

Application Checklist

The following checklist has been made to help applicants with preparation of listing application.

The list consists of items generally required in preparing for application. Different issues need to be looked at depending on a wide range of factors specific to the business of each applicant. Therefore TSE would advise applicants to consult your LU and audit corporation well in advance.

Please note that where applicant has its subsidiary or related companies, corporate management system re-organization or consolidated disclosure information will need to cover such companies as well.

1 Business Plan

The business plan is very important as it will be the part of fundamental data linked with investing information in 'Part I' documents prior to listing and in other disclosure documents after listing. Thus, the plan needs to be drawn up from fair and objective perspective, analyzing both internal and external environment of the company. Its contents should cover information as to how to utilize the fund that is to be raised at listing or its payout plan, among other things.

- (a) Have you had enough discussions on business model in the plan from the perspective of economic rationality?
- (b) Does the plan take into consideration recent developments of industry, competitors and status of your company?
- (c) Can you describe the risk factors pertaining to the achievement of business plan?

2 Corporate Management System

(1) Board of directors

The board of directors is the ultimate decision making body for a company's

business operation. Where board meeting has lost substance and is not functioning properly in controlling company's business operations, there is a risk that a proper monitoring function as to company's business operation is not in place and, moreover, company's decision would be made by a particular person for the interest of particular party, violating shareholders rights. Therefore, TSE shall ask the board of directors to cover sufficient discussion and consideration based on monthly performance figures and other data, and to yield the corporate decision as its result.

- (a) Are board meetings held regularly? Can the board meet and make decisions quickly when necessary?
- (b) Does each issue go through sufficient discussion and consideration before reaching conclusion? Are there sufficient materials and data provided at discussions? Do the meeting minutes meet legal requirements?
- (c) Is the board sufficiently briefed on important business issues?
- (d) Is your company's board functioning properly in controlling operation officers?
- (e) Are you sure that board resolutions do not place priority on the interests of a particular party?
- (f) Are you sure that positions held concurrently at other companies by directors do not impede decision-making or business execution?
- (g) Are the means of decision-making of the board appropriate in terms of the governance of your company?

(2) Statutory auditors

Statutory auditors must monitor directors, accounting counselors, and the board of directors, which is normally done by being present during the board meetings as well as checking day to day operation of company.

- (a) Are statutory auditors monitoring the activities of directors and accounting counselors effectively?
- (b) Do statutory auditors cooperate effectively with internal audit and outside auditors in audit execution?
- (c) Do your statutory auditors attend board meetings?

(3) Accounting counselors

Accounting counselors are expected to prepare financial documents together with directors or operating officers. However, TSE shall ask the applicant not to unduly depend on accounting counselors and that the applicant has established a proper operation through which to fulfill legal and timely disclosure, in a timely, appropriate and consistent manner.

- (a) Are you sure that your internal system is not overly dependent on accounting counselors to make timely and adequate legally required disclosures, periodical disclosure ?

(4) Internal audit

The purpose of internal audit is to maintain the company's assets, and to secure legally appropriate, efficient business operations. It is desirable to be conducted by a team independent of other internal departments. There may be cases, however, where establishing such a separate audit team would not function efficiently due to the company's varying size, industry or type of operation. Therefore, each company needs to give consideration on how to achieve the best fit audit system.

- (a) Does your company's audit system accommodate to the company's size, industry and type of operation? And is it functioning as it should be (planning, enforcement, reporting)?
- (b) Are auditee departments acting appropriately towards advices and directions by internal audit team?
- (c) If you do not have an independent internal audit department, have you adopted alternative measures?

(4) Internal controls and rules

The foundation of the framework necessary for maintenance of corporate assets and legitimate, efficient business operation is establishing company's internal rules and operating its business accordingly. Therefore, it is necessary that internal rules are compiled in accordance with company's size, industry and type of operation and that business operations are conducted in line with those rules. The

internal rules here include: organization-related rules (board meetings rules, statutory audit meeting rules, segregation of duties rules, official authorities rules, etc.), HR-related rules (work rules, compensation rules, retirement allowance rules), administration-related rules (budget control rules, securities handling rules, related-companies rules, sales control rules, purchase control rules, asset control rules, information management rules, etc.), accounting-related rules (accounting rules, cost accounting rules, etc.). There may be other necessary rules depending on each company's size, industry and type of operation.

In addition, Business Accounting Council announced "Evaluative and audit criteria of internal control as to financial reporting" in December, 2005. Also, development of internal control system is stated in Companies Act. Please note that, prior to going public, you need to establish an adequate internal control system based on such new rules and regulations.

- (a) Are necessary internal rules maintained in accordance with company's size, industry and type of operation?
- (b) Do your internal rules provide for sufficient mutual checks between and within departments?
- (c) Are internal rules timely updated according to changes in company's size, industry or type of operation?
- (d) Do business operations follow company's internal rules?
- (e) Has company established, or begun to establish, an internal control system based on the law which soon to be legislated?

(5) Performance control

It is inevitable for executive officers (and operation officers) to have accurate information on current situation of company (and officer's own department in charge) in order to make appropriate management decisions. This will require the company to be able to grasp and analyze monthly performance and sales figures as early as possible. Those figures will be necessary for appropriate and timely information disclosure (announcement of performance prospects and its revision) after listing as well. As for analysis of monthly performance and sales, comparative analysis with rationally drafted budget would be useful.

- (a) Do management officers have accurate figures and information on company's current performance and situation?
- (b) Can you produce monthly earnings and sales data in a timely fashion?
- (c) Are your budgets determined in a rational fashion through interdepartmental negotiations?
- (d) Is your company able to make timely and appropriate management decision through information, such as, comparative analysis of budget and actual performance?

(6) Other management and control considerations

- (a) Are legal documents and contracts appropriately maintained and stored?
- (b) Has your company taken appropriate measures for such issues critical to the business, as acquiring patent for newly developed technology, etc.?
- (c) If you are outsourcing some of your management/control functions (general affairs, accounting, etc.), are you still able to independently control, analyze and explain these operations to an adequate degree?

3 Appropriate and Timely Information Disclosure

(1) Internal systems

Tokyo Stock Exchange requires, in its Rules and Regulations on Issuers' Corporate Information Disclosure, issuers of listed securities to make efforts to execute its business with integrity, always making sure disclosure to investors is swift, accurate, and fair, on the recognition that timely, appropriate disclosure of their corporate information is vital to formation of a fair, working securities market. It is a general obligation of listed companies to release information appropriately and timely to investing public. A company should have disclosure procedure that functions as an organization, not depending on particular individuals.

- (a) Do you have internal systems capable of supporting continuous, timely and adequate legally required disclosures, periodical disclosures and IR activities?

- (b) Is the company's internal management so designed that you and your Parent company can contact with each other on a regular basis?

(2) Disclosure documents

It is "Part I" that TSE will examine as the required disclosure information at listing. Applicant is encouraged to actively offer useful information for investing public, not to mention cover all the information required. Information disclosure will be imposed as one of the continuing obligations after listing and thus, sufficient preparation is recommended.

- (a) Are you preparing Part I in compliance with relevant laws?
- (b) Are you preparing the details of valuable investment information that are easy to understand for the investing public in Part I? Such information includes: business profile, details and analysis of financial status, management performance and cash flow, information on related companies, status of research and development, information on major shareholders, information on officers and employees, dividend policy, usage of increased capital once public offering has been carried out.
- (c) Are you preparing the details of investment risk information that are easy to understand for the investing public in Part I? Such information includes: duration of continuous business, accumulated deficit, operating loss, dependency on particular officers, competitive position, uncertainty of market and technology, management support from particular party, prerequisite for principal business.
- (d) Are you steering clear of distorting the real status of group companies, for example, by unfairly adjusting the investment ratio in affiliated companies?

(3) Disclosures of the company's performance

Once listed on Mothers, your company's performance and outlook figures need to be announced on a regular basis; annually, semi-annually and quarterly. Such information should be presented promptly and accurately as valuable to investment decision. After performance outlook has been announced, adjustments or corrections may be necessary due to the subsequent progress. This will require each listed company to keep monthly budgetary record. There may be cases

where announcing performance outlook is difficult due to particular circumstances. TSE will need to be briefed on such particular circumstances and ask for company to addressing them, so that it can start announcing performance outlook as soon as possible following the listing.

- (a) Will you be able to publish full- and half-year results in a timely fashion?
- (b) Will you be able to disclose quarterly results, together with your auditor's opinion, within 45 days of the end of your 1st and 3rd quarters?
- (c) Will you be able to publish earnings forecasts and timely and adequate revised forecasts that are based on proper budgeting and performance management?
- (d) If you can not announce the performance outlook, can you give tenable explanation? Can you describe the future policy on planning and announcing performance outlook?

(4) Accounting procedure

Financial statements (including consolidated financial statements), which are valuable source of information as to the company's financial status and management performance, is particularly important among all the disclosure documents. Such statements are based on accounting procedure (accounting policy) of each company and thus, it is vital to give sufficient consideration, closely working with auditors, at its introduction or modification together.

- (a) Are accounting procedure and operation in accordance with the company's accounting standard, accounting custom, industry, type of industry, etc.?
- (b) Are the accounting documents and data filed and maintained appropriately?

(5) Fiscal year change

Part I or other disclosure documents require applicant to cover financial record of recent two years. This is because comparison of those figures is considered useful for potential investors. Any changes made with fiscal year dates in the recent two years should be avoided as it could possibly make such comparison difficult.

- (a) If you have changed your fiscal year within the last two years, are you able to give a rational explanation for why you did this?
- (b) If there has been a change with fiscal year dates in the recent two years, are you prepared to release supplemental information to ensure alternative comparison measure?

(6) Information management

Maintenance and disclosure of corporate information, particularly those relating to the Securities and Exchange Law, is extremely important. Properly organized information management system will block insider trading and ensure reliability of stock markets.

- (a) Can you manage corporate information in compliance with relevant internal rules and regulations?
- (b) Can you disclose necessary information timely and appropriately?
- (c) Are you ready to give training sessions or workshops to raise awareness against insider trading?

4 Transactions between company and related persons

Any transaction made by a company needs to have reasonable grounds and the terms should be fair. If one of these conditions lacks, possibility of payoff to particular party may arise. This should be avoided to maintain company's asset. As Mothers is for the young, emerging companies, there may be cases where transactions that are favourable to applicant are made by those close to applicant to support them. In such cases, disclosure of the details may be required to continue the transactions.

- (a) Do you have any transactions with person having special relationship, HR-related companies or capital-related companies? If so, are these transactions based on logical grounds?
- (b) If you have transactions with person having special relationship, HR-related companies or capital-related companies, are the conditions set appropriately and fairly in comparison with the transactions with third parties?
- (c) If you have transactions with person having special relationship, HR-related

companies or capital-related companies, are you preparing to disclose the details of such transactions appropriately?

5 Other Points To Remember

(1) Parent company

When applicant has a Parent company (except for those immaterial to the applicant as a whole), information of Parent company should be disclosed as it will be regarded as valuable investment information of applicant.

- (a) If there are some companies whose business is similar to your business under the same Parent company, are there any risks of undermining independence of your business activities or decision making.
- (b) Does majority of your board of directors or each committee consist of directors or/and officers of your Parent company, which could possibly hinder independent business activities or decision making?
- (c) Is the company, as well as its business, independent of your Parent company? For example, do you make corporate decision without Parent company's directions?
- (d) Do contractual or other agreements with your Parent company impose any restrictions on your company's administration of its own affairs? Do important decisions need to be approved by your Parent company, for example?
- (e) Are you sure that the directors or/and officers of your Parent company do not enjoy any incentive scheme provided by applicant which could deny justification within reason, such as allotment of shares or giving new stock reservation right?
- (f) Supporting measures aside, are there any transactions (business transaction, property-related transaction, fund transaction, etc.) with your Parent company, , disadvantageous to whichever side, imposed/induced between applicant (including its Affiliated companies) and its Parent company and vice versa?
- (g) Is your Parent company publicly listed? If not, does it make regular disclosures specified by the related laws, or is it prepared to file with the TSE

financial statements prepared in the same format as that required of public companies under the Securities and Exchange Law each fiscal year? In addition, is there an agreement as to complying with TSE requirements concerning the disclosure of corporate information etc?

(2) Others

- (a) Does your company's business operation respect public order and morals?
- (b) Does none of applicant, or person having special relationship, employees, shareholders or business partners with applicant, have contact with organized crime, such as gangs?
- (c) Are there any ongoing or settled legal cases, conflicts, illegal activities?
- (d) If share certificates are not in a format approved by the TSE, has your board already approved the printing of certificates in a TSE-approved format?
- (e) If there is restriction on transfer of stocks, are you ready to lift them by modifying article of incorporation before application day?
- (f) If you haven't already designated a TSE-approved shareholder service agent, has one granted an informal consent to conducting shareholder-related services on your behalf?
- (g) Have you prepared the notices stipulated in your Articles of Incorporation for publication in a national daily newspaper? If you are not going to publish them in a national daily, are you taking alternative steps (e.g. posting them on your website) to ensure that they reach a national audience?
- (h) Have all third-party allocation, share transfers, etc. been conducted in accordance with the TSE's Regulations Concerning Primary and Secondary Public Offerings Prior to Listing?
- (i) If you have recently changed your auditor (CPA) or LU, can you provide a rational explanation for doing so?
- (j) Do you respond appropriately to advice from your auditor or LU?