

TSE Urgent Notice



Dec. 13, 2019
Listing Department
Tokyo Stock Exchange, Inc.

Public Announcement Measure and Request for Improvement Report

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

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

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| Company Name | NAIGAI CO.,LTD.
(Code: 8013, Market Division: 1st Section) |
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| Date of Public Announcement Measure | Dec. 13, 2019 (Fri.) |
| Provision | Securities Listing Regulations, Rule 508, Paragraph 1, Item 1
(Due to disclosed information containing false statements and public announcement being deemed necessary) |
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| Improvement Report Submission Deadline | Dec. 27, 2019 (Fri.) |
| Provision | Securities Listing Regulations, Rule 502, Paragraph 1, Item 1
(Due to disclosed information containing false statements and improvements being deemed highly necessary) |
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| Reason | NAIGAI CO.,LTD. (hereinafter "the Company") disclosed an investigation report of the special investigation committee on Nov. 12, 2019 concerning inappropriate accounting processing by the Company, and corrections to past earnings reports, etc. on Nov. 15, 2019.
These disclosures revealed that, for the purpose of fabricating the achievement of budget targets, profits were improperly posted by padding the goods inventory of a significant subsidiary of the Company under the initiative of the subsidiary's president & representative director who concurrently served as an executive officer of the Company. They also revealed that inappropriate accounting processing was conducted at several overseas subsidiaries, such as bringing sales forward, posting fictitious sales, and not posting valuation losses on inventory, under the initiative or |
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with the tacit approval of senior officials managing said overseas subsidiaries. As a result, the Company was deemed to have disclosed earnings reports, etc. that contained falsehoods from the third quarter of the fiscal year ended Jan. 2017 through to the first quarter of the fiscal year ending Jan. 2020.

It was deemed that the following points contributed to the occurrence of these disclosures:

- The development of employee awareness toward compliance was hindered by the fact that the Company's executive officer, who was in a position to manage employees, and senior officials, who were responsible for business management of subsidiaries, took initiative or gave tacit approval of inappropriate acts;
- Subsidiary management at the Company did not function properly, as evidenced by such facts as a) the Company not establishing a management division at the significant subsidiary and b) the Company's accounting and finance division, which was responsible for accounting processing of subsidiaries, conducting accounting processing based on reports from the subsidiary;
- The management function of the significant subsidiary itself was vulnerable, as evidenced by such facts as a) the Company not establishing a management division, as stated above and b) other than the representative director, executives at the subsidiary were not adequately involved in the business or audit.

Based on the above, this case is in violation of the listing rules due to the disclosure containing false statements, has considerable impact on investment decisions, and is deemed to require public announcement. Thus, TSE implements the public announcement measure.

Furthermore, this is a case of inappropriate disclosure arising from deficiencies in the Company's organizational structure for conducting appropriate timely disclosure, and improvements to the organizational structure are deemed to be highly necessary. As such, TSE requires the Company to submit a report containing the background of the issue and improvement measures.

* After submission of the Improvement 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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