



March 31, 2025

To Our Stakeholders

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(Amendment) Submission of Amended Report for Internal Control Report

As announced in the “(Amendment) Submission of Amended Annual Securities Reports and Corrected Financial Summary Reports for Prior Fiscal Years” released today, we have submitted amended Annual Securities Reports for prior fiscal years to the Kanto Local Finance Bureau and have also amended the Financial Summary Reports for prior fiscal years. In conjunction with the above, we submitted an “Amended Report for Internal Control Report” to the Kanto Local Finance Bureau today, in accordance with Article 24-4-5, Paragraph 1 of the Financial Instruments and Exchange Act.

1. Internal Control Report Subject to Amendment
Internal Control Report for the fiscal year ending March 2024
(from April 1, 2023 to March 31, 2024)
2. Reason for Amending the Internal Control Report
 - (1) Background to the amendment of the evaluation results of internal control over financial reporting

On December 26, 2024, the Company established an investigation team (hereinafter referred to as “the Investigation Team”) to investigate the cause and enhance internal controls. The Investigation Team conducted an investigation of SLOGIX CORPORATION (hereinafter referred to as “the Target Company”) after a suspicion arose that inventory assets had been overstated in the SDC Division of the Target Company. The Target Company is a consolidated subsidiary of the Company and a subsidiary of the Company’s consolidated subsidiary, SHIDAX CORPORATION.

Upon reviewing the contents of the investigation report (hereinafter referred to as the “Survey Report”) received from the Investigation Team on March 26, 2025, it was discovered that since 2014, an employee of the SDC Division of the Target Company had engaged in inappropriate accounting practices, including the overstatement of inventory assets (hereinafter collectively referred to as “this case”).

Considering this, the Company has determined it necessary to retroactively amend the fictitious inventory assets resulting from previous fiscal years. Consequently, the Company has submitted amended reports for the Annual Securities Report for the fiscal year ended March 31, 2024, and the Semi-annual Securities Report for the fiscal year ending March 31, 2025.

In this case, the Company has re-evaluated its internal controls, considering the analysis of the causes of the incident identified in the investigation report, the impact on financial reporting, and the associated risks. As a result, the Company has identified deficiencies in its financial reporting and operational processes. The Company has determined that the relevant deficiency constitutes a

material weakness that should be disclosed due to its material impact on financial reporting and has decided to amend the evaluation results of internal control over financial reporting.

(2) Details of material weaknesses disclosed

The details of the material weaknesses identified in the Company's financial reporting and operational processes are as described in "3. Parts to be amended and content of the amendment."

(3) Reasons for the omission of material weaknesses in the original internal control report

In "2. Scope of Assessment, Reference Date and Assessment Procedures" of the Company's Internal Control Report, the selection of the scope of assessment for operational processes affecting the reliability of financial reporting and accounting, deemed appropriate for company-wide assessment, covers the Company and seven consolidated subsidiaries. The Company currently considers the selection of the scope of assessment to be appropriate.

In addition, regarding the scope of the evaluation of internal controls related to operational processes, the five businesses accounting for approximately two-thirds of the total sales of the fiscal year are designated as "important business locations," and the selection of these "important business locations" is also considered appropriate at this time.

The scope of the evaluated operational processes included sales, accounts receivable, cost of sales, accounts payable, and inventory assets. It also included operational processes related to significant account items involving estimates and forecasts for business locations other than the "important business locations." However, the evaluation excluded the SDC Division of the Target Company, which consequently hindered the Company's ability to adequately identify risks and conduct a thorough assessment in the following areas:

- ① During the closing and financial reporting process, the balance of inventory assets by division within the Target Company was not adequately monitored. Furthermore, the depth of analysis of increases and decreases in the consolidated closing procedures for inventory assets was insufficient, resulting in the failure to detect abnormal values.
- ② In the operational process (inventory management process) at the Target Company, the segregation of duties was inadequately implemented. Additionally, there was no system in place for the Company's administrative department to verify physical inventory check results. This lack of oversight made it difficult to detect potential falsification of these results.

As these facts were discovered after the end of the fiscal year, it was not possible to identify the material weaknesses that should have been disclosed at the time of submission of the original internal control report. Consequently, the internal control for the fiscal year ended March 2024 was determined to be effective, and therefore, the material weaknesses that should have been disclosed could not be included in the original internal control report.

(4) Measures taken to correct material deficiencies and the status of their correction

As the material weaknesses requiring disclosure were discovered after the end of the fiscal year, they could not be corrected by the end of the fiscal year. The Company will implement the recurrence prevention measures described in "3. Parts to be amended and content of the amendment" to prevent the recurrence of these material weaknesses and will work to establish and operate appropriate internal controls.

3. Amended parts and content

The amended parts are underlined.

3 [Matters related to evaluation results]

(Before amendment)

Based on the evaluation above, the Company has determined that its internal control over financial reporting was effective as of the end of the fiscal year under review.

(After amendment)

We have determined that the deficiencies in internal control over financial reporting described below have a material impact on the appropriateness of financial reporting and constitute material deficiencies that should be disclosed. Therefore, we have determined that the internal control over financial reporting of the Company was not effective as of March 31, 2024.

Particulars

The Company established a team to investigate the cause and enhance internal controls (hereinafter referred to as “the Investigation Team”) on December 26, 2024. The Investigation Team conducted an investigation of SLOGIX CORPORATION (hereinafter referred to as “the Target Company”) after recognizing the suspicion that inventory assets had been overstated in the SDC Division of the Target Company, which is a consolidated subsidiary of the Company and a subsidiary of the Company’s consolidated subsidiary, SHIDAX CORPORATION.

Upon reviewing the contents of the investigation report received from the Investigation Team on March 26, 2025, it was discovered that, since 2014, an employee of the SDC Division of the Target Company had engaged in inappropriate accounting practices, including the overstatement of inventory assets.

Considering this, the Company has amended its financial statements for previous fiscal years and has decided to submit amended reports for the Annual Securities Report for the fiscal year ended March 31, 2024, and the Semi-annual Report for the fiscal year ending March 31, 2025.

The following are recognized as the causes of this incident and deficiencies in internal controls:

- (1) Causes and internal control deficiencies in the financial reporting process
 - The balance of inventory assets by division within the Target Company was not subject to monitoring.
 - SHIDAX CORPORATION's administrative department did not adequately analyze increases and decreases in inventory assets during the consolidated accounting procedures. This inadequacy prevented the detection of abnormal values.
- (2) Cause and deficiencies in operational processes
 - The segregation of duties at the Target Company was not properly implemented. Additionally, there was no sufficient system for the Company's administrative department to verify physical inventory check results, which resulted in a lack of checks for falsification, making it difficult to detect.

Based on the above, the Company has determined that the financial reporting process and operational process are not functioning effectively, and that the impact of these deficiencies on financial reporting is material and of high importance and has recognized them as material weaknesses that should be disclosed.

As the identification of material weaknesses that should be disclosed was not completed until after March 31, 2024, it was not possible to correct them by the end of the fiscal year.

The Company is keenly aware of the importance of internal controls related to financial reporting, and to address these significant disclosable deficiencies in internal controls related to financial reporting, the Company will implement the following recurrence prevention measures and strive to develop and operate appropriate internal controls.

- (1) Restructure the monitoring of the financial reporting process
 - Regular monitoring of inventory assets by both the business and administrative departments
 - Early detection and implementation of corrective measures for matters significantly impacting the reliability of financial statements through ongoing analyses of changes by the administrative and internal audit departments

- (2) Operational improvements in the inventory assets management process
 - Retraining employees of companies subject to implementation and reporting rules for inventory assets management
 - Establishing rules for handling documents to ensure an accurate and comprehensive understanding of inventory assets