

TSE Urgent Notice



Jan. 28, 2025
Listing Department
Tokyo Stock Exchange, Inc.

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

TSE has designated the stock as a Security on Special 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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| 1. | Issue Name | PIXEL COMPANYYZ INC. stock
(Code: 2743, Market Segment: Standard Market) |
| 2. | Date of Designation of Security on Special Alert | Jan. 29, 2025 (Wed.) |
| | 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 (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 | <p>PIXEL COMPANYYZ INC. (hereinafter "the Company") disclosed on Nov. 12, 2024 that it received an investigation report prepared by a special investigation committee regarding inappropriate accounting processing at the Company. It subsequently disclosed corrections to its financial results for past fiscal years on the same date.</p> <p>These disclosures revealed that the Company had been conducting inappropriate accounting practices over a long period of time, including that during the period from 2019 to 2023, in relation to the solar power generation business engaged in by PIXEL ESTATE INC., which was then a subsidiary of the Company (hereinafter "the Subsidiary"), the former representative director and president (hereinafter "the Former President") of the Company had been fraudulently diverting some of the</p> |

funds from the Subsidiary by disguising transactions as if they were related to payments of advances on the acquisition of assets including land and rights for said business, and that part of these had been spent to repay the Former President's private borrowings (hereafter "the Fraudulent Expenditure").

As a result, the Company was found to have made disclosures that were deemed false and in violation of the listing rules in its earnings reports and other documents for the second quarter of the fiscal year ended Dec. 2019 to the first quarter of the fiscal year ended Dec. 2024. Subsequent corrections to the Company's financial results revealed that the net loss attributable to owners of the parent company for the fiscal year ended Dec. 2020 increased by 70% or more from the previously reported figures, and that the Company had liabilities in excess of assets in the fiscal year ended Dec. 2022.

Also, it was found that the Former President had fraudulently signed joint-and-several guarantees on behalf of the Company, without obtaining approval from the board of directors of the Company, for loan agreements for his private borrowings made during the period from 2019 to 2022.

In addition, it was found that the Company had provided false explanations in response to an inquiry from Japan Exchange Regulation (JPX-R) based on Rule 415 of the Securities Listing Regulations in Dec. 2021 regarding the circumstances of transactions related to the Fraudulent Expenditure, having responded on the basis that the transactions related to the Fraudulent Expenditure were not fictitious.

TSE primarily recognized the following points as providing the context to these events and disclosures.

- Despite being the highest authority in charge of the establishment and operation of internal controls, the Former President had a serious lack of compliance awareness as a member of management, as demonstrated by such facts as that he personally disguised transactions in collaboration with outside accomplices, and not only used part of the Subsidiary's funds to repay his own private borrowings but also entered into joint-and-several guarantees on behalf of the Company in signing his own loan agreements without obtaining approval from the board of directors of the Company, also providing false explanations and responses to inquiries from JPX-R.
- In addition, the Company as a whole lacked an awareness of compliance, in that, for example, when the Company carried out capital increases through third-party allotment on multiple occasions in the past, it repeatedly disclosed false statements in disclosure documents that the funds would be used for the purpose of its solar power generation business, while actually diverting the funds from said capital increases to repay the Former President's private borrowings. Furthermore, it provided false explanations and responses to inquiries from JPX-R.
- The board of directors' supervisory function over the Company and checks-and-balances and monitoring functions among directors were not sufficiently performed; for example, the board of directors and each director of the Company passed resolutions at board meetings regarding transactions involving expenditures on advance payments that were excessively large for the size of the company without examining the background, details, or progress of said transactions. Also, the board of company auditors and each member of this board failed to fully demonstrate their auditing functions, particularly as they checked the internal approval papers and contracts regarding the Fraudulent Expenditure only as a formality and did not confirm the specific details or circumstances that led to such expenditures.
- The Company had decided to strengthen its governance system by formulating and implementing recurrence prevention measures in response to the misconduct committed by the Former President, which came to light in Mar. 2022, such as the appointment of outside directors and a revision of the internal regulations on decision-making authority. However, the failure of governance functions has not been resolved, as functions expected of the board of directors, the board of company auditors, and each director and company auditor have not been

demonstrated thereafter, and the Fraudulent Expenditure has continued.

- Some of the accomplices involved in the Fraudulent Expenditure, collaborating with the Former President, were in a position as contract workers with the Company and its Subsidiary to internally approve transactions between themselves and the Company (and/or its Subsidiary), meaning that checks and balances and monitoring to prevent conflicts of interest were not being carried out. In addition, there was no internal management system in place for transactions involving conflicts of interest or with related parties: there were no rules in place regarding such transactions and there was a lack of awareness among executives and employees.
- At the Subsidiary, the decision-making procedures for significant transactions were not being carried out properly, in that, among other things, the practice of post-approval on improper transactions and payments was commonplace, and there were no records that the required approval procedures under the Company rules had been followed for the Fraudulent Expenditure. Also, decision-making procedures in line with the actual situation of the Subsidiary were not properly implemented, in that, among other things, while the Subsidiary was a company without a board of directors, it had established board of directors' rules, and its rules for internal authority and approvals set forth matters which were subject to approval by the non-existent board of directors. Furthermore, at the Company, the decision-making procedures for significant transactions were not properly performed, in that, among other things, there was no evidence that the transactions that formed the Fraudulent Expenditure which needed approval by the board of directors had been duly approved.

As described above, this is a case in which the Former President carried out the Fraudulent Expenditures repeatedly for a long period, causing disclosures that were deemed false and had a significant impact on investors' investment decisions. Although the Company made a disclosure regarding its recurrence prevention measures on Dec. 26, 2024, TSE has deemed that further improvements to the Company's internal management system and other improvements are highly necessary. As such, TSE has decided to designate the stock of the Company as a Security on Special Alert.

Moreover, since this case involved the Company's continued publication of incorrect financial information over such a long period, and this information was highly important for investment decisions, TSE has deemed that this case has undermined the confidence of shareholders and investors in TSE's markets. Therefore, TSE will impose a listing agreement violation penalty on the Company.

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