

TSE Urgent Notice



Feb. 5, 2021
Listing Department
Tokyo Stock Exchange, Inc.

Request for Improvement Status Report and Public Announcement Measure

TSE has requested an Improvement Status Report and taken the following Public Announcement Measure..

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

1. Company Name Net One Systems Co.,Ltd.
(Code: 7518, Market Division: 1st Section)
2. Deadline for submission of Improvement Status Report Aug. 5, 2021 (Thu.)

Provision Securities Listing Regulations, Rule 503, Paragraph 2
(TSE deems it necessary to request the Company to submit an Improvement Status Report with regard to the status of implementation and operation of the improvement measures.)
3. Date of Public Announcement Measure Feb. 5, 2021 (Fri.)

Provision Securities Listing Regulations, Rule 508, Paragraph 1, Item (1)
(Due to disclosed information containing false statements and public announcement being deemed necessary)
4. Reason It was deemed highly necessary that Net One Systems Co.,Ltd. (hereinafter "the Company") should improve its organizational structure for conducting timely disclosure with regard to disclosure of corrections to financial results, etc. for the past fiscal years (hereinafter "the previous corrections") on Mar. 12, 2020. Accordingly, on May 8, 2020, TSE requested that the Company submit an Improvement Report which contains the background of the previous corrections and improvement measures and received the Improvement Report from the Company on Jun. 5, 2020.
After 6 months had elapsed from submission of the Improvement Report, TSE received an Improvement Status Report dated Dec. 16, 2020. As it was confirmed that, with respect to causes of the previous corrections, improvement measures were being implemented and their operations were conducted at a certain level, those details were not found to be clearly inadequate.
Meanwhile, on Dec. 16, 2020, the Company disclosed an investigation report of

the external investigative committee regarding inappropriate accounting practices at the Company and corrections to financial results, etc. for past fiscal years.

The investigation report and these corrections revealed that at the same time and in the same department that fictitious transactions which were the cause of the previous corrections, a former employee of the Company took the lead in a fictitious transaction and inflated transactions in a public works project making outflows of cash to 2 companies where the representative was the former employee (hereinafter "the fraudulent acts"). As a result, it was revealed that the Company made disclosures that were deemed false and in violation of the listing rules with respect to earnings reports, etc. from the fiscal year ended Mar. 2016 through the fiscal year ended Mar. 2020 and that net income attributable to owners of the parent company for the fiscal year ended Mar. 2016 was fraudulently stated to be a surplus, instead of being a deficit.

For the background of these disclosures, it would appear that the management's low interest in fraud risk management, an insufficient fraud risk management system, a poor attitude for taking compliance activities seriously, etc. continued to exist as with the case of the previous corrections. Based on the discovery of the fraudulent acts, the Company plans to verify the insufficiency of on-going improvement measures in place for the previous corrections. Moreover, in consideration of repeated fraudulent acts, the Company will verify governance, etc., and formulate additional improvement measures. To implement these measures, the Company established a Reform Committee of Governance and Corporate Culture on Dec. 16, 2020, and disclosed that it is scheduled to receive a report from the committee on Mar. 19, 2021 regarding verification results and recommendations for additional improvement measures.

In light of the situation and with the aim of confirming effective functioning of the improvement measures including the additional improvement measures, TSE has requested that the Company explain the implementation and operational status of the improvement measures taken, from today until 6 months have elapsed, and also required that the Company submit an Improvement Status Report by Aug. 5, 2021.

In addition, it is deemed that a public announcement is required and because of the fact that the Company made disclosure deemed to be fraudulent and in violation of the listing rules, TSE has implemented the public announcement measure.

* After submission of the Improvement Status Report, etc. by the Company, they will be made available on the JPX website and through the TDnet database service.

Improvement Report, etc. that are currently available for public inspection can be found on the following page of the JPX website (<https://www.jpx.co.jp/listing/market-alerts/improvement-reports/index.html>) (available only in Japanese).

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