

February 20, 2017

To Whom It May Concern:

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(Progress Report on) Notification of Inadequate Accounting Applied by a Consolidated
Subsidiary (Findings of ADK's Investigation)

As released in the *Notification on Inadequate Accounting Applied in Past Fiscal Years by a Consolidated Affiliate* dated December 27, 2016, the *Notification on Receipt of an Investigative Report Compiled by the Special Investigation Panel Regarding Inadequate Accounting Applied in Past Fiscal Years by a Consolidated Affiliate* dated January 6, 2017, the *Notification on Disclosure of Investigation Report Compiled by the Special Investigation Panel Regarding Inadequate Accounting Applied by a Consolidated Subsidiary* dated January 10, 2017, the *(Progress Report on) Notification of Inadequate Accounting Applied by a Consolidated Subsidiary* dated January 31, 2017, and the *(Progress Report on) Notification of Inadequate Accounting Applied by a Consolidated Subsidiary* dated February 6, 2017, inappropriate accounting was carried out by GONZO K.K. ("GONZO") before its acquisition by, and it became a consolidated subsidiary of, ASATSU-DK INC. ("ADK") in September 2016.

In light of the matters raised by the Special Investigation Panel in the forensic investigation, etc. regarding the inappropriate accounting, we have carried out the necessary investigation. The corrections to GONZO's past financial statements were finalized as of February 6, 2017, as released on that date. However, in order to formulate measures to prevent recurrence, it is essential that Vice-president Y's motive for carrying out the inappropriate accounting be clarified, but it could not be clarified at that time. In addition, the *Investigation Report (Published Version)* (simply the "Investigation Report") published on January 10, 2017 details as Vice-president Y's motive that it is "inferred that Vice-president Y was conducting account processing with Company nn's exit in mind at all times," and "it can be viewed that Vice-president Y was in a position to benefit indirectly from encouraging the sale of shares in GONZO to ADK (in other words, Vice-president Y had a motive to record fictitious sales, etc.)." Therefore, we continued to confirm the situation.

As a result of that confirmation, yesterday, we found that the inappropriate accounting by Vice-president Y was deemed to have been carried out in order to conceal the inappropriate accounting that was carried out when GONZO had poor cash-flow. Therefore, we give this notification today. The terms used in this notification, as a general rule, indicate terms used in the Investigation Report.

Note: This is the translated version of *(Progress Report on) Notification of Inadequate Accounting Applied by a Consolidated Subsidiary (Findings of ADK's Investigation)*. The original version was disclosed on February 20, 2017.

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I. Overview of the investigation by ADK

1. Purpose of the investigation

After the acquisition of GONZO, ADK's accounting auditor Ernst & Young ShinNihon LLC ("ADK's Accounting Auditor") advised ADK on September 26, 2016 in the course of its accounting audit that it was likely that inappropriate account processing was being performed by GONZO (the "Questionable Accounting") in the period before the acquisition, and ADK established the Special Investigation Panel (chairperson: Ayumi Uzawa—certified public accountant, certified fraud examiner; panel members: Teruhisa Ishii—attorney-at-law, Maki Kumagai—attorney-at-law) comprising neutral and fair outside experts who do not have any interests in ADK or GONZO as a response to the Questionable Accounting to promote an impartial and thorough investigation to clarify the facts pertaining to the Questionable Accounting, clarify the cause if there is an issue with the account processing pertaining to those facts, and propose measures to prevent recurrence.

ADK then received the Investigation Report from the Special Investigation Panel on January 6, 2017, but Chapter 3 in that Investigation Report indicated the possibility of recording fictitious sales using fund transactions and the existence of off-book-liabilities, which ADK did not recognize. In addition, according to the investigation by the Special Investigation Panel, there were several transactions regarding which a possibility of inappropriate account processing was indicated, but the facts could not be identified. Therefore, ADK implemented the necessary investigation with the following purposes immediately after receiving the Investigation Report.

- (1) To confirm facts regarding transactions identified in the Investigation Report
- (2) To clarify facts, investigate the validity of the account processing, and calculate the corrected amounts for transactions regarding which a possibility of inappropriate accounting was indicated but the facts were not identified in the Investigation Report
- (3) To confirm the possibility of inappropriate accounting other than the matters detailed in the Investigation Report
- (4) To investigate the cause of Questionable Accounting for the purpose of dealing with the related people and considering measures to prevent recurrence

2. Composition of investigation team, investigation period

(1) Composition of investigation team

When implementing ADK's Investigation, the investigation period was extremely limited due to constraints in the account settlement schedule. Therefore, the investigation was not a continued investigation by the Special Investigation Panel, but conducted by an investigation team formed in-house with support from outside experts. The following are the experts who supported ADK's Investigation.

KPMG AZSA LLC

Takashi Uchiyama (Partner, certified public accountant)

Twelve other people

KPMG FAS Co., Ltd.

Toshifumi Takaoka (Partner, certified public accountant)

Six other people

We received legal advice as necessary from Ryota Miura (Partner; attorney-at-law) and three other attorneys from Mori Hamada & Matsumoto.

(2) Period of the investigation

The period of ADK's Investigation is from January 11, 2016 to February 19, 2017.

3. Investigation method

ADK's Investigation was implemented through (i) interviews with people related to GONZO, (ii) analysis and examination of accounting data, (iii) inquiries about transactions and confirmation of outstanding balances with business partners, and (iv) investigation and analysis of data stored in personal computers including email (digital forensic investigation).

(1) Interviews with related people

In ADK's Investigation, ADK carried out 11 interviews, including one interview with Mr./Ms. C from GONZO's Finance and Accounting Section, and two interviews with Representative Director D of Company b, who did not cooperate in the investigation by the Special Investigation Panel.

People subject to interviews	Department, title and other information	No. of interviews
President X	Representative director and president of GONZO	1
Vice-president Y	Director and vice-president of GONZO	5
Section Manager A	GONZO Administration Department, Finance and Accounting Section Manager	1
Mr./Ms. C	Formerly GONZO's Finance and Accounting Section	1
Representative Director D	Representative director of Company b	2
Mr./Ms. X	GONZO's Finance and Accounting Section	1

(2) Inspection and examination of accounting data and related materials

In ADK's Investigation, in addition to the materials inspected and examined by the Special Investigation Panel, ADK inspected and examined Company c's accounting materials and the passbook of ordinary deposit in the name of Company c, both of which Vice-president Y refused to submit to the Special Investigation Panel, and President X's and Vice-president Y's deposit account passbooks.

(3) Inquiries about transactions and confirmation of outstanding balances with business partners

ADK inquired about transactions and confirmed outstanding balances with Company b, Company d, Company p, Company cc, and Company pp in ADK's Investigation.

(4) Digital forensics investigation

In ADK's Investigation, ADK obtained electronic data (such as emails, Word files, Excel files, and PDF files) maintained by the Special Investigation Panel, and carried out an additional analysis and examination that ADK deemed necessary.

II. Recognized facts in the findings and impact on goodwill

1. Fund transactions and sales transactions with Company c

(1) Recognized facts and findings by the Special Investigation Panel

The Investigation Report by the Special Investigation Panel indicates that GONZO has substantial control over Company c and has procured funds from Company p, which is engaged in a receivables securitization business, using Company c, as well as the facts in (a) through (e) below.

- (a) The journalization dated March 31, 2016 shows the transfer of 83,288,299 yen (i.e., the balance of funds procured from Company c) from advances received to production sales, but the advances received represents funds procured from Company p through Company c rather than sales
- (b) GONZO has not recorded any commission fees for the funds procured from Company p in or after the fiscal year ended March 2015
- (c) GONZO may have off-balance-sheet liabilities
- (d) GONZO was required to prepare consolidated financial statements from the fiscal year ended March 2015 (including the interim period), with Company c as a consolidated subsidiary
- (e) Since May 31, 2016, GONZO has also conducted insubstantial transactions with Company c related to receipt and payment of money, treating those as part of outsourced manufacturing costs

(2) Recognized facts in the results of the investigation by ADK

As a result of the interviews by ADK with the related people, the inspection and examination of Company c's accounting materials and the passbook of ordinary deposit account in the name of Company c, and the inquiries about transactions and confirmation of outstanding balances with Company p, it was confirmed that no new facts could be recognized that disprove the conclusion in the Investigation Report, that frequent financing of GONZO by Company p (through Company c) took place by way of assignment of receivables, and that there was account processing that differed to the facts regarding the transaction, and the following facts were recognized in relation to the recognized facts and findings by the Special Investigation Panel in (a) through (e) above.

- (a) The journalization dated March 31, 2016, shows the transfer of the outstanding balance of funds procured from Company c from advances received to production sales, but there is no evidence, such as agreements, regarding those transactions, and no materials that sufficiently demonstrate the existence of the sales transaction, and as indicated in the Investigation Report, they were fictitious sales.
- (b) GONZO has paid commission fees (the amount equivalent to interest) to Company p through Company c, but that payment was treated as a negative liability, and not recorded as cost. However, the commission fee (the amount equivalent to interest) is characteristically an interest payment for the

financing transaction. Therefore, as indicated in the Investigation Report, in the period from the time of the financing until repayment, interest payments should have been recorded. The following are interest payments that GONZO should have recorded in each period.

Subject period	Amount of cost to be recorded
Period ended September 2014	13,464,198 yen
Period ended March 2015	32,008,827 yen
Period ended September 2015	19,028,864 yen
Period ended March 2016	34,983,564 yen
Period ended September 2016	21,620,920 yen

- (c) It was confirmed that, as a result of the account processing in (a) and (b) above and (e) below, there were off-balance-sheet liabilities and off-balance-sheet assets as of the end of September 2016 as detailed in “(3) Impact on goodwill at the end of September 2016” below.
- (d) No new facts could be recognized that disprove the facts detailed in the Investigation Report as a result of interviews with Vice-president Y and Representative Director D of Company b, excluding those below, and GONZO was required to prepare consolidated financial statements from the fiscal year ended March 2015 (including the interim period), with Company c as a consolidated subsidiary. Furthermore, even though a fixed oral agreement was confirmed, and not a simple sham transaction, in relation to the transfer transaction of Company c shares to Representative Director D of Company b, a final transfer agreement was not entered into, and GONZO still carries out book-keeping services and services related to the receipt and withdrawal of money for Company c, and there is substantially no change in the situation whereby Company c comes under the control of GONZO. Therefore, Company c was required to be consolidated as GONZO’s subsidiary at the end of September 2016. Company c’s financial statements, which should have been consolidated at the end of September 2016, are as detailed in “(3) Impact on goodwill at the end of September 2016” below.
- (e) As a result of interviews with Vice-president Y, transactions that were handled as outsourced manufacturing costs with Company c from May 31, 2016 were substantially financing transactions from Company p through Company c, as detailed in the Investigation Report, and deposits and withdrawals of money with and from Company c are not outsourced manufacturing costs and should be treated as borrowings.

(3) Impact on goodwill at the end of September 2016

The amount of increase in goodwill at the end of September 2016 as a result of revisions to the account processing that should be made is 201,963,210 yen.

The off-balance-sheet liabilities, off-balance-sheet assets, and the understated amount of liabilities that arose from the accumulation of account processing made in error as of the end of September 2016, which is a breakdown of the increased amount of goodwill, and Company c’s financial statements are as follows.

• Off-balance-sheet liabilities (in parentheses), off-balance-sheet assets, restoration of understated amount of liabilities	
Borrowings from Company p	(134,844,409 yen)
Borrowings from Vice-president Y	(10,000,000 yen)
Unpaid liabilities to Company c	(44,897,925 yen)
Restoration of understated amount of liabilities	(18,689,421 yen)
Uncollected consumption tax	6,468,545 yen
• Company c's financial statements	
Deposits to Representative D of Company b	4,000,000 yen
Deposits to Company b	12,500,000 yen
Deposits to Company cc	23,458,684 yen
Accounts receivable from GONZO	44,897,925 yen
Borrowings from President X	(62,990,000 yen)
Borrowings from Vice-president Y	(22,674,000 yen)
Miscellaneous	807,391 yen

2. Transactions with Company b

(1) Recognized facts and findings by the Special Investigation Panel

The two following matters were indicated in the report by the Special Investigation Panel regarding transactions with Company b.

- (a) In the fiscal year ended March 2016, GONZO sold to Company b overdue foreign receivables of 48,121,938 yen, and received 12,000,000 yen from Company b as part of the consideration, but that sales transaction was a sham transaction to evade recording an allowance for doubtful accounts by contributing the purchase funds from GONZO's off-balance-sheet funds (Company c's deposit account)
- (b) Doubts regarding the background of the sales transaction with Company b (Animation mmm) with Company b as the counterparty of the transaction

(2) Recognized facts in the results of the investigation by ADK

The following facts were recognized as a result of interviews by ADK with the related people, the inspection and examination of the passbook of ordinary deposit account in the name of Company c, inquiries about transactions and confirmation of outstanding balances with Company b, and confirmation of the situation regarding GONZO's overdue trade receivables.

- (a) As indicated in the Investigation Report, the assignment transaction of 48,121,938 yen in overdue foreign receivables was a sham transaction for the purpose of evading the recording of an allowance for doubtful accounts. However, of the receivables for which no allowance for doubtful accounts was recorded as of the end of September 2016, there were no long-term overdue receivables other than the 18,600,000 yen owed against Company qq, and no additional receivables for which an allowance for doubtful

accounts should be recorded were recognized. The above receivables owed against Company qq are examined in “5. Transactions with Company qq.”

- (b) Regarding the sales transaction with Company b (Animation mmm), the reasonableness of treating Company b as the counterparty of the transaction has been confirmed. However, as a result of confirming the outstanding balance of claims and debts with Company b, it was discovered that the amount of sales was 6,695,000 yen, not 10,300,000 yen.
- (c) As a result of confirming the outstanding balance with Company b, a disparity was found between the amount of claims and obligations recognized by Company b and the amount of claims and obligations recognized by GONZO. As a result of interviews with the related people on this point, it was established that appropriate account processing has not been performed for sales transactions with Company b for outsourcing, and commission to Company b for project management and outsourcing costs for CG production services. From this, as of the end of September 2016, 5,849,658 yen in trades receivable and 6,469,863 yen in accounts payable against Company b was off the books, and 3,456,054 yen, which should have been recorded as sales, was recorded as suspense receipt. Therefore, the amount of liabilities was overstated.

(3) Impact on goodwill at the end of September 2016

The impact on goodwill as of the end of September 2016 following revisions to account processing that should be made in (2)(b) and (c) is minor as a result of setting off the increased amount of goodwill under (b) against the decreased amount of goodwill under (c).

3. Transactions with Company d

(1) Recognized facts and findings by the Special Investigation Panel

The two following matters were indicated in the Investigation Report by the Special Investigation Panel regarding transactions with Company d.

- (a) On March 31, 2016, GONZO recorded 18,518,519 yen as production sales to Company d, but that transaction was fictitious sales. Company d is an outsourcing subcontractor of GONZO, but at the same time, it is also GONZO’s financier.
- (b) GONZO recorded 25,200,000 yen, which was received from Company d on March 30, 2012, in the account for suspense receipt. Then, on the same day, GONZO recorded sales in the account for “oo return on investment.” As a result of the Special Investigation Panel analyzing emails regarding this matter, it was confirmed that it is doubtful that those sales transactions took place considering (i) the fact that Vice-president Y told Mr./Ms. C that he/she would prepare an agreement after receiving the payment despite the fact that those are investment returns; (ii) the fact that Company d is a business partner that has the nature of a financier; and (iii) the timing of the receipt of the payment. GONZO has been paying Company d 26,630,280 yen, which is the amount equivalent to the amount received above, on April 1, 2013, and from September 15, 2015 through March 15, 2016. That transaction related to withdrawal of money was recorded as a negative under temporary payment or accounts payable, and the negative amount of the temporary payment or accounts payable has been transferred to negative

amounts under extraordinary loss or outsourced manufacturing cost, respectively.

(2) Recognized facts in the results of the investigation by ADK

The following facts were recognized as a result of interviews by ADK with the related people, and the inspection and examination of GONZO's accounting data and related materials.

(a) No new facts could be recognized that disprove the findings detailed in the Investigation Report regarding production sales to Company d of 18,518,519 yen recorded on March 31, 2016, and those sales were fictitious sales. GONZO made a journal entry reverting the sales record on August 1, 2016.

(b) The actual situation regarding transactions of recorded sales of 25,200,000 yen, which was received from Company d on March 30, 2012, as "oo return on investment" and subsequent transactions recording extraordinary loss and outsourced manufacturing costs was that of a fund transaction with the copyrights as security, as explained below.

- Although there was an agreement with Company d to partially assign the copyrights, there was an oral agreement to return the assigned copyrights to GONZO at the time that the payment of the copyright fee equivalent to the deposited amount was completed.

- The works that were subject to the assignment were GONZO's major works, and at the time of the assignment, copyright income equal to or greater than the assignment consideration was foreseeable in the future. Therefore, there was an extremely high likelihood of the copyrights being returned assuming the above oral agreement.

However, the transaction was completed before the end of September 2016, and there was no impact on goodwill, other than consumption tax, at the end of September 2016.

(3) Impact on goodwill at the end of September 2016

With respect to Item (2)(a) above, there was no impact on goodwill at the end of September 2016 because GONZO made the journal entry reverting the sales record on August 1, 2016. In addition, the impact on goodwill as of the end of September 2016 following revisions to account processing that should be made in (2)(b) is minor.

4. Fund transactions between GONZO and Vice-president Y and between GONZO and President X

(1) Recognized facts and findings by the Special Investigation Panel

The following matters were indicated in the Investigation Report by the Special Investigation Panel regarding fund transactions between GONZO and Vice-president Y and between GONZO and President X.

(a) Fund transactions between GONZO and Vice-president Y

The ordinary deposit account of GONZO shows that GONZO frequently conducted fund transactions with Vice-president Y. It is recognized that those fund transactions were conducted basically for the purpose of GONZO's cash management. However, the actual condition of the fund transactions is extremely opaque and difficult to verify, which makes the

loan position and outstanding balance between GONZO and Vice-president Y at the end of each period unclear.

In addition, Vice-president Y deposited its own funds and funds procured from third parties with GONZO, but they structured this so that interest would not accrue on fund transactions between GONZO and Vice-president Y. However, based on the recognition that, at least, the funds procured by Vice-president Y from third parties are in substance GONZO's liabilities, it is possible that the amount equivalent to interest on the procured funds existed as GONZO's off-balance-sheet liabilities. That is also implied by the fact that the balance of unpaid liabilities owed to Vice-president Y became negative just before the last day of the fiscal year.

(b) Fund transactions between GONZO and President X

Dubious increases and decreases in unpaid accounts have been recognized between GONZO and President X. However, considering that (i) the increases and decreases in the unpaid liabilities owed to President X are not as significant as the unpaid liabilities owed to Vice-president Y, (ii) unpaid liabilities include remuneration payable, and (iii) President X basically was not actively involved in detailed account processing at GONZO, it cannot be recognized that there were transactions with a similar nature as the indicated suspicious fund transactions conducted by Vice-president Y.

(c) Dubious account processing to cancel the negative unpaid liabilities owed to Vice-president Y and President X

As a result of the fund transactions between GONZO and Vice-president Y, negative unpaid liabilities owed to Vice-president Y arose at the end of each of the following periods, and negative unpaid liabilities owed to President X also arose immediately before the end of the periods. GONZO handled those negative amounts in the account settlement as follows.

• Fiscal year ended March 2015

As a result of recording the payment of 117,000,000 yen to Vice-president Y as unpaid liabilities on March 2, 2015, the negative amount in the supplementary item "Vice-president Y" in the account for "unpaid liabilities" came to negative 98,706,459 yen. Of that negative amount, negative 99,006,459 yen remained at the end of the period. GONZO set off that amount against 89,291,567 yen of the 105,300,000 yen received from Company pp, which was recorded as a "suspense receipt," and cancelled the negative amount by transferring President X's unpaid outstanding balance of 9,714,892 to Vice-president Y's unpaid outstanding balance.

• Period ended September 2015

The unpaid amount owed to Vice-president Y was cancelled using the money received above from Company pp to the amounts of 26,808,433 yen, which was recorded as advances received in fiscal year ended March 2015, 2,802,870 yen, which was received from Company pp in that period, and 8,172,264 yen in cash received from Vice-president Y. As a result, the outstanding balance of the supplementary item of "Vice-president Y" in the account for "unpaid liabilities" came to 9,827,957 yen. In addition, the 12,079,574 yen cash received from President X cancelled the negative amount of unpaid liabilities owed to President X. As a result, the outstanding balance of the supplementary item of "President X" in the account for "unpaid liabilities" came to 0 yen.

The Investigation Report details how the cash received from Vice-president Y and President X in the period ended September 2015 was handled as a withdrawal to the same amount on October 1, 2015 (i.e., the day after receipt), and on October 2, 2015 (i.e., the following day), the same amount received from Company c was handled as suspense receipt. However, GONZO's account passbook has the entry of "deposit (244)," therefore, the funds of the received amount handled in the period ended September 2015 were deposited by Company c, and it is assumed in the Investigation Report that, in order to disguise the timing of recording that deposit, GONZO processed the accounts by recording the money received as "petty cash" rather than a bank transfer.

• Fiscal year ended March 2016

In the fiscal year ended March 2016, the negative unpaid liabilities owed to Vice-president Y were eliminated through the recording of unpaid liabilities of 3,335,388 yen for unclear meeting expenses and 266,830 yen in suspense consumption tax paid, as well as by being set off against the supplemental ledger balance entry of "Mr./Ms. W" for unpaid liability to the amount of 2,497,298 yen. The negative unpaid liabilities owed to President X were cancelled through unpaid liabilities of 4,203,052 yen for unclear meeting expenses and 336,244 yen in suspense consumption tax paid.

Furthermore, the 6,000,000 yen deposited by Vice-president Y, which may have used the 43,050,000 yen withdrawn from GONZO's ordinary deposit account for Company c as the funds, was handled as the unpaid liabilities on March 31, 2016, and, according to the Investigation Report, it is undeniable that that transaction may have been to cancel the negative amounts of unpaid liabilities.

(d) Possibility of misappropriation of funds by Vice-president Y

Given that the actual fund transactions between GONZO and Vice-president Y are opaque, and fund procurement from Company p through Company c has been possible since April 2014, even the possibility that Vice-president Y might have misappropriated funds for personal use cannot be ruled out.

(2) Recognized facts in the results of the investigation by ADK

The following facts were recognized as a result of interviews by ADK with the related people, inspection and analysis of Vice-president Y's and President X's personal account passbooks, as well as inquiries into GONZO's accounting data and related materials, inquiries about transactions and confirmation of outstanding balances with Company pp.

(a) Fund transactions between GONZO and Vice-president Y

As indicated in the Investigation Report, there were frequent fund transactions with Vice-president Y, and account processing reveals the supplementary item of "Vice-president Y" in the "unpaid liabilities" account. Those fund transactions were basically for the purpose of GONZO's cash management, and Vice-president Y deposited its own funds and funds procured from third parties with GONZO. Furthermore, at least, the interest payments on funds procured by Vice-president Y from third parties were in substance interest payments on GONZO's liabilities, and those interest payments were treated as negative unpaid liabilities without being recorded as cost, and therefore there were off-balance-sheet liabilities.

The off-balance-sheet liabilities owed to Vice-president Y that existed at the end of September 2016 are detailed in the breakdown of “(3) Impact on goodwill at the end of September 2016.”

(b) Fund transactions between GONZO and President X

There were fund transactions between GONZO and President X, but with less frequency than those with Vice-president Y, and as they were transactions that didn't accrue any interest, there were no off-balance-sheet liabilities by means of fund transactions.

The off-balance-sheet liabilities owed to President X that existed at the end of September 2016 are detailed in the breakdown of “(3) Impact on goodwill at the end of September 2016.”

(c) Dubious account processing in the cancellation of the negative unpaid liabilities owed to Vice-president Y and President X

• Fiscal year ended March 2015, period ended September 2015

As a result of the interviews with Vice-president Y, it was learned that, of the 117,000,000 yen transferred to Vice-president Y on March 2, 2015, 30,000,000 yen was utilized as a payment of unpaid liabilities to President X through Vice-president Y, and 30,000,000 yen was paid as unpaid liabilities to Vice-president Y. In addition, the remaining 57,000,000 yen was used to repay borrowings procured by Vice-president Y from third parties. Meanwhile, the amount of 105,000,000 yen received from Company pp on the same day was part of the consideration received through assignment of receivables to Company pp. For that reason, the negative unpaid liabilities that arose from transactions related to withdrawal of money to Vice-president Y and the suspense receipt or advances received that arose from the assignment of receivables to Company pp should not have been offset against each other. In addition, the assignment of receivables to Company pp continued to be implemented thereafter, but GONZO did not record the reduced rate, and 29,438,050 yen in reduced rates that arose before the end of September 2016 existed as off-balance-sheet liabilities at the end of September 2016.

• Fiscal year ended March 2016

With respect to the elimination of the negative amounts utilized meeting expenses in the fiscal year ended March 2016, there is no evidence to support the recording of such meeting expenses, and the amount of 7,538,440 yen recorded as meeting expenses was recorded as insubstantial costs.

(d) Possibility of misappropriation of funds by Vice-president Y

The facts surrounding the misappropriation of funds to be individually utilized by Vice-president Y were not established as a result of confirming the loan position between GONZO and Vice-president Y at the end of each period that were established as a result of the interviews with the related people and the inquiries about fund transactions between Vice-president Y and GONZO.

(3) Impact on goodwill at the end of September 2016

The amount of increase in goodwill at the end of September 2016 as a result of revisions to the account processing that should be made is 115,228,059 yen.

The amount of off-balance-sheet liabilities, etc. as of the end of September 2016,

which is a breakdown of the increased amount of goodwill, is as follows. (Increases in liabilities are in parentheses.)

Unpaid increases due to recording interest on funds procured by Vice-president Y from third parties	(78,487,698 yen)
Unpaid increases due to omissions in recording of fees for Vice-president Y	(5,233,165 yen)
Unpaid increases due to omissions in recording of remuneration for Vice-president Y	(8,550,000 yen)
Unpaid increases due to omissions in recording of fees for President X	(1,053,193 yen)
Unpaid reductions due to return of unsubstantiated record of fees in the fiscal year ended March 2016	7,538,440 yen
Unpaid increases due to recording commission fees for assignment of receivables with Company pp	(29,438,050 yen)
Miscellaneous	(4,393 yen)

5. Transactions with Company qq

(1) Recognized facts and findings by the Special Investigation Panel

The following matters were indicated in the Investigation Report by the Special Investigation Panel regarding transactions with Company qq.

- (a) GONZO treated the payment to Company qq of a total of 21,600,000 yen as suspense payment in February 2016, and in the following month on March 30, 2016, that suspense payment was transferred to other extraordinary loss in the adjustment of entries for account settlement due to the suspension of production of Animation fff. Although the details about that point are unclear, judging from factors such as the timing of the payment, the timing of the recording of the loss, and the reason for recording the loss, it is believed that it was actually some kind of lending-borrowing fund transaction that had been conducted.
- (b) In adjusting entries for account settlement for the fiscal year ended March 2016, sales of 30,000,000 yen to Company qq as a “consulting fee” were recognized, and recorded as trade receivable. A total of 29,999,160 yen in trade receivables was collected—14,999,580 yen on May 31, 2016 and August 31, 2016, respectively—in the following period, but at the same time, a total of 30,000,000 yen—10,000,000 yen on June 15, 2016, July 15, 2016, and August 15, 2016, respectively—was paid by GONZO to Company qq under the item of outsourcing costs, and the source of the aforementioned collection of trade receivables might have been the total 30,000,000 yen paid in the name of outsourcing costs. In that case, that sales transaction in the fiscal year ended March 2016 would be fictitious sales.

(2) Recognized facts in the results of the investigation by ADK

The following facts were recognized as a result of interviews by ADK with the related people, and the inspection and examination of related materials.

- (a) There were no actual consulting activities with Company qq, and the actual

situation regarding transactions related to withdrawal of money recorded as deposits, extraordinary loss, or outsourcing costs in the name of consulting fees were funds transactions. Further, if Company qq places an order with GONZO for its services, the services are ordered at the amount calculated by deducting the fund transaction balance from the appropriate amount of fees for those services.

- (b) Transactions related to the withdrawal of money recorded as extraordinary loss in fiscal year ended March 2016 were partial repayment of the funds deposited in the name of consulting fees in fiscal year ended March 2015, because orders from Company qq to GONZO were not foreseeable. In addition, transactions related to the withdrawal of money recorded as outsourcing costs three times starting from June 15, 2016 were partial repayment of the deposit of money collected on May 31, 2016 and August 31, 2016 that were recorded as trade receivables for consulting fees in fiscal year ended March 2016, because orders from Company qq to GONZO were not foreseeable. Therefore, as of the end of September 2016, trade receivables were overstated at 2,400,000 yen and deposits were understated at 10,800,000 yen.
- (c) In addition, 27,777,780 yen recorded as outsourcing costs was transferred to inventory in the adjustment entries for account settlement at the end of September 2016, but there were no asset characteristics as inventory, and so the inventory was overstated.
- (d) Furthermore, at the end of September 2016, sales in the name of consulting fees was recorded, but as stated earlier, there were no actual consulting activities, and so recording as sales was not appropriate, and trade receivables were overstated at 16,200,000 yen.

(3) Impact on goodwill at the end of September 2016

The increased amount of goodwill as of the end of September 2016 following revisions to account processing that should be made in (2)(b), (c), and (d) above is 55,066,667 yen, with 2,111,113 yen in unpaid consumption tax on the above amount.

6. Country X Project

(1) Recognized facts and findings by the Special Investigation Panel

The Investigation Report by the Special Investigation Panel indicated how, with regard to Country X Project, in the email sent by Section Manager A to Mr./Ms. C at 10:53 on September 13, 2011 with the subject “Response to Audit—Country X Project,” Section Manager A said to Mr./Ms. C that “regarding the sales that are prorated over the following period and approved on a monthly basis, you should note that sales for the amounts that have not been paid might be cancelled if you explain to the audit firm in detail that sales proceeds have not been paid as long as the purchased item remains undelivered. If sales proceeds are received during an audit period, there is no possibility they will be cancelled.” Although the details about that point are unclear, from the contents of that email, it is believed that the recording of sales might have been brought forward.

(2) Recognized facts in the results of the investigation by ADK

As a result of the interviews by ADK with the people concerned, and the

inspection and examination of related materials such as agreements, we confirmed that the recording of those sales were sales under the consulting agreement, and there were records of deposits in accordance with the agreement in GONZO's passbook of its account. Therefore, it was established that the account processing of recording sales as prorated over a certain period was appropriate.

Furthermore, the above email was a reminder by Section Manager A to Mr./Ms. C about his/her apprehensions about the possibility that, if GONZO cannot deliver products to the quality that meets the level required by the customer by the fixed date, the consultant does not pay the consulting fee to GONZO, i.e., GONZO's sales may be cancelled.

(3) Impact on goodwill at the end of September 2016

There was no inappropriate accounting under those transactions, and there is no impact on goodwill at the end of September 2016.

7. Possibility of inappropriate accounting other than the transactions detailed in the Investigation Report

(1) Recognized facts in the results of the investigation by ADK

ADK found the following inappropriate accounting as a result of implementing an inspection on the possibility of inappropriate accounting other than the transactions detailed in the Investigation Report by (1) considering the validity of those transactions if deposit transactions and withdrawal transactions of a large amount are carried out with the same business partner, (2) confirming other partners in fund transactions by inspecting the statement of cash flow, (3) inspecting GONZO's sales transaction data, and (4) implementing an additional inspection of saved email data.

(a) Inappropriate accounting in assignment transactions for Company e's equity with Company cc

GONZO received assignment of Company cc's investment equity in Company e for the consideration of 83,000,000 yen in accordance with the *Memorandum of Understanding* entered into on September 21, 2011. GONZO had a loan of 52,000,000 yen against Company cc as of the execution date of the *Memorandum of Understanding*, which it set off against the 83,000,000 yen consideration, resulting in a 31,000,000 yen debt to Company cc.

With regard to this transaction, GONZO handled each payment as a temporary payment, and recorded the amount of 13,518,518 yen (i.e. those payment amounts less consumption tax) as other extraordinary losses in fiscal year ended March 2015. GONZO subsequently recorded the amount of 11,000,000 yen paid in fiscal year ended March 2016 to the content suspense account.

However, originally, as of the execution of the *Memorandum of Understanding*, unpaid liabilities of 31,000,000 yen should have been recognized, and therefore, an unpaid outstanding balance of 5,500,000 yen as of the end of September 2016 existed as off-balance-sheet liabilities. In addition, as indicated in Chapter 2, III. "Sales from transactions with Company e," Company e was in a financial situation where it could not pay consideration to GONZO for asset management services, and there was no foreseeable improvement in the future. Therefore, the book value of

Company e's equity of 16,500,000 yen (i.e., 11,000,000 yen recorded in the content suspense account and the investment amount of 5,500,000 yen corresponding to the unpaid outstanding balance) should have been devalued to de-minimis price.

(b) Fund transactions with Company uu

GONZO recorded sales of 29,424,429 yen from Company uu in fiscal year ended March 2014 and carried out account processing for 31,734,040 yen paid to Company uu carried out on May 31, 2014 as a negative liability exemption benefit, but that transaction was a transaction related to receipt and withdrawal of money regarding fund transactions. Therefore, the recorded sales for fiscal year ended March 2014 were fictitious sales, the record of negative liability exemption benefit in fiscal year ended March 2015 was inappropriate, and the difference in the deposit and withdrawal amount should have been recorded as an interest payment following the passing of the borrowing period. However, the transaction was complete before the end of September 2016, and there was no impact on goodwill, other than consumption tax, at the end of September 2016.

(2) Impact on goodwill at the end of September 2016

The increased amount of goodwill as of the end of September 2016 following revisions to account processing that should be made in (1)(a) and (b) above is 16,180,928 yen, with 319,072 yen in unpaid consumption tax on the above amount.

III. Causes of Questionable Accounting

As a result of implementing the necessary investigation, including clarifying the related facts and considering the validity of account processing, ADK came to the conclusion regarding the causes of Questionable Accounting summarized in the two following points.

1. Accounts process varying with individuals and insufficient checks and balances function

All of GONZO's account processing is entrusted to Vice-president Y, and only Vice-president Y knows the details of fund transactions, including schemes. In addition, reports on the financial situation were not sufficiently made to the board of directors and the board of corporate auditors, and management supervision by the board of directors and management audits by the board of corporate auditors did not function. Therefore, no opportunity was given for other people to confirm the appropriateness of the account processing determined by Vice-president Y, and there was no checks and balances function at GONZO for decision making by Vice-president Y regarding the account processing.

2. Lack of normative consciousness by Vice-president Y

As detailed above, decision-making authority on account processing was concentrated in the hands of Vice-president Y, but Vice-president Y clearly intentionally carried out inappropriate accounting, such as recording fictitious sales and suppressing fund transactions, and it must be said that there was a lack of normative consciousness of complying with accounting standards.

End