



September 7, 2017

To whom this may concern,

Company: Tamagawa Holdings, Co., Ltd.  
Representative: President, Toru Masuzawa  
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## The Sequence of Background Concerning Dividends of Term-end of FY March 2018 and Preventive Measures

Please be informed that we established the internal investigation committee and external investigation committee and conducted investigation and cause analysis concerning the case where we made payment of dividends exceeding the distributable amount to be calculated by the Companies Act and Corporate Accounting Rules as a result for the dividends amount of term-end of FY March 2018 (hereafter "Case"), which was announced in the "Notice on dividend of last fiscal year beyond distributable amount" dated August 1, 2018, as we announced in the "Notice on establishment of investigation committee concerning the dividends of the previous term-end exceeding the distributable amount" dated August 6, 2018. The following is the report on the investigation result and preventative measures thereof.

### 1. Background of the Case

On May 11, 2018, we held the decision at the board of directors in writing for dividends of surplus of 0.5 yen per share (total amount of 21 mil. yen) with March 31, 2018 as the record date, and made payment of dividends with June 29, 2018 as the effective date (the bill of dividends of such surplus shall be hereafter called "Bill of Dividends," and dividends of such surplus shall be called "Dividends"). The Dividends was subsequently found by our auditors' suggestion to have exceeded the distributable amount calculated by stipulation of the Companies Act and the Corporate Accounting Rules in the course of preparation for the account statement of 1Q March 2019 in late July 2018.

In order to thoroughly investigate the cause of occurrence of the Case and prevent future reoccurrence, on August 6, 2018, the internal investigation committee was established mainly with the lawyers assigned to our outside directors who were elected at the ordinary shareholders' meeting held on June 28, 2018, and the external investigation committee was established consisting of four lawyers to request verification of the internal investigation committee's investigation result, proposal of cause investigation and preventive measures, and consideration of responsibility of the persons concerned in the Case.

### 2. Investigation method

In the internal investigation committee, confirmation of the fact process, hearing from the concerned persons, analysis of the cause of occurrence, consideration of the internal treatment, design of preventive measure, etc. were conducted.

Chairperson: Noriko Kamibayashi  
(appointed at the 50th-term ordinary shareholders' meeting, outside director, lawyer)  
Committee member: Kiyoshi Furukawa  
(appointed at the 50th-term ordinary shareholders' meeting, outside auditor, tax accountant)  
Committee member: Takaharu Kando  
(Management Administration Division Manager of our subsidiary, Tamagawa Electronics, Co., Ltd.)

In addition, in the external investigation committee, verification of the internal investigation committee's investigation result, cause investigation as needed and proposal of preventive measures and consideration of responsibility of the persons concerned in the Case were conducted.

Chairperson: Atsunori Nobukuni (Mori Hamada & Matsumoto LPC)  
Committee member: Kentaro Minegishi (Mori Hamada & Matsumoto)  
Committee member: Go Chihara (Mori Hamada & Matsumoto)  
Committee member: Midori Yamaguchi (Mori Hamada & Matsumoto)

### 3. Facts found by investigation

In our board of directors held on April 27, 2018, the proposal was made and discussed upon the dividends for term-end of FY March 2018 as the report matters, but the director in charge of finance (then current; the same hereafter) made proposal of the dividends amount without being aware of proposing the dividends amount exceeding the distributable amount, and the deliberation continued with assumption by all of the attendees that the directors in charge of finance had submitted the proposal in consideration of the legal regulation for distributable amount, etc. As a result, on May 11, 2018, we held the decision at the board of directors in writing for dividends of surplus of 0.5 yen per share (total amount of 21 mil. yen) with March 31, 2018 as the record date, and consequently made payment of dividends with June 29, 2018 as the effective date, which exceeded the distributable amount calculated by the Companies Act and Corporate Accounting Rules.

In consideration of the internal investigation committee's investigation result and the external investigation committee's verification result, when considering the specific dividends amount, the distributable account calculation was not done within the company, and we could not find that the Dividends exceeded the distributable amount in the course of internally determining the specific amount of the Dividends, of deliberating the Dividends at the board of directors, and of the auditors' consideration of legality of the Bill of Dividends.

### 4. Analysis of cause of the Case occurrence

Analysis of cause of the Case occurrence in consideration of the internal investigation committee's investigation and the external investigation committee's verification is as follows.

- (1) Division of duties concerning the distributable amount was unclear, and we did not calculate the distributable amount as work of the financial accounting division, and also no specific direction to make calculation was given.
- (2) Excessive trust was placed to the board member in charge, and due to assumption that consideration of the dividends is requested at the board of directors because the restriction of distributable amount, etc. is naturally observed, no specific question was asked or no explanatory materials are requested from other directors or auditors at the board of directors held on April 27, 2018, and no discussion on legality of the Dividends including whether the Dividends would exceed the distributable amount at the board of auditors.
- (3) The directors and auditors, and the employees engaged in the dividends did not have enough knowledge of distributable amount.
- (4) There were no divisions or departments in the management division where the matters concerning the legal affairs should be main division of duties, and the system for the matters concerning the legal affairs was not sufficient.
- (5) When submitting the bill or reporting the reporting matters to the board of directors, enough opportunities were not secured for verification and discussion on legality of the bill of the board of directors.

### 5. Treatment for the Case

In order to make clear the locus of responsibility for the Case, the directors who proposed the Bill of Dividends and the directors who agreed to the proposal concerning the Bill of Dividends shall be subject to the treatment of reduction of consideration by 30% for two (2) months from September 2018 (in terms of the directors who resigned at ending of the 50th-term ordinary shareholders' meeting, the directors in charge of finance have offered to voluntarily return 30% of the past four-month consideration, and other directors have offered to voluntarily return 30% of the past two-month consideration).

Additionally, each auditor who did not pose objection against the proposal concerning the Bill of Dividends has offered to voluntarily return 30% of the two-month consideration (the auditor who resigned at ending of the 50th-term ordinary shareholders' meeting has offered to voluntarily return 30% of the past two-month consideration).

Furthermore, among the directors who proposed the Bill of Dividends and the directors who agreed to the proposal concerning the Bill of Dividends, four directors who received the Dividends as shareholders (including two directors who resigned at ending of the 50th-term ordinary shareholders' meeting) have offered to voluntarily return the amount equivalent to the dividends received by each of such directors as shareholders.

### 6. Preventive measures

In order to reinforce the preventive measure, we will execute the matters listed in the following.

- (1) To conduct dividend including calculation of distributable amount, to clearly describe the work process and to prepare the process to double-check the content
- (2) To hire an external expert to check the dividends
- (3) To make effort to conduct internal trainings by inviting an external instructor and to acquire necessary knowledge by attending external seminars as approach to educate our board members and employees

with knowledge of the Companies Act

- (4) To prepare the system for the matters concerning the legal affairs in the management division and to increase the staff as needed
- (5) To sufficiently secure the opportunities for verification and discussion concerning the legality of the bill of the board of directors, to notify the bill by the previous day of the date of such board of directors for the bill and document, and to distribute such document for satisfactory deliberation.

## 7. Locus of responsibility

We have received the following consideration result from the external investigation committee for responsibility of the persons concerned in the Case. Please see the Annex "Investigation Report" for verification of the internal investigation committee's investigation result and investigation of cause as needed and proposal of preventive measures by the external investigation committee, and consideration of responsibility of the persons concerned in the Case. Additionally, we are not at this moment planning to investigate the legal responsibility of the directors who proposed the Bill of Dividends, the directors who agreed to such proposal for the Bill of Dividends and the auditors who did not pose opposition against the proposal in consideration of the external investigation committee's opinion to judge that the treatment for the persons concerned which is described in above 5. is appropriate as treatment for the Case, provided that such treatment will be taken.

### (1) Criminal charge

As the fact is not observed that the directors and auditors executed the dividends for the Case although they were aware of the dividends for the Case exceeding the distributable amount, nor is it observed to be intentional, and therefore, this is not the case where the directors and auditors are accused for criminal charge.

### (2) Civil liability

In consideration of the investigation result of the internal investigation committee and verification result of the external investigation committee, it cannot be determined that the directors do not hold liability for damage under the Companies Act and that the auditors do not hold liability for compensation by breach of the responsibility for care of a good manager.

### (3) Treatment of the concerned persons

In general consideration of condition of the Case, the treatment for your directors who agreed to the proposal concerning the Bill of Dividends and the treatment for the auditors who did not pose objection against the Proposal are considered to be appropriate as treatment for the Case.

## 8. Future prospective

We will take this situation sincerely, make thorough preventative measures and make effort for structuring of robust internal management. Your kind understanding is very much appreciated.