November 14, 2023

To Whom It May Concern

Company Name: OUTSOURCING Inc.
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Notice Regarding Submission of "Amendment Report of the Internal Control Report"

OUTSOURCING Inc. (hereinafter the "Company") submitted amended reports for applicable years Annual/Quarterly Securities Reports, and also amended applicable years Summary of Financial Statements as stated in the press release today "Notice Regarding Amendment of Annual Securities Reports and Financial Results for Past Fiscal Years."
In accordance with this, based on Article 24-4-5, Paragraph 1 of the Financial Instruments and the Exchange Act, the Company today announces that it submitted an "Amendment Report of the Internal Controls Report" to the Kanto Local Finance Bureau, as follows.

Note

1. Internal Controls Report subject to amendment

The 24th Internal Control Report for FY2020 (January 1, 2020 to December 31, 2020)

The 25th Internal Control Report for FY2021 (January 1, 2021 to December 31, 2021)

The 26th Internal Control Report for FY2022 (January 1, 2022 to December 31, 2022)

2. Amendment Details

Within the aforementioned Internal Control Reports, 3 [Matters concerning the evaluation results] is amended as follows. Note that places amended are shown as underlined.

(1) The Amended 24th Internal Control Report of FY2020 (January 1, 2020 to December 31, 2020)

3. [Matters concerning the evaluation results]

(Before Amendment)

The deficiencies in internal controls over financial reporting described below could lead to a material impact on financial reporting, and thus it has been identified as material deficiencies. Therefore, as of the end of the current fiscal year, the internal control over financial reporting was not effective.

Note

In the process of preparing for the listing of the Company's consolidated subsidiary, OUTSOURCING TECHNOLOGY Inc. (hereinafter, "OST"), the Company became aware of suspicions of fraudulent financial reporting at its subsidiary, enable Inc. Therefore, on September 29, 2021, the Company set up an outside investigation committee, including external lawyers and certified public accountants, and has proceeded with the investigation.

As a result of receiving the investigation report from the Investigation Committee on December 28, 2021, it was found that, in addition to the avoidance of impairment losses on fixed assets and the overstatement of work-in-process at enable Inc., it has turned out overstatement of revenues and understatement of expenses at the Company and its consolidated subsidiaries in the Domestic Engineering Outsourcing Business, Domestic Manufacturing Outsourcing Business, Domestic Service Outsourcing Business, and Overseas Manufacturing and Service Operation Outsourcing Businesses.

Thus, the Company has decided to amend its financial results for the past fiscal years and submit the amendment report for the annual securities reports for the fiscal years ending December 31, 2019 and 2020 and the quarterly reports for the first quarter of the fiscal year ending December 31, 2020 through the second quarter of the fiscal year ending December 31, 2021.

The fraudulent financial reporting identified by the outside investigation committee was the result of the concentration of authority on a few executives and employees, dysfunctional supervision and auditing by the Board of Directors and the Audit Committee, dysfunctional internal control by the Internal Audit Office, and unclear and inappropriate operation of internal rules related to accounting practices, which became the norm due to the background of excessive awareness of growth in the entire Group. The Company recognizes those have caused the neglect of the establishment of a control environment to realize reliable financial reporting, and the inadequacy of company-wide internal controls.

Such deficiencies in internal control over financial reporting have a material impact on financial reporting, and the Company has determined that deficiencies in the company-level internal controls and financial controls for the reporting process and process-level controls fall under the category of material deficiencies that should be disclosed.

Since the above facts were not identified until after the end of the current fiscal year, the Company was unable to make amendments by the end of the current fiscal year.

The necessary amendments resulting from the above have been properly made and reflected in the consolidated financial statement and other statements.

<u>The Company fully recognizes the importance of internal controls for financial reporting. For rectifying the existing material deficiency, it will implement the following preventive measures in accordance with the recommendations of the investigation report and maintain and operate its internal control systems.</u>

<u>1. Reform of the corporate culture led by the CEO</u>

<u>2. Raising compliance awareness and thorough implementation of measures to prevent recurrence</u>

<u>3. Clarifying the responsibilities of the persons involved and strengthening the Company's management system</u>

<u>4. Restructuring the corporate governance system and organizational structure</u>

<u>(1) Appropriate allocation of authorities through a strengthened management system</u>

<u>(2) Strengthening the supervisory function of the Board of Directors</u>

<u>(3) Increasing staff and securing highly qualified personnel in the accounting department</u>

<u>5. Strengthening the internal control division</u>

<u>(1) Increasing staff and securing highly qualified personnel in the management division</u>

(2) Enhancing the internal audit system

(3) Strengthening the auditing function of the Audit and Supervisory Committee

6. Revising the internal reporting system

7. Revising the internal accounting rules and the accounting system

8. Establishing feasible business plans and budget

(After Amendment)

The deficiencies in internal controls over financial reporting described below could lead to a material impact on financial reporting, and thus it has been identified as material deficiencies. Therefore, as of the end of the current fiscal year, it has been identified that the internal control over financial reporting was not effective.

Note

In the process of preparing for the listing of the Company's consolidated subsidiary, OST, the Company became aware of suspicions of fraudulent financial reporting at its subsidiary, enable Inc. Therefore, on September 29, 2021, it set up an outside investigation committee (hereinafter referred to as the 1st investigation committee), including external lawyers and certified public accountants, and has proceeded with the investigation.

As a result of receiving the investigation report from the 1st Investigation Committee on December 28, 2021, it was found that, in addition to the avoidance of impairment losses on fixed assets and the overstatement of work-in-process at enable Inc., it has turned out overstatement of revenues and understatement of expenses at the Company and its consolidated subsidiaries in the Domestic Engineering Outsourcing Business, Domestic Manufacturing Outsourcing Business, Domestic Service Outsourcing Business, and Overseas Manufacturing and Service Operation Outsourcing Businesses.

Thus, the Company decided to amend its financial results for the past fiscal years and on January 14, 2022 submitted the amendment report for the annual securities reports for the fiscal years ending December 31, 2019 and 2020 and the quarterly reports for the first quarter of the fiscal year ending December 31, 2020 through the second quarter of the fiscal year ending December 31, 2021. And also, the Company amended internal control reports of the fiscal year ending December 31, 2019 and of the fiscal year ending December 31, 2020.

The fraudulent financial reporting identified by the 1st investigation committee was the result of the concentration of authority on a few executives and employees, dysfunctional supervision and auditing by the Board of Directors and the Audit Committee, dysfunctional internal control by the Internal Audit Office, and unclear and inappropriate operation of internal rules related to accounting practices, which became the norm due to the background of excessive awareness of growth in the entire Group. The Company recognizes those have caused the neglect of the establishment of a control environment to realize reliable financial reporting, and the inadequacy of company-wide internal controls.

In addition, on June 2023, the Company's consolidated subsidiary OST received an internal report. The Company executed the initial investigation and found facts that procedures regarding application of payment for employment adjustment subsidies were partially inappropriate, necessary contracts in approval process as for transactions with suppliers regarding recruitment fees were not made, etc. Therefore, on August 1, 2023, it established another investigation committee by external experts (hereinafter referred to as the 2nd investigation committee) and have proceeded to investigate.

The Company received the investigation report from the 2nd investigation committee on October 31, 2023. As the result, the fact applications of employment adjustment subsidies which were highly possible fraudulent receipt was found in companies including the Company and its 5 consolidated subsidiaries such as OST.

The Company amended financial statements of previous years on November 14, 2023, annual securities reports of fiscal year ended December 31, 2020, of fiscal year ended December 31, 2021, of fiscal year ended December 31, 2022 and quarterly reports from 2nd quarter of fiscal year ended December 31, 2020 to 1st quarter of fiscal year December 31, 2023 and submitted amended reports. The Company also amended internal control reports of the fiscal year ended December 31, 2020 and the fiscal year ended December 31, 2021.

The Company recognizes that the fact of applications of employment adjustment subsidies which were highly possible fraudulent receipt which was dignified by the 2nd investigation committee was due to the lack of compliance awareness, the absence of internal checks under pressure to secure profits and organization culture which induced these symptoms, etc. The Company recognizes that the deficiencies of company-wide internal control of it and OST still existed.

Such deficiencies in internal control over financial reporting which occurred in the Company and its consolidated subsidiaries have a material impact on financial reporting, and the Company determined that deficiencies in the company-level internal controls and financial controls for the reporting process and process-level controls fall under the category of material deficiencies that should be disclosed.

Also, 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, the Company was unable to make amendments by the end of the current fiscal year.

The necessary amendments resulting from the above have been properly made and reflected in the consolidated financial statement and other statements.

The Company recognizes it is important to make the measures to prevent recurrence described in the internal control report of fiscal year ended December 31, 2020 submitted on January 14, 2022 function effectively. The Company understands the background these measures had not executed thoroughly and further tackle to build the corporate culture which enables thorough execution. In addition, the Company will strive to thoroughly implement internal controls to prevent recurrence of these incidents.

Measures to Prevent Recurrence

1. Reform of the Corporate culture
    - (a.) Holding town hall meetings with the management at each location
    - (b.) Promotion of employee engagement project
    - (c.) Awareness reform in affiliated companies
    - (d.) Regular dissemination of management comments through the Group Newsletter “One Team”
    - (e.) Improvement of communication among employees
2. Further foster awareness of compliance and thoroughly implement measures to prevent recurrence
    - (a.) Thorough understanding and penetration of measures to prevent recurrence
    - (b.) Compliance promotion system, etc.
    - (c.) Compliance education
    - (d.) Identification of key compliance items and consideration of a management book
    - (e.) Implementation of monitoring by the finance department
    - (f.) Utilization of compliance awareness surveys
3. Management System Enhancement
4. Restructuring of Corporate Governance and Organizational Systems

(a.) Strengthening the supervisory function by the board of directors

(b.) Effective check and balance strengthening in approval procedures

(c.) Strengthening the audit function by the audit committee

(d.) Conducting internal seminars for understanding the management structure

5. Strengthening the Internal-Control Division

(a.) Expansion of human resources in the management department and securing high-quality talent

(b.) Enhancement of global governance

(c.) Reinforcement of internal audit system

6. Review of internal reporting system

7. Review of internal rules and accounting systems

8. Development of feasible business plans and budgets

9. Restriction of business partners

(2) The Amended 25th Internal Control Report of FY2021(January 1, 2021 to December 31, 2021)

3. [Matters concerning the evaluation results]

(Before Amendment)

The deficiencies in internal controls over financial reporting described below could lead to a material impact on financial reporting, and thus it has been identified as material deficiencies. Therefore, as of the end of the current fiscal year, the internal control over financial reporting was not effective.

Note

In the process of preparing for the listing of the Company's consolidated subsidiary, OST, the Company became aware of suspicions of fraudulent financial reporting at its subsidiary, enable Inc. Therefore, on September 29, 2021, it set up an outside investigation committee, including external lawyers and certified public accountants, and has proceeded with the investigation.

As a result of receiving the investigation report from the Investigation Committee on December 28, 2021, it was found that, in addition to the avoidance of impairment losses on fixed assets and the overstatement of work-in-process at enable Inc., it has turned out overstatement of revenues and understatement of expenses at the Company and its consolidated subsidiaries in the Domestic Engineering Outsourcing Business, Domestic Manufacturing Outsourcing Business, Domestic Service Outsourcing Business, and Overseas Manufacturing and Service Operation Outsourcing Businesses.

Thus, the Company has decided to amend its financial results for the past fiscal years and submit the amendment report for the annual securities reports for the fiscal years ending December 31, 2019 and 2020 and the quarterly reports for the first quarter of the fiscal year ending December 31, 2020 through the second quarter of the fiscal year ending December 31, 2021.

The fraudulent financial reporting identified by the outside investigation committee was the result of the concentration of authority on a few executives and employees, dysfunctional supervision and auditing by the Board of Directors and the Audit Committee, dysfunctional internal control by the Internal Audit Office, and unclear and inappropriate operation of internal rules related to accounting practices, which became the norm due to the background of excessive awareness of growth in the entire Group. The Company recognizes those have caused the neglect of the establishment of a control environment to realize reliable financial reporting, and the inadequacy of company-wide internal controls.

Such deficiencies in internal control over financial reporting have a material impact on financial reporting, and the Company has determined that deficiencies in the company-level internal controls and financial controls for the reporting process and process-level controls fall under the category of material deficiencies that should be disclosed.

Since the above facts were not identified until after the end of the current fiscal year, the Company was unable to make amendments by the end of the current fiscal year.

The necessary amendments resulting from the above have been properly made and reflected in the consolidated financial statement and other statements.

The Company fully recognizes the importance of internal controls for financial reporting. For rectifying the existing material deficiency, the Company will implement the following preventive measures in accordance with the recommendations of the investigation report and maintain and operate its internal control systems.

1. Reform of the corporate culture led by the CEO
2. Raising compliance awareness and thorough implementation of measures to prevent recurrence
3. Clarifying the responsibilities of the persons involved and strengthening the Company's management system
4. Restructuring the corporate governance system and organizational structure
   (1) Appropriate allocation of authorities through a strengthened management system
   (2) Strengthening the supervisory function of the Board of Directors
   (3) Increasing staff and securing highly qualified personnel in the accounting department
5. Strengthening the internal control division
   (1) Increasing staff and securing highly qualified personnel in the management division
   (2) Enhancing the internal audit system
   (3) Strengthening the auditing function of the Audit and Supervisory Committee
6. Revising the internal reporting system
7. Revising the internal accounting rules and the accounting system
8. Establishing feasible business plans and budget

(After Amendment)

The deficiencies in internal controls over financial reporting described below could lead to a material impact on financial reporting, and thus it has been identified as material deficiencies. Therefore, as of the end of the current fiscal year, the internal control over financial reporting was not effective.

Note

In the process of preparing for the listing of the Company's consolidated subsidiary, OST, The Company became aware of suspicions of fraudulent financial reporting at its subsidiary, enable Inc. Therefore, on September 29, 2021, the Company has set up an outside investigation committee (hereinafter referred to as the 1st investigation committee), including external lawyers and certified public accountants, and has proceeded with the investigation.

As a result of receiving the investigation report from the 1st Investigation Committee on December 28, 2021, it was found that, in addition to the avoidance of impairment losses on fixed assets and the overstatement of work-in-process at enable Inc., it has turned out overstatement of revenues and understatement of expenses at the Company and its consolidated subsidiaries in the Domestic Engineering Outsourcing Business, Domestic Manufacturing Outsourcing Business, Domestic Service Outsourcing

Business, and Overseas Manufacturing and Service Operation Outsourcing Businesses.

Thus, the Company has decided to amend its financial results for the past fiscal years and submit the amendment report for the annual securities reports for the fiscal years ending December 31, 2019 and 2020 and the quarterly reports for the first quarter of the fiscal year ending December 31, 2020 through the second quarter of the fiscal year ending December 31, 2021.

The fraudulent financial reporting identified by the 1st investigation committee was the result of the concentration of authority on a few executives and employees, dysfunctional supervision and auditing by the Board of Directors and the Audit Committee, dysfunctional internal control by the Internal Audit Office, and unclear and inappropriate operation of internal rules related to accounting practices, which became the norm due to the background of excessive awareness of growth in the entire Group. The Company recognizes those have caused the neglect of the establishment of a control environment to realize reliable financial reporting, and the inadequacy of company-wide internal controls.

In addition, on June 2023, the Company's consolidated subsidiary OST received an internal report. The Company executed the initial investigation and found facts that procedures regarding application of payment for employment adjustment subsidies were partially inappropriate, necessary contracts in approval process as for transactions with suppliers regarding recruitment fee were not made, etc. Therefore, the Company established another investigation committee by external experts (hereinafter referred to as the 2nd investigation committee) and have proceeded to investigate.

The Company received the investigation report from the 2nd investigation committee on October 31, 2023. As the result, the fact applications of employment adjustment subsidies which were highly possible fraudulent receipt was found in companies including the Company and its 5 consolidated subsidiaries such as OST.

The Company amended financial statements of previous years on November 14, 2023, annual securities reports of the fiscal year ended December 31, 2020, of the fiscal year ended December 31, 2021, of the fiscal year ended December 31, 2022 and quarterly reports from 2nd quarter of the fiscal year ended December 31, 2020 to 1st quarter of the fiscal year December 31, 2023 and submitted amended reports. The Company also amended internal control reports of the fiscal year ended December 31, 2020 and the fiscal year ended December 31, 2021.

The Company recognizes that the fact of applications of employment adjustment subsidies which were highly possible fraudulent receipt which was dignified by the 2nd investigation committee was due to the lack of compliance awareness, the absence of internal checks under pressure to secure profits and organization culture which induced these symptoms, etc. The Company recognizes that the deficiencies of company-wide internal control of the Company and OST still existed.

Such deficiencies in internal control over financial reporting which occurred in the Company and its consolidated subsidiaries have a material impact on financial reporting, and the company have determined that deficiencies in the company-level internal controls and financial controls for the reporting process and process-level controls fall under the category of material deficiencies that should be disclosed.

Also, 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, the Company was unable to make amendments by the end of the current fiscal year.

The necessary amendments resulting from the above have been properly made and reflected in the consolidated financial statement and other statements.

The Company recognizes it is important to make the measures to prevent recurrence described in the internal control report of fiscal year ended December 31, 2021 submitted on March 30, 2022 functions effectively. The Company understands the background these measures had not executed thoroughly and further tackle to build the corporate culture which enables thorough execution. In addition, the Company will strive to thoroughly implement internal controls to prevent recurrence of these incidents.

Measures to Prevent Recurrence

1. Reform of the Corporate culture
   - (a.) Holding town hall meetings with the management at each location
   - (b.) Promotion of employee engagement project
   - (c.) Awareness reform in affiliated companies
   - (d.) Regular dissemination of management comments through the Group Newsletter "One Team"
   - (e.) Improvement of communication among employees
2. Further foster awareness of compliance and thoroughly implement measures to prevent recurrence
   - (a.) Thorough understanding and penetration of measures to prevent recurrence
   - (b.) Compliance promotion system, etc.
   - (c.) Compliance education
   - (d.) Identification of key compliance items and consideration of a management book
   - (e.) Implementation of monitoring by the finance department
   - (f.) Utilization of compliance awareness surveys
3. Management System Enhancement
4. Restructuring of Corporate Governance and Organizational Systems
   - (a.) Strengthening the supervisory function by the board of directors
   - (b.) Effective check and balance strengthening in approval procedures
   - (c.) Strengthening the audit function by the audit committee
   - (d.) Conducting internal seminars for understanding the management structure
5. Strengthening the Internal-Control Division
   - (a.) Expansion of human resources in the management department and securing high-quality talent
   - (b.) Enhancement of global governance
   - (c.) Reinforcement of internal audit system
6. Review of internal reporting system
7. Review of internal rules and accounting systems
8. Development of feasible business plans and budgets
9. Restriction of business partners

(3) The Amended 26th Internal Control Report of FY2022 (January 1, 2022 to December 31, 2022)

3. [Matters concerning the evaluation results]

(Before Amendment)

The deficiencies in internal controls over financial reporting described below could lead to a material impact on financial reporting, and thus it has been identified as material deficiencies that should be disclosed. Therefore, as of the end of the current fiscal year, the internal control over financial reporting was not effective.

Note

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 31, 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 the internal control system in its group.

Under its new management structure, which includes three newly appointed independent directors, the entire company has worked 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, in fostering employee awareness of compliance, and in improving accounting literacy.

As for overseas subsidiaries, in Inversiones SL group SpA, a consolidated subsidiary in Chili, a local manager exploited his position and over-ridded internal control to execute related-party transactions that resulted in a conflict of interest. Other issues of fraud and problems in 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, manager of HRS SDN. BHD., a small Malaysian consolidated subsidiary, exploited his position to conceal the failure of developing software for its internal use in accounting. Based on the assessment, 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 in excess of JPY 575 million in each accounting item. The Company's internal investigation revealed that CDER's bank reconciliation procedures and its monitoring at CDER did not function sufficiently to detect this error.

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, by insufficient function of its monitoring to those subsidiaries, and financial closing reporting processes, in addition to problems in management systems of those subsidiaries. Also, the Company's 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 process are material deficiencies that should be disclosed.

Also, 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. Please note, however, that 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.

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, it 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.

   a. Review and operate monitoring measures in the management division.

   b. Expansion of human resources in management divisions and securing of high-quality human resources.

   c. Enhancement of the internal audit system

   d. Strengthening supervisory functions of the Board of Directors and the Audit Committee

(4) Establishment and operation of internal reporting systems for overseas subsidiaries

（After Amendment）

The deficiencies in internal controls over financial reporting described below could lead to a material impact on financial reporting, and thus it has been identified as material deficiencies that should be disclosed. Therefore, as of the end of the current fiscal year, the internal control over financial reporting was not effective.

Note

In the fiscal year ended December 31, 2021, under listing preparation process of the Company's consolidated subsidiary OST, one subsidiary of OST was suspected to commit inappropriate accounting treatment. The Company established the investigation committee (hereinafter referred to as the 1st investigation committee) by external experts on September 29, 2021 and had proceeded with the investigation.

The Company received the investigation report from the 1st investigation committee on December 28, 2021. As the result of this report, in the Company's consolidated group incl. the Company, facts of overstatement of assets, overstatement of revenues and understatement of expenses, etc. were found. Therefore, 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 the internal control system in its group.

Under the Company's new management structure, which includes three newly appointed independent directors, the entire company has worked together to discuss the prevention of recurrence and to take improvement measures. At the timing of submitting date of original internal control report, March 31, 2023, the Company thought it and its domestic subsidiaries had achieved certain results in reforming the corporate culture, in fostering employee awareness of compliance, and in improving accounting literacy.

As for overseas subsidiaries, in Inversiones SL group SpA, a consolidated subsidiary in Chili, a local manager exploited his position and over-ridded internal control to execute related-party transactions that resulted in a conflict of interest. Other issues of fraud and problems in 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, manager of HRS SDN. BHD., a small Malaysian consolidated subsidiary, exploited his position to conceal the failure of developing software for its internal use in accounting. Based on the assessment, 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 in excess of JPY 575 million in each accounting item. The Company's internal investigation revealed that CDER's bank reconciliation procedures and its monitoring at CDER did not function sufficiently to detect this error.

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, by insufficient function of its monitoring to those subsidiaries, and financial closing reporting processes, in addition to problems in management systems of those subsidiaries. Also, the Company's priorities for improvements were too concentrated on domestic companies.

In addition, on June 2023 the Company's consolidated subsidiary OST received an internal report. The Company executed the initial investigation and found facts that procedures regarding application of payment for employment adjustment subsidies were partially inappropriate, necessary contracts in approval process as for transactions with suppliers regarding recruitment fees were not made, etc. Therefore, the Company established another investigation committee by external experts (hereinafter referred to as the 2nd investigation committee) and have proceeded to investigate.

The Company received the investigation report from the 2nd investigation committee on October 31, 2023. As the result, the fact applications of employment adjustment subsidies which were highly possible fraudulent receipt was found in companies including the Company and its 5 consolidated subsidiaries such as OST.

The Company amended financial statements of previous years on November 14, 2023, annual securities reports of the fiscal year ended December 31, 2020, of the fiscal year ended December 31, 2021, of the fiscal year ended December 31, 2022 and quarterly reports from 2nd quarter of the fiscal year ended December 31, 2020 to 1st quarter of the fiscal year December 31, 2023 and submitted amended reports. The Company also amended internal control reports of the fiscal year ended December 31, 2020 and the fiscal year ended December 31, 2021.

The Company recognizes that the fact of applications of employment adjustment subsidies which were highly possible fraudulent receipt which was dignified by the 2nd investigation committee was due to the lack of compliance awareness, the absence of internal checks under pressure to secure profits and organization culture which induced these symptoms, etc. With respect to the suspicion of transactions with recruitment agencies etc., though ones which had no actual provision of service or overbilled were not found, it was found that disrespect for the board of directors meeting and vulnerable administrative departments in the Company and OST, the involvement in business by former representative director of OST who had resigned and losing substance of approval procedures and business partner selection process of OST etc. The Company recognizes that the deficiencies of company-wide internal control of the Company and OST still existed.

Because such deficiencies in internal control over financial reporting in the Company and its integrated 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 process are material deficiencies that should be disclosed.

Also, 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. Please note, however, that 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.

The Company is fully aware of the importance of internal control over financial reporting. The Company recognizes it is important to make the measures to prevent recurrence described in the internal control report of the fiscal year ended December 31, 2021 function effectively. The Company understands the background these measures had not executed thoroughly and further tackle to build the corporate culture which enables thorough execution. In addition, the Company will strive to thoroughly implement internal controls to prevent recurrence of these incidents.

Measures to Prevent Recurrence

1. Reform of the Corporate culture
    - (a.) Holding town hall meetings with the management at each location
    - (b.) Promotion of employee engagement project
    - (c.) Awareness reform in affiliated companies
    - (d.) Regular dissemination of management comments through the Group Newsletter “One Team”
    - (e.) Improvement of communication among employees
2. Further foster awareness of compliance and thoroughly implement measures to prevent recurrence
    - (a.) Thorough understanding and penetration of measures to prevent recurrence
    - (b.) Compliance promotion system, etc.
    - (c.) Compliance education
    - (d.) Identification of key compliance items and consideration of a management book
    - (e.) Implementation of monitoring by the finance department
    - (f.) Utilization of compliance awareness surveys
3. Management System Enhancement
4. Restructuring of Corporate Governance and Organizational Systems
    - (a.) Strengthening the supervisory function by the board of directors
    - (b.) Effective check and balance strengthening in approval procedures
    - (c.) Strengthening the audit function by the audit committee
    - (d.) Conducting internal seminars for understanding the management structure
5. Strengthening the Internal-Control Division
    - (a.) Expansion of human resources in the management department and securing high-quality talent
    - (b.) Enhancement of global governance
    - (c.) Reinforcement of internal audit system
6. Review of internal reporting system
7. Review of internal rules and accounting systems
8. Development of feasible business plans and budgets
9. Restriction of business partners