

TSE Urgent Notice



Nov. 21, 2024
Listing Department
Tokyo Stock Exchange, Inc.

Request for Improvement Report and Public Announcement Measure

TSE has requested an Improvement Report and taken the Public Announcement Measure as follows.

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

1. Company Name SHINWA WISE HOLDINGS CO.,LTD.
(Code: 2437, Market Segment: Standard Market)
2. Improvement Report Submission Deadline
Dec. 19, 2024 (Thu.)

Reason (Related Clause) Due to disclosed information containing false statements and improvements being deemed highly necessary
(Securities Listing Regulations, Rule 504, Paragraph 1, Item (1))
3. Date of Public Announcement Measure
Nov. 21, 2024 (Thu.)

Reason (Related Clause) Due to disclosed information containing false statements and public announcement being deemed necessary
(Securities Listing Regulations, Rule 508, Paragraph 1, Item (1))
4. Details of Reason
SHINWA WISE HOLDINGS CO.,LTD. (hereinafter "the Company") disclosed an investigation report prepared by a third-party committee regarding inappropriate accounting practices at the Company on Sep. 10, 2024, and disclosed corrections to its financial results for past fiscal years on Nov. 5 of the same year.
These disclosures revealed that a director of the Company's subsidiary (hereinafter referred to as the "subsidiary director") had carried out transactions that had been effectively considered financial transactions (borrowing of funds) as ordinary sales and purchases in the art trading business of its subsidiary with the approval of the former representative director and president (hereinafter referred to as the "former president"), and had recognized sales and other items at improper timing by carrying out said transactions.

As a result, it was found that the Company had made disclosures that were deemed

to be false and in violation of listing rules in its annual and quarterly earnings reports from the fiscal year ended May 2019 to the third quarter of the fiscal year ended May 2024, and found from the corrections made to the financial results due to said false earnings reports that it reported the sales as JPY 2,813 million, which was overstated from JPY 2,284 million, and reported profit for the net income attributable to owners of the parent company in the fiscal year ended May 2021, which was actually in the red.

In addition, in the corporate governance report disclosed by the Company on Sep. 12, 2023, it was stated that the board of directors rules stipulate that in the event that any board member, executive officer, or company auditor of the Company or its subsidiaries engages in transactions that involve conflict of interest with the Company, prior approval of the board of directors must be obtained, and that the Company monitors the transactions. However, it has been discovered that there are in fact some transactions for which prior approval and monitoring by the board of directors have not been carried out, and that there are false statements in the report.

The following points were identified as the main reasons for these disclosures.

- The former president and the subsidiary director lacked an awareness of compliance as instanced by the fact, among other things, that they had engaged in acts that were beyond the scope of internal controls, such as making undocumented verbal agreements and compensating losses personally, and that they did not report about terms and overall pictures of the transactions to the board of directors, board of company auditors, administrative department or other internal department of the Company.
- The checks and balance system against misconduct did not work as instanced by the fact, among other things, that the Company had an inadequate internal control procedure, mainly for workflows, and that the Company did not discuss the inadequate accounting practices sufficiently at the board of directors or board of company auditors due to the lack of accounting knowledge at the management level.

As described above, this case involves false disclosures that can be considered to have a substantial impact on investors' investment decisions caused by a lack of compliance awareness by the former president and the subsidiary director and defective checks and balances against misconduct, and TSE deems that improvements to the Company's timely disclosure system are highly necessary. While the Company made disclosure on Nov. 5, 2024 regarding recurrence prevention measures (including related matters) after the results of the investigation by the third-party committee and its suggestions as well as discussions by the risk compliance committee established by the Company to discuss and formulate specific recurrence prevention measures, TSE has decided to require the Company to submit a report that includes the circumstances behind the incident and the Company's measures for improvement in order to encourage the Company to thoroughly implement them to prevent recurrence.

Furthermore, TSE has decided to make a public announcement regarding this incident as it has been deemed necessary.

* After submission of the Improvement Report by the Company, it will be made available on the JPX website (<https://www.jpx.co.jp/listing/measures/improvement-reports/index.html>) and through the TDnet database service (both available only in Japanese).

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