

TSE Urgent Notice



Jan. 31, 2025
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 Sanyo Engineering & Construction Inc.
(Code: 1960, Market Segment: Standard Market)
2. Improvement Report Submission Deadline

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

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

Sanyo Engineering & Construction Inc. (hereinafter "the Company"), following its disclosure on Sep. 9, 2024 of the investigation report from its third party committee concerning the disclaimer of opinion on the consolidated financial statements of the Company for the fiscal year ending Mar. 2024, prepared under the provisions of the Financial Instruments and Exchange Act, and other matters, released corrections to past earnings reports on Jan. 15, 2025.

These disclosures revealed that the head office was not aware of losses from a certain lighting equipment construction project (hereinafter "the Lighting Project") handled by one of its branch offices, which were mainly caused by errors in estimating construction costs by said branch office at the time of winning said order during the fiscal year ended Mar. 2022. Furthermore, these disclosures revealed that while the Company subsequently detected said losses during the fiscal year ended Mar. 2024

and increased the cost estimates at the end of that fiscal year, this financial period allocation was inappropriate.

As a result, the Company was found to have made false disclosures in violation of the listing rules for earnings reports, etc. from the fiscal year ended Mar. 2022 to the fiscal year ended Mar. 2024, and as a result of the consequent corrections to past earnings reports, it became clear that the Company's operating loss for the fiscal year ended Mar. 2022 was actually JPY 351,655 thousand (increased from the previously disclosed amount of JPY 227,230 thousand) and the net loss attributable to owners of the parent company was actually JPY 124,034 thousand (increased from the previously disclosed amount of JPY 31,506 thousand), respectively, among other matters.

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

- Management systems and operational processes for accepting orders for and managing construction projects were not properly established nor in place at the branch. In the case of the Lighting Project, the branch manager alone prepared both project estimates and implementation budgets for construction, while these should have been segregated, causing a large difference between the budget and the actual cost. Subsequently, when they became aware of information that would lead to the increased costs, the budget was not revised and such information was not reported to the head office in a timely manner.
- Also, at the head office level, there was a lack of a system that was sufficient for monitoring construction projects at a company level or for timely awareness of construction losses, because the head office lacked a system for verifying and checking the accuracy of individual construction project estimates and the differences between the budget and actual costs. As a result, the management of the Lighting Project was totally left to the branch, even though the Company did not have much experience with that type of project.
- The Company should have examined the loss amounts to be corrected as well as the allocation to the relevant financial periods immediately upon their awareness of the increased construction losses, and prepared the correct financial results for the current fiscal year together with corrections of the past years' results. However, there was a lack of company-wide understanding of accounting processing, auditing, and disclosure rules: in a situation where there was insufficient communication with the then accounting auditor, such as that the Company could not promptly submit the materials and vouchers necessary for their audit procedures, the Company disclosed incorrect financial results without taking alternative measures such as postponing disclosure.

As described above, the Company made disclosures that were found to be false and were recognized as having a substantial impact on investors' investment decisions, because of the facts that (1) the case involves the failure of the Company to establish and operate a due internal system for identifying information that could lead to an increase in future construction costs and also for preparing and reviewing implementation budgets, resulting in construction losses at a branch office going undetected for a long period, and (2) after the increased costs and losses were detected, while the Company increased its estimate of construction costs, the Company's allocation of these to the relevant financial periods was not appropriate. As such, improvements in the Company's system for timely disclosure are deemed highly necessary. While the Company already disclosed measures to prevent recurrence of such incidents and other things on Oct. 4, 2024, in line with the findings and recommendations of the third-party committee, TSE has decided to require the Company to submit a further report that includes the circumstances behind the incident and the Company's measures for improvement in order to encourage the Company to thoroughly implement such measures.

In addition, as this case is deemed to require public announcement, TSE has decided to implement the Public Announcement Measure.

* 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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