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To Whom It May Concern

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## **Notice of Material Deficiencies That Should Be Disclosed for Internal Control Over Financial Reporting**

As described in the following note, OUTSOURCING Inc. (hereinafter “the Company”) has stated in the internal control report for FY2022 (hereinafter “current fiscal year”) that the internal control over financial reporting was not effective due to material deficiencies that should be disclosed. The internal control report has been submitted today to the Kanto Local Finance Bureau based on article 24-4-4, paragraph 1 of the Financial Instruments and Exchange Act.

### Note

#### 1. Content of Material Deficiencies That Should Be Disclosed

On January 14, 2022, the Company revised its financial statements, quarterly reports, and other documents for the previous fiscal year. It also assessed that its internal control over financial reporting as of the end of December 2021 for the previous fiscal year was not effective, and that there were material deficiencies that should be disclosed.

In connection with this incident, an "Improvement Report" to the Tokyo Stock Exchange was submitted on March 8, 2022, and an "Improvement Status Report" describing the implementation status and operation status of improvement measures was submitted on September 22, 2022. The Company has developed and operated internal controls, and has been striving to strengthen its internal control system within the group.

Under the Company’s new management structure, which includes three newly appointed independent directors, the entire company has been working together to discuss the prevention of recurrence and to take improvement measures. Particularly, the Company and its domestic subsidiaries have achieved certain results in reforming the corporate culture, fostering employee awareness of compliance, and improving accounting literacy.

As for overseas subsidiaries, in Inversiones SL group SpA, a consolidated subsidiary in Chili, a local manager exploited his position and made internal control ineffective in order to execute related-party transactions that resulted in a conflict of interest. Other issues of fraud and problems in the management system, such as overdue account receivable management, have also occurred in this company.

Also, the Company’s internal survey revealed that, in the fourth quarter of the current fiscal year, the manager of HRS SDN. BHD., a small Malaysian consolidated subsidiary, exploited his position to cover up in-house software development failures. As a result of internal investigation, the Company retired the software of JPY 104 million in the current fiscal year.

In addition, during the course of the independent audit of CDER GROUP LIMITED (hereinafter referred to as the CDER), a consolidated subsidiary in the United Kingdom, a defect in the public debt collection system caused errors in journal entries offsetting cash/cash equivalents and trade/other payables. This incident resulted more than JPY 575 million in each accounting item. The Company’s internal investigation revealed that CDER’s bank reconciliation procedures and the Company’s monitoring at CDER did not function sufficiently to detect this error.

[Translation]

The Company evaluated, in terms of company-wide internal controls, these improprieties and significant errors in overseas subsidiaries are caused by insufficient awareness of compliance at some overseas subsidiaries, insufficient function of the Company's monitoring of those subsidiaries, and financial closing reporting processes, in addition to problems in the management systems of those subsidiaries. Also, the Company regrets that its priorities for improvements were too concentrated on domestic companies.

Because such deficiencies in internal control over financial reporting in overseas subsidiaries have had a material impact on financial reporting, the Company has determined that deficiencies in both internal control over company level control and the closing and financial control for reporting processes are material deficiencies that should be disclosed.

## 2. Reasons Why Corrections Could Not Be Made by the End of the Fiscal Year

Along with the inability to secure a sufficient period for improvement by the last day of the current fiscal year, some of the facts mentioned above were identified after the last day of the current fiscal year. Thus, the material deficiencies that should be disclosed could not be corrected by the last day of the current fiscal year.

## 3. Corrective Policy for Material Deficiencies That Should Be Disclosed

The Company is fully aware of the importance of internal control over financial reporting. In order to correct any material deficiencies that should be disclosed, the Company will develop and operate internal control through measures to prevent recurrence, particularly with a view to strengthening the governance system of overseas subsidiaries and the monitoring functions to them. In addition, the Company and its domestic subsidiaries will also strive to thoroughly implement internal controls.

(Measures to prevent recurrence)

- (1) Reform awareness of compliance among overseas subsidiaries and thoroughly implement measures to prevent recurrence.
- (2) Strengthen function of mutual checks by reviewing the management systems of overseas subsidiaries.
- (3) Strengthening the Company's monitoring functions for overseas subsidiaries.
  1. Review and operate monitoring measures in the management division.
  2. Expansion of human resources in management divisions and securing of high-quality human resources.
  3. Enhancement of the internal audit system.
  4. Strengthening supervisory functions of the Board of Directors and the Audit Committee.
- (4) Establishment and operation of internal reporting systems for overseas subsidiaries.

## 4. Impact on Non-consolidated Financial Statements and Consolidated Financial Statements

All necessary corrections for the items resulting from the material deficiencies that should be disclosed have been reflected in the non-consolidated financial statements and the consolidated financial statements.

## 5. Audit Opinion for Consolidated Financial Statements

Unqualified Opinion