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# **Investigation Report**

**July 28, 2022**  
**Special Investigation Committee**

July 28, 2022

**To: Restar Holdings Corporation**

Special Investigation Committee of Restar Holdings Corporation

Chairperson Haruka Matsuyama

Member Naofumi Ogawa

Member Ken Arahari

Member Toraki Inoue

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## **No.1 Purpose of the Investigation**

### **1 Background to the commencement of the investigation**

In December 2021, Restar Holdings Corporation (hereinafter referred to as "RHD") received a report from Company W1 that suspected compliance violations (hereinafter referred to as "this Case") had arisen in some transactions at Vitec WPG Limited (hereinafter referred to as "VWPG"), a joint venture between the two groups. In response to this report, RHD commissioned a law firm in China to conduct an investigation, and found that a loss of earnings might have been incurred in transactions with a local company run by the relative of a VWPG employee.

RHD determined that it was necessary to understand the facts of this Case and the actual situation regarding the existence of events similar to this Case, etc., decided to establish a special investigation committee (hereinafter referred to as the "Committee") consisting of outside experts, etc. on June 6, 2022 in order to conduct a fair and appropriate investigation, and commissioned such investigation (hereinafter referred to as the "Investigation").

### **2 Matters to be investigated**

The Committee was commissioned the following matters by RHD:

- (1) Investigation of the facts of this Case;
- (2) Investigation of the existence of events similar to this Case;
- (3) If this Case is found to be true, calculation of the amount of effect thereof;
- (4) If this Case is found to be true, investigation of the cause and recommendation of measures to prevent recurrence;
- (5) Preparation of an investigation report based on the results of implementation of the matters set forth in the above items and submission of the investigation report to RHD; and
- (6) Other matters deemed necessary by the investigation committee.

### **3 Investigation system**

#### **(1) Member**

Chairperson: Haruka Matsuyama (attorney-at-law, Hibiya Park Law Offices)<sup>1</sup>

Member: Naofumi Ogawa (attorney-at-law, Hibiya Park Law Offices)

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<sup>1</sup> She was an outside Director (Audit and Supervisory Committee Member) of RHD at the commencement of the Investigation and retired from the position at the end of June 2022.

Member: Ken Arahari (certified public accountant, EY Forensic & Integrity LLC)

Member: Toraki Inoue (certified public accountant, Accounting Advisory Co., Ltd.)

## (2) Investigation assistants

In conducting the Investigation, the Committee appointed the following persons with independence and neutrality from the VWPG and RHD groups as investigation assistants to assist in the Investigation.

Hibiya Park Law Offices	Attorneys-at-law Taku Inoue and Akane Tajima
Ernst & Young ShinNihon LLC	Certified Public Accountants Takako Sogi, Yuki Kawanaka, Atsuya Murata, Yohei Tamura, Yasuyuki Koshiyama, and Toshihiro Watai; Certified Information Systems Auditor Noriaki Nishihara; Certified Fraud Examiners (in charge of digital forensics) Tomoyuki Morozumi and Yuki Waguri; and others, totaling 25 persons
Ernst & Young (China) Advisory Limited	U.S. attorney-at-law Akiko Miyake; Chinese certified public accountants Liu Dong and Wang Xuelin; Shi Yudan, responsible for digital forensics; and others, totaling 18 persons
Accounting Advisory Co., Ltd.	Attorney-at-law Futoshi Hirai, Chinese certified public accountants Ruan Linna and Chen Gloria

## (3) Company secretariat

The Committee appointed two employees of RHD as the company secretariat and had them submit materials, etc. within RHD and its affiliated group companies (hereinafter referred to as the "**RHD Group**"), coordinate the schedule of interviews, and perform other administrative work.

## 4 Investigation period

The Committee conducted the Investigation from June 6 to July 27, 2022.

## 5 Method of investigation

### (1) About this Case

On December 24, 2021, RHD recognized that some of the transactions at VWPG were suspected of being non-compliance, after receiving from Company W1 a report dated October 8, 2021 (as described below, although the report was dated October 8, 2021, it was completed in December of the same year; hereinafter referred to as the "**Company W1 Report**") summarizing the results of the company's investigation into this Case. In response, RHD also decided to conduct an investigation into this Case, and after consulting with several law firms (in Hong Kong, China, and Japan) from January to February 2022, it decided to commission a series of investigations and negotiations to Office Y in China on February 16 of the same year. Office Y subsequently submitted to RHD an interim report dated April 19, 2022 (hereinafter referred to as the "**China Office Interim Report**") after conducting an investigation on accounting data, etc. Following that, Office Y interviewed Mr. A, the subject of the investigation, and submitted a report dated May 29 of the same year (hereinafter referred to as the "**China Office Final Report**"). In addition to these reports, RHD prepared a report dated May 30, 2022 (hereinafter referred to as the "**RHD Report**" and these three reports as the "**Prior Investigation Reports**") that took into consideration the results of its own investigation, and submitted it to the audit firm on the same day<sup>2</sup>.

As stated above, when the Committee began to investigate this Case, there already existed the three Prior Investigation Reports.

Therefore, for the time being, the Committee decided to confirm the investigation process in the Prior Investigation Reports and verify the results of their investigations and analyses. At the same time, the Committee conducted due diligence of the persons and companies involved, etc., analysis of accounting data (purchase and sales data, etc.), interviews of the persons involved, digital forensics, and questionnaire surveys as follows. The purpose was to verify whether the scope of investigation in these prior investigations was appropriate (specifically, whether there were other transactions in which Mr. A was suspected of having violated compliance, and whether there were transactions in VWPG or the RHD Group, other than those in which Mr. A was involved, suspected of having violated compliance).

The above investigation by the Committee covered transactions at the VWPG from January 1, 2015 to March 31, 2022 (hereinafter referred to as the "**Investigation Period**"). However, the Investigation Period was set separately, depending on the investigation procedure.

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<sup>2</sup> The above facts and background are as described in "Section 2.2" below.



## ① Confirmation of the status of prior investigations

On June 22 and July 19, 2022, the Committee conducted interviews with the person in charge at Company W1, receiving explanations on the background to the investigation after Company W1 recognized this Case (including the method of investigation, etc.) and the background to the submission of Company W1 Report to RHD, among others.

On June 24, 2022, moreover, the Committee conducted an interview with the attorney-at-law who had investigated this Case at Office Y, receiving explanations on the background to conducting the investigation after receiving the request by RHD for the investigation on this Case (including the method of investigation, etc.).

Furthermore, the Committee conducted interviews as necessary with the persons in charge at RHD and Restar Electronics Corporation (hereinafter referred to as "REC"), receiving explanations on the method of investigation in the RHD Report, etc.

## ② Due diligence of persons and companies involved

The Committee conducted due diligence as described below with regard to the following points, based on public information such as websites and registration information, and information obtained from the results of digital forensics procedures, etc., in order to understand the scope of persons and companies involved in this Case and their relationships.

1. Existence of conflicts of interest by VWPG employees
  - a. Grasp the existence of persons falling under the category, by checking the VWPG employee information (including that on spouses) against the persons involved<sup>3</sup> at the group of affiliated companies for the four persons (the three persons involved in "3.1. (1)" below and Mr. ■■■<sup>4</sup>; hereinafter referred to as the "Four Persons"), such as relevant persons at the due diligence target companies (24 companies including VWPG's top suppliers) and in this Case.
2. Twenty-four companies including VWPG's top suppliers
  - a. Regarding the relationships among 24 companies including VWPG's top suppliers, identify the matching of addresses, company contacts, founders, shareholders, directors, etc.

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<sup>3</sup> Relevant persons include founders, shareholders, directors, as well as managers and employees detected on websites and digital forensics.

Since <sup>4</sup>Mr. ■■■ was a shareholder of the same company as Mr. B's in the past, Mr. XX may have a business relationship when Mr. B, based in Shenzhen, coordinates the group of affiliated companies based in Hong Kong.

- b. Regarding the relationships between 24 companies including VWPG's top suppliers and companies involved in the Company W1 Report, identify the matching of addresses, company contacts, founders, shareholders, directors, etc.
3. Group of affiliated companies of the Four Persons
  - a. Detect companies to which the Four Persons seem to be related from the company registration information.
  - b. Regarding the relationships among the group of affiliated companies of the Four Persons detected in a., identify the matching of addresses, company contacts, founders, shareholders, directors, etc.
  - c. Regarding the relationships between the group of affiliated companies of the Four Persons and the 24 companies including VWPG's top suppliers, identify the matching of addresses, company contacts, founders, shareholders, directors, etc.

### **③ Analysis of accounting data (purchase and sales data, etc.)**

The Committee obtained accounting data (purchase and sales data, etc.) of VWPG for the Investigation Period (January 1, 2015 to March 31, 2022), and analyzed the unit purchase price for each product item purchased from Companies D, E and F<sup>5</sup>. The Committee also reviewed sales data to check whether there were any product items selling at a loss (with negative gross margins), confirming the details (reasons, etc.) of sales at a loss.

Moreover, the Committee obtained from Company D the bank deposit/withdrawal details between May 2019 and the end of June 2022, and analyzed the main depositors and recipients.

Details of these procedures are described in the figure on page 39 below.

### **④ Interviews with the persons involved**

The Committee conducted a total of 47 interviews with a total of 29 persons in Attachment 1 "List of Persons for Interviews."

### **⑤ Digital forensics**

The Committee secured the data of the mail servers for nine VWPG employees (including retirees), searched the data on five of them using keywords and other factors that the Committee deemed appropriate, and conducted document reviews for 17,785 items that were extracted. Moreover, the Committee secured the data on Mr. A's personal devices (PCs and

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<sup>5</sup> The reasons for the investigation of these three companies by the Committee are as described in Section 3. 2. (4) below.

mobile devices) in mainland China, searched the data using keywords, file paths, etc., and conducted document reviews on 873 extracted items. These procedures include the digital forensic procedures described in the figure on page 39 below.

An overview and the target persons of digital forensics are described in Attachment 2 "Overview of Digital Forensics."

## **(2) Investigation of similar cases**

### **① Implementation of a questionnaire survey**

In order to investigate the existence of events similar to this Case, the Committee conducted a questionnaire survey of officers and employees (excluding, however, officers and employees<sup>6</sup>, contract employees, temporary employees, and part-timers who are not authorized to select contractors in light of the content of this Case) at a total of 42 companies, including RHD and its group consolidated and non-consolidated subsidiaries (excluding, however, dormant companies and companies in liquidation) as of March 31, 2022.

The Committee received responses from all 1,624 target officers and employees, excluding 29 retirees and 25 employees on administrative leave on and after April 1, 2022.

## **6 Prerequisites and limitations of the Investigation**

It should be noted that this report was conducted based on the investigation method described in Section 1.5, within the time constraints described in Section 1.4, and had the following prerequisites and limitations.

First, the Investigation mainly examined the existence of compliance violations in the series of processes related to this Case, not the existence of legal responsibility of the management involved. In addition, there can be no assurance that courts and other relevant authorities will adopt the same views as the Committee with regard to the findings of facts and the interpretation of laws and regulations in this report.

Second, unlike investigations by investigative authorities, this investigation was based on the voluntary cooperation of persons involved without legal force. Therefore, it cannot be denied that the degree of cooperation of persons involved affected the interviews and related materials on which this investigation was based, and the means to confirm their authenticity, completeness, comprehensiveness, etc. were limited. It should be pointed out that there were at

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<sup>6</sup> The officers and employees who are not authorized to select contractors are 1,144 factory workers of Restar Electronics Vietnam Company Limited and Dongguan CU Tech Electronics Corporation, 30 farm workers of Vitec Farm Kazuno Co., Ltd., Vitec Farm Nanao Co., Ltd., Vitec Farm Odate Co., Ltd., and Vitec Farm Satsumasendai Co., Ltd., and 10 receiving and shipping workers of Arsnet Co., Ltd.

least the following restrictions in conducting the Investigation.

- (a) Company D had not prepared accounting books nor organized forms, and could not provide them to the Committee.
- (b) The Committee was unable to conduct an interview with the employee who had made a report that had led to the detection of this Case.
- (c) Regarding the request for cooperation in the investigation of Mr. B, who was pointed out as a person involved in the Company W1 Report, although the main points were answered in the interview, the cooperation for the Investigation was limited in scope, for example, some answers were not given for the reason of trade secrets.
- (d) According to Mr. A, the business communication with Mr. B was mostly done on a communication tool (WeChat), but Mr. A erased the records of WeChat when he was interviewed by Office Y, and the Committee was not able to receive objective materials to clarify the contents of the communication.

Third, the Investigation was conducted within the time constraints described in Section 1.4 above, and its scope and depth were subject to time and human resource constraints.

Fourth, the facts found in the Investigation are based on interviews and related materials, which, by their nature, are subject to the following preconditions and limitations:

- (a) All documents disclosed and submitted to the Committee by RHD Group companies and their officers and employees must be authentic originals or identical copies;
- (b) All information and data disclosed and submitted to the Committee by RHD Group companies and their officers and employees must be authentic and accurate, and must not have been altered;
- (c) All documents disclosed and submitted to the Committee by Mr. A and Company D must be authentic originals or identical copies;
- (d) All information and data disclosed and submitted to the Committee by Mr. A and Company D must be authentic and accurate, and must not have been altered; and
- (e) RHD Group companies, their officers and employees, and Mr. A and Company D have not withheld information that would have a material impact on the matters considered by the Committee.

The matters to be commissioned by the Committee are as described in Sections 1 and 2 above, and this report is not intended to be used for any other purpose. Moreover, the investigation by the Committee was commissioned by RHD and conducted on behalf of the RHD Group, and the Committee shall not be liable to third parties other than the RHD Group for the investigation and the results thereof.

## **No. 2 Facts and Background Found by the Investigation**

### **1 Premises and facts**

#### **(1) History of the RHD Group and its subsidiaries and associates**

RHD was established on April 1, 2019 through the management integration of UKC Holdings Corporation (hereinafter referred to as “UKC”) and Vitec Holdings, Co., Ltd. (hereinafter referred to as “Vitec HD”)

UKC is a company engaged in the semiconductor and electronic components business, electronic equipment business, and system equipment business.

Moreover, Vitec HD is a wholly owning holding company of Vitec Global Electronics Co., Ltd. (hereinafter referred to as "VGEL"), which engages in the semiconductor and electronic components business, PTT Co., Ltd. (hereinafter referred to as "PTT"), which engages in the procurement business, Vitec Green Energy Co., Ltd. (power generation business), which engages in the environmental energy business, and Vitec Vegetable Factory Co., Ltd. (vegetable factory business).

Upon the management integration on April 1, 2019, VGEL succeeded the device business of UKC and changed its trade name to "Restar Electronics Corporation" (REC).

Moreover, PTT, which engaged in the procurement business, changed its trade name to “Restar Supply Chain Solution Corporation” on July 1, 2020 (hereinafter referred to as "RSC").

As of May 31, 2022, the RHD group companies (companies related to this Case and those subject to the investigation on other cases) are shown in Attachment 3 "Correlation Diagram."

#### **(2) History of Vitec HD**

Vitec HD was a company transformed into a holding company on October 1, 2015 through three corporate divisions from Vitec Co., Ltd. (hereinafter referred to as "Vitec") to transfer its device business, environmental energy business and solar power generation business to wholly-owned subsidiaries of Vitec, and make a change to the trade name (Vitec to Vitec HD). VGEL succeeded the device business, Vitec Green Energy Co., Ltd. succeeded the environmental energy business, and Vitec Solar Energy Co., Ltd. succeeded the solar power generation business.

As a result, VGEL (device business), Vitec Green Energy Co., Ltd. (environmental energy business), Vitec Solar Energy Co., Ltd. (solar power generation business), and PTT (procurement generation business) have become major business subsidiaries (wholly-owned subsidiaries) of Vitec HD.

Subsequently, on June 30, 2016, Vitec HD transferred 19.9% of its shares in PTT to Company

P, and became entrusted with component procurement as an external partner to complement Company P's procurement function in PTT.

Vitec HD decided to commercialize the procurement consignment business and further strengthen its business foundation by taking the above capital and business alliance as an opportunity, and transferred the shares of VWPG it owned to PTT on December 28, 2018 with the intention of developing VWPG's business with ■■■ (business partner) into the procurement consignment business.

### **(3) History of VWPG**

VWPG is a joint venture with the W1 Group, and it is 50.1% owned by RSC and 49.9% by Company W2.

Initially, it was a joint venture (its trade name at that time was Teksel WPG Limited; hereinafter referred to as "TWPG") with 50.1% owned by Company W2 and 49.9% by Company M1, and was established as an overseas support company for Japanese customers.

On December 1, 2014, Vitec succeeded the device business from Company M2, a wholly-owned subsidiary of Company M1, and acquired all TWPG shares owned by Company M1.

In addition, on April 26, 2016, Vitec HD acquired two shares of TWPG (approximately 0.2%) from Company W2 in order to accelerate collaboration with the W1 Group, with the ownership of 50.1% (prior to the acquisition, TWPG changed its trade name to VWPG on January 1, 2016).

As stated above, VWPG's main businesses were initially to provide local support for business negotiations with Japanese customers and to procure parts for ■■■ (business partner), and it was made a subsidiary of PTT in order to strengthen the procurement consignment business of the Vitec HD Group. However, since then, the procurement of parts for ■■■ (business partner) has shrunk, and the main business of VWPG at present is to sell Company W1's products mainly to Japanese EMS customers.

### **(4) VWPG's organization and management system**

#### **① VWPG's offices and personnel structure**

VWPG has the head office in Hong Kong, a branch in Singapore, and branch offices in Shenzhen and Suzhou. All of these locations have a Company W1 office, part of which is rented for the VWPG office to do business.

As of March 2021, there were five persons in Hong Kong, including Mr. R1, the representative, and four staff members; four persons in Shenzhen, including Mr. A and staff members; one staff member in Suzhou; and two staff members in Singapore. Since all four

staff members in Hong Kong resigned from the company between January and April of the same year, the number of staff members was increased in Shenzhen and Suzhou. As of May 2022, there was one person in Hong Kong, seven persons in Shenzhen, two persons in Suzhou, and two persons in Singapore.

Mr. R1 and Mr. A, who were originally employees of Company M2, became employees of Vitec when Vitec succeeded the device business from Company M2, and they are now employees of REC because Vitec divided and transferred the device business to VGEL when Vitec was transformed into a holding company<sup>7</sup>. On March 1, 2015, Vitec and TWPG signed a secondment agreement to send Mr. R1 and Mr. A to TWPG, and both of them are currently working at VWPG on secondment from REC.

Moreover, other staff members are employed directly by VWPG in Hong Kong and Singapore, and in other branches, are dispatched as shared services under outsourcing agreements with Company W1.

## ② Division of duties in VWPG

As of April 2021, the Shenzhen office of the VWPG had Branch Manager A, Manager V2, Field Sales Engineer V3, and Sales Assistant V4, and since there were many retirees at the VWPG head office (Hong Kong), VWPG newly hired Mr. V5, Mr. V6, Mr. V7, and Mr. V8 at the Shenzhen office. Mr. A, Mr. V2, Mr. V3 and Mr. V5 are sales representatives, and between them sales activities by customer (sales/purchase/PSI delivery time management/sales activities, etc.) are divided up. Mr. V4, Mr. V6, Mr. V7 and Mr. V8 are assistants.

Mr. A has been working at the Shenzhen office on secondment from VWPG since May 12, 2014. He was initially responsible for purchase and procurement as a general staff member, but was promoted to Branch Manager in April 2016. Since then, he has also been responsible for inventory management and new supplier development.

As of January 2021, the VWPG head office in Hong Kong had Senior Sales Executive V1, Sales Executive V9 (on administrative leave from July 9, 2020), Sales Coordinator V 10, and Sales Assistant V 11, but all four employees resigned between January and April of the same year. Mr. V1 was mainly responsible for sales for the procurement agency project of ■■■ (business partner), Mr. V9 was mainly responsible for marketing of sales for Japanese companies, Mr. V10 was mainly responsible for assistant services for the procurement agency project of ■■■ (business partner), and Mr. V11 was engaged in assistant services for sales for Japanese companies.

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<sup>7</sup> As for Mr. A, he is said to have also formally concluded an employment contract with Company W8 in Shenzhen in order to obtain a working visa in China.

### ③ Internal control system

VWPG has concluded an outsourcing agreement with Company W1 for each office to outsource its internal control operations, and has paid Company W1 a total of US\$733,493.60 (89 million yen)<sup>8</sup> (actual payment from April 2021 to March 2022) in outsourcing costs.

According to interviews with the persons involved at RHD and RSC, even before Vitec acquired TWPG shares from Company M1, TWPG had outsourced its internal control operations to Company W1 to manage its purchase and sales, using the Company W1 systems. In other words, TWPG, before the acquisition by Vitec, had an office in the office of Company W1, and seconded employees from Company M2 (Mr. R1 and Mr. A) worked with local employees and shared employees from Company W1, using the Company W1 systems. When Vitec acquired TWPG, obtained a majority shares in TWPG and changed its trade name to VWPG, the operation flow was not changed and has remained the same as before the acquisition to the present.

According to interviews with Mr. R1 and Mr. A, the internal approval process at VWPG is as follows.

#### (a) When VWPG purchases

When Company W1 purchases, it is necessary to register new suppliers and parts in the system, and the VWPG staff member in charge submits an application for them to be registered in the system after approval of the examination by Company W1. The same shall apply when the supplier registration information is to be corrected. There are several documents required for application, and it takes about three to four days from application to system registration.

When placing an order to a supplier, the VWPG staff member in charge makes an application to the head of the applying department (Mr. R1 of VWPG) and issues a purchase order (PO) with his approval. It takes about one day from the application to the issuance of the purchase order.

For payment to suppliers, the VWPG staff member in charge makes an application, and the payment will be made with the approval of the head of the applying department (Mr. R1 of VWPG) and the accounting staff at Company W1.

At VWPG, when making payment to a supplier before arrival of goods (advance payment), it is customary to proceed with the internal application process after registration

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<sup>8</sup> The amounts in local currencies in this report are translated into Japanese yen using the following approximate values based on the exchange rates at the end of March 2022 for convenience.

US\$1: 122.00 yen, HK\$1: 16.00 yen, RMB 1: 19.00 yen



and to make payment after about one week, and making payment on the same day is not allowed.

(b) When VWPG sells

When Company W1 sells, it is necessary to register new customers (sales customers) in the system, and the VWPG staff in charge submits an application for them to be registered in the system after approval of the head of the applying department (Mr. R1 of VWPG) and the examination by Company W1. When the customer registration information is corrected, the VWPG staff in charge applies for it to be registered in the system after approval of the examination by Company W1.

For a customer's credit limit application, the VWPG staff member in charge submits an application for it to be reviewed by the Credit Review Department of Company W1, and registered in the system after approval of the head of the applying department (Mr. R1 of VWPG), the Chief Sales Officer (CSO) of the W2 Group, and the Trade Review Department of Company W1.

While sales within the credit limit will be executed if the VWPG staff member in charge inputs them into the system for notification to the Logistics Department, for special shipment arrangements when temporarily exceeding the credit limit such as emergency shipment, the VWPG staff member in charge shall make an application for shipment to be executed after the approval of the head of the applying department (Mr. R1 of VWPG), the Chief Sales Officer (CSO) of the W2 Group, and the examination of Company W1.

Moreover, when directly delivering to a place designated by the customer, the VWPG staff member in charge shall make an application, receive approval of the head of the applying department (Mr. R1 of VWPG) and the examination of Company W1, notify the Logistics Department, and make arrangements.

(c) Inventory management at VWPG

When semiconductors, electronic components, etc. are purchased, the VWPG system records provisions from the month when they are received. While the coefficients for calculating the amount of provisions are set by the system, and VWPG staff in charge and others, including Mr. R1, do not know the details, and the system is designed so that if the inventory period exceeds three months, provisions equivalent to the purchase price should be made.

**④ Group management system at the RHD Group (for VWPG)**

VWPG was a subsidiary of Vitec on or before December 28, 2018, and has been a subsidiary

of PTT since that date, reporting monthly accounting data on purchases, sales, etc. to Vitec and PTT.

In addition, the RHD Group has established the Group Company Management Rules, and under normal circumstances, VWPG, as a subsidiary of RSC, is required to have prior approval and reporting based on these Rules. However, according to interviews with the persons involved at RSC, the aforementioned Group Company Management Rules are not shared with VWPG, and since there have been few matters requiring prior approval and reporting, prior approval and reporting have never been made.

Moreover, the RHD Group has established Group Compliance Rules, and under normal circumstances, the Compliance Committee is supposed to do the initial stage of confirmation and investigation on a suspicious compliance event, instruct the department in charge to conduct an investigation, and give instructions and advice to the Group companies concerning responses to suspicious events. However, in this Case, reporting to the Compliance Committee itself was not done, and there is no evidence that the Committee has been involved in the investigation.

In addition, the RHD Group had inventory management rules for each operating company, although not for the entire group. According to RSC, when the inventory period exceeds one year, the full amount of the purchase payment is to be provided for, and RSC required subsidiaries to periodically report items that exceeded long-term inventory (seven months or more).

## **(5) Flow of business**

### **① Operations of the RHD Group's Device Business**

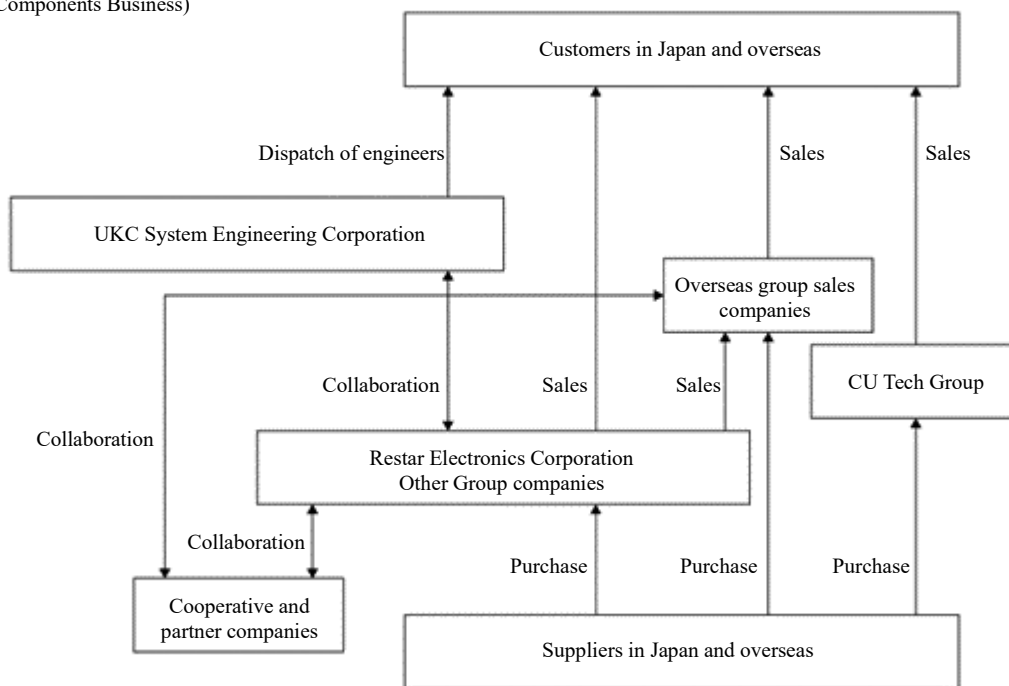
The semiconductor and electronic components business of the RHD Group mainly consists of the device business and the EMS business. Among them, the device business specifically consists of: (1) sales of semiconductors, electronic components and related products in Japan and overseas; (2) system proposals with the combinations of a variety of line cards; (3) provision of high-value-added solutions and technical support that excels at liquid crystal systems and overseas suppliers; (4) LSI design development and support; and (5) commissioned reliability testing services.

The business system diagram is as shown below,<sup>9</sup> with REC at the center of the business. The flow of business shows that REC conducts sales activities for customers in Japan and overseas, procures semiconductors and electronic components from suppliers in Japan and overseas, and delivers them.

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<sup>9</sup> Excerpt from page six of RHD's Annual Securities Report for the fiscal year ended March 2021

(Semiconductor and Electronic Components Business)



According to interviews with the persons involved at REC, REC’s device business is a B-to-B business, in which demand and production capacity are in principle linked, and REC obtains basic demand information from customers in advance, transmits it to the semiconductor factory, and conducts forecast production, as the supply capacity of the semiconductor factory is limited and it takes a certain amount of time (three to six months) from orders received to production.

As this is forecast production, there are cases where surplus inventory is generated at the trading company (REC) due to changes in demand on the customer side (this becomes a factor for the long-term non-moving inventory). On the other hand, there are cases where the demand of customers cannot be satisfied due to the shortage of supply capacity of semiconductor factories. In such cases, it is necessary to procure semiconductor components required by customers by spot procurement in the distribution market (hereinafter, such inventory goods in the distribution market are referred to as “**Market Stock Goods**”). For such distribution market of semiconductor components, Japan was the main market until about 20 years ago, but now China (especially Shenzhen) is the main market.

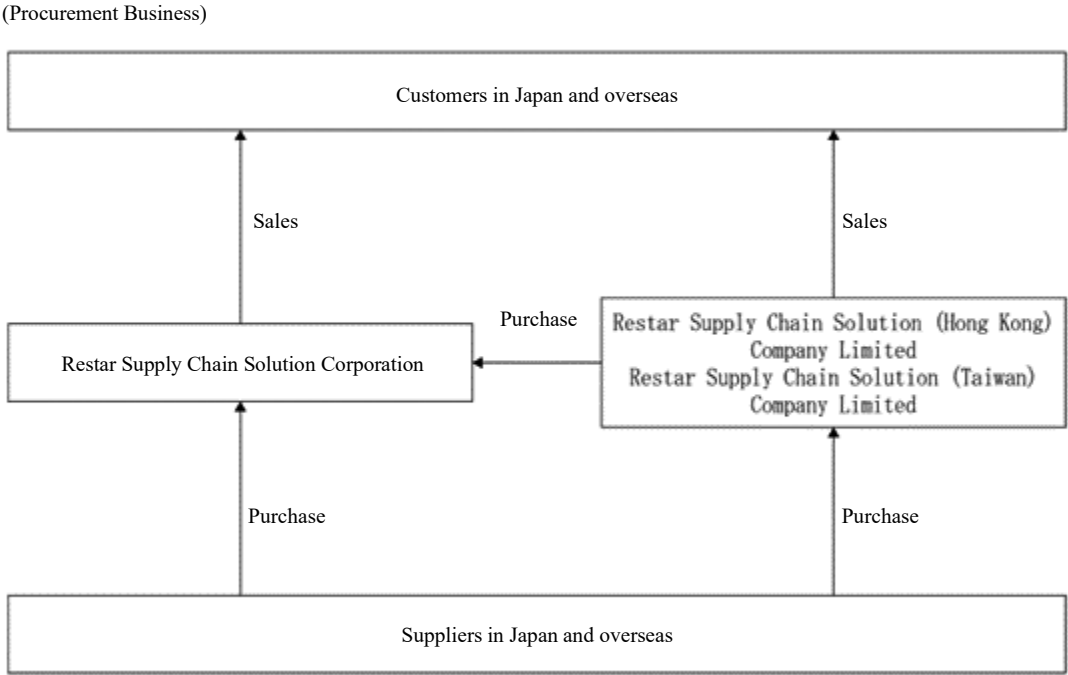
While REC conducted spot procurement of Market Stock Goods based on requests from customers even before, demand for spot procurement based on customer requests has increased sharply, particularly since 2021, due to the worldwide semiconductor shortage from the spring of 2020.

In the case of spot procurement of Market Stock Goods, the procurement price is determined by the timing of purchase, and when the supply-demand balance is tight, there are cases where the procurement price becomes significantly high. In such cases, the decision to procure Market Stock Goods is made after confirming the intention (whether to purchase even at a significantly high price) of the customer.

**② Operations of the RHD Group’s Procurement Business**

The specific content of the procurement business of the RHD Group is to propose optimal supply chain management through global procurement trading for electronics and commissioned services for related operations.

The business system diagram is as shown below,<sup>10</sup>with RSC at the center of the business. The flow of business shows that RSC is commissioned for procurement services from customers in Japan and overseas, procures semiconductors and electronic components designated by customers from suppliers in Japan and overseas, and delivers them.



According to interviews with the persons involved at RSC, the procurement business conducted by RSC is mainly the commissioned procurement business of Company P in which

<sup>10</sup> Excerpt from page seven of RHD’s Annual Securities Report for the fiscal year ended March 2021

Company P designates the types, prices, suppliers, etc. of electrical and electronic components, semiconductor components, and other components, and RSC purchases electrical and electronic components, semiconductor components, and other components from suppliers as designated, and delivers them to Company P. While Market Stock Goods are sometimes purchased by spot procurement from the semiconductor distribution market, suppliers are designated by Company P.

### ③ Positioning of VWPG in the RHD Group

VWPG was acquired by Vitec from Company M1 in December 2014 and became a subsidiary of PTT (current RSC) on December 28, 2018 after the acquisition of a majority of shares in April 2016.

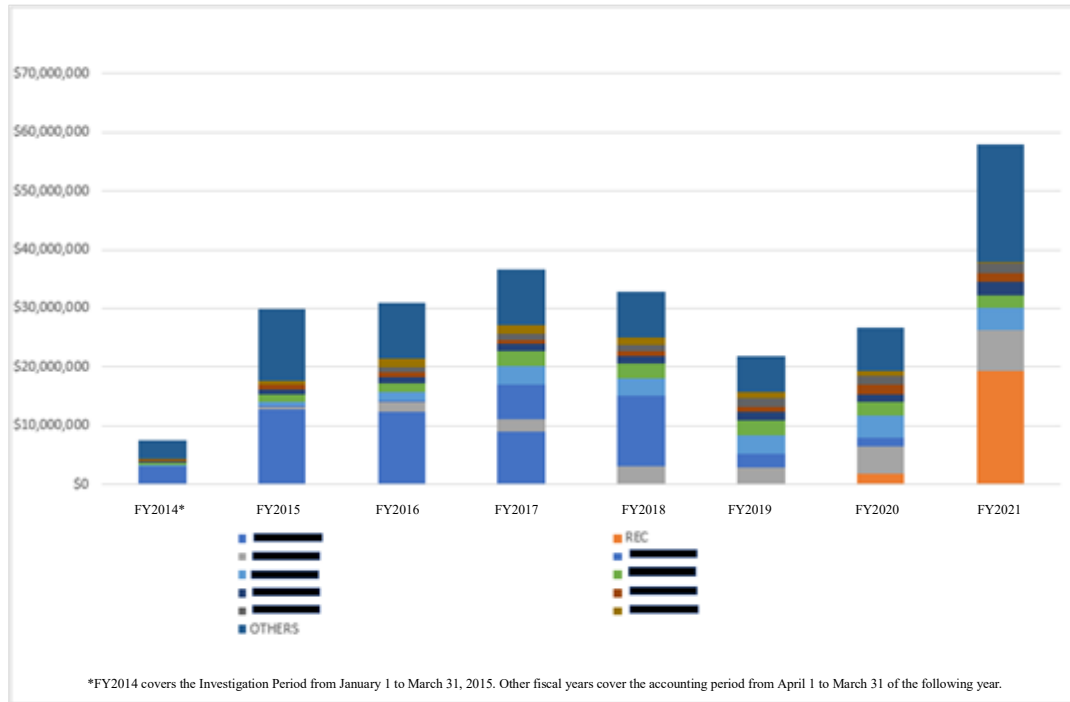
According to the interviews with the persons involved at RHD and REC, VWPG's business initially after the acquisition was centered on (1) local follow-up of business negotiations with Japanese customers and (2) parts procurement for ■■■ (business partner), with (3) product replacement proposals for Japanese EMS customers (in cooperation with Company W1), and (4) direct sales to local Japanese customers. Of these, sales in the components procurement business for ■■■ (business partner) increased from FY2015 to FY2017, and in response to this, Vitec HD transferred its VWPG shares to PTT in order to strengthen PTT's procurement consignment business, making VWPG a subsidiary of PTT.

However, VWPG's components procurement business for ■■■ (business partner) shrank from FY2018 onwards, and especially shrank sharply from FY2019 onwards. As a result, most of VWPG's business in FY2019 was for Japanese customers (local follow-up of business negotiations, product replacement proposals, and direct sales).

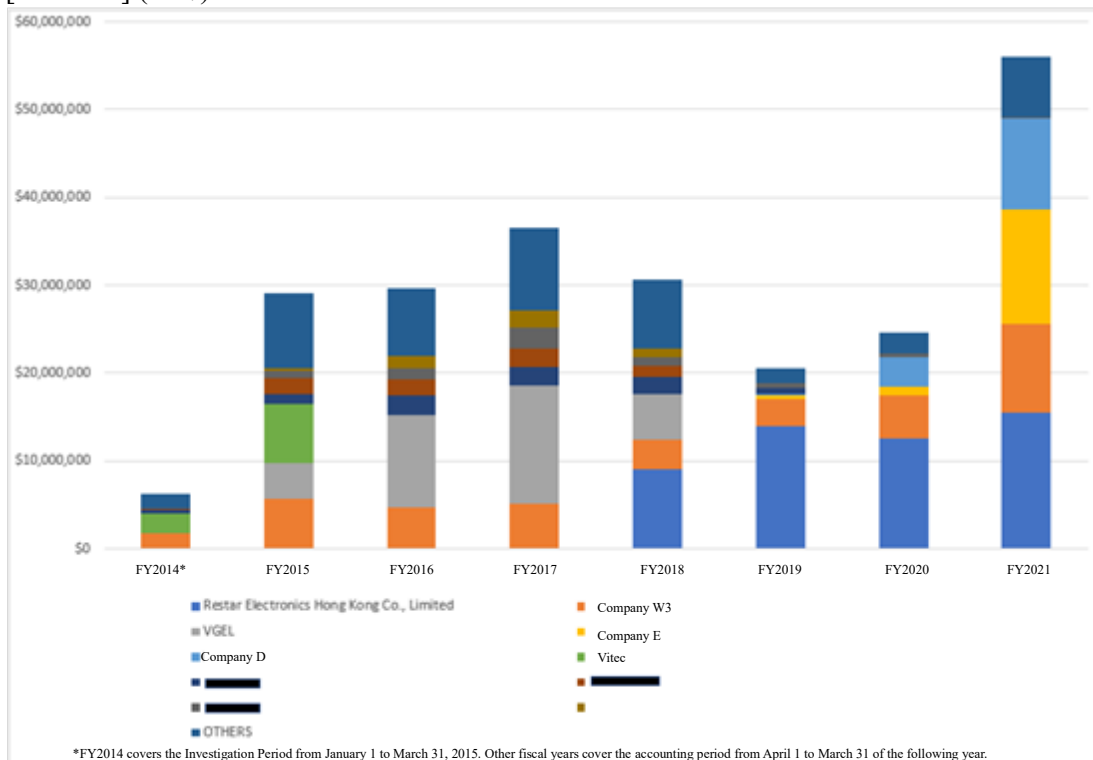
For this reason, while VWPG issues monthly reports on purchases and sales, etc. to RSC, its parent company, it receives direct contact and instructions from REC sales representatives for daily business communications, and works in consultation with the REC staff in charge.

As shown below, moreover, looking at the changes in sales of VWPG, the procurement and sales of Market Stock Goods started in FY2020, and their sales increased rapidly in FY2021. This is because, in response to the global semiconductor shortage since the spring of 2020, demand for customer-requested spot procurement by REC has increased sharply since 2021, and the number of cases in which spot procurement is requested from the VWPG Shenzhen office, which is close to the main distribution market, has increased.

[Sales] (US\$)



[Purchase] (US\$)



## **2 Background from the detection of this Case to the start of the Investigation**

### **(1) Report (oral) from Company W1 on suspected compliance violations**

#### **① Background to the investigation at Company W1**

In July 2021, the person in charge of personnel affairs at Company W1 Hong Kong received a report that at a business involving Mr. A of VWPG there was "processing of vouchers for transactions with relatives."

Company W1 reported the above content of an interview from Company W1 Hong Kong to its parent company, Company W1, and the investigation began at the end of August 2021 under the instruction of the CEO of Company W1. Company W1 investigated Mr. A's e-mails and sales history of VWPG remaining in the server and prepared a report on October 8 of the same year. When the report was internally distributed in Company W1, some people in the company pointed out that the investigation was insufficient, and therefore, Company W1 conducted further investigation, added slides, etc. to brush up the report, and completed the Company W1 report in December of the same year. However, Company W1 forgot to update the date, and as a result, the date on the Company W1 report remains as "October 8, 2021."

#### **② Informal reporting from Company W1 to REC (October 20, 2021)**

On October 20, 2021, Mr. R2, who was seconded from REC to REC Hong Kong (Restar Electronics Hong Kong Co., Ltd.) and served as a Managing Director, received a report from Mr. W4 of Company W1 that: (1) there was a possibility that a transaction in violation of compliance by an REC seconded employee had occurred at VWPG, and an investigation was ongoing; (2) (while the report prepared by Company W1 as of October 8, 2021 was not shared), as a result of the investigation so far, it was found there was a problem with the transaction involving a company of the Chinese wife of the seconded employee—specifically, it was found that VWPG had purchased commodities from Company W2, sold them to a trading company in China, and then bought back the same products in the same quantity at a higher price; (3) the investigation was expected to be completed by the end of the year at the latest; and (4) the CEO of Company W1 was very angry about this Case, and commented that "there may be no governance at work because a majority of shares were transferred to Vitec." However, since it was de facto information-sharing in the course of Mr. R2's business contact with Mr. W4 on a daily basis prior to the official reporting by Company W1, Mr. W4 requested that the content of the reporting be classified only as non-disclosure.

Mr. R2 shared the content of the reporting he had received from Mr. W4 with Mr. R3, who was REC's Director and Executive Officer in charge of the Overseas Division, and later with

Mr. R4, who was also REC's Director and Executive Officer and in charge of the Management Division, as well.

On October 26, 2021, Mr. R2 prepared a document entitled "Information from Company W1 (Concerns about VWPG)" and reported this Case to Mr. R5, the President of RSC, Mr. R6, the Managing Executive Officer of RHD and the General Manager of the Administration and Human Resources Department of REC, and Mr. R7, the Executive Officer of RHD and the General Manager of the Legal & Compliance Department.

## **(2) Receipt of the Company W1 Report and examination of responses**

### **① Receipt of Company W1 Report (December 24, 2021)**

On December 24, 2021, Mr. W4 e-mailed the Company W1 report to Mr. R2 and Mr. R3 and requested them to consider their response policies at RHD. Mr. W4 told Mr. R2 that Company W1 was in a position to provide support for this Case, but that Company W1 recognized this Case as an important problem concerning integrity, and therefore, would like RHD to deal with it seriously as well.

Mr. R2 then shared the Company W1 report with Mr. R4, and in haste, Mr. R2 consulted lawyers in Shenzhen and Hong Kong.

### **② Information-sharing on the RHD side (December 28, 2021)**

On December 28, 2021, Mr. R4 shared the Company W1 report with Mr. R5, Mr. R6 and Mr. R7, and the six members of Mr. R2, Mr. R3, Mr. R5, Mr. R6 and Mr. R7 discussed the response. The participants confirmed that: (1) since it was just before the end-of-the-year holiday, they should gather at the beginning of the next year to discuss responses; (2) Mr. R2 should share the results of his consultation with a local lawyer's office in Shenzhen and Hong Kong in the meantime; and (3) they should carefully investigate Mr. A and his supervisor Mr. R1, who were pointed out as the parties to the illegal acts in the Company W1 Report, so that information should not be conveyed to them, due to concerns about their information-hiding and escape.

On the same day, Mr. R4 requested Mr. R6 to confirm the contractual relationship between Mr. A and VWPG, and Mr. R6 shared with Mr. R4 the contract (to transfer Mr. A from Vitec to TWPG; hereinafter referred to as "**this Secondment Contract**") dated March 1, 2015 between TWPG (current VWPG) and Vitec (current REC). Both of them confirmed that Article 6 of this Secondment Contract stipulated that in the event of damage to TWPG (current VWPG) due to reasons attributable to Vitec or its employees, Vitec would compensate TWPG (current VWPG) for such damage, and recognized that if this Case caused damage to TWPG



(current VWPG), it could be a serious problem.

After that, when Mr. R2 consulted with lawyers in Shenzhen and Hong Kong, while he received a reply from the lawyer in Shenzhen that Mr. A should be suspected of embezzlement in the conduct of business, the lawyer in Hong Kong replied that: (1) although the business partner of Mr. A's spouse was involved in the transaction, the transaction itself was valid and deemed to be legal, and therefore, it was virtually impossible to prosecute (criminal case) or claim for damages (civil case) against Mr. A's spouse or collaborators, while there was room to punish Mr. A internally; (2) there was a difficult problem of different jurisdictions, as the location of the illegal act was in Shenzhen and VWPG head office was in Hong Kong; and (3) VWPG could legally file a claim for damages against Vitec under this Secondment Contract.

### ③ Launch of RHD internal investigation PJ (January 6, 2022)

Mr. R2, Mr. R4, Mr. R3, Mr. R5, Mr. R6 and Mr. R7 discussed the responses to this Case on January 6, 2022.

At the meeting, they confirmed that: (1) it was necessary to confirm the facts of this Case and obtain materials that would provide evidence of violations; (2) it was necessary to take measures to stop the transaction in question as soon as possible because the transaction was still ongoing, and it was necessary to consider how to notify the person in question and what to do with his successor; (3) since as a result of Mr. R2's consultation with lawyers in Shenzhen and Hong Kong, the opinions were divided and there were jurisdictional issues, the legal aspects should be investigated further, and lawyers in Japan as well as those in Hong Kong and Shenzhen should also be consulted; and (4) this Case should be reported to the Representative Director (CEO) of RHD.

In addition, it was confirmed that the above six persons, including Mr. R2, would take the lead in continuing to examine measures for this Case (the six persons are hereinafter referred to as the "**Investigation PJ**"). The Investigation PJ was not established based on internal rules or internal approval, but was established spontaneously by the above six persons who were examining measures for this Case.

### ④ Confirmation of progress from Company W1 (January 7, 2022)

On January 7, 2022, Mr. W4 informed Mr. R2 that Mr. W4's supervisor was concerned about the inconvenience the handling of this Case might cause to customers, and asked Mr. R2 about the status of the examination by RHD. In response, Mr. R2 replied that RHD was sincerely and seriously examining this Case, and would consult with Company W1 first after

properly sorting it out, including the business impact on customers.

## ⑤ Report to CEO (January 14, 2022)

On January 14, 2022, the Investigation PJ prepared the “Response to the Compliance Case of Company V” (hereinafter referred to as the "**REC Report**") in the name of REC, which summarized the contents of the Company W1 Report, etc., and reported it to Mr. R8, Representative Director and CEO of RHD. The REC Report is written in Japanese, and the section of "Illegal profits" also says "approximately 250 million yen" as excerpted below.

### REC Report, page 7

*confidential*

#### Reporting of Company W1 investigation (Dec. 22: Mr. W4 to Mr. R2 in Hong Kong)

Target: Mr. A (Seconded from REC to VWPG, stationed at Company W1 Shenzhen)  
Summary: Established four to five corporations (in Hong Kong) under the name of the spouse (and one collaborator) Acquired illegal profits (\*1) by involving the above corporations in commercial flows  
Method: (1) Purchasing at high prices from the corporations under the name of the spouse  
(2) Losses incurred due to purchasing at high prices from the companies affiliated to the spouse and selling at low prices  
(3) Selling existing stocks to the affiliated companies at low prices, purchasing the stocks at high prices, and selling them to customers  
(4) Pretending to dispose of existing stocks and selling them at a loss to the affiliated companies (marketable stocks)

Remarks: Customers include our company's customers (XX) (business partner), etc.) and REC.

Future responses to this Case: Dec. 23 Final discussion in Company W1 (Mr. XX - Mr. W4)  
In practice Mr. W4 talked to Mr. R2 and Mr. R3 of Restar  
The ball is currently in Restar's court

\*1) Illegal profits: The amount identified by Company W1 as illegal transactions: US\$403,479 (a)  
The amount expected by Company W1 for transactions related to products of XX (business partner): US\$1,708,652 (b)  
(a) + (b) = US\$2,112,131 (approximately 250 million yen)



Mr. R8 (CEO) instructed the following: (1) prosecution of the parties concerned was not the purpose, and if there really was any violation of compliance, the parties concerned should be made aware of it, and then, if the company has incurred any loss, it should proceed in the direction of making them compensate for the loss; (2) the company should continue to investigate the matter carefully for that purpose; and (3) the company should consult with a lawyer, whom Mr. R8 knew well, on the legal issues and ask for his/her opinion.

In addition, Mr. R7 and Mr. R6 reported the progress orally to Mr. R8 (CEO) as needed after that day.

## ⑥ Reporting to full-time Audit and Supervisory Committee Members

On some date in January 2022, Mr. R7 informed Mr. R9 and Mr. R10, full-time Audit and Supervisory Committee members of RHD, that there had been a compliance violation at VWPG and that an investigation was under way. In response, Mr. R9 and Mr. R10 each said they would like to know the result of the investigation when it was ready.

After that, Mr. R7 reported on this Case orally to Mr. R9 and Mr. R10 once a month or so, but never shared with either of them any materials on this Case until May 19, 2022, which will be described later.

#### **⑦ Consultation with a law firm in Japan (January 18, 2022)**

On January 18, 2022, Mr. R2 consulted a lawyer introduced to him by Mr. R8 (CEO) for this Case, and the lawyer replied that this Case was a difficult one and that he would like to be officially commissioned to study Chinese laws.

#### **⑧ Consultation with a law firm in China (January 27, 2022)**

On January 27, 2022, the Investigation PJ consulted with attorney-at-law Y of Office Y regarding this Case, and received a response from the lawyer that this Case was very likely to be prosecuted under Chinese law. After sharing the lawyer's response and discussing it, the investigation PJ decided to commission Office Y to investigate this Case and requested Office Y to submit an estimate.

From around this time, Mr. R 11 and Mr. R 12 of the Legal & Compliance Section of the Legal & Compliance Department of RHD joined the Investigation PJ.

### **(3) Sharing of information with the Accounting Department and the audit firm for the financial results of the third quarter**

#### **① Reminder from Mr. R4 and explanation to Mr. R13 (January 26-27, 2022)**

On January 26, 2022, Mr. R4, in a telephone conversation with Mr. R13, General Manager of the Accounting Department of RHD, about a different matter, explained to him the outline of this Case (the detection of transactions with relatives at VWPG), and told him that if the information had not been shared by the Legal & Compliance Department of RHD, it would

be better to share it, even though it was still under investigation<sup>11</sup>. On January 27 at 10:01 a.m. of the same year, Mr. R4 pointed out in the main text of an e-mail regarding this Case addressed to Mr. R7, Mr. R6 and Mr. R 11, and copied to Mr. R3 and Mr. R2 that: "It is about time to receive 'Questions about Subsequent Events and Contingent Liabilities' from Accounting. I would like to inform you just to be sure that while the VWPG compliance case is treated as highly confidential, if the information is not shared on this with the Accounting Department (at least with Mr. R 13, General Manager of the Accounting Department) on a priority basis, it will be a problem in terms of internal control. In particular, Article 6 of the Secondment Contract that Mr. R6 has shared with us contains the following description, and I suppose that we need to be aware of the risks in this aspect," and sent the e-mail with the attachments of (1) REC Report, (2) Company W1 Report, (3) Company D's purchase-related Excel file referred to (2), and (4) the Secondment Contract.

Subsequently, at 11:10 a.m. on the same day, Mr. R4 sent an e-mail to Mr. R13, stating that "I am sending the attached email addressed to R7, and copied to Mr. R6 and Mr. R11." and attached to the e-mail the above e-mail to Mr. R7 (with the materials described in (1) to (4) above attached) and the e-mail with the press release of the resolution to acquire 299,999 TWPG shares by Vitec.

However, according to Mr. R13, among the attached materials of the e-mail to Mr. R7 attached to the e-mail from Mr. R 4, he first opened the Company W1 Report and looked briefly, but it was a document mixed with Chinese language and the contents were difficult to grasp, and he assumed that if it was an important matter, he would be called to a meeting or the like for explanation, and he did not recognize the importance of this Case, did not check other attached materials, and even if he had opened the attached materials, he would not have read them thoroughly. In addition, since Mr. R13 took sick leave from February 3 to mid-February 2022, he did not have the time to check the aforementioned reports, etc. ex post facto.

## **② Explanation from Mr. R7 and Mr. R6 to Mr. R13 (January 27, 2022)**

In addition to sharing information with Mr. R13 on this Case during the lunch break on January 27, 2022, following Mr. R4's suggestion, Mr. R7 and Mr. R6 sought to ascertain

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<sup>11</sup> According to Mr. R13, he asked Mr. R4 during this exchange, "Is it so important that the audit firm understand the contents?" and Mr. R4 replied, "There is nothing I can talk about now." However, according to Mr. R4, he had no memory of such exchange, and if Mr. R 13 had asked him such a question, he would have replied, "Mr. R13 should decide whether to report it to the audit firm." A few days before this exchange (January 21 of the same year), when REC's Finance and Accounting Department directly asked the audit firm whether it was possible to make a provision for claims for damages (unrelated to this Case), Mr. R4 received a report that the Department was severely reprimanded by Mr. R13, and therefore, he thought it would be better to leave the handling of the matters with the audit firm to the judgment of Mr. R13, General Manager the Accounting Department of RHD.

whether it was necessary to include this Case in the written response concerning subsequent events (litigation) to the audit firm prior to the financial results for the third quarter.

However, according to Mr. R7, Mr. R13 had already received information from Mr. R4 on this Case, receiving a reply to the effect that while this Case would be shared with the audit firm, it would not be necessary to include it in the financial results materials for the third quarter, and it would be shared only with Mr. R14, who was the superior and the Representative Director (in charge of planning, finance, and systems) of RHD, within the Accounting Department.

### **③ Explanation from Mr. R13 and Mr. R7 to the audit firm**

For each quarter, the audit firm received a written response from the Accounting Department and the Legal & Compliance Department to confirm the existence of subsequent events and contingent liabilities and the existence of violations of laws and regulations and litigation, respectively.

However, this Case was not mentioned in the written response submitted by the Accounting Department to the audit firm in late January 2022<sup>12</sup>.

In addition, this Case was not mentioned in the written response submitted by the Legal & Compliance Department to the audit firm in late January 2022.

### **④ Explanation from Mr. R13 to Mr. R14 (around January 27, 2022)**

At 12:47 p.m. on January 27, 2022, Mr. R13 forwarded to Mr. R14 the above e-mail received from Mr. R4 at 11:10 a.m. on the same day (with the e-mail to Mr. R7 with 4 documents attached). Mr. R13 wrote in the main text of the forwarded e-mail that "Later [original text unchanged], I think I will be contacted by Mr. R4. It's said to be strictly confidential... I heard that only fewer than ten people know it. FYI."<sup>13</sup> Mr. R14 checked the above e-mail of Mr. R4 forwarded by Mr. R13 on the next day (January 28) or early the next week, but he only took a brief look at the attached materials.

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<sup>12</sup> According to Mr. R13, after submitting the written response to the audit firm, he called the person in charge at the audit firm and told him that he had heard that there had been a compliance violation at a subsidiary (without mentioning the name of VWPG), but he recognized that it would not become a contingent liability or a subsequent event, and he would provide information if he found out something later. According to the audit firm, however, it did not receive the above report from Mr. R13.

<sup>13</sup> According to Mr. R13, prior to the forwarding of the above e-mail, he reported to Mr. R14 that there was a compliance violation at VWPG and it was under investigation, and also reported that since it would not become a contingent liability, he only told the audit firm that there was a compliance violation, and determined that it was not necessary to note it in the financial results for the third quarter. According to Mr. R14, his memory is vague about receiving such report.

Later, according to Mr. R14, when Mr. R14 asked Mr. R13 when the meeting with Mr. R4 would be held, Mr. R13 replied to Mr. R14, "That is still at the initial stage, and this time it is all right, so please forget it." In response, Mr. R14 said that he accepted Mr. R13's response and would leave subsequent responses to Mr. R13.

#### **⑤ Submission of a management representation letter (February 10, 2022)**

On February 10, 2022, RHD submitted a management representation letter signed by Mr. R14 to the audit firm. The letter did not refer to the suspected compliance violations at VWPG.

Mr. R14 believed that reporting to the audit firm at the initial stage of the investigation would cause confusion and that it would be appropriate to report to the audit firm when the investigation had progressed to a certain extent, and since Mr. R13, who was qualified as a certified public accountant, agreed with him, he judged that it had not yet reached the stage at this time to report and share with the audit firm about this Case, and he did not tell the audit firm anything about this Case when he signed the representation letter.

At an extraordinary meeting of the Board of Directors of RHD held on February 10, 2022, while it was reported that the Quarterly Report for the Third Quarter of the Fiscal Year Ending March 2022 would be submitted to the Kanto Local Finance Bureau with the quarterly review report of the audit firm attached, there was no reporting on this Case.

#### **⑥ Report to the Audit and Supervisory Committee (February 25, 2022)**

At the meeting of the RHD Audit and Supervisory Committee held on February 25, 2022, at the instruction of Mr. R9 and Mr. R10, Mr. R7 reported that a violation of compliance related to transactions with relatives had been suspected at VWPG and an investigation was under way by a law firm in China. Mr. R9 stated that they would report to the Audit and Supervisory Committee again when the facts were found.

The audit firm attended the above meeting of the Audit and Supervisory Committee, but the above report was made only after the audit firm left the meeting of the Committee after completing the explanation of Matters to Be Reported 1 (Explanation of Detailed Audit Procedures and Communication Concerning Major Considerations for Audits). However, the minutes of the Audit and Supervisory Committee meeting were to be shared with the audit firm after the minutes were prepared, and the minutes of the above Audit and Supervisory Committee meeting were shared with the audit firm on March 22, 2022. The minutes contain an excerpt stating that this Case was reported orally as follows:

Excerpt from the minutes of the meeting of the Audit and Supervisory Committee held on

February 25, 2022

**2. Report on Litigation and Compliance Cases in FY2021**

Mr. R7 and Mr. R11 explained five cases of litigation (three cases of termination, two new cases, and three cases of whistle-blowing (of which, one case of termination) in FY2021 based on Reporting Material 1, and they were confirmed.

In addition, a status report was made orally to the effect that fact-checking was under way on the transactions of VWPG (Hong Kong).

In addition, Mr. R9 and Mr. R10 came to know, at least in March, sometime after the Audit and Supervisory Committee meeting held on February 25 of the same year, that this Case was a compliance issue related to transactions with a relative of an employee that occurred at VWPG, and that a law firm in China was investigating it. However, as this Case was under investigation, they thought that it would be confusing to report it to the Accounting Auditor at this time, and thought that it would be better to report it after the situation became a bit clearer.

**(4) Investigation by China Office**

**① Commission to a law firm in China and reporting to Company W1 (February 16, 2022)**

On February 16, 2022, RHD Commissioned Office Y to investigate this Case. Mr. R12, who was a qualified Chinese lawyer, took the lead in communicating with Office Y.

On the same day, moreover, RHD reported to Company W1 that it would conduct an investigation of this Case and develop optimal responses, and asked necessary questions and requested the submission of materials for proceeding with the investigation. After that, RHD received replies and presentation of materials from Company W1.

**② Submission of an interim report by the law firm in China (April 19, 2022)**

Office Y conducted the investigation as described below (Section 3. 1. (2)), and on April 19, 2022, it prepared the China Office Interim Report and presented it to the Investigation PJ, saying that the investigation based on the materials, etc. had largely been completed. The Office investigated the facts based on the information from Company W1 (including additional requested information) and anonymously confirmed the opinion of the judge.

On the same day, the Investigation PJ sorted out the facts based on the China Office Interim Report and held a meeting with Company W1 to confirm the facts.

However, the progress in this Case, including the receipt of the China Office Interim Report, was not shared with Mr. R13, Mr. R14, Mr. R9 and Mr. R10. Mr. R7 explained that the reason

for not sharing at this stage the information with the officers and employees in charge of accounting (Mr. R14 and Mr. R13) and the full-time Audit and Supervisory Committee Members (Mr. R9 and Mr. R10) was that the investigation was still under way. Mr. R4 explained that whether or not to share the information with the RHD Accounting Department should be decided by the RHD Legal & Compliance Department in the first place, and that the amount of civil damages recognized in the China Office Interim Report was not much different from that stated in the Company W1 Report.

### **③ Reporting from Mr. R4 to Mr. R13 (April 22 and May 16, 2022)**

On April 22, 2022, Mr. R4 reported to Mr. R13, using an internal chat tool (Teams), that "As for the case of the VWPG representative I mentioned before, the legal requirements are finally being consolidated, and we are planning X-Day for early to mid-May, although it was originally planned for the end of March. As a result, I think we will not be able to sell Market Stock Goods to █████ (business partner), etc. as before. " "X-Day" means the day when the interview with Mr. A will be conducted. However, according to Mr. R4, the chat was mainly for the purpose of informing Mr. R13 that VWPG sales would not grow much in the next fiscal year's earnings outlook. There was no response from Mr. R13 to this reporting.

Subsequently, on May 16, 2022, Mr. R4 reported to Mr. R13 that the aforementioned "X-Day" was being finalized for May 20 or 23. In response, Mr. R13 attached a thumbs-up "👍" mark to Mr. R4's reporting message.

### **④ Submission of the final report by the law firm in China (May 29, 2022)**

The Investigation PJ decided to conduct an interview with Mr. A based on the facts found in the investigation, but Mr. Y, the lawyer of Office Y in charge of the investigation on this Case, lived in Shanghai, and as Shanghai was locked down due to the spread of COVID-19, he could not move to Shenzhen where Mr. A was.

As a result, with the passing of about one month where it was not possible to conduct the interview with Mr. A, the Investigation PJ and Office Y judged that the interview with Mr. A should no longer be delayed, and on May 20, 2022, in the presence of a lawyer from the Shenzhen Office of Office Y, the interview with Mr. A was conducted at the office of Restar Electronics (Shenzhen) Co., Ltd., with attorney-at-law Y participating online.

Subsequently, after three interviews with Mr. A, Office Y sent the China Office Final Report to RHD on May 29, 2022.



**(5) Sharing of information with the Accounting Department and the audit firm for the financial results of the fiscal year ended March 2022**

On May 11, 2022, RHD released the Fiscal Year 2021 (Apr 2021 – Mar 2022) Consolidated Financial Results. However, prior to the publication of the above-mentioned financial results, there was no evidence that the Investigation PJ had formally shared information on the status of the investigation of this Case, such as explanations based on materials, with the Accounting Department and the audit firm. Mr. R13 also recognized that there had been no reporting on this Case since the reporting at the end of January 2022, and he did not check it because he thought it was not a big deal.

**(6) Sharing the results of investigation with the Accounting Department and the audit firm**

**① Reporting from the Investigation PJ team to the Accounting Department, etc. (May 19, 2022)**

On May 19, 2022, the day before the scheduled date of the interview with Mr. A to be conducted by Office Y, the Investigation PJ briefed Mr. R9, Mr. R10, and Mr. R14, as well as Mr. R15 and Mr. R13, Managing Executive Officers of RHD, on a summary results of the investigation of this Case so far. Among the briefed contents, Mr. R13 specifically questioned buybacks and asked for explanations on details.

**② Sharing of information with the audit firm (May 20, 2022)**

On May 20, 2022, Mr. R4 responded to Mr. R13's question regarding the buybacks by sending an e-mail with the amount of money for each category as sorted out in the China Office Interim Report and attached the Interim Report to the e-mail.

On the same day, Mr. R13 sent the China Office Interim Report to the audit firm and held a meeting with the firm from the morning. In response to the audit firm's request at the meeting to hear an explanation directly from Office Y, which had prepared the China Office Interim Report, there was a meeting for sharing information between Office Y and the audit firm. From the RHD side, this information-sharing meeting was attended by Mr. R13, Mr. R16, General Manager of Accounting Department of RHD, Mr. R4, Mr. R6 and Mr. R7.

Subsequently, RHD shared documents, such as the Company W1 Report and REC Report, with the audit firm.

**③ Notice concerning the possibility of No Audit Opinion from the auditing firm (May 23, 2022)**

On May 23, 2022, the audit firm informed the Audit and Supervisory Committee that it would be very difficult for the audit firm as an auditor to submit its audit opinion as scheduled because "With regard to the Investigation, the factual confirmation of the outline of this Case is not sufficient, and the basis of the transactions within the scope of the Investigation is not clear. With regard to the investigation on other cases, the modus operandi of the transactions in question detected has not been sufficiently clarified, and as a result, the scope of the investigation is limited to specific transactions involving the person in question and investigations of other similar cases have not been completed. Therefore, the sufficiency of the Investigation and the completeness of the investigation on other cases cannot be said to be sufficient objectively."

On the same day, Mr. R13, Mr. R6 and Mr. R7 reported to Mr. R8 (CEO) that the audit firm was highly likely not to submit an audit opinion, and in that case, the ordinary general meeting of shareholders would have to be postponed.

**④ Preparation of the RHD Report (May 30, 2022)**

As it was pointed out by the audit firm that investigations for the Company W1 Report and the China Office Interim Report had only covered up to August 2021, RHD judged that it was necessary to explain the full details of this Case to the audit firm again, and prepared the RHD Report which reflected in the above reports the results of the RHD investigations, including those covering September 2021 and onwards.

On May 30, 2022, the Board of Directors of RHD passed a resolution (written resolution) to submit the RHD Report to the audit firm, and then submitted the RHD Report to the audit firm. However, the audit firm replied that it was difficult to submit an audit opinion because "The sufficiency of the Investigation and the completeness of the investigation on other cases are still not objectively sufficient."

**⑤ Establishment of the Special Investigation Committee (June 6, 2022)**

At an extraordinary meeting of the Board of Directors held on June 6, 2022, RHD resolved that (1) the Ordinary General Meeting of Shareholders scheduled to be held on June 30 of the same year should be a continuation meeting without submitting any proposals pertaining to the Financial Statements and Consolidated Financial Statements; and (2) the Company determined that it was necessary to ascertain the facts of this Case and the existence or non-existence of events similar to this Case, and would establish a Special Investigation

Committee (the Committee) composed of outside experts, etc. to conduct a fair and appropriate investigation.

## **No.3 Analysis and Review by the Committee**

### **1 Company W1 report, China office final report and RHD report**

When the Committee began to investigate this Case in question, there was a Company W1 report, a China office final report, and an RHD report. Therefore, the Committee decided to verify and identify the investigation process, the appropriateness of the scope of the investigation, and the results of the investigation and analysis of these prior reports before referring to them for analysis and examination to be done by the Committee. Shown below are the investigation method and description of the prior investigation reports.

#### **(1) Investigation method and description of the Company W1 report**

##### **① Investigation method**

According to Company W1, the investigation method used to prepare the Company W1 report was one to check e-mails (from July 2019 to September 2021) and accounting data on sales, purchases, inventories of VWPG (from January 2015 to August 2021) that were recorded on the former's server.

##### **② Identification of persons and companies involved**

The Company W1 report identifies Mr. A and his wife Ms. C as well as Mr./Ms. B, as persons involved in an illegal act.

The W1 Company Report identifies five companies, namely Companies E, F, D, G, and H, as companies involved, as a result of a review done in accordance with information such as on shareholders, officers, fax numbers, customer codes, and whether and how long they had transactions with VWPG.

Ms. C is a wholly-owning shareholder and a director<sup>14</sup> of Company D. Ms. C and Mr./Ms. B are 50% shareholders of Company E, and the latter is a director of it.

##### **③ Description of the report**

The Company W1 report identified the following five types of illegal act.

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<sup>14</sup> A director of a Hong Kong company is equivalent to a director of a Japanese joint stock company. To establish a company in Hong Kong, at least one individual (natural person) aged 18 or over is required, and he or she need not live there as there is no restriction on nationality or country of residence. A person may serve concurrently as a director and a capital contributor (shareholder). In Hong Kong, there is no position called representative director, and even if there are multiple directors, they are all registered each as a director for company registration purposes.

Type	Description of the report (original text unchanged)	Amount of loss for VWPG
1	Took away personal profit from an existing supplier or existing suppliers in relation to purchasing through a company owned by wife	US\$403,479
2	Purchased from an unknown supplier or unknown suppliers through a company owned by wife while deviating from market prices	US\$2 million or more
3	Engaged in a loss-making business of purchasing at high prices from an affiliate or subsidiary before selling at low prices	US\$1,680
4	Sold existing stock to an affiliate or subsidiary at a low price and repurchased the stock at a high price before selling it to customers as a normal product	US\$2,966
5	Sold deliberately to an affiliate or subsidiary at a loss	US\$90,961

In Type 1, it is commented that VWPG's annual purchases amounted to US\$554,567 (equivalent to 68 million yen) by placing Company D as an intermediary between the former and its existing suppliers such as ■■■ (suppliers), and thus Company D earned a profit of US\$403,479 (equivalent to 49 million yen).

In Type 2, Company D purchased semiconductor parts of ■■■ (business partner) from an unknown supplier or unknown suppliers at an unusually high price and sold them to VWPG, and "stolen profit" (loss) related to parts of ■■■ (business partner) was US\$1,708,652 (equivalent to 208 million yen), and the total loss by August 2021 is estimated to be at least US\$2 million (equivalent to 244 million yen).

In Type 3, VWPG incurred a loss (damage) by purchasing from Company E at a high price and selling to customers at a lower price, and "stolen profit" was said to be US\$1,680 (equivalent to 205,000 yen).

In Type 4, VWPG sold its existing stock to Company E at a low price before purchasing the same product from Company E or Company D at a higher price, and the loss was said to be US\$2,966 (equivalent to 362,000 yen).

In Type 5, VWPG incurred a loss (damage) by selling a product to Companies E and G at a low price, and damage was found to be US\$90,961 (equivalent to 11 million yen).

## (2) Investigation method and description of the China Office Final Report

### ① Investigation method

According to Office Y, the investigation method for the preparation of the China Office Final Report was to: i) check the Company W1 Report, transaction history documents, and e-mail exchanges; ii) obtain explanations from RHD staff in charge and Mr./Ms. R1 and comments from Mr. A (three times); and iii) check materials received from Mr. A (invoices from three suppliers of Company D [including Company E] as well as records of bank account payments to the three suppliers).

### ② Description of the report

The China Office Final Report identified the following five types of compliance breach. These five types are more or less similar to the five types identified in the Company W1 Report despite some differences.

Type	Description	Amount of loss for VWPG
1	Place Mr. A's affiliate in the commercial distribution with VWPG and its existing business partners	US\$406,183.50
2	Make Mr. A's affiliate sell a product to VWPG at a price far higher than a reference market price	US\$1,708,652
3	Make Mr. A's affiliate sell a product to VWPG at a price higher than a reference market price	US\$1,680
4	Make a product sold to Mr. A's affiliate at a low price repurchased by VWPG at a price higher than the selling price	US\$5,066.10
5	Make VWPG sell a product of residual value to Mr. A's affiliate as a waste product	US\$92,663

In Type 1, Mr. A's affiliate (Company D) was included in the commercial distribution with VWPG and its existing business partners (i.e., ■ (suppliers), and US\$406,183.50 (equivalent to 50 million yen) was said to be a profit that ought to belong to VWPG.

Type 2 was to make Mr. A's affiliate (Company D) sell a product to VWPG at a price far higher than a market reference price, and US\$1,708,652 (equivalent to 208 million) was said to be a profit that ought to belong to the latter. Subsequently, however, the report states that: i) Mr. A explained that he had first inquired with an affiliate of Company W1 only to receive

a reply saying it had been unable to supply a product to VWPG, so he had no choice but to purchase high-priced physical stock<sup>15</sup> from a third party; and ii) VWPG and RHD had been able to verify the explanation to be true. Considering these circumstances, it is reasonable to deem, as a profit that ought to belong to VWPG, the difference between the price at which the product was procured by Company D from a third party and the price at which the product was sold by Company D to VWPG, instead of the price used as the basis for calculation in the Company W1 report (the price at which Company W1's affiliate sold the product to a third party), and making such a calculation showed a profit that ought to belong to VWPG to be US\$25,984 (equivalent to 3 million yen).<sup>16</sup>

Type 3 was to make Mr. A's affiliate (Company E) sell a product to VWPG at a price higher than a market reference price, and US\$1,680 (equivalent to 205 million) was said to be a profit that ought to belong to the latter.

Type 4 was to make a product sold to Mr. A's affiliates (Companies D and E) at a low price by VWPG repurchased by it at a price higher than the selling price, and US\$5,066.10 (equivalent to 618 million yen) was said to be a profit that ought to belong to the latter.

Type 5 was to make VWPG sell a product of residual value as a waste product to Mr. A's affiliates (Companies E and G), and US\$92,663 (equivalent to 11 million) was said to be a profit that ought to belong to the former.

### **(3) Investigation method and description of the RHD Report**

#### **① Investigation method**

According to RHD, the investigation method used to prepare the RHD Report was one to: i) check the Company W1 Report and the China Office Final Report; ii) check VWPG's accounting data such as on sales, purchasing, and inventories (from January 2015 to April 2022); iii) check transaction history documents<sup>17</sup> of Company D; and iv) obtain comments from Mr. A.

The period covered by the investigation in the Company W1 Report and the China Office Final Report was up to August 2021, and the audit firm said that subsequent-period transactions had not been investigated. Therefore, an investigation was conducted for the period to April 2022.

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<sup>15</sup>Thought to mean market stock in this report

<sup>16</sup>At the same time, Mr. A was asked to submit materials serving as the grounds for his claim, but such materials were not available, so it was noted that it was difficult to submit further evidence.

<sup>17</sup>Available specifically were data provided by Mr. A on Company D's sales, gross profit and statements of sales and purchase (not complete enough due to having been prepared by Mr. A) and invoices from Company D's suppliers (however, an investigation revealed the invoices to have been written by Mr. A), and payment records for bank accounts.

## **② Report judgment**

The RHD Report reviewed transactions in accordance with types identified in the China Office Final Report, and identified Type 3 to be not in breach of compliance although identifying Types 1, 2, 4, and 5 to be in breach of compliance.

The report identified damage due to Type 2 as US\$25,984 (equivalent to 3 million yen), which was the difference between the amount of purchase by Company D and the amount of sales to VWPG. As a result of adding the amount of damage since September 2021 as investigated by Investigation PJ, the total amount of damage due to the series of improper types was found to be US\$805,805.1 (equivalent to 98 million yen).

## **2 Thinking of the Committee on entities involved**

The prior investigation reports verified to see whether there was any fraud in transactions with VWPG, targeting individuals and companies identified as persons and companies involved in the Company W1 Report.

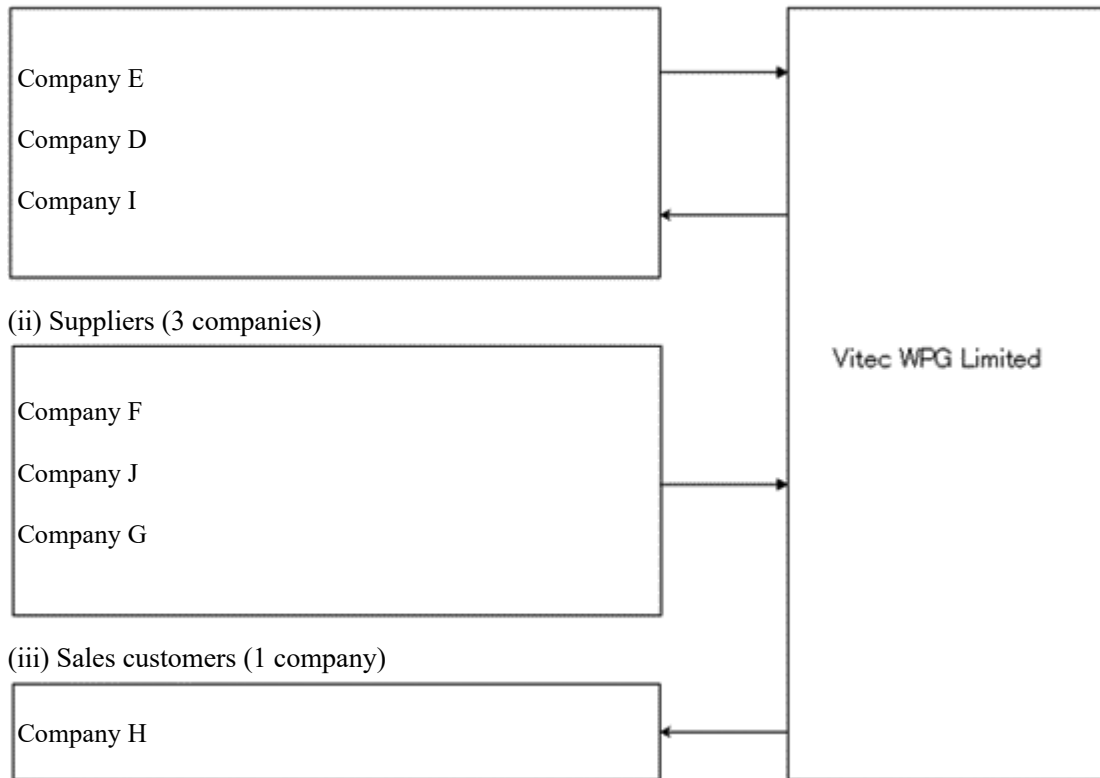
In an interview with Company W1, the Committee checked the reason why the Company W1 Report had identified the above individuals and companies as persons and companies involved, and reviewed the scope of companies involved in this Case by doing the following verification task.

### **(1) Outcome of due diligence of persons and companies involved**

As a result of conducting due diligence of persons and companies involved, it was found the following companies are ones in which Ms. C and Mr./Ms. B are thought to be involved.



(i) Suppliers and sales customers (3 companies)



(iv) No business relationship (19 companies)



**(2) About companies in which Ms. C is registered as a shareholder**

Shown below is an outline of companies of which Ms. C is a shareholder

**① About Company D**

Company D is a company established on September 24, 2018 with Ms. C as its wholly-owning shareholder and a director of it. According to Mr. A, the company was established with the assumption that Ms. C would play a central role in conducting trade-related business, and it was not established for the purpose of doing business with VWPG from the beginning.

After that, when VWPG procured market stock, the warehouse of Company W1 used by VWPG was unable to take the market stock whose two-dimensional bar code was blacked out, and VWPG found it difficult to directly deal with VWPG because of the need to substitute logistics operations and to issue purchase orders swiftly or pay in advance in order to secure products. Given this situation, Mr. A proposed procuring goods with Company D serving as an intermediary in between. After taking on September 16, 2019 the initiative to procure prototype samples before mass production from ■■■ (supplier), which had no business

relationship with VWPG, Company D sold the samples to VWPG.

At the time, Mr. A arranged for VWPG to take a business partner application procedure for Company D and obtain approval from Company W1. According to Mr. A, the procedure was taken by submitting documents required for the application, and Company D did not give any false statement of facts although it was not stated that Ms. C, the wife of Mr. A, was a director of Company D and it was a wholly-owned company of hers. According to Mr. A, he was not aware of any rule prohibiting a transaction with a company owned and operated by a relative, and was aware that arranging for a transaction to be done between VWPG and Company D after going through the business partner application procedure was not an improper act in breach of any rules.

Subsequently from around October 2019, due to the worldwide semiconductor shortage, there occurred many incidents such as delivery delays and an inability to procure parts for [REDACTED] (business partner), so an increasing number of transactions came to be done in which Company D secured market stock before selling it to VWPG (in fact, many market stock items secured by Company D included those procured through Company E). According to Mr. A, although Ms. C was a director of Company D, Mr. A made business decisions and operated the business. Ms. C had no knowledge of parts procurement and was mainly engaged in issuing invoices and arranging for deliveries. Labelling, transportation, packaging, and other operations at Company D were done by contracting them out.

## ② About Companies F and E

Company E is a private company founded in Hong Kong on October 21, 2010 and Mr./Ms. B is a director of it. Ms. C has been holding 50% of the shares of Company E since August 27, 2018, with Mr./Ms. B holding the remaining 50% of the shares, according to records from the Hong Kong Company Registry.<sup>18</sup>

Company F was a private company founded in Hong Kong as a wholly-owned subsidiary of Company E on November 18, 2013, and the former's registration was cancelled on October 22, 2021. According to the records of the company's registration prior to the cancellation, Mr./Ms. xx was a [REDACTED]. According to the records of the Hong Kong Registry Office, from April 8, 2016 Ms. C held 40% of the shares with [REDACTED] and [REDACTED] each holding 30% of the remaining shares.

As both of the two companies above are private companies, a description of their businesses

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<sup>18</sup> [https://www.icris.cr.gov.hk/csci/cns\\_search.jsp](https://www.icris.cr.gov.hk/csci/cns_search.jsp)

is not clear in the records of the Hong Kong Registry.<sup>19</sup> Since neither of the companies had an official corporate website, it was not possible to obtain general information on them.

Mr. A explained how Ms. C was registered as a shareholder of the two companies above as follows. Mr. A was introduced to Company G by ██████████ of ██████ (business partner), and became acquainted with Mr./Ms. B, a wholly-owning shareholder of the company. Afterwards, Mr. A and Ms. C became close friends of Mr./Ms. B, such as by dining together, and in such a situation, Mr./Ms. B proposed that Ms. C be made a shareholder of Mr./Ms. B's affiliate in order to engage in business in the Japanese market. According to Mr./Ms. B, although being from China, Ms. C spoke Japanese, so she was asked to serve as a shareholder. However, she was never involved in business management or operation.

Mr. A and Ms. C consented to Mr. B's proposal, but according to Mr. A, neither of Ms. C or Mr. A paid any money (capital contribution or payment of consideration for share transfer) in becoming a shareholder. However, Mr. A said he had been aware of being registered as a shareholder of Company E after receiving a proposal from Mr./Ms. B, but had been neither informed of nor made aware of being registered as a shareholder of Company F (likewise, Ms. C said she had been unaware of being registered as a shareholder of Company F).

Neither Mr. A nor Ms. C nor Mr./Ms. B has a clear memory of the time of the exchange between them. However, given that Ms. C became a shareholder of Company F in April 2016 and a 50% shareholder of Company E on August 27, 2018, it is probable that the above exchange occurred at least before or in August 2018 and possibly before or in April 2016.

A bank transaction voucher shows that Mr./Ms. B paid RMB422,720 (8 million yen) to Ms. C on February 25, 2022. Regarding the purpose of the payment, Mr. A said that he guessed that it had been some kind of reward for an increased transaction amount between VWPG and Company E, and Mr./Ms. B explained that it had been intended to be a dividend. According to Mr. A, Ms. C and Mr./Ms. B, that was the only instance in which Mr. B or his affiliate paid money to Mr. A or Ms. C.

### **(3) About group companies with which Mr./Ms. B has a relationship**

#### **① Scope of a group of companies with which Mr./Ms. B is thought to have a relationship**

Companies thought to have a relationship with Mr./Ms. B exist in Shenzhen and Hong Kong and total 24, including those to which his/her relationship was verified through due diligence

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<sup>19</sup>A Hong Kong corporation is required to file an annual return with the Hong Kong Registry Office, so its shareholders, officers and registered address are disclosed, making it possible to check change notices, but no business description is disclosed.

and digital forensics of persons and companies involved (including some of the top suppliers for VWPG in due diligence of the persons and companies involved).

The Committee has identified a group of companies thought to have a relationship with Mr./Ms. B, including not only those companies invested in by him/her but also the following companies to which Mr./Ms. B has a loose relationship. This group of companies includes the following three types.

- (a) A type of company where it is clear from company information in mainland China or Hong Kong that Mr./Ms. B was a founder, shareholder or director ("**Mr./Ms. B Group Company**").
- (b) A type of company that is shown to have a clear relationship with Mr./Ms. B ("**Company in which Mr./Ms. B Is Involved**") as Mr./Ms. B is found to interact as a member of the company.
- (c) A type of company whose founder, shareholder, or director is a person who is clearly a shareholder, director, or employee of the above-mentioned Mr./Ms. B. group or a Company related to Mr./Ms. B according to company information in mainland China or Hong Kong ("**Company Related to Mr. B**").

## **② Identify companies having transactions with VWPG**

Through examining VWPG's accounting data and digital forensics and interviewing Mr. A and other relevant persons, the Committee has verified to see whether companies belonging to the above-identified group of companies to which Mr./Ms. B is thought to be related have transactions with VWPG.

As a result, it was found that among companies belonging to the group of companies to which Mr./Ms. B is thought to be related, six companies, namely E, F, I, J, G, and H, have been found to have transactions with VWPG, as described in "3.2.1." shown above.

## **(4) Parties involved as identified by the Committee and transactions with VWPG**

In light of the result of the verification shown above, the Committee has identified seven companies, namely, Companies D, E, F, I, J, G, and HH, as "Parties Involved" in this Case.

Amounts of transactions with the parties involved that can be known from VWPG sales and purchase data are as shown in the table below. Any company not listed in this table had no transactions during the applicable period from January 1, 2015 to March 31, 2022.

Of the seven parties involved mentioned above, Companies E and F are the only companies in which Mr. and Mrs. A are involved. Therefore, the Committee decided to conduct procedures for Companies D, E, and F first, and to examine the remaining four companies in the event of

any inappropriate transaction being discovered for Company E or Company F.

VWPG sales amount															In U.S. dollars			
Company name	Fiscal 2014	Percentage	FY2015	Percentage	FY2016	Percentage	FY2017	Percentage	FY2018	Percentage	FY2019	Percentage	FY2020	Percentage	FY2021	Percentage	Total	Percentage
	c of total		c of total		c of total		c of total		c of total		c of total		c of total		c of total			
Company E	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	17,853	0.1%	438,957	1.6%	822,971	1.4%	1,279,781	0.5%
Company H	0	0.0%	0	0.0%	0	0.0%	15,183	0.0%	285,859	0.9%	0	0.0%	0	0.0%	0	0.0%	301,042	0.1%
Company I	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	98,770	0.2%	98,770	0.0%
Company D	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	36,868	0.1%	27,519	0.0%	53,887	0.0%
Subtotal (four)	0	0.0%	0	0.0%	0	0.0%	15,183	0.0%	285,859	0.9%	17,853	0.1%	465,825	1.7%	948,760	1.6%	1,733,479	0.7%
VWPG sales amount	7,447,683	100.0%	29,883,086	100.0%	30,914,658	100.0%	36,551,636	100.0%	32,798,656	100.0%	21,762,793	100.0%	26,709,869	100.0%	58,027,904	100.0%	244,096,293	100.0%

VWPG purchase amount															In U.S. dollars			
Company name	Fiscal 2014	Percentage	FY2015	Percentage	FY2016	Percentage	FY2017	Percentage	FY2018	Percentage	FY2019	Percentage	FY2020	Percentage	FY2021	Percentage	Total	Percentage
	c of total		c of total		c of total		c of total		c of total		c of total		c of total		c of total			
Company E	0	0.0%	0	0.0%	0	0.0%	0	0.0%	12,849	0.1%	484,837	3.6%	988,948	6.1%	12,958,011	27.6%	14,444,646	7.9%
Company D	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	33,720	0.2%	3,388,200	21.0%	10,483,895	22.3%	13,905,815	7.6%
Company F	0	0.0%	261,792	1.1%	1,417,673	5.8%	2,040,068	7.0%	928,372	4.1%	0	0.0%	0	0.0%	0	0.0%	4,647,906	2.5%
Company J	0	0.0%	1,178,545	4.7%	1,503,308	6.2%	1,041,633	3.6%	223,432	1.0%	15,979	0.1%	2,259	0.0%	1,895	0.0%	3,967,050	2.2%
Company I	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	24,400	0.2%	506,547	1.1%	530,947	0.3%
Company G	0	0.0%	0	0.0%	0	0.0%	222,077	0.8%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	222,077	0.1%
Subtotal (six companies)	0	0.0%	1,440,337	5.8%	2,920,981	12.0%	3,303,778	11.4%	1,164,653	5.2%	534,536	4.0%	4,403,808	27.3%	23,950,348	51.1%	37,718,441	20.7%
VWPG purchase amount	5,047,506	100.0%	24,848,141	100.0%	24,423,940	100.0%	29,003,679	100.0%	22,524,747	100.0%	13,512,311	100.0%	16,124,549	100.0%	46,911,098	100.0%	182,395,971	100.0%

\*FY2014 covers the Investigation Period from January 1 to March 31, 2015. Other fiscal years cover the accounting period from April 1 to March 31 of the following year.

### 3 Evaluation of transactions with Company E, Company F, and VWPG

#### (1) Appropriateness of internal processes for transactions with Company E, Company F, and VWPG

As discussed above, Company E and Company F ("**Company E, etc.**") are companies for which Ms. C is registered as a shareholder. However, according to Mr. A, neither Mr. A nor Ms. C has ever invested in Company E, etc., and Ms. C has never been involved in the management or business operation of Company E, etc. According to an interview with Mr./Ms. B, Ms. C was asked to be made a shareholder in order for the company to engage in business in the Japanese market given that she spoke Japanese, and Ms. C was never involved in the management of the company.

As described above, it was verified that Mr./Ms. B personally paid about RMB 420,000 (equivalent to about 8 million yen) to Ms. C's personal account in February 2022. On the meaning of this payment, Mr./Ms. B said that he had paid it as a dividend, but Mr. A explained that he had never invested in Company E, etc., and that it seemed to be some kind of reward due to the increased transaction amount between Company E and VWPG, and the facts are unknown.

However, even if Mr. A and Ms. C received some kind of reward or dividend from Mr. B, Company E, etc. is not a company in which Mr. A or Ms. C has a majority equity interest, and since neither the fact that Ms. C has assumed the post of a director or other executive nor the fact that he/she is involved in management is not recognized, Company E, etc. cannot be deemed to be a company substantially controlled by Mr. A, and the transaction between Company E, etc. and VWPG cannot be deemed to be a conflict-of-interest transaction by an employee of VWPG (Mr. A).

As will be described later, VWPG has not stipulated internal rules clearly setting forth processes such as requiring prior reporting and approval for a conflict-of-interest transaction, and the RHD Code of Conduct only stipulates compliance provisions for employees on a

conflict-of-interest transaction.

Given this, Mr. A's failure to report to VWPG that his wife, Ms. C, was a shareholder of both companies when dealing with Company E cannot be regarded as an inappropriate act in breach of the Code of Conduct.

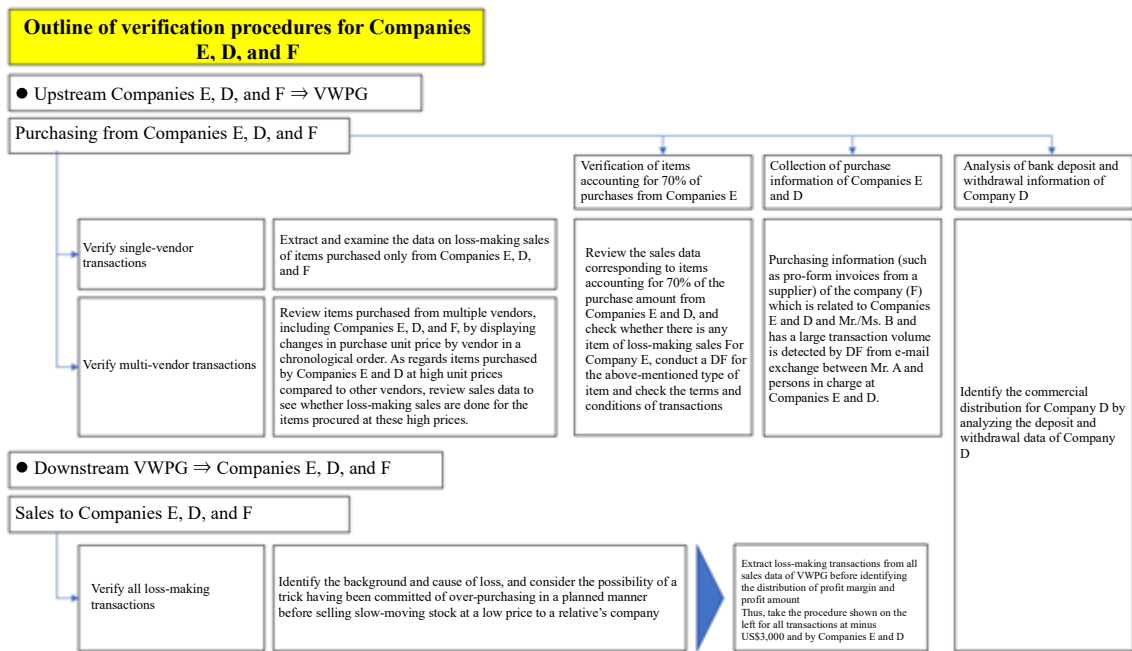
**(2) Reasonableness of transactions with Company E, Company F, or VWPG (whether damage is done to VWPG)**

Even if transactions with Company E, etc. and VWPG cannot be deemed to be inappropriate as described above, it cannot be denied that Mr. A potentially colluded with Mr./Ms. B to extract profits from VWPG, considering the fact that Ms. C was a shareholder of Company E, etc. and received about RMB420,000 (equivalent to about 8 million yen) as a reward or dividend from Mr./Ms. B. In other words, if Mr. A and Mr./Ms. B had caused damage to VWPG in collusion with each other by engaging in transactions with Company E, etc. under unreasonable terms and conditions of trade in order to benefit Mr. A or Mr./Ms. B, VWPG would have been entitled to claim compensation from Mr. A and Mr./Ms. B for the damage suffered because it fell under an unlawful act.

For this reason, the Committee decided to verify to see whether the transactions with Company E, etc. and VWPG are deemed to have been reasonable (whether damage was caused to VWPG).

**① Verification based on accounting data analysis**

The Committee verified to see whether unreasonable transactions had been conducted with Company E, etc. and VWPG by analyzing accounting data in accordance with the verification procedure shown in the chart below (as a similar verification was carried out for transactions with Company D and VWPG, Company D is also shown in the chart below).



This verification procedure has been formulated in consideration of the following points.

First, transactions between Company E, etc. and VWPG comprise ones in which Company E, etc. becomes a supplier for VWPG (upstream transaction) and ones in which Company E, etc. becomes a customer of VWPG (downstream transaction), so we formulated procedures separately for them as shown in the chart above.

When Company E, etc. becomes a supplier for VWPG (upstream transaction), the end users for VWPG make a procurement offer to companies other than RHD group companies. If Company E, etc. sells to VWPG a product with a profit margin above a level normally tolerated, VWPG and the RHD Group will set a selling price by adding a margin further, so the end user would likely procure from another company instead of placing an order with the RHD Group. In other words, under the market mechanism for semiconductor components, Company E, etc. is also indirectly involved in sales competition for end users, and as long as VWPG can sell to end users a product with a certain profit, the level of selling price of Company E, etc. for VWPG is thought to be within an appropriate range.

Therefore, the Committee decided to proceed with the verification while paying attention to transactions in which VWPG recorded a loss (a type of transaction is assumed in which the purchase price of VWPG is set so that Company E, etc. was able to record a large amount of profit while effecting a transaction by keeping the selling price of VWPG at a level tolerable to the RHD Group and the end user, causing damage to VWPG).

Specifically, we examined to see whether loss-making transactions were included in sales transactions for product items accounting for 70% of purchases from Company E, and identified the outline of transactions by using digital forensics. In addition, in another



approach, we defined a transaction with a single product item supplier as a "single-vendor transaction" and a transaction with multiple product item suppliers as a "multi-vendor transaction." For multi-vendor transactions, we conducted unit price transition analysis by supplier for each of the product items to extract transactions in which the selling prices of Company E, etc. were higher compared to other suppliers. For single-vendor transactions, we extracted loss-making transactions before verifying the sales data.<sup>20</sup>

As a result of the verification procedures described above, VWPG was found to have been able to earn a certain amount of profit in upper-stream sales transactions of items purchased from Company E, etc. to customers, except for loss-making transactions prone to occur due to circumstances such as the need to purchase market stock at high prices in order to meet a deadline, and no transaction improperly causing a loss to VWPG was detected.

Next, in cases where Company E, etc. becomes a sales customer (downstream transaction), causing a loss to VWPG is thought to involve a relatively high risk of making it an improper transaction. Therefore, we verified all loss-making transactions of sales to Company E, etc. and any sales transaction by VWPG that recorded a loss of US\$3,000 (equivalent to 366,000 yen) or more (including transactions in which product items purchased from Company E, etc. were sold). As a result, although recording a loss, downstream transactions were found to be ones that were reasonable to a certain extent as described in "3.4. (2)" below.

## ② Verification based on digital forensics and interviews

As regards transactions between Company E, etc. and VWPG, in accordance with digital forensics and interviews, the Committee verified to see whether there was any circumstance causing suspicion of collusion between Mr. A and Mr./Ms. B, or whether there was any fact indicating a possibility of any unreasonable transaction being done.

As a result, we did not discover any fact that would cause suspicion of any collusion between Mr. A and Mr./Ms. B. We rather found multiple facts testifying to the reasonableness of having transactions with Company E, etc., as shown below.

First, Company E entered into the commercial distribution between VWPG and ■ (supplier) in a transaction in which REC purchased market stock from ■ (supplier) through VWPG. However, in this case, the REC staff member in charge was aware not only of Company E entering into the commercial distribution but also of the unit price at which Company E purchased from ■ (supplier) and the profit margin earned by Company E, and Mr. A was not found to have arbitrarily set or manipulated the purchase unit price for VWPG.

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<sup>20</sup> Since VWPG sales data and purchase data were not linked to each other by a certain key code, making it impossible for them to be mechanically related to each other, we verified by linking the transactions for the two data sets, based on suppliers, product items, timing, and quantity.

Moreover, as far as the detected transactions are concerned, the profit margin earned by VWPG in transactions in which Company E entered into the commercial distribution was approx. ■■■■, which is not thought to be particularly abnormal compared to a sales transaction profit margin ■■■% earned by VWPG through transactions with other suppliers.

It was also found that, when VWPG was requested by a customer to arrange for market stock, other suppliers were unable to procure in a quantity and at unit prices ordered by VWPG due to soaring market prices and requested an order cancellation. Then, Company E used its own procurement network to procure from the market a quantity including that of other suppliers who requested the cancellation and deliver it to VWPG.

We also found facts showing the background to placing Company E as an intermediary company between VWPG and suppliers in order to procure goods quickly given that, in purchasing market stock, there were suppliers demanding payment in renminbi, not U.S. dollars (which is the settlement currency for VWPG), as well as suppliers demanding advance payment.

### **③ Brief summary**

As described above, no unreasonable transactions were detected in the accounting data analysis for transactions between Company E, etc. and VWPG, and no collusion between Mr. A and Mr./Ms. B was found by way of digital forensics and interviews. Rather, we detected multiple facts showing the reasonableness of placing Company E, etc. in the commercial distribution.

In light of these verifications, we at the Committee are unable to say any damage was caused to VWPG as it did not detect any unreasonable point in transactions between Company E, etc. and VWPG.

## **4 Assessment of transactions between D and VWPG**

### **(1) Appropriateness of internal processes for transactions between Company D and VWPG**

Company D is a company of which Ms. C is a wholly-owning shareholder and a director. According to interviews with Mr. A, although Ms. C is a director of Company D, mainly Mr. A has been making management decisions and running the business, so the company can be deemed to be controlled in effect by Mr. A.

Given the above, VWPG's transactions with Company D are ones with a company controlled by Mr. A, an employee of VWPG, so they can be regarded as conflict-of-interest transactions by the employee.

However, when Mr. A registered Company D as a new business partner of VWPG, he did not declare that Company D was a company controlled by himself (a company of which Ms. C was a wholly-owning shareholder and a director), and he did not declare the fact in subsequent individual transactions.

In this regard, Mr. A explained that VWPG did not do business with Company D for the benefit of the latter, but rather for the purpose of expanding VWPG's business by fulfilling the roles that VWPG cannot perform, such as: i) labeling outer boxes among market stock items at a customer's request; ii) substituting logistics operations; and iii) issuing order forms quickly to secure the market stock and making advance payments. He also explained that he did not think it problematic for Company D to have transactions with VWPG in relation to the provisions of internal rules of VWPG.

Indeed, as a result of the investigations conducted by the Committee, we discovered emails and other materials testifying to parts of Mr. A's explanation, while not finding any evidence showing the explanation to be false. Therefore, we think it is true that transactions involving Company D were done partly for the purpose of expanding the business of VWPG.

In addition, VWPG neither prohibits employees from engaging in conflict-of-interest transactions nor has in place any internal rules clearly stipulating processes such as requiring prior reporting of, and approval for, a conflict-of-interest transaction. Moreover, VWPG entered into a business outsourcing agreement with Company W1, and uses its systems to take a registration procedure for new business partners. However, VWPG does not have a system in place to declare in the procedure whether or not a newly registered business partner is a company involving an employee.

However, on the other hand, as VWPG belongs to the RHD Group, VWPG employees are obligated to comply with the RHD Group Code of Conduct. The section titled "16.Conflicts of Interest and Distinction between Public and Private Spheres ," among compliance matters of the code, states, " We will not perform any action that creates or may possibly create a conflict of interest with the RESTAR Group, such as prioritizing personal gain. .

Mr. A, being an employee of REC who was sent on loan to VWPG, is evidently obligated to comply with the RHD Code of Conduct. Therefore, even if VWPG has no clear rules in place on internal processes for employees' conflict-of-interest transactions, it was an improper act for him to enter into transactions with VWPG without disclosing that the new business partner was a company controlled by him and to earn certain profit from the transactions (even if it was within a reasonable scope as a business). We think this remains the case even though VWPG entered into transactions with Company D in order to expand the business of the former, as explained by Mr. A.

## **(2) Reasonableness of transactions between Company D and VWPG**

As described above, transactions between Company D and VWPG are deemed to have been improper acts in that they were done despite being conflict-of-interest transactions by Mr. A, an employee of VWPG, and without disclosing the fact to VWPG.

However, it is necessary to separately examine whether or not details of transactions between Company D and VWPG were reasonable and whether or not VWPG suffered damage in the transactions.

Thus, the Committee verified the reasonableness of transactions between Company D and VWPG after a process of checking the accounting data of VWPG and e-mail data obtained through digital forensics (including the procedure of the chart on page 39) and of having multiple interviews with parties related to VWPG, RSC, and REC. The result of the verification is as follows (some transactions with Company E were also verified as it was done in accordance with types specified in the prior investigation reports).

### ① Type 1

Type 1 is a type of transaction in which Company D earned a profit by intermediating in a transaction with an existing VWPG supplier.

According to the Company W1 report, from January 2015 to August 2021, VWPG conducted 21 purchasing transactions (60 transactions) with the following five existing VWPG suppliers (those deemed to have been registered as VWPG suppliers) via Company D, and profit (damage to VWPG) earned by Company D amounted to US\$403,479 (equivalent to 49 million yen).

The China Office Final Report, like the W1 Company Report, claims that Company D improperly earned US\$406,183.5 (equivalent to 50 million yen) in profit via 21 transactions (60 transactions) with five existing VWPG suppliers up to August 2021.

In addition, the RHD Report says that lost profit for VWPG was a total of US\$708,076 (equivalent to 86 million yen), an amount of profit that Company D earned as VWPG purchased goods from six existing suppliers (five companies combined with the Company E) via Company D. Deducting US\$406,183.5 (equivalent to 50 million yen), the amount of lost profit up to August 2021 as calculated in the China Office Final Report above set the amount of lost profit for the period from September 2021 to March 2022 at US\$301,892.5 (equivalent to 37 million yen).

Due to a discrepancy in lost profit amount in Type 1 in the prior investigation reports, the Committee checked the calculation processes. As a result, we realized there were no provisional invoices for transactions with all existing suppliers, making it impossible to do a comprehensive verification, given that: i) the amount of lost profit in the RHD report was calculated based on the amounts of sales and gross profit of Company D prepared by Mr. A,

but Company D did not prepare an accounting book, and the amounts of sales and gross profit of Company D prepared by Mr. A were prepared based only on the amounts of bank deposit and withdrawal statements of Company D; ii) there was a large difference between the amount of sales to VWPG included in the sales of Company D's Audit Report for the fiscal year ended March 2021 and the amount of purchase from Company D listed in the accounting book of VWPG (Company D's sales amount to VWPG was calculated on a cash basis based on receipts, and the amount received in April 2021 and the amount not yet received were not reflected in Company D's sales amount); and iii) the Company W1 report extracted emails between Mr. A and staff in charge at five existing suppliers before calculating the amount of lost profit by identifying purchase amounts of Company D in accordance with attached proforma invoices ("**Provisional Invoices**").

As described above, an accurate amount of lost profit in Type 1 is unable to be calculated as the calculation processes of all the prior investigation reports were insufficient.

In essence, however, transactions in Type 1 were those in which Company D earned profit by intermediating in transactions with VWPG's existing business partners, and it is possible to classify them into Type 2 given that Company D unjustly earned a profit by causing a loss to VWPG due to transactions between VWPG and Company D.

Therefore, the Committee does not need to consider whether transactions with VWPG were reasonable and whether damage was caused to VWPG, by using Type 1 as an independent type. For Type 2, the Committee decided to consider cases, including ones in which Company D intermediated in transactions with existing VWPG suppliers.

## ② Type 2

Type 2 is a type of transaction in which Company D, a party involved for Mr. A, sold a product to VWPG at a price higher than a market reference price (the price at which Company W2, an affiliate of Company W1, sold it to a third party).

In the Company W1 Report, lost profit for VWPG was calculated to be US\$1,708,652 (equivalent to 208 million yen), the difference between the price of purchase from Company D and market reference price.

In comparison, the China Office Final Report says that Mr. A explained that profit (the difference between the sales and purchase of Company D) earned by Company D through the transaction was US\$25,984 (equivalent to 3 million yen) because Company D had initially asked Company W2 about supply of the product, but it refused to supply it, so Company D was compelled to obtain approval from REC and procure high-priced market stock goods.

The RHD Report says the loss for VWPG was US\$25,984 (equivalent to 3 million yen), a profit earned by Company D because it was found that VWPG had ordered market stock goods

after obtaining approval from an end customer although the price at which it had purchased from Company D was "far higher than the market reference price."

As described above, there was a large discrepancy between the amount of damage shown in the W1 Company Report and amount of damage stated in the China Office Final Report and the RHD Report. Therefore, the Committee verified to see whether or not Mr. A's explanation was true through digital forensics and interviews with the people concerned, and this revealed that, as Mr. A stated, Company D had initially asked Company W2 about supply only to be refused.

This showed that Mr. A's explanation was not false, but on the other hand, according to his explanation, most of the market stock goods procured by Company D must have been purchased from Company E. However, statements of Company D's bank deposits and withdrawals that Mr. A provided to the Committee showed that Company D remitted cash to several companies other than Company E. On the reason why these remittances were done, Mr. A explained, was that Company D procured market stock goods from Company E and had trade payables to Company E, and that Mr. B instructed him to remit cash to not only Company E directly but also to 32 companies designated by Company E (Mr./Ms. B) (as described in Exhibit 4, "32 cash recipient companies designated by Company E (Mr./Ms. B)"), and that he paid obligations to Company E by paying trade payables as instructed by Mr./Ms. B. In this regard, we were able to confirm that there was such a fact from Mr./Ms. B. There was no particularly unreasonable point in Mr. A's explanation and no inconsistency was found in documents obtained by the Committee.

As a result of the verification described above, the Committee has not found any unreasonable point in Mr. A's explanation, and has judged that the transactions of Type 2 were those in which VWPG was requested by REC to purchase and procure, and after obtaining approval from the customer for procuring high-priced market stock goods, Company D purchased them from Company E and other suppliers, and sold them to VWPG. In other words, the Committee has judged that there was no unreasonable point in the transactions falling under Type 2 (including Type 1 transactions).

In that case, even if VWPG incurred damage as a result of the series of transactions, it must have been limited to profit earned by Company D (the difference between Company D's sales and purchases) from the transactions, instead of the difference between the unit price of purchases from Company D and a market reference price (the price at which Company W2, an affiliate of Company W1, sold to a third party).

However, according to Mr. A's explanation, there was no invoice between Company D and Company E, a main product supplier for it, and Company D did not prepare accounting books, so it is difficult to accurately identify and organize purchase amounts corresponding to Company D's sales to VWPG. Vouchers used for calculating profit earned by Company D in

the investigation by RHD (which were claimed to be invoices from Company E) were prepared by Mr. A himself when preparing the Audit Report, so they are not credible as evidence.

The points discussed above show that, although Mr. A explained that the amount of profit (the difference between purchase and sales) earned by Company D was US\$25,984 (equivalent to 3 million yen), there is no credible evidence to prove this, making it difficult to verify the validity of the amount. In addition, in the absence of Company D's accounting books and related evidence, the profit earned by Company D is difficult to calculate on the basis of the vouchers for its sales and purchases.

For this reason, the Committee has decided to calculate profit earned by Company D through transactions with VWPG (including profit not only from Type 2 but also from Type 1) in accordance with data on Company D's bank deposits and withdrawals, instead of calculating the profit on a cumulative basis. Details of the calculation method are as described in "3.4. (3)" below.

### ③ Type 3

Type 3 is a type of transaction in which Company E, a party involved for Mr. A, sold a product to VWPG at a price higher than a market reference price.

The W1 Company Report and the China Office Final Report specify as Type 3 four transactions in which VWPG ultimately made loss-making sales by purchasing from Company E, and the lost profit for VWPG was calculated to be US\$1,680 (equivalent to 205,000 yen), which was the difference between the price for purchase from Company E and a reference market price.

On the other hand, the RHD Report has judged that was not in breach of compliance as, although the price was higher than a market reference price, the market stock goods have been proven to have been procured after obtaining approval within VWPG in order to meet the delivery date for the end customer.

The Committee investigated this point and received an explanation from Mr. A that these four transactions resulted in loss-making sales because VWPG was forced to procure high-priced market stock goods in order to meet the delivery date, or because the company had no choice but to sell at a low price as products delivered after the delivery date became slow to move in the end.

In order to verify the above-mentioned explanation by Mr. A, the Committee interviewed Mr./Ms. R1 and VWPG staff and examined accounting data of the company such as sales data and purchase data with the result that we discovered neither any data contradicting the explanation nor any unreasonable point for the explanation.

We also verified that the above-mentioned transactions included ones in which the person in charge of purchasing was a person other than Mr. A and he was in a situation making it difficult to intentionally manipulate the purchase price.

In addition, no unreasonable point was discovered in the transactions between VWPG and Company E, and no damage was found to have been done to VWPG, as verified in Section 3.3 (2) above.

Given these points, the Committee has concluded that the transactions falling under Type 3 were not unreasonable as Mr. A has not been found to have intentionally arranged for Company E to sell a product to VWPG at a high price.

#### ④ Type 4

Type 4 is a type of transaction in which a product that VWPG had sold to Company E at a low price was repurchased by VWPG from Company E or Company D at a price higher than the selling price.

The Company W1 Report, noting that VWPG repurchased from Company E the product the former had sold to the latter and resold it other companies (including Company D), has concluded that the difference in value of the transactions with Company E was lost profit for VWPG. For an instance in which a product previously sold to Company E was later purchased from Company D, the report has concluded that lost profit for VWPG was US\$2,966 (equivalent to 362,000 yen), which was the difference between the price for the sale to Company E and the price for the purchase from Company D, while suspecting that Companies D and E earned a profit in connection with the difference between the price for the sale by VWPG to Company E and the price for the sale by Company D to VWPG.

The China Office Final Report identified a lost profit of US\$5,066.10 (equivalent to 618,000 yen) from four transactions comprising transactions cited in the Company W1 Report and an additional transaction.

The RHD Report, identifying a lost profit of the same amount, concluded that these transactions were circular transactions.

As described above, the prior investigation reports have concluded that Type 4 was in breach of compliance and that VWPG suffered a lost profit. The Committee checked four transactions specified in the prior investigation reports as Type 4 and received an explanation from Mr. A as follows. i) The person in charge of the purchase transaction in a repurchase from Company E was a person other than Mr. A and he was not involved in the sale to Company E. ii) VWPG recorded a certain profit margin from the sale to other business partners following the repurchase. iii) There was one instance in which the repurchased product was sold to Company D at a loss. This was a result of the fact that VWPG had placed



an advance order in expectation of demand from ■■■ (business partner) only to see the stock become slow to move due to the loss of demand, affected by COVID-19. The person in charge of the purchasing was a person other than Mr. A and he was not involved in the slow-moving stock issue and. And iv) with regard to the transaction in which the same item as the product item sold to Company E was purchased from Company D, it was a transaction in which the market stock item was purchased from Company D due to a procurement shortage in meeting an order from EMS next month (the transaction was unrelated to the sale to Company E).

To verify the explanation by Mr. A, the Committee interviewed Mr./Ms. R1 and VWPG staff, and examined accounting data of VWPG such as sales data and purchase data, and found neither any data contradicting the explanation nor any point unreasonable for the explanation.

In light of the investigation above, the Committee has concluded that the transactions deemed to fall under Type 4 did not have any unreasonable point (including the fact that the transactions were circular transactions).

## ⑤ Type 5

Type 5 is a type of transaction in which a product of value of VWPG was sold to Company E etc. as a waste product.

The Company W1 Report points out that stock purchased due to a trade indication by a company related to Mr./Ms. B became slow to move before being sold to Company E at a loss. This is pointed out seemingly due to a suspicion that Mr. A earned an improper profit by intentionally giving rise to slow-moving stock before taking it at a low price at the time of disposal.

The China Office Final Report and the RHD Report identified a lost profit of US\$92,663 (equivalent to 11 million yen), a loss from stock disposal via seven transactions for selling products of value to Mr. A's affiliate as waste products.

As described above, in the prior investigation reports, it is consistent that VWPG suffered damage due to a Type 5 transaction. The Committee has checked the facts and received an explanation from Mr. A that, in all the transactions, purchases were made when there was a shortage of market stock goods (■■■ products) in the ■■■ (business partner) business, but subsequently the products went out of use due to a design change for a product model (■■■ model), so he arranged for the slow-moving stock to be taken. In one of the seven transactions, the products were sold by adding a profit margin of approx. ■■■% to the purchase unit price because Company H showed an interest in them. The transaction was neither a disposal of slow-moving stock nor a loss-making sale.

The Committee verified the explanation by Mr. A based on interviews with Mr./Ms. R1 and VWPG staff and accounting data of VWPG such as sales data and purchase data, and found

neither any data contradicting the explanation nor any unreasonable point.

As described in "Section 3.3 (2) i" the Committee also checked all loss-making sales done to Company D and Company E in addition to the transactions shown in the RHD Report. As a result, we discovered several similar loss-making sales related to a disposal of slow-moving stock. A verification done based on interviews with Mr./Ms. R1 and a review of the accounting data of VWPG found no unreasonable point about Mr. A's explanation that the slow-moving stock was sold at a loss in all the transactions.

In light of the above, the Committee has concluded that the transactions deemed to fall under Type 4 did not have any unreasonable point.

### **⑥ Brief summary**

As described above, as a result of a review of transactions in Type 1 through Type 5 arranged in the prior investigation reports, the Committee has concluded that there was no unreasonable point in each transaction done as a supplier or a sales customer with VWPG.

### **(3) Profit earned by Company D through transactions with VWPG and whether damage was caused to VWPG**

Although we have not discovered any unreasonable point in transactions of Type 1 through Type 5, an improper act is found to have been committed by Mr. A earning a profit at Company D by arranging for a transaction between it and VWPG without disclosing to the firm that Company D was a company of his relative, despite being a manager of the Shenzhen branch of VWPG described in "3.4.(1)" above. In other words, even though the transaction done by Company D with VWPG was free of any unreasonable point, it is fair to claim that the profit earned by Company D from the transaction with VWPG should have essentially belonged to VWPG and it suffered a lost profit.

### **① Amount of profit earned by Company D through the transaction with VWPG**

From such a viewpoint, the Committee first examined the profit earned by Company D through the transaction with VWPG. However, there was no invoice between Company D and Company E, a main product supplier for it, and Company D did not prepare accounting books, so it is difficult to accurately identify and organize purchase amounts corresponding to Company D's sales to VWPG. Therefore, the amount of profit earned by Company D is unable to be calculated in accordance with vouchers for sales and purchasing amounts on a combined basis.

For this reason, the Committee calculated the amount of profit earned by Company D through the transaction with VWPG to be approx. 113 million yen, as shown in the following table, in accordance with data submitted by Mr. A, including the deposit-withdrawal transaction table for the bank account of Company D between May 2019 and the end of June 2022, including: i) the balance of deposits and withdrawals from the bank; ii) outstanding claims to VWPG; iii) an amount equivalent to profit earned by Company D through its own transactions; iv) an amount of payment for investment-type insurance; and v) an amount of payment in renminbi from Ms. C's account to Mr./Ms. B.

	Description	Period	Amount
1	Balance of bank deposits and withdrawals of Company D	June 30, 2022	US\$848,467.94 (104 million yen)
			HKD41,157.41 (659,000 yen)
2			Company D's outstanding claim to VWPG
3	Amount equivalent to profit generated by Company D's own transactions (other than transactions with VWPG)		-US\$57,479 (-7 million yen)
4	Payment for investment-type insurance	April 2021	HKD93,703.58 (1 million yen)
5	The amount of individual burden assumed for a purchase by Company D where Ms. C paid to Mr./Ms. B from her personal account <sup>21</sup>	February, March, and October 2021	-1.97 million renminbi (Equivalent to -37 million yen)
Total amount (total amount after translation into Japanese yen)			112,659,000 yen

Of the above, an amount equivalent to profit generated by Company D's own transactions (other than transactions with VWPG) was calculated by multiplying the amount paid by Company D in each fiscal year other than that from VWPG by a margin ratio as follows.

#### Company D

Amount received by Company D in each fiscal year					In U.S. dollars
Purchaser	FY2019	FY2020	FY2021	Fiscal 2022*	Total
VWPG					
Other					

<sup>21</sup> An investigation by the Committee found that RMB1.97 million (equivalent to 37 million yen) had been paid from Ms. C's personal account to Mr./Ms. B's account in February, March and October 2021. According to explanations by Mr. A and Ms. C, Company D was required to pay in renminbi for products purchased from Company E, but Company D could not pay in renminbi due to having no renminbi account, so they arranged for an advance payment to be made from Mr. C's personal account. The Committee found neither any particular unreasonable point in Mr. A's explanation nor any inconsistency with the materials it obtained. Therefore, the Committee determined that it was appropriate to deduct the above amount paid to Mr. B's account from Ms. C's personal account when calculating the amount of profit obtained by Company D through transactions with VWPG in accordance with Company D's bank deposits and withdrawals.

Total	
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Sales and gross margin of Company D (RHD Report, page 14) In U.S. dollars

Purchaser	FY2019	FY2020	FY2021	Fiscal 2022*	Total
Sales (excluding sales to VWPG)					
Gross margin (excluding gross margin from VWPG)					
Gross margin ratio (excluding gross margin ratio from VWPG)					

Amount equivalent to profit generated by Company D's own transactions (other than transactions with VWPG) In U.S. dollars

Purchaser	FY2019	FY2020	FY2021	Fiscal 2022*	Total
Gross margin (excluding gross margin from VWPG)	8,943	29,963	11,567	7,006	57,479

\*For fiscal 2022, the investigation period from April 1 to June 30, 2022 is targeted.

## ② Whether damage was caused to VWPG

On the other hand, Mr. A claims that Company D played a certain role in transactions with VWPG and no damage was caused to it. The Committee also verified the role of Company D as claimed by Mr. A because a loss of profit is not deemed to have been caused to VWPG as long as Company D earned legitimate profit as consideration for providing a fair service despite earning a profit from transactions with VWPG.

The role played by Company D as claimed by Mr. A was to: i) label the outer boxes of market stock goods at a customer's request; ii) substitute logistics operations; and iii) issue order forms quickly to secure market stock goods and make advance payments.

First of all, with respect to task i, when purchasing market stock goods, ■■■, a business partner of VWPG, was required to attach a label on the outer boxes of products to clearly show them to be such as a means of distinguishing them from regular products. However, due to quality control requirements, VWPG was unable to carry out the task in question or contract out the task, so Company D performed it (in other words, Company D needed to be involved in the transaction). According to Mr. A, VWPG was able to deal with the procurement transaction on market stock goods from ■■■ (business partner) by contracting out the labeling work to a warehouse operator used by Company D and to Company E.

Next, with regard to task ii, to quickly carry out deliveries to customers, it was necessary to use a warehouse operator in a contract with Company D as, if going through a VWPG warehouse, warehouse arrival and shipment took many days unavoidably due to staff shortages amid COVID-19.

Moreover, with regard to task iii, to secure market stock goods required a company to promptly issue a purchase order or make an advance payment. However, in order for VWPG to make an advance payment, it had to obtain approval taking about one week (approval from the Chairman of Company W2 was needed). So, VWPG was required to enter into the transaction in order to promptly issue a purchase order and make an advance payment.

The circumstances described above concerning the necessity of Company D in the transaction of VWPG by Mr. A were fairly reasonable, and there was no notable inconsistency in the materials obtained by the Committee, facts it checked, and explanations given by other parties involved. Although we do not go so far as to admit it was indispensable for VWPG to involve Company D in all transactions, it was quite likely that company D to a certain extent played a role useful for VWPG.

Thus, even though Company D earned a profit as described above from the transaction with VWPG, it is difficult to claim that the whole profit was earned by Company D illegitimately and constituted a lost profit for VWPG. Therefore, the Committee refrains from judging whether any damage (lost profit) was caused to VWPG from the transaction with Company D.

## **5 Suspicions of impropriety and non-compliance discovered through an unrelated investigation**

In a questionnaire survey conducted by the Committee, information was provided that an overseas subsidiary other than VWPG had been heard to engage in loss-making sales transactions with a company involved in by the relative of an employee. With regard to the suspicion shown in the questionnaire survey, the Committee obtained the transaction data of the subsidiary and deposit and withdrawal data of its bank account to closely examine to see whether there had been any fraudulent loss-making sales transaction. The result was that we did not identify any material or circumstance exhibiting fraud.

From a viewpoint of protecting information providers, we decided to greatly simplify the description of this section in the published version of this report.

## **No.4 Causal analysis**

### **1 Internal management system, etc. of VWPG**

#### **(1) Flawed internal management system concerning conflict-of-interest transactions**

As stated in No. 3 above, in this Case, it is impossible to determine the amount of damage VWPG suffered from the transactions with Company D. However, the transactions were executed with a company virtually controlled by a VWPG employee without prior consent from an authorized approver in VWPG, which is recognized as an inappropriate act that violates the RHD Group Code of Conduct (even if it was for the purpose of facilitating VWPG's business).

The direct factor that resulted in this improper act can be that VWPG's internal management system concerning conflict-of-interest transactions was insufficient.

The Committee asked questions to Mr. A and local employees in an interview about VWPG's investigation process and internal rules, etc. They commented on the screening process of W1's system, but hardly explained VWPG's screening and approval process. They said that they didn't submit VWPG's internal regulations, and moreover, there are no written regulations. Mr. A and the local employees seemed to have recognized that W1 Group's screening process and internal rules shall apply to their operation. In fact, some local employees clearly explained that W1 Group's rules shall apply to their operation.

However, personnel of the W1 group said that VWPG is a subsidiary of the RHD Group at present and is allowed to use W1's system due to the operational service contract, but it is within the scope of operational support. The person said that the ultimate decision-maker in VWPG's screening and approval process is Mr. R1, the head of VWPG. Actually, according to Mr. A, viewing W1 Group's internal rules, etc. from a personal computer of VWPG, to which Mr. A belongs, is not allowed. This suggests that, as of April 26, 2016 when the RHD Group acquired VWPG, W1 Group positioned VWPG out of the scope of W1 Group's screening and approval process.

In addition, the W1's system used by VWPG based on the operational service consignment agreement had no process to verify whether a newly registered client has a relationship with W1 employees or their relatives, and therefore, any company was allowed to registered in accordance with a normal procedure, regardless of such a relationship.

This shows that VWPG has not put in place a clear screening process and internal rules, etc. to protect its employees from conducting conflict-of-interest transactions, has no systematic process to verify conflict-of-interest transactions, and has not established an internal management system to avoid such transactions. This is why the transaction with a company run by a family member of Mr. A (Company D), which was found by the investigation, is not considered to be a violation of individual internal rules but only a violation of the RHD Group's

Code of Conduct.

The Committee concluded that Mr. A's inappropriate act was not avoided directly because an internal management system concerning conflict-of-interest transactions was not established.

## **(2) Lack of enforcement of the Code of Conduct**

As stated above, although VWPG had no internal management system concerning conflict-of-interest transactions, the RHD Group's Code of Conduct prohibits employees from conducting such transactions.

The problem is that the RHD Group's Code of Conduct was not thoroughly known by VWPG employees, and therefore they were not aware of it clearly.

In fact, in the Committee's interview, Mr. A said that he didn't think he should refrain from conducting a transaction with Company D, of which his wife Ms. C is a 100% shareholder and a board member, partly because the system accepted Company D through a normal procedure.<sup>22</sup>

It is true in a sense that a conflict of interest must be avoided in a transaction with a company run by a family member, but transactions which have economic rationality may not have to be prohibited uniformly. While a certain regulation concerning conflict-of-interest transactions can be made in the contractor screening process, it may not perfectly prevent the occurrence of such a transaction. Finally, it is up to the ethical standards of individual employees.

What is important in such cases is to thoroughly familiarize people with the Code of Conduct, etc., but the RHD Group's Code of Conduct has not been made thoroughly known to VWPG. This may be one of the factors resulting in Mr. A's improper behavior.

## **(3) RHD had not established an appropriate management system when VWPG became a subsidiary of RHD.**

As stated above, there is no denying that VWPG's internal management system concerning conflict-of-interest transactions was not established, and the Code of Conduct was not thoroughly known. This is probably due to the fact that RHD (then Vitec) did not establish an appropriate management system when VWPG became a subsidiary of RHD.

VWPG was initially a joint venture between Company M1 and the W1 Group, and a subsidiary of the W1 Group, a majority of shares of which were owned by Company W2. After Vitec acquired VWPG shares from Company M1 in 2014, VWPG continued to be a subsidiary

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<sup>22</sup> However, when Mr. A worked for VWPG when the company was a subsidiary of the W1 Group, the W1 Group's "Employee Code Regulations" stipulated "Do not use your public status or position for private purposes, and do not give accommodation in your duties for the sake of others or yourself." Therefore, VWPG is considered to have failed to familiarize employees thoroughly with the Code of Conduct, etc. even before the RHD Group acquired a majority of the shares of VWPG, or it is likely that Mr. A had little understanding of the Code of Conduct, etc. because of his carelessness.

of the W1 Group, and its operation was equivalent to that of the W1 Group's sales team targeting Japanese companies. Specifically, before the majority of shares were taken over by Vitec, some of W1's offices were rented to VWPG, and all the employees except for two Japanese (Mr. R1 and Mr. A) on loan from Vitec were locally hired employees or shared employees from Company W1, who used the W1 Group's system for their operation.

Vitec acquired a majority of shares in VWPG and became the majority parent company of VWPG on April 26, 2016. However, it was reported that VWPG's operational management system remained unchanged, and its internal management system and internal rules were not confirmed by Vitec. The Committee's interview confirmed that VWPG thought that its operation was managed appropriately using the W1 Group's system.

However, the RHD Group must have been responsible, as the majority parent company, for its subsidiary management, by confirming VWPG's screening process and establishing an appropriate management system for VWPG. While the RHD Group may have treated the situation lightly and thought that the W1 Group's screening process provided appropriate management, the W1 Group thought that the RHD Group, a majority stakeholder, was responsible for managing VWPG's operation (it was natural for the W1 Group to think so because VWPG was then under the control of the RHD Group). As a result, both of the Groups managed VWPG improperly, or almost neglected the company. The Committee must say that the RHD Group failed to establish an appropriate subsidiary management system when the Group acquired VWPG.

## **2 RHD Group's subsidiary management system**

### **(1) Organizational position and operational position were inconsistent.**

VWPG is a subsidiary of RSC in the RHD Group. VWPG was formerly a subsidiary of Vitec Holding, and later, VWPG shares were transferred to PTT from Vitec Holding for the purpose of strengthening the procurement consignment business base of PTT (present RSC), taking into consideration the compatibility of VWPG's ■■■ (business partner) business with the procurement consignment business. This is how VWPG became a subsidiary of RSC.

However, as the ■■■ (business partner) business shrank later, VWPG now mainly engages in purchase and procurement of semiconductor components under instructions from REC, instead of the procurement consignment business. In other words, though VWPG was officially a subsidiary of RSC, the company was deemed to operate as was instructed by REC. As a result, the RHD Group's information-sharing and subsidiary management was not appropriate.

Specifically, VWPG reported data of monthly purchases and procurement, etc. to its parent company RSC, but in the procurement consignment business, suppliers and components, etc. to



buy were designated by a customer. To this end, it was unlikely that RSC personnel strongly doubted when the purchase amount of a specific customer jumped up. For example, Mr. R5, Representative Director of RSC, asked Mr. R1 about Company D when Company D was ranked high among the leading companies by VWPG's procurement amount, but he was only told that Company D was one of the supplier companies. Mr. R1 said he did not verify if Company D was a company run by a family member of an employee.

But if the monthly data was reported to REC instead of RSC, REC must have noticed that VWPG sharply increased the amount of purchase and procurement of visible stock based on the instruction or request of REC, and had a certain concern about an increase in the amount of purchase, and confirmed the reason for the increase in the amount of purchase from supplier in question. In such a case, early detection of a compliance violation could have been possible.

This, of course, is a hypothetical discussion. Even if REC received monthly reporting, the event may not have been detected (resulting in a failure to detect the violation of compliance early).

In the RHD Group, VWPG was in a halfway position: RSC's subsidiary in charge of the procurement consignment business (organizational position); and a company mainly engaging in purchase and procurement of semiconductor components to be delivered to REC's customers (operational position). This is probably one of the reasons why the RHD Group's management of VWPG as a subsidiary was inappropriate as a whole.

## **(2) VWPG was not seen as important in the RHD Group's subsidiary management.**

As part of subsidiary management, RHD performs internal audits on its group companies, the plans of which are verified by the Audit & Supervisory Committee. RHD also dispatches Audit & Supervisory Board Members to all subsidiaries of the RHD Group (excluding VWPG) and has developed a system to report the audit results to the Audit & Supervisory Committee of RHD, while holding communication meetings, etc. with Audit & Supervisory Board Members of the Group's subsidiaries.

However, VWPG was not seen as important in the Group-wide internal audit plans, etc. In fact, VWPG's sales were not material until 2019. From 2020, the amount of purchase and procurement of visible stock sharply increased due to the shortage of semiconductors, resulting in an increase in sales. However, the Internal Audit Department and full-time Audit & Supervisory Committee Members do not seem to have been aware of that situation, continuing to recognize VWPG as a less important company.

Considering the rapid change in the semiconductor market, this can be unavoidable in a sense. On the other hand, one of the reasons why the employee conducted an inappropriate act may be that RHD placed low priority on VWPG in subsidiary management for a long time.

### **3 RHD's risk management system**

#### **(1) Reporting to the Compliance Committee is inappropriate.**

In this Case, for more than five months after RHD received the Company W1 Report and came to know the details of the compliance violation, it was not reported to the appropriate departments and meeting bodies within RHD. This is probably one of the factors which led to a serious situation where the audit corporation cannot express an audit opinion as scheduled.

According to the process after the incident was detected, Mr. R2 was informed by Mr. W4 on October 20, 2021 of the outline of this Case (that VWPG was in trouble and under investigation due to transactions involving a company run by a Chinese wife of a employee on loan to REC, including buying back for high prices). Mr. R2 shared this Case with Mr. R6 and Mr. R7 of RHD, Mr. R4 and Mr. R3 of REC, and Mr. R5 of RSC. Then on December 24, 2021, Mr. R2 received the Company W1 Report, the result of investigation conducted by Company W1, and immediately shared it with Mr. R6 and Mr. R7 of RHD, Mr. R4 and Mr. R3 of REC, and Mr. R5 of RSC.

Later, however, the six personnel formed the Investigation PJ and discussed the handling of this Case, but it was unclear who was responsible for deciding on the handling policy. Until May 19, 2022 when this Case was reported to RHD's officers in charge of accounting (Mr. R14 and Mr. R13) and full-time Audit & Supervisory Committee Members (Mr. R9 and Mr. R10), no decision was officially made on the investigation system regarding this Case.

According to RHD's Group Compliance Rules, the Compliance Committee has been established "as an organization that promotes compliance, and investigates an incident in response to reporting, consultation, or whistleblowing by officers." The personnel responsible for compliance promotion of each Group company shall report a doubtful incident to the Compliance Committee, and the Compliance Committee shall instruct and advise on the handling of such a doubtful incident.

On October 20, 2021 when Mr. R2 was informed of this Case from Mr. W4 for the first time, the CEO of Company W1 reportedly said with indignation that RHD might have low governance over VWPG after transferring a majority of VWPG shares to Vitec. On December 24 of the same year when Mr. R2 received the Company W1 Report, he reportedly said that Company W1 recognizes this Case as a material integrity problem, and therefore would request RHD to deal with it seriously. As stated above, Company W1, the counterparty of the joint venture, pointed it out as an important problem. It is obvious that as of December 24, 2021 when the Company W1 Report was received, "a doubtful incident" existed.

If so, members of the Investigation PJ who were reported to regarding the receipt of the Company W1 Report, especially Mr. R7 in charge of legal affairs and compliance, were

probably required to promote investigation of this Case in response to the instruction and advice of the Committee. If the Company W1 Report had been submitted to the Compliance Committee in accordance with the Group Compliance Rules, it is likely that Mr. R14, a member of the Committee and Director in charge of finance, would have shared the information of the survey status and other details with the Accounting Department accurately. Moreover, the Board of Directors and the Audit & Supervisory Committee would have received sufficient reports at an appropriate timing, resulting in sharing of information with the audit corporation at an appropriate timing.

Nevertheless, Mr. R7, in charge of legal affairs and compliance, failed to report this Case to the Compliance Committee. Furthermore, the Investigation PJ members who received the Company W1 Report and Mr. R8 (CEO) who was reported to by the Investigation PJ only focused on continuing the investigation in a cautious manner. Nobody recommended to report to the Compliance Committee in accordance with the Group Compliance Rules.

As stated above, reporting to the Compliance Committee in accordance with the Group Compliance Rules was omitted, subsequent reporting appropriately to relevant departments and meeting bodies to which reports must have been made was also omitted, and response policies were discussed only by the Investigation PJ members without clarifying where the responsibility lies. The Special Investigation Committee concluded that this is the factor that led to a serious situation where the audit corporation cannot express an audit opinion.

Some Investigation PJ member(s) said that the investigation had to be made without being noticed by Mr. A knowing that this Case was under investigation, and therefore they had to limit the scope of sharing information. However, there is no justification for not reporting information necessary for internal control to the Compliance Committee because information management is important for the investigation.

## **(2) Sharing of and cooperation for information-sharing is insufficient in the RHD Group.**

The Investigation PJ not only failed to report to the Compliance Committee appropriately after this Case was identified, but also failed to share information appropriately with officers of departments (specifically, the Accounting Department and Audit & Supervisory Committee) with which they should have shared information. The Committee's investigation recognized the fact that, although there were several situations during the course of events when information must have been shared, the Investigation PJ did not explain in detail because this Case was under investigation, or the Investigation PJ tried to share the information but was unable to share detailed information for certain reasons. Thus, cross-departmental information-sharing cooperation in the RHD Group was extremely poor, and this is considered one of the causal factors.

First of all, the Company W1 Report submitted to the Investigation PJ at the end of December 2021 pointed out a fact suggesting that transactions with a company conducted by the relatives of a VWPG employee possibly caused a significant amount of damage to VWPG (in other words, an obvious violation of compliance that may affect VWPG's financial results).

Nevertheless, the Investigation PJ did not report the process of investigation by Company W1 and the details of the W1 Report to officers of the Accounting Department and the Audit & Supervisory Committee responsible for legality audits, the contact for the audit corporation.

With respect to reporting to the Accounting Department, it was found that Mr. R4, Director of REC, reminded Mr. R6 and Mr. R7 that they should report to RHD internally because an omission to share information with the Accounting Department before announcing the third quarter's financial results would present an internal control problem. At the same time, Mr. R4 sent e-mails to Mr. R13 with (1) the REC Report, (2) the Company W1 Report, and (3) Company D's purchase-related Excel file referred to (2), among others. However, Mr. R4 said he thought RHD's Legal Affairs & Compliance Department was responsible for reporting this Case to RHD's Accounting Department, and therefore he did not explain it in detail.

In response to Mr. R4's recommendation, Mr. R6 and Mr. R7, officers of RHD, intended to report this Case to Mr. R13. However, Mr. R13 said that information was already shared by Mr. R4 and that they did not need to mention this Case in "Responses regarding subsequent events (matters related to litigation)." Accordingly, they did not give a detailed explanation to Mr. R13 about the Company W1 Report and other materials.

There were certain misunderstandings among the persons involved. However, although Mr. R4 pointed out that information must be shared with RHD's Accounting Department, the process of the investigation by Company W1 and details of the investigation result were not conveyed to Mr. R13 accurately due to misunderstandings and miscommunications. Obviously, this is the background as to why Mr. R13 determined that "the case is under investigation and therefore it is not necessary to report this Case to the audit corporation." (The reasons that resulted in the wrong judgement are described later.)

As for reporting to the Audit and Supervisory Committee, Mr. R7 shared the information with Mr. R9 and Mr. R10, full-time Audit and Supervisory Committee Members, in late January 2022, and reported to the Audit and Supervisory Committee meeting held on February 25, 2022 in response to the request by full-time Audit and Supervisory Committee Members. But the report simply mentioned that a violation of compliance was identified in VWPG and was under investigation, without going into the Company W1 Report in detail.

Moreover, the Investigation PJ did not report anything to the Accounting Department and Audit and Supervisory Committee even when it received the China Office Interim Report on April 19, 2022, when they were preparing the year-end financial statements for the fiscal year ended March 31, 2022.

As stated above, the Investigation PJ not only failed to report to the Compliance Committee appropriately after this Case was identified, but also failed to share information appropriately with the Accounting Department and Audit & Supervisory Committee. Even when Investigation PJ intended to share the information, the Investigation PJ explained the Case using abstract and general terms, simply as “a violation of compliance under investigation,” without referring to the Company W1 Report in detail.

Many of the respondents to the Committee’s interview said that they only reported in an abstract and general manner because: (1) as of the end of January 2022, RHD had not started an investigation and the facts had not been clarified yet; and (2) the China Office Interim Report dated April 19, 2022 was still under investigation.

However, this Case was not a suspicious case reported by a whistleblower for the first time, but a case formally reported as a violation of compliance that had been investigated by the counterparty of a joint venture for several months. Moreover, as of October 20, 2021, the CEO of Company W1 reportedly said with indignation that RHD might have low governance over VWPG after transferring a majority of VWPG shares to Vitec. On December 24 of the same year when Mr. R2 received the Company W1 Report, he also commented that Company W1 recognizes this Case as a material integrity problem, and therefore would request RHD to deal with it seriously.

Against the above-mentioned background, even if RHD had a doubt about the Company W1 Report and thought further investigation was necessary, the company should have mentioned the Company W1 Report which was formally submitted by Company W1, the counterparty of the joint venture.

Nevertheless, the Investigation PJ omitted explaining the Company W1 Report in detail to the Accounting Department and Audit and Supervisory Committee “because the report is under investigation and the facts have not been clarified yet.” Perhaps this is also a factor that led to a serious situation where the audit corporation firm cannot express an audit opinion.

### **(3) Officers in charge of accounting lack understanding of the “Standard to Address Risks of Fraud in an Audit.”**

As was stated above, RHD did not appropriately report on or share the information of the Company W1 Report internally even after receiving it. However, though not sufficiently, the Company W1 Report and related materials were sent to Mr. R13, Accounting Manager, and Mr. R14, Director in charge of finance and CFO, in late January 2022.

Specifically, as of January 26, 2022, Mr. R4 of the Investigation PJ pointed out to Mr. R6 and Mr. R7 that they must share information with the Accounting Department in relation to the announcement of the third quarter’s financial results, and sent the Company W1 Report and

related materials to Mr. R13, recommending him to “ask RHD to explain the situation.” Moreover, Mr. R6 and Mr. R7, who were recommended by Mr. R4 to share the information with the Accounting Department, contacted Mr. R13 to explain the situation, though they did not explain the Case in detail (because Mr. R13 said that he already received the reports from Mr. R4).

Mr. R13, Accounting Manager, who had been informed that a violation of compliance was identified in VWPG as of late January 2022 and received the Company W1 Report and related materials, must have confirmed their explanation. The Company W1 Report was probably hard to read because it was partially written in Chinese. But if Mr. R13 confirmed their explanation, he must have read the REC Report that gave details of the violation of compliance and the amount of effect (about 250 million yen) in Japanese, and could have noticed that the Case had to be shared with the audit corporation.

On the contrary, Mr. R13 said he took a brief look at the Company W1 Report partially written in Chinese which was hard to understand, and was told by the Investigation PJ that this Case was under investigation. He said he consequently thought that it would not be a matter of contingent liabilities or subsequent events, and did not share the details of this Case with the audit corporation.

According to the Committee’s interview with Mr. R13, he seems to have thought that a case under investigation does not have to be reported to the audit corporation in detail when the amount of effect is not yet finalized. This suggests that Mr. R13 had a poor understanding of the audit policy in accordance with the Standard to Address Risks of Fraud in an Audit (Audit Committee of the Business Accounting Council, March 13, 2013).

Standard to Address Risks of Fraud in an Audit stipulates that “If, in the course of carrying out the audit, an auditor has identified a situation that suggests material misrepresentation in connection with fraud, the auditor must ask the management for an explanation and take an additional audit procedure to determine whether such a doubtful situation does exist.” An accounting auditor who has identified such a situation is required to take a procedure for opinion-formation carefully, and this may have an influence on the audit opinion and review results from the perspective of the account settlement process.

A violation of compliance identified in this case is a transaction conducted by a company run by the relatives of a VWPG employee. In addition, another external person was suspected of being involved, and the amount of effect was also under investigation. Accordingly, it was assumed that the situation could fall under one that suggests a serious misrepresentation due to fraud. Mr. R13 should have reported to and consulted with the accounting auditor, and handled it carefully.

On the other hand, Mr. R13 argues that he didn’t understand the Case sufficiently because he didn’t read some material attached to the e-mail from Mr. R4 who notified him. This suggests

that Mr. R13 was at least informed of an outline of the Case from Mr. R4. This indicates that Mr. R13 must have verified the case in detail regarding whether it fell under a situation that suggests material misrepresentation in connection with fraud. Since he failed to do so and did not take appropriate measures, he seemed to have had a poor understanding of the audit policy in accordance with the Standard to Address Risks of Fraud in an Audit.

The poor understanding is seen not only with Mr. R13 but also with Mr. R14, Director in charge of finance and CFO.

Mr. R14 received an oral report by Mr. R13 and received the Company W1 Report and related materials by e-mail on January 27, 2022. Because he was busy on that day, Mr. R14 probably opened the documents a few days later. However, Mr. R14 said he did not examine the details of the report carefully because Mr. R13 said “you don’t need to take time with this at all because it is an early-stage report.”

But if Mr. R14 saw the attached materials, he must have thought that he must report it to the audit corporation, based on the details of the violation of compliance and the amount of effect (about 250 million yen). If Mr. R14 saw the materials but was unaware of the above-mentioned description, the Committee must say that he committed a serious error as Director in charge of finance and CFO. In addition, since Mr. R14 was authorized to sign management’s confirmation for an audit which is submitted to the audit corporation, he must have examined the Company W1 Report and related materials at hand, and confirmed with Mr. R13 the progress of investigation even if it was under investigation, at least before submitting management’s confirmation for audit to the audit corporation on February 10, 2022.

Nevertheless, Mr. R14 admits he signed management’s confirmation for audit as a routine and did not consider at all if he should report the case to the audit corporation. The Special Investigation Committee must say again that Mr. R14 lacked an understanding of the Standard to Address Risks of Fraud in an Audit.

Based on the above investigation, it was found that the Director in charge of finance and CFO, and the Accounting Manager, who are both officers in charge of accounting, lacked an understanding about the necessity of reporting risks of fraud to the audit corporation, resulting in a serious situation where the audit corporation cannot express an audit opinion.

Please note that the Committee carefully interviewed related personnel about the background to why the details of the Company W1 Report were not reported to the audit corporation in late January 2022. The Committee found no evidence that omission of reporting to the audit corporation was not due to their intention to hide the risks of fraud to the audit corporation, but rather a lack of understanding of the two officers about appropriate audit procedures in accordance with the Standard to Address Risks of Fraud in an Audit.

**(4) Officers of the RHD Group have little awareness about the importance of financial disclosure.**

As stated above, it was found that RHD officers in charge of accounting lacked an understanding about the Standard to Address Risks of Fraud in an Audit, resulting in a situation where the audit corporation was not informed of the necessary information and could not express an audit opinion. However, the poor understanding and awareness is found in not only the officers in charge of accounting but rather all the officers of the RHD Group who participated in the investigation of this Case.

Among the Investigation PJ members who received the Company W1 Report in December 2021, nobody but Mr. R4 realized the necessity of sharing this Case in detail with the Accounting Department. Without the opinion of Mr. R4, Mr. R13 would not only have failed to send the Company W1 Report to Mr. R13, Accounting Manager, before the announcement of the third quarter's financial results, but rather have failed to report everything.

Moreover, on April 19, 2022, the Investigation PJ members received an interim report from a law firm that was asked by the RHD Group to perform an investigation, on the precondition that all the facts were clarified (though the interview with Mr. A was not completed). Though the report contained the amount of effect, the information was not conveyed to the officers in charge of accounting at all. On May 11, 2022, RHD announced a summary of financial results for the fiscal year ended March 31, 2022. However, none of the RHD Group officers who had participated in the investigation of this Case mentioned the necessity of reporting to the Accounting Department and the audit corporation once again.

According to the Committee's interview, many of the RHD Group officers participated in the investigation of this Case seemed to have thought that this Case was a violation of compliance by an overseas subsidiary and would not involve a risk of fraud that could affect their accounting and financial settlements. However, the China Office Interim Report contained the amount of effect. Moreover, the report was submitted in mid-April when they were in the middle of preparing the year-end financial statements, and just before an audit opinion was delivered by the audit corporation for the Ordinary General Meeting of Shareholders. The Committee must say that, as an officer of a listed company group, their awareness of the importance of financial disclosure is too low, in that no one realized that they must report to the Accounting Department and the audit corporation about the China Office Interim Report that they received at the time.

The China Office Interim Report was shared with Mr. R13 for the first time on May 19, 2022 and he immediately reported it to the audit corporation, which is natural behavior as an officer in charge of accounting. In theory, the Case must have been reported to the audit corporation through the Accounting Department on December 28, 2021 when the Company W1 Report was



shared by the Investigation PJ, or in late January 2022 prior to the third quarter's financial settlement, or at the latest on April 19, 2022 when the China Office Interim Report was shared by the Investigation PJ and other related personnel. If it had been reported at an appropriate timing, they could have avoided the worst situation where the audit corporation cannot express an audit opinion.

In this sense, the Committee considers that not only officers in charge of accounting but also all the officers of the RHD Group who were involved in investigating this Case had a poor understanding of audit procedures in accordance with the Standard to Address Risks of Fraud in an Audit, and a low awareness of the importance of financial disclosure as a listed company, resulting in a serious situation where the corporate auditor cannot express an audit opinion.

## **No.5 Recommendation for the prevention of recurrence**

### **1 Build appropriate internal control at VWPG**

The VWPG did not have in place an internal control system for conflict-of-interest transactions and failed to fully communicate to employees the RHD Group Code of Conduct prohibiting them from entering into a conflict-of-interest transaction. In addition, although belonging to the RHD Group, VWPG employees were aware that the review processes and internal rules of the W1 Group applied, making it likely that they did not clearly know even the internal rules of VWPG.

Behind this situation was the fact that when the RHD Group made VWPG a subsidiary of it, it did not check the review processes and internal rules of the latter, failing to establish an appropriate internal control system. This suggests that VWPG was virtually left unaddressed without being controlled by both the W1 Group and the RHD Group. Another major problem was the fact that Mr./Ms. R1, head of VWPG, did not have in place appropriate review processes and internal rules and continued operations leaving its internal control system vague.

Therefore, as a recurrence prevention measure, it is necessary to promptly check how the review processes and internal rules of VWPG were laid down to date and to establish an appropriate internal control system for the purpose of preventing employees from entering into a conflict-of-interest transaction.

That said, VWPG is a company that rents space within a Company W1 Group outpost, hosts multiple employees from the W1 Group through shared services, and operates by using the W1 Group's system. Therefore, it might be difficult to fundamentally turn such a business operation system into an internal control system conforming to the RHD Group's policies.

Still, even in this situation, as long as VWPG is a consolidated subsidiary of the RHD Group, it is highly problematic for subsidiary control that the parent company RSC or RHD is unable to identify the actual state of VWPG's operations and its internal control system.

Given that the Company W1 Group's system is used, it is necessary to establish an appropriate internal control system by checking the flow of procedures for the system, verifying to see whether the system is sufficient as a review process, and laying down rules for review and approval processes other than those for the system if there is any deficiency.

### **2 Positioning of VWPG in the RHD Group and outlining the control system**

VWPG is an RSC subsidiary responsible for the contract procurement service business, and reports directly to RSC organizationally. However, the contract procurement service business was not actually done by VWPG, which purchased and procured semiconductor components intended to be delivered to REC customers, and received business instructions often from REC.

RSC, being thus unable to grasp the business characteristics and risks of VWPG, found it difficult to appropriately manage conflict-of-interest risk.

Given that the RHD Group was unable to do subsidiary control appropriately seemingly due to a highly vague positioning of VWPG in the group as discussed above, it is necessary to revise the strategic positioning of VWPG in the RHD Group, establish an appropriate reporting line, organize matters to be reported to the parent companies and matters requiring approval from them, and build an appropriate subsidiary control system.

### **3 Reporting system for when a compliance violation is detected**

Prompted by this Case, we claim that the biggest cause of the serious incident of failing to issue an audit opinion was the fact that, after this Case was detected, the staff involved did not report it to the Compliance Committee in accordance with the Group Compliance Rules and that the Investigation PJ discussed the response policy while it was left unclear where the responsibility lay, and that the staff involved did not appropriately share and coordinate information with the Accounting Department and the Audit and Supervisory Committee at the time of disclosing financial results.

At RHD, the Group Compliance Regulations clearly stipulate that any suspected violation of compliance shall be reported to the Compliance Committee and be investigated under its direction and advice. Nevertheless, during the course of the investigation of this Case, no report was submitted to the Compliance Committee, and even after that, no formal report was sent to internal meeting bodies (such as the Board of Directors), and the investigation was conducted by members of the Investigation PJ without any formal institutional decision being made on the investigation framework. The fact that the investigation was thus conducted while it was left unclear where the responsibility lay led to the failure to share and coordinate necessary information with the Accounting Department and the Audit and Supervisory Committee at the time of releasing financial results.

As the Investigative PJ received the Company W1 Report as of the end of December 2021, it was required to share information with the Accounting Department and the Audit and Supervisory Committee before reporting it to the audit firm through the Accounting Department even though the RHD Group needed to investigate and verify the report.

In addition, as long as the China Office Interim Report was received on April 19, 2022, albeit an interim report before interviewing Mr. A, and the amount of impact was stated, information should have been shared with the Accounting Department and the Audit and Supervisory Committee and been reported to the audit firm through the Accounting Department prior to the release of the financial results for the fiscal year ending March 2022.

Even though such reporting to the Accounting Department and the Audit and Supervisory

Committee is not clearly stated in the internal rules, it is an evident rule as long as the Company discloses its financial results as a listed firm.

Although RHD was required to report to the Compliance Committee in accordance with the Group Compliance Regulations, and as a listed company, it was naturally required to share information with, and report to, the Accounting Department and the Audit and Supervisory Committee, this Case was not properly reported. In this respect, all officers and employees of the RHD Group should be made aware of the necessity and importance of reporting rules for a suspected compliance violation, and should be thoroughly trained to report to an appropriate department at a proper time in the future when a similar compliance violation is detected.

#### **4 Awareness reform and education of RHD officers and employees and those in charge of accounting**

What caused the failure to properly report this Case was not only the fact that RHD Group officers and employees were unaware of the reporting rules but also the fact that they lacked understanding and sensitivity about the necessity of reporting.

As of the end of January 2022, Mr./Ms. R13, who was Head of the Accounting Department, received the Company W1 Report and related materials, but after receiving an explanation that an investigation was under way, he judged that the matter did not fall under a contingent liability or subsequent event and did not report details of this Case to the audit firm. Mr. R14, who was Chief Financial Officer (CFO), also received the Company W1 Report and related materials at the end of January 2022. However, he signed the Management Confirmation Letter dated February 10, 2022 and submitted it to the auditing firm after receiving the explanation from Mr./Ms. R13 without closely examining the report. As described in Section 4.3. (3), the actions taken by officers and employees in charge of accounting were caused by a lack of understanding of audit measures pursuant to the Standard for Handling Fraud Risk in Audits.

Most of not only officers and employees in charge of accounting but also officers and employees of the RHD Group who were involved in the investigation about this Case did not find it necessary to announce the information contained in the W1 Company Report and the China Office Interim Report to the Accounting Department or the audit firm even at the time of the release of the financial results for the third quarter of the fiscal year ended March 2022 and for the fiscal year ended March 2022, and did not actually try to do so. The above-mentioned response of officers and employees of the RHD Group, like that of officers and employees in charge of accounting, was seemingly due to their lack of understanding of audit response pursuant to the Standard for Handling Fraud Risk in Audits and their low sensitivity to the importance of disclosure of financial results by listed companies.

Interviews by the Committee show that, among officers and employees of the RHD Group,

there are those who seemingly think that it suffices to report information to an audit firm when facts and an impact amount are determined to some extent through an investigation and that there is no need to report information while an investigation is ongoing and facts are not yet determined, which means there is a clear lack of understanding on their part.

To prevent a recurrence in the future, it is necessary to reform the awareness of officers and employees about the importance of disclosure of financial results by conducting training and education on the need to report information to an audit firm when a fraud risk is detected and on the impact on audits of a failure to report information.

## **No.6 Conclusion**

In this Case investigated by the Committee, we certainly discovered a violation of compliance by an VWPG employee (an act to enter into a transaction with a company run by one's wife without making any declaration to management). However, it was also true that the employee's motivation for starting the transaction was to expand the business of VWPG by smoothly purchasing and procuring market stock products amid the semiconductor market turmoil, and the terms and conditions of the transaction were not found to have been very unreasonable. Damage (amount of lost profit) to the VWPG in this Case was approx. 113 million yen as a maximum, and this was much smaller than the amount stated in the Company W1 Report, and as a result of conducting an extensive questionnaire survey, no similar case was found.

As discussed above, it was a series of response inadequacies after a receipt of the Company W1 Report at the end of December 2021 that brought about a grave incident in which the ordinary general meeting of shareholders had to be made an adjourned meeting due to being unable to obtain an audit opinion on schedule from the audit firm despite the fact that no serious accounting fraud was committed at the RHD Group in this Case.

The RHD Group had established a system in which any suspicious event detected is reported promptly to the Compliance Committee and investigation is done in accordance with instructions and advice from it. However, in reality, the RHD Group did not operate in accordance with the Group Compliance Rules, and some officers and employees discussed and carried out investigations while it was left unclear where the responsibility lay. As a result, information was neither aptly shared with the Accounting Department and the Audit and Supervisory Committee at the time of the financial closing, nor informed to the audit firm appropriately.

However, as a result of the investigation done by the Committee, it was found there was nothing intentional behind the failure to share and inform information appropriately, and we think this was simply due to a lack of understanding and low sensitivity on the part of those involved. Not only officers and employees in charge of accounting but also all officers and employees of the RHD Group who were involved in the investigation of this Case failed to sufficiently understand audit response reflecting the Standard for Handling Fraud Risks in Audits, and were not sensitive to the importance of disclosure of financial results as a listed company. This is thought to have been the biggest factor that caused the serious situation in which the audit corporation did not give an opinion.

We sincerely hope that, by taking the series of actions taken prompted by this Case as regrettable steps, they will serve as a catalyst to revising the way information is shared and coordinated with an auditing firm in the future.