform its operations and management system in consideration of the environments and characteristics of its business by taking relevant measures to reduce the ratio of capital contributions of the parent company, etc. of the parent company, etc. and reduce the number of officers, etc. who concurrently serve in similar positions in the parent company, etc. in future.

Listing of a subsidiary which is substantially a part of parent company or core subsidiary (accounting for significant portion of enterprise value of the parent corporate group) may not be regarded as a new choice of investments on financial instruments markets, and also as the parent company is considered to double generate gains from the initial listing, JPXR will examine this issue more carefully. (See “Reference data” Communication, etc.: Interpretation of listing of company having a parent company.

On the other hand, in cases where an applicant has already been listed on another financial instruments exchange, the applicant does not necessarily intend to double generate gains from initial listing, the degree of concern above may be considered to be lower. In such cases JPXR is certain to assess the conditions of listing on another financial instruments exchange.

Furthermore, a portion of the applicant of the enterprise value of the parent corporate group may significantly increase due to changes in performance results of the parent company or growth of the applicant. In such cases, JPXR will not make any judgment only based on temporary changes in performance results, but it will comprehensively judge the portion of enterprise value accounted for by the applicant in consideration of historical changes in performance results or future income prospectus.

- a. In light of the relationship between the business line of the corporate group of an initial listing applicant and that of the corporate group of the parent company, etc. (excluding the corporate group of an initial listing applicant; the same shall apply hereinafter.), the state of business adjustment made by the corporate group of the parent company, etc. and its possibility and any other matters, an initial listing applicant is not recognized to be substantially a business division of such parent company, etc.;

(Guidelines IV 3. (3))

Requirements of criterion and focus of examination

When an applicant was established through a divestiture of one business of the parent company, etc., it is likely that the activities of the applicant merely relate to the performance of a part of business activities of the parent company and the business activities of the applicant have been directed by the parent company, etc., where the applicant cannot make any decisions at its discretion.

The applicant may also find it difficult to determine management policies or operation policies at its discretion which are necessary in continuously and freely carrying out its businesses because of the management policies of the parent company, etc. on related companies.

In such cases, earnings which should be returned to the shareholders of the applicant are likely to be infringed on at the discretion of the parent company, etc., and the applicant is deemed to constitute only a business department of the parent company, etc. Such companies are not appropriate as independent investment choices offered to investors.

Therefore in determining whether the applicant constitutes a business department of the parent company, etc., JPXR will assess the following points and determine that the applicant has capabilities to carry out its business activities at its discretion, the parent company, etc. has not impeded free business activities or the management judgment of the applicant and such likelihood is remote in the near future.

- The positions of officers of the applicant concurrently held by those at the corporate group of the parent company, etc. are unlikely to impede the applicant's own decisions;
- The common business operations of the applicant have been carried out under the applicant's own decisions and they are not necessarily directed by the parent company, etc.;
- There are no rules or procedures which require the prior approval of the parent company, etc. on the decision making of the applicant;
- The applicant has its own capabilities, technologies or know-how to implement the market research, developments, design and planning for products; * and
- The applicant has been carrying out price negotiations, new customer exploration, and activities to expand sales to existing customers by itself. *

* Given the purpose of Growth Market which lists companies with high growth potential, especially emerging companies, such activities can be permitted for the purpose of assisting the applicant unless they are excessive.

Furthermore, if a company which carries out similar content of business of the applicant exists in the corporate group of the parent company, etc., it is expected that the parent company, etc. may leverage its controlling position to restrict or coordinate the business activities of the applicant as the parent company, etc. strives to prefer the earnings of the group as a whole to the earnings of the applicant. In such cases, in consideration of the positions of each group company on the basis of the content and characteristics of the businesses (operating segments, customers and distribution channels) (the background for competitions among group companies, if any), the reasons why the applicant implements management independent of the parent company, etc. and the business coordination made by the parent company, etc., JPXR will assess whether the applicant secures sufficient independence from the parent company, etc. such that it may not be susceptible to undue business coordination of the parent company, etc.

In the event that it is concerned that the applicant constitutes a “business department” of the parent company, etc., and the shareholding ratio of the parent company, etc. to the applicant is high, JPXR will assess this point by confirming the intention of the applicant to reduce the shareholding ratio of the parent company, etc.

- b The corporate group of an initial listing applicant or that of a parent company, etc., as a general rule, does not coerce or induce a trading act which becomes disadvantageous to such parent company, etc. or the corporate group of such initial listing applicant, such as transactions under markedly different terms from those of normal transactions in principle

(Guidelines IV 3.(3))

Requirements of criterion and focus of examination

It is likely that transactions between the applicant and the parent company, etc. may be carried out under terms and conditions significantly different from those at arm’s length as more arbitrary determination of the terms and conditions for the transactions compared to those carried out with third parties may take place.

In such cases, it is likely that the interests of shareholders of the applicant or parent company, etc. may have been impaired by such transactions, and if transactions are coerced by the parent company, etc., under terms and conditions significantly different from those at arm’s length, appropriate of independence as a listed company may not be ensured.

Thus the objective of this criterion is to make sure that transactions with the parent company, etc. shall be made at arm’s length.

However, when the parent company, etc. carries out transactions with the applicant under terms favorable to the applicant with a view to assisting the applicant, given the purpose of Growth Market that it lists companies with high growth potential, especially emerging companies, JPXR may treat such situations as an exception under the conditions that the applicant discloses the nature of such transactions fairly to investors.

In assessing “terms and conditions at arm’s length” JPXR will compare the transactions with other transactions or review the process for determining the terms and conditions of transactions. For example, JPXR will make relevant comparison with “other transactions at arm’s length” for business transactions, while JPXR compares “market interest rate” for financing transactions and “how to determine guarantee rate” for financial guarantees. For lease transactions of properties, JPXR will check the lease payments for neighboring lease properties and “real estate appraised values” if appropriate. For fees to use brands, JPXR will assess the terms of others belonging to the corporate group of parent company, etc.” or check “how to determine fees for use of brands.” In addition, JPXR will consider historical changes in terms and conditions of transactions.

- c The state of receiving seconded persons of the corporate group of an initial listing applicant is recognized not to excessively depend on the parent company, etc. and not hinder continuing management activities.

(Guidelines IV 3. (3))

Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant can secure necessary personnel in carrying out its business activities independent of the corporate group of the parent company, etc.

If the corporate group of the applicant has accepted any seconded persons from the corporate group of the parent company, etc., JPXR will assess whether the assignments of seconded persons have not impeded the independence of the management of the corporate group. If the seconded persons are assigned to the positions of officers or general managers who manage departments exposed to the influence of the parent company, etc. from the perspective of independence, JPXR will be concerned with such situations from the perspective of independence from the parent company, etc. However if such seconded persons are assigned to any department which has nothing to do with the determination of management policies or transactions with the parent company, etc., JPXR may permit such situations in consideration of their effect on controlling power.

In addition it is important that the status of seconded persons from the parent company, etc. does not affect the continuity of businesses of the corporate group of the applicant as the replacement of the seconded persons is ensured when the seconded person contract with the parent company, etc. is terminated. It is likely that the status of seconded persons may adversely affect the continuation of the businesses of the corporate group of the applicant when the businesses highly depend on the special knowledge or know how of the seconded persons. However, if any replacement of such seconded persons is available by recruitment outside or elevation of employees inside, JPXR may conclude that such situations may not adversely affect the continuation of businesses.

Meanwhile, even if JPXR is assured that the independence of the management of the corporate group of the applicant is not impeded as a result of the examination on the basis of the criteria from a to c above, the applicant is requested to clearly disclose the business and transaction relationships between the applicant and the parent company, etc. in "Part I" documents.

3 Effectiveness of Corporate Governance and Internal Management System of an Enterprise (Rule 219, Paragraph 1, Item 3 of the Regulations)

JPXR will assess whether corporate governance and internal management system are developed tailored to the size, corporate maturity, etc. of the enterprise, and are functioning properly;

In practice JPXR will evaluate whether the applicant and its corporate group meet the criterion mentioned below:

- (1) The system to ensure the appropriate execution of duties of officers of the corporate group of an initial listing applicant is recognized to be reasonably developed and appropriately operated in light of matters including those referred to in the following a. and b.:
 - a. An initial listing applicant has an organizational structure and an officer composition which is able to effectively implement checks and balances as well as auditing concerning the execution of duties of officers of the corporate group of an initial listing applicant. A listing examination in such a case shall be conducted in consideration of the state of compliance with matters prescribed in the provisions of Rules 436-2 through 439 of the Regulations; and
 - b. Checking and auditing the execution of duties of officers for efficient management is carried out and functions effectively in the corporate group of an initial listing applicant.

(Guidelines IV 4.(1))

Requirements of criterion and focus of examination

In order to ensure fair and effective management activities of a company which becomes a listed and publicly traded company when it is listed on Growth Market, the company is required to establish an appropriate corporate governance system. For the purpose of examination on basis of this criterion, JPXR will evaluate whether the corporate group of applicant has designed appropriate corporate governance systems and implemented them effectively, mainly focusing on the design of organs and composition of officers. (Note 1).

(Note 1) For the purpose of the examination of the corporate governance systems of the applicant, the applicant is required to submit the "Report Concerning Corporate Governance"(draft) and JPXR will assess the contents described in the report. For the procedures for the descriptions in the report, please refer to the JPX website in the "Documents to be Submitted by Initial Listing Applicant"

For the purpose of the examination, JPXR will examine the establishment of Board of Directors, Board of Auditors, Audit and Supervisory Committee, and establishment of Board of Accounting auditors, as well as duties of respective officers, their mutual check and balance system and determine whether each of officers discharge its duties and supervisions in line with their responsibilities as any organizational decision will not be impeded since any decisions of management activities are not made solely by a part of officers.

In addition, with respect to the Board of Auditors (,Audit Committee or Audit and Supervisory Committee) and Independent Directors, given the importance of roles it plays in terms of corporate governance, JPXR will assess the nature of daily auditing work and its efforts through interviews with full-time company auditors and Independent Directors.

Meanwhile corporate governance systems may differ from one entity to another depending on size and the circumstances surrounding the entity. On the other hand, some organs are required to be formed to ensure a corporate governance system suitable for publicly traded companies.

Regulations on “Code of Corporate Conduct” specify the code of conduct with which listed companies should comply. An applicant company is also required to establish organs and enact initiatives as provided in Rules 436-2 to 439 of the Regulations.

(Table) Overview of Rule 436-2 to 439 of the Regulations)

Item	Legal regulations	Descriptions
Securing Independent Director(s)/Auditor(s)	(Rule 436 of the Regulations)	Securing one of more of independent director (s) /auditor(s)
Describing its commitment to implement various principles of “Corporate Governance Code” or the reasons if it does not intend to do so	Rule 436-3 of the Regulations)	Explaining reasons for implementing or not implementing Corporate Governance Code in the “Report Concerning Corporate Governance Code” in accordance with the following categories: a. Domestic companies listed on Standard Market or Prime Market General Principles, Principles, and Supplementary Principles b. Domestic companies listed on Growth Market General principles
Organs of listed domestic companies	Rule 437 of the Regulations	Following organs shall be set up: a. A board of directors; b. A board of company auditors, an audit and supervisory committee or nomination committee; c. Board of accounting auditors;
Securing independent director (s) / auditor (s)	Rule 437-2 of the Regulations)	Securing one or more independent director (s) / auditor (s)
Certified Public Accountants, etc.	Rule 438 of the Regulations	Appointing certified public accountants, etc. who carry out audit certification, etc. of financial statements, etc. or quarterly financial statements, etc. contained in a securities report or a quarterly report and setting up system necessary to ensure the fairness of works;.
Development of System and Structure Necessary to Ensure Appropriateness of Business	Rule 439 of the Regulations	A listed domestic company shall decide the development of a system and structure necessary to ensure that the execution of duties of directors, executive officers or administration directors of such listed domestic company comply with laws and regulations and the articles of incorporation, and Rule 445-4 of the Regulations provides that an issuer of listed domestic stocks must make efforts to secure at least one independent director/auditor as a member of its board of directors.

The Code of Corporate Conduct also defines, as one of the matters expected of listed companies, that "an issuer of listed domestic stocks shall make efforts to secure at least one (1) independent director (Rule 445-4 of Securities Listing Regulations)."

The listing examination requires listing applicants to clarify the policy on composition of independent director(s)/auditor(s) (number of independent director(s)/auditor(s), distinction of directors and auditors and so forth). In cases where a listed company does not secure any independent directors, the listing examination also requests the listed company to identify its policy to secure an independent director(s) and the progress of actions to secure an independent director(s), as well as to describe the verified progress in the Corporate Governance Report. In particular, in cases where there is a parent company, etc. with a strong relationship with the applicant company, or where the board is family-controlled, JPXR will assess the specific plan to secure an independent director(s).

Furthermore, the Corporate Governance Code (hereinafter referred to as the "Code") specifies for the requirements of listed companies in the context of "Code of Corporate Conduct" that listed companies shall respect the "Principles of Corporate Governance for Listed Companies" formulated by the Exchange and make efforts to enhance their corporate governance." (Rule 445-3 of the Regulations). In addition, with respect to items to be complied with by listed companies, the provisions also require listed companies to state its commitment to implement various principles of the Code or the reasons if they do not intend to do so in the report on the corporate governance (Rule 436-3 of the Listing Regulations). During the course of listing examination, the examiners examine the descriptions in the Corporate Governance Report (draft) (including the existence of description of reasons for not implementing each principle of the Code), submitted at the time of the listing application.

(Note 2) The applicant is required to elect necessary independent directors/auditors prescribed in Rule 436-2 of the Regulations by the date of listing and submit to JPXR the "Registration Statement of Independent directors/auditors" with the description of the conditions of appointment of independent directors/auditors. The registration statement will be available for public inspection (Rule 436-2 of the Rules). (Note 5) The descriptions concerning independent directors/auditors must also be included in the "Corporate Governance Report." (Rule 226, Paragraph 4, Item 6 of the Rules).

(Note 3) Independent directors/auditors prescribed in Rule 436-2 of the Regulations must be appointed from outside directors or outside auditors who are unlikely to give rise to any conflict of interest with general shareholders. When any one of the independence criteria enumerated in a to d below (Guidelines III 5, (3) 2 relating to the listing management, etc.) is met, the registration as an independent officer will not be allowed. So if the applicant is otherwise concerned with the satisfaction of these criteria, the applicant is encouraged to consult JPXR beforehand via the lead underwriters.

- a. Any entity which makes the company a major trading partner or executives of the entity, or major trading partner of the company or executives of the trading partner;
- b. Consultant, accounting, or legal professionals who receive a large amount of cash or other properties from the company, in addition to the remunerations for officers (the persons who receive such properties meet the definition of association such as union, the persons who belong to the association);
- c. Any person who recently meets a to c above

c-2 Any person who met either of (a) or (b) below within 10 years before the appointment;

- (a) Executives of the parent of the company (including directors who are not executives and including company auditors if an outside auditor is designated as an independent officer);
- (b) Executives of the brother company of the company; or
- d. Any relative of persons mentioned in (a) to (f) below (excluding cases where it is not important):
 - (a) Person mentioned in a or b above;

- (b) Accounting advisor of the company (limited to the case where the outside auditor is designated as an independent officer; including employees of an accounting advisor who are in charge of accounting advice if the accounting advisor is a corporation; the same shall apply hereinafter);
- (c) Executives of the subsidiary of the company (including directors or accounting advisors who are not executives if an outside auditor is designated as an independent officer);
- (d) Executives of the parent of the company (including directors who are not executives and including company auditors if an outside auditor is designated as an independent officer);
- (e) Executives of the brother company of the company; or
- (f) Any person who has recently been the person in (b) or (c) above or an executive of the company (any director who is not an executive if an outside auditor is designated as an independent officer)

(2) The internal management system is deemed to be properly established and appropriately operated so that an initial listing applicant and its corporate group carry out effective management activities in light of matters including those referred to in the following a. and b.:

- a A necessary managerial and administrative system is properly established and appropriately operated to ensure efficiency of management activities and internal check-and-balance functions of the corporate group of an initial listing applicant; and
- b An internal audit system of the corporate group of an initial listing applicant is properly established and appropriately operated.

(Guidelines IV 4.(2))

Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant has sufficiently designed and implemented management organization such that the corporate group as a listed company could appropriately and consistently perform its management activities, as well as whether the group has developed and taken appropriate measures to prevent unexpected losses by preventing incidents, fraud and errors to some extent while carrying out efficient management activities.

The following summarize important aspects in confirming them.

Focus of examination based on this criterion relates to the development of managerial and administrative system and various internal rules, and operation of internal control such accounting works, budget control and internal control.

In practice, JPXR will evaluate whether actual measures for management control and the content of control conditions and internal rules are appropriate and proper in consideration of the size and business content or the growth stage of the applicant. Another key point of the examination is whether organizations and regulations enable check and balance functions to appropriately operate to prevent any fraud and error.

In addition, another focus of the examination based on this criterion relates to whether the corporate group of the applicant has in place systems to develop business plans as a whole organization, not significantly depending on the observations and speculations of the management and other individuals.

In practice, JPXR will assess whether internal systems (including internal regulations and others) to develop reasonable business plans concerning the relevant formation of division responsible for the development of business plans (assignment of personnel, segregation of duties, etc.), the way of collection of information used for pre-conditions of plans, the way of reflecting them in the business plan and the content and method of coordination among related persons and departments including management have been developed in response to the stage of growth of the corporate group operated based on evidences and other vouchers used in developing plans,

Furthermore, JPXR will assess whether the internal audit system to check the status of organizational operations and the compliance with regulations has been appropriately implemented in consideration of the size, etc. of the applicant. In this respect JPXR will consider that the applicant has developed the system for internal audit to be implemented on a fair and independent basis. If the applicant has special organizations for internal audit, JPXR will evaluate whether the special organizations do not belong to any specific departments.

When the applicant has no special organizations for the internal audit and has assigned any staff members responsible for internal audit, JPXR will evaluate whether the internal audit on the department to which such staff members belong does not constitute any self-audit practices.

On the other hand, when internal audit practices are outsourced to any third party, it is considered that fairness and independence will be ensured. In such cases, JPXR will assess whether the applicant does not leave all the decisions to the outsourced party and president, etc. is proactively involved in internal management practices, considering the importance of internal audit. For example, the applicant is expected to carry out major works including the development of an audit plan and contents. However in cases where the applicant may have to comprehensively outsource internal audit practices including such works due to the know how the outsourcer has or due to limited resources of the applicant, the applicant is required to be principally involved in the internal audit practices such that highly effective internal audits can be implemented by proactively communicating the current status of the company, the substance of business, and any identified issues with the outsourcer in an appropriate manner.

- (3) Necessary personnel are recognized to be competent to carry out stable and continuing execution of management activities of the corporate group of an initial listing applicant and to maintain its internal management system.

(Guidelines IV 4.(3))

Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant can secure necessary personnel in carrying out its business activities independent of the corporate group of the parent company, etc.

Specifically, based on the number of employees, the conditions of changes in employment (new recruitment or retirement, etc.) and the conditions of receipt of seconded persons (relationships with entities seconding personnel, dependence on seconded persons), etc., JPXR will assess whether the applicant has secured necessary personnel in order to operate independently and without reliance on any third party, and has put a system in place so that management organizations can stably be maintained.

In addition, if seconded persons account for a large number of officers of the corporate group of applicant, JPXR will mainly assess whether relevant replacement thereof could be secured from the viewpoint of continuity of the corporate group of applicant.

- (4) The corporate group of an initial listing applicant adopts accounting treatment standards adaptable to its actual condition, and a necessary accounting system is deemed to be developed and operated appropriately; and.

(Guidelines IV 4. (4))

Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant can implement appropriate accounting treatments.

First, JPXR will assess whether accounting treatment standards including accounting standards, etc. which have been adopted by the applicant are tailored to the substance of applicant and whether the implementation has not been made arbitrarily based on accounting standards included in accounting regulations of the applicant with reference to views of accounting auditors of the applicant.

Furthermore, JPXR will evaluate whether accounting practices have been implemented according to the accounting standards or procedures included in the accounting regulations by reviewing the samples from the books and evidences used in practices.

In addition, in cases of a company with a committee of accounting advisors, JPXR will have interviews with certain accounting advisors in order to ensure that the design and operation of the accounting organization does not excessively depend on them. These issues may be addressed through interviews with the accounting auditors of the applicant on the design of accounting organization of the applicant, in addition to interviews with the applicant.

Meanwhile, the applicant must prepare itself for addressing the internal management reporting system over financial reporting applied prospectively from the listing. In consideration of the size, business category and the timing of listing application, the applicant is required to develop preparation plans suitable for the applicant and establish systems to submit the internal management reports after the listing.

- (5) It is deemed that an effective system to comply with laws and regulations, etc. concerning management activities in the corporate group of an initial listing applicant is prepared and operated appropriately, and that no material breach of laws and regulations has recently been made, and no act which is likely to become a material breach of laws and regulations in the future is being carried out.

(Guidelines IV 4.(5))

Requirements of criterion and focus of examination

For the purpose of examination on the basis of this criterion, JPXR will assess whether the corporate group of the applicant has in place systems to ensure the compliance practices (abiding by laws and regulations).

JPXR will first confirm the laws and regulations related to the management activities of the corporate group of the applicant and the administrative instructions issued by competent ministries and agencies. Then JPXR will evaluate that the items subject to the internal audit and items audited by the company auditors have properly included the items required by laws and regulations.

Meanwhile, if the applicant committed a breach of laws and regulations in the past, according to the seriousness JPXR will carefully evaluate the status of remedies of legal defects associated with such breach and the design and implementation of systems to prevent any reiteration of such event (Note)

- (Note) JPXR formulated “Principles for Preventing Corporate Scandals” that are a set of principles-based guidelines that encourage each listed company to take creative approaches in implementing each principle and to establish effective measures that reflect the company's individual situation, and “Principles for Responding to Corporate Scandals” as a guiding principle to inform listed companies the behavior that they should take when corporate scandals are happened. These principals show a set of response- and conduct-related principles that listed companies are expected to follow when addressing scandals. The principles are intended to help listed companies facing problems restore their credibility quickly and recover their corporate value steadily. Unlike laws, regulations, and stock exchange rules, these Principles do not bind all listed companies to specific constraints. However, there might be an opportunity that these principals will be beneficial. Please be noted that both Principals are published on the guidebook as an appendix.

4 Reasonability of the Business Plan (Rule 219, Paragraph 1, Item 4 of the Regulations)

JPXR will examine whether the applicant and its corporate group have developed reasonable business plans and designed and provided business infrastructure to implement the plans or are reasonably expected to do so. In practice JPXR will evaluate whether the applicant and its corporate group meet the criterion mentioned below:

- (1) The business plan of corporate group of an initial listing applicant is appropriately drawn up in light of its business model, business environment, risk factors, etc.

(Guidelines IV 5.(1))

Requirements of criterion and focus of examination

Business plans developed with a view to realizing high growth of the corporate group of the applicant are required to be properly reasonable.

In the actual examination, JPXR will mainly evaluate whether the applicant reflects the following consistently in its business plans without any discrepancies:

- Characteristics of its own business models (strength and weakness);
- Various factors to be addressed in developing businesses (industrial environments and competition and peers, size of market and pace of growth, demand trends for new products and services,
- Trends for raw materials markets;
- Status of major business partners; and
- Legal framework

In such cases, JPXR will assess that each of the plans has consistently been developed, including income plans, sales plans, procurement plans, capital investment plans, human resources plans and financing plans, and also assess whether such plans are developed to realize high growth, but the assessment does not intend to confirm short-term achievement and progress of the plan.

- (2) The operating base necessary for executing the business plan of the business group of the initial listing applicant is deemed to have been developed or that there is reasonable expectation that such operating base will be developed.

(Guidelines IV 5.(2))

Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess the development and provision of business infrastructure necessary to perform the business plans of the corporate group of the applicant. In practice, JPXR will evaluate that various management resources have properly been developed and provided on the basis of the status at the examination or prospectus after listing, including the human resources such as sales people or R&D staff necessary for the time being to perform the business plans, physical resources such as business bases or facilities and equipment, and monetary resources for financing investment activities.

Meanwhile, unless the development and provision of business infrastructure has been sufficient, the applicant is expected to develop and provide them consummately with business expansion going forward by applying proceeds from the listing or the applicant has reasonable plans to secure necessary personnel. JPXR will regard such cases as reasonable expectations that the business infrastructure would be developed and provided after the listing.

However, if the business infrastructure has not been developed and provided sufficiently at the time of examination and excessive expectations of such development and provision are made, JPXR may decline to regard such cases as reasonable expectations that the business infrastructure would be developed and provided after listing.

5 Other Matters Deemed Necessary by the Exchange from the Viewpoint of the Public Interest or the Protection of investors. (Rule 219, Paragraph 1, Item 5 of the Regulations)

In addition to the matters mentioned above, JPXR will evaluate any matters which are deemed to be necessary for the perspectives of the public interest or investors' protection for the purpose of listing of stock certificates of the applicant and its corporate group.

In practice JPXR will evaluate whether the applicant and its corporate group meet the criterion mentioned below:

- (1) The contents of the rights of shareholders or holders of foreign stock depositary receipts, etc. and the state of their exercise are deemed appropriate from the viewpoints of the public interest or the protection of investors, in light of matters including those referred to in the following a. and b.:
 - a The contents of the rights of shareholders or holders of foreign stock depositary receipts, etc. and their exercise are not unreasonably restricted; and
 - b Where an initial listing applicant has introduced a takeover defense measure, the initial listing applicant complies with the matters referred to in each item of Rule 440 of the Regulations;

(Guidelines IV 6. (1))

Requirements of criterion and focus of examination

If an applicant has issued shares of class stock other than common shares for which listing application is filed, it is assumed that some classes of shares may significantly restrict the rights of equity holders of common shares or the exercise thereof, JPXR will carefully examine the nature of such shares of class stock and any expected effect thereof on the rights of equity holders of common shares and the status of disclosures thereof.

For takeover defense measures, various issues shall be considered for the protection of investors. For more information, see "Overview of listing system related to introduction, etc. of takeover defense measure" included in "Guidebook for Timely Disclosure of Company Information" published by TSE. When an applicant is considering the introduction of takeover defense measure, please consult TSE beforehand.

- (2) The corporate group of an initial listing applicant does not have an ongoing lawsuit or dispute, etc. which may have a material effect on management activities and business results;
- (Guidelines IV 6.(2))*

Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, JPXR will assess the existence of any legal action or dispute which may potentially have significant adverse influence of business activities or operating results.

If the corporate group of the applicant has an actual active or pending contention or dispute, which may potentially have a material effect on management activities or business performance, the applicant is not deemed to be an appropriate investment choice offered to investors. Thus, JPXR will

evaluate the nature of the legal case or dispute and its effect on operating results, etc.

- (3) Concerning the matters which are the premises of the main business activities of the corporate group of an initial listing applicant, there is no factor which hinders their continuity;

(Guidelines IV 6. (3))

Requirements of criterion and focus of examination

For the purpose of the examination on the basis of this criterion, if the business of the applicant requires any permit or authorization, etc., JPXR will assess whether the applicant is in a position to continuously renew such permit or authorization.

The term “the matters which constitute the premise underlying main business activities” refers to “permission, authorization, license, or registration pertaining to main businesses or manufactured goods and commodities or sales agent agreements or production entrustment agreements.”

When a main business of the corporate group relates to industry categories which require permission, authorization, license or registration of administrative agencies, etc., or largely depends on selling agent agreement or production entrustment agreement with a specific business partner, it is expected that the business will not be able to continue in the event that they are terminated or cancelled.

Therefore, JPXR will assess whether such event leading to cancellation or termination thereof has not emerged.

In addition, JPXR requests the applicant to submit the statements which describe the following and assess the matters which become the premise of main lines of business on the basis of descriptions therein.

- Matters which constitute the premise underlying the main business activities of the corporate group of the applicant;
- Effective period of permission, etc. and the validity when it is specified by laws and regulations or contract;
- Events leading to the cancellation or termination of permits, etc. if such events are prescribed by laws and regulations or contracts; and
- For the matters which constitute the premise underlying main business activities of the corporate group of applicant, the statement that no factors which hamper the continuation thereof have taken place and that any occurrence of such factors would have significant impact on business activities.

Meanwhile, if there are no matters which constitute the pre-conditions of major activities, the applicant is required to state such fact.

- (4) The corporate group of an initial listing applicant is recognized to develop an internal system to prevent criminal and extremist elements from being involved in management activities, and making efforts to prevent such involvement and their actual state is recognized as appropriate from the viewpoints of the public interest or the protection of investors;

(Guidelines IV 6.(4))

Requirements of criterion and focus of examination

If any anti-social organization including organized criminal organizations or a group of persons equivalent to them (hereinafter “anti-social force”) is involved in the management activities of the corporate group of the applicant, the applicant is deemed to be not qualified for the listing.

The involvement in this context is not limited to the cases where the anti-social force is directly involved in the management activities of the corporate group of the applicant. This includes cases where it is involved, in effect, in the management activities, for example when a group company, officers, those equivalent to officers, major shareholders, or major trading partners of the applicant (hereinafter referred to as the “applicant group company or related person”) represent criminal and extremist elements, when the applicant group company or related persons cooperates or contributes to the survival and operation of an criminal and extremist element by providing financing, when an applicant group company or related persons intentionally maintain contact with criminal and extremist elements. In such cases the applicant is not qualified for listing.

JPXR will assess any involvement of anti-social force in the management activities on the basis of “Confirmation statement showing that the applicant has no ties with any anti-social force” (hereinafter referred to as the “Confirmation statement”) prepared by the applicant. The form of Confirmation statement explicitly provides for the scope and items to which relevant responses are automatically required by the applicant. However, this does not automatically mean that any items out of the scope of Confirmation statement will not be subject to the examination and JPXR may additionally assess any items out of the scope in consideration of the degree of implications thereof.

In order to prevent any involvement of anti-social force in the management activities, the applicant is required to develop and provide systems necessary to preclude any organized criminal organizations, etc. by itself. For that purpose, the applicant must regularly monitor the circumstances of the applicant group company and related persons and the conditions under which the management activities are carried out and implement due process when establishing a new business relationship. In designing and implementing such systems the applicant is encouraged to do so in consideration of the “Guideline as to How Companies Prevent Damage from Criminal and Extremist Elements” (Cabinet Meeting on Anti-Crime Measures on June 19, 2007).

For the purpose of the examination of the above item, JPXR will assess the system of the corporate group of the applicant to preclude criminal and extremist elements in consideration of the above viewpoints and determine whether the nature of system is appropriate (whether there is no involvement in management activities of the corporate group of the applicant) from the perspective of public interest and investor protection.

Recently it is alleged that some criminal and extremist elements which strive to be involved in the corporate group of an applicant have emerged utilizing connections with any person having a close relationship with any organized criminal entity or cooperating in its activities. Thus cases where a person concerned with such a relationship is involved in the corporate group of the applicant shall be subject to the examination of JPXR.

- (5) A domestic stock, etc. pertaining to an initial listing applicant are shares without voting rights (limited to cases where no initial listing application is made for an issue(s) other than such domestic stock, etc.) or shares with a small number of voting rights, all of the following a. to h. shall be met:

(Guidelines IV 6.(5))

Requirements of criterion and focus of examination

Classified stocks with voting rights can be utilized to maintain the controlling right of a company with less percentage of capital contribution than usual cases and such shares are likely to distort corporate governance. Therefore, they may not always be desirable. However, free design of shares of classified stocks is permitted by laws and fundraising using such classified stocks have actually been effected. Furthermore, they would provide a variety of investment choices to investors. So JPXR has allowed classified stocks with a small number of voting rights, etc. (*) which respect the rights of shareholders to be listed on TSE marketplaces.

Meanwhile, in order to ensure the continued sound use of the schemes for classified stocks with voting rights, JPXR will carefully determine the listing of each classified stock in comprehensive consideration of individual incidents.

(*) This means classified stocks with a small number of voting rights and those with no voting rights.

Given that the listing system for shares of classified stock with a small number of voting rights, etc. is different from the listing system for common shares in terms of actual examination standards and other issues, in this section, we first outline the categories of shares of classified stocks with a small number of voting rights, etc. which are eligible for listing and formal requirements followed by the method to decide the section where listing is effected, then provide explanation concerning actual criteria and frequently asked questions and answers (Classified Stock Q&A) in terms of overall listing system for shares of classified stock with a small number of voting rights, etc..

(1) Shares of classified stocks with voting rights eligible for listing

TSE has limited the listing of shares of classified stock in conjunction with understandability of investors or for the purpose of investor protection.

For the time being, in order to avoid confusion arising from misunderstanding of classes of listed stocks, JPXR will not allow an identical company to list several classes of shares with voting rights (both of common shares and non-voting shares could be listed concurrently).

(Reference) Shares of classified stocks with voting rights eligible for listing

	Listed company	Non-listed company	
		Single listing	Listing concurrent with common stocks
Stocks with a small number of voting rights	×	○	×
Stocks with a large number of voting rights	×	×	×
Non-voting shares (Note 1)	○ (Note 2)	○	○ (Note 2)

(Note 1) Non-voting shares subject to the listing system for classified stocks with voting rights represent participating preference shares or non-voting stocks with preference dividends (participating preference shares refer to shares of classified stocks with preference dividends for which the shareholders thereof may also receive dividends from residual distributable

value together with common shareholders after receiving preference dividends).

Meanwhile, JPXR will examine non-participating preference shares of non-voting shares in consideration of listing system for preference shares as prescribed in Part III of the Securities Listing Regulations.

(Note 2) For listing common shares concurrent with non-voting shares and listing non-voting shares of a listed company, JPXR will conduct listing examination in accordance with Guidelines IV. 6.(6).

(2) Formal requirements for classified stocks with a small number of voting rights, etc.

Formal requirements for classified stocks with a small number of voting rights, etc. are, in principle, similar to those for listing examination of common stocks (see "III Formal Requirements"). They require each stock for which listing application is filed to meet relevant requirements. Meanwhile, since a criterion for market capitalization relates to formal requirements related to companies, the market capitalization will be determined by aggregating the market capitalization of each stock for which listing application is filed (if there is another stock for which listing application is filed concurrently, including the market capitalization of such other stock) and the market capitalization of other stocks issued by the applicant (limited to those listed or continuously traded on a financial instruments exchange in Japan and in foreign countries).

(3) Content of listing examination for stocks, etc. with a small number of voting rights, etc.

Where a domestic stock, etc. pertaining to an initial listing application are shares without voting rights (limited to cases where no initial listing application is made for an issue(s) other than such domestic stock, etc.) or shares with a small number of voting rights (meaning those referred to in Item 9-2, Sub-item b. of Rule 205 of the Regulations), all of the following a. to h. shall be met.

- a. It shall be deemed that a condition where a specific individual who has shares, etc. with a large number of voting rights may continue to be involved in management needs to be secured, etc., from a viewpoint of common interests of shareholders, and that the scheme is not unduly beneficial to shareholders with a large number of shares, etc., but appropriate. In this case, the judgment whether it is appropriate or not shall be made in line with needs of the following items referred to in the following (a) to (c) and other items;

(Guidelines IV 6. (5))

Requirements of criterion and focus of examination

For the purpose of this criterion, JPXR will examine whether the use of stocks with a large number of voting rights is necessary from the perspective of the common interest of shareholders (need) and whether the scheme for the shares of class stock with voting rights is deemed to be appropriate on the basis of the need to use stocks with a large number of voting rights, etc. (appropriateness).

With respect to the need, JPXR will examine whether it is necessary to ensure a situation where a specified person may continue to be involved in management by using stocks with a large number of voting rights, etc. from the perspective of the common interest of shareholders. In practice, JPXR will assess whether for the purpose of execution of business plan, the continuous involvement of any person with essential special capability as representative director and president (executive management) may result in common profits of shareholders or the concentration of voting rights to specified shareholders may be difficult in the context of common shares. In addition, JPXR will focus on the following issues in the course of examination assess as to whether special capability of management is necessary to execute business plans (*).

(*) For typical examples of listing by issuing of issuance and listing of multiple classified stocks with voting rights, the executive management who is an inventor of relevant technology and the founder of the company may hold shares with a large number of voting rights, and this guideline has been developed based on such case.

- How is the executive management, for example, involved in and influence business development, R&D, recruitment, etc.?
- Is the basis for the need practically explainable in light of the historical achievement of the executive management or actual performance results of the applicant?
- Will such need go beyond the current period and remain relevant in the future?
- In addition to the executive management, does the applicant as a company recognize the need of the Board of Directors and Board of Company Auditors?

Meanwhile, the examination does not automatically preclude the need arising from any viewpoints other than those mentioned above, and if the need is acknowledged from other viewpoints, JPXR will review the need. However, JPXR does not expect that the need will arise solely for a reason that the stability of management through a family based management is necessary from the perspective of the common interests of shareholders.

In addition, for the purpose of examination of the need, JPXR will assess the reasons why the concentration of voting rights on specified shareholders would be difficult in the case of common shares. In practice, JPXR will examine whether the fund raising would be required for the execution of the business plan, and may lead to a dilution of the voting rights. A threshold for the future dilution of voting rights may include cases where the shareholding ratio of shareholders, etc. with a large number of voting rights will be below 50% which is necessary to enable a stable appointment of directors taking into account of relevant financing plans would be regarded as a certain measure for

future dilution.

Even in the case of low fund raising needs, the need of concentration of stocks to CEO is acknowledged if the shareholding ratio of holders of stocks with a large number of voting rights, etc. is below 50% at the time of listing. Even if a vast amount of funds needs to be procured and future dilution is expected, such necessity is not expected to exist, for example, in cases where shareholders of stocks with a large number of voting rights are uncertain to accept newly issued shares for increase in equity or the main purpose of investments relates to future M&A transactions.

For suitability, JPXR will confirm that a scheme of classified shares with voting rights will not result in inappropriate benefits to shareholders of stocks with a large number of voting rights in consideration of the necessity for the use of stocks, etc. with a large number of voting rights and will be suitable. In practice, JPXR will determine such judgment on the basis of the items mentioned in (a) to (c) below and other matters.

(a) If such judgment is no longer necessary, the scheme of shares without voting rights or those with a small number of voting rights is likely to be dissolved;

(Guidelines IV 6.(5))

For the purpose of this criterion, the applicant is required to adopt measures to prevent the scheme for non-voting shares or for a small number of voting rights from being continuously applied on an unconditional basis, if the need to use the scheme of shares with a large number of voting rights, etc. ceases to exist.

If continuous involvement of a specified individual generates need for the introduction of scheme, JPXR will confirm that the scheme is dissolved when the person retires from the board and ceases to be involved in the management. In practice, when a specified person retires from the board, the applicant is expected to carry out procedures for confirming the intent of shareholders to continue the scheme, in addition to the measures to dissolve the scheme. If the applicant develops procedures to confirm shareholders' intent with respect to the continuation of the scheme, the applicant is also required to develop such procedures to regularly confirm shareholders' intent after the need for the scheme ceases to exist. It is deemed to be appropriate to include the descriptions thereof in the Articles of Incorporation, etc.

Even if a particular corporation holds shares with a large number of voting rights, etc., JPXR will also assess whether the scheme is not the one which allows the corporation to continue to continue to hold them on an unconditional basis when the need ceases to exist.

- (b) If a company is controlled with an extremely small ratio of capital contribution, the articles of incorporation, etc. appropriately stipulate that a scheme of shares without voting rights or a small number of voting rights is expected to be dissolved; and

(Guidelines IV 6.(5))

For the purpose of this criterion, an applicant is required to have designed and implemented measures to prevent a company from being controlled with an extremely small ratio of capital contribution.

Practically, the enactment of breakthrough provisions (scheme where if a person who holds a certain level of shares emerges, the mechanism for class stock with voting rights would be dissolved) or sunset provisions (when certain conditions are satisfied, a measure to dissolve the scheme) could be considered.

An applicant should consider the criteria triggering breakthrough provisions or sunset provisions in consideration of the need to use the scheme of class stock with voting rights or shares with a large number of voting rights, and the state of controlling shareholders.

In addition, the applicant is required to appropriately include breakthrough provisions and sunset provisions in the Articles of Incorporation, etc.

- (c) Where domestic stocks, etc. pertaining to the initial listing application are shares with a small number of voting rights, the articles of incorporation, etc. appropriately stipulate that, as a general rule, shares with a large number of voting rights shall be converted to shares with a small number of voting rights when they are transferred, etc.

(Guidelines IV 6.(5))

Investors in stocks with a small number of voting rights are assumed to have done so on the basis that a particular person in management holds unlisted stocks with a large number of voting rights.

Therefore, the Articles of Incorporation, etc. is required to appropriately state that when stocks with a large number of voting rights, etc. are transferred and the shareholders thereof change, in principle, stocks with a large number of voting rights held by the person shall promptly be converted to stocks with a small number of voting rights (listed stocks).

- b It shall be deemed that the main purpose of using shares with a large number of voting rights is not to secure positions of directors, etc. of the initial listing applicant or not to use such shares as a takeover defense measure;

(Guidelines IV 6.(5))

Requirements of criterion and focus of examination

JPXR anticipates that the use of stocks with a large number of voting rights, etc. is generally necessary from the perspective of the common interest of shareholders. If an applicant indicates a purpose for the use of stocks with a large number of voting rights that differs from the perspective of necessity, JPXR will not question such purpose.

However, the applicant may use stocks with a large number of voting rights, etc. as a means to maintain the state of the company controlled with smaller than usual ratio of capital contribution, with effect of a takeover defense measure. So if the applicant has adopted the scheme of stocks with a large number of voting rights, etc. in order to preserve the positions of the applicant as the board members or mainly as a takeover defense measure, JPXR will not permit the listing.

Therefore, if the applicant states a different purpose together with the necessity, JPXR will assess during the examination whether such purpose lacks reasonableness including the lack of substance.

- c It shall be deemed that the purpose, necessity, and scheme of using shares with a large number of voting rights, etc., are appropriately described in the initial listing application documents pertaining to details of disclosed corporate information;

(Guidelines IV 6.(5))

Requirements of criterion and focus of examination

When an applicant is using stocks with a large number of voting rights, etc., the purpose, necessity, and scheme of using shares with a large number of voting rights, etc., are deemed to be significant factors for investment decisions, the applicant is required to make appropriate disclosure.

JPXR will assess whether disclosures concerning the purpose of the use of stocks with a large number of voting rights, etc. as well as the need of continuous involvement of a particular person in the management from the perspective of the common interest of shareholders (the necessity), have been made in a manner that enables investors to understand the nature thereof. Though JPXR anticipates that the use of stocks with a large number of voting rights will be necessary from the perspective of common interests of shareholders, in such cases the description of the purpose of the use may overlap with that for the necessity. The applicant may include specific descriptions concerning the purpose of use as well as the necessity in "Risks Associated with Business, etc." or "Distributions of Ownership of Shares" in Part I, Securities Report for the Initial Listing Application or "Shares to be Newly Issued" in the Securities Registration Statement.

JPXR will examine whether, for the scheme, the nature of each class stock has been disclosed in an exhaustive and appropriate manner, including the dissolution provisions pertaining to breakthrough provisions or sunset provisions. Descriptions should be included in "Risks Associated with Business, etc." or "Distributions of Ownership of Shares" in "Securities Report for Initial Listing Application" (Part I) or in "Shares to be Newly Issued" in the Securities Registration Statement".

- d Where a shareholder of a stock, etc. with a large number of voting rights is not a director, etc. of the initial listing applicant, the following (a) and (b) shall be met;

(Guidelines IV 6.(5))

Requirements of criterion and focus of examination

This criterion is required to be met when the shareholders, etc. of stocks with a large number of voting rights are not directors, etc. of initial listing applicant.

For a typical example of listing through the issuance of classified stocks with voting rights, it is assumed that representative director and president or directors who are co-founders hold stocks with a large number of voting rights. However, a person who is not in such capacities may hold stocks with a large number of voting rights, etc. and additional requirements shall apply to such cases. In practice, JPXR will assess such cases by examining the items mentioned in (a) and (b) below.

- (a) Where it is deemed that the purpose or policy of exercise of voting rights of a shareholder with shares with a large number of voting rights is not clearly inappropriate in light of necessity of such exercise, and shall be appropriately described in the initial listing application documents pertaining to details of disclosed corporate information; and

(Guidelines IV 6.(5))

In cases where shareholders holding stocks with a large number of voting rights are not directors, etc., such shareholders with intention different from those of directors may maintain controlling rights with a small ratio of capital contribution, so JPXR will examine whether the exercise of voting rights by shareholders of stocks with a large number of voting rights, etc. will be made in accordance with the necessity thereof. In practice, JPXR will assess purposes and policies for which shareholders of shares with a large number of voting rights will exercise the voting rights and the necessity thereof, and examine them considering whether the exercise will not provide undue benefits to holders of stocks, etc. with a large number of voting rights.

In addition, JPXR will examine that the purposes and policies of the exercise of voting rights by shareholders of stocks with a large number of voting rights, etc. are appropriately disclosed in a manner facilitating understanding by investors. Their descriptions should be included in "Risks Associated with Business, etc." or "Distributions of Ownership of Shares" in Part I, Securities Report for the Initial Listing Application.

(b) Where a corporate group of an initial listing applicant has, as a general rule, no relationships with a shareholder with a large number of voting rights (limited to cases where such shareholder is a parent company, etc. of the initial listing applicant) of shares, etc. in terms of business, personnel, and transactions

(Guidelines IV 6. (5))

The use of stocks, etc. with a large number of voting rights by corporations (including parent companies, etc.) may lead to some difficulties in achieving or maintaining the prescribed objectives because of future possible changes in management policies or the composition of large shareholders, etc. Therefore the use thereof may give rise to higher uncertainty of the scheme of classified stocks relative to the use by natural persons.

Furthermore, the use of stocks, etc. with a large number of voting rights by parent company, etc. may create stronger concern with conflict of interest listing of subsidiary using stocks, etc. with a large number of voting rights by the parent company, etc. compared to the typical listing of a subsidiary, thereby distorting corporate governance to a greater extent. Therefore it would be difficult to assume that the use of stocks, etc. would provide benefits common to shareholders. In principle, such use would not be permitted.

However in particular cases where the use would contribute to benefits common to shareholders and the use meet this criterion, it would be allowed.

In consideration of the above, this criterion is required to be met when shareholders of stocks, etc. with a large number of voting rights are parent companies, etc. (in case of so-called "subsidiary listing"), and in examining a listing of subsidiary, the criterion requires that the applicant shall meet the requirements of Guidelines IV 3. (3) with respect to ensuring independence from the parent company, etc.

In general, the management of parent company, etc. is required to fulfill its stewardship in order to increase the profit of the parent company, etc. So compared to the control held by individual shareholders, the conflict of interest would be more likely to be sharper. Therefore this criterion requires the strict independence of the subsidiary from the parent, etc. In addition, if the use of stocks, etc. with a large number of voting rights is made for the purpose of listing a subsidiary, control would be maintained by a smaller ratio of capital contribution compared to the case where the use of stocks, etc. with a large number of voting rights is not applied. Significant imbalance between capital contribution and control may take place. Therefore such situations more clearly impair the interests of minority interests of the listing applicant. As a result, this criterion places more weight on the aspect of independence of the applicant relative to typical listing of a subsidiary.

In light of the above, the criterion requires the following:

- The substance of business of the applicant does not interact with that of the parent, etc.;
- There are no concurrent holdings by employees of the parent, etc. of the executive positions of the applicant or no secondment of officers from the parent, etc.; and
- The applicant has no business relationship with the parent, etc.

- e. Where conflicts of interest arise between shareholders of different classes, protection measures are deemed to be able to be taken so that shareholders of a domestic stock, etc. pertaining to such initial listing applicant are not unreasonably damaged;

(Guidelines IV 6.(5))

Requirements of criterion and focus of examination

When an applicant issues classified stocks with voting rights, such issuance requires the resolution at the class shareholders' meeting in accordance with Article 322, Paragraph 1 of the Companies Act as it is feared that a conflict of interest among shareholders of different classes of stocks may take place with respect to some matters which may have significant impact on the nature of their rights.

However, the applicant may provide in its Articles of Incorporation that no resolution at the class shareholders' meeting will be required (Article 332, Paragraphs 2 and 3 of the Companies Act). In such a case, the applicant is required to undertake any measures to prevent the interests of holders of stocks with a small number of voting rights from being damaged for the protection of shareholders of classified stocks with a small number of voting rights, etc.

The applicant is required to undertake necessary measures in consideration of the following issues, though actual measures may vary depending on the conditions of the company or class of stocks.

- When some changes in proportionate rights arising from share consolidation and split or free allotment of shares or subscription warrants take place, the applicant takes measures to treat each of class shareholders equally by providing in the Articles of Incorporation that a share split is effected for each class of shares on a same class and ratio basis.
- When any reorganization of a company may take place where the issuer of classified stocks with voting rights would become an extinguished company, a merger contract, etc. may include provisions that consideration given to shareholders of each class can be freely determined, which may damage the interests of class shareholders. The applicant shall develop measures not to damage the interests of shareholders of stocks, etc. with a small number of voting rights. For example, if the reorganization is authorized at the general meeting of shareholders for which stocks with a large number of voting rights could be acquired by the applicant, the applicant is required to include a clause beforehand in the Articles of Incorporation that all stocks with a large number of voting rights should be converted to stocks with a small number of voting rights, or does not include the clause in the Articles of Incorporation that no resolutions of general meeting of class shareholders are required.

- f. Where the issuer of a domestic stock, etc. pertaining to such initial listing application carries out a transaction with an entity referred to in the following (a) to (c) (including transactions, out of transactions carried out between an entity referred to in the same (a) to (c) and such issuer on behalf of a third party and those between such issuer and the third party, where an entity referred to in the same (a) to (c) has a material effect on said issuer concerning such transactions), protection measures for minority shareholders are deemed to be expected to be able to be taken
- (a) A parent company;
 - (b) A controlling shareholder (excluding a parent company) and his/her close relatives; and
 - (c) The company referenced in the preceding (b) that holds the majority of the voting rights, etc. and a subsidiary of such company, etc.;

(Guidelines IV 6. (5))

Requirements of criterion and focus of examination

At a company which uses stocks with a large number of voting rights, etc. a smaller ratio of capital contribution may create and maintain the state of control.

Therefore in order to prevent any damages represented by the conflict of interests for any transactions between controlling shareholders and the company, in case of any transactions between the controlling shareholders and the company, the company is required to consult the adequacy of transactions with independent directors or independence committee and submit the assessment of adequacy to shareholders of stocks with a small number of voting rights and should be able to develop measures to protect minority interests.

Even if an applicant does not have any controlling shareholder at the time of initial listing applicant, in order to protect the minority interests in case of transactions expected to be carried out with controlling shareholders after listing, the applicant is required to submit “a document assuring that the applicant will take relevant measures to protect minority interests in case of transactions with controlling shareholders if the applicant has controlling shareholders after listing” (Rule 204, paragraph 1, item 29 of the Regulations). In addition, any cases where the rights of shareholders will not be respected due to any conditions of transaction with controlling shareholders may meet criteria for reasons and events for delisting.

Meanwhile, since JPX-R requires all listed companies to disclose in the Corporate Governance Report relevant measures such that any transaction with controlling shareholders may not be carried by the management arbitrarily, any company listing stocks with a small number of voting rights shall be required to disclose the same in the Corporate Governance Report.

● What is a controlling shareholder?

A Controlling shareholder refers to a major shareholder who accounts for the majority of the voting rights of applicant when combining voting rights of parent company prescribed in Article 8, Paragraph 3 of the Financial Statements, etc. Rules, those on its own accounts and those held by parties mentioned in (1) and (2) below:

- (1) Close family members of the major shareholders (family member within one degree of consanguinity)
- (2) A company, etc. (this refers to company, designated corporation, association and other similar entities) for which such major shareholder and party mentioned in (1) above account for the majority of voting rights on its own account and a subsidiary of such company

g Where a domestic stock, etc. pertaining to such initial listing application have preferential contents concerning dividends from retained earnings, estimated profits for two (2) years after the end date of the business year immediately prior to the business year containing the listing application date and a distributable amount as of the end date of the business year immediately prior to the business year containing the listing application date are, as a general rule, deemed to be good, and it is expected that the issuer of such domestic stock, etc. will record enough profits to carry out dividends from retained earnings pertaining to such domestic stock, etc.; and.

(Guidelines IV 6. (5))

Requirements of criterion and focus of examination

When it is provided that preference dividends are delivered to stocks with a small number of voting rights, etc., JPXR will examine whether the applicant can practically recognize profit to the extent that such preference dividends can be distributed in fact. During the usual course of examination, JPXR will assess the profitability of an applicant, and more substantial profit will be required to be expected in relevant profit plans.

In addition, when no preference dividends are paid to stocks with a small number of voting rights, etc., an introduction of mechanism to revive voting rights until the preference dividends are paid would be desirable. Currently, the listing examination requires that the voting rights should be revived unless preference dividends are paid for two years or more.

h. Benefits of shareholders and investors are deemed to be highly unlikely to be infringed.

(Guidelines IV 6.(5))

Requirements of criterion and focus of examination

JPXR will comprehensively evaluate the scheme for stocks with voting rights, etc. with focus on whether the scheme respects the rights of holders of stocks with a small number of voting rights, etc. in consideration of the issuance purpose or corporate governance practices, in addition to the matters mentioned in a to g above.

Frequently Asked Questions and Answers Concerning Listing System for Classified Stocks with Voting Rights

Q1: What are non-voting stocks?

A1: Non-voting stocks represent stocks whose voting rights are restricted in terms of material issues including the election and removal of directors.

Q2: How are stocks with a large number of voting rights and a small number of voting rights defined?

A2: Stocks with a small number of voting rights represent stocks whose holders have higher value of rights to claim dividend or surplus associated with the number of shares which entitle the holder to exercise one voting right on material matters such as election or removal of directors at the general shareholders' meeting or higher value of rights to receive other economic benefits than holders of other classes of stocks.

That is, stocks with a small number of voting rights refer to those whose voting rights are smaller in terms of voting rights relative to economic benefits (i.e., factors for share price formation), so they mean stocks granting less voting rights for their capital contribution.

In practice, while the number of shares comprising a Share Unit which allows shareholders to exercise voting rights is 50, for shares with a small number of voting rights, the number of shares for a Share Unit would be 100.

Stocks with a large number of voting rights mean stocks with voting rights other than those with a small number of voting rights.

Q3: Are we to be permitted to list classified stocks with voting rights which require that the ratio of voting rights should be below a certain level as conditions for the exercise of voting rights (voting right restriction plan)?

A3: With respect to voting right restriction plan, some have argued that it would constitute a breach of shareholder equality principle (Article 109, Paragraph 1 of the Companies Act) or discretionary grant of different types of voting rights to individual shareholders (Paragraph 2 of the same Article). Furthermore in conjunction with the treatment of cases where the number of stocks of class which are restricted on the matters for which the voting rights could be exercised accounts for a half or more of all the issued shares outstanding (relating to Article 115 of the Companies Act), JPXR will not currently permit such shares to be listed as legal stability cannot be assured.

Q4: In order to prevent prices of non-voting stocks from remaining sluggish, we have designed voting rights so that economic benefits arising therefrom would always be high in terms of dividends or residual asset rights. In such cases are we permitted to list the stock?

A4: It would desirable that equal treatment would be made among different classes of stocks in terms of the nature of voting rights and matters other than preference dividends (residual property rights) in order for investors to gain easy understanding thereof.

Moreover, in some cases, the prices of non-voting stocks may be significantly higher than those of common stocks by making economic benefits associated with non-voting stocks larger, for example, in terms of dividends. In such cases the company could be controlled and maintained by substantively less capital contributions. As potential non-compliance with Article 115 of the Companies Act (issuance of non-voting stocks shall be limited to one half or less of the total number of issued stocks outstanding) may arise, the applicant is required to carefully address such situations.

Q5: When stocks with non-voting rights re listed, Article 115 of the Companies Act requires that the number of non-voting stocks to be issued should account for below a half of the number of issued shares outstanding. For example, even when an applicant holds a relatively large number of common shares as treasury stocks, is the listing of non-voting rights possible by issuing non-voting stocks which account for less than a half of the issued stocks outstanding?

A5: When you list non-voting stocks, you need to avoid any situations which potentially constitute incompliance with Article 115 of the Companies Act (limiting the issuance of non-voting stocks to a half of the issued shares outstanding).

Therefore, in cases where an applicant holds a relatively large number of common stocks as treasury stocks, controlling shareholders can strive to maintain the control of company by holding a relatively small number of stocks. So the applicant is encouraged to carefully address such cases.

Q6: When we go private through MBO or EBO, can we re-list our stock by introducing classified stock with voting rights?

A6: If a company which has listed its common stocks goes private through MBO or EBO and applies for listing by adopting the scheme for classified stocks with voting rights, JPXR will carefully assess the situation, taking into account the soundness of the objective of use of market, in order to protect investors.

For interpretation for the application for re-listing of a company which has gone private through MBO, please refer to “(6) It is deemed appropriate from the viewpoints of the public interest or the protection of investors”(Guidelines IV 6.(7)) concerning“5 Other matters deemed necessary by the Exchange from the viewpoint of the public interest or the protection of investors” (Article 219, Paragraph 1, Item 5 of the Regulations).

Q7: Will the necessity from the perspective of the common interest of shareholders be acknowledged even for companies with no particular historical business record, such as those that have just started R&D?

A7: As the listing of stocks with a small number of voting rights may give rise to certain disadvantages such as restrictions on the transfer of controlling rights or a distorted corporate governance, the basis for the necessity from the perspective of the common interests of shareholders must be practically explainable in consideration of the historical achievements of management and the business record of the applicant.

Therefore, since it may be challenging for companies with no particular business record to explain the basis for the necessity, JPXR does not assume that the use of stocks with a large number of voting rights would be needed from the perspective of the common interest of shareholders.

Q8: For the necessity from the perspective of the common interest of shareholders, will the listing be allowed in cases where owner family holds stocks with a large number of voting stocks as a property preservation company becomes a shareholder?

A8: JPXR does not assume that there will be the necessity for collecting voting rights for the owner family only because a stable management deems to contribute to the common interests of shareholders.

Q9: Are there any quantitative thresholds for triggering any breakthrough provisions?

A9: No bright line for triggering breakthrough provisions has been set up. In consideration of the intent of Article 115 of the Companies Act (limiting the issuance of non-voting stocks to a half of the issued stocks outstanding), when non-voting stocks as a percentage of issued stocks outstanding becomes 75%, relevant breakthrough provisions might be triggered. However, when further protection of shareholders of classified stocks is required considering the nature of classified stocks with voting rights, the necessity of using stocks, etc. with a large number of voting rights or the state of controlling shareholders, JPXR may determine that the applicant should set the percentage to 75% or less of issued stocks outstanding for the criteria for triggering the breakthrough provisions.

Q10: It is required to have a provision that when stocks with a large number of voting rights are transferred, they should, in principle, be converted to those with a small number of voting rights. However, in what cases is such conversion clause not required because it is supposed that changes in stocks with a large number of voting rights are not included in the transfer?

A10: When stocks with a large number of voting rights are transferred to new shareholders who do not have such necessity, it should be provided that stocks with a large number of voting rights should be converted to those with a small number of voting rights. Therefore, for cases where stocks with a large number of voting rights held by some shareholders are transferred to other shareholders who usually hold shares a large number of shares, relevant necessity may possibly be recognized and conditions for such conversion may not apply to such cases. In the meantime, in cases where a company preserving property holds shares with a large number of voting rights, it is expected that beneficial owners of stocks with a large number of voting rights may change without any transfer thereof as shareholders of such property preserving company change. The applicant is required to carefully address such cases as it is likely that such changes may not meet the premises of investments of investors investing in classified stocks.

Q11: Are no conversion provisions to be required when a transfer, etc. of shares with a large number of voting rights takes place on the basis of inheritance?

A11: It is extremely a limited case to recognize exceptions to transfer provisions on the basis of inheritance. An applicant is required to fully explain the reasons for not establishing conversion provisions and TSE will carefully address such situations.

Q12: When a company has listed shares with a small number of voting rights, the company is required to provide a clause that when stocks with a large number of voting rights are transferred, they should be converted to stocks with a small number of voting rights. When a non-listed company intends to list non-voting stocks independently, what measures should be undertaken?

A12: Even in case where a non-listed company lists non-voting stocks separately, the fact that non-listed common shares are transferred and controlling rights change does not meet the premises of investments in non-voting stocks and creates departure from the purpose of introduction classified stock scheme. When listing non-voting stocks, the applicant is required to implement measures in full consideration of shareholders of non-voting stocks, which may include grant of rights to acquire common stocks to non-voting stocks as a part of consideration.

Q13: In case where a company retains a vast amount of reserve and it would be highly unlikely to face difficulties in continuously paying any dividends on a long term basis, is the company required to develop any mechanism where voting rights revive if preference dividends are not paid for two years?

A13: Notwithstanding the provisions for preference dividends, non-payment of preference dividends may impair the rights of holders of stocks with a small number of voting rights, etc. So it is required to protect holders of stocks with a small number of voting rights, etc. by reviving voting rights unless preference dividends are paid despite sufficient reserves. Therefore, the company is required to develop a mechanism where voting rights would be revived if no preference dividends are paid for two years.
In the meantime, the company should fully explain the need to raise funds using classified stocks when the company has sufficient surplus enough to pay preference dividends.

Q14: For an initial listing, are the holders of stocks with a large number of voting rights, etc. allowed to sell them?

A14: JPXR assumes a case where a company needs to maintain continuous involvement of specified persons in the management by collecting voting rights for such specified persons from the perspective of common interests of shareholders. But selling of stocks by shareholders, etc. of stocks with a large number of voting rights may reduce the ratio of their voting rights, which is not naturally deemed to be consistent with the necessity. On the other hand, JPXR believes that the secondary distribution at the time of initial listing would be implemented in order to strike a balance among obtaining founder gains, individual financial needs, funds required to be raised by the applicant at the time of initial listing and ensuring liquidity after listing.
Therefore, JPXR would not automatically deny selling by shareholders of stocks with a large number of voting rights, but would assess whether the purpose of selling is not significantly unreasonable based on the necessity of the use of stocks with a large number of voting rights, etc.

Q15: When we are considering listing of stocks, etc. with a small number of voting rights, what other issues should we consider in practices?

A15: When you are considering listing of stocks, etc. with a small number of voting rights, you are encouraged to consult JPXR in advance through the lead underwriter.

Q16: Is it possible for a company to alter the scheme for classified stocks with voting rights after listing thereof?

A16: Cases where a scheme of classified stocks with voting rights ceases to respect the rights of shareholders as the scheme is altered or is not satisfied after listing may meet the criteria for delisting.

(6) It is deemed appropriate from the viewpoints of the public interest or the protection of investors.
(Guidelines IV 6. (7))

Requirements of criterion and focus of examination

When the purpose or substance of business of an applicant creates any incompliance with public interest and good moral or laws and regulations, it is not appropriate to offer the applicant as an investment choice.

In addition, JPXR will assess any matters which are considered to be necessary in order to contribute to public interest and to protect investors. For example, JPXR will assess the following:

- ▶ When a company in the process of rehabilitation files an application for the listing, JPXR will examine whether constraints on the rights of shareholders under the rehabilitation plan, and improvement and operation of management organization would cause any problem for the protection of investors.
- ▶ An applicant is appropriately required to behave as a new participant in financial instruments market such that they will contribute to the sound development of the market. Thus, if the applicant as a whole carries out any incompliance with the Financial Instruments Exchange Act, the applicant is determined to be inappropriate for an investment choice.
- ▶ In cases where a company that has gone private through a management buy-out (MBO) files an application for re-listing, JPXR will examine the re-listing application from the following perspectives.

[Thought on re-listing after an MBO]

An MBO (management buy-out) represents a transaction where the management of a listed company purchases shares from its shareholders and thereby makes the company go private. By definition, an MBO makes a company that has completed its roles as a listed company exit from the market.

From another perspective, an MBO enhances the enterprise value of a company by flexibly improving the management. On another level, it provides shareholders with a valuable opportunity to acquire a premium over the shares they hold. As such, an MBO has played an important role in sustaining an active capital market, and a large number of MBO transactions have been successfully effected in Japan.

Some of the MBO transactions which aimed to enhance enterprise value by the improvement of management might consider an exit from the market from the beginning of MBO, contemplating re-listing. Thus MBO and re-listing would be implemented as a series of transactions.

On the other hand, an MBO generally differs from a TBO, in that an MBO gives a rise to conflict of interest between the shareholders and the management that the shareholders have entrusted with management capacity, and that an MBO puts the management in a more favorable position than shareholders in terms of access to information. The management implementing an MBO transaction is therefore required to ensure the adequacy of allocation of premium and the reasonableness of the implementation of the MBO by applying fair procedures, and make sufficient disclosures thereof.

In cases where a company that was delisted through an MBO is re-listed, plans developed at the time of MBO are clearly expected to diverge from the progress of plans and relevance between the MBO and re-listing or adequacy of allocation of premium and reasonableness of implementation of MBO may be questioned.

In cases where a company that was delisted through the implementation of an MBO in the past files a re-listing application, JPXR will conduct an additional listing examination separately on the investors' protection practices in order to maintain trust and confidence in the market, in addition to typical examination procedures,

[Perspective of the listing examination]

1) Relevance between an MBO and re-listing

- An MBO and re-listing represent separate transactions, and strong relevance between them may not always be observed.
 - * For the purpose of a listing examination, JPXR will examine the identity and continuity of parties involved in the MBO and re-listing (management, shareholders) and the length of time from the MBO to the re-listing.

2) Adequacy of premium allocation and reasonableness of the implementation of an MBO

- It would be impracticable to primarily and objectively test the adequacy of the premium allocation and reasonableness of the implementation of an MBO. In cases where the procedures on which investors base their decisions have been fairly applied and the MBO has been effected, a majority of shareholders can be assumed to have been persuaded to enter into transactions, and adequacy of premium allocation and reasonableness of the implementation of an MBO will be unlikely to be questioned.
 - * The listing examination will confirm compliance with MBO instructions included in MBO procedures.
- Even if there is any divergence between the plan at the time of the MBO and the progress after the MBO at the time of re-listing, when a reasonable explanation of reasons for such divergence is given, it is unlikely that JPXR would question the adequacy of the premium allocation and reasonableness of the implementation of the MBO.
 - * For the purpose of listing examination, JPXR will assess whether the explanation of the difference is given sufficiently and persuasively.

[Application to listing examination]

For the purpose of listing examination, JPXR will make an assessment based on the perspectives of 1) and 2) above and examine whether the relevance between the MBO and re-listing isn't high and whether the adequacy of the premium allocation and reasonableness of the implementation of MBO are low.

Then, in light of the system for corporate governance practices and the explanation and disclosure of facts and circumstances with regard to the re-listing, JPXR will comprehensively determine the approval of the re-listing.

V Checklists Before Applying for Listing on Growth Market

Checklists included in this chapter have been developed so that prospective applicants may smoothly prepare for listing on Growth Market.

Checklists address general issues which should be checked and confirmed by the applicant at the stage of preparation for listing in consideration of the design and implementation of systems suitable for Growth Market listed companies.

The design and implantation of systems may vary depending on the size, category and business line of prospective applicants. Thus, a prospective applicant is encouraged to sufficiently consult the lead underwriter and audit firm.

If a prospective listing applicant has any subsidiary and affiliated company, keep in mind that appropriate systems concerning management control including subsidiary, etc. and disclosures of consolidated information must be designed and implemented.

1. Has the Business Plan been Reasonably Prepared in Consideration of Future Business Developments?

The business plan represents basic materials which underlie “Part I” documents comprising the disclosure documents containing investment information before listing and various information included in disclosures made to investors after listing. Therefore the business plan (including the use of expected proceeds from listing and recovery plan of investments) must be developed on the basis of objective analysis of internal and external circumstances surrounding the operation of the prospective applicant.

It is also necessary that the business infrastructure to perform the business plan has been designed and implemented (unless the infrastructure has been implemented at the stage of preparation, it must be highly likely that it would be designed and implemented after the listing).

1) Has the business model underlying the business plan been sufficiently considered from the perspective of economic reasonableness?	<input type="checkbox"/>
2) Has the business plan been reasonably developed in consideration of various factors to be considered in the development of business, including characteristics of its own business (strong points and weak points), current status of the industry, developments of peers, size and growth of the market in which the applicant operates, demand trends for new products and services, trends for raw materials market, etc., status of major trading partners and status of legal regulations?	<input type="checkbox"/>
3) Can you clearly explain risk factors to be addressed in realizing the business plan?	<input type="checkbox"/>
4) Have you appropriately designed and implemented the business infrastructure (including human resources such sales people and R&D staff, physical resources such business bases and facilities, etc., and various management resources including capital resources for investment) necessary to perform the business plan? Unless it has not been provided at the stage of preparation, is it reasonably likely that it would be provided after listing (thanks to the proceeds arising from listing)?	<input type="checkbox"/>

2. Have Business Management Organizations Effectively Functioned?

(1) Board of Directors

If no sufficient discussions and considerations are made at the Board of Directors which represents the highest level of decision making on business execution, it is deemed to exist merely in form.

In such cases the supervisory function of the Board of Directors over the performance of businesses will not operate properly and the decision making of the applicant as a company will substantively be biased to specified entities, thereby giving rise to the danger of preferring the interests of specified entities to the interests of shareholders. Thus the Board of Directors is required to comply with due process represented by sufficient discussion and consideration on the basis of agenda and monthly operating results and to make decisions and conduct supervision in compliance with such due process.

1) Are the meetings of the Board of Directors to be regularly held? Can the meeting of the Board of Directors be flexibly held on an ad hoc basis to make prompt decisions?	<input type="checkbox"/>
2) Has the agenda to be deliberated at the Board of Directors been determined after sufficient discussions and considerations? Have sufficient discussion papers and other materials been prepared for the purpose of discussions by the Board of Directors? In addition, have the minutes of meeting of the Board of Directors been prepared as required by law and regulations?	<input type="checkbox"/>
3) Has important information for the purpose of business operation been reported properly?	<input type="checkbox"/>
4) Has the supervision of the Board of Directors over the executive officers operated properly?	<input type="checkbox"/>
5) Have no decisions been made placing priority on the interests of specified entities?	<input type="checkbox"/>
6) Has the concurrent holding of positions at another company not impeded the decision making or business performance of the company?	<input type="checkbox"/>
7) Does the method of resolution at the Board of Directors constitute an appropriate resolution method from the perspective of corporate governance?	<input type="checkbox"/>

V

(2) Company Auditors

Company auditors are required to demonstrate competence to audit the execution of duties of directors, accounting advisors and the Board of Directors.

In order to fulfill the requirement, company auditors must attend the meetings of the Board of Directors, in addition to audits over daily businesses.

1) Have the check and balance functions of company auditors over the execution of duties of directors and accounting advisors been implemented appropriately?	<input type="checkbox"/>
2) Have company auditors worked together with relevant audit firms or internal audit to appropriately perform auditing practices?	<input type="checkbox"/>
3) Have company auditors attended the meetings of the Board of Directors?	<input type="checkbox"/>

(3) Independent Directors/Auditors

JPXR requires listed companies to appoint one or more independent directors/auditors (outside director or outside auditor who is unlikely to cause any conflict of interests with general shareholders) for the purpose of the protection of general investors.

TSE has defined this requirement as the "Matters to be Observed" in the Code of Corporate Conduct. Thus any company which intends to prospectively file an listing application is required to appoint the independent officer and submit to TSE the "Registration Statement of Independent Directors/Auditors" with the description of the status of the appointment of independent directors/auditors by the date of listing.

1) Have you appointed one or more outside directors or outside auditors as independent directors/auditors to be registered?	<input type="checkbox"/>
2) Are expected outside directors or outside auditors who will be registered as independent directors/auditors to be the persons to be unlikely to cause any conflict of interests with general shareholders? Are they not to meet any event mentioned in "Guidelines III 5, (3) 2"?	<input type="checkbox"/>

(4) Accounting Advisors

Accounting advisors are obliged to prepare the financial statements, etc. jointly with directors and executives.

For the examination of listing of a company with a committee of accounting advisors, the company is required to develop and provide internal systems to make statutory disclosures and timely disclosures in a timely, appropriate and consistent manner without excessively depending on accounting advisors.

- 1) In cases of a company with a committee of accounting advisors, do you believe that the internal system in terms of statutory disclosures and timely disclosures does not excessively depend on accounting advisors? ☐

(5) Internal Audits

Internal audits shall be performed so that the management can ensure the preservation of company assets and the execution of lawful and efficient business operations.

Basically the internal audits should be desirably designed to be implemented by independent departments which are not influenced by any specific departments or divisions. However depending on the size, business line, category of business or level of growth, the internal audits implemented by independent departments may not always be efficient.

In such cases, the applicant is encouraged to consider the actual status of the operation of the company and develop the internal audit function responsive to the actual status.

- 1) Have you implemented effective internal audit practices (plan, execution, and reporting) in consideration of the size, business line, category of business, and growth level? ☐
- 2) Have audited departments of the company appropriately addressed matters identified during the internal audit practices? ☐
- 3) Have you adopted any alternative approach in the case where the company has not established any internal audit departments? ☐



(6) Internal Control and Internal Regulations

The framework for internal check and balance functions necessary for the preservation of corporate assets and lawful and efficient business operations shall be based on the development and appropriate implementation of internal regulations.

Thus it is required that internal regulations have appropriately been developed in consideration of the size, lines and category of business of the company and businesses are operated in compliance with such regulations. These internal regulations include, for example, regulations on the management of organizations (Regulations on the Board of Directors, Regulations on the Board of Company auditors, Regulations on the Segregation of Duties, Regulations on Authorizations attached to Respective Duties, etc.), regulations on business management (regulations on budget control, regulations on share handling, regulations on the management of related companies, regulations on sales management, regulations on procurement management, regulations on company information control, etc.) and regulations on accounting and financing (accounting regulations, cost accounting regulations, etc.). In addition to the regulations enumerated above, other regulations may need to be developed in consideration of the size, lines, and category of business and growth level of the company.

Meanwhile, the Companies Act clearly provides for the matters concerning design and implementation of the internal control system.

The Financial Instruments and Exchange Act requires the implementation of an internal management reporting system over financial reporting. When an applicant becomes a listed company, the applicant is required to develop and provide an internal control system in consideration of these laws and regulation.

1) Have you developed and provided necessary internal regulations in consideration of the size, lines, and category of business and growth level?	<input type="checkbox"/>
2) Do the internal regulations provide for inter- and intra-departmental mutual check and balance function?	<input type="checkbox"/>
3) Have you periodically amended and updated internal regulations in line with the changes in size, business, and growth level of the company?	<input type="checkbox"/>
4) Have the company businesses been operated in compliance with the internal regulations?	<input type="checkbox"/>
5) Have you designed and implemented systems to develop business plans through due process including coordination among departments and divisions, and operated the systems appropriately?	<input type="checkbox"/>
6) Have you designed and implemented internal management systems with reference to laws and regulations?	<input type="checkbox"/>

(7) Operating Results Management

In order for the management (including executive officers) to make appropriate management judgments, it is inevitable that they accurately understand the status of the company (including relevant departments and divisions) and the company is required to develop the system which enables the management to understand and analyze the monthly operating results and status of business at an early point. In order to make appropriate analysis of monthly operating results and status of businesses, the comparison between the reasonably developed budget and actual results is deemed to be effective. The early understanding and analysis of the monthly operating results and status of business are also essential for timely and appropriate information disclosures (announcement and amendments to future forecast including performance outlook) after listing.

1) Does the management accurately understand the status of the company?	<input type="checkbox"/>
2) Is the management able to understand the monthly operating results and status of businesses at an early point?	<input type="checkbox"/>
3) Is the management able to make timely and appropriate management judgments on the basis of the comparative analysis of budgets and actual results and other management information?	<input type="checkbox"/>

(8) Other Considerations for the Management

1) Have you appropriately produced and kept material documents including statutory documents and various contracts and agreements?	<input type="checkbox"/>
2) Do you have the ability to obtain patents for important and essential technologies associated with the management?	<input type="checkbox"/>
3) Even when the company has outsourced a part of the management control functions (general affairs department and accounting and financing departments), is the company able to perform appropriate management, information analysis and explanation concerning the outsourced businesses under its responsibility?	<input type="checkbox"/>

3. Have you Prepared Yourself for Timely and Appropriate Disclosures of the Corporate information?

(1) Internal Systems

Rule 401 of the Regulations of TSE requires that “A listed company shall make efforts to carry out such faithful execution of business as strengthening prompt, accurate and fair disclosure of corporate information at all times from the viewpoint of investors with full recognition that timely and appropriate disclosure of corporate information to investors is the basis of a sound market for financial instruments.” Since listed companies are required to consistently provide timely and appropriate disclosures to investors after listing, they must design and implement suitable systems for this purpose. That is, if information disclosures rely too much on specific persons, they cannot preclude the possibility that information disclosures might be impeded.

In order to avoid such circumstances listed companies are required to design and implement company-level systems.

1) Have you designed and implemented appropriate systems to make statutory disclosures, timely disclosures and IR activities on a timely, accurate and consistent basis?	<input type="checkbox"/>
2) Have you designed and implemented appropriate systems to make communications with the parent company at any time?	<input type="checkbox"/>
3) If you release timely disclosure material via your own website or other media, do you have appropriate system security measures or processes to ensure it is not accessible to external parties prior to the scheduled timing of release?	<input type="checkbox"/>
4) Have you designed and developed relevant internal systems in consideration of Fair Disclosure Rules?	<input type="checkbox"/>

(2) Disclosure Documents

JPXR will examine “Part I” and “Matters Relating to Business Plan and Growth Potential” documents in terms of disclosure documents as materials providing investment information. Therefore an applicant is required to describe the required matters exhaustively and also to proactively and prominently highlight information which the applicant deems useful for investment decisions in an understandable manner. Since the descriptions are required to be consistently made after listing, the applicant should design and implement appropriate systems to meet the requirements for the descriptions.

1) Have you made necessary preparations for the production of "Part I" documents in compliance with laws and regulations?	<input type="checkbox"/>
2) Have you made necessary preparations for the descriptions of "Part I" documents such that general investors can easily understand information useful for investment decisions including the commentary and analysis of business line, financial position, operating results and status of cash flows; status of related companies, R&D activities, major shareholders and officers and employees, dividend policy and use of proceeds from capital increase through public offering?	<input type="checkbox"/>
3) Have you designed and implemented the systems to exhaustively describe information concerning risks in nature for the investment decisions in "Part I" documents such that general investors can easily understand them? Such information relates to the shortness of operations, accumulated deficits or losses on businesses, dependence of management on specified officers, competition with peers, uncertainties over markets and technologies, business support from the specified entities, premises underlying major businesses and other information to be considered as risk factors for investment decisions.	<input type="checkbox"/>
4) Have you distorted the disclosure of actual conditions of the corporate group as you have made undue adjustments for capital contributions as a percentage of shareholders' equity of a lower ranking company in terms of capital contributions?	<input type="checkbox"/>
5) In preparing "Matters Relating to Business Plan and Growth Potential", have you made necessary preparations for the descriptions of items included in "Contents of Descriptions" of "Consideration in Preparing" in an understandable manner using graphics, figures and tables?	<input type="checkbox"/>



(3) Disclosure of Operating Results

When an applicant becomes a Growth Market-listed company, the applicant is required to consistently disclose its full-year and quarterly operating results and a performance prospectus.

The operating results disclosed must be useful as investment information. To meet this requirement, they must be disclosed on a quick and accurate basis. For the announcement of the performance prospectus, the company may have to revise information on future forecasts, including information on operating results, to ensure that the prospectus faithfully depicts the company's progress of operations. When these revisions are necessary, the company must also make them on a timely and appropriate basis.

For this purpose, the company must perform an appropriate comparison between its budget and actual results on a monthly basis.

- | | |
|--|--------------------------|
| 1) Have you made the necessary preparations to disclose your preliminary release of operating results for the full business year at least within 45 days after the end of the year? | <input type="checkbox"/> |
| 2) Have you designed and implemented systems to disclose future forecast information (including appropriate performance prospectuses) and made timely and accurate revisions to future forecast information? | <input type="checkbox"/> |

(4) Accounting Treatment

Financial statements (including consolidated financial statements; the same shall apply hereinafter) represent statements to faithfully depict the financial position and operating results of the prospective listing applicant. Thus the appropriateness of accounting treatments (accounting policies) which are standards for preparing financial statements, shall be the basis for trust and confidence in financial statements themselves. Therefore, the applicant is required to consult the audit firm with respect to the decisions on and revisions to the contents thereof in advance in consideration of lines and category of business.

- | | |
|---|--------------------------|
| 1) Are the accounting procedures and practices appropriate in light of accounting standards, accounting convention, lines and category of business? | <input type="checkbox"/> |
| 2) Are accounting records, evidences and databases produced and kept in an appropriate manner? | <input type="checkbox"/> |



(5) Change of Business Year (Accounting Period and Balance Sheet Date)

Disclosure documents such as "Part I" documents require the inclusion of financial statements for the last two preceding business years. This disclosure of the two-year results is considered potentially useful as investment information, as the preceding years can be compared with the current year. Year-to-year comparison can be difficult, however, if an applicant has changed its business year. Hence, a change of the business year would essentially be undesirable as such change may impair the value as investment information including financial statements.

- | | |
|--|--------------------------|
| 1) If you made any change to the business year (period or balance sheet date) during the last two years, can you reasonably explain why the change was required? | <input type="checkbox"/> |
| 2) If you made any change to the business year (period or balance sheet date) during the last two years, have you undertaken necessary procedures to disclose supplementary information to ensure comparability? | <input type="checkbox"/> |

(6) Management of Company Information

Company information, especially management of material information as required by the Financial Instruments and Exchange Act and timely and appropriate disclosure thereof requires company-level information management systems as it is very important to prevent any insider trading, thus contributing to enhancing trust and confidence in financial instrument markets.

Recently, the number of insider trading scandals involving officers and employees has been increasing and they are naturally subject to legal accusation and payment of penalties.

Companies are encouraged to further improve the systems to avoid such incidences.

1) Can you appropriately manage company information in compliance with internal regulations on company information management?	<input type="checkbox"/>
2) Can you disclose material information on a timely and appropriate basis?	<input type="checkbox"/>
3) Do you intend to provide education and training sessions for the purpose of preventing any insider trading?	<input type="checkbox"/>

4. Has the Soundness of Corporate Management not been Impaired due to Transactions with Company Related

Transactions carried out by a company require the reasonableness (necessity for the purpose of business) of the transactions and the adequacy of regular terms and conditions as well. Lacking in either of such elements may give rise to doubt of undue grant of benefits to specified entities. Thus such situations are certainly concerned from the perspective of soundness of corporate management. Meanwhile, there may be cases where some transactions in favor of the corporate group of the applicant are to be carried out.

In such cases, the continuation of transactions may be permitted under the premise that the nature of transactions will be appropriately disclosed.

For any transaction involving the management (e.g., any business acquired or planned through the efforts of the management in itself, or any project whose necessary matters are exceptionally determined by the management), any internal check is unlikely to be properly applied, which may result in some frauds. Therefore, the examiners will assess whether an appropriate system has been developed and operated where such project will be considered at the corporate level and appropriate check and balance functions will be applied properly, and whether or not any transactions actually carried out are inappropriate one.

(Transactions with related parties, etc.)

1) Can you demonstrate any reasonableness (necessity for the purpose of business) for carrying out such transactions?	<input type="checkbox"/>
2) Are the terms and conditions of transactions adequate compared to those at arm's length, except for transactions made with a view to supporting the applicant?	<input type="checkbox"/>
3) Do you have any rules to periodically consider and review the reasonableness of continuation of transactions (necessity for the purpose of business) and the terms and conditions thereof?	<input type="checkbox"/>
4) Have you included the transactions within the scope of audits (audits by company auditors and internal audits)?	<input type="checkbox"/>
5) Do you have systems in place to appropriately disclose the nature of transactions in the disclosure documents?	<input type="checkbox"/>

(Irrespective of existence of transactions)

6) Can you accurately identify the existence and nature of transactions with related parties?	<input type="checkbox"/>
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7) Do you have any systems in place to appropriately check the transactions with related parties? ☐

(When there is any transaction involving the management)

1) Is such transaction not inappropriate? ☐

(Irrespective of existence of transactions)

2) Can you accurately identify the existence of any transaction involving the management? ☐

3) Do you have any systems in place to consider any transaction involving the management at the corporate level and apply the check and balance functions appropriately? ☐

5. Have You Properly Addressed other Considerations in Filing a Listing Application?

(1) Parent Company, etc.

When a prospective listing applicant has a parent company, etc. (excluding cases where the parent company, etc. does not intend to control the prospective listing applicant; the same shall apply), it is likely that many aspects of the business activities of the prospective listing applicant would be influenced by the parent company, etc. in conjunction with capital contributions, human resources, financing or transactions, etc.

Thus when the prospective applicant has a parent company, etc., the applicant is required to issue representation that free business activities of the prospective applicant are not be impeded by the intentions of the parent company, etc. and to disclose certain information concerning the parent company, etc. as such information could be material as investment information of the prospective applicant.

1) Do you believe that free business activities or management judgments unlikely to be impeded when there is any company in the corporate group of the parent company, etc. which carries out the similar business line as the applicant?	<input type="checkbox"/>
2) Are there any situations where free management activities of the applicant might be impeded as the total number of directors concurrently holding positions at a parent company, etc. or those seconded from a parent company, etc. account for the majority of the board members (including respective committee in case of a company with a committee system)?	<input type="checkbox"/>
3) Are there any circumstances where the business activities of the prospective applicant depend on the parent, etc. in nature as the applicant carries out its business activities at the instructions of the parent company, etc., rather than at the discretion of the applicant?	<input type="checkbox"/>
4) Are there no excessive constraints imposed by the parent company, etc. on the decision making in carrying out management activities of the prospective applicant?	<input type="checkbox"/>
5) Have not you received any capital contributions from directors or officers of the parent company, etc. or grant of subscription warrants to them, which cannot be explained reasonably in implementing business operations independent of the parent company, etc.?	<input type="checkbox"/>
6) When the applicant has business relationships with the parent company, etc. such as operational transactions and real estate leasing, has either of the applicant or parent company, etc. forced or induced any transactions which could be onerous to any of the parties to transactions, except for any transactions which are to be carried out for the purpose of supporting the	<input type="checkbox"/>

applicant?	
7) Do you believe that there are reasonable reasons for any transactions with the parent company, etc. (the necessity thereof)? Are the terms and conditions of transactions with the parent company, etc. not significantly inconsistent with those at arm's length, except for any transactions which are to be carried out for the purpose of supporting the applicant?	<input type="checkbox"/>
8) When the prospective applicant has a non-listed parent company, etc., have you prepared yourself to submit "Financial Information of Parent Company, etc." to TSE at the time of listing application and has the non-listed parent company, etc. agreed to make relevant disclosures of company information, etc. as required by TSE?	<input type="checkbox"/>

(2) Other

1) Do your business activities not violate the public interest and good morals?	<input type="checkbox"/>
2) Do your company, its related parties, and other specified entity not have any relations with criminal and extremist elements including organized criminal entities?	<input type="checkbox"/>
3) Do you not have any material legal actions, cases, disputes and violation of laws and regulations?	<input type="checkbox"/>
4) If any restrictions are imposed on the transfer of stock for which the listing application is filed, do you intend to amend the Articles of Incorporation and remove the constraints on the transfer by the listing date?	<input type="checkbox"/>
5) Have the shares of your stock been handled by the designated book-entry transfer institution or are they expected to be handled by the institution by the time of listing?	<input type="checkbox"/>
6) If you have not outsourced any share handling services to a shareholder service agent designated by TSE, have you received a preliminary consent from the agent to the effect that it would accept the outsourced services?	<input type="checkbox"/>
7) Is the public announcement required by the Articles of Incorporation available on a nation-wide daily newspaper or via any electronic announcement? If not, have you undertaken appropriate measures such that the matters to be publicly announced are widely disseminated through postings on your website (without any differences in the degree of dissemination depending on areas or regions)?	<input type="checkbox"/>
8) Have you complied with various rules set forth by TSE in terms of allocation of new shares to third parties or changes of hands of shareholding?	<input type="checkbox"/>
9) If there is any recent change in the audit firm or lead underwriter, can you explain the reasons for such change reasonably?	<input type="checkbox"/>
10) Are you appropriately addressing any instructions given by the audit firm or lead underwriter?	<input type="checkbox"/>

6. Have you Completed Necessary Preparations for Interviews with JPXR?

The following discusses major items to be assessed by JPXR in the interviews of JPXR made with a Growth Market applicant. If you address these items in advance, the listing examination can be implemented more smoothly. JPXR may add or spare some interview items in consideration of the size, lines, and category of business of the applicant.

[Questions asked at interviews with JPXR (after the filing of listing application)]

(1) Details of the Business Lines

- a. Please explain the current status of the development of business infrastructure (human resources, facilities and equipment, capital, know-how and intellectual property, etc.) required for the business development.
- b. Please explain the contents of contracts if there are material contracts in relation to the business operations.
- c. Please identify business risk exposure and explain how to address it in developing businesses on the basis of the expected descriptions included in "Business Risks, etc." of "Part I" documents.
- d. Please explain the outline of legal regulations and administrative instruction and the existence of competent regulatory agencies for the industry.

(2) Business Plan

- a. Please explain the nature of the mid-term business plan (management policies, future business development, growth plan going forward (actual budgets and basis for the compilation of budgets)).
- b. Please practically explain how various factors to be considered (internal and external circumstances surrounding the applicant and other items) in developing businesses are reflected in the business plan.
- c. Please explain the expected design and development of business infrastructure (human resources, facilities and equipment, know-how, intellectual properties, etc.) going forward required for the implementation of business plan (actual measures and expected timing of realization of future development for the business infrastructure currently yet to be developed) given the use of proceeds arising from listing.

(3) Use of Proceeds from Public Offering at Listing

Please explain the use of proceeds arising from the public offering at listing and the recovery plan of the investments (for the use of proceeds, please explain the nature of use of proceeds and actual amounts by classifying the use thereof based on capital investments, working capital, R&D activities, repayment of borrowings, acquisition of securities, and equity contributions or loans to related companies).

(4) Please explain future forecast information such as prospectus for operating results for the year in which listing application is filed with respect to the publication of such information.

The applicant is encouraged to announce the future forecast information effective from the time of listing.

(5) Design and Implementation of Management Control System and Internal Audit System

- a. Please explain the major flow of businesses from procurements to sales for the major products, goods and services. In holding the explanation, you do not have to use any flowcharts etc.
- b. In implementing the design of management control systems, please explain how you would address any matters identified by the audit firm or lead underwriter for their improvement.
- c. For internal audits, please explain the audit departments and divisions, officers, nature of internal audit (scope and items), procedures and recent incidents where internal audits were implemented. If you have not established any independent department for the purpose of internal audits, please state that you have designed and implemented alternative approaches and implemented procedures equivalent to the internal audits.
- d. Please explain how you have prepared yourself for addressing the internal management reporting system over financial reporting?
- e. Please explain the status of internal systems to develop business plans (responsible departments and divisions and assignments, flow of staff works, development of regulations and other rules).

(6) Design and Implementation of Timely Disclosure System, etc.

- a. Please explain the following points in the context of design and implementation of timely disclosure systems in consideration of company size:
 - The number of responsible officers at departments or divisions in charge of timely disclosures and improvement and expansion plan after the listing;
 - Systems to prepare preliminary release of full-year earnings (consolidated and separate) and quarterly preliminary release of earnings (consolidated and separate) and the number of days required for the preparation;
 - Method to manage material information of the company (especially when a part of works at the accounting and finance division is outsourced, please explain the matters you especially keep in mind from the perspective of preventing any leakage of material facts);
 - Appropriate system security measures or processes to ensure it is not accessible to external parties prior to the scheduled timing of release of timely disclosure data on corporate information
 - Corporate group level communication and liaison systems;
 - Responsible officer for managing material information of the company and measures to address it in the absence of the officer primarily responsible therefor;
 - Method to manage and analyze the budgets and actual results with a view to accurately understanding the trends in performance of the corporate group (determination of whether any revisions are required for the announced performance forecast and the system to identify the matters to be revised)
- b. Please explain basic policies for IR activities and future efforts to improve them.
- c. Please explain the efforts to prevent any insider trading.
- c. Please explain relevant efforts to prevent any insider trading.
- d. Please explain the design and development of systems in consideration of Fair Disclosure Rules with focus on the following items:
 - System to prevent individual communication of material information (conditions of development of regulations and manuals, conditions of departments and divisions charged with the prevention (the number of personnel), and conditions of education on Fair Disclosure Rules)
 - System to identify individual communication of material information
 - Process for relevant announcement when individual communication of material information is made

(7) Relationship with Parent Company, etc., and State of Corporate Group

- a. When the applicant has a parent company, etc., please explain the roles and responsibilities which the corporate group of the applicant plays within the corporate group of the parent company, etc.
- b. When the applicant enters into any transactions with the parent company, etc., please explain the nature of such transactions (amounts, terms and conditions, etc.).
- c. If the applicant group has been granted any support from the group of the parent company, etc., explain the nature of such support.

(8) Transactions, etc. with Related Parties, etc.

- a. Please explain the background and reasons for capital investments by large shareholders.
- b. When the applicant enters into any transactions with related parties, etc., please explain the nature of such transactions (amounts, terms and conditions, etc.)
- c. Please explain methods to identify the existence of transactions with related parties, etc. Please explain how the applicant determines that the transactions or revisions are reasonable (necessary for the purpose of business) when entering into transactions with the related parties, etc. or revising the terms and conditions thereof.

V

(9) Legal Actions, Disputes and Violation of Laws and Regulations

- a. Please explain the background and nature of solved and pending cases which have occurred for the recent three years and application year. Especially explain legal cases which might have effect on business models involving patents and industrial new design in consideration of views expressed by legal advisor or patent attorney.
- b. Please explain any penalties and fines imposed on the declared income taxes and nature of administrative instructions and disposition imposed by competent agencies with respect to violation of anti-monopoly law and other laws and regulations for the last three years and application year and the remedial measures to address such violation of laws and regulations (design and implementation of systems to prevent re-occurrence of such incidents).

(10) Other

- a. If the applicant has experiences of changing the lead underwriter or audit firms, please explain the experiences and reasons for such change. (Note)
- b. Please explain the contents of the agreement among shareholders, if any.
- c. Please explain the design and implementation of systems to preclude the relationships with any criminal and extremist elements including organized criminal entity.

(Note) There is no specific restriction in change of lead underwriter or audit firm. However, if such change occurs after entering into the preparation for listing, JPXR will assess the background and reason for such change.

VI Listing Examination Q&A

This Q&A addresses practical items to be confirmed with respect to “V Checklists Before Applying for Listing on Growth Market”.

1. Checklists Before Applying for Listing on Growth Market

(1) Business Plan (Checklist No.1)

Q1: The Checklist 1 describes “Has the Business Plan been Reasonably Prepared in Consideration of Future Business Developments?”

In practice what considerations do we have to make?

What aspects does JPX-R confirm for the purpose of the listing examination in terms of reasonableness of business plan?

A1: Any business plan of the corporate group of applicant is required to be sufficiently reasonable in consideration of characteristics of business model or external environments. Therefore, the applicant needs to sufficiently consider whether the business plan incorporates relevant growth strategy and the nature of specific measures, including costs and effects.

For the purpose of actual examination, JPXR will assess whether the business plan of the applicant has reasonableness on the issues above in consideration of items mentioned in [Questions at Interviews with JPXR (After Listing Application)] at Section 6 of “V Preliminary Checklists for Growth Market Listing.” Though generating profit on a short-term basis is not required, JPXR will review the reasonableness of business plan based on the following if the applicant plans to recognize loss at the time of listing.

【Sales Plan (Sales)】

- Is there any prospectus for obtaining customers in cases where an applicant has not sufficient sales record?
- Can an applicant reasonably explain sales plan based on market environments (market size, market share and competitions) and characteristics of products, services and developments of the applicant?
- If an applicant plans to expand sales such that they would significantly exceed historical results, can the applicant reasonably explain relevant factors?
- If there are any pre-conditions underlying the sales plan (e.g., conclusion of contract with sales partner or acquisition of permits), can the applicant explain that they have already been available (or are expected to be available)?

【Investment Plan (cost)】

- When an applicant reflects any expected effect (e.g., increase in sales volume or reduction of costs, commencement of provision of new products or new services derived from investments in R&D arising from investments (including items (personnel expenses or advertising costs and others)
- Can an applicant reasonably explain relevant investment period, considering concepts concerning any change in investment policies or determination of continuity of investments?
- If an applicant plans to curtail or change investments rapidly, can the applicant reasonably explain the effect of such plans?

【Financing Plan】

- If proceeds arising from listing account for a large portion of financing plan, has an applicant fully considered any backup plan or change or curtailment of business plan, including the effect thereof, if the proceeds from the listing is significantly lower than expected?

Q2: Is it possible for an early stage company, for example, at the stage of R&D to list its shares on Growth Market?

A2: Growth Market aims to foster new industries by offering opportunities for emerging companies with high growth potential to finance its business at an early stage.

Listing on Growth Market is not necessarily denied only because an applicant is at an early stage of business or has not recognized any profit yet. However the earlier the business stage is, the future prospectus of the company would be more uncertain and in some cases the company is too risky to be offered for an investment choice to general investors. Therefore, when a company at an early stage actually list its shares, it is important for the company to sufficiently consider the nature of risk information described in “Part I” in addition to the aspect of reasonableness of business plan included in A1. Moreover, in determining disclosure contents, an applicant needs to discuss and summarize the pre-conditions of disclosure with the lead underwriter, including environments surrounding the industry or expected progress of development, and timing of realizing growth potential.

Therefore, when an early stage company applies for listing, the company is encouraged to consult TSE or JPXR in advance after holding full discussions with the lead underwriter and experts, etc. in the industry.

Q3: For the purpose of examination of business plan aspects, please elaborate on the differences between the matters which JPXR regards as the premises for the assessment and the items which JPXR will actually assess during the examination.

A3: Main differences are as discussed in the section of “II Matters Relating to High Growth Potential, 2 Q2 of Q&A Relating to Judgment Concerning High Growth Potential, and for more information, please refer to illustrative examples for each category of industry below.

(Illustrative example 1) Retailer: Food and beverage restaurant chainMatters examined on the basis of the assessment of a securities company[Business model]

- Characteristics of business, factors differentiating the company from peers (stable food stuff procurement, enhanced efficiency of works in kitchen, restaurant designs, food stuff, cooking method, regions for operations)
- Future business development, growth strategies (expansion of operation areas, development of new style restaurants)

[Business environments]

- Market size, conditions of the industry (food volume available, etc.)
- Trends of customers

Matters subject to the JPX's examination (matters relating to reasonableness business)

- Please discuss changes in selling unit prices and forecast (nature of sales plans).
→ Please confirm that targeted selling prices are not unreasonably set.
- Please discuss the changes in the number of restaurants and plans for the development of new restaurants.
→ Please confirm that the restaurant opening plans are not irrational on the basis of business size of the company, recruitment plan, revenues arising from new restaurants and restaurant opening costs. - Please confirm that the plan is not unlikely to generate profit in future.
- Please discuss the procurement of food stuff and procurement and staff employment plans.
→ Whether the company can secure resources to meet the increase in sales and restaurants
- Please discuss the plan to generate profit (cost of sales and selling and general administrative expenses)
→ Whether the profit generating plans reasonably reflect the expected selling unit price, restaurant opening plans, costs incurred for the opening of restaurants and recruitment plans.

(Note) Mark “-” represents items to be confirmed during the interviews while those with “→” represent the points to be examined on the basis of items therein.

(Illustrative example 2) Manufacturer: Manufacturing and sales of liquefied crystal inspection equipmentMatters examined on the basis of the assessment of a securities company[Business model]

- Factors differentiating the company from peers (technological competitive edge, development of new products ahead of others)
- Future business development, growth strategies (increase and strengthening of

production bases, new sales operations, proactive expansion sales to other manufacturer)

[Business environments]

- Market size and conditions of the industry (demand forecast of LCD, crystal cycle, and trends in inspection equipment markets)
- Change in actual sales and trend of orders (trends in change in the number of customers)

Matters subject to JPXR's examination (matters related to "reasonableness of business")

- Please discuss changes in selling unit prices and forecast (nature of sales plans).
→ Whether targeted selling prices are not unreasonably set
- Please discuss the current state of production capacity.
→ Whether the plans for acceptance of orders and manufacturing are not irrational in consideration of production capacity at current production bases.
- Please discuss the capital expenditure plans and investment recovery plans going forward.
→ Whether the facility expansion plans (plans related to capital investments and the recovery thereof) have appropriately reflected the trends in acceptance of orders and manufacturing plans; How the use of proceeds arising from the listing has been incorporated into the expansion plan
- Please discuss the current status and recruitment plan of experts, special staff, and sales people.
→ Whether the company can secure resources to meet the increase in sales and restaurants.
- Please discuss the plan to generate profit (cost of sales and selling and general administrative expenses)
→ Whether the plan to generate reasonable profits reasonably reflects the expected trends for the acceptance of orders and recruitment plans.

(Illustrative example 3) IT services: production and sales of information management application software

Matters examined on the basis of the assessment of a securities company

[Business model]

- Characteristics of business, factors differentiating the company from peers (services with a high degree of convenience, strong security, actual experience of sales to large companies)
- Future business development, growth strategies (acquisition of new customers through the increase in sales people)

[Business environments]

- Market size, conditions of the industry (use of internet, forecast for the size of market where the company operates)
- Changes in the provision of services (trends in change in the number of customers)

Matters subject to JPXR's examination (matters related to reasonableness of business)

- Please discuss changes in selling unit prices and forecast (nature of sales plans).
 - Reasonableness of the current tariff (initial charge and monthly charge), expected trends in future selling unit prices (existence of price renewal and its timing, factors leading to increase in selling unit prices other than factors related to increase in charges (optional services) and factors in relation to costs)
- Please discuss future capital investment plans and the recovery plans thereof.
 - Expected investment in servers to meet the increase in customers and expected recovery of the investments
- Please discuss the recruitment and employment plans of sales people
 - Whether the company can recruit sufficient staff to increase sales of services
- Please discuss the plan to generate profits (cost of sales and selling and general administrative expenses).
 - Whether the plan to generate profits reasonably reflects the sales plan and recruitment plan of staff to realize the plan and the purchase prices of servers

(Illustrative example 4) Membership business: Plan, development and sales of contents for members

Matters examined on the basis of the assessment of a securities company

[Business model]

- Characteristics of business
- Factors differentiating the company from peers (ability to produce high quality contents, the number of contents developments (sales number, development period)
- Future business development, growth strategies (expansion of prospective customer base, etc.)

[Business environments]

- Market size, conditions of the industry (changes in the sizes of content markets)
- Changes in the number of members (trends for customers, etc.)

Matters subject to JPXR's examination (matters related to reasonableness of business)

- Please discuss the reasonableness of plans for the increase in the number of members (nature of sales plan) (Note)

(Note) The trends for the increase in the number of members will be, in principle, assessed on the basis of evaluation of the securities firm. However JPXR will carefully assess the situations (e.g., large decrease in the number of members) which might significantly affect the pre-conditions of rapid growth of the number of members for a short time and the business infrastructure.

- Please discuss future capital investments and the recovery thereof.
 - Contents development plans and investment amounts in the servers utilized for the purpose as well as the recovery thereof
- Please discuss employment and recruitment plans.

- State of personnel who will be able to produce a large number of high quality contents
- Please discuss profit generating plans (cost of sales and selling and general administrative expenses)
 - Whether the plan to generate profits reasonably reflects the recruitment of staff necessary for the content development plan and the cost for the purchase of servers

(Illustrative example 5) Drug Discovery and Development Companies

Matters examined on the basis of the assessment of a securities company

[Business model]

- Characteristics of business, factors differentiating the company from peers (characteristics and competitive edge of developed medicines, competitive edge of development technologies, etc.)
- Pharmacological effect (assessment on the results of clinical test)
- Development plans for drugs in the pipeline and prospectus for the business revenue (timing of commencement of sales of drugs, launch of the products on the markets, gross sales revenue and royalties after the commencement of sales)

[Business environments]

- Market size for diseases for which drugs are expected to be administered

Matters subject to JPXR's examination (matters related to reasonableness of business)

- Please discuss the nature of selling plans for drugs.
 - Whether reasonable selling plans have fairly assessed the market potential for drugs (have you not excessively overestimated the sales value?)
- Please discuss the details of alliance relationships.
 - Whether contracts are certain to lead to the completion and complementary interaction of value chains. Other terms relating to business infrastructure (relationship in terms of rights, existence of sub-licensing, and the treatment at the time of discontinuation) will also be assessed.
- Please discuss profit generating plans (cost of sales and selling and general administrative expenses)
 - Whether the plan to generate profits reasonably reflects the nature of alliance relationships and R&D plans and human resources plans (mid- and long-term cost plans for the launch of products on markets and generation of profits and expected cash flow plans)

The above illustrates general examples and items to be usually assessed. For the purpose of actual listing examination, JPXR may add or spare some items to be assessed in consideration of situations and circumstances specific to respective applicants.

Q4: The progress of monthly operating results for application year has been deviated from the original plan. Does this situation give rise to any issue for the purpose of listing examination from the perspective of “Reasonableness of Business Plan”?

A4: The examination of “Reasonableness of Business Plan” does not intend to assess the achievement and progress of short-term plan. Thus JPXR will not question the “Reasonableness of Business Plan” only because the progress of monthly operating results deviate from the original plan for application year. In such cases JPXR will assess whether the applicant is able to appropriately understand and analyze business environments, monthly operating results and the differences between actual and forecast results in order to revise future forecast information including business results forecasts (meaning “information related to prospectus for future operating results and financial position of the company”; the same applies hereinafter) on a timely and appropriate basis, from the perspectives of “appropriateness of disclosure of corporate information, etc.” and “effectiveness of internal management system”.

If the progress of monthly operating results might have an effect on high growth potential assumptions or assumptions underlying business infrastructure and plans (e.g., termination of business partnership between the company and business partners accounting for a large percentage of sales, large decline in the number of members (in membership building business)), JPXR may conduct necessary assessment from the perspective of the “Reasonableness of Business Plan.”

Moreover, the lead underwriter may review trends in short-term operating results and other factors based on its own judgment in consideration of categories and business line, business environment, and market environments at the time of financing of the applicant.

(2) Board of Directors (Checklists No. 2(1))

Q5: The item at 2(1) 1) of the Checklists states “Are the meetings of the Board of Directors to be regularly held? Can the meeting of the Board of Directors be flexibly held on an ad hoc basis to make prompt decisions?”

How frequently should the meeting of the Board of Directors be held to meet the notion of “regularly”? In addition, with respect to the reference to “flexibly hold the meeting on an ad hoc basis to make a prompt decision making” how can we meet the requirement?

A5: The Companies Act requires that meetings of the Board of Directors should be held once every three months. However, there seem to be a variety of issues to be decided or reported at the Board of Directors. By the way, monthly results and state of business may often be regarded as items to be reported at the Board of Directors. Given these factors, it is desirable that the meeting of the Board of Directors would be held once or more a month.

Prompt decision making by flexibly holding the meeting depends on whether the matters in issue should be decided by the Board of Directors. Though some issues requiring the decision of the Board of Directors arise, timely decisions will not be

made because the meeting of the Board of Directors is not held due to some reasons or is not held on a timely basis.

Such situations do not represent circumstances where prompt decisions will be made on an ad hoc basis by flexibly holding the meeting.

If any board members including outside directors and auditors are working at some places far from the intended venue of the meetings of the Board of Directors and cannot physically attend the meetings on a timely basis to make prompt decisions, the use of TV conference systems or others can be considered.

Q6: The item at 2 (1) 3) of the Checklists states that “Has important information for the purpose of business operation been reported properly?”. Specifically what is important information to be reported in the context of business operations?

A6: In developing the operation reporting system as a part of the management control systems, the applicant must evaluate the degree of materiality of items to be reported in consideration of the size, lines and category of businesses.

The applicant is then required to develop internal regulations specifying that especially material matters should be reported to the Board of Directors.

Thus the degree of materiality may vary widely depending on the size, lines, and category of businesses of companies.

For example material items to be reported include the monthly operating results, business conditions and progress of execution of matters resolved at the Board of Directors in the past.

Q7: The items at 2 (1) 5) of the Checklists state “Have no decisions been made placing priority on the interests of specified entities?” What are decisions placing priority on the interests of specified entities?

A7: As required by the Checklists 4, reasonableness and fair terms and conditions shall be required of any transactions implemented by a company (including any resolution for the purpose at the Board of Directors; the same shall apply hereinafter).

On the basis of such notions, if any resolution to prefer specified entities including officers to the shareholders in terms of conveniences and interests granted, for example, financial guarantee by the company of personal debts of president, such resolution may represent the one to place preference on the interests of specified entities.

Q8: The items at 2 (1) 6) of the Checklists state “Has the concurrent holding of positions at another company not impeded the decision making or business performance of the company?”

Specifically, what circumstances constitute any situations where the concurrent holding of positions by directors at another company may impede the decision making or performance of operations of the company?

A8: As required by the items at 2(1)1) of the Checklists, meetings of the Board of Directors must be flexibly held as appropriate.

For example, as a director concurrently holds a position at another company outside the corporate group, the director cannot attend the board meeting (due to time restrictions).

Such situation may be deemed to impede the prompt decision making of the company.

In addition, if an executive officer concurrently holds the office of executive officer at another company outside the corporate group, such holding may be considered to impede the smooth execution of businesses of the company.

Q9: The items at 2 (1) 7) of the Checklists state that “Does the method of resolution at the Board of Directors constitute an appropriate resolution method from the perspective of corporate governance?”

What notion should we adopt with respect to the resolutions at the Board of Directors?

A9: It is desirable that the resolutions at the Board of Directors should be made after sufficient discussions with the attendance of all the directors and company auditors.

On the other hand, Article 370 of the Companies Act permits the resolution in writing or by electronic means if certain conditions are met (hereinafter referred to as “written resolution”).

However, while the written resolutions, etc. may facilitate the decision making concerning the management at the Board of Directors, they may lead to resolutions of material items without substantive discussions.

In some cases the written resolutions, etc. may be deemed inappropriate in that the corporate governance should function properly.

So for the purpose of the listing examination, the written resolutions, etc. may not be automatically denied, but JPXR will assess separately whether corporate governance practices have been implemented appropriately.

(3) Company Auditors (Checklists No. 2(2))

Q10: The items at 2 (2) 1) of the Checklists state “Have the check and balance functions of company auditors over the execution of duties of directors and accounting advisors been implemented appropriately?”

In practice what situations constitute the effective implementation of the check and balance practices?

A10: In addition to the attendance at the meetings of the Board of Directors, auditors will make interviews with them and receive the report and explanation concerning the nature and execution of their duties. In addition auditors are required to check all the requests for approval on material matters and assess whether they would not give rise to any issues in consideration of laws and regulations and the Articles of Incorporation.

Q11: The Checklists 2 (2) 1) states "Have the check and balance functions of company auditors over the execution of duties of directors and accounting advisors been implemented appropriately?", however, we currently do not have a board of auditors.
When is the latest date by which we must establish a board of auditors?

A11: In the "Code of Corporate Conduct" of the Securities Listing Regulations, establishing a board of auditors is set forth under "Matters To Be Observed". Therefore, the applicant needs to set up a board of auditors, however, there is no specified date to do so. However, the applicant would be subject to a substantive examination which confirms whether the board of auditors is functioning properly.
As such, it would be desirable for an applicant to apply after providing a certain operational period for the board of auditors.

Q12: The items in 2 (2) 2) of the Checklists state "Have company auditors worked together with relevant audit firms or internal audit to appropriately perform auditing practices?"
In practice what situations could be considered to meet this requirement?

A12: For example, company auditors have meetings with independent auditors as appropriate and understand any company issues identified by the independent auditors.
Or company auditors receive the reports on internal audit results, issues identified by the internal audits and the correction of such issues. If company auditors notice any issues at the meetings or on the basis of the reports, they are required to assess the nature of such issues, including the correction thereof.

(4) Independent Directors/Auditors (Checklists No. 2 (3))

Q13: When is the latest date by which we must elect independent directors/auditors?

A13: Independent directors/auditors must be elected by listing day. Thus JPXR will check the status of election of independent directors/auditors during the process of examination.
By the way, in examining the applicant where the significance of independent directors/auditors is relatively higher as specified large shareholders may apply strong influence, JPXR may assess whether relevant corporate governance anticipated after listing functions effectively..

Q14: The items at 2 (3) 2) of the Checklists state that "Are expected outside directors or outside auditors to be the persons to be unlikely to cause any conflict of interests with general shareholders?"
What issues do we have to consider when electing any person to be registered as an independent officer?

A14: The election of an independent officer is, in principle, required to meet each

item described at III 5. (3) 2 of the Guidelines for the Listing Management. Please refer to “Practical Considerations When Appointing Independent Directors/Auditors” in “Guidebook on Timely Disclosure of Company Information” issued by TSE. This is available on TSE’s website (<http://www.jpx.co.jp/equities/listing/ind-executive/>).

If you are concerned with the requirements for independent directors/auditors, please consult JPXR in advance via the lead underwriter, etc.

(5) Accounting Advisors (Checklists No. 2 (4))

Q15: The items at 2 (4) 1) of the Checklists state that “In case of a company with the committee of accounting advisors, do you believe that the internal system in terms of statutory disclosures and timely disclosures does not excessively depend on accounting advisors?”

A15: For example where accounting advisors principally prepare data underlying statutory disclosure and timely disclosures, if the accounting advisors retire due to the expiry of their terms of office, the appropriate and timely as well as consistent preparation thereof would face difficulties. So the applicant must design and implement the systems to prepare data underlying statutory and timely disclosures at the company level such that those other than accounting advisors can be involved in the work.

If an accounting advisor is a corporation, JPXR assess the system with focus on staff members charged with the duties. other than accounting advisors can be involved in the work.

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(6) Internal Audits (Preliminary Checklists No. 2 (5))

Q16: Our company has only a small number of employees and operates at one location, so does not have any independent division charged with internal audit. The checklists 2 (5) 3) states that “Have you adopted any alternative approach in cases where the company has not established any internal audit departments?”

What constitutes such alternative approach in practice?

A16: In general, you may appoint a person who could be suitable as an internal auditor and require the person to perform the duties of internal auditor; provided that another person should be appointed for the audit of the department to which the person belongs and perform the auditing of the department. In addition the outsourcing of the internal audit practices could be considered. In such cases JPXR assesses whether the company has not delegated all aspects of the internal audit practices to the outsourcer and the president, etc. has principally been involved in the internal audit practices by fully recognizing the importance of internal audit practices.

(7) Internal Managements and Regulations (Checklists 2 (6))

Q17: The items in 2 (5) 2) of the Checklists state “Have the internal regulations provided for inter- and intra-departmental mutual check and balance function?” In cases of a company with a small number of employees, the number of employees assigned to such functions may be limited. How should we address the situation?

A17: For example, suppose that the number of employees is 10 or more and all are working on the same office floor.

In this case, the president is expected to understand the work of each employee and have an authority to make decisions on everything.

In such cases, for example in handling of cash, the department which prepares vouchers for payment must at least be different from the department which disburses or receives cash.

In the following cases, check and balance functions indicate that some concerns with the execution of duties may arise. So it will not be acknowledged that check and balance functions are not properly performed.

- The representative director and president, etc. is responsible for a specific department or division and no checking functions work substantively.
- The representative director and president, etc. is responsible for multiple departments or divisions and such responsibility may impede the execution of primary duties of the president.

Q18: The items in 2 (6) 5) of the Checklists state “Have you designed the systems to develop the business plans by applying due process including the coordination among departments and divisions and implemented them appropriately?”

A18: The situations where the business plan has been developed by due process reflect the circumstances where the applicant has prepared various data which are referred to in reflecting various factors to be considered (business environments, status of competitors, size of markets and growth thereof, trends in demands for goods, products and services, trends for raw materials markets and status of major customers and trading partners) in the business plan and the business plans have been developed on the basis of such data after the coordination among relevant departments and divisions. It is also required that the applicant has designed and implemented internal procedures appropriately such as inclusion of the above requirements for the development of the business plan development in the internal regulations (budget control regulations, etc.).

Q19: The items in 2 (5) 6) of the Checklists state “Have you designed and implemented the internal management system with reference to laws and regulations?” What preparations do we have to make?

A19: The Code of Corporate Conduct (Rule 439 of the Regulations) requires companies, irrespective of whether they are large or small, to design and

implement the systems necessary to ensure that the executions of duties of directors, executives or counselors shall comply with laws and regulations and the Articles of Incorporation and the systems to ensure the fairness of the execution of duties.

The applicant is also required to make necessary preparations for the internal control reporting system to be applied after listing. The applicant must develop the preparation plans in consideration of size, business line, and the timing of listing application and have a system in place to submit internal management reports after listing.

(8) Operating Results Management (Checklists 2 (7))

Q20: The items in 2 (7) 2) of the Checklists state “Is the management able to understand the monthly operating results and status of businesses at an early point?”

In order to meet the requirements for the understanding at an early point, how soon should we be able to understand monthly operating results and the status of businesses?

A20: The applicant is encouraged to understand the monthly operating results and the status of businesses at the earliest time in the following month.

JPXR believes that the preliminary release of earnings report for the full year should be submitted within 45 days from the balance sheet date and the publication of quarterly earnings report is encouraged to be submitted within shorter time frame than the annual report.

Thus the applicant is required to understand and analyze the monthly operating results and status of businesses within the number of days which may not impede the preparation or disclosures of the preliminary releases of earnings.

(9) Other Considerations for the Management (Checklists 2 (8))

Q21: The items in 2 (8) 3) of the Checklists state “Even when the company has outsourced a part of its management control functions (general affairs department and accounting and financing departments), is the company able to perform appropriate management, information analysis and explanation concerning the outsourced businesses under its responsibility?”
Does JPXR find any problems in our outsourcing businesses to a third party?

A21: In order to enhance the efficiency of managerial resources in the context of performance of administrative works, an increasing number of companies have now entrusted some works (so-called outsourcing) to third parties, and the number of companies which use outsourcing is now increasing.

The outsourcing practices used to be applied for simple works such as payroll calculation for the reduction of usual costs, but now circumstances have changed such that they are applied to more strategic situations with a view to intensively investing resources in the establishment of core competence

(investing resources into strong and important business areas while utilizing outside resources for other areas).

For the purpose of the listing examination, JPXR would not immediately question the existence of outsourcing practices.

However, the applicant is required to develop the system to ensure the accuracy and confidentiality of the information in using outsourcing and to analyze the information from the outsourcer and disclose it at the responsibility of the chief information officer of the applicant. The applicant is required to assess the impact of and address the situations where the applicant will find it difficult to outsource relevant works in advance.

Depending on materiality of outsourced works, the applicant is required to describe the nature of outsourced works in "Business Risks, etc." of "Part I".

The assessment of whether the outsourced businesses are fairly managed may vary depending on the business line and organizational structures of the applicant and outsourced works.

So if the applicant considers the use of outsourcing, the applicant is encouraged to consult the lead underwriter or audit firm.

The following highlight the considerations in making any outsourcing:

a. The applicant is principally responsible for the outsourced works.

No matter what works are outsourced, the applicant is eventually responsible for the final decision to direct the business of the applicant including the decision making and strategy developments.

It is naturally assumed that the applicant is able to understand and analyze the contents of outsourced works and data obtained from the outsourcer. The applicant is also required to regularly assess the contents of the works performed by the outsourcer at its discretion.

b. Appropriate disclosures

In cases where the applicant outsources a part of works closely associated with statutory disclosures or timely disclosures of preliminary releases of earnings, the applicant should ensure the systems where such outsourcing would not impede any timely and appropriate disclosures.

c. Regulations on insider trading

In the event that the outsourcer may have access to information such as that associated with operating results before public announcement, the applicant is required to undertake necessary measures to prevent the leak of information, including the conclusion of a non-disclosure agreement.

d. Selection of appropriate outsourcer

The applicant is required to select reliable and experienced outsourcers such that the works outsourced to the outsourcer would be implemented and consistent.

Also the applicant is to ensure the systems where an alternative outsourcer is available or the applicant can handle the outsourced works in the event that the applicant will be unable to continue to entrust the outsourcer with relevant works.

(10) Internal Systems (Checklists No. 3 (1))

Q22: The items in 3 (1) 1) of the Checklists state “Have you designed and implemented appropriate systems to make statutory disclosures, timely disclosures, and IR activities on a timely, accurate and consistent basis?” In practice, what do continuous statutory disclosures, timely disclosures, and IR activities require the company to implement?

A22: A listed company is required to implement consistent disclosures of company information (statutory disclosures), including the preparation of securities reports for each year and quarterly reports according to the Financial Instruments and Exchange Act. TSE also requires the listed companies to publish timely disclosures no matter when any event which may influence the decision making of investors takes place. Moreover, TSE obliges Growth Market listed company to carry out IR activities twice or more for each year, and the applicant is also required to disclose the descriptions of latest developments reflecting the progress minimum once a fiscal year (it should be disclosed within three months after the end of fiscal year) in the context of “Matters Relating to Business Growth and Growth Potential”. Thus listed companies shall implement relevant timely disclosures whenever consistent disclosures of company information with focus on the financial information are made or other material information takes place.

Q23: We intend to hire experienced and talented staff who will prepare and verify financial statements, as well as prepare statutory disclosure data and timely disclosure data. We leave all of such work to the staff. Does this give rise to any problems?

A23: The items in 3 (1) 1) of the Checklists state prepare and verify financial state appropriate systems to make statutory disclosures, timely disclosures and IR activities on a timely, accurate and consistent basis?” and require listed companies to have in place the systems in place to make disclosures and IR activities consistently at a company level. Therefore excessive dependence of such activities on specified entities can be concerned.

(11) Disclosures of Operating Results, etc. (Checklists No. 3 (2))

Q24: What cases would be regarded as misleading with respect to the contents of descriptions included in the disclosure materials in Securities Report for Initial Listing Application (Part I)?

A24: The following cases may be considered misleading. The contents of descriptions included in the disclosure materials need to be tailored to faithfully represent the substance of the applicant.

- Cases where, for any business the applicant develops or is expected to develop going forward, the applicant describes the nature of business by using terms

that relate to areas currently attracting strong investor interest, which would not have much relevance to the area of such business.

- Cases where a business that is still at an early stage is described as one of the applicant's key businesses, or where an applicant describes a business that is still only in the planning stages as a business that has already been developed.

(12) Disclosures of Operating Results, etc. (Checklists No. 3 (3))

Q25: The items in 3 (3) 1) of the Checklists state "Have you made the necessary preparations to disclose your preliminary release of operating results for the full business year at least within 45 days after the end of the year?" In practice what are we to be required to do and when should we do so? What about quarterly earnings report?

A25: A listed company is obliged to immediately disclose financial information when accounts are settled. Considering any effect on investment decisions of investors, the applicant is encouraged to finalize accounts immediately after the end of fiscal year.

Especially, in cases of account settlements for business year or consolidated fiscal year, the applicant must finalize and disclose operating results at latest within 45 days (if 45th day is a holiday, a next business day) from the balance sheet date and the release within 30 days from the end of the year (if the end of the year is the end of month, within a next month) is more desirable.

We illustrate the status of releases of operating results made by TSE listed companies for your reference.

[Reference: Average days required for the release of operating results by listed companies]

Full year	Q1	Q2	Q3
39.7 days	35.3 days	36.1 days	36.5 days

(Note) TSE surveyed domestic companies listed on TSE markets which closed their accounts March 31, 2019.

For the disclosure of financial information for a quarterly period, the submission of quarterly report must legally be within 45 days from the closing of accounts pursuant to Financial Instruments and Exchange Act. So a listed company must address the development and improvements of internal system to obtain the understanding of degree of materiality of effect on investment decisions of investors of the accounts information and disclose earnings results of a quarterly period at an appropriate timing through close communications with investors and shareholders including daily IR activities, though the requirements for disclosure of quarterly operating results does not include a "request of accelerated announcement".

Q26: What issues should we consider when we publish earnings results during the period from the listing approval date to the listing date, which is referred

A26: When any material company information arises in the context of timely disclosures, listed companies are required to disclose it promptly. However when a listed company publishes any information which may influence the investment decision during the finance period, including earnings results information, the listed company is requested to disclose the information by the time of filing the Amended Securities Registration Statement (first amendment) concerning tentative decision on the terms and conditions in order to achieve thorough dissemination of information among investors. Therefore if any material company information is likely to arise between the period from the submission of Amended Securities Registration Statement (first amendment) concerning tentative decision on the terms and conditions and the day preceding listing date, the applicant is required to re-consider the financing schedule or listing schedule.

Q27: The items in 3 (3) 2) of the Checklists state “Have you designed and implemented systems to disclose future forecast information (including appropriate performance prospectuses) and made timely and accurate revisions to future forecast information?” Consistent with Standard Market or Prime Market, does Growth Market require Growth Market listed companies to disclose future forecast information including earnings forecast?

A27: Growth Market represents a market which has placed emphasis on information disclosure since future forecast information such as earnings forecasts is very important for the purpose of investment decisions. So Growth Market has requested Growth Market listed companies to disclose future forecast information such as earnings forecasts.

In order to publish future forecast information such as earnings forecast, listed companies are required to appropriately implement the procedures for developing such information with sufficient company-level discussions relying on a reasonable basis and analysis of progress of the performance. In other words such forecast must be developed based on the external factors and demand forecasts in compliance with the internal regulations (including budget and actual results control regulations) in order to avoid any optimistic expectations or arbitrary intentions of specified entities or to avoid misleading investors.

Furthermore, as the performance progresses during the period, some discrepancies arise from the future forecast information.

In such cases listed companies are required to promptly consider revisions to the future forecast information. For that purpose, they must have in place systems to carry out company-level analysis of quarterly operating results. Startup companies or those expanding businesses are eligible for listing on Growth Market. So they may find it difficult to reasonably develop such future forecast information. However despite such circumstances Growth Market listed companies are encouraged to disclose future forecast information such as

earnings forecasts by designing and implementing relevant systems at the earliest point.

(13) Change of Business Year (Accounting Period and Balance Sheet Date) (Checklists No. 3 (5))

Q28: The items in 3 (5) 1) of the Checklists state that “if you made any change to the business year (period or balance sheet date) during the last two years, can you reasonably explain why the change was required.” If there are reasonable reasons, can a change to the period of business year (balance sheet date) to be permitted?

A28: When any change is made to the period of business year (balance sheet date), the contents of disclosure information may not be sufficient in terms of the comparability when compared to operating results for full 12 month period. Especially for an extremely short period of business year, the information for the period may considerably lack adequate value associated with investment information.

However, the applicant is encouraged to carefully discuss the change of period of business year with the lead underwriter from the perspective of the usefulness of disclosure information for investment decisions and the design and implementation of systems for disclosure information after listing.

Q29: The items in 3 (5) 1) of the Checklists state that “If you made any change to the period of business year (balance sheet date) during the last two years, can you reasonably explain why the change was required?” Our company ends December 31 every year. We have been required to receive relevant audits of certified public accountant under Financial Instruments and Exchange Act from the current period. If we change the business year (balance sheet date) in June followed by another change of business year (balance sheet date) in December, the period of the business year comprises only six months. Can we file listing application if we receive an audit for the last two years?

A29: As discussed below at A28, the change of business year (balance sheet date) is not desirable in itself and a reasonable reason for such change is required. Changes of business years for two consecutive periods would not be deemed to have reasonable reason and the filing of the application after such changes in the previous year would not be permitted except for cases with special events.

Q30: The items in 3 (5) 1) of the Checklists state that “If you made any change to the business year (period or balance sheet date) during the last two years, can you reasonably explain why the change was required?” Since we wish to list our stock on Growth Market as soon as possible, we are now considering filing the listing application by changing the end of the business year (balance sheet date) to March 31 and receiving another audit for the second term. Does this give rise to any concerns?

A30: Disclosure data provided to investors by “Part I” documents fundamentally require the disclosure of financial statements for the preceding two years. This is because the comparison of information from the past two years with the current period would provide useful information for investment decisions. However although the comparison of the previous two years would provide useful information, if the length of business year is changed, the adequate comparison would not be achieved as the number of months comprising one business year would differ from that of previous two years and the value associated with investment information would be impaired. Therefore, the change of business year (balance sheet date) during the periods for which relevant disclosures are required would not be desirable; provided that this will not apply to cases where there are reasonable basis for the change for the purpose of operations of the applicant, including the timing of change. In such cases, the applicant is required to include the reasons for the change and supplementary information to ensure the usefulness of information in disclosure package including “Part I” documents and disclose them to investors in an understandable manner.

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(14) Transactions with Related Parties, etc. (Checklists 4)

Q31: When some sales or real estate related transactions have been entered into between the applicant and any related party, how does JPXR evaluate such transactions for the purpose of the examination?

A31: In case of existence of any transactions with related parties, JPXR will evaluate the reasonableness of transactions (necessity for business), adequacy of transactional terms and conditions, and fairness of disclosures of transactions. If any inappropriateness is identified, JPXR will more carefully perform the examination.

For example, the following are identified as inappropriate cases.

(Cases where the reasonableness of transactions (necessity for business) is not recognized)

- The applicant leases any property (e.g., shop continuously making losses for a retailer) inconsistent with business plan or operational strategy;
- The applicant has entered into some transactions via a related party, but the reasonableness of involvement of the related party (necessity for business) is

- not recognized; or
- The applicant has entered into financial transactions in a large amount with a related party.

(Cases where the adequacy of transactional terms and conditions is not recognized)

- The applicant has provided a related party the free rent of vacant spaces in the building owned by the applicant for the purpose of individual business;
- When the applicant sells a corporate property to a related party, the applicant sold the property at a significantly low price despite the large difference between the market value and the book value (market value is significantly below the book value); or
- In commencing or renewing transactions, the applicant has not implemented sufficient research into the adequacy of transactional terms and conditions such as comparison of various quotations (in case of operational transactions) and lease terms of similar properties (lease transactions of real estate).

(Cases where the fairness of disclosures is not sufficient)

- Despite the fact that the applicant has leased a property from a related party, the applicant tried to circumvent the disclosure thereof by entering into the lease with the real estate broker.

When an event does not constitute an operational transaction, it is feared that the event gives rise to the provision of undue benefits via other management activities consistent with cases below and JPXR will carefully examine these issues.

- A company is deemed to have purchased a vast amount of artistic Rules such as paintings to satisfy individual hobbies or preferences of officers of the company; or
- It is deemed that properties purchased by the company (including real estate, company car, boat, airplane, golf course membership, etc.) have been used for personal purposes of specified officers, etc. of the company.

Q32: We have paid advisor fees to related parties by entering into an agreement with them. How will JPXR evaluate these cases?

A32: The important point is that transactions with related parties should be truly justified when considering the interest of the company first.

In cases where a related party is requested to serve as an advisor (needed for the purpose of business), JPX-R will examine the reasonableness of the request in consideration of the roles expected of the advisor and actual performance of those roles. As a result, an applicant is required to terminate any transaction for which reasonable explanations are not given sufficiently.

JPXR will then examine whether the advisor fee would be adequate based on the roles expected of the advisor or the actual performance of those roles by confirming the method and basis for determining the advisor fee and its

absolute amount (*). As a result, an applicant is required to revise the advisor fee for any transaction that has not been reasonably explained.

For the execution of an advisor agreement or the determination of an advisor fee, the details should preferably be determined through a consultation involving independent directors rather than the decision of some management personnel.

In addition, even if a request to a related party to serve as an advisor (necessity for the purpose of business) or the adequacy of an advisory fee can be reasonably explained for the purpose of a listing examination, the necessity of executing the advisory agreement or the roles required of the advisor would change according to evolving circumstances of the applicant or related party entering into the advisory agreement. Therefore, the applicant is required to have a mechanism in place to review and address such a change on a timely basis.

(*) One of the thresholds is to compare the compensations of directors, etc. required to fulfill legal responsibilities with the compensations of advisors. In cases where a director holds a position of advisor after retirement, it would be useful to compare the compensation as a director with the current compensation as an advisor.

Q33: Systems to check and balance the related party transactions are required to be established. How will JPXR make examinations in relation to these issues?

A33: A degree of such systems to be designed and implemented may differ depending on policies for related party transactions, existence of related party transactions and status of related parties, etc. JPXR will comprehensively evaluate these issues by assessing the method to identify, consider and follow up related party transactions.

For example, when the applicant has developed policies to permit some related party transactions and related party transactions have practically taken place, the applicant is encouraged to have addressed the following issues:

- Can the applicant identify any related party transaction before entering into it?
- Has the applicant verified the adequacy of transaction or the terms and conditions of transaction by means of the resolution at the Board of Directors or reporting thereto or by checks of independent directors/auditors or company auditors before entering into such transactions?
- Has the applicant periodically verified the adequacy (necessity for business) and the terms and conditions of continuous transactions with related parties as the Board of Directors discusses the adequacy thereof at the meeting for closing of accounts or the applicant include them within the scope of audits by company auditors?
- Has the applicant ensured that such procedures could be applicable consistently after listing as the regulations and manuals (Regulations on the

Board of Directors, Regulations on the Committee of Company Auditors, Regulations on Request for Approval, Compliance Regulations and other sub-manuals) provide for necessary procedures?

On the other hand, if an actual (or expected) related party transaction takes place as a part of activities of general consumers or constitutes a transaction with a major shareholder (who is not a parent company, etc.) and similar transactions have been entered into with many other companies, subsequent assessment mentioned in A34 would be sufficient.

This is illustrated in the context of the implications associated with related party transactions. So, if JPXR can confirm any check and balance systems in terms of related party transactions, they would not give rise to any problems in this respect. The applicant is encouraged to design and implement the systems in consideration of actual status of the applicant.

Q34: We have developed company policies which would not permit any related party transactions. Under these circumstances, do we have to design and implement such mechanism?

A34: A company has developed policies which would not permit any related party transactions, no such transactions have actually been entered into and it is highly unlikely that such transactions would take place on the basis of status of related parties, etc. In such cases, if the company consistently applies the procedures which have been implemented to review the items to be described in the Securities Report (subsequent procedures including separate inquiry to officers, confirmation of related parties against the list of trading partners), such consistent application would not give rise to any problem in this respect. However, there is possibility that a related party transaction may consequentially prove to have taken place. In such cases, the company is required to appropriately follow up the transactions by reporting them to the Board of Directors or having them examined by company auditors.

Q35: If there is any transaction involving the management, how do the examiners assess the transaction? Reference to “any business acquired or planned through the efforts of the management in itself, or any project whose necessary matters are exceptionally determined by the management” is made in this. What transactions do they actually refer to?

A35: The examiners will not question any transaction involving CEO and others immediately during the course of their assessment. However, appropriate check and balance functions are unlikely to internally apply to such transaction. As such, the transaction may result in some frauds. Therefore, the examiners will assess whether an appropriate system has been developed and operated where such project will be considered at the corporate level and appropriate check and balance functions will be applied properly, and whether or not any transaction involving the management, which was actually carried out, is an inappropriate

one. If such assessment highlights that there is any inappropriate element in the transaction, the examiners will carefully examine the listing application. Any transaction which took place in the last two years and during the period for the application is expected will be subject to the assessment. Projects which may meet the reference to “any business acquired or planned through the efforts of the management in itself, or any project whose necessary matters are exceptionally determined by the management” may include the following:

Projects which may meet the reference to “any business acquired or planned through the efforts of CEO and others, or any project whose necessary matters are exceptionally determined by the management” may include the following:

- Transactions: the management discover customers through its own relationship, negotiate the terms and conditions and finally succeed in the acquisition;
- Transactions: the management specifically develop the plan for the operation of shop or outlet and the plan is implemented;
- Transactions, where general managers or those in similar position usually perform any procedures for the credit grant or conclusion of agreement and decide on them, the management will exceptionally make such decision;
- Transactions: where the request for approval regarding the grant of credit or conclusion of the agreement is dissented and rejected before the request is submitted to the management, the request is exceptionally submitted to the management, who is finally approves it; or
- Transactions: Though they are not entered into by the company in normal cases, the company enters into the transactions as the management is involved.

VI

(15) Parent Company, etc. (Checklists 5 (1))

Q36: When there are companies in the corporate group of the parent company, etc. which perform businesses similar to those carried out by us, how does JPXR evaluate such situations for the purpose of the examination?

A36: It may be assumed that the parent company, etc. leverages its controlling power to restrict or coordinate the business activities of the applicant. JPXR will assess whether the applicant ensures sufficient independence from the parent company, etc. such that the applicant would not be exposed to undue business coordination of the parent company, etc. in consideration of the reasons for the occurrence of competition between the parent company, etc. and the applicant, the reasons for performing businesses independent of the parent company, etc., the nature of business coordination and management of subsidiaries of the parent, and the possibility of impeding the independence of the applicant in the future.

In addition, when the boundaries of products and sales regions have clearly been defined between the applicant and the companies performing businesses similar to those of the applicant, JPXR may determine that it is unlikely that the businesses of the applicant would be restricted or coordinated in future.

In the meantime, when any competition with the applicant has already

occurred, JPXR may require the applicant to disclose the situations by asking the view underlying the competition in order to protect the minority interests through interviews with independent directors/auditors.

Q37: There is a requirement that “JPXR will assess whether the applicant ensures sufficient independence from the parent company, etc. such that the applicant would not be exposed to undue business coordination of the parent company, etc. in consideration of the reasons for the occurrence of competition with the parent company, etc. and the applicant, the reasons for performing businesses independent of the parent company, etc. and the nature of business coordination.” In practice, which cases would give rise to problems in this context?

A37: Cases where the business activities of the applicant are restricted or coordinated and the independence of the applicant is denied may include the following:

- It is determined that the applicant is forced by the parent company, etc. to manage a loss making shop in the area where the applicant competes with the parent company, etc.;
- The sales of new products of the applicant are restricted or the timing of launch is changed at the sole discretion of the parent company, etc.
- Though the applicant receives orders which the parent company, etc. cannot handle, many of such orders are not profitable or the parent company, etc. generates undue profit;
- Managers or a large number of employees for the business of departments or divisions which compete with the parent company, etc. are seconded from the parent company, etc.

Q38: Requirements of criterion and focus of examination at “2.Soundness of Corporate Management (Rule 219, Paragraph 1, Item 2 of the Regulations)” states that “if the seconded persons are assigned to the positions as officers or general managers who manage departments susceptible to the influence of the parent company, etc. from the perspective of independence, JPXR will be concerned with such situations from the perspective of independence from the parent company, etc.” In practice, who meets the definition of officers or general managers who manage departments susceptible to the influence of the parent company, etc.?

A38: If seconded persons from the parent company, etc. are assigned to positions of officers, etc. who manage sales departments of the applicant which has recognized a vast amount of sales from the parent company, etc., the seconded persons and the parent company, etc. may mutually determine the selling prices or transaction amounts of the applicant. In such cases, they would be highly likely to be regarded as officers or general managers having influence over the applicant. The same would apply to cases where the seconded persons are assigned to positions of officers, etc. who manage departments or divisions

which may have significant influence over the decision making for the management of the applicant, including the management planning department.

Q39: Managers (general managers or authorized to make necessary decisions) responsible for significant departments (financial department or sales departments which carry out transactions with important customers) are seconded from external entities (financial institutions or large customers or suppliers? How are such cases assessed for the purpose of listing examination.

A39: When managers responsible for significant departments or divisions are seconded from other entities, JPXR will assess whether such secondment has not been forced (i.e., proprietary business management systems have not been impeded) and whether the replacement will readily be available by recruiting relevant persons or elevating internal staff members to such positions. When JPXR determines that the applicant could address such situations by applying these approaches, JPXR may positively assess them for the purpose of the examination.

(16) Change in shareholders before the listing (Checklists 5 (2))

Q40: In cases where a change in shareholders takes place before listing, what aspects does JPXR confirm for the purpose of the listing examination?

A40: In cases where any change in shareholders takes place before listing, JPXR confirms the attributes of each shareholder, the reasons why the change has taken place, and the scheme to transfer the shares and determining the share prices before and after the Change. If, for example, JPXR is concerned with the share transfers at an unreasonable price or repeated changes in large shareholders, JPXR will confirm the circumstances on the assumption that some specific persons may have unduly benefited from the transfers. In light of this, JPXR will assess whether the transfers will adversely affect general shareholders after the listing.

An applicant is required to include appropriate descriptions of share transfers in the section "Risk Information pertaining to Business" included in "Part I."

(17) Examination of Business Plan (Checklists 6 (2))

Q41: With respect to the explanation of "business plan" mentioned at 6 (2) of the Checklists, should we illustrate materials on which we base our explanations and the extent of our explanations?

A41: Please explain them on the basis of data concerning business plan which you currently hold, including disclosure draft of "Matters Relating to Business Plan and Growth Potential".

In addition, for business plan, you are encouraged to present management policies and growth strategies in consideration of business models of corporate group, market environments and sources of competition and specific measures

to realize them and explain them based on major management indicators. With reference to “period” it may be change dependent on business contents and business model of each company. By the way, in disclosing “Matters Relating to Business Plan and Growth Potential,” each company is recommended to determine appropriate period such that investors could make reasonable investment judgments.

Q42: With respect to “future forecast information such as prospectus for operating results” at 6 (4) the Checklists, what data should we use for the discussion thereof?

A42: For example, in discussing future prospectus, you may use data related to the progress of the plan to generate profits for the period in which the listing was achieved (including monthly earnings data).

(18) Design and Implementation of Management Control Systems (Checklists 6 (5))

Q43: When we have not prepared any flow chart illustrating the flow of administrative works mentioned at 6 (5) a of the Checklists, how can we explain the flow of administrative work?

A43: When you explain the flow of administrative work without using a flow chart, you may do so by presenting copies of vouchers and evidences you are actually using. Or JPXR will check the flow by reading data processed electronically (data processed by personal computers). If any tool or approach more suitable for the explanation is available, it will suffice.
In addition you may re-use a flow chart developed for the internal audit system.

(19) Others (Checklists 6 (10))

Q44: We have entered into a contract with specified large shareholders including provisions concerning a pre-approval of significant item (large capital expenditure project) or grant of rights to appoint relevant officers. How does JPXR assess such situations for the purpose of the listing examination?

A44: Such contract needs to be canceled before the application mainly because the contract is likely to impair the rights of other shareholders.

2. Other

(1) Drug Discovery & Development Business

TSE has clarified general “concepts of listing and focus points of examination” which may help a company make relevant preparations for listing in consideration of respective business models and provided “illustrative examples” via TSE’s homepage (<https://www.jpx.co.jp/equities/listing-on-tse/ipo-benefits/02.html>)

At a consultation window for listing life science bio-business, TSE will provide support services fit for each stage so that life science bio-business related companies could realize initial listing through smooth preparation for listing.

This window is available not only for companies preparing listing, but for companies which are going to consider listing from now. Anyone can feel free to use the window as it will address various requests from market participants supporting such companies.

It will provide consultation to companies at early stage or those whose development activities have not been long. It will answer questions concerning listing criteria or listing system in an understandable manner.

Life Science Bio-Business Listing Consultation Window, Listing Promotion Department, Tokyo Stock Exchange, Inc.

Q45: What points are important for drug development companies to be listed?
Usually they need a lot of payout time for their investment.

A45: The drug development companies have high specificity compared to other categories of businesses because they need a lot of payout time for their investment, they have no products and are in the process of research and development for drug at the time of listing, they need high degree of expertise, administrative authorities hold the authorization right of their enterprise, and they need complex management technologies for intellectual property rights and so on. Therefore it may be relatively risky for general investors to invest in

such drug development companies according to the circumstances. Then we recommend you (the drug development companies) to address the points described below, when you apply for listing on Growth Market.

- a. Have any medicinal values been proven in clinical trials covering patients in your pipelines?
- b. Have you given specific priorities to your pipelines with respect to their commercialization prospects? And have they been managed appropriately?
- c. For major pipelines, have you provided relevant means to ensure development and commercialization (manufacturing, sales and others) in the future through alliance(s) with a pharmaceutical company?
- d. Have you protected the intellectual property rights of your main pipeline(s) considered to be necessary in your business?
- e. Does the right person, who has good experience and know-how about drug development, take up the important post?
- f. Through your explanation, can we confirm the validities of your capital demands at the time of, and after, your listing?
- g. Can you provide concise and understandable disclosures to investors without expert knowledge about your company, risks of your business and other factors influencing investment decision?

Of course you are required to fit out the points which are required to all applicants, like "Organized Operation", "Compliance", "Governance" and so on.

Q46: We bring drug development into the heart of our growth. So if we'd like to be listed on Growth Market, will we have to fulfill all the seven points?

A46: It is preferable to meet these points, if you bring drug development into the heart of your growth. However bio-business has extensive variation of the corporate structure, and it may often be evolving. Therefore we can assume some of the points could prove unsuitable for you. In such cases you have to explain rationally that they will not push up your business risk relatively.

Q47: We have only one pipeline. Are there any problems for listing?

A47: "Going concern" is basic premise of a listed company. On the other hand, it is true that drug development is high-risk business. If your development with the only pipeline you have would collapse, it would be that you fall into bankruptcy. Therefore it is preferable that listed drug development companies would have back up project.

In addition, it isn't necessary to care the phase of the backup project as far as it properly acts as the backup.

Q48: We have carried on drug development without alliances with any pharmaceutical companies. So we have no alliance with such companies. Are there any problems for listing?

A48: You have to explain your strategy (why you don't need the alliance with a pharmaceutical company) or your plan for commercialization of your new drugs. And you have to explain rationally that some medicinal values have been proven in clinical trials covering patients in your main pipelines, and your new drugs concerning your pipelines will be marketable.

Q49: We have formed a business alliance with a pharmaceutical company related to the preclinical study. In this case, is it necessary for us to have a pipeline of which some medicinal values have been proven in clinical trials covering patients?

A49: You have to explain rationally how risks associated with new drug discovery or commercialization of an applicant have been reduced by the alliance, and what the pharmaceutical company's strategy is and so on.

Q50: Do we have to choose only pharmaceutical companies as the counterpart of the alliance?

A50: In general, it is difficult to assume that drug development bio-venture companies carry on all the value-chain of new drugs, such as development, manufacturing, placing on the market, sales and follow-up at the post-market, by themselves. Therefore main objective for an applicant to form an alliance is to complete or supplement the value-chain. As such counterpart of the alliance must be a company which can fulfill such objective. We can easily imagine large domestic or foreign pharmaceutical companies as the counterpart. But there are other options if non-pharmaceutical companies may fulfill the objective well and you will be able to explain that rationally.

Q51: We have entered into an alliance agreement. What information should we specifically disclose about the alliance?

A51: In general, we believe terms and conditions of alliance agreements concluded with pharmaceutical companies are often regarded as material information which is likely to have significant effect on investment decisions of investors. Therefore, an applicant is encouraged to make specific disclosure using relevant figures and data as much as possible, considering "Examples of major contents deemed desirable to be disclosed" below.

An applicant is not required to automatically disclose items for which the applicant cannot disclose by its own decision because of the nature of contract with the other party. In such cases, the scope, etc. of items that can be disclosed will be confirmed again during the listing examination.

<<Examples of major contents deemed desirable to be disclosed>>

- a. Title of contract
- b. Name of the other party to the contract
- c. Contract period

- (a) Date on which the contract was signed
 - (b) Events leading to the termination of contract
- d. Drug
 - (a) Disease
 - (b) Drug
 - (c) Region(s)/country(-ies) where the drug is to be available
 - (d) Scheme of rights sharing/attributing
 - (e) Terms of sub-licensing (where applicable)
- e. Terms of entitlement to receive consideration
 - (a) Upfront payments
 - (b) Collaborative payments for the development
 - (c) Milestone payments
 - (d) Royalty payments
 - (e) Royalty payments to third parties (where applicable)
- f. Terms for discontinuing development under the contract
 - (a) Main conditions for suspension
 - (b) Rights to be attributed to an applicant in the event of suspensions of new drug development
- g. Cost sharing
 - (a) Terms of sharing responsibilities and cost for the development of the drugs for clinical trials under the agreement
- h. Other items which may have significant effect on investment decisions

In addition, the applicant should update its disclosure of above information, after listing, in light of the progress of pipeline developments, etc.

(1) Start-up Companies Based on University Research

Q52: When an entity carries out a major business by leveraging intellectual properties owned by a university, including patents, is an applicant to be required to obtain the intellectual property rights by the time of listing approval?

A52: In case of companies which carry out major businesses by exclusively using specified intellectual properties owned by others under relevant contract (Note1), such companies are, in principle, required to obtain the intellectual properties from the owner for listing because the continuation of business would be difficult if the contract related to the intellectual properties is terminated. However since universities have obligations to contribute to the public interest, the results and value of research at universities must be returned to society (Note 2). Thus we should be able to effectively address concerns with the likelihood that the intellectual properties are not used after the transfer (cessation of intellectual properties) or that they are not used as intended by the universities (Note 3). Thus the receipt of intellectual properties from universities would be difficult. In such a case, the applicant is required to clearly explain that the rights of the applicant to use the intellectual properties continue to be protected after listing by virtue of relevant contract with the university in

consideration of the following points:

- 1) Does the contract provide that the applicant can exclusively use the intellectual properties by receiving the exclusive rights to use the intellectual properties (Note 4) and defend the applicant against any claims for breach of patent?
- 2) Does the university which owns the intellectual property rights properly fulfill the obligations to manage and control the intellectual properties?
- 3) Does the contract provide an adequate period for allowing the applicant to continue to perform businesses after listing?
- 4) Does the contract clearly specify any costs incurred for the performance of the intellectual properties?
- 5) Does the contract represent that the contract cannot be terminated unilaterally by the university (Note 5) or cannot be revised with onerous terms and conditions?

The terms and conditions of the contract are expected to constitute information that significantly influences the investment judgment. So the applicant is required to take necessary steps to be relieved of confidentiality obligations such that the information related to the contract could be disclosed.

(Note 1) This does not apply to cases where any alternative technology is available or the intellectual properties are not significant for the purpose of businesses as they are used in combination of a large number of other technologies.

(Note 2) For example, Rule 22, Paragraph 1, Item 5 of the National University Corporation Act provides that “the businesses performed by national universities shall constitute the ones that contribute to research results of universities accepted and used widely and promote them.” As such research results shall be returned to society as a whole.

(Note 3) Some universities prohibit their research results from being applied to military purpose or other unethical purposes.

(Note 4) Exclusive license represents the rights that allow the applicant to exclusively make inventions associated with patent and claim the injunction or the compensation for damages. Such rights would take effect when they are registered with the Patent Agency. In addition, if it is highly appreciated that the applicant has applied a scheme to ensure the protection of exclusive use of intellectual property rights consistent with exclusive license, such scheme would be permitted for the purpose of listing examination, not necessarily limited to the exclusive license.

(Note 5) If a party to contract is not a university but is deemed to be appropriate from the viewpoint of continuity of business by the applicant, such party would be permitted for the purpose of listing examination, if the holder of intellectual property rights is not an

university.

Q53: If we have entered into a contract with a university concerning intellectual property rights, what matters are we to be required to disclose in practice?

A53: When you have entered into a contract with a university, you are encouraged to make specific disclosure using relevant figures and data as much as possible, considering "Examples of major contents deemed desirable to be disclosed" below.

<<Examples of major contents deemed desirable to be disclosed>>

- a. Title of contract
- b. Name of the other party to the contract
- c. Contract period
 - (a) Date on which the agreement was signed
 - (b) Events leading to the termination of contract
- d. Contents of contract
 - (a) Details of targeted technologies;
 - (b) Scope of license
- e. Payment terms;
 - (a) Upfront payments
 - (b) Milestone payments;
 - (c) Running royalties
 - (d) Other
- f. Terms of distribution of income associated with sub-licensing of rights
- g. Terms of termination of contract
- h. Other items considered to significantly influence the decision judgment

The applicant is required to disclose the terms and conditions of the contact after listing (Note).

(Note) Pharmaceutical biotechnological ventures are encouraged to make practical disclosures in consideration of "Examples of major contents deemed desirable to be disclosed" in "Q&A for pharmaceutical biotechnological business," in addition to the items mentioned above.

Q54: What considerations should we make when an officer or employee of the applicant concurrently teaches at a university as a professor?

A54: When an officer or employee of the applicant concurrently teaches at a university as a professor, the applicant is first required to reasonably explain that the activities of the officer or employee at the university do not impede the duties thereof at the applicant.

In addition some universities require relevant procedures in advance when a professor concurrently will hold a position at another entity. Therefore the officer or employee must fairly comply with the procedures. In addition, they are also required to comply with the regulations and rules set forth by the

university for the professor.

Furthermore, the applicant and university are required to appropriately establish a system to address any issues giving rise to conflict of interests. For example, when the laboratory for which the professor who is concurrently an officer or employee of the applicant works jointly to conduct collaborative research with the applicant, the university and applicant are required to have in place the systems to avoid any acts which prefer the interests of some specified entities in conjunction with the adequacy of attribution of inventions to the professor or costs and percentage of costs incurred for the joint research. Consistent with other entities, the applicant considers issues associated with conflict of interests arising from relationships with special interested parties, companies with human relationships, and companies with financial relationships or large shareholders.

Q55: What considerations should we make when we allot shares to a university or professor?

A55: University oriented ventures are characterized by the conclusion of a contract with a university or professor or the implementation of joint research. Therefore it is highly probable that the university or professor may gain knowledge on material facts in advance besides the officers and employees of the applicant. Any trading (sales of shares held or purchase of new shares of the applicant) of (listed) shares of the applicant by the person who obtains material information before the announcement thereof is prohibited by relevant laws as insider trading for the purpose of confidence in financial instruments markets. Such insider trading would have an adverse impact not only on the person who actually commits the insider trading, but on the university oriented venture. In this context, the applicant is required to make necessary explanation on any insider trading at the time of allotment of shares or listing approval if the applicant intends to allot shares to the university or professor who is likely to gain knowledge on material facts in advance. Even if such share allotment is not effected, it is highly probable that the professor may possess material information as the professor enters into a license contract or joint research contract. So, relevant measures consistent with the above should be undertaken.

In addition, if the applicant effects a share allotment after one year immediately preceding the end of application year, the applicant shall require the party which receives the share allotment to promise in writing to the applicant in advance that the party will continue to hold such allotted shares.

Q56: What considerations should we make when we have entered into a joint research contract with a university (Note 1)

A56: With respect to a university oriented venture, it is likely that the performance of the joint research with a university may have significant effect on businesses of the applicant after listing. Therefore, the joint research contract must clearly

provide for the matters related to the attribution of operating results or costs associated with the joint research.

In addition the joint research related to the major businesses of the applicant is likely to constitute information which may significantly influence the investment judgments of investors, so the applicant is required to appropriately disclose the nature of the joint research to investors (Note 2). Therefore, the applicant is required to undertake relevant measures to be relieved of confidentiality obligations such that the applicant may disclose the nature of the joint research contract, which may have a significant impact on the investment decisions of investors.

(Note 1) Joint research represents a research project jointly implemented on common issues under the contract between a university and a company. However, since private consultation voluntarily accepted by a professor or advice given by a professor in the capacity of an advisor or other incidents such as scholarship donations to a university would take place at the discretion of the company and the company cannot claim any consideration to the university, they would not constitute any joint research project mentioned above.

(Note 2) A university oriented venture is expected to enter into various joint research contracts and the applicant is encouraged to disclose the nature of such contracts in consideration of a degree of significance of effects which disclosures would have on the business of the applicant.

(2) In cases where a large amount of goodwill or borrowings has been recognized

Q57: In the event a large amount of goodwill or borrowing has been recognized from the acquisition, etc. of a business or company, how would it be judged for the purpose of examination?

A57: In cases where a large amount of goodwill is recognized, the profit will significantly decrease if some or all of goodwill recognized is impaired after the listing. If the amount of goodwill exceeds the net assets, the total amount of liabilities may exceed that of assets. These circumstances will significantly affect the going concern assumption of the business. In such a case, JPXR will examine the reasonableness of the business plan and conditions of the testing of goodwill for impairment and comprehensively assess whether the listing should be approved.

In cases where a large amount of borrowings is recognized, the borrowings are likely to have a significant effect on the going concern assumption of the business when the applicant delays the payment after the listing or is not able to pay the debts depending on financing conditions as the applicant fails to comply with financial covenants and is required to pay a debt fully at one time. In such a case, JPXR will, for example, examine the following points and comprehensively determine whether the listing should be approved:

- Whether negative pledge or financial covenants are provided. If so, the nature thereof and probability of breach of covenants

- Whether the borrowings have been properly paid or payments are expected to properly continue after listing (*)

(*) JPXR will, for example, examine whether the amount of borrowings and payment schedule for the borrowings have been reasonably established based on the business model or industry trend or cash flow conditions, or whether the payments have been stably made based on a payment schedule so established.

In addition, in cases where any provisions which significantly restrict the freedom of management of a listed company have been provided under loan agreements, etc. entered into between an applicant and a lender such that the approval of the lender is required in advance for any amendment to a significant provision in Articles of Incorporation or issuance of securities, the applicant will be required to modify the agreement or remove any related provisions.

An applicant is required to appropriately include descriptions of such matters in the section ""Business Risks, etc." included in "Part I."

(3) When a LBO (Leveraged Buy-Out) is effected

Q58: When a large amount of goodwill and borrowings is recognized as a result of a leveraged buy-out (LBO)? How will such situations be assessed for listing examination purpose?

A58: LBO itself is one of approaches applied to acquisition of a company, and LBO will not be questioned. However a large amount of goodwill and borrowings of an applicant arising from LBO may increase financial risks, which are not desirable to shareholders after listing. If an applicant fails to reduce financial risks or consistently improve enterprise value after LBO, parties involved in LBO will be alleged to have placed priority on their own interests and passed risks onto shareholders after listing, such situation will be questioned from the aspect of soundness of company management.

Consistent with the above, if any shareholders involved in LBO remains at the applicant as management, JPXR assesses whether the applicant can provide and improve governance system tailored to the conditions of applicant. Such system includes appointment of independent directors and auditors which can sufficiently implement check functions, and establishment of nomination and compensation committee where independent outside directors would account for the majority of the Board of Directors.

Also, when an applicant has recognized a large amount of goodwill and borrowings as a result of LBO, JPXR will assess whether financial risks arising from goodwill and borrowings have been reduced correspondingly in consideration of progress of businesses after LBO and actual implementation of measures to improve enterprise value. Especially, for any company whose business base is unstable as profit level is low for listing on Growth Market, JPXR will assess plans relating to borrowings and cash flows more carefully.

In addition, JPXR will assess the view on risk taking when shareholders involved in LBO sell a large number of shares at the time of initial listing.

JPXR will also consider the period from the implementation of LBO to listing. Based on these results, JPXR will comprehensively determine the appropriateness of listing.

An applicant is required to appropriately include descriptions of notion on reduction of financial risks and enhanced enterprise value after listing in "Part I."

(4) Payout, etc. of a large amount of dividends

Q59: If a large amount of dividends has been paid or treasury stocks have been acquired, how does listing examination treat them?

A59: As long as dividend payments or acquisition of treasury shares (collectively referred to as “dividends, etc.”) are made consistent with the procedures in the Companies Act, they will not be questioned. However, if before listing, an applicant paid out a large amount of dividends, etc. significantly exceeding dividend payout ratio expected after listing, it may significantly affect the investment plans or financial strategy after listing. Therefore, judgment in such cases should anticipate the management plan after listing.

Based on this notion, if an applicant paid out a large amount of dividends before listing, JPXR will assess the reasons why such payment was made (basis for the timing and amount, consistency with management plan after listing) and procedures to determine them. Especially, in cases where as an applicant has controlling shareholders, influences of specified large shareholders are strong and relevant discussions have not been made in anticipation of governance system after listing such as appointment of independent outside directors, JPXR will carefully assess such cases from the viewpoint of soundness of management as they might be regarded as excessively passing risks onto shareholders after listing.

Also, the applicant is required to include appropriate descriptions of reasons for dividend payments, etc. and dividend payout ratio after listing in “Part I.”

If the applicant has made a large amount of borrowings to make the payment of such dividends, etc., JPXR will make relevant judgment for listing examination comprehensively together with other issues to be confirmed concerning financial risks (including the contents of Q57 and Q58).

(5) Application for alteration of markets for companies concerned with delisting

Q60: When a company concerned with delisting (those which have entered into, or are expected to enter into, improvement period in terms of listing maintenance criteria) applies for change of market section, how are they to be treated for the purpose of listing examination?

A60: Companies concerned with delisting have often encountered some problems including financial difficulties. As such, when a company concerned with delisting applies for change of market section, JPXR will make more careful examination (in particular with focus on business plan).

(6) Listing concurrent with convertible bonds with subscription warrants

Q61: We issued convertible bonds with subscription warrants. May we list them concurrent with common stocks?

A61: For an unlisted applicant, concurrent listing of multiple classes of instruments on initial listing day will not be permitted in order to ensure fair price formation and protect investors, so, the applicant cannot list convertible bonds with subscription warrants. Therefore, their listing must be effected after some time passes since the day following the determination of initial price for initially listed stock. The “some time passes since the day following the determination of initial price for initially listed stock” will be decided in consideration of period required for thorough dissemination of the price to investors and for the preparation of securities companies.

VII Receipt or Transfer of Stocks, etc. Before Listing and Allotment, etc. of Offered Stocks through Third Party Allotment

When a company, etc. not listed on another financial instruments exchange in Japan files an application for listing on TSE marketplace, for the purpose of ensuring the fairness of going public, TSE shall prevent any specified person from performing any acts resulting in gaining of short-term profit as a result of allotment by an applicant of offered stocks or offered subscription warrants in a period in which it is highly probable for stocks to be listed. For such purpose, “Receipt or Transfer of Stocks, etc. Before Listing” and “Allotment, etc. of Offered Stocks through Third Party Allotment” provide for necessary requirements. This chapter “VII Receipt or Transfer of Stocks, etc. Before Listing and Allotment, etc. of Offered Stocks through Third Party Allotment” explains specific requirements.

<Scope>

Regulations in this chapter shall apply to all the applicants except for any entity which falls within the category of the following:

- (1) An issuer of a domestic stock listed on any other domestic financial instruments exchange;
- (2) An applicant to whom the provisions for technical listing apply;
- (3) An issuer of domestic stock listed or continuously traded on a foreign financial instruments exchange;
- (4) An initial listing applicant who is a company to succeed to the business of a listed company, an issuer of stocks, etc. listed on any other financial instruments exchange in Japan, or an issuer of domestic stocks, etc. listed or continuously traded on a foreign financial instruments exchange, etc. through a shareholder-directed spin-off (limited to cases where the business to be succeeded by the initial listing applicant would become main business of the applicant) and intends to apply for listing prior to said shareholder-directed spin-off.
- (5) Foreign company

(Rule 222 of the Regulations, Rule 244 of the Rules)

1. Receipt or Transfer of Shares, etc. before Listing

(1) Descriptions Concerning the Status of Changes in Shares before Listing

When special stakeholders, etc.(Note 1) received or transferred stocks or subscription warrants issued by an applicant (including the exercise of subscription warrants; hereinafter referred to as "change to shares, etc.") during the period from the date corresponding to the end of two years immediately preceding the business year to which listing application date belongs (Note 2) to the date preceding the listing date, the applicant is required to describe change to the shares, etc. in "Information on Share Offering: Change to Shares of First Category Special Stakeholders" of "Part I" documents. In describing them, the basis for the determination of prices should be provided in an understandable way to investors with reference to "Exhibit 7 to Enforcement Rules for Securities Listing Regulations: Regarding Descriptions of Price Calculation Methods" and "Examples of Descriptions". However, this shall not apply to cases where shares issued by the applicant have been listed on a specified financial instruments exchange market.

(Rule 266 of the Rules)

(Note 1) A special stakeholder is special stakeholders mentioned in Article 1, Item 31 of the Cabinet Office Order on Disclosure of Corporate Affairs and specifically refers to the following:

- 1) Special stakeholders pertaining to an applicant
- 2) Ten (10) largest shareholders pertaining to the applicant;
- 3) Company having personnel relationship or capital relationship with an applicant and the officers thereof; or
- 4) Financial instruments business operator, etc. and the officers thereof, having personnel relationship or capital relationship with an applicant

(Note 2) For example, if the end of the year immediately preceding the year to which the listing application date belong is March 31, such date is April 1 of two years ago.

(2) Retention, etc. of the Record of Changes in Ownership of Stocks, etc. Before Listing

The applicant shall retain the record about the description of the changes in ownership of stocks, etc. for a period of five (5) years from the listing day.

In addition, in cases where TSE determined, based on the examination of the record submitted, that the description of the changes in ownership of stocks, etc. provided pursuant to the provisions of the preceding rule was clearly inaccurate, TSE may publicize the corporate name of the initial listing applicant and the managing trading participant concerned and the fact that said description has been determined to be inaccurate.

(Rule 267 of the Rules)

2. Allotment of Offered Stocks through Private Offering, etc. Before Listing

(1) Regulations on Allotment of Offered Stocks by Third-Party Allotment, etc.

1) Submission of documents certifying assurance pertaining to continuous holding

When an applicant has made an allotment of offered stocks through third party allotment after the date corresponding to the end of business year immediately preceding the application year (Note 1) (Note2), both of the applicant and the party which received the allotment shall promise to meet items mentioned in 2) below and submit the document certifying such promise. When the applicant does not submit the copy of statement, TSE may not accept the listing applicant or may revoke the acceptance of the listing application. Whether such allotment has been effected will be determined based on the payment date for the offered stocks or the end of payment period (Note 2)

(Rule 268 of the Rules)

(Note 1) With respect to allotment of offered stocks prescribed in Article 199, Paragraph 1 of the Companies Act, this refers to a method other than allotment to shareholders.

(Note 2) (1) Cases where an applicant absorbs and merges another company, (2) any stocks issued when turning another company into a fully owned subsidiary through stock swap, or (3) stocks issued when an applicant is established by stock transfer, do not meet the definition of "allotment of offered stocks by third party allotment, etc. However concerning the another company in (1) and (2) above or a company to which stocks are transferred in (3) above, TSE may require a written assurance concerning continuous holding of stocks of the applicant in consideration of the meaning of rules to prevent short time profit from being gained by a specified entity, if the applicant carries out the allotment of offered stocks by third party allotment after the date of one year ago corresponding to the last day of the previous year.

2) Items requiring relevant assurance

Items requiring assurance are as follows: Documents certifying the assurance (assurance document) shall be prepared with reference to the form in "A Documents to Be Submitted Pertaining to Initial Listing Application (assurance document pertaining to continuous holding."

(Rule 268, Paragraph 1 of the Rules)

i Continuous Holding

A person who received the allotment shall, as a general rule, continue to hold the stocks allotted to them (hereinafter referred to as the "allotted stocks") since the day on which the stocks are allotted until the day on which six (6) months have passed since the listing day (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares). In this case, if a person who received the allotment acquires new stocks or subscription warrants as a result of stock split, gratis allotment of shares, or gratis allotment of subscription warrants with respect to the allotted stocks, or conversion of the allotted stocks to another class of stocks or subscription warrants, they shall continue to hold such newly acquired stocks or subscription warrants (hereinafter referred to as the "newly acquired stocks, etc. pertaining to the allotted stocks") until the same day;

(Note) "Conversion" means a transaction where with respect to shares, a company acquires shares issued by the company and at the same time delivers other shares or stock acquisition rights in exchange for such acquisition while with respect to subscription warrants, a company acquires stock acquisition rights issued by the company and at the same time delivers other shares or subscription warrants in exchange for the acquisition.

ii Report to the Applicant when Transferring the Allotted Stocks

A person who received the allotment intending to transfer the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks shall notify the applicant of the intended transfer in advance and report the result of the actual transfer to the applicant after the fact;

iii Submission of Report to TSE when Transferring the Allotted Stocks

In cases where a person who received the allotment acquires transferred the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks, the applicant shall submit to TSE a document containing the name and address of the transferor and the transferee, the number of stocks transferred, the date of transfer, the transfer price, the reason for transfer, and other necessary matters at the time of initial listing application, if such transfer was executed before the initial listing application day, or immediately after such transfer, if such transfer was executed on or after the initial listing application day;

iv Report by Applicant to TSE in Response to Inquiry of TSE about Ownership Status

In cases where TSE makes an inquiry about the holding status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks as TSE deems it necessary, the applicant shall report the ownership status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks to TSE without delay after confirming, as necessary, the holding status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks with the person who received the allotment;

v Report by a Person who Received Allotment to Applicant in Response to Inquiry on Holding Status

When a person who received the allotment received a request for confirmation concerning the holding status of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks from the applicant, the person shall report such holding status to the applicant immediately;

vi Agreement Concerning Availability for Public Inspection

A person who received the allotment shall agree that the contents of the confirmation letter pertaining to the continuous holding and the result of transfer of the allotted stocks or newly acquired stocks, etc. pertaining to the allotted stocks, if applicable, will be available for public inspection.

vii Other matters deemed necessary by TSE

3) Timing of submission of documents certifying assurance

When an applicant made allotment of offered stocks before listing application date, the applicant shall submit to TSE documents certifying assurance on listing application date and when making the allotment after listing, the applicant must submit the document without any delay immediately after the allotment; provided, however, that the date of submission shall be no later than the day immediately preceding the day on which TSE approves the listing.

(Rule 268, Paragraph 2 of the Rules)

The document to be submitted to TSE shall be documents prepared by the representative of applicant to the effect that "the applicant certifies that it agreed with each person who received the allotment listed in a relevant attachment concerning the assurance certifying compliance with the requirements mentioned in each item of Paragraph 1, Rule 268 of Enforcement Rules for Securities Listing Regulations" displayed in "A Documents to be Submitted Pertaining to Initial Listing Application" and a list describing the names of such persons who received the allotment. The submission of all copies of documents certifying assurance of continuous holding individually

entered into with persons who received the allotment will also suffice.

4) Refuse to accept listing application or cancellation of acceptance

In the event that any person who received the allotment of offered stocks through third party allotment has not made the holding according to assurance provided in 2) above, TSE shall either refuse to accept or cancel the acceptance of the initial listing application of such applicant. However, this provision shall not apply if a person who received the allotment is forced to transfer any allotted or acquired stocks as the applicant has encountered significant financial difficulties or the person meets an event which is regarded as unavoidable under socially accepted norms and it is deemed appropriate that the applicant does not hold them. For specific examples of cases which are acknowledged to be unavoidable under socially accepted norms, please refer to "Other cases which are acknowledged to be unavoidable".

(Rule 269, Paragraph 1 of the Rules)

5) Others

In case where a person who received an allotment of offered stocks by third party allotment, etc. transfers such offered stocks during the period specified in the assurance, the applicant shall submit to TSE documents describing relevant matters and agree that such documents shall be available for public inspection. In cases where the transfer of offered or acquired stocks by third party allotment, etc. is made before listing application date, the applicant shall submit documents on the listing application date, and in cases where such transfer is made after listing application date, the applicant shall submit them immediately after the transfer.

In cases where TSE makes an inquiry about the holding status of offered stocks of a person who received an allotment of offered stocks by third party allotment, etc., the applicant shall report the holding status of the offered stocks. The applicant shall make such a report to TSE without any delay after confirming with the person who received the allotment about the allotted stocks or holding status of stocks acquired pertaining to the allotted stocks.

An applicant shall be subject to the provisions of these regulations for a period specified in the assurance even after it becomes a listed company.

(Rule 269, Paragraph 2, Item 4 of the Rules)

Q1: Is any disposal of treasury stocks through third party allotment, etc. during the restriction period, to be subject to the assurance pertaining to the continuous holding?

A1: Considering that the Companies Act requires that the procedures for the disposal of treasury shares shall be subject to the procedures similar to those of issuance of new shares, the disposal of treasury shares by third party allotment etc. during the restriction period shall be subject to the assurance pertaining to continuous holding.

Meanwhile, a similar treatment applies to the disposal of subscription warrants by third party allotment, etc. which are determined to have similar effect to the allotment of subscription warrants to be offered.

Q2: What is the final day when an actual allotment of offered stocks is made before listing?

A2: TSE requires the applicant to submit to TSE the document certifying assurance pertaining to the allotment of such offered shares by the date preceding the listing approval date under the Rules in order to examine the disclosures in "Pat 1" and disclosure conditions and confirm the execution of assurance document pertaining to continuous holding, so no allotment shall be allowed where the execution of assurance document is made after listing approval date.

However, concerning any private offering made in parallel with public offering and secondary distribution at the time of initial listing (limited to cases where conditions are identical with issue prices at the time of the public offering and secondary distribution), it is practicable for the applicant to submit documents certifying the assurance of continuous holding of stocks expected to be allotted by the day preceding listing approval date.

Q3: What is the treatment for shares acquired associated with the allotted shares when such allotted shares are any stock split, gratis allotment of stocks, gratis allotment of subscription warrants rights or conversion to another class of stocks are made with respect to any allotted stocks the required period for continuous holding?

A3: For any allotted shares during the continuous holding period, if share split, gratis allotment of shares, allotment of subscription warrants or conversion into other classified stocks are made, are shares acquired pertaining to the allotted shares to be subject to the assurance certifying continuous holding.

Therefore, unless the applicant makes assurance of continuous holding of shares acquired pertaining to such allotted shares, please note that the listing application would not be accepted.

The continuous holding period for shares acquired pertaining to such allotted shares relates to the continuous holding period for the initially allotted shares.

Q4: When can the applicant and the person who received the allotment appropriately enter into an assurance document?

A4: As any person who received the allotment of shares offered through private offering is, in principle, required to hold them from the date of the allotment of such allotted shares until the date when six months pass from listing (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the date, until the date when one year passes from such date or end of period), the applicant is, in principle, required to enter into the assurance document to the effect before the payment date or the end of payment period for the allotted shares.

Consistent with the above, when the applicant effects the allotment of subscription warrants by third party allotment, the assurance document must, in principle, be entered into before the allotment date as the obligation to hold them continuously takes effect on and after the allotment date.

Q5: Are there any matters we should consider in electronically entering into the assurance of continuous holding?

A5: Although procedures will not significantly change from those made in writing, both of an expected applicant and a person who receives the allotment should sufficiently understand the meaning and nature of assurance such that relevant system where assurance should be made based on the consent of both parties shall be structured.

Q6: Even for the allotment of shares of classes different from the class of shares to be listed (common shares) such as classified shares, do we need to enter into the assurance with the person who received the allotment?

A6: In principle, all shares including classified shares shall be within the scope of this system. However, assurance will not be required to be entered into for any classified shares (including subscription warrants) issued under scheme by which any short term profit will not be available from listing of shares as they do not have conversion rights into common shares.

In the meantime, for any classified shares not requiring assurance document to be entered into, entering into assurance document will likely be required when the scheme is changed subsequently.

- Where it is deemed unavoidable in light of socially accepted norms

Cases where “it is deemed unavoidable in light of socially accepted norms” as prescribed in Rule 269, Paragraph 1, Item 2 of the Rules include, but not limited to, the following (similar treatment will apply to shares, etc. acquired associated with allotted shares).

Meanwhile, Rule 271, Paragraph 1, Item 2 will apply mutatis mutandis to cases where the allotment of subscription warrants has been effected through third party allotment.

1. Holders are acknowledged to be substantively identical before and after changes in allotted shares.

[Example 1] When a 100% owned new venture capital is established and the investment business is transferred to the venture capital;

[Example 2] Business is transferred when a 100% owned subsidiary is established when a company becomes a holding company

VII

<Conditions>

- ▶ A person who received the allotment of shares publicly offered continues to hold them during the restriction period
- ▶ For allotted shares transferred, a person who received the allotment has made assurance certifying continuous holding until the date when six months pass after listing passes (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares).
- ▶ Transfer price is the same as the price at the time of allotment.

<Documents to be examined>

- ▶ Assurance document certifying continuous holding, etc.
- ▶ Document certifying the provisions of contract for transfer price of allotted shares

2. Cases where changes in shares allotted through transfer represent only formal changes where no changes in holders would take place

[Example 1] Transfer of allotted shares associated with withdrawal of employees from the employee share ownership plan

<Conditions>

- ▶ A person who received the allotment of offered shares continues to hold them during the restriction period
- ▶ For allotted shares transferred, a person who received the allotment has made assurance to continuous holding until the date when six months pass after listing (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares).
- ▶ The reasons for the withdrawal relate to the retirement of employees.

<Documents to be examined>

- ▶ Assurance document certifying continuous holding

[Example 2] Offered shares are formally transferred to trust banks, etc. to contribute offered shares through private offering to retirement benefits trust in order to compensate for unfunded portion of the employee pension fund.

<Conditions>

- ▶ A person who received the allotment of offered shares continues to hold them during the restriction period
- ▶ For allotted shares transferred, a person who received the allotment has made assurance certifying continuous holding until the date when six months pass after listing (if one year has not passed from the payment date or the end of payment period for the allotted shares as of the said date, the person is required to hold the shares until the one year period passes from the payment date or the end of payment period for the allotted shares).
- ▶ Revenue arising from the trust will only appropriated to the payment of contributions to the employee pension fund.
- ▶ In conjunction of the rights of shareholders, such shares are considered as if Company A substantively held them in that the disposition, repayment and exercise of voting rights attached thereto would be effected under the instruction of Company A.

<Documents to be examined>

- ▶ Assurance document certifying continuous holding

3. Some unavoidable events are acknowledged such that no assurance certifying continuous holding of the allotted shares would be made at the time of allotment of offered shares.

[Example] For offered shares allotted through private offering allotment in the past, the obligation to continuously hold them would subsequently arise as the timing of expected public offering has been accelerated.

<Conditions>

- ▶ No change in the allotted shares has not taken place since the payment period or the final day of payment period pertaining to the allotted shares.
- ▶ Assurance documents certifying continuous holding has been entered into promptly after the decision to accelerate the timing of public offering.

<Documents to be examined>

- ▶ Assurance documents certifying continuous holding
- ▶ Documents with joint signatures of the applicant and the person who received the allotment certifying that no transfer of allotted shares has been made. However, when the Articles of Incorporation of the applicant provide for the restrictions on the transfer of allotted shares or when the person who receives the allotment does hold any certificates because of dematerialization of stock certificates, a document would be accepted that the applicant could assure that no transfer of the allotted shares has been made.

4. Cases of shares with restricted transfer as share-based compensation

[Example] When a person who received the allotment meets the requirements for free acquisition of shares with restriction on transfer because of retirement, etc., an applicant provides free acquisition thereof to the person:

<Conditions>

- ▶ A person who received the allotment meets the requirements for free acquisition;
- ▶ An applicant provided free acquisition

<Documents to be examined>

- ▶ Documents indicating the nature of requirements for free acquisition
- ▶ Documents showing that the person who received the allotment meets the requirements for free acquisition

(2) Regulations on allotment and holding of offered Subscription Warrants

For the allotment of offered subscription warrants by third party allotment (excluding “subscription warrants as stock option described in “(3) Regulations on Allotment and Holding of Subscription Warrants as Stock Option) after the day following the date of one year ago corresponding to the end of the year immediately preceding the listing application year (including the allotment of its own subscription warrants which may have the same effect as the allotment of offered subscription warrants), the regulations similar to those on the allotment of offered stocks by third party allotment would apply thereto (hereinafter subscription warrants allotted by third party allotment referred to as “allotted subscription warrants”).

The determination of whether the applicant carried out an allotment of offered subscription warrants shall be made using the allotment date as the base date.

(Rule 270, Paragraph 1 of the Rules)

Q1: Are we to be able to list our stock while offered subscription warrants have been allotted?

A1: Listing would be possible while offered subscription warrants have been allotted.

Q2: If some allotted share options are converted to another class of stocks, etc. or options are exercised during the continuous holding period, is the continuous holding period to be altered with respect to stocks and subscriptions warrants acquired through the conversion or exercise and stocks and subscription warrants acquired through stock split-up, free allotment of stocks and free allotment of subscription warrants pertaining to such stocks (hereinafter referred to as "acquired stocks pertaining to allotted share options"), to be modified?

A2: When some allotted subscription warrants are converted to another class of shares or the options are exercised during the continuous holding period, the shares, etc. acquired associated with allotted subscription warrants require the assurance to continuously hold them. The continuous holding period for the shares, etc. acquired associated with allotted subscription warrants will relate to the continuous holding period for initial allotted subscription warrants and there will be no change in the continuous holding period.

Q3: If some offered subscription warrants allotted during the free period (before the date preceding the date of one year ago corresponding to the end of year immediately preceding listing application day) are converted to another class of stocks or the options are exercised, do we have to enter into any assurance to certify continuous holding pertaining to stocks acquired pertaining to the allotted subscription warrants?

A3: Even when some offered subscription warrants allotted during the free period are converted to another class of shares or the options on or after the date preceding the date of one year ago corresponding to the end of year immediately preceding the listing application day, no assurance of continuous holding is required.

VII

(3) Regulations on allotment and holding of subscription warrants as stock option

Those of offered subscription warrants by third party allotment after the date of one year ago corresponding to the end of year immediately preceding the listing application year which are subscription warrants as stock option defined in 1) and meet requirements in 2) and 3) are treated as follows:

1) Subscription warrants as stock option

Subscription warrants as stock option refer to subscription warrants allotted by the applicant to its officers or employees (Note 1) as part of their compensation (Note 2), which meet the requirements of (a) and (b) below:

(Note 1) "Officers and employees, etc." refer to "officers and employees of the applicant" and "officers and employees of a subsidiary of the applicant". For the purpose of this paragraph, officers include an executive share ownership plan, directors, accounting advisors (including the members who execute duties for the applicant when accounting advisors constitute a juridical person), company auditors, executives (including counselors and auditors, other persons in similar capacity). Those cooperating to the applicant, such

as legal advisors, accountants, advisors, or university professors, and others before the employment of the applicant do not constitute any "officer or employee." And contract employees do not also constitute any "officer or employee" in principle.

- (Note 2) The allotment thereof for the purpose of compensation includes cases where the applicant grants the amount equivalent to the value of issuance prices of subscription warrants to officers or employees and allots subscription warrants to them in exchange for their consideration, and other cases where they are allotted in exchange for their consideration.

The determination of whether the applicant carried out an allotment of offered subscription warrants shall be made using the allotment date as the base date.

- (Note 3) For any restricted stock unit (RSU) or performance share unit (PSU), which entitles a holder to receive the delivery of shares when certain conditions are satisfied, as it has the same nature as subscription warrants as stock option in that the holder could recognize gain on the listing of stock, TSE may require assurance on continuous holding consistent with regulations concerning subscription warrants as stock option.

In cases where it is allotted to those other than officers or employees, TSE may require assurance on continuous holding consistent with regulations on subscription warrants not as stock option.

(Rule 272, Paragraph 3 of the Rules)

2) Items requiring relevant assurance

Items requiring assurance are as follows: Actual documents certifying the assurance (assurance document) shall be prepared with reference to the form in "A Documents to Be Submitted Pertaining to Initial Listing Application."

(i) Continuous holding

A person who has received the subscription warrants as stock option shall, in principle, continue to hold them until the date preceding the listing day from the allotment of the subscription warrants or the exercise date of subscription warrants, whichever is earlier.

(ii) Report to TSE when transferring allotted subscription warrants

If a person who received the allotment of subscription warrants as stock option transfers them, the applicant is required to submit to TSE a document describing the names and addresses of the person who made the transfer as well as the person who received the transfer, the number thereof, the date of transfer, prices and reasons for the transfer and other necessary matters at the time of listing application when the transfer is effected before the listing application date and immediately after the transfer when it is effected after the listing application date.

(iii) Report by applicant to TSE in response to inquiry of TSE about holding status

When TSE makes inquiries about the holding status of subscription warrants as stock option as appropriate, the applicant confirms the holding status thereof with the person who has received the allotment and makes the report thereof to TSE without any delay.

(iv) Report to applicant by person who received the allotment in response to inquiry by TSE about holding status

When a person who has received the allotment of subscription warrants as stock option receives an inquiry on the status of ownership thereof from the applicant, as prescribed in iii above, the person will immediately report the contents thereof to the

applicant.

(v) Other matters deemed necessary by TSE

3) Timing of submission of documents certifying assurance

Where the applicant carried out an allotment of subscription warrants as stock option before the initial listing application date, the applicant shall submit to TSE the following documents, and when making the allotment after listing, the applicant must submit the documents without any delay immediately after the allotment. However, the date of submission shall be no later than the day immediately preceding the day on which TSE approves the listing.

(Rule 272, Paragraph 1, Item 2 a of the Rules)

(a) Assurance documents certifying continuous holding

(Rule 272, Paragraph 2 of the Rules)

(b) Document certifying the relevant resolution of the board of directors (including a decision made by an executive officer in case of a company with an audit and supervisory committee) that contains matters related to the allotment of subscription warrants, including the fact that the subscription warrants are allotted by the applicant and intended to be acquired by its officers or employees, etc.

(Rule 272, Paragraph 1, Item 2 b of the Rules)

(c) Document certifying that a contract is concluded between the applicant and its officers or employees, etc. who have received an allotment of subscription warrants as stock option by the applicant, in which such officers or employees, etc. assure that they will, as a general rule, not transfer such subscription warrants or that the applicant imposes restriction on transfer of such subscription warrants.

(Rule 272, Paragraph 1, Item 2 c of the Rules)

Documents mentioned in (a) and (c) shall be documents prepared by the representative of applicant to the effect that "the applicant certifies that it agreed with each person who received the allotment listed in a relevant attachment concerning the assurance certifying compliance with the requirements mentioned in Rule 272, Paragraph 1, Item 1 and Item 2 c of Enforcement Rules for Securities Listing Regulations" displayed in "A Documents to be Submitted Pertaining to Initial Listing Application" and a list describing the names of such persons who received the allotment. The submission of all copies of documents certifying assurance of continuous holding individually entered into with a person who received the allotment will also suffice.

Also TSE expects that the applicant may submit a copy of minutes of meetings of the Board of Directors as part of documents mentioned in (b).

4) Refuse to accept listing application or cancellation of acceptance

In cases where a person who received an allotment of subscription warrants as stock option does not actually hold them consistent with the assurance (excluding cases TSE deems appropriate (Note)), TSE shall either refuse to accept or cancel the acceptance of the related initial listing application.

(Note) They refer to cases where the person who had held subscription warrants as stock option based on the assurance transferred them, the applicant expired the subscription warrants promptly applying appropriate procedures and such subscription warrants as stock option have not been exercised.

(Rule 272, Paragraph 1 of the Rules)

5) Regulations on stocks, etc. acquired through exercise, etc. of subscription warrants as stock options

In cases where an applicant carried out a delivery of stocks or subscription warrants as stock option due to exercise or conversion thereof as prescribed in the preceding rule during a period from the day of one year ago corresponding to the end of business year immediately preceding the listing application day (limited to those pertaining to the subscription warrants allotted after the day of one year ago corresponding to the end of business year immediately preceding the listing application day), the applicant shall execute a written assurance concerning said stock or subscription warrants with the person who received the delivery with respect to the matters enumerated in each of the following items:

(Rule 273 of the Rules)

(a) Documents to be Submitted and Timing of Submission

(i) In cases where the applicant has allotted the shares arising from the exercise or conversion of subscription warrants as stock option or delivered subscription warrants before the listing application day:

- Assurance documents certifying continuous holding (note)
- Document certifying the relevant resolution of the general meeting of shareholders and the board of directors concerning the allotments of subscription warrants (including decisions made by the board of directors in case of a company with an audit and supervisory committee, and decisions of executive officers in case of a company with a nomination committee, etc.) that contains matters related to the allotment of subscription warrants; and
- With respect to the allotment of subscription warrants, document certifying the provisions of contract concluded between the applicant and the person who receives the subscription warrants in accordance with the relevant resolution of the general meeting of shareholders and the board of directors above

(ii) In cases where the applicant has delivered shares arising from the exercise or conversion of subscription warrants as stock option;

The applicant shall submit said documents without delay after the delivery of stocks or subscription warrants; provided, however, that the date of submission shall be no later than the day immediately preceding the listing day.

- Assurance documents certifying continuous holding (note)

(Note) When the applicant submitted the “Assurance documents certifying continuous holding” mentioned in a. 3) above on the listing application date, and made the effect of continuous holding available for public inspection, no submission is required.

(Rule 273, Paragraph 2, Item 2 of the Rules)

(b) Refuse to accept listing application or cancellation of acceptance

In the event that the applicant fails to submit the document specified in (a) above, TSE shall either refuse to accept or cancel the acceptance of the related initial listing application.

(Rule 273, Paragraph 4 of the Rules)

In cases where a person who received a delivery of stocks or subscription warrants does not actually hold the stocks or subscription warrants according to the assurance, TSE shall either refuse to accept or cancel the acceptance of the related initial listing application.

However, this provision shall not apply if the person meets any of the following and it is deemed appropriate that the person has not held them:

- Cases where a person who received relevant allotment transfers stocks or subscription warrants delivered as a result of exercise or conversion of subscription warrants as stock option due to financial difficulties, or stocks or subscription warrants acquired associated with stock split, free allotment of shares, and free allotment of subscription warrants
- Where it is deemed unavoidable in light of socially accepted norms.

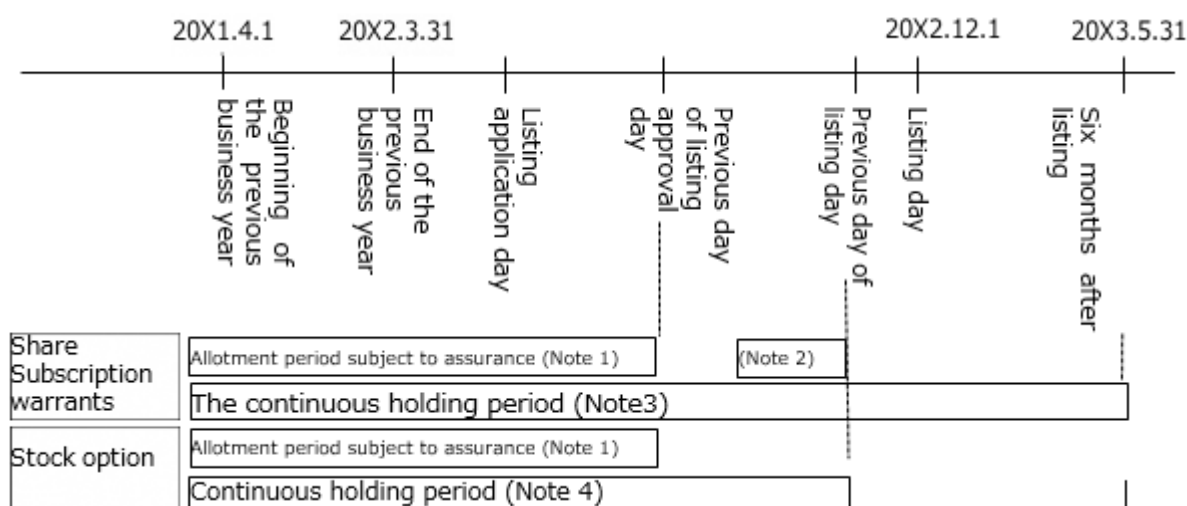
In cases where the person who has received the allotment of subscription warrants as stock option transfers the stocks, etc. acquired pertaining to the subscription warrants as stock option during the continuous holding period, the applicant shall submit documents describing necessary matters to TSE and agree with the availability thereof for the public inspection.

Also, when an applicant receives an inquiry about the holding status of stocks, etc. acquired pertaining to subscription warrants as stock option from TSE, the applicant confirms the holding status of stocks, etc. acquired pertaining to the subscription warrants with the person who received the allotment, as appropriate and report the holding status thereof to TSE.

(Rule 274 of the Rules)

<Reference> Overview of regulations on capital increase by third party allotment before listing

Sections	Allotment period subject to assurance	Continuous holding period	Documents to be Submitted
Shares	After the day of one year ago corresponding to the end of business year immediately preceding the listing application day	Six months or one year after listing day	Assurance documents certifying continuous holding for six months following listing or one year
Subscription warrants		Until day preceding the listing day	In addition to the above, minutes of meeting of the Board of Directors concerning allotment and documents certifying transfer restraints
Stock option			



- (Note 1) This will apply to subscription warrants as stock option which the applicant allotted after the day following the date of one year ago corresponding to the end of year immediately preceding the listing application day (including shares, etc. acquired associated with subscription warrants as stock option).
- (Note 2) Concerning any third party allotment made in parallel with public offering and secondary distribution at the time of initial listing (limited to cases where conditions are identical with issue prices at the time of the public offering and secondary distribution), it would be practicable if the applicant submits documents certifying the assurance of continuous holding of stocks expected to be allotted by the day preceding listing approval date.
- (Note 3) The continuous holding period relates to the period when six months pass after listing from the allotment date. By the way, if one year has not passed from the allotment date when six months pass from the listing day, the continuous holding period will be the period until one year passes from the allotment date.
- (Note 4) The continuous holding period will be the period between the day preceding the listing day and the allotment date.

(4) Descriptions of the status of allotment of offered stocks by third party allotment

1) Descriptions of the status of allotment of offered stocks, etc., by third party allotment.

In cases where the initial listing applicant carried out an allotment of offered stocks or subscription warrants by third party allotment, etc. (hereinafter referred to as "allotment of offered stocks, etc. by third party allotment") during a period from the date of two years ago corresponding to the end of business year immediately preceding the listing application day, the applicant shall describe the status of such allotment of offered stocks, etc. by third party allotment in "Stock information, 2 Overview of third party allotment, etc." of "Part I". Meanwhile, in describing the basis for price calculation, the applicant must consider that the descriptions would be easy for investors to understand with reference to "Appendix 7 "Descriptions of the Basis for Price Calculation" of Enforcement Rules for the Securities Listing Regulations". However, this provision shall not apply if stock certificates issued by the applicant are listed on Specified Financial Instruments Exchange Market.

(Rule 275, Paragraph 1 of the Rules)

2) Retention, etc. of the record of allotment status of offered stocks, etc. by third party allotment

The applicant shall retain relevant record concerning the description of the status of allotment of offered stocks, etc. by third party allotment for five years from the listing day.

The applicant shall respond to request for submission made by TSE as necessary with respect to the record.

In cases where an applicant refuses to respond to the request for submission, TSE may publicize the corporate name of such listing applicant and the fact that the applicant refuses to respond to such request for submission.

In addition, in cases where TSE determined, based on the examination of the record submitted, that the description of the changes in ownership of stocks, etc. was clearly inaccurate, TSE may publicize the corporate name of the applicant and the managing trading participant concerned and the fact that said description has been determined to be inaccurate.

(Rule 276 of the Rules)

VIII Public Offering or Secondary Distribution at the Time of Listing

1. Public Offering or Secondary Distribution at the Time of Listing

(1) Submission of Scheduled Plan for Public Offering or Secondary Distribution

In cases where an initial listing applicant makes a public offering or secondary distribution before listing, the initial listing applicant and the principal underwriting trading participant of the public offering, etc. before listing shall submit a duplicate of "Scheduled Plan of Public Offering or Secondary Distribution" without any delay after the listing application.

(Note) A principal underwriting trading participant refers to a trading participant of TSE which is a financial instruments company or foreign financial instruments company entering into principal underwriting agreement for public offering, etc. before listing. If a trading participant of TSE does not enter into a principal underwriting agreement for public offering, etc., TSE deems a trading participant entering into an agreement for handling offering or secondary distribution for public offering before listing to be a principal underwriting trading participant.

(Rule 245 of the Rules)

(2) Procedures for Public Offering, etc. Before Listing

In cases where an applicant makes a public offering, etc. before listing, the applicant and the principal underwriting trading participant shall perform either of the procedures enumerated below:

- a. Book-building (research on the demand status of investors relating to public offering, etc. before listing, carried out in accordance with the Rules); or
- b. Public offering, etc. through competitive bidding (public offering, etc., before listing on a competitive bidding basis in accordance with the Rules).

(Rule 246 of the Rules)

(3) Determination of Offering Price

a. Conducting a Book-building:

The applicant and the principal underwriting trading participant comprehensively consider the risks and demand forecast arising from the fluctuations of share prices during the period until the listing date on the basis of the status of investor demand grasped through the book-building and determine the prices of public offering, etc. before listing (hereinafter referred to as the “offering price”).

(Rule 247, Paragraph 1 of the Rules)

The following outlines the practical procedures for book building.

Item	Criteria
Establishment of Guidelines (Rule 255 of the Rules)	<ul style="list-style-type: none"> - For the purpose of appropriately grasping the status of investor demand pertaining to public offering (Note), etc. before listing, the principal underwriting trading participant shall establish guidelines concerning the method of book-building and conduct a book-building based on the guidelines. - The principal underwriting trading participant shall publicize the guidelines prescribed in the preceding paragraph in a written document in a manner deemed appropriate by TSE and notify TSE of the contents of the guidelines.
Determination, etc. of the Tentatively Set Price Range for the Offering Price (Rule 256 of the Rules)	<ul style="list-style-type: none"> - In conducting a book-building, the initial listing applicant and the principal underwriting trading participant shall determine the tentative conditions for the offering price (they refer to a range of prices indicated to investors in conducting relevant demands of investors) based on a comprehensive consideration of materials and opinions that are relevant to the determination of the offering price including financial condition and operating results of the initial listing applicant and opinion of entities with expertise and experience related to investment in securities. - In cases where the initial listing applicant and the principal underwriting trading participant determined a tentative conditions for offering price, the principal underwriting trading participant shall immediately issue the tentative conditions and the reasons, etc. for the determination of such conditions in a written document in a manner deemed appropriate by TSE and shall submit a copy of the written document to TSE.

Retention, etc. of the record of the survey on the status of demand (Rule 258 of the Rules)	<ul style="list-style-type: none"> - The principal underwriting trading participant shall retain the record of the status of demand grasped by a book-building pertaining to a public offering, etc. before listing for a period of five years from the ending date of the subscription period for the public offering, etc. before listing. - The trading participant who is the principal underwriting trading participant among others shall retain the record of the result of aggregation of all the status of demand grasped by a book-building pertaining to a public offering, etc. before listing for a period of five years from the ending date of the subscription period for the public offering, etc. before listing. - The principal underwriting trading participant shall respond to request for submission made by or inspection conducted by TSE as necessary with respect to the record.
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(Note) The principal underwriting trading participant shall not include in the status of demand to be grasped by a book-building the demand enumerated in each of the following items and other demand that is clearly expected not to be eligible for receiving allocation in a public offering, etc. before listing:

(Rule 257 of the Rules)

b. Execution of Competitive Bidding

The initial listing applicant and the principal underwriting trading participant who make a public offering, etc. through competitive bidding shall determine the offering price in comprehensive consideration of risks arising from the fluctuation of stock market prices during the period until the listing day and demand forecast, etc. based on the average winning prices in competitive bidding and other status of execution of competitive bidding.

(Rule 259 of the Rules)

c. Publication, etc. of offering price

In cases where the initial listing applicant and the principal underwriting trading participant determined an offering price by book-building or competitive bidding, they shall immediately publicize the offering price and the reasons, etc. for the price determination in a written document in a manner deemed appropriate by TSE and shall submit a copy of the written document to TSE..

(Rule 247, Paragraph 2 of the Rules)

(4) Allocation pertaining to public offering, etc. before Listing

For the purpose of conducting allocation pertaining to a public offering, etc. before listing in a fair and just manner for many and unspecified entities, the principal underwriting trading participant shall establish guidelines for allocation method, restriction on allocation, etc. and carry out allocation based on the guidelines.

The principal underwriting trading participant shall publicize the guidelines prescribed in the preceding paragraph in a written document in a manner deemed appropriate by the Exchange and, where deemed necessary by the Exchange, notify TSE of the contents of the guidelines.

(Rule 248 of the Rules)

(5) Submission of notice of execution of public offering or secondary distribution, etc.

The principal underwriting trading participant shall submit a "Notice of Execution of Public Offering or Secondary Distribution" to TSE after the expiration of the subscription period for the public offering, etc. before listing (excluding holidays) within three days from the ending date of the subscription period for the public offering, etc. before listing, and notify the applicant of the result of said public offering, etc. before listing.

If there are two or more principal underwriting trading participants, the "Notice of Execution of Public Offering or Secondary Distribution" prescribed in the preceding paragraph may be submitted to the Exchange by only one trading participant representing the group of said principal underwriting trading participants.

The "Notice of Execution of Public Offering or Secondary Distribution" submitted to TSE shall be prepared based on entities to whom the calculation is substantially attributable regardless of the actual name of the account.

(Rule 250 of the Rules)

(6) Other

a. Handling of conclusion of principal underwriting contract, etc. by a non-trading participant financial instruments firm, etc.

In cases where a non-trading participant financial instruments firm or a foreign securities broker (foreign financial instruments companies or foreign banks operating financial instruments business) concludes a principal underwriting contract, etc. with respect to a public offering, etc. before listing, for the purpose of ensuring the fairness of the public offering, etc. before listing, the applicant shall conclude a contract, with the non-trading participant financial instruments firm or the foreign securities broker, that consists of terms deemed necessary by TSE with respect to the compliance with the intent of this chapter. In this case, with respect to the conclusion of such contract, the initial listing applicant who concluded such contract shall submit to TSE a copy of a document certifying the contract concluded between the initial listing applicant and the non-trading participant financial instruments firm or the foreign securities broker.

(Rule 251 of the Rules)

b. Public offering, etc. before listing in cases where multiple initial listing applications are made simultaneously

With respect to a public offering, etc. before listing made by an initial listing applicant who made multiple initial listing applications with TSE and with any other financial instruments exchange in Japan simultaneously, if a non-trading participant financial instruments firm that is a member or a trading participant of such other financial instruments exchange concludes a principal underwriting contract, etc., the initial listing applicant shall conclude a contract, with the non-trading participant financial instruments firm, that obligates the financial instruments firm to provide documents about said public offering, etc. before listing that are deemed necessary by TSE to the principal underwriting trading participant and other duties. In this case, the applicant who concluded such contract with a non-trading participant financial instruments firm shall submit to TSE a copy of a document certifying such contract..

(Rule 252 of the Rules)

c. Designation, etc. of financial instruments exchange pertaining to public offering, etc. before listing

Before listing an applicant who made multiple initial listing applications with TSE and with any other financial instruments exchange in Japan simultaneously and the principal underwriting trading participant shall designate one of the financial instruments exchanges in Japan with which the multiple initial listing applications were made simultaneously as the financial instruments exchange that is mainly responsible for handling administrative work related to public offering, etc. before listing and notify TSE of the designation.

(Rule 253 of the Rules)

d. Measures against inappropriate public offering, etc. before listing

In cases where TSE determines that a public offering, etc. before listing has not been made appropriately based on the result of the public offering, etc. before listing, TSE may cancel the acceptance of the initial listing application or take any other necessary measures.

(Rule 254 of the Rules).

IX Alteration of Markets

1. Flow of Alteration of Markets

(1) Alteration of markets

TSE allows a listed company to alter its listed market among Standard Market, Prime Market and Growth Market as shown in the following chart.



This section illustrates the overview of the contents of examination when a company listed on Standard Market or Prime Market intends to apply for the alteration of listing market to Growth Market.

(2) Timing of the alteration of markets and procedures relating thereto

1) Timing of the alteration of markets

When an applicant effects public offering or secondary distribution, etc. (including limited distribution), the date of alteration of market will be after two to four weeks after the approval date of market alteration, and when no public offering or secondary distribution, etc. is made, it will be the date of one week after from the approval date of market alteration (if the day is a holiday, it will be deferred to the following business day. Also, there are two or more holidays between the approval date of market alteration and the alteration date of market, the listing day will be deferred so that the alteration date will be the fifth day from the approval date of market alteration).

2) Procedures relating to the alteration of market

Consistent with normal application in the case of initial listing examination, application for the alteration of market shall be made by submitting documents necessary for the application for the alteration to TSE after the completion of general regular meeting of shareholders for the year immediately preceding the application (for the application date and time for market alteration shall be decided in consultation with

the lead underwriter beforehand). Consistent with initial listing application, preliminary application for market alteration would be possible.

Consistent with initial listing examination, the lead underwriter shall suggest an expected alteration schedule (expected application date for market alteration, requested approval date of market alteration, and expected date of market alteration) and TSE will propose an examination schedule including interview, etc. in consideration of suggested schedule.

(Note 1) The standard duration of an examination period is two months. However, in consideration of a period from the most recent listing, any change in organizational structure and substance of businesses, size of the applicant group, seasonal peaks, and normal business operations, a period for preparation of documents to respond to relevant issues may be set in a way different from normal cases and the frequency of interviews may be adjusted. In addition, as a result of adjustment, overall examination period may be changed (notwithstanding standard examination period, the applicant is encouraged to develop sufficiently flexible examination schedule to address cases where overseas field inspection, if any, may be required, or there are too many holidays).

Standard examination period is based on the assumption that no particular cases would be identified during the examination process. However, if any issues are identified or if new facts yet to be detected are revealed on the applicant, including the provision of information from external parties such as in media reports, the duration of the examination may be extended. If a change in the schedule results in the establishment of market alteration date beyond the date of final accounts pertaining to the year of application for market alteration, the procedures for re-application will be triggered.

(Note 2) In cases where there are diversified issues for examination purpose, items to be confirmed for examination purpose are expected to be diversified. Therefore TSE would request such applicants to take two months or more as an examination period.

(Note 3) If the applicant identifies any issues requiring relevant adjustments concerning schedule including cases in (Note 1) and (Note 2) above or encounters any uncertain cases, please consult with the lead underwriter and then contact TSE via the lead underwriter in advance.

2. Criteria for Alteration of Markets

Formal requirements and substantive criteria pertaining to market alteration to Growth Market are as follows:

List of formal requirements for market alteration

Item	Criteria
The number of shareholders (Expected at the time of listing)	150 shareholders or more
2) Tradable shares (Expected at the time of listing)	a. Over 1,000 units or more of tradable shares b. Market capitalization of tradable shares: 500 million yen (In principle the amount derived by multiplying the expected value of public offering, etc. related to listing by the expected number of tradable shares at the time of listing) c. Percentage of tradable shares of the listed stocks: 25% or more
3) Implementation of public offering	The applicant must carry out a public offering of a stock, etc. of at least 500 units pertaining to an initial listing application.
4) Number of consecutive years of doing business	The applicant has continuously conducted the business activities, setting up a board of directors for at least a year before the initial listing application day.
5) False statement or adverse opinion, etc.	a. The descriptions of audit report attached to "Securities Report for Initial Listing Application" (excluding an audit report attached to financial statements, etc. for the business year or the consolidated business year ended within the last year) shall contain an "unqualified opinion" or a "qualified opinion with exceptions". b. The descriptions of audit report (limited to an audit report attached to financial statements, etc. for the business year or the consolidated business year ended within the last year), an interim audit report or a quarterly review report attached to "Securities Report for Initial Listing Application" shall contain an "unqualified opinion", an "opinion that the interim financial statements, etc. provide useful information" or an "unqualified conclusion". c. No "false statement" shall be included in the securities report, etc. including or referring to financial statements,

	<p>etc. interim financial statements, etc. or quarterly financial statements in relation the audit report, interim audit report or quarterly review report, as mentioned “a” or “b” above.</p> <p>d. The audit report is the one which does not meet (a) and (b) below:</p> <p>(a) The internal control report pertaining to the business year ended within the last year contains the fact that “assessment results cannot be provided”; and</p> <p>(b) The internal control audit report regarding a business year ended within the last year contains the description of “disclaimer of opinion”.</p>
6) Establishment of a shareholder services agent	The applicant is required to outsource services related to shareholders to a shareholder service agent or to receive preliminary consent to the acceptance of services provided to shareholders from a shareholder service agent approved by the Exchange.
7) Number of shares comprising one Share Unit	The number of shares comprising one Share Unit is expected to be 100 shares.
8) Classes of stocks, etc.	<p>Japanese stocks pertaining to the application for market alteration shall meet any of those mentioned in the following a. through c.</p> <p>a. In the case of a company issuing one class of stock with voting rights, such stock with voting rights;</p> <p>b. In the case of a company issuing multiple classes of stocks with voting rights, a class of stock with voting rights whose value of rights, etc. to receive economic benefits is higher than any other classes of stock;</p> <p>c. Stock with no voting rights</p>
9) Restrictions on transfer of shares	Transfer of shares is not restricted or it is expected that there will be no restriction by the time of listing;
10) Handling by the designated book-entry transfer institution	Stocks shall be subject to the book-entry transfer operation of the designated book-entry transfer institution, or is likely to be so.

List of Substantive Criteria for Market Alteration

Item	Criteria
1) Appropriateness of the disclosure of corporate information, risk Information, etc.	The applicant is able to make disclosure of the corporate information, risk information, etc. appropriately.
2) Soundness of corporate management	A business is carried out fairly and faithfully;
3) Effectiveness of corporate governance and internal management system of an Enterprise	Corporate governance and internal management system are properly designed and developed and functioning in accordance with its size and maturity.
4) Reasonableness of the business plan	An applicant has developed reasonable and suitable business plans, and has developed the operating infrastructure necessary for executing such business plans, or there is reasonable expectation that it will develop such operating infrastructure.
5) Other matters deemed necessary by the Exchange from the viewpoint of the public interest or the protection of investors.	—

3. Contents of Examination for Market Alteration

JPXR will examine formal requirements in altering listed market to Growth Market by assessing whether an applicant meets each item described in “2 Criteria for Alteration of Markets”. For addressing formal requirements, please refer to “III Formal Requirements”.

A securities company acting as the lead underwriter is required to assess whether the applicant has high growth potential to meet the criteria for listing on the Growth Market. For more information, refer to “II Matters Concerning High Growth Potential”

For the examination of items of substantive examination (hereinafter referred to as “Examination for Market Alteration”), JPXR will examine whether the applicant meets the criteria based on descriptions included in disclosure draft of “Securities Report for Market Alteration (Part I)”, “Various Explanatory Data Concerning the Applicant” as main items for the examination and also through relevant interviews with the applicant.

For the contents of examination of market alteration, JPXR will make examination similar to that for initial listing according to “IV Listing Examination”.

Meanwhile, for alteration to Growth Market from Standard Market or Prime Market, JPXR will make relevant examination with focus on continuity of business and profitability and disclosure status of company information, etc. after listing when there has been no significant changes in businesses, corporate governance and internal management system since initial listing (Guidelines VII (3)).

Also, when a listed company which has been required to apply measures to ensure effectiveness for the last five years applies for market alteration, in examining adequacy of disclosures of effectiveness of internal management system and company information, JPXR will assess whether improvement plans, etc. developed at the time of application of effectiveness measures have been fulfilled appropriately (Guidelines VII (4)).

X Measures to Ensure Effectiveness of Initial Listing Examination

1. Handling when application forms for initial listing

If it is revealed that documents submitted for initial listing application and listing examination have included any false statement and as such the listed company should not have met listing criteria, TSE will delist the company unless the company meet the examination requirements for listing eligibility consistent with those for initial listing (Rule 601, Paragraph 1, Item 10 of the Regulations)

Specifically, though the company is not to meet criteria for delisting immediately, if a significant deficiency in internal management system, etc. is detected or the company has not satisfied criteria for formal requirements, etc. concerning operating results, etc., JPXR will make necessary examination.

The same shall apply to market alteration. If it is revealed that documents submitted for application for market alteration and examination of application for market alteration have included any false statement and as such the company should not have met criteria concerning market alteration, the company shall be delisted unless the company meets the requirements for listing eligibility consistent with initial listing examination within one year (Rule 601, Paragraph 1, Item 10 of the Regulations).

XI Listing Fees

Consumption taxes and local consumption taxes will be levied on various dues and fees mentioned in this chapter.

1. Listing Examination Fees

Listing examination fees will be charged to an applicant at the time of listing application.

Fees	Amount	Payment date
Listing examination fees:	¥2 million	By the end of the month following the month to which the listing application date belongs

(Note 1) When an applicant has filed a listing application or preliminary application and will make the listing application within three years from the beginning of the business year to which the most recent listing application belongs (in case of a preliminary application, the expected date of listing application described in the preliminary securities listing application form), listing fees will be halved.

(Note 2) When a preliminary examination is made, preliminary listing charges will be the same amount as the listing fees. When a preliminary listing application is filed and if the listing application is filed in the business year to which the expected date of listing application described in the preliminary securities listing application belongs, the applicant needs to pay no listing examination fees.

Traveling expenses incurred for a field trip when conducting on-site investigations and interviews implemented at a locations far away from Japan, such as in Europe and the US, etc. or other expenses deemed necessary for the purpose of listing examination, JPXR will charge amounts equivalent to the expenses actually incurred.

2. Initial Listing Fees

An applicant is required to pay initial listing fees and fees of public offering or secondary distribution at the time of initial listing.

Fees	Amount	Payment date
Initial listing fees	¥1 million	By the end of the month following the month to which the listing date belongs
Fees for public offering or secondary distribution	(1) Fees for public offering of stocks pertaining to listing application Number of offered stocks x public offering price x 9/10,000	By the end of the month following the month to which the listing date belongs
	(2) Fees for secondary distributions of stock certificated, etc. for which the listing application is filed (Note 2) Number of secondary distribution of shares (Note 3) x secondary distribution prices x 1/10,000	

(Note 1) Fees pertaining to public offering or secondary distribution relate to public offering or secondary distributions of stock certificates pertaining to initial listing application made by listing day after listing approval date.

(Note 2) They are limited to cases which meet Article 2, Paragraph 4, Item 1 of the Act.

(Note 3) The number of secondary distribution of stock certificates include the number of shares of secondary distribution by over-allotment. In addition, in cases where increase in common shares by third party allotment pertaining to green shoe option is made after listing, “Fees pertaining to listing of new shares” (mentioned below) commensurate with the number of allotted shares with respect to increase in common shares by third party allotment will be required.

(Note 4) The amount determined by the initial listing fees above added by the fees for public offering or secondary distribution pertaining to the listing application shall be 20 million yen at maximum.

(Note 5) Amount less than ¥100 arising in the calculation process of fees will be disregarded.

[Illustrative examples of calculation of fees required for initial listing]

(Pre-conditions)

- Public offering: 100,000 shares
- Secondary distribution (purchase underwritten by the underwriter): 50,000 shares
- Secondary distribution (overallotment): 20,000 shares
- Prices for public offering or secondary distribution: ¥ 2,560

(Calculation)

Initial listing fees: ¥1 million

+ fees for public offering or secondary distribution

(for public offering)

$$100,000 \text{ shares} \times ¥2,560 \times 9 / 10,000 = ¥230,400$$

(Secondary distribution)

$$(50,000 \text{ shares} + 20,000 \text{ shares} = 70,000 \text{ shares}) \times ¥2,560 \times 1/10,000 \\ = ¥17,900 \text{ (fraction of less than ¥100 is disregarded)}$$

$$\text{Total} = ¥ 1,248,300$$

3. Fees to be Paid by Listed Companies

Growth Market listed companies will be required to pay annual fees for maintaining listing, fees for issuance of new shares, fees for listing of new shares and fees associated with merger, etc. as mentioned below.

(1) Annual Fees for Maintaining Listing

After listing, a Growth Market listed company will be required to pay the amount mentioned in the table below, with the addition of ¥120,000 for the use of TDnet.

Market capitalization	Amount	Payment date
Less than or equal to ¥5,000 million	¥480,000	By the end of March and the end of September (a half of amount mentioned left added by fees for the use fees of TDnet, respectively)
More than ¥5,000 million and less than or equal to ¥25,000 million	¥1,200,000	
More than ¥25,000 million and less than or equal to ¥50,000 million	¥1,920,000	
More than 50,000 million and less than or equal to ¥250,000 million or below	¥2,640,000	
More than ¥250,000 million and less than or equal to ¥500,000 million or below	¥3,360,000	
More than ¥500,000 million	¥4,080,000	

(Note 1) The market capitalization of listed stock is calculated by applying the closing price on the final day of the trading session in December each year (if no trading is effected on the trading session of the day, the closing price at the trading session at the most recent date when the trading was effected) and the number of listed shares at the end of December each year.

(Note 2) For annual fees for maintaining listing for Growth Market listed companies until three years pass after listing, they will be charged half of the amount mentioned in the table below, with the addition of ¥120,000 for the use of TDnet(excluding any companies which become Growth Market listed by virtue of Rule 220 of the Regulations).

(Note 3) Annual fees for maintaining listing at the time of initial listing year will differ depending on the month in which the listing is made. (Refer to the table below)

Annual fees for maintaining listing to be paid by the end of March	
Month in which an initial listing is made	Annual fees for maintaining listing
August of the previous year	One twelfth of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date with addition of a half of annual fees for maintaining listing
September of the previous year	A half of annual fees for maintaining listing
October of the previous year	Five twelfths of annual fees for maintaining listing
November of the previous year	Four twelfths of annual fees for maintaining listing
December of the previous year	Three twelfths of annual fees for maintaining listing
January	Two twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
February	No payment of annual fees for maintaining listing is required

Annual fees for maintaining listing to be paid by the end of September	
Month in which an initial listing is made	Annual fees for maintaining listing
February	Seven twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
March	A half of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
April	Five twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
May	Four twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
June	Three twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
July	Two twelfths of annual fees for maintaining listing on the basis of market capitalization of listed stock as of listing date
August	No payment of annual fees for maintaining listing is required

(2) Fees for Issuance of new shares, etc. after listing

If a listing company issues new shares, etc., the amounts mentioned below will be charged.

Fees	Amount	Payment date
Stocks, etc. (Note 1) are issued or disposed of (Note 2)	Paid amount per share x the number of shares of stock to be issued or disposed x 1/10,000	By the end of the month following the month in which new shares were issued
Subscription warrants are issued where shares underlying subscription warrants are listed stock certificates (Note 3)	(Issuance price of subscription warrants x total number of subscription warrants + amounts paid at the exercise of subscription warrants (Note 4) x number of shares underlying subscription warrants) x 1/10,000	
Secondary distributions of stocks (Note 5)	Number of shares of secondary distribution x selling prices x 1/10,000	

(Note 1) Includes stock certificates for which conversion to listed certificates, etc. are made (this means the company delivers new listed stocks, etc. in exchange for the company acquiring stocks that the company has issued; the same shall apply hereinafter).

(Note 2) Limited to those stock certificates acquired through public offering as prescribed in Article 199, Paragraph 1 of the Companies Act (in case of foreign companies, securities equivalent to them). This excludes issuance or disposal of stocks by third party allotment arising from the exercise of rights to acquire offered shares from the issuer or holder of the offered shares, which are granted to the principal underwriting financial instruments firm which implements an over-allotment in relation to the initial listing in entering into a principal underwriting contract for offering, etc. of securities.

(Note 3) They are limited to stock certificates, etc. prescribed in Article 238, Paragraph 1 of the Companies Act and free allotment of shares options prescribed in Article 277 of the same act (in case of foreign companies, securities equivalent to them).

(Note 4) "Payment amount associated with the exercise of subscription warrants" represents the value of properties contributed in exercising subscription warrants (the same shall apply hereinafter).

(Note 5) They are limited to the secondary distributions mentioned in Article 2, Paragraph 4, Item 1 of the Act.

(3) Fees for listing new shares

Fees mentioned below will be required for listing of shares, etc. newly issued by a listed company.

Fees	Amount	Payment date
Fees for listing new shares	Issuance price per share (Note 1) x the number of newly issued shares (Note 2) x 8/10,0000	By the end of the month following the month to which the listing date of new shares belongs (Note 3)

(Note 1) When listing is effected for shares newly issued through the conversion of shares where shares can be converted to another class of shares (this means the company delivers new listed stocks, etc. in exchange for the company acquiring stocks that the company has issued; the same shall apply hereinafter), the calculation is made with reference to issuance price per share as the “issuance price per share” in the table.

In listing new shares issued through the exercise of subscription warrants, the calculation is made by regarding the amount equivalent to the price per share determined using the formula below as the issuance price per share.

[Issuance price of each subscription warrant x total number of subscription warrants + payment amount related to the exercise of subscription warrants x the number of shares arising from subscription warrants exercised]

In addition, in listing shares issued at the time of acquisition by a company of subscription warrants with special conditions, the calculation is made by regarding the amount equivalent to the price per share calculated as follows as the issuance price per share.

[Issuance price of each subscription warrant x total number of subscription warrants (if subscription warrants represent those granted to corporate bonds with share options, the total of the amount for subscription warrants and the amount of corporate bonds pertaining to subscription warrants acquired)]

(Note 2) New shares to be listed by virtue of Rule 303 of the Regulations shall be excluded.

(Note 3) In listing new shares issued through the conversion of shares to another class of shares, the payment dates are separately determined where new shares issued through the exercise of subscription warrants are listed or new shares issued concurrently at the time of acquisition of subscription warrants with special conditions are listed.

(4) Fees for merger, etc.

If a listed company effects a merger and acquisition (merger, demerger, stock swap or stock delivery), the fees mentioned below shall be paid.

Fees	Amount	Payment date
Fees related to consolidation of stock certificates issued in the merger	(Number of stock certificates issued at the time of merger + number of treasury stocks to be delivered) x closing price of the shares (Note 1) at the trading session where the merger takes effect (Note 2) x 2/10,000	By the end of the month following the month in which merger, etc. takes effect

(Note 1) It refers to the date when merger, demerger or stock swap takes effect (the same shall apply hereinafter).

(Note 2) If no trading is effected on the trading session of the day when the merger, etc. takes effect, this refers to the closing price at the trading session first effected after the day when the merger, etc. takes effect.

(Note 3) The maximum fees for the merger, etc. will be ¥10 million.

4. Fees for Alteration of Markets

If a market alteration to Growth Market is made, the following fees are required.

Fees	Amount	Payment date
Examination fees for market alteration	¥2 million	By the end of the month following the month to which the listing application date belongs
Fees for alteration of markets	–	–

(Note) When the applicant files a preliminary application, preliminary examination fees at the same amount as the listing fees for market alteration will be charged to the applicant. When a preliminary listing application is filed and if the listing application for market alteration is filed in the business year to which the expected date of market alteration application described in the preliminary securities listing application belongs, the applicant needs to pay no fees for the examination of market alteration.

XII IPO Center (Support Given to Prospective Issuers)

1. Assistance Activities through Visits to Individual Companies and Consultation

TSE staff will directly visit any company considering to list its stock and present the overall picture of and procedures for listing.

New Listings of TSE will provide consultation at every stage of preparation for listing, ranging from the evaluation of listing to actual preparation for listing. Please feel free to contact us in any case where you do not understand what you should start with in considering listing or you wish to directly hear from TSE on listing though you have started some preparatory works.

2. Seminars for Prospective Issuers

TSE holds various seminars for companies which consider listing or are preparing themselves for listing at any location in Japan. These seminars will outline the listing system and preparation for listing and views and opinions of companies which succeeded in listing will be informed.

3. Mail Magazine

“IPO Center Mail Magazine” will provide information on seminars and other events given by TSE, as well as Q&A on listing examination and explanation of the system on a weekly basis.

Please feel free to send any message to the address below as TSE responds to any questions concerning initial listing, including listing system such as listing examination and actual preparation for listing.

**IPO Center,
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