May 24, 2019

Receipt of Interim Report from the Special Investigation Committee on Accounting Problems of a Consolidated Subsidiary KAJITAKU

As described in "Notice of Discovery of Inappropriate Accounting at our Consolidated Subsidiary and Postponement of Announcement of Financial Results for the Fiscal Year Ended February 2019" dated April 5, 2019, and "Notice of Establishment of Special Investigation Committee" dated April 11, 2019, we established a Special Investigation Committee consisting of outside experts who have no interest in us to investigate possibility of inappropriate accounting made at our consolidated subsidiary KAJITAKU CO., Ltd. (hereinafter referred to as "KAJITAKU"), with a view to clarifying the details of the matter and measures to prevent recurrence, including the impact on our consolidated financial statements, as well as measures to strengthen group governance.

In the process, we received an interim investigation report from the Special Investigation Committee, including the detailed information of the matter and the estimated impact on our consolidated financial statements, as well as the existence of similar cases in KAJITAKU, organized involvement, and confirmation of the existence of fraud acts. Details of the investigation are on the attached sheet. The full text of the interim report has been partially non-disclosed and anonymised from the viewpoint of personal privacy and protection of confidential information.

1. Results of the investigation by the Special Investigation Committee

For the results of the investigation conducted by the Special Investigation Committee, please refer to the attached "Interim Report on Investigation Results of Inappropriate Accounting by KAJITAKU (Disclosed version)."

2. Effect on the consolidated financial statements

As a result of the investigation by the Special Investigation Committee, the total impact on net assets of our consolidated financial statements for the period under review (from March 2013 to the end of February 2019) was -9.6 billion yen. The breakdown is as follows.

In the case of KAJITAKU, we are still investigating the impact of each accounting period taking into account the appropriateness of attributing the period due to obstacles such as (i) the absence of adequate accounting records representing the actual situation throughout the period under review, and (ii) the absence of records of receipts and payments of products.

(100 million yen)

No.	Item	Amount	Summary
①	Modification of uninstalled property claims	-23	Pre-Audit Estimated Figures. The cumulative effect on net assets for the entire period covered by the survey. Investigation period (From March 2013 As of the end of February 2019)
②	Adjustment for fictitious sales	-26	
③	Purchase adjustment for certification photo machines during the entire survey period	-17	
④	Adjustment for purchase of used copy machines	-12	
⑤	Other purchase adjustment	-2	
⑥	Valuation loss on inventories	-13	
⑦	Revision to confirm accounts receivable balance	-1	
⑧	Adjustment of suspense accounts	0.4	
⑨	Other adjustments	-3	
	Total	**-96**	

*① and ② mainly have an impact on consolidated net sales in the consolidated statements of income and accounts receivable in the consolidated balance sheets In the same way, ③ ④ and ⑤ affect the cost of sales in the consolidated statements of income and accounts payable in the consolidated balance sheets. If any impact on the consolidated financial statements in addition to the above occurs, we will disclose promptly.

3. The existence of other inappropriate acts such as accounting treatment and similar fraud acts at the subject subsidiary corporation

The Special Investigation Committee analyzed the financial statements of other subsidiaries (25 consolidated subsidiaries, etc. of Aeon Delight in Japan and overseas) and examined whether there were any signs of inappropriate acts. However, the Special Investigation Committee reported that no problems were found.

4. Future schedule

Final report and recommendations regarding measures to prevent recurrence and measures to strengthen Group governance from the Special Investigation Committee will be submitted around the end of June 2019.

We would like to express our deepest apologies to our shareholders, investors and other stakeholders for their serious inconvenience and concern.

May 24, 2019

Dear AEON DELIGHT CO., LTD.

Interim report on the results of the investigation on KAJITAKU Co., Ltd.'s inappropriate accounting

(Disclosed Version)

* This is an excerpted version of translation. For more details, please refer to the original press release (Japanese) announced on May 24th.

Special Investigation Committee of AEON DELIGHT CO., LTD.

Chapter1. Outline of the Interim Report by the Special Investigation Committee

1. Reason and Purpose of Establishment of Special Investigation Committee

When proceeding with the settlement procedures for FY2/19, it was pointed out that the balance sheet and the cash flow statement of KAJITAKU CO., Ltd. (hereinafter referred to as "KAJITAKU"), a consolidated subsidiary of your company, were in an imbalance by your company, and as a result of an internal investigation by KAJITAKU, conducted at the end of March 2019, it was found that there was a possibility that inappropriate accounting had been carried out by KAJITAKU. In response, your company established an internal investigation team (hereinafter referred to as the "Internal Investigation Team") and conducted an investigation mainly focusing on financial surveys of KAJITAKU, with the support of external experts. It was discovered that there was a mistake in the process of disposing of inventory in the Used Copier Resale Business of KAJITAKU's Store Support Business, and this would have an impact on your company's performance (hereinafter referred to as "the Matter"). In response to such a situation, your company have conducted a more transparent investigation, identified the causes of the Matter, confirmed the existence of similar cases, and determined the amount of impact on the consolidated financial statements. In addition, with the aim of formulating measures to prevent recurrence based on the results of the investigation and further strengthening the governance of your group, you established a special investigation committee (hereinafter referred to as the "Investigation Committee") on April 11, 2019, including external experts and lawyers who do not have an interest in your company and KAJITAKU.

In response to such a request from your company, the Investigation Committee has been conducting these investigation (hereinafter referred to as the "Investigation"): (i) an investigation into the contents of errors in the processing of inventory disposal in the used copier resale business in the KAJITAKU Store Support Business (including an investigation into the existence of similar improper accounting treatment), (ii) the recognition of the impact on your company's consolidated financial statements, and (ii) an investigation into the background and corporate culture of KAJITAKU. The Investigation Committee is still in the process of the Investigation but submitted the Interim Report (hereinafter referred to as the "Interim Report") to report the progress and current status of this investigation.

2. Committee Members

The Committee consists of the following members:

Yoshikazu Noma, Chairman of the Committee (Attorney, TMI Associates)

Tomotaka Iwata (Attorney, Certified Public Accountant, Showa Law Office)

Keishiro Tashiro (Attorney, TMI Associates)

Chapter2. People in charge, period, and method of investigation

1. People in charge of the Investigation

The Investigation Committee has appointed five attorneys at TMI Associates and external experts such as Digital forensics. In order to carry out this investigation efficiently. The Investigation Committee has been conducting this investigation with information and assistance from the in-house investigation team of AEON DELIGHT, which had previously carried out the investigation of the KAJITAKU.

2. Investigation period

From April 11, 2019 to May 23, 2019 (hereinafter referred to as the "Investigation Period"), the Investigation is still ongoing.

3. Reporting period

The period covered by this investigation was from March 2013 to February 2019, taking into consideration the necessity and effectiveness of the investigation. However, the survey was conducted retroactively from the previous period as necessary.

4. Corporations investigated

The main target corporation of this survey is KAJITAKU. However, in order to investigate whether there are any similar cases in other corporations of your group, the following corporations out of your consolidated subsidiaries (hereinafter referred to as the "other target subsidiaries") were also investigated to the extent deemed reasonable.

Company name	Company name
AEON DELIGHT ACADEMY CO., LTD.	AEON DELIGHT(MALAYSIA)SDN.BHD
AEON DELIGHT SECURITY CO., LTD.	A Life Support Co., Ltd.
AEON DELIGHT Seres Co., Ltd.	Hakuseisya CO., LTD.
Kankyouseibi Co., Ltd.	Chuo Kanzai Co., Ltd.
Kanto Engineering Co., Ltd.	Mino-Ekimae Parking Service Co., Ltd.
DO SERVICE co., ltd.	U-COM Co., Ltd.
A to Z Service Co., Ltd.	Aeon Delight Teda (Tianjin) Comprehensive Facility Management Service Co., Ltd.
FMS Solution Co., LTD.	Aeon Delight (Jiangsu) Comprehensive Facility Management Service Co., Ltd.
Aeon Delight (China) Comprehensive Facility Management Service Co., Ltd.	Wuhan Xiaozhu Comprehensive Facility Management Service Co., Ltd.
AEON COMPASS CO., LTD.	AEON DELIGHT(SHANGHAI)MANAGEMENT CO., LTD.
J-horizons Travel(M)Services Sdn.Bhd	AeonDelight DeepBlue Techology (Shanhai) Co., Ltd.
General Services ,Inc.	PT Sinar Jernih Sarana
AEON DELIGHT(VIETNAM)CO., LTD	

5. Method of Investigation

Since April 12, 2019, the Investigation Committee has been conducting investigations into the case by means of interviews with concerned parties, study of materials including various contract documents, internal regulations, documental evidences and accounting data as well as digital forensic research (*) and introduction of a hotline.

* Digital forensic surveys: Surveys to extract and collect electronic records left on computers and external storage media (HDD and USB memory) to analyze evidences related to the event

Chapter3. Survey Results

1. Basic Information on KAJITAKU

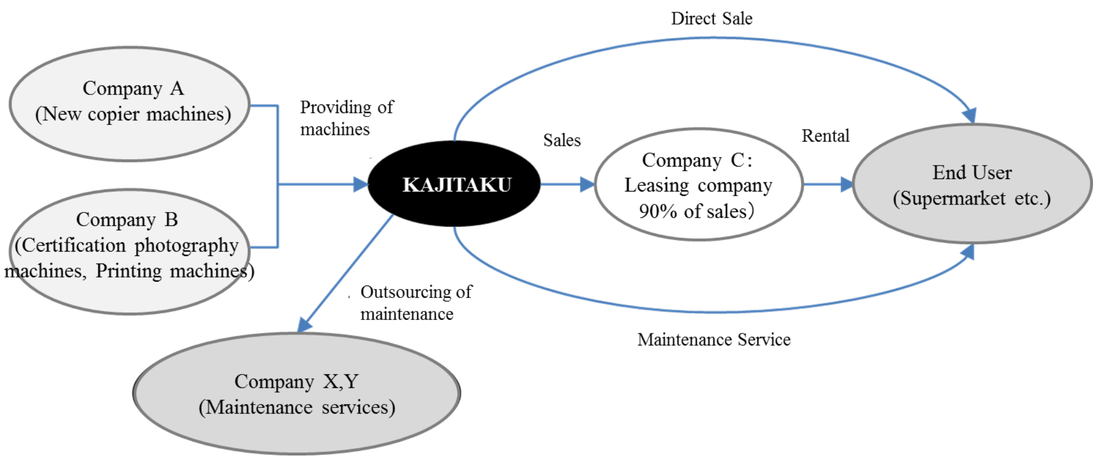
(1) KAJITAKU's Corporate Profile (As of March 1, 2019)

1.	Company name	KAJITAKU CO., Ltd.
2.	Officer	Two full-time directors One Director (part-time) One Auditor (part-time)
3.	Shareholder	AEON DELIGHT CO., LTD. (97.8%) and one individual (2.2%)
4.	Capital stock	155,000,000 yen
5.	Established	August 22, 2008
6.	Number of employees	155 (as of the end of August 2017)
7.	Contents of business	Housekeeping Support Business and Store Support Business
8.	Address of head office	4-3-3 Hatchobori, Chuo-ku, Tokyo, 104-0032
9.	Other	In April 2011, AEON DELIGHT acquired 90% of the outstanding shares and made it into a subsidiary.

(2) KAJITAKU's businesses

KAJITAKU has two main businesses: Store Support Business and Housekeeping Support Business. The Store Support Business sells and maintains copiers and certification photography machines to retail stores. The Housekeeping Support Business provides housekeeping services and cleaning services to general consumers.

[Business Process of the Store Support Business]



4. Inappropriate acts

(1) Acknowledgement of inappropriate acts by KAJITAKU

The Investigation Committee identified the existence, modes, and background of this inappropriate acts as follows by examining and analyzing the materials obtained from the above-mentioned investigation.

1. Padded sales from uninstalled property invoicing

(a) Modes and methods

Some sales transactions are booked as sales despite the fact that copiers sold are not installed by end users. Transactions related to these uninstalled properties seem to have been carried out in advance of anticipated sales to be installed within the following month or a few months. Some of these transactions are recorded as sales despite the lack of concrete possibilities for installing copiers, etc. at that time. KAJITAKU receives payment from Company C of the amount equivalent to the cost of copiers and other equipment for transactions that have not been installed (hereinafter such transactions are referred to as "uninstalled property claims").

In a transaction invoicing uninstalled properties, Company C started rental transactions to end users, and Company C began billing end users for basic fees (rental fees). Therefore, KAJITAKU compensated for the basic fees until the uninstalled condition was resolved, so that end users would not be disturbed.

These loss compensation transactions are based on the memorandum of understanding between Company C and KAJITAKU. In the case of copiers, the monthly counter fee shall not be charged to the end user if the amount of the monthly counter fee does not exceed the amount of the basic fee. If copiers are not installed, the counter fee will be zero, so Company C's basic fee will be charged to the end users. However, according to the time of payment of the basic fee, KAJITAKU compensated the end users for the amount equivalent to the basic fee by the payment method.

If the monthly counter fee received by Company C from the end user was less than the base fee for the loss compensation transaction for the certification photography machine, the difference would be covered by KAJITAKU. If no certification photographer was installed, the counter fee would be zero, so KAJITAKU paid Company C the full basic fee.

KAJITAKU accounted for these basic fee compensation transactions as "sales discounts." Company C will pay the price of the copier to KAJITAKU only upon receipt of a written confirmation confirming that the copier has been installed by the end user. In the case of uninstalled trading, even though copiers are not installed, rental transactions for end users have commenced and KAJITAKU bills Company C for the fee. This was done by having an employee of KAJITAKU's Corporate Sales Department compensate the end users for the full amount of the basic fee during the non-installed period as described above, and then requesting a written confirmation of the installation of copiers from the end users at the same time as other contracts, and delivering it to Company C to prepare the appearance of the copiers installed. With regard to uninstalled property claims, Company C pointed out to the president of KAJITAKU around July 2018 that, despite the fact that no certification photography machines were actually installed, there were cases in which Company C prepared and submitted contracts and confirmations and requested payment. In August 2018, a study meeting was held hosted by Company C, in which full-time directors and the majority of employees of the Store Support Business Division participated, and again instructed them to request payment after proper installation. Subsequently, the number of uninstalled property claims decreased, but the issue had not been resolved.

Such transactions invoicing uninstalled properties were carried out for the purpose of raising funds, and in parallel with the deterioration in the cash flow of KAJITAKU, the size of transactions invoicing uninstalled properties increased sharply.

2. Recording of fictitious sales through profit and loss adjustment, etc.

(a) Modes and methods

In the KAJITAKU Store Support Business, as noted above, profit-and-loss adjustment was made to change the financial accounting figures in line with the management accounting figures. The profit-and-loss adjustment is not accounting based on exchange vouchers, but is based on sales plans prepared by the Store Support Business Division to manage budgets and sales performance, and the financial statements of KAJITAKU are prepared. Sales plans tend to be overstated as individual sales representatives enter when sales are possible, and projects that are no longer expected to be sold have not been eliminated, and evidence-based confirmation has not been obtained.

As a result, KAJITAKU's net sales in financial accounting include transactions that do not satisfy the sales recording requirements, such as those that are recorded as sales when acceptance inspections at installers have not been completed or those that are recorded as sales when contracts have not been concluded.

Therefore, the Committee recalculated net sales based on the acceptance inspection criteria (hereinafter referred to as the "Acceptance Inspection Standard Sales") after deeming the date of conclusion of the contract with Company C as the acceptance inspection date and compared the sales based on KAJITAKU's accounting records (hereinafter referred to as the "Profit-and-loss Adjustment Sales").

As a result, when looking at annual settlements, it was confirmed that profit-and-loss adjustment sales exceeded standard-based sales in all of the survey periods, and that the gap between the two increases cumulatively. This means that when the contract conclusion date is used as the standard date, as a whole, sales are recorded in advance, and the amount of such advance sales recorded is increasing year by year.

3. Unbooked purchases from Company B

(a) Modes and methods

With regard to purchases from Company B, since March 2018, without using the expense settlement system, the over-the-counter support business division has reported it to the accounting staff on a paper basis, and the accounting staff has recorded it as a provisional expense, and the work is done to process the suspense expense account on a monthly basis. At that time, purchases from Company B were not booked as purchases or accounts payable. This treatment was initiated when the cash flow in KAJITAKU worsened, and it is impossible to deny the possibility that such treatment was intentionally carried out. KAJITAKU's monthly accounting data for FY2018 shows that the amount purchased from Company B was not recognized as an obligation, which resulted in the underestimation.

There are transactions in which KAJITAKU sells goods to Company B. In such transactions, KAJITAKU pays Company B the difference in the base fee (loss compensation transaction). However, a small amount has not been recorded for part of the loss compensation payment in the same manner as the above-mentioned underestimation of purchases.

In addition, the transaction records related to Company B included a transaction to offset KAJITAKU's accounts receivable to Company C and KAJITAKU's accounts payable to Company B. This is a transaction that does not involve the reality of offsetting balances that cannot be originally offset, and is considered to be journal entries used to reduce or restate accounts receivable that were overstated by profit and loss adjustments.

4. Unbooked purchases of used copiers

(a) Modes and methods

In the over-the-counter support business, after new product sales have run their course, the company has promoted sales measures, such as purchasing used copiers, reselling them, and then selling new equipment.

In the case of trade-in of used copiers, etc. executed in the form of purchases from Company C, the purchase amount from Company C must be recorded at the time of acceptance inspection of the relevant equipment. In KAJITAKU, however, a portion of the amount that should be recorded as purchases was not recorded on the books.

5. Unbooked purchases of new copiers, etc.

(a) Modes and methods

In the over-the-counter support business, the company purchased new copiers from Company A, but in order to verify the accuracy of the purchase records, it sent a balance check to Company A and checked it against the accounting records of the KAJITAKU side. As with certification photography machines and used copiers, the company did not record purchases of new copiers.

6. Inventory valuation, etc. that do not reflect actual conditions

(a) Modes and methods

In the over-the-counter support business, there are no prospective orders for copiers and certification photographers, and casual staff usually do not have any inventory of copiers and certification photographers. However, due to the trade-in of used copiers in order to expand sales, inventories of used copiers increased year by year, resulting in an increase in the amount of these inventories. In addition, the company developed certification photography machines jointly by three companies: KAJITAKU, Company B and Company Z , and when the sales of certification photography machines became sluggish, the company was forced to take back the certification photography machines as inventory at the KAJITAKU.

As for used copiers and certified photography machines owned by KAJITAKU due to the above circumstances, it is necessary to consider the necessity of a valuation loss based on the lower of cost or market according to future sales forecasts. However, KAJITAKU did not conduct such a study, and the evaluation exceeded the actual market conditions.

In addition, the Committee's investigation revealed that the valuation unit price of copy paper inventory at the end of the fiscal year was inflated with the aim of overstating profits.

7. Other inappropriate acts

1. Presence of accounts receivable and account balances with no concrete substance

(a) Modes and methods

As noted above, KAJITAKU's Store Support Business Division' accounts include balances that do not involve a large amount of actual conditions.

For this reason, the Committee examined the balance of accounts for KAJITAKU in the latest fiscal year, including the Housekeeping Support Business Division and the Administration Division, and examined whether there were any unrealized balances.

As part of the verification work, the Committee confirmed the balance of accounts receivable with large customers of KAJITAKU as a whole, including the Store Support Business and Housekeeping Support Business, and found that there were significant differences that were deemed to have arisen as a result of income adjustments that were not accompanied by actual conditions.

(1) Balance of suspense accounts without actual conditions

A Modes and methods

Since KAJITAKU's profit-and-loss adjustment was often carried out using the "suspense expense (obligation account)" account as the counterparty account, the balance of "suspense expense" was left without reality.

(c) Other Improper Accounting Procedures Requiring Corrections

A Modes and methods

By verifying the existence of fictitious balances and unrecognized obligations on the latest account balances of all KAJITAKU companies, it became clear that network management expenses, which should be recorded as expenses for the current period, were recorded in software (intangible assets) and other liabilities were understated, and that there were transactions to be corrected.

8. Summary

As described above, KAJITAKU booked fictitious sales on its financial statements because it booked sales that were not originally allowed due to claims on uninstalled properties and profit and loss adjustments. In addition, it was not booked as expenses or costs from March 2018 for purchases from Company B, and in the monthly accounting data for FY 2018, obligations were understated. In addition to the above, KAJITAKU's financial statements were decorated as a result of unbooked purchases of used and new copiers, an increase in inventory balances, and the booking of network management costs in software.

It should be noted that this Committee conducted as much investigation as possible using the above-mentioned investigation methods, but the data collected are limited and are not necessarily exhaustive.

(2) Whether or not the Subject Subsidiary Corporation has committed the Inappropriate Act or any other similar misconduct.

The Committee analyzed the financial statements and verified the evidence of other subsidiaries and examined whether there were any signs of inappropriate acts, but found no problems.

5. Effect of this transaction on your consolidated financial statements

The total impact on the net assets of your Consolidated Financial Statements as of the date found by the Committee's investigation is as follows:

The Investigation Committee is still working to calculate the impact amount due to obstacles such as (i) the absence of appropriate accounting records representing the actual situation as a result of profit and loss adjustment over the entire research period, and (ii) the absence of records of receipts and payments of products such as copiers and certification photography machines.

Therefore, it should be noted that at this point it has not been completed to estimate the impact of each accounting period taking into account the appropriateness of attributing the period.

Unit: 100 million yen

Item	**Amount**	**Summary**
Modification of uninstalled property claims	△ 23	Pre-Audit Approximate Figures. The cumulative effect on net assets during the entire survey period
Adjustment for fictitious sales	△ 26	
Purchase adjustment for certification photo machines	△ 17	
Adjustment for purchase of used copiers	△ 12	
Other purchase adjustment	△ 2	
Valuation loss on inventories	△ 13	
Revision to confirm accounts receivable balance	△ 1	
Adjustment of suspense accounts	0.4	
Other adjustments	△ 3	
Total	**△ 96**	

6. Circumstances, background, etc. of the Matter

(1) Introduction

The details of the circumstances, background and possible motives of the above-mentioned misconduct in 5 by KAJITAKU (hereinafter collectively referred to as "this misconduct") are as follows.

(2) Organizational Background

(a) Structure of superiority in sales

KAJITAKU was established in 2008, with full-time directors playing a central role, and executive officers in charge of the Administration Division also participated from the time of the establishment. Full-time directors tended to have superiority in sales, and KAJITAKU's entire business culture also gave priority to sales.

(b) Need to record sales in the Store Support Business Division

Since the establishment of KAJITAKU, the Housekeeping Support Business Division has been in the red, and it has been difficult to achieve a structural profit. For this reason, KAJITAKU must have booked sales and profits as budgeted in the Store Support Business Division in order to demonstrate that the company as a whole is in sound management.

(c) Explanation to your company

KAJITAKU had to obtain the approval of the budget and report the achievement status of the budget and financial status to your company on a monthly basis. At the time of this monthly report, the company was asked to explain the cause and countermeasures in detail if they did not achieve their budget. KAJITAKU's management sometimes felt that pursue was strict.

It is considered probable that the background to this is that KAJITAKU, through its parent company Aeon Co., Ltd. requested the disclosure of samples of contracts used in the business of selling copiers and other products of the Store Support Business Division, was that KAJITAKU had submitted to you and Aeon Co., Ltd. a sample of the memorandum of understanding used in certification photography sales transactions after deleting the provision of adjustment fee clause (stipulating that if the monthly counter fee for the end user was less than the monthly basic fee, KAJITAKU would pay the difference directly to Company C). It is probable that KAJITAKU had manipulated the inconvenient facts in your audit, etc.

(3) Background to the inappropriate acts and possible reasons

1. Business of the Store Support Business Division until the collection of used copiers, etc.

After KAJITAKU was established, the Store Support Business Division mainly developed new customers (regional retail stores, etc.) and delivered new copiers. At that time, KAJITAKU had virtually no inventory of copiers and other equipment, and after receiving an order, it purchased copiers and sold them to a leasing company and installed them at the customer. The majority of KAJITAKU's customers supplied copiers and other equipment had installed copiers and other equipment through lease transactions. In the case of a new customer's business model, there were no expenses for taking back used copiers, etc., or the basic fee was not covered by KAJITAKU.

2. Commencement and nature of business focused on existing customers

From around 2012, existing customers with copiers installed by KAJITAKU began to want to change their existing copiers to new models. At the beginning of KAJITAKU's Store Support Business Division, customers were mainly end users installing new copiers. After five years of rental, in principle, the number of repeat orders from existing customers installing copiers from KAJITAKU has increased. In the Copiers Sales Business, sales activities and competition to replace new machines began several months prior to the lease term or the expiration of the rental term. As a result, the distributor incurred rental fees or rental fees for the remaining lease term or the remaining rental term, and the customer was asked to install new machines. KAJITAKU also offered to existing customers that they would pay the remaining rental fee. The company cancelled the rental contract before the end of the period, and KAJITAKU began to pay the cancellation fee, etc., and KAJITAKU began offering a service to collect used copiers and other equipment from KAJITAKU. In negotiations to replace copiers and other equipment, KAJITAKU has been switching to rental transactions from Company C as described above. The market for installation transactions of copiers and other equipment at supermarkets and drugstores has already reached saturation and maturity, and as a result of KAJITAKU's unreasonable sales activities, there has been an increase in the amount of loss compensation transactions (transactions in which KAJITAKU bears the difference that end users should bear if the monthly base counter fee (equivalent to the maintenance and management fee) does not exceed the monthly base fee or the monthly basic counter fee (equivalent to the maintenance and management fee) falls below the monthly base fee).

3. Entry into used copy machines and certified photography machines business

KAJITAKU began selling used copiers to desired customers (hereinafter referred to as "used copiers and other businesses") around 2015 as the number of used copiers collected at the expense of the cancellation fee increased. In the used copier and other businesses, there were opportunities to increase sales from the resale of the collected used copiers, while 40% of the collected used copiers could not be resold due to obsolescence and other reasons, and only expenses related to the collection and disposal were incurred in the KAJITAKU business.

In KAJITAKU, the management of individual properties such as used copiers collected was not strictly carried out, and the impact of the sales business of used copiers and other products on the income and expenditures of the Store Support Business Division was not examined. In addition, with regard to KAJITAKU's sale, general and administrative expenses, no section information was calculated or grasped for each business division of the Store Support Business Division and the Housekeeping Support Business Division.

In the copier sales business, KAJITAKU began to focus on sales of certification photography machines from around 2017, as the acquisition of new customers slowed and replacement demand from existing customers was the main factor. KAJITAKU participated in the development of Company Z's certification photography machine with Company B in order to secure stable procurement of certification photography machines. Subsequently, KAJITAKU purchased certification photography machines from Company Z through Company B.

4. Expansion of Uninstalled Property Claims (in particular, Certification Photography Machines)

KAJITAKU has been expanding this business since around 2015 without accurately grasping the status of income and expenditures in the used copier and other businesses. The background to this was the growing awareness of competition among existing customers across industries, such as supermarkets and drugstores, and the growing need to change copiers installed in stores to the latest models at an early stage, and the market for the installation of copiers and other equipment at such stores was already saturated and mature. The Corporate Sales Department of the Store Support Business Division has repeatedly chosen to obtain such contracts even if it is impossible to pay a large surrender charge for such negotiations that require early cancellation. However, in this judgment, given that the transaction units in the Store Support Business were large enough to generate sales of several hundred million yen per transaction, it is considered that some transactions had negative gross profit considering the cancellation fees and other miscellaneous expenses (including the expenses to compensate for the above-mentioned basic monthly fees) as the actual costs were not appropriately taken into account. In addition, the decrease in maintenance fee revenue due to the increase in rental transactions and the compensation of basic fees were not considered, and it is considered that the revenue and expenditure of the business as a whole was deteriorating. In addition, KAJITAKU, which has focused on sales since around 2015, has not conducted a demand survey and has promoted sales of certification photography machines in combination with loss compensation transactions. As a result, a considerable number of machines have been installed in shops and other locations that do not have sufficient demand.

Against this backdrop, KAJITAKU began to increase uninstalled property claims around 2017 in order to secure sales and quickly recover funds. At the time, KAJITAKU judged that demand for certification photography equipment was higher than for copiers, and focused on sales of certification photography equipment. As a result, the number of uninstalled property claims related to certification photography machines increased. Furthermore, as noted above, there seems to have been a considerable number of transactions with negative gross profit due to the burden of cancellation fees for existing rental agreements and compensation for basic fees. As a result, sales increased in 2017 due to the contribution of numerous uninstalled property claims. However, as a reaction to this, funding conditions deteriorated sharply from around 2018.

5. Expansion of recombinant exchanges

Since the time KAJITAKU expanded its uninstalled properties claims, KAJITAKU's Store Support Business Division only added new functions by updating copiers and other software and replaced some parts. Instead of replacing parts and replacing copiers and other equipment to extend the rental period, KAJITAKU has settled existing rental transactions, concluded contracts for the sale and re-rental of copiers from KAJITAKU to Company C, and carried out transactions invoicing the proceeds of the used copiers and other equipment from Company C (formerly called "Replacement" or "Recombination"). These transactions are originally classified as maintenance services such as software updates and new functions added, and it seems unlikely that the existing rental transactions will be terminated and new transactions will be undertaken. In the Replacement Transaction, since the same copier is newly traded by KAJITAKU to Company C, it does not fall under the category of fictitious sales by KAJITAKU. However, it cannot be denied that the transaction that should have been classified as a maintenance service was intentionally carried out as a recombinant transaction in order for KAJITAKU to record sales.

6. Deterioration of Cash Flow and Borrowing from Your Company

KAJITAKU has been focusing on sales of certification photography machines since around 2017. In order to be able to immediately install them when they are sold, KAJITAKU has decided to purchase certification photography machines for the estimated number of units sold from Company B in advance. This was because KAJITAKU had promised to purchase a certain amount of equipment from Company B, and KAJITAKU intended to shorten the lead time which has three months' from the time of placing an order for a certificate photography machines to the time of delivery to Company B.

Nevertheless, even in the summer of 2018, actual sales of certification photography machines did not materialize as planned, and payments to Company B for the purchase of certification photography machines were made ahead of schedule, and KAJITAKU's cash flow became even more severe. In February 2018 at the latest, the company was allowed to delay payments to Company B from e-mail exchanged by executives and employees, and from around March of the same year, the company has not booked purchases to Company B, as mentioned above. In June 2018, the head of the Corporate Sales Department, together with the person in charge in the Operations Department, entered the date of the agreement obtained from the customer with a pen that can delete the letter, deleted this date and entered the date one month earlier without permission, and submitted it to Company C, so that the payment was made one month earlier.

From 2017, KAJITAKU began booking sales, and with the aim of early stage realizing cash, the number of uninstalled property claims increased.

In the aftermath of this situation, KAJITAKU was in a financial shortage. From May to June 2018, the president of KAJITAKU borrowed from an acquaintance and lent approximately 180 million yen to KAJITAKU via Company Z. However, the situation did not improve, and in August 2019, KAJITAKU borrowed 1 billion yen from your parent company as of the end of February 2019 as the repayment date. However, KAJITAKU was unable to improve the financial condition described above over a period of less than six months, and in January 2019, the repayment plan for such borrowings was deferred. At the time of such borrowing, materials such as fraudulent financial statements that do not involve actual conditions have been submitted by KAJITAKU to you.

7. Declaration by the employees of Operations Department

As noted above, KAJITAKU has been increasingly receiving payments from Company C by posting sales of uninstalled properties in transactions involving the sale of certified photography machines since around 2017, when its cash flow deteriorated. However, due to the introduction of the above-mentioned "replacement" and "recombination" methods, and the discovery of alteration of the date of the contract, etc., several employees of the Operations Department, who were in charge of the installation work of the properties, worried that it would be a misconduct to charge Company C for the purchase money by lying in the case of installing the property. At the latest, some of them reported and consulted with the Operations Department Manager and the Personnel Department in August 2018. In response, the full-time directors reviewed the response, and the full-time directors promised to make improvements to the declaration, but did not take appropriate and prompt action to resolve the matter, and the uninstalled property claims were continued. Two of the above employees retired from KAJITAKU.

8. Discovery of the Matter

Following the process described above, KAJITAKU faced immediate financing difficulties, and consulted with your company, which led to the discovery of the Matter.

9. Management's awareness of the Case and possible motives

KAJITAKU's principal management team is full-time directors and executive officers in charge of the Administration Division (hereinafter collectively referred to as "management team"). The management team recognizes this inappropriate act as a result of lack of knowledge of fiscal and inadequate operation of the settlement procedures, and does not recognize the involvement or awareness of this inappropriate act.

However, in light of the organizational background mentioned above, the circumstances leading to the Matter, and the amount of money involved, it is unlikely that the management team was aware of this misconduct and the inappropriate act.

In other words, with regard to profit/loss adjustment, the executive officers in charge of the Administration Division say that the sales plan prepared by the Store Support Business Division showed the correct shape of KAJITAKU, but rather they do not provide an accurate explanation as the basis for this, and rather, as it is clear that the sales plan was entered by the employees of the Corporate Sales Division and no evidence was supported by them, it is highly likely that the management team was aware that the profit/loss adjustment was inadequate. When preparing financial statements, management team adjusted the balance of copiers in inventory and copy paper in inventory as the balance of balance sheet, not the figure obtained through inventory. Therefore, it is strongly suspected that management team attempted to adjust the figures in the financial statements through SG&A and inventory adjustments.

As for uninstalled property claims, it seems that they were actually made only when it was obvious that they were installed within the following month or a few months at the time when the transaction took place, and there seems to have been no strong awareness of illegality in the motives of the persons in charge who made the transaction. However, a considerable number of transactions have not yet been established for more than one year, and there is no doubt that these transactions were financial transactions conducted to record sales or improve cash flow without the prospect of establishment. Employees gave statements directly to KAJITAKU's president, along with e-mails, pointed out that Company C had not installed the property and held study meetings. Despite reports and consultations from multiple employees of the Operations Department regarding requests for non-installed properties, uninstalled property claims remain thereafter. In light of this fact, it is probable that the full-time directors at least recognized and accepted the uninstalled property claims, and this was based on the instructions of KAJITAKU's president.

Furthermore, in March 2018, when KAJITAKU's cash flow worsened, the accounting staff and the management team denied the fact that, despite returning the accounting and payment processing for the invoices from Company B to the paper-based method prior to the introduction of the system, the accounting process did not return to the previous one, and the accounting process was not recorded as a purchase without returning to the previous one. Considering the fact that billing and profit and loss adjustment for uninstalled properties were carried out, there is a possibility that the accounting staff and the management team deliberately did not record the purchase from Company B. It is also possible that other misconduct may be intentionally manipulated by management team.

Assuming that all of these improprieties were committed intentionally, the motives behind these acts were that the market for the Store Support Business was saturated and the housekeeping business was sluggish, and under the corporate culture of emphasizing sales, the management team was strongly aware of the purpose of expanding the Store Support Business and achieving the budget and in order to pretend that the monthly budget was achieved in order to avoid challenging pursuit from your company, the company attempted to make up for the negative gross profit of the used copier sales business and the loss compensation transaction. In addition, it is believed that the newly launched certification photography machines did not proceed as planned, and payments for purchases were made ahead of schedule, and that they were concealed by disposing of them off the books. Given these circumstances, KAJITAKU's financial condition deteriorated rapidly, and it is believed that management team continued this inappropriate act in order to improve its cash flow.

The Committee's findings at this time are as described above. The background and cause of the misconduct, including the existence of problems with your subsidiaries’ management as the parent company, are still being investigated. Therefore, it should be noted that some of the above certifications may need to be partially revised. Analysis of the causes of this inappropriate act and the recommendation of measures to prevent a recurrence, including the management of your subsidiaries based on this analysis, will be reported again in the final report.