

TSE Urgent Notice



Nov. 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.

1. Issue Name ARDEPRO Co.,Ltd. stock
(Code: 8925, Market Segment: Standard Market)
2. Date of Designation of Security on Alert Nov. 30, 2023 (Thu.)

Reason (Related Clause) 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 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 (Securities Listing Regulations, Rule 503, Paragraph 1, Item (3))
3. Listing Agreement Violation Penalty Total JPY 28.8 million

Reason (Related Clause) 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 (Securities Listing Regulations, Rule 509, Paragraph 1, Item (1))
4. Details of Reason ARDEPRO Co., Ltd. (hereinafter "the Company") disclosed an investigation report of an external investigation committee concerning inappropriate accounting processing on Sept. 28, 2023 and disclosed corrections based on the investigation report to its past earnings report on Sept. 29, 2023.

These disclosures revealed that real estate transactions led by the Representative Director and President constituted a part of round-tripping that took place, and that the Company conducted accounting processing to record sales, sales costs, and operating income for the round-trip transactions that did not actually exist, and disclosed false information regarding the earnings report for the third quarter of the

fiscal year ended July 2023, in violation of the listing rules. The aforementioned corrections to the earnings report resulted in a more than 50% decrease in the Company's sales and a more than 20% decrease in its operating income for the same period.

Furthermore, in light of the above investigation report, the Company corrected its disclosures related to several real estate transactions and matters relating to controlling shareholders, etc. on Sept. 29, 2023 and Oct. 12, 2023.

These corrections revealed that the Company made false disclosures in violation of the listing rules by stating, in its timely disclosure materials, that several real estate transactions led by the Representative Director and President were conducted with a party with no capital nor with which there was a personnel relationship despite the fact that they were actually conducted with a limited liability company that was substantially controlled by a major shareholder of the Company.

These corrections revealed that the Company made false disclosures in violation of the listing rules by stating, in its timely disclosure materials, that several real estate transactions led by the Representative Director and President were conducted with a party with no capital nor with which there was a personnel relationship despite the fact that they were actually conducted with a limited liability company that was substantially controlled by a major shareholder of the Company.

In addition, the Company was found to have made disclosures in violation of the listing rules as it failed to appropriately describe the real estate transactions in the disclosure of matters relating to controlling shareholders, etc.

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

- The Company had implemented measures to prevent inadequacies in response to a designation as Security on Alert in the past. After the removal of the designation as Securities on Alert, over time, deficiencies were found in the operation of these measures. The check-and-balance system for preventing wrongdoing was not functioning properly as, for instance, management did not take adequate actions to correct several deficiencies.
- The management team, including the Representative Director and President, lacked awareness of compliance. For instance, the Representative Director and President prepared and submitted to the audit firm response letters confirming the balance under the names of business partner, and a director conducted acts that were suspected of being a breach of contract with the business partners.
- The Representative Director and President conducted transactions while concealing from the board of directors and other meetings the fact that the counterparties of the real estate transactions were limited liability companies with which the Company invested through silent partnerships. As a result, the board of directors did not appropriately verify the fairness and appropriateness of the transactions where major shareholders with whom the Company had a close relationship were involved and whether these transactions fell under business transactions with related parties, resulting in the invalidation of its internal control system.

TSE deems that this is a case of inappropriate disclosure of information that has a material impact on investors' investment decisions, conducted in violation of the listing rules, and that improvements to the Company's internal management system in particular are highly necessary. As such, TSE designates the Company's stock as a Security on Alert.

In addition, since the internal controls were invalidated by the management lacking compliance awareness, and false disclosures were made for multiple fiscal years without the required verification while the effective operation of recurrence prevention measures established in the past was not maintained, TSE deems that this case has undermined the confidence of shareholders and investors in the TSE market. As such, TSE shall impose a listing agreement violation penalty on the Company.

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