

February 28, 2025

News Release
(Translation)

Company: Fukoku Co., Ltd.
Representative: Ikuo Oshiro, President & CEO
Securities code: 5185, TSE Prime
Contact: Masahiro Emura, Executive Officer
and Deputy Chief Director of
Administration Division
Tel.: +81-48-615-4400

Notice of material deficiency subject to disclosure regarding internal controls related to financial reporting and submission of revision report on internal controls report

In response to issues identified in a report from a special investigative committee dated February 14, 2025, Fukoku Co., Ltd. (“Company” hereinafter) today submitted a revision report to the Kanto Local Finance Bureau on its internal controls indicating that there was a material deficiency subject to disclosure regarding internal controls related to financial reporting in the internal controls reports submitted to the Kanto Local Finance Bureau for the past fiscal years, pursuant to Article 24-4-5, Paragraph 1 of the Financial Instruments and Exchange Act, as outlined below.

Details

1. Details of material deficiency subject to disclosure

In reviewing and analyzing monthly financial data for consolidated subsidiary Shanghai Fukoku Rubber & Plastics Industry Co., Ltd. (“Subsidiary” hereinafter), the Company identified a significant discrepancy between the budgeted and actual figures. Based on an internal investigation, the Company formulated the suspicion that an employee at the Subsidiary in charge of receipts and disbursements (“Employee” hereinafter) may have embezzled Subsidiary funds. On November 29, 2024, the Company established an investigative committee composed of fair and impartial outside experts independent of the Company (“Special Investigation Committee” hereinafter) and charged this committee to investigate the matter; to examine the possibility of other such cases; to analyze the root causes of the matter; and to recommend measures to prevent any recurrence.

The investigation by the Special Investigation Committee indicated that the Employee of the Subsidiary had for years improperly removed deposits and cash from the Subsidiary and recorded fictitious disbursements to cover up these actions, as written in (3. Details of revisions) below.

Based on the above facts, the Company has recognized that its overall internal controls, as well as the internal controls related to its financial reporting and accounting processes, were not functioning effectively and that there were significant deficiencies that need to be disclosed.

2. Internal controls reports subject to correction

67th term (April 1, 2019 – March 31, 2020)
68th term (April 1, 2020 – March 31, 2021)
69th term (April 1, 2021 – March 31, 2022)
70th term (April 1, 2022 – March 31, 2023)
71st term (April 1, 2023 – March 31, 2024)

3. Details of revisions

“3. Results of Evaluation” in the above internal controls reports shall be revised as shown below. The revised passages are underlined.

3. Results of Evaluation

(Before)

Based on this evaluation, the Company’s internal controls for financial reports were judged to be effective as of the ending date of the fiscal year.

(After)

The following deficiency in internal controls related to financial reporting has a material impact on the accuracy of financial reporting and qualifies as a material deficiency subject to disclosure.

Accordingly, the Company’s internal controls for financial reports, as of the ending date of the fiscal year, were judged ineffective.

Details

In reviewing and analyzing monthly financial data for consolidated subsidiary Shanghai Fukoku Rubber & Plastics Industry Co., Ltd. (“Subsidiary” hereinafter), the Company identified a significant discrepancy between the budgeted and actual figures. Based on an internal investigation, the Company formulated the suspicion that an employee at the Subsidiary in charge of receipts and disbursements (“Employee” hereinafter) may have embezzled Subsidiary funds. On November 29, 2024, the Company established an investigative committee composed of fair and impartial outside experts independent of the Company (“Special Investigation Committee” hereinafter) and charged this committee to investigate the matter; to examine the possibility of other such cases; to analyze the root causes of the matter; and to recommend measures to prevent any recurrence.

The investigation by the Special Investigation Committee indicated that the Employee of the Subsidiary had for years improperly removed deposits and cash from the Subsidiary and recorded fictitious disbursements to cover up these actions.

Under the chronic difficulty of securing employees due to the location of the Subsidiary, the proximate causes of this case are recognized to be the following: the inadequacy of internal controls on accounting processes, including the Employee’s position made it possible to withdraw funds from deposit accounts using checks alone; a state of affairs in which a single individual had, for a long time, been tasked with receipts and disbursements and with their recording; the long tenure of personnel assignments in positions such as finance manager and vice president; and insufficient awareness of the potential for improprieties by the Employee. The background factors identified include the perfunctory real-world implementation of the Subsidiary’s governance structure, the Company’s organizational culture that did not take internal controls seriously; laxity in the subsidiary management structure; inadequate evaluations of the risk of improprieties; and inadequate internal audit procedures.

All these findings indicate that the Company’s internal controls failed to play their intended roles. The Company acknowledges a material deficiency required for disclosure in its internal companywide controls as well as a part of processes related to its settlement of accounts and financial reports that should be subject to evaluations from a companywide perspective.

Since these facts were discovered after the end of the fiscal year, the material deficiency subject to disclosure could not be ascertained as of the date of submittal of the internal controls reports in question and, despite the need for revision of relevant reports, was not discussed in those reports.

The Company recognizes the importance of internal controls for financial reports and will swiftly strengthen its internal controls after formulating effective preventive measures based on the Special Investigation Committee report.

The Company offers its sincere apologies to shareholders, investors, and other stakeholders for the considerable concern this matter has caused.

As stated in the Notice of Formulation of Preventive Measures and Disciplinary Action in Response to Improprieties at an Overseas Subsidiary, dated February 28, 2025, the Company has formulated preventive measures based on the recommendations of the report. Through the steadfast implementation of these preventive measures, the Company will continue to correct the material deficiency subject to disclosure and develop, implement, and operate appropriate internal controls to prevent the recurrence of such cases.