

TSE Urgent Notice



Mar. 29, 2023
Listing Department
Tokyo Stock Exchange, Inc.

Designation of Security on Alert and Imposition of Listing Agreement Violation Penalty

TSE has designated the stock as a Security on Alert and imposed a listing agreement violation penalty as follows.

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

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| Issue Name | TOKYO KOKI CO.LTD. stock
(Code: 7719, Market Segment: Standard Market) |
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| Date of Designation of Security on Alert | Mar. 30, 2023 (Thu.) |
| Provision | Securities Listing Regulations, Rule 503, Paragraph 1, Item (3)
(due to falling under a case where TSE deems that the listed company has violated the provisions of timely disclosure and that the improvement of the internal management system of such listed company is highly necessary) |
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| Listing Agreement Violation Penalty Total | JPY 14.4 million |
| Provision | Securities Listing Regulations, Rule 509, Paragraph 1, Item (1)
(due to falling under a case where TSE deems that the listed company has violated the provisions of timely disclosure and has undermined the confidence of shareholders and investors in the TSE market) |
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| Reason | TOKYO KOKI CO.LTD. (hereinafter "the Company") disclosed an investigation report of a third party committee concerning inappropriate accounting processing by the Company on Mar. 3, 2023 and disclosed corrections to its past earnings reports on Mar. 8, 2023. |
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These disclosures revealed that the Company, with involvement of the director in charge of the trading business, conducted inappropriate accounting processing, such as by including trades that should be posted as commission revenues (calculated by deducting the procurement price from the sale price) in the sales figures at the full sale prices of the traded products. As a result, the Company was found to have made

disclosures deemed false in violation of the listing rules for quarterly earnings reports, etc., from the fiscal year ended Feb. 2019 through the second quarter of the fiscal year ended Feb. 2023. As a result of the subsequent corrections to past earnings reports, most of the Company's sales related to the trading business, one of its main businesses, were extinguished, leading to reductions of consolidated sales for the fiscal years ended Feb. 2020, 2021, and 2022 of more than 10%. In particular, corrections were made to consolidated sales for the fiscal years ended Feb. 2021 and 2022 in relation to reductions of approximately 53% and 45%, respectively.

As background to these disclosures, TSE primarily recognized the following points:

- The Company lacked knowledge of accounting and awareness of compliance, as instanced by the fact that the director in charge of the trading business put a strong emphasis on increasing the sales figures of the trading business and was therefore more concerned with figures than with actual transactions, for example in the way that he intentionally adjusted internal approval documents in order to record the full sale prices. Also, other officers and employees did not raise questions even though they could have been aware of the director's attitude and the discrepancies between the contents of these documents and the actual situation.
- The checks-and-balances function among directors did not work sufficiently as directors did not adequately encourage the director in charge of the trading business to improve problems with internal control in the trading business, despite an audit firm having pointed them out.
- Although statutory auditors requested the director in charge of the trading business to correct the situation based on the findings by the audit firm, they did not take sufficient action to check the status of correction on an ongoing basis, or to request strict improvement measures.
- The internal audit department, despite having discovered that orders were being placed with suppliers at the trading business before internal approval had been granted, did no more than send an instruction for improvement, and therefore did not fulfill its role sufficiently.
- The Company had submitted an improvement report in Mar. 2018 due to violation of the provisions of timely disclosure resulting from irregularities at its subsidiary in China, but some of the improvement measures described in the improvement report were implemented only temporarily.

TSE deems that this is a case of disclosure deemed false that has a significant impact on investors' investment decisions and that improvements to the Company's internal management system, etc. are highly necessary. As such, TSE designates its stock as a Security on Alert.

Moreover, as a result of the above background, this case involved the continued publication, over a long period, of incorrect information with regards to financial information that is highly important for investment decision-making. As such, TSE deems that this case has undermined the confidence of shareholders and investors in the TSE market and, therefore, shall impose a listing agreement violation penalty on the Company.

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