January 10, 2017

Shinichi Ueno
President and Group CEO
ASATSU-DK INC.
Securities code: 9747

Notification on disclosure of "Investigation Report" compiled by the special investigation panel regarding inadequate accounting applied by a consolidated subsidiary

The special investigation panel that was set up by Asatsu-DK, INC. (hereinafter referred to as "ADK") on November 10, 2016, as explained in a news release on January 6, 2017 titled "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", for the purpose of investigating inadequate account processing during the years before ADK's acquisition of GONZO K.K. (hereinafter referred to as "GONZO"), which in fact became one of its consolidated subsidiaries on completion of such acquisition in September 2016. We herein inform you that today we received, as below, an "investigative report (for disclosure)" (the version with specific individual and client names under anonymity. It is hereinafter referred to as "Investigation Report") from the panel.

1. Summary of the special investigation panel

(1) Background of the establishment of the special investigation panel

Upon completion of the acquisition of GONZO by ADK in September, 2016, ADK was pointed out by Ernst & Young ShinNihon LLC (hereinafter referred to as "ADK's auditor") during the process of account auditing, that there was a possibility of inadequate account practice (hereinafter referred to as "such doubt in question") that GONZO had applied before it was acquired by ADK. To address such doubt in question, ADK decided to set up an investigation team that is consisted of outside experts with neutral and fair views, but without a vested interest in ADK and/or GONZO. Such team named "the special investigation panel" was established in November 10, 2016 and has proceeded strict and thorough investigation to identify fact situations in relation to such doubt in question and provide ADK and GONZO with advice on finding out the cause and taking preventive measures in case that there were any problems in account practice in relation to such fact situation.

(2) Members of the special investigation panel

Chairman Uzawa Ayumi, CPA (Representative of CPA Uzawa Accounting Firm)
Member Teruhisa Ishii, Attorney-at-Law (City Yuwa Partners)
Member Maki Kumagaya, Attorney-at-Law (Iwaida Partners)

2. Gist of the result of investigation compiled by the said panel

The gist of fact situation of such doubt in question, etc. included in the Investigation Report, attached to this news release, is described as below.;

(1) Result of investigation in relation to such doubt in question

The special investigation panel determines, as described in the part two of the Investigation Report, that any doubts in question are non-conformity with generally accepted accounting standards

(2) Other issues identified by the special investigation panel

The said panel identified, other than such doubt in question, the probable presence of fictitious sales posted using capital transaction and subsequent off-the-book debts.

3. Impact on ADK performance, etc.

(1) Matters already changed before Investigation Report was submitted

ADK reflected the investigation result compiled by the said panel, except marginal changes, in the earnings briefing for the third quarter of the year ending December 2016, released on November 7, 2016, and the semi-annual report for the same period, released on November 9, 2016. Consequently we mentioned in a news release on December 27, 2016 titled "Notification on inadequate accounting applied in past fiscal years by a consolidated affiliate" , that such event does not impact ADK performance.

What already reflected as goodwill-related matters in ADK consolidated financial statements as of the end of September, 2016

(Round-down to the million yen)

Item already corrected	Amount	[Reference] Investigation Report Content number
Anime production sales and unrealized profit	¥421 million	Part 2, 2.
Sales for Company e	¥142 million	Part 2, 3.
Basis of reporting sales in relation to pre-sale	N/A	Part 2, 4.
Other accounting issues: (Details) Sales for Company o	¥376 million ¥21 million	Part 2, 5.

Matters related to content copyright and content copyright suspense account	¥69 million	
Matters related to work-in-progress	¥274 million	
Companies with excessive debts	¥10 million	
Transaction with Company b	¥45 million	Part 3, 3.
Other	¥39 million	—
Total	¥1,025 million	

(2)Additional matters included in the Investigation Reports

As mentioned in 2. (2) above, the investigation conducted by the said panel found more issues other than such doubt in question including a possibility of fictitious sales posted and off-the-book debts which we had not recognized previously. As of the date when the report was compiled, the said panel limited its comment to the probable presence of inadequate account processing since it was unable to clarify fact situation of some transactions. We are now conducting examination necessary to confirm fact situation of the matters which we had been unable to recognize. We will inform you how it may impact on ADK performance and adequacy of tender offer price as early as the end of January 2017.

4. Further actions to take

The extraordinary shareholders' meeting of GONZO held on December 14, 2016 appointed one full-time and two part-time directors and one part-time auditor, who were selected from the lineup of ADK directors, in order to establish the appropriate internal system in GONZO, strengthening the monitoring function in finance, business management and corporate governance, and also ensuring the application of ADK Group accounting policy and unifying the internal audit standard. The said full-time director puts stronger emphasis on GONZO's financial and accounting matters including capital management.

ADK continues further investigation and examination, and we, together with GONZO, put concrete preventive measures under ADK's instruction and supervision.

Note: This is the translated version of "Investigation Report for disclosure". The original version was disclosed on January 10, 2017.

Contact:
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Investigation Report

(Published Version)

January 6, 2017

ASATSU-DK INC.

Special Investigation Panel

January 6, 2017

To: ASATSU-DK INC.

ASATSU-DK INC. Special Investigation Panel

Chairperson: Ayumi Uzawa

Panel member Teruhisa Ishii

Panel member Maki Kumagai

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Chapter 1. Overview of the Investigation

I. Overview of the Investigation

1. Background to the establishment of the Panel

ASATSU-DK INC. ("ADK") came to hold 84.01% of the voting rights of GONZO K.K. ("GONZO") as a result of the tender offer commenced on July 15, 2016 for shares issued by GONZO, following which GONZO became a subsidiary of ADK. After that, ADK's accounting auditor Ernst & Young ShinNihon LLC ("ADK's Accounting Auditor") advised ADK in the course of its accounting audit that it was likely that inappropriate account processing was being performed by GONZO (the "Questionable Accounting") and presented the document titled *Findings Regarding GONZO K.K.* dated September 26, 2016 (the "Findings Regarding GONZO") with details of the Questionable Accounting.

Consequently, ADK decided to establish a panel comprising neutral and fair outside experts who do not have any interests in ADK or GONZO to respond to the Questionable Accounting by resolution of the representative director and president of ADK on November 9, 2016 after deliberation at the meeting of the Board of Directors held on November 7, 2016. Upon that resolution, the Special Investigation Panel (the "Panel") was established on November 10, 2016.

2. Purposes of the Investigation

The purposes of the investigation by the Panel (the "Investigation") are as follows.

(i) Clarification of facts pertaining to the Findings Regarding GONZO
(ii) Clarification of the cause (including whether through willful intent or negligence of the parties involved) if there is a problem in the account processing pertaining to (i) above, and proposal of measures to prevent recurrence
(iii) Matters deemed necessary by the Panel in connection with (i) and (ii) above

A judgment on whether parties involved in inappropriate account processing are legally liable (in the case where inappropriate account processing is deemed to have been performed) is not within the scope of the purposes of the Investigation.

3. Composition of the Panel

The composition of the Panel is as follows.

Chairperson	Ayumi Uzawa	(Certified public accountant, certified fraud examiner, Uzawa Accounting Office)
Panel member	Teruhisa Ishii	(Attorney, City-Yuwa Partners)
Panel member	Maki Kumagai	(Attorney, Iwaida Partners)

In principle, the Panel is operated in accordance with the Japan Federation of Bar Associations' *Guidelines for Third-Party Committees Relating to Corporate Scandals* and the chairperson and the members of the Panel do not have any interests in ADK or GONZO.

The following people, who do not have any interests in ADK or GONZO, assisted the Panel in conducting the investigation as assistants for the Investigation.

KPMG FAS Co., Ltd.

Toshifumi Takaoka (Partner, certified public accountant)

Eiji Suga (Director, certified public accountant)

Six other people

City-Yuwa Partners

Hirofumi Nagaki (Attorney)

Taku Ichihashi (Attorney)

Two other people (attorney and one other member of staff)

Iwaida Partners

Shoichi Seino (Attorney)

Tomohiro Enoki (Attorney)

4. Period subject to the Investigation

The Panel set the period subject to the Investigation from the fiscal year ended March 2012 to fiscal year ended March 2016 (i.e., April 1, 2011 to March 31, 2016). However, the Panel also investigated matters outside of such period when deemed necessary by the Panel.

5. Investigation method

(1) Period of the Investigation

The period of the Investigation by the Panel for this Report is from November 10, 2016 to January 5, 2017.

(2) Items subject to the Investigation

The Panel gained an understanding of the details of GONZO's business through (i) interviews with people related to GONZO and inspection of related materials, (ii) analysis and examination of accounting data, and (iii) investigation and analysis of data stored in personal computers including email, and the Panel recognized facts with respect to GONZO's account processing including the account processing in which the Questionable Accounting was the subject, and clarified the cause (including whether through willful intent or negligence of the parties involved) if there was a problem in the account processing, and reviewed measures to prevent recurrence.

(3) Investigation method

The Panel held 19 meetings in total during the investigation period. Further, the specific details of the investigation conducted by the Panel were as follows.

a. Interviews with officers and employees

The Panel held interviews with the following people during the Investigation. The titles are those as of November 10, 2016, which is the date of commencement of the Investigation.

People subject to interviews	Department, title and other information
President X	Representative director and president of GONZO
Vice-president Y	Director and vice-president of GONZO
Section Manager A	GONZO Administration Department, Finance and Accounting Section Manager
Representative B ("Representative B of Audit Corporation a")	Representative of Audit Corporation a

In addition to the people mentioned above, the Panel requested interviews with (i) Mr./Ms. C from the Finance and Accounting Section of GONZO, (ii) representative director D of Company b ("Representative Director D of Company b"), and (iii) representative director E of Company c ("Representative Director E") through ADK and Vice-president Y, but as mentioned in Chapter 3, I, 2. "Restrictions on the Investigation," all of them refused the request.

Further, the Panel made a request to Section Manager A for a second interview, but Section Manager A refused that request.

b. Inspection and examination of accounting data and related materials

The Panel inspected and examined the accounting data and related materials, such as the various vouchers, that might be related to the purposes of the Investigation, and also inspected and examined related materials, such as minutes of meetings of the Board of Directors and internal regulations, to the extent deemed necessary by the Panel.

The Panel requested Vice-president Y to provide the accounting materials of Company c and passbooks of the ordinary deposit account held in the name of Company c, but Vice-president Y refused the request.

c. Digital forensics investigation

The Panel preserved electronic data (in the cloud) pertaining to the email accounts used by two directors of GONZO (President X and Vice-president Y) and electronic data (including email data) stored on personal computers used by the aforementioned two directors and one employee (Mr./Ms. C). Deleted files contained in the preserved electronic data that had been stored on personal computers were restored.

After that, the Panel analyzed and examined the preserved electronic data (such as emails, Word files, Excel files and PDF files) that was deemed necessary by the Panel.

II. Overview of GONZO

1. Overview of GONZO

The following is an overview of GONZO.

(as of September 30, 2016)

Company name	GONZO K.K.
Exchange on which GONZO is listed	Unlisted
Account settlement period	Accounts are settled in March
Shareholder structure	ASATSU-DK INC. (84.01%)
Representative	Representative director and president X
Head office location	17-13 Narita Higashi 5-chome, Suginami-ku, Tokyo
Number of employees	45 (as of March 31, 2016)
Business details	Planning and production of animation for TV and animation for theater, contribution to production consortium, etc. and acquisition and licensing of secondary usage rights pertaining to animation works
Accounting auditor	Audit Corporation a

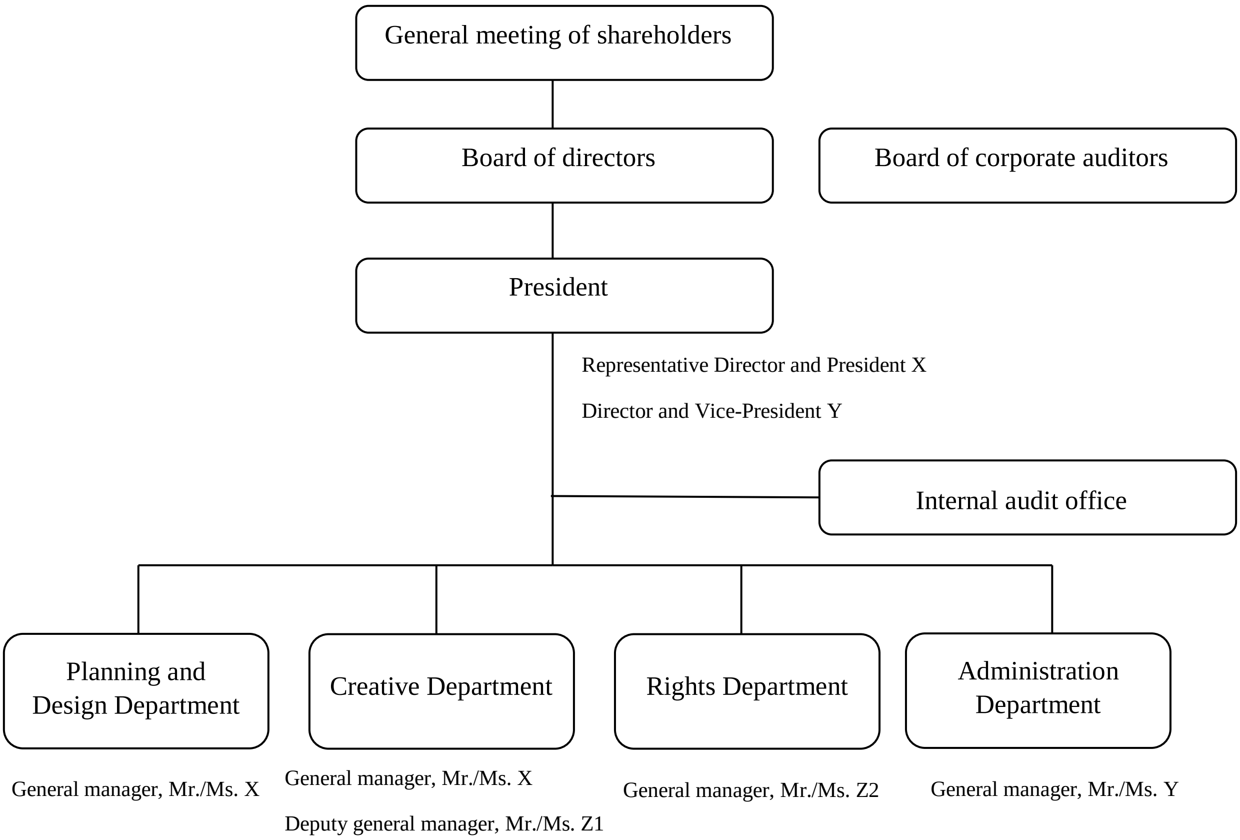
2. History of GONZO

The following is an overview of the history of GONZO.

Month and year	Overview
September 1992	Incorporation of GONZO Ltd. in Higashi Koigakubo, Kokubunji-shi, Tokyo
May 1996	Incorporation of Digimation K.K. in Gohongi, Meguro-ku, Tokyo
May 1999	Organizational change from GONZO Ltd. to GONZO K.K.
February 2000	Incorporation of GONZO Digimation Holding K.K., and GONZO K.K. and Digimation K.K. made subsidiaries thereof
April 2002	Absorption-type merger of GONZO K.K. into Digimation K.K. and change of trade name to GONZO Digimation, K.K.
December 2003	Relocation of head office to Nishi Shinjuku 4-chome, Shinjuku-ku, Tokyo
July 2004	Change of trade name from GONZO Digimation Holding K.K. to GDH K.K. Change of trade name from GONZO Digimation K.K. to GONZO K.K.
November 2004	Shares listed on the Tokyo Stock Exchange Mothers market
July 2005	Incorporation of GONZINO K.K. as wholly-owned subsidiary
December 2005	Incorporation of GDH CAPITAL K.K. as wholly-owned subsidiary
October 2008	Company mm became the parent company of GDH K.K.
November 2008	Transfer of all shares of GDH CAPITAL K.K. to YAYOI LLC
April 2009	Absorption-type merger of GONZO K.K. into GDH K.K. and change of trade name to GONZO K.K. Relocation of head office to Toyotamanaka 2-chome, Nerima-ku, Tokyo
July 2009	Shares delisted from the Tokyo Stock Exchange Mothers market
October 2010	Relocation of head office to Narita Higashi 5-chome, Suginami-ku, Tokyo
May 2012	Incorporation of OKINAWA GONZO K.K. as a wholly-owned subsidiary of GONZINO K.K.
September 2016	ASATSU-DK INC. became the parent company of GONZO K.K.

3. Organizational structure of GONZO

The following is an outline of the structure of GONZO, which is based on GONZO's most recent organization chart as of June 30, 2015 obtained by the Panel.



4. Performance history of GONZO

The following is the performance history of GONZO.

(1) Profit and loss of GONZO

The following is the profit and loss of GONZO.

a. Consolidated financial statements

Fiscal year	Sales	Ordinary income	Net income
Fiscal year ended March 2003	2,494 million yen	174 million yen	245 million yen
Fiscal year ended March 2004	4,418 million yen	286 million yen	223 million yen
Fiscal year ended March 2005	6,294 million yen	466 million yen	315 million yen

Fiscal year	Sales	Ordinary income (loss)	Net income (loss)
Fiscal year ended March 2006	7,247 million yen	429 million yen	254 million yen
Fiscal year ended March 2007	8,712 million yen	(1,932 million yen)	(2,594 million yen)
Fiscal year ended March 2008	6,853 million yen	(3,492 million yen)	(3,752 million yen)
Fiscal year ended March 2009	6,332 million yen	(2,351 million yen)	(3,401 million yen)
Fiscal year ended March 2010	1,830 million yen	(320 million yen)	28 million yen
Fiscal year ended March 2011	936 million yen	89 million yen	43 million yen
Fiscal year ended March 2012	1,393 million yen	168 million yen	113 million yen
Fiscal year ended March 2013	1,103 million yen	272 million yen	149 million yen

GONZO has not prepared consolidated financial statements since those for the fiscal year ended March 2013 because its consolidated subsidiaries ceased to exist at the end of the fiscal year ended March 2013.

b. Non-consolidated financial statements

Fiscal year	Sales	Ordinary income	Net income
Fiscal year ended March 2012	1,368 million yen	172 million yen	117 million yen
Fiscal year ended March 2013	1,095 million yen	266 million yen	159 million yen
Fiscal year ended March 2014	1,655 million yen	302 million yen	440 million yen
Fiscal year ended March 2015	1,214 million yen	328 million yen	403 million yen
Fiscal year ended March 2016	1,458 million yen	390 million yen	491 million yen

(2) Financial condition of GONZO

The following is GONZO's financial condition.

a. Consolidated financial statements

Fiscal year	Net assets (liabilities)	Total assets
Fiscal year ended March 2003	1,167 million yen	3,384 million yen
Fiscal year ended March 2004	1,463 million yen	5,408 million yen
Fiscal year ended March 2005	2,700 million yen	7,478 million yen
Fiscal year ended March 2006	3,030 million yen	12,375 million yen
Fiscal year ended March 2007	3,869 million yen	13,367 million yen
Fiscal year ended March 2008	167 million yen	6,693 million yen

Fiscal year ended March 2009	(2,729 million yen)	2,376 million yen
Fiscal year ended March 2010	(2,696 million yen)	1,117 million yen
Fiscal year ended March 2011	(2,653 million yen)	743 million yen
Fiscal year ended March 2012	(2,566 million yen)	882 million yen
Fiscal year ended March 2013	(2,427 million yen)	714 million yen

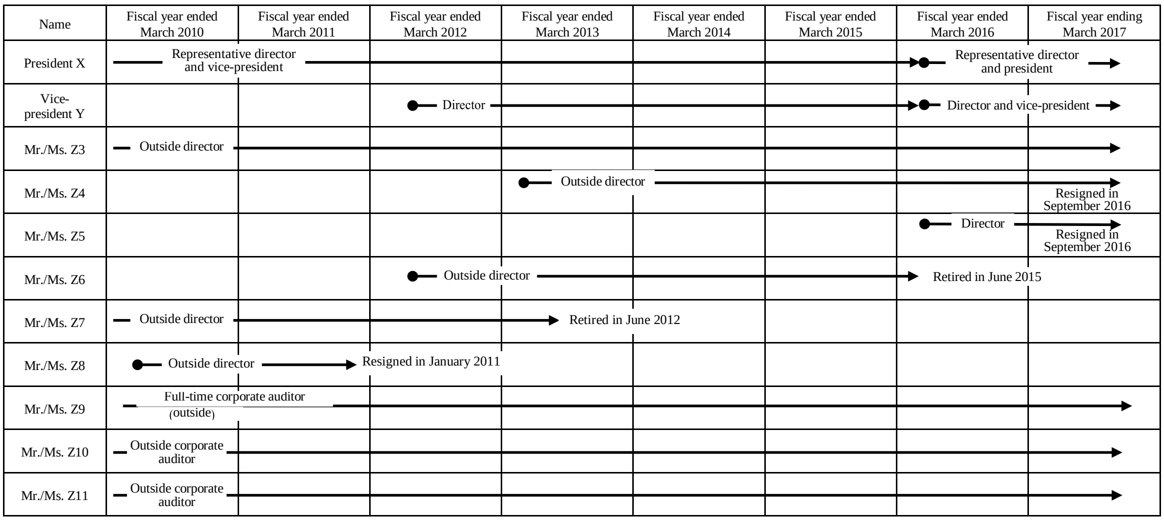
GONZO has not prepared consolidated financial statements since those for the fiscal year ended March 2013 because its consolidated subsidiaries ceased to exist at the end of the fiscal year ended March 2013.

b. Non-consolidated financial statements

Fiscal year	Net assets (liabilities)	Total assets
Fiscal year ended March 2012	(2,586 million yen)	901 million yen
Fiscal year ended March 2013	(2,427 million yen)	714 million yen
Fiscal year ended March 2014	(1,987 million yen)	996 million yen
Fiscal year ended March 2015	(1,584 million yen)	948 million yen
Fiscal year ended March 2016	(1,092 million yen)	1,412 million yen

5. Changes in the management of GONZO

The following table shows the changes in the management of GONZO.



III. Overview of the findings of the Investigation

The following is an overview of the findings of the investigation by the Panel. As mentioned above, the Panel made a request for the provision of important accounting material and for interviews with the people related to GONZO in the course of the investigation, but the request was refused. Please note that, for that reason, some important investigation procedures were not taken.

1. Questionable Accounting

The Panel determined that the account processing related to the Questionable Accounting indicated by ADK's Accounting Auditor does not conform to the generally accepted accounting principles (see "Chapter 2. Matters raised by ADK's Accounting Auditor").

In particular, the recording of sales was brought forward for the amount of sales for animation production.

2. Possibility of recording of fictitious sales and existence of off-balance-sheet liabilities

As a result of the investigation by the Panel, it was found that, in addition to the Questionable Accounting, there is a possibility that fictitious sales were recorded and off-balance-sheet liabilities existed in relation thereto (see "Chapter 3. Other issues identified in the Investigation").

Specifically, (i) the possibility of recording of fictitious sales using funds transactions with Company c (fiscal year ended March 2016) and the existence of off-balance-sheet liabilities (fiscal year ended March 2015, fiscal year ended March 2016 and as of the date of this Report), (ii) sham transactions to evade the recording of allowance for doubtful accounts pertaining to overdue receivables using funds transactions with Company b and Company c (fiscal year ended March 2016), and (iii) the recording of fictitious sales using funds transactions with Company d (fiscal year ended March 2016) and other matters were found. All such transactions are deemed to have been conducted at the initiative of Vice-president Y.

Chapter 2. Matters raised by ADK's Accounting Auditor

I. Matters raised by ADK's Accounting Auditor

The Panel investigated the Findings Regarding GONZO listed below.

- Sales/trade receivable
  - (i) Basis for recording revenue pertaining to the amount of production sales (see "II. Sales from animation production and unrealized profit")
  - (ii) Sales from transactions with Company e (see "III. Sales from transactions with Company e")
  - (iii) Basis for recording sales pertaining to presale (see "IV. Basis for recording sales pertaining to presale")
  - (iv) Deduction of unrealized profit (see "II. Sales from animation production and unrealized profit")
  - (v) Other matters related to sales/trade receivable

- Other
  - (vi) Content copyright and content copyright suspense account
  - (vii) Works in progress
  - (viii) Consolidation

(For these items, see "V. Other accounting issues")

The following are the facts, etc. discovered as a result of the investigation by the Panel pertaining to the aforementioned Findings Regarding GONZO.

II. Sales from animation production and unrealized profit

1. Identified issues

The principal business of GONZO is animation planning and production focused on animation works for TV ("animation production"). GONZO adopts the split acceptance basis as its basis for recording revenue related to animation production, but the Finding Regarding GONZO indicates that it is not appropriate to apply such basis on the grounds that, among other facts, (i) some projects without production agreements have been discovered, and (ii) a delivery statement has not been exchanged at any stage of the split acceptance.

2. Premises identified as a result of investigation

(1) Revenue scheme for animation production

Production of animation (i.e., the work involved in placing animation on the market, including financing, etc.) is carried out by a production consortium or special purpose company formed for each individual work (collectively, the "Production Consortium, etc."), but GONZO accepts orders and receives consideration for animation production from the Production Consortium, etc. and, in addition, gains income based on a claim for revenue distribution in proportion to the contribution ratio by making contributions itself to the Production Consortium, etc.

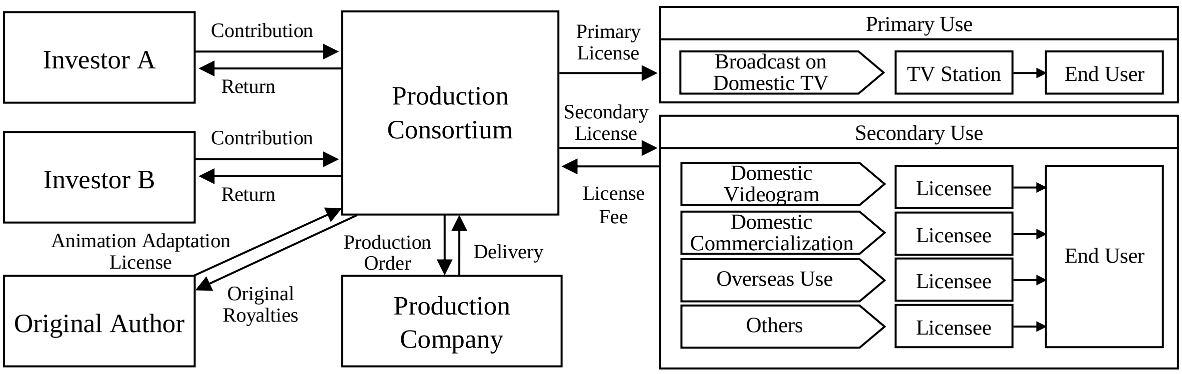
In addition to the above, GONZO, in some cases, engages in marketing activity for secondary usage rights (meaning related business rights pertaining to animation works, which include, specifically, videogram rights, overseas usage rights, commercialization rights, gaming rights, and other similar rights) of animation works for the benefit of the Production Consortium, etc., and receives a sales commission.

a. Production consortium scheme

"Production consortium" means a partnership formed by multiple corporations in connection with raising funds necessary for the production of animation works, films and the like.

The following is a diagram of the scheme using a production consortium.

Production consortium scheme diagram



(Source: GONZO Securities Report for the 17th Fiscal Year (Fiscal Year Ended March 2016))

Production consortiums to which GONZO makes contributions do not, as a general rule, receive any license fee as consideration for primary use by a TV station that uses animation works on a primary use basis. Hence, in this scheme, the production consortium produces the content of animation works and acquires end users through broadcast on TV and the like, thereby promoting secondary use to earn revenue by receiving license fees as consideration for the secondary license.

When doing so, GONZO may sometimes engage in marketing activities for the sale of secondary usage rights.

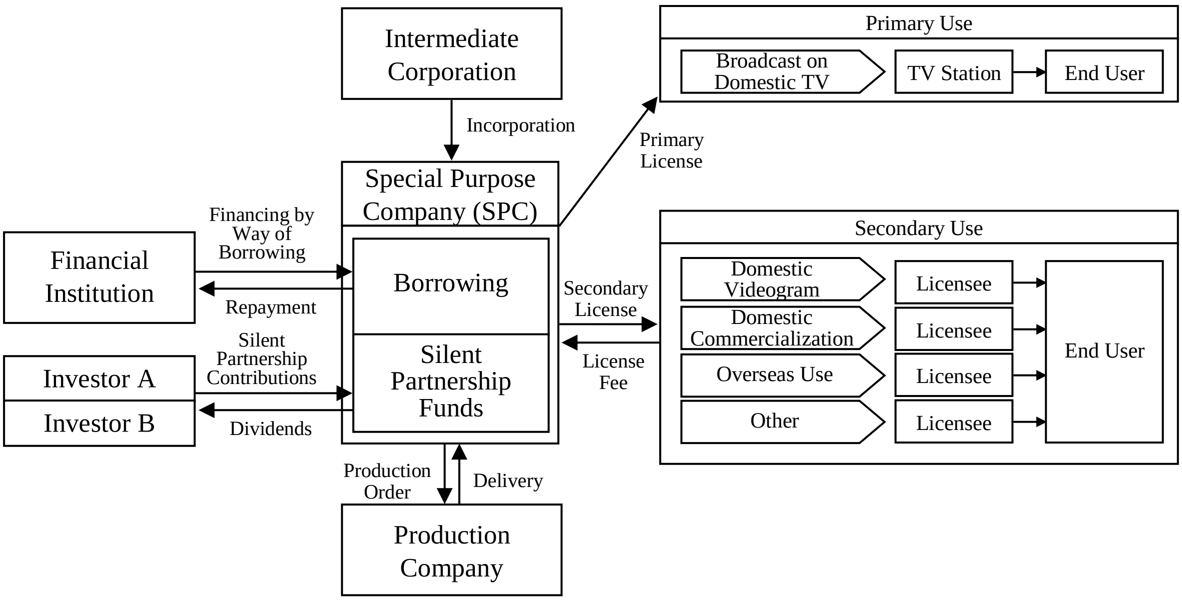
Accordingly, in this scheme, in the case where GONZO is an investor and production company to the production consortium, GONZO's primary source of income consists of (i) revenue from funds procured by the production consortium, which it receives as consideration for animation production, by accepting the outsourcing of the animation production by the production consortium as a production company, (ii) copyright income received as an investor based on a claim for revenue distribution in proportion to the contribution ratio, and (iii) sales commissions as consideration for marketing activities for secondary usage rights.

b. Special purpose company (SPC) scheme

"Special purpose company" ("SPC") means a specific purpose company defined in Article 2, Paragraph 3 of the Act on the Securitization of Assets ("Specific Purpose Company") and any other entity engaging in businesses equivalent to that of a Specific Purpose Company that is restricted in its ability to change the content of business.

The following is a diagram of a scheme using an SPC.

Scheme diagram when using financing from a financial institution



(Source: GONZO Securities Report for the 17th Fiscal Year (Fiscal Year Ended March 2016))

In the scheme using an SPC, the major revenue for GONZO is the same as that in the case of the production consortium scheme.

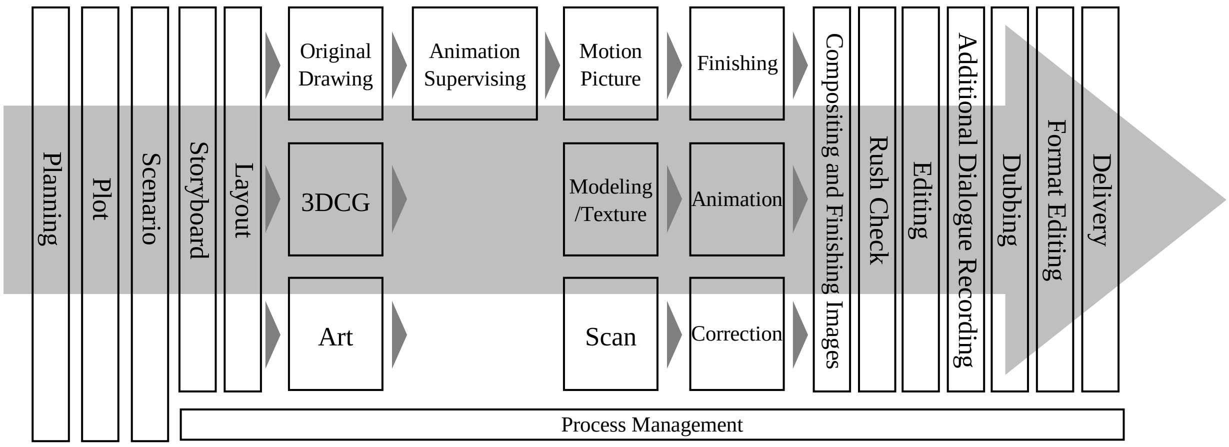
c. Consideration for animation production

In the case where GONZO is a production company of animation works, GONZO usually receives funds for production costs from the Production Consortium, etc. in installments pursuant to a joint business agreement or other arrangement concerning the formation of the Production Consortium, etc. ("Production Partnership Agreements"). In most cases, payment is made by a production consortium in three to five installments, and the final payment is made after the broadcast of all episodes has ended.

In the production consortium scheme, if GONZO is the lead company of the production consortium, funds are paid by contributors directly to GONZO, and if any company other than GONZO is the lead company of the production consortium, funds are paid by such lead company directly (or through another prime contractor) to GONZO.

(2) Flow of animation production at GONZO

The following is the general production process of animation production at GONZO. In animation production accepted by GONZO through outsourcing, while one season (quarter) is composed of approximately thirteen episodes, according to the explanation by President X, planning and pre-production are carried out for all episodes, but at the stages of main-production and post-production thereafter, work for each episode takes place in parallel. However, even if the planning and pre-production are not completed for all episodes, pre-production and main-production may be initiated prior to the regular schedule for some episodes.



(Source: GONZO Securities Report for the 17th Fiscal Year (Fiscal Year Ended March 2016))

a. Planning

"Planning" is the starting point of content, to clarify what to communicate through video expression and to invent or otherwise produce a base concept and visual image.

b. Pre-production

"Pre-production" means the preparation of plots and scenarios. "Plot" means a summary based on planning, and is prepared mainly by a screenwriter. After determining the plot, the scenario is prepared. It takes about one year from the planning to the end of pre-production. During this period, mainly GONZO personnel mainly engage in the work, although some outsourcing companies are used. Therefore, the amount of costs incurred is less than that incurred at the main-production stage.

c. Main-production

"Main-production" means the process of (i) storyboard and layout, (ii) original drawing, animation supervising, motion picture, and finishing, (iii) 3DCG, modeling, texture, and animation, and (iv) art, scan, and correction work. At the main-production stage, many outsourcing companies are used. Therefore, the largest amount of costs is incurred at that stage.

d. Post-production

"Post-production" means the process of compositing and finishing images, rush check, editing, additional dialogue recording, dubbing and format editing work.

e. Delivery

After going through the foregoing processes, animation works are delivered as deliverables upon being aligned to the designated format, and broadcasted on TV and other media.

Finished animation works are delivered in units of the number of episodes. GONZO delivers an animation work on an episode basis to a TV station or other media immediately prior to the date on which the TV station or other media broadcasts it (i.e., on such day or a few days earlier).

3. Facts revealed as a result of the investigation

The following are the facts revealed during the investigation regarding the appropriateness of GONZO's basis for recording revenue for animation production.

The following explanation is primarily based on the production consortium scheme.

(1) Status of GONZO's sales recording related to animation production

a. Period of listing

In November 2004, GONZO listed its shares on the Mothers market of the Tokyo Stock Exchange, but it was delisted in July 2009, because its liabilities exceeded its assets for two consecutive fiscal years. In this Report, the period from November 2004 to July 2009 is referred to as the "period of listing."

During the period of listing, GONZO regarded the time of delivery of deliverables for each number of episodes (namely, the time when the animation production is completed and deliverables are delivered to a TV station or other media for each number of episodes) as the time of revenue recognition (the "Revenue at Time of Delivery") in respect of the sales related to animation production.

Therefore, funds received from a production consortium during the animation production period were recorded as "advances received" and thereafter, the amount on an episode basis calculated by dividing the aggregate amount of money received in relation to the animation production (excluding the amount recorded as development sales) by the entire number of episodes was recorded as the sales at the time of delivery of each number of episodes.

b. After delisting (present)

At some point after delisting, GONZO changed its basis for recording revenue. In the fiscal year ended March 2016, depending on the progress of the animation production, a fund provider or a lead company (the "Fund Provider, etc.") negotiated with a producer on site, and upon agreeing on reaching a certain level of progress of animation production, the timing of GONZO issuing a billing statement to the Fund Provider, etc. was regarded as the time of revenue recognition (the "Revenue at Time of Billing Statement").

c. Timing of change of the basis for recording revenue

As mentioned above, GONZO's basis for recording revenue for animation production was Revenue at Time of Delivery during the period of listing and immediately after delisting, but thereafter, GONZO changed it to Revenue at Time of Billing Statement. In this regard, the Panel compared the timing of recording advances received, the timing of recording sales, and the timing of broadcast of each animation work (close to the timing of delivery), and found that GONZO already changed its basis for recording revenue to Revenue at Time of Billing Statement in the fiscal year ended March 2013 at the latest based on the fact that (a) the month of broadcast of each work is almost consistent with the timing of recording sales from such work until the fiscal year ended March 2012, (b) while sales are recorded in respect of the animation works known as Animation aaa, Animation bbb and Animation ccc in March 2013, these animation works were broadcasted after April 2013, and (c) even after the fiscal year ended March 2013, GONZO continued the trend of recording its sales before the broadcast of animation works.

These facts are also backed by the following emails sent by Mr./Ms. C (the person in charge of accounting) to Vice-president Y.

(i) At the time of the monthly account settlement for April 2013, Mr./Ms. C emailed Vice-president Y saying that "I am currently settling the monthly accounts for April. I am circulating the cost, but Animation aaa #1-4 episodes have been delivered. How should I record the sales? At the end of March of fiscal year 2013, the amount of 90,772,500 yen received from Company f was jointly recorded as sales under Animation aaa. As of the end of April, there are no advances received relating to Animation aaa. Also, no second billing statement has been issued to Company f. ●●● (sic) /production sales for Animation aaa #1-4 have not been recorded. Is that alright? Also, in the same manner as Animation ggg, will the common expenses be transferred to each number of episodes?" (Email Material 1 *Email sent by Mr./Ms. C to Vice-president Y at 15:04 on May 27, 2013 with the subject "Re: April sales recording"*).

Based on the fact that, with respect to the animation work Animation aaa, (i) advances received from Company f (i.e., the Fund Provider, etc.) were transferred to sales and sales in the amount of 86,450,000 yen was recorded in March 2013, which is prior to the broadcast of such animation work, and (ii) if Revenue at Time of Delivery was applied, the sales from such work should have been recorded immediately prior to the broadcast, namely, in and after April 2013, it is presumed that this email was sent by Mr./Ms. C, the person in charge of accounting, to enquire to Vice-president Y about the future method of the accounts process ("How should I record the sales?") because there were no advances received that were to be transferred to sales at the time of delivery to a TV station ("there are no advances received relating to Animation aaa.") since sales recording with respect to Animation aaa in the fiscal year ended March 2013 had been processed in a different manner to that used until that time.

The Panel believes that the phrase "I am circulating the cost" in the words of Mr./Ms. C means "I am conducting cost accounting" in conducting the monthly account settlement for April 2013 given the fact that at the time of April 2013, cost accounting was conducted on a monthly basis. Moreover, at that time, cost accounting was conducted, and items to be recorded as works in progress and items to be recorded as cost of sales were determined, based on whether completed products were actually delivered to a TV station.

(ii) At the time of the monthly account settlement for June 2013, Mr./Ms. C also emailed Vice-president Y saying that "the monthly account for June has been closed. However, I don't know what to do with the sales recording of Animation ccc and Animation aaa. Please confirm the advance receipt account of 14,994,000 yen (Animation aaa?) for Company f and 9,082,500 yen (Animation ccc) for Company g, and instruct further." (Email Material 2 *Email sent by Mr./Ms. C to Vice-president Y at 17:29 on July 22, 2013 with the subject*

"Monthly account for June").

With regard to the animation work Animation ccc, based on the fact that even though such work was broadcasted in July 2013, GONZO recorded sales in the amount of 51,900,000 yen as trade receivable in March 2013 (which is before the broadcast), it is presumed that the email was sent by Mr./Ms. C to enquire to Vice-president Y, again in July 2013, about the accounts process method after applying the sales recording process in a different manner to that used until that time ("I don't know what to do with the sales recording of Animation ccc and Animation aaa.").

d. Response of GONZO's accounting auditor

Vice-president Y explains that he/she does not clearly remember when the basis for recording revenue was changed to Revenue at Time of Billing Statement, but such change was made in line with a change in the actual situation, and at the time of the change of the basis, Vice-president Y confirmed it in advance with Representative B of Audit Corporation a (Representative B was the person in charge at Audit Corporation a, which was GONZO's accounting auditor) and obtained his/her consent to the change. In this regard, when confirming with Representative B of Audit Corporation a, he/she was unclear about the timing, but could remember being consulted with by Vice-president Y. However, when the Panel confirmed with Representative B of Audit Corporation a about the status of audit procedures to determine the change to Revenue at Time of Billing Statement, he/she consistently explained that he/she thought the receipt of money would serve as strong evidence to prove the acceptance, and the Panel did not identify any situation that Representative B of Audit Corporation a himself investigated in detail regarding the change in the actual situation explained by Vice-president Y.

(2) Background to the change of the basis for recording revenue

a. Explanation by Vice-president Y

According to the explanation by Vice-president Y, after delisting, orders for animation production in units of one season ceased to come in and GONZO became mainly engaged in "gross projects" (i.e., projects in relation to which GONZO is not a production company for the entire season, but accepts orders for animation production in units of the number of episodes as a subcontractor of a production company). In the gross projects, consideration was paid after the delivery in units of the number of episodes, so revenue was recognized based on Revenue at Time of Delivery.

According to Vice-president Y, orders for animation production in units of one season have subsequently increased gradually, but because of delisting and GONZO's financial condition still being in a state of liabilities being in excess of assets, GONZO's creditworthiness declined, and advances received ceased to be paid in the early stages as was the case during the period of listing, and funds came to be paid at the time when a certain level of progress in the animation production was confirmed by the Fund Provider, etc. In this regard, according to the explanation by President X, the background to this situation is that a number of cases where an animation production company does not use advances received for its production costs and diverts them for other purposes have surfaced, and the Fund Provider, etc. is concerned about the diversion of production funds.

As seen above, Vice-president Y asserts that because, after delisting, funds came to be paid by the Fund Provider, etc. based on the progress of the animation production work, the actual condition has changed from that during the period of listing. In summary, Vice-president Y asserts that, during the period of listing, GONZO received funds from the Fund Provider, etc. as advances received in the early stages based on its creditworthiness as a listed company, irrespective of the progress of the animation production work, and it therefore recognized revenue at the time of delivery of completed products related to animation production to a TV station, but after delisting, the Fund Provider, etc. came to pay funds only after confirming the actual progress of the animation production work, as a result of which, GONZO came to issue a billing statement upon consultation and agreement with the Fund Provider, etc., and since delisting, the actual condition has changed from that during the period of listing.

b. Recognition of President X

According to the explanation by Vice-president Y, the change from Revenue at Time of Delivery to Revenue at Time of Billing Statement in line with the changes in the actual condition of GONZO's animation production was not communicated to President X. Moreover, according to the explanation by President X, President X's understanding was that GONZO's basis for recording revenue for animation production was Revenue at Time of Delivery until the first half of 2016, and President X first knew of the change to Revenue at Time of Billing Statement when responding to the financial and tax due diligence by Company h in connection with ADK's acquisition of shares in GONZO (the "Financial DD").

(3) Examination of Vice-president Y's explanation

a. Regarding "delivery of product" of some kind

Vice-president Y asserts that the funds received from the Fund Provider, etc. implies, during the period of listing, that there were "advances received" to be received irrespective of the progress of the animation production work, but after delisting, such funds implies those received only when the person in charge at the Fund Provider, etc. confirmed the progress of the animation production work and approved the issuance of a billing statement at a monthly meeting also attended by the person in charge at the Fund Provider, etc., in other words, such funds are consideration for the animation production work until money is received.

However, the explanation by Vice-president Y on this matter is vague and changed during the interview. Vice-president Y explained at the beginning of the interview that GONZO delivers products of some kind, but when the Panel asked for an explanation of concrete details thereof, Vice-president Y merely answered that he/she did not have a good understanding of the animation production field and asked the Panel to question President X, or stated that only a producer on site knew. Eventually, Vice-president Y stated, "The actual delivery of a product has no meaning. We hold a meeting every week, and the person in charge at the Fund Provider, etc. also confirms the progress," and asserted that funds received were not consideration for a product, but consideration for work confirmed.

The Panel then asked Vice-president Y for a concrete explanation about how the Fund Provider, etc. confirms the progress of the animation production work and other information, but Vice-president Y merely provided an explanation that they hold a meeting every week, and even when the Panel requested submission of supporting documents (such as an acceptance certificate of work issued by the Fund Provider, etc. or minutes of the meeting to confirm the progress), Vice-president Y answered there were no such items.

Given the above facts, it is difficult to confirm that the explanations by Vice-president Y have been provided based on the actual condition of GONZO's animation production, etc.

b. Purpose of receipt of money from the Fund Provider, etc. to GONZO

The Fund Provider, etc. remits funds to GONZO, etc. as a contribution to the production consortium pursuant to the Production Partnership Agreements, etc. In this regard, the timing of the execution, background to the negotiations on the execution and the like, of the Production Partnership Agreements are not clear. Therefore, it cannot be denied that the amount of funds provided and the timing of the contribution might be stipulated in a production partnership agreement as a result of negotiations between GONZO, which has an incentive to receive funds as soon as possible, and the Fund Provider, etc., which has an incentive to pay funds as late as possible. Moreover, the Panel believes that the Fund Provider, etc. understands as a matter of course that the amount of funds provided would be applied to the production costs of GONZO, which is a production company.

However, based on the fact that there is no evidence proving confirmation by the Fund Provider, etc. of the progress of work at a monthly meeting with GONZO, or an agreement on the payment of consideration for such work, and that no explicit cause-and-effect relationship is recognized between the progress of the work and the amount of funds provided, the Panel believes that the Fund Provider, etc. recognizes that the funds it contributes are only a contribution to a production consortium, and recognizes that such funds would be applied to production costs, but does not recognize that such funds consist of a payment as consideration for results based on the progress of the work.

Hence, the explanation by Vice-president Y that the Fund Provider, etc. remits funds to GONZO as consideration for the progression of work is considered not to conform to the actual condition.

c. Reduction in man-hours for the administration of advances received due to reduction in personnel in administration department

Vice-president Y explained the fact that the number of personnel in the administration department was reduced and man-hours for administrative operations were required to be reduced serves as one of the reasons for a change from Revenue at Time of Delivery to Revenue at Time of Billing Statement. In summary, Vice-president Y explained that because, after delisting, GONZO reduced the number of personnel in the administration department and administrative operations have been carried out by limited personnel for the purpose of cost saving, it changed to Revenue at Time of Billing Statement in order to reduce man-hours for administrative operations of advances received. Vice-president Y further explained that, as a proof thereof, monthly account settlement was abolished and changed to account settlement on a semi-annual basis in order to reduce man-hours for cost accounting on a monthly basis.

However, the monthly account settlement was abolished from October 2013, and as mentioned above, a change to Revenue at Time of Billing Statement was already made in the fiscal year ended March 2013 at the latest. Thus, GONZO made a change to Revenue at Time of Billing Statement while conducting monthly cost accounting. However, as long as it conducts cost accounting, a change to Revenue at Time of Billing Statement does not totally contribute to the reduction in administration man-hours. Therefore, the explanation by Vice-president Y in this regard lacks rationality.

d. Explanation to the bank

In an email (Email Material 3) sent by Vice-president Y to Mr./Ms. F at the Financing Management Division of Bank i ("Mr./Ms. F of Bank i") at 12 p.m. on July 1, 2014 in replying to an inquiry by Mr./Ms. F of Bank i about the basis for GONZO recording sales, Vice-president Y provided the answer of Revenue at Time of Delivery for production.

On this point, as stated above, given the fact that the basis for recording revenue was already changed to Revenue at Time of Billing Statement in the fiscal year ended March 2013 at the latest, the Panel can only conclude that Vice-president Y's answer to Mr./Ms. F of Bank i did not conform to the facts. It is suspected that as Vice-president Y was aware that the appropriate basis for recording revenue in animation production should be Revenue at Time of Delivery, Vice-president Y did not state GONZO's actual condition to Mr./Ms. F of Bank i.

e. Provision of accounting regulations

Article 52 (Sales) of GONZO's accounting regulations (last revised on January 1, 2009) stipulates that "In planning and production sales, sales shall be recorded at the time of delivery."

f. Description in the annual securities report

In *II (Business Status), 7 (Analysis of Financial Condition, Operating Results and Cash-flow Status), (1) Important Accounting Policies and Estimates* of GONZO's annual securities report for fiscal year ended March 2016, GONZO stated with regard to inventories, "With respect to works in progress, all costs for products for which delivery is complete are recorded as cost.

All costs for planned projects are also recorded as cost, in principle."

From this description, the Panel believes that sales are recorded when delivery of products has been completed, and works in progress as corresponding cost are all recorded as cost for products the delivery of which is completed.

g. Conditions in January 2015

GONZO abolished the monthly account settlement process from October 2013, and adopted the semi-annual account settlement process from November 2013. Accordingly, while journal entries for funding transactions and payments to outsourcing companies were processed monthly, funds received from the Fund Provider, etc. for animation production were processed in accounts as advances received or suspense receipt during the fiscal period, and then transferred to the amount of production sales at the end of the fiscal period.

However, GONZO transferred advances received, etc. to the amount of production sales in January 2015, although the month was not the end of the fiscal period. This act is thought to have been conducted assuming the disclosure to third parties of GONZO's operating results and financial condition as of January 2015.

Vice-president Y did not provide specific reasons for the transfer.

h. Summary

Although Vice-president Y explained that GONZO had changed the basis for recording revenue for animation production from Revenue at Time of Delivery to Revenue at Time of Billing Statement to reflect the change of actual conditions in animation production, the change in actual conditions as asserted by Vice-president Y was not recognized. Therefore, explanations by Vice-president Y on this point are not reliable.

In addition, Vice-president Y's explanations concerning the purpose of receipt by GONZO from the Fund Provider, etc., as well as reductions in the administration man-hours are unreasonable.

Furthermore, given the fact that Vice-president Y informed Mr./Ms. F of Bank i of the use of Revenue at Time of Delivery for animation production, Vice-president Y was likely aware that the basis for recording revenue for animation production should be Revenue at Time of Delivery.

The accounting regulations stipulate to employ Revenue at Time of Delivery, and it is recognized that the description in the annual securities report also assumes Revenue at Time of Delivery.

Based on the matters above, the Panel cannot refute that Vice-president Y likely provided the false statement that Vice-president Y recognized Revenue at Time of Billing Statement as being the appropriate accounting process.

(4) Revenue recognition at GONZO

Considering GONZO's actual condition in animation production, it is determined that the basis for recording revenue in animation production should be Revenue at Time of Delivery, which had been employed during the period of listing. In other words, revenue should be recognized at the time when the animation production is completed and each episode has been delivered to the TV station or other media.

Accordingly, it is not acceptable to treat services at the planning and pre-production stage (needless to say, there is no delivery of each story) as independent services, and record development sales upon the receipt of a set amount immediately after the planning and pre-production stage, without any agreement with a consignor of animation production setting out specific conditions.

Furthermore, when making a contribution to a production consortium and receiving an order for animation production, GONZO records the amount equivalent to the amount of funds provided as sales, but it is recognized that revenue recognition should not be approved with regard to that sales amount.

The following is an explanation of the grounds for the Panel's determination.

a. Basis for recording revenue in animation production

(a) Advisability of adopting the split acceptance basis

The basis for revenue recognition adopted in Japan is realization basis, and the following conditions are required for realization: (i) completion of transfer of goods or provision of service, and (ii) existence of consideration (Report No. 13 Accounting System Committee, *Report on revenue recognition in Japan (Interim Report)* (the "Interim Report") (revised December 8, 2009; Japanese Institute of Certified Public Accountants) I.1).

Accordingly, in order for the receipt of funds by GONZO from the Fund Provider, etc. to be recognized as the consideration for its animation production, GONZO must complete the transfer of goods or provision of service.

GONZO is consigned the animation production services, and produces animation works, but in the case of animation works for TV broadcasting, the service is completed by recording the work on media in the format used in TV broadcasting and delivering the work to a TV station or other media. Therefore, the essential condition for completion of the transfer of goods or provision of service is undoubtedly satisfied at the time of delivery.

However, GONZO currently adopts the method of Revenue at Time of Billing Statement, in which, based on Vice-president Y's explanation, funds from the Fund Provider, etc. are "received after a billing statement is issued upon confirmation of the progress of the animation production work by the party responsible at the Fund Provider, etc." Therefore, if the actual condition of that transaction meets the requirements for the split acceptance basis, it is considered appropriate to record sales using the method of Revenue at Time of Billing Statement. Accordingly, the following is a review of whether the requirements for the split acceptance basis are satisfied.

If the split acceptance basis is to be adopted, the following conditions must be satisfied. The transaction must (i) be a transaction with a customer in which the terms of each split-agreement provides a product with a certain function, and (ii) include an arrangement with the customer beforehand regarding a delivery date, conditions for payments, etc., and also (iii) completion of the delivery of the product must be confirmed, and consideration for the service must be provided. In the split acceptance basis, for example, revenue recognition does not take place if work is undertaken or conditions for payments are set up, but the completion of the provision of the product is not confirmed (Practical Solution Report No. 17, *Practical guidance on the accounting treatment of revenue for software transactions* (dated March 30, 2006; Accounting Standards Board of Japan 2(3)).

In this case, GONZO's actual condition in animation production does not reveal that it has delivered some products to Fund Provider, etc. as a prerequisite for accepting funds. According to Vice-president Y, Fund Provider, etc. has confirmed through project meetings the presence of some products (storyboards, etc.) in the middle of production. However, such products in the middle of production cannot be recognized as "a product with a certain function," because they are unable to be broadcast, or serve as secondary use to generate revenue. Such acts merely confirm that work has been undertaken, and cannot be accepted as confirmation of the completed provision of the product. In addition, excluding some documents, agreements such as production consortium agreements and service agreements have no arrangements regarding the delivery date of products in the middle of production and conditions for the payments of funds, and therefore, there are no recognized predetermined arrangements with customers on a delivery date, etc.

As stated above, GONZO's actual condition does not meet the requirements for the split acceptance basis, and therefore, the method of Revenue at Time of Billing Statement cannot be accepted as GONZO's basis for recording revenue in animation production.

(b) Advisability of adopting the percentage of completion method

In an effort to be thorough, the Panel also examined whether the percentage of completion method could be adopted.

In a project agreement, the use of the percentage of completion method cannot be applied, unless, even while the project is in progress, an outcome for the part that is complete can be confirmed with certainty. That is, the method cannot be applied, unless (i) the aggregate amount of revenue from the project, (ii) the aggregate amount of cost in the project, and (iii) the degree of progress in the project on the account settlement date can be reliably estimated (Accounting Standards Board of Japan (ASBJ) Statement No.15, *Accounting Standard for Project Agreements* (dated December 27, 2007; Accounting Standards Board of Japan) Paragraph 9).

Looking at GONZO's actual condition in animation production, even excluding (i) above of the requirements, there is no management system capable of providing reliable estimates for requirements (ii) and (iii) above (based on Vice-president Y's statement, as stated in (3)c. above, man-hours allocated for account settlement have been curtailed due to the reduced number of staff in the administration department), and therefore, the percentage of completion method cannot be applied.

In addition, in the case of the percentage of completion method, revenue accrues in keeping with the progress of the work, while the method of Revenue at Time of Billing Statement explained by Vice-president Y does not have a specific cause and effect relationship on the progress of work and the accrual of revenue, and the timing for payments is determined merely through negotiations with the Fund Provider, etc., which is another differing feature.

(c) Nature of funds received from the Fund Provider, etc.

Considering both the advisability of adopting the split acceptance basis and the consideration of adopting the percentage of completion method above, although the payment of funds by fund providers is characterized as funds for production by GONZO, it is considered as a payment of funds to a production consortium, not as a payment as consideration corresponding to the progress of GONZO's animation production work, and therefore, the payment of funds is considered by GONZO as an acceptance of funds that has the nature of "advances received."

Accordingly, funds received from the Fund Provider, etc. should be recorded as "advances received" until the animation production is completed and the product is delivered to TV station or other media. Upon delivery of the product, the funds should be transferred to "amount of production sales."

b. Treatment of revenue equivalent to GONZO's contribution

Under the scheme of the production consortium method, there is the case where GONZO acts as an investor in the production consortium and also serves as an animation production company. In such case, the primary revenue to GONZO is (i) revenue received as a production company in the form of consideration for animation production through funds procured by the Production Consortium, and (ii) copyright income earned in accordance with the investor's claim for revenue distribution based on the contribution ratio.

As to the revenue in (i) above, GONZO records the entire amount paid by the production consortium as sales, but as that amount includes the amount contributed by GONZO itself, it gives rise to doubts in terms of realization of revenue.

On this point, one could take the view that there is no issue because the production costs are on its face received through the production consortium, even if the actual funds paid by GONZO flow back to GONZO. However, from the viewpoint that funds contributed to the production consortium should by nature be appropriated for production costs, the idea that funds paid by GONZO flow back to GONZO and are recorded as "sales" raises doubts on the nature of the funds as "consideration." On this matter, in the Findings Regarding GONZO, ADK's Accounting Auditor pointed out as "deduction of unrealized profit" that if production works delivered to the production consortium to which GONZO provides funds, the portion based on GONZO's contribution ratio must be deducted from profit accrued based on delivery of the production work as the profit is unrealized. This viewpoint is essentially the same as the Panel's awareness of the issue despite differences on specific points.

In other words, if adopting the above approach, in an extreme case where GONZO serves as the only contributor to the production consortium, it would allow GONZO to record sales with funds contributed by itself, which is recognized as an arbitrary recording of sales.

In addition, in the case where GONZO serves as the lead company for a production consortium, it provides the following journalization without transfer of an amount equivalent to its contribution.

Debit	Credit
Content copyright	Production sales

As the account corresponding to the amount of production sales should ordinarily be "advances received," "trade receivable," or "cash and deposits," it is unreasonable to use the account "content copyright" (i.e., rights to be obtained through the contribution of funds for the purpose of acquiring future revenue). This represents the sales being recorded as consideration for the right to the product produced by GONZO itself.

Accordingly, the Panel believes that the appropriate account processing is as follows. The journal entry below shows a simple method that differs from actual journalization for the purpose of providing an explanation.

- When received from a fund provider other than GONZO

Debit	Credit
Cash and deposits	Advances received

- When production costs are paid

Debit	Credit
Wages, operating expenses, outsourcing costs, etc.	Cash and deposits

- At the end of the fiscal year (for undelivered products)

Debit	Credit
Works in progress	Wages, operating expenses, outsourcing costs, etc.

- At the time of delivery

Debit	Credit
Advances received	Production sales (*1)
Cost of sales (*2)	Works in progress
Content copyright	Works in progress (*3)

*1 Excluding GONZO's contribution

*2 Excluding the amount in *3

*3 Of the total costs associated with the product, the amount pertaining to GONZO's contribution ratio is recorded as content copyright. The amount is up to the amount that GONZO contributes in accordance with the Production Partnership Agreement.

Based on the above findings, it is evident that GONZO's past financial statements record the sales pertaining to the amount equivalent to GONZO's contribution to the production consortium as corresponding to the content copyright or the content copyright suspense account. However, given the actual conditions in GONZO's animation production, recording those sales is not appropriate and sales are considered to have been overstated. On this point, by all rights, cost of sales would have been equally overstated along with the overstated amount of sales, and the impact on profit and loss would have been minor. However, as stated above, as GONZO has employed the method of Revenue at Time of Billing Statement as the basis for recording revenue from animation production, the sales for animation production and the associated cost of sales have not been recorded appropriately, and the level of impact on profit and loss is unknown.

As mentioned above, the Panel believes that the amount equivalent to the contribution by GONZO to the production consortium should not be recorded as sales, but should be recorded as a transfer from costs (including works in progress) incurred by GONZO for animation production. However, given the absence of specific criteria and guidelines on the transactions, the Panel believes that GONZO's account processing method for the transactions should ultimately be determined based on a judgment by ADK, GONZO, and the accounting auditors of both companies.

4. Conclusion

(1) Doubts regarding Findings Regarding GONZO

As indicated in the Findings Regarding GONZO regarding the basis for recording revenue from GONZO's animation production and unrealized profits, the Panel believes, as a result of its investigation, that GONZO should employ the method of Revenue at Time of Delivery as the basis for recording revenue for its animation production and the method of Revenue at Time of Billing Statement that GONZO has employed as the basis of its account processing does not conform to the generally accepted accounting principles.

The Panel has also determined that the amount of product sales equivalent to the amount of funds provided by GONZO to the production consortium does not conform to the generally accepted accounting principles.

(2) Involvement of Vice-president Y

As Vice-president Y acknowledged, a change from Revenue at Time of Delivery to Revenue at Time of Billing Statement was determined and implemented by Vice-president Y. That is, it is recognized that GONZO changed the basis from Revenue at Time of Delivery to Revenue at Time of Billing Statement from the fiscal year ended March 2013 at the latest and this was determined based on a decision by Vice-president Y.

Vice-president Y did not provide a clear explanation about the motive of this decision, but as stated above, given the fact that it is recognized that the explanation by Vice-president Y on the change in the basis for revenue recognition did not follow the actual condition in GONZO's animation production, and that the inappropriate account processing had been carried out based on Vice-president Y's judgment with the intent to act improperly (such as by recording fictitious sales) as described later in "Chapter 3. Other issues identified in the Investigation," it is highly likely that the change of the basis from Revenue at Time of Delivery to Revenue at Time of Billing Statement was not an error, but carried out by Vice-president Y with some form of motive and the intention of bringing forward the recording of the sales.

(3) Involvement of President X

Vice-president Y explained that no explanation had been provided to President X regarding the change in the basis for recording revenue from animation production from Revenue at Time of Delivery to Revenue at Time of Billing Statement. President X also explained that he/she did not know of the change until Company h conducted Financial DD in 2016. On this point, the investigation by the Panel did not find any material indicating the possibility that President X had been aware of the change in the basis for recording revenue prior to the above Financial DD.

III. Sales from transactions with Company e

1. Identified issues

The Findings Regarding GONZO indicate that if it is difficult to collect revenue at the time of recording a sales transaction for transactions between GONZO and Company e ("Company e"), GONZO should not record sales. Transactions between GONZO and Company e indicated recorded sales of GONZO from Company e in fiscal year ended March 2015 of approximately 150 million yen as management fees for the past fiscal years.

2. Facts revealed as a result of the investigation

(1) Company e

Company e is the operator of the silent partnership called Fund j No.1[1] ("Fund j" when specifically referring to the fund, separate from Company e), formed in 2006[2] using the silent partnership method. It is assumed that Fund j procured approximately 2.4 billion yen of which approximately 1.4 billion yen was scheduled to be financed by bank loans.

According to Vice-president Y, Fund j was initially assumed to procure funds on the scale of 5.0 billion yen,[3] but the actual amount came to approximately 2.4 billion yen due to worsening market conditions.

Fund j did not employ the fund procurement method employed by GONZO (i.e., the method of procuring funds for each title of work through an SPC) until then. Fund j employed the funding method in which multiple titles of works were targeted for investment. In fact, Fund j invested in the titles "Animation hhh," "Animation iii," "Animation jjj," "Animation kkk," and "Animation lll."[4]

However, Company e's income is only from money transferred from Company k in 2013 at the latest, and Company e issued a letter to the silent partners of its intention to liquidate.

(2) Remuneration for asset management of Fund j

a. Consideration

Initially, the asset management services of Fund j were outsourced to GONZO's subsidiary, Company l (the Asset Management Agreement dated March 31, 2006). On November 28, 2008, the manager's position for the asset management services was succeeded by GDH K.K. (currently GONZO) (the Agreement on Succession dated November 28, 2008).

Consideration for asset management services was set as 37,080,000 yen (excluding consumption tax, annual basis), which is the amount equivalent to 1.5% of the total fund value (the Amendment Agreement for Asset Management dated May 1, 2006 and Article 1 of the Memorandum on the Amendment Agreement for Asset Management dated September 30, 2007).[5] However, the consideration for asset management services has so called "subordinated

[1] The way in which the fund name is written (in Japanese) varies between multiple documents prepared by GONZO, and the above fund name (in Japanese) is sourced from the prospectus.
[2] The initial silent partnership agreement was executed in 2006, but the actual formation is deemed to have taken place in July 2007 after changes were made to the fund size, etc.
[3] The Panel received the prospectus as of April 2006, which described the aggregate fund amount of 5.0 billion yen.
[4] Vice-president Y stated four titles of animations in the interview (namely "Animation hhh," "Animation iii," "Animation jjj," and "Animation kkk"), while the silent partnership report gives a description of "Other (Animation kkk, Animation lll, etc.)" as the target for investment.
[5] In Article 1 of the Memorandum on the Amendment Agreement for Asset Management dated September 30, 2007, the payment schedule was only recorded up to March 31, 2011. However, consideration described in that agreement has no time limit, and is thought to be payable after March 31, 2011, and therefore, it cannot be

conditions" (Article 8 of the Amendment Agreement for Asset Management dated May 1, 2006), in which the manager may receive payments, provided that there are sufficient funds for the repayment of the loan debt as of 10 a.m. of the repayment date, and there are no grounds for acceleration in the agreement.

b. Provision of services

The asset management services agreed on by Company e and GONZO are stipulated in the Amendment Agreement for Asset Management dated May 1, 2006 as follows. (The following are extracts from Article 2 of the agreement.)

(1) Provision of information and advice concerning the accounting treatment regarding the Silent Partnership Business
(2) Provision of information and advice, and reporting, concerning the planning and revision of the business plan of the Silent Partnership Business
(3) Provision of information and advice on the administration and operation of the Copyrights, etc.
(4) Provision of all other information and advice associated with the preceding items

According to the explanations by Vice-president Y, the services carried out by GONZO in accordance with the asset management agreement were chiefly reporting to the silent partnership and liaising with financial institutions. In addition, given the fact that Fund j was formed by GONZO, and no other party was involved in the asset management services, it is recognized that GONZO provided the services under the asset management agreement to Company e.

(3) Background leading to claims

According to Vice-president Y, GONZO was unable to make a claim to Company e for management fees until around March 2015 when bank loans were fully repaid. However, as repayment of the bank loans was complete and Bank m received agent fees around that month, GONZO assumed that it should be able to receive the management fee, and decided to claim consideration for the asset management services carried out since April 2011 of 156,848,400 yen (including consumption tax, the "Management Fees"), which had not been claimed previously. (GONZO issued to Company e three billing statements (for three years' worth of Management Fees) for 37,080,000 yen (38,934,000 yen including consumption tax) and another invoice (for one year's worth of Management Fees) for 37,080,000 yen (40,046,400 yen including consumption tax) dated March 31, 2015. The items for the billing statements state "business management fees.") Vice-president Y and Section Manager A explained that the amount of Management Fees was determined in accordance with the aforementioned

recognized that there is no compensation as a management fee.

Memorandum on the Amendment Agreement for Asset Management dated September 30, 2007, which stipulates that "37,080,000 yen (excluding consumption tax, annual basis), which is the amount equivalent to 1.5% of the total fund value" is the amount of Management Fees.

(4) Inclusion of management fees in the recording of the sales

a. Collectability

From the perspective of the realization basis, which is the general principle of revenue recognition, the time of revenue recognition needs to be determined in light of the substance of an individual agreement, based on the two criteria, namely (i) the completion of transfer of goods or provision of services and (ii) the existence of consideration, which are construed as requirements for revenue recognition (Interim Report I.1). The existence of consideration criteria under the realization basis is thought to require that consideration is highly likely to be collected at the time of sale (Interim Report I.9(4)).

Accordingly, for this case, it is thought that Management Fees could not be recorded as sales if it was not considered highly likely that the consideration could be collected during the fiscal year ended March 2015.

b. Application to this case

The following is the situation in fiscal year ended December 2015 and the previous two fiscal years at Company e, discovered upon reviewing the financial documents of Company e, which includes GONZO's fiscal year ended March 2015 during which Management Fees was recorded as sales.

(Unit: yen)

	Fiscal year ended December 2013	Fiscal year ended December 2014	Fiscal year ended December 2015
Sales	0	0	8,946,139
Ordinary income (loss)	(6,892,583)	(1,693,094)	(136,424,957)
Silent partnership revenue distribution	(6,892,601)	(1,693,103)	(136,424,977)
Net income (loss)	(69,988)	(70,000)	(69,999)

Also, the amounts that are considered as collection of the existing trade receivables or new sales to Company e (based on cash deposited in the deposit account) are as detailed in the table below, and they are all received from Company k.

Company k is a distributor of online games, and Company e and Company k determined on May 31, 2013 that the proceeds for transferring the copyright of Animation hhh be 48,261,760 yen and confirmed that unpaid royalties for Animation hhh and Animation iii amount to 51,738,240 yen (with the total value being 100 million yen; that agreement is referred to as the "Company k Debt Confirmation"). With regard to the background to the debt confirmation, Vice-president Y made a statement during the interview that an outsource agreement had been executed with Company k, but Company k came up with various reasons for never paying royalties and thus negotiation for payment was conducted together with a bank. During that time, no payments were collected, and therefore an agreement was executed by negotiating to transfer the copyright.

	Fiscal year ended December 2013	Fiscal year ended December 2014	Fiscal year ended December 2015	Fiscal year ended December 2016 (until July 29, 2016)
Total amount	15,000,000 yen	21,000,000 yen	18,700,000 yen (Note)	4,200,000 yen

Note: The money received from January 1, 2015 to March 31, 2015 amounted to 6,600,000 yen. The money received from January 1, 2015 to April 30, 2015 was recognized as a collection of trade receivable and, out of the money received on May 29, 2015, 238,171 yen and 2,061,829 yen was recognized as collection of trade receivables and sales, respectively. The Payments received after that date were all recognized as sales. The amount recognized as sales after that date totals 9,661,829 yen and, assuming it includes consumption tax, the amount excluding consumption tax (8,946,137 yen) is roughly equal to the sales by Company e during the fiscal year ended December 2015, which is also evidence that all sales during the fiscal year ended December 2015 came from Company k.

The above payments were all received on or after the date of the Company k Debt Confirmation (May 31, 2013) and they amounted to 58,900,000 yen, which does not exceed the amount in the Company k Debt Confirmation (100 million yen).

In addition, on November 15, 2013, Company e issued to the silent partners a document titled *Current Situation and Future Direction of Liquidation of Fund j* that contained an explanation that "the silent partnership was supposed to be terminated on September 30, 2011 and the transition to and completion of the liquidation proceedings was scheduled to take place without delay...if things had gone as they were supposed to." The document also states that the amount remaining after deducting bank loans, etc. from the payment of 100 million yen by Company k (which is thought to refer to claims under the Company k Debt Confirmation above) would be distributed to the silent partners in cash (with expected timing of around January 2014 or after) and that following such cash distribution the liquidation process of Fund j would be completed pursuant to the silent partnership agreement.

Further, Section Manager A mentioned during the interview that Fund j was not in a position to be liquidated because of payments from Company k of around 100,000 yen or so per month.

In other words, as at the end of March 2015, (i) Company e had no other income apart from those collections of unpaid amounts from Company k, the amount of which had been agreed upon on May 31, 2013, (ii) payments from Company k amounted to 2 million yen or so per month, (iii) the amount of claims against Company k as at the end of March 2015 was approximately 50 million yen, which is at or less than half of the amount of Management Fees, and (v) Company e had already notified the silent partners of the scheduled liquidation of Fund

j. Further, (vi) Vice-president Y explained that Company k had not been making debt repayments to Company e as agreed on even from or before the agreement in (i) above, which indicates difficulties that were faced by Company e in receiving debt repayments as agreed by Company k, and it is assumed that Company e was not in a position to be able to collect all claim amounts against Company k. Meanwhile, in 2015 the payments from Company k were actually in excess of 2 million yen until July 2015, and then the amount of payments temporarily hit zero yen in August 2015 and hovered around approximately 100,000 yen to 500,000 yen every month. This fact evidences that Company k's financial condition had deteriorated significantly as at the end of March 2015.

Accordingly, it is recognized that the objective collectability of Management Fees from Company e was fairly low as at the end of March 2015.

On the other hand, no specific and reasonable explanation regarding the collectability has been obtained from Vice-president Y, as described below.

(5) Vice-president Y's recognition

Reviewing Vice-president Y's recognition about the collectability, the Panel notes the explanation that Vice-president Y thought that Management Fees could also be sufficiently collected given that repayments to banks had been completed due to income from online games and licensing to game machines, in addition to the collections from Company k detailed above. In addition, Vice-president Y remarked that licenses in the game market in China were expected to generate several hundred million yen in income, and Vice-president Y assumed that would be the source of funds to pay Management Fees.

However, until the time of the interviews, there were no titles that Company e held rights to that had actually been licensed to Chinese companies and no non-disclosure agreement had been executed and no letter of intent had been received regarding a Chinese company. Vice-president Y commented during the interview that Company e "cannot be unwound, because it cannot repay the loan," suggesting Vice-president Y believes that Company e does not have any future business prospects.

From the details above, Vice-president Y had only a vague recognition for Company e's income prospects and it cannot be recognized that Vice-president Y saw the collectability of Management Fees as being high.

3. Conclusion

(1) Doubts regarding Findings Regarding GONZO

As a result of the investigation by the Panel, it cannot be said that the collectability of Management Fees from Company e during the fiscal year ending March 2015 was high, and therefore, the requirement for the existence of consideration as the basis for recording revenue is lacking, and thus the Management Fees cannot be recorded as sales, and the account processing by GONZO does not conform to the generally accepted accounting principles.

(2) Involvement of Vice-president Y

While Vice-president Y engaged in negotiations with Company k and was fully familiar with the situation of Fund j, Vice-president Y was recording Management Fees as sales. Therefore it is recognized that Vice-president Y took the lead in the above account processing.

(3) Involvement of President X

The Panel does not have any facts that indicate the active involvement of President X in recording Management Fees as sales or President X suggesting such recording as sales to Vice-president Y.

IV. Basis for recording sales pertaining to presale

1. Identified issues

The Findings Regarding GONZO indicate that GONZO recognizes as revenue the entire amount of minimum guarantee in relation to Presale Transactions[6] with Company n at the time of executing an agreement for that transaction. However, the Findings Regarding GONZO also indicate that it is unreasonable to recognize the full amount as revenue at the time of executing the agreement since an important performance obligation, namely the provision of produced goods, for GONZO remains at that point in time.

2. Facts revealed as a result of the investigation

(1) Details of the Presale Transaction

GONZO executed the Program Distribution Agreement with Company n in relation to an animation work titled Animation ddd as of February 5, 2016, granting Company n videogram rights and other rights for Animation ddd in regions other than Asia.

The Animation ddd was still in the planning phase at the time of executing the above agreement and the agreement set out that the minimum guarantee[7] ("MG") that Company n has an obligation to pay to GONZO is payable in installments as below. However, GONZO recorded sales of 73,248,500 yen, which is the amount that includes the entire MG amount in relation to the transaction on March 31, 2016.

[6] GONZO refers to transactions in which videogram rights and other rights for works are granted to a foreign distributor while the work is in the planning stage as "Presale Transactions."
[7] Minimum guarantee means the amount that is guaranteed to be paid as consideration for granting a right. If sales relating to the right granted exceed a certain amount, an additional fee is paid.

Ratio of MG	Amount	Payment schedule
[Not disclosed]%	[Not disclosed]	Upon signing of the Program Distribution Agreement
[Not disclosed]%	[Not disclosed]	The later of the time of the receipt of materials for the first episode for simulcast and January 3, 2017. However, the payment must not be later than January 15, 2017 if the materials for the first simulcast episode have been fully delivered.
[Not disclosed]%	[Not disclosed]	At the time of the first release of the DVD/Blue-ray by the licensee within the licensed territory. However, payment must not be later than March 31, 2018 if the materials have been fully delivered by August 31, 2017.

In addition, GONZO executed the Program Distribution Agreement with Company n in relation to an animation work titled Animation eee as of March 10, 2016, and that was also a Presale Transaction, the same as the transaction relating to Animation ddd. The payment conditions for the MG were agreed on as follows. However, GONZO recorded sales of 83,503,290 yen, which includes the total amount of the MG on March 31, 2016.

Ratio of MG	Amount	Payment schedule
[Not disclosed]%	[Not disclosed]	Upon signing of the Program Distribution Agreement
[Not disclosed]%	[Not disclosed]	The later of the time of the receipt of materials for the first episode for simulcast and July 3, 2017. However, payment must not be later than July 15, 2017 if the materials for the first simulcast episode have been fully delivered.
[Not disclosed]%	[Not disclosed]	At the time of the first release of the DVD/Blue-ray by the licensee within the licensed territory. However, payment must not be later than November 30, 2018 if the materials have been fully delivered by April 30, 2018.

(2) Existing account processing for foreign licensing transactions

GONZO had been engaging in transactions in which videogram rights and other rights for a work (the “Foreign Licensing Transactions”) are granted to foreign distributors including Company n. However, in the Foreign Licensing Transactions, an agreement is usually executed in light of the content of the work after or immediately before completion of the work, but no agreement had ever been executed with foreign distributors during the planning stage as in Presale Transactions.

Further, Foreign Licensing Transactions also generally had MG paid in installments after executing an agreement, often including terms whereby the remainder was paid upon the release of DVD/Blue-ray.

GONZO recorded the fee for arranging Foreign Licensing Transactions as sales relating to sales commission, and distributions obtained as a member of the production consortium as return on investment.

GONZO had been recording sales for the full MG amount for Foreign Licensing Transactions at the time of executing the agreement until the fiscal year ended March 2014 at the latest. However, GONZO changed to account processing in which sales are recorded for sales commission or return on investment by GONZO when performing the calculation to distribute money received by GONZO from foreign distributors to contributors to the production consortium from the viewpoint of simplifying accounting operations from April 2014.

(3) Account processing by GONZO

According to the explanation by President X and Vice-president Y, agreements with Company n relating to Animation ddd and Animation eee are the first and second occasions, respectively, in which GONZO engaged in Presale Transactions.

With regard to these two transactions, GONZO recorded sales for the entire MG amount in a lump sum during the month to which the execution date of the agreement relating to Presale Transactions belong, based on the argument that the subject of Presale Transactions are rights and these transactions do not represent agreements to undertake the production of animation works.

(4) Time of revenue recognition for the minimum guarantee

There is no clear accounting standard for royalties in Japan. Therefore, the time of revenue recognition needs to be determined in light of the substance of an individual agreement, based on the two criteria, namely (i) the completion of transfer of goods or provision of services and (ii) the existence of consideration, which are construed as the requirements for revenue recognition from the perspective of realization basis, which is the general principle of revenue recognition (Interim Report I.1).

On this point, all Presale Transactions require the delivery of the materials for simulcast episodes and the DVD/Blue-ray for the payment of [not disclosed]% and [not disclosed]%, respectively, of MG. Therefore, GONZO cannot receive [not disclosed]% of MG without the completion of transfer of goods, which means the delivery of the materials after finishing the production of animation works. Further, given that the delivery of the materials has not taken place yet, as a matter of course, at the time of execution of the agreements, it can be assessed that GONZO has not completed the provision of services still required under the agreements.

Accordingly, it is unreasonable to record the sales for the full amount of MG at that point, because the condition of completion of transfer of goods or provision of services has not been met at the time of executing the agreements.

3. Conclusion

(1) Doubts regarding the Findings Regarding GONZO

As a result of the investigation by the Panel, the judgment was made that it is not appropriate to recognize MG in full as revenue at the time of executing the agreements and the account processing by GONZO does not conform to the generally accepted accounting principles.

(2) Involvement of Vice-president Y

While it is clear that Vice-president Y was aware of the account processing itself, this case is a project led by President X and the extent of Vice-president Y’s involvement, including the account processing method, is recognized as being incidental, compared to the account processing otherwise indicated in the Findings Regarding GONZO.

Moreover, the Panel does not have any facts that indicate the possibility of Vice-president Y recognizing that GONZO’s account processing for the Presale Transactions is not appropriate.

(3) Involvement of President X

The Presale Transactions were led by President X and it is recognized that President X was also aware of the processing of recording the full amount of MG as sales in a lump sum at the time of executing the agreements.

Further, President X explained that, in the Presale Transactions, the overseas “rights,” namely sales rights, are the subject of the transaction, and GONZO’s essential obligations have already been fulfilled as licensing of the rights was completed at the time of executing the agreements. The President X further explained that, therefore, it is fair to record sales for the entire amount of MG at the time of executing the agreements and, at the very least, GONZO carried out that account processing with the understanding that it was appropriate.

However, even if the section of the agreements to the “rights” as claimed by President X can be separated in agreements regarding Presale Transaction agreements, it is practically difficult to determine the fair value of such rights and therefore President X’s argument cannot be accepted. As detailed above, it cannot be said that GONZO’s account processing is fair based on the terms of the agreements actually executed. However, it is thought that there was good reason for President X, who is not an accounting expert, to believe GONZO’s account processing to be fair, as it is a highly specialized matter of processing transactions in which “rights” are seen to be the target. Therefore, it can be recognized that the account processing in relation to the Presale Transactions was an error and not something that was adopted with the understanding that it was inappropriate.

V. Other accounting issues

The following are the views of the Panel relating to the matters indicated in the Findings Regarding GONZO other than those reviewed above.

1. Sales/trade receivable

(1) Basis for recording revenue for distributions

a. Matters indicated

The Findings Regarding GONZO indicate that, while both the accrual basis and the basis for recording revenue in which the revenue is recognized at the time the distribution report arrives are used for revenue recognition in relation to distribution income based on the copyright license and contributions to the production consortium, there are no clear standards regarding which basis is appropriate for an actual transaction and account processing is carried out without relying on objective evidence. It is noted that an objective accounting policy without arbitrariness should be decided and account processing carried out accordingly.

b. The Panel's view

The Panel recognizes the situation indicated by the Findings Regarding GONZO and believes that such findings are reasonable. Accordingly, GONZO should set out clear accounting policies regarding the basis for recording revenue for distribution income from copyright licenses and contributions to the production consortium, and carry out account processing based on objective evidence.

(2) Sales to Company o

a. Matters indicated

The Findings Regarding GONZO indicate that, with regard to the sales of 21 million yen to Company o (for the matter of producing a digital movie), a review should be carried out about whether the sales transaction requires cancellation or the recording of the allowance for doubtful accounts based on the facts, because there are doubts as to whether the sales transaction actually exists as there is no production agreement or delivery statement, and the collection of trade receivable is delayed.

b. The Panel's view

In terms of whether the transaction regarding the sales to Company o actually exists, the results of the investigation by the Panel did not find clear evidence that denies the existence of the transaction.

That said, it is a fact that there was a delay in the collection and thus the Panel believes that it is necessary to record allowances for doubtful accounts for trade receivable associated with the relevant transaction.

2. Content copyright and content copyright suspense account/works in progress

(1) Matters indicated related to content copyright and content copyright suspense account

a. Evaluation of content copyright and content copyright suspense account

(a) Matters indicated

The Findings Regarding GONZO indicate that GONZO has not considered the collectability of content copyright and the content copyright suspense account because of the two-year amortization period. Consequently, GONZO might have omitted the recording of the devaluation and overstated the content copyright, etc.

(b) The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate. The Panel deems that, with regard to content copyright and content copyright suspense account, GONZO should appropriately conduct account processing by considering the collectability in a reasonable manner on a quarterly basis using materials containing objective grounds and by preparing reasonable accounting policies for evaluation.

b. Amortization method for content copyright and content copyright suspense account

(a) Matters indicated

The Findings Regarding GONZO indicate that there are no materials indicating reasonable grounds for the amortization method currently adopted by GONZO for content copyright and content copyright suspense account. Consequently, GONZO might have overstated the content copyright, etc.

(b) The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate. The Panel deems that GONZO should examine the amortization method for content copyright and content copyright suspense account using materials containing objective grounds showing the actual business condition at GONZO so that it can adopt an appropriate amortization method.

c. Payment for master licenses

(a) Matters indicated

The Findings Regarding GONZO indicate that in some cases GONZO recorded payment for master licensing of copyright in original works as cost in a lump-sum at the time of payment on a cash basis. Therefore, GONZO needs to adopt reasonable accounting policies for recording as cost in light of the actual conditions of agreements and transactions, such as recording as cost based on the period of distribution under the agreement period or in accordance with the occurrence of revenue.

(b) The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate. The Panel has the same view.

d. Item title for content copyright and content copyright suspense account

(a) Matters indicated

The Findings Regarding GONZO indicate that ADK records contributions in the production consortium as "advance payments," rather than intangible assets. Therefore, if the characteristics of the transactions are the same, the same item title should be used.

(b) The Panel's view

Content copyright and content copyright suspense account that GONZO records primarily represent contributions to the production consortium by GONZO, as well as production costs to the amount equivalent to the amount of funds provided for GONZO to carry out animation production as the production company. However, in GONZO's current account processing, GONZO treats them as accounts to counterbalance the sales. Accordingly, GONZO should revise its account processing and use another account title instead of advance payment. In other words, GONZO should classify them as content copyright or content copyright suspense account.

(2) Findings related to works in progress

a. Works in progress relating to planning, development and pre-production stages

(a) Matters indicated

The Findings Regarding GONZO indicate that, of payments related to animation production, only those made after the finalization of the plan outline and the production decision-making process can be recognized as having asset value and recorded as works in progress. Payments made before that time should be recorded as cost when incurred.

(b) The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate in light of the actual conditions of GONZO's animation production and generally accepted accounting principles. Costs incurred before the finalization of the plan outline and the production decision-making process should be recorded as cost when incurred.

b. Works in progress relating to production royalties

(a) Matters indicated

The Findings Regarding GONZO indicate that GONZO has recorded 5% of all production costs relating to all titles as works in progress relating to production royalties. Since there was no data to confirm the reasonableness of the numerical criteria, works in progress might have been overstated.

(b) The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate in light of the actual conditions of GONZO's animation production and generally accepted accounting principles. Works in progress recorded as works in progress for production royalties should be recorded as cost. The Panel has the same view regarding matters indicated in the Findings Regarding GONZO in relation to this matter.

c. Valuation of works in progress

(a) Matters indicated

The Findings Regarding GONZO indicate that collectability of works in progress should be examined based on the latest condition each quarter.

(b) The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate. The Panel has the same view.

d. Record classification of labor costs and common costs

(a) Matters indicated

The Findings Regarding GONZO indicate that GONZO includes expenses such as entertainment expenses that are ordinarily not directly related to production in works in progress (cost). Therefore, it is necessary to determine reasonable policies, as ADK group's accounting policy, regarding the classification of costs and selling, general and administrative expenses (including labor costs) and whether assets can be recorded taking into consideration GONZO's business operations and other factors.

(b) The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate. The Panel has the same view.

e. Labor costs of Vice-president Y, CFO

(a) Matters indicated

The Findings Regarding GONZO indicate that Vice-president Y's labor costs are only allocated to one specific title in the current account processing, and are recorded as works in progress. However, if Vice-president Y's tasks are linked to the planning, development and pre-production stages, labor costs are not considered works in progress, and should be processed as costs when incurred. In addition, if costs are incurred in connection with production work conducted during the main-production stage or thereafter, the processing at the time they are incurred must be considered (e.g., recorded as works in progress).

(b) The Panel's view

Facts that are clearly related to Vice-president Y and specific animation production in the animation production process have not been recognized as a result of the Panel's investigation. Consequently, Vice-president Y's labor costs should be processed as costs when incurred.

3. Consolidation

(1) Company with liabilities in excess of assets

a. Matters indicated

The Findings Regarding GONZO indicate that, in the case of a subsidiary (or a subsidiary of a subsidiary) with liabilities in excess of assets for which no reasonable explanation can be given with regard to collectability, GONZO should reduce the value of that subsidiary's shares to de-minimis price. Further, if the subsidiary has liabilities in excess of assets, GONZO should record the allowances equivalent to the liabilities in excess of assets.

b. The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate. The Panel has the same view.

(2) Company e project (scope of consolidation)

a. Matters indicated

The Findings Regarding GONZO indicate that GONZO has significant subsidiaries, but does not prepare consolidated financial statements. Consequently, GONZO must consider all of its significant subsidiaries as consolidated subsidiaries taking into consideration quantitative and qualitative materiality, and prepare consolidated financial statements.

b. The Panel's view

The matters indicated in the Findings Regarding GONZO are appropriate. The Panel has the same view. The Panel's investigation of this issue shows that GONZO has significant subsidiaries other than Company e that should be consolidated. For more details, refer to "II. Fund transactions and sales transactions with Company c" of "Chapter 3. Other issues identified in the investigation."

Chapter 3 Other issues identified in the investigation

I. Other issues, etc. identified in the Investigation

1. Other issues identified in the Investigation

In addition to the Findings Regarding GONZO, the following accounting issues have been identified in the process of examining electronic data gathered in the Investigation. The Panel examined the following accounting issues because they might be considered important like the Findings Regarding GONZO.

Issues	Details
(i) Transactions with Company c	Possibility that fictitious sales have been recorded or off-balance-sheet liabilities exist, etc.
(ii) Transactions with Company b	Fictitious assignments of receivables, etc.
(iii) Transactions with Company d	Recording of fictitious sales, etc.
(iv) Fund transactions between GONZO and Vice-president Y	Possibility that off-balance-sheet liabilities exist
(v) Other issues	Other suspicious transactions

2. Restrictions on the Investigation

Given that it was necessary to clarify the facts about fund transactions between Company c and GONZO in the investigation of the above issues, the Panel requested Vice-president Y to provide the Panel with bankbooks in Company c's name, accounting data, etc., and requested interviews with Mr./Ms. C, Representative Director D of Company b, and Representative Director E, but those requests were refused. Vice-president Y's explanation was as follows: (i) Mr./Ms. C already left the company under unamicable circumstances so Vice-president Y cannot request Mr./Ms. C to come to an interview, (ii) Vice-president Y directly asked Representative Director D of Company b to cooperate with the interview, but Representative Director D of Company b rejected that request and also rejected Vice-president Y's request for the submission of bankbooks in the name of Company c, accounting data, etc., and (iii) as for Representative Director E, Vice-president Y could not even request an interview with Representative Director E because Representative Director E is a subordinate of Representative Director D of Company b and Representative Director D of Company b refused to participate in an interview.

The Panel also asked Section Manager A again to participate in an interview, but Vice-president Y informed the Panel that that request was rejected because Section Manager A was not feeling well.

Accordingly, it should be noted that the following descriptions represent the results of the investigation based on evidence obtained by analyzing relevant emails, materials and accounting data in our forensic investigation, and the Investigation was conducted under certain restrictions including failure to receive important materials and to conduct interviews with important persons.

II. Fund transactions and sales transactions with Company c

1. Issues

Since April 2014, GONZO has conducted fund transactions with Company c for the purpose of financing, but GONZO made the following journal entries as of March 31, 2016, which was the last day of the fiscal year ended March 2016, where the balance of funds procured from Company c was transferred from the advances received account to the amount of production sales.

Debit		Credit		Notes
Item	Amount	Item	Amount	
Advances received	83,288,299 yen	Production sales	83,288,299 yen	14GI sales recorded
Advances received	6,663,063 yen	Suspense consumption tax received	6,663,063 yen	(PS054870-00)

The Panel examined those sales transactions because the characteristics of the transactions with Company c and the account processing, timing, etc. of those transactions seemed problematic.

2. Facts revealed as a result of the investigation

As a result of the Panel's investigation, it has been found that GONZO has substantial control over Company c and has procured funds from Company p ("Company p"), which is engaged in a receivables securitization business, using Company c. It has also been found that: (i) the advances received account mentioned in 1 above represent funds procured from Company p rather than sales, (ii) GONZO has not recorded commission fees for funds procured from Company p since the second half of the fiscal year ended March 2015, (iii) GONZO might have kept liabilities off its balance sheet, (iv) GONZO should have prepared consolidated financial statements for the fiscal year ended March 2015 and beyond (including interim statements) with Company c as its consolidated subsidiary, and (v) 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. Details are described below.

(1) Outline of Company c

a. Trade name

The current trade name of Company c is “Company c.” However, Company c changed its trade name from “Company q” and registered that change on August 11, 2010 (change date: August 10, 2010).

b. Shares and capital amount

The total number of authorized shares of Company c is 24 shares, and the total number of issued shares is 6 shares. The amount of capital is 300,000 yen (as of October 5, 2016).

c. Representatives

The status of Company c’s directors is described below.

Registration date	Change date	Director
–	As of June 2008	Representative director G
August 7, 2014	May 30, 2014	Representative director A
October 7, 2016	July 8, 2015	Representative director E

Mr./Ms. G, who was Company c’s representative director until May 30, 2014 (change date), is the representative director and vice-president of Company r. At the time that Mr./Ms. G was Company c’s representative director, Company r was entrusted with carrying out Company c’s operations (the Service Agreement dated September 3, 2010), and the executive dispatching business was carried out by Company r, and other operations were subcontracted to GONZO (the Subcontract Service Agreement dated September 3, 2010).

Section Manager A, who became Company c’s representative director on May 30, 2014 (change date), is an employee of GONZO who belongs to the Finance and Accounting Section and is also a subordinate of Vice-president Y.

Representative Director E became Company c’s representative director as of July 8, 2015, which is more than one year prior to the registration date (October 7, 2016). According to Vice-president Y, Representative Director E is an employee of Company b.

When it comes to the relationship with GONZO, however, emails, etc. show that Representative Director E has externally carried out work as an employee of GONZO (see “III. Transactions with Company b” below).

d. Head office location

The status of the location of Company c’s head office is as described below.

Registration date	Change date	Location
–	As of June 2008	[Not disclosed]
August 8, 2014	June 1, 2014	10-6 Kamiogi 1-chome, Suginami-ku, Tokyo
October 7, 2016	July 8, 2015	[Not disclosed]

The registered address was changed to “10-6 Kamiogi 1-chome, Suginami-ku, Tokyo” on August 8, 2014. That address is described as the “closest contact point” in GONZO’s securities report.

The registered address was changed to “[not disclosed]” on October 7, 2016 when the change was registered. That address is the same as the address of Representative Director D of Company b shown in the registry of Company b.

e. Business objectives

The business objectives of Company c have been changed as follows.

Registration date	Objectives
On and before August 10, 2010	(i) Investment business, (ii) sale/purchase of monetary receivables, (iii) money lending business, (iv) business incorporation service, (v) personnel (including directors) dispatching business, and (vi) any and all businesses incidental or relating to any of the foregoing items
August 11, 2010	(i) Investment business, (ii) sale/purchase of monetary receivables, (iii) money lending business, (iv) business incorporation service, (v) personnel (including directors) dispatching business, <u>(vi) planning, production, sales and export/import of animation works for television, movies, videos and computer software, etc., (vii) acquisition, licensing, management, and sales of copyright and commercialization rights, and (viii) any and all businesses incidental or relating to any of the foregoing items</u>
October 5, 2016	(i) Investment business, (ii) sale/purchase of monetary receivables, (iii) money lending business, (iv) business incorporation service, (v) personnel (including directors) dispatching business, (vi) planning, production, sales and export/import of animation works for TV, movies, videos and computer software, etc., (vii) acquisition, licensing, management, and sales of copyright and commercialization rights, <u>(viii) planning, development, distribution and management of Internet games, (ix) planning, development, design, translation, sales, and export/import of game software, (x) information processing service and information provision service, (xi) planning, production and sales of character goods, (xii) Internet sales, and (xiii) any and all businesses incidental or relating to any of the foregoing items</u>

(Note: The underlined portions have been changed.)

f. Changes in the actual condition of Company c

Company c is a stock company that GONZO started to use in around 2010 under its scheme for production, etc. of "Animation fff" animation works for theaters. Shares in Company c were held by Company r.

Company c actually executed a silent partnership agreement with Company s on September 3, 2010 with the purpose of producing, etc. Animation fff.

However, in around March 2014, Mr./Ms. H, representative director of Company t, which is the management company of Company s ("Representative Director H of Company t") conducted negotiations with GONZO regarding the transfer of the entire contractual status under the guarantee letter dated September 3, 2010, from Company s to GONZO in exchange for 100 million yen, claiming that default regarding the guarantee letter has occurred because two years had already passed since the end of April 2011, the initial scheduled time of completion of Animation fff (Email Material 4 *Email sent by Vice-president Y to Mr./Ms. H at 17:28 on March 18, 2014 with the subject "Re: Forwarding of a draft contract for the Animation fff project"*).

Then, in the following month (i.e., on April 24, 2014), Vice-president Y forwarded Section Manager A an email containing the following question by Mr./Ms. J of Company r ("Mr./Ms. J of Company r") to Vice-president Y: "I understand that you are suggesting the registration of security by way of assignment for your company's trade receivables. I cannot understand one thing. Are you trying to carry out that registration by making Company c your company's subsidiary and transferring (?) the receivables to that subsidiary so that your company's name is not disclosed? I have heard that that registration will be completed by the end of this month, so we will do our best so that everything goes well." (Email Material 5 *Email sent by Vice-president Y to Section Manager A at 16:29 on April 24, 2014 with the subject "Fwd: Charging Company c"*).

In that email, Mr./Ms. J of Company r also says, "Regarding the collection of the capital contribution (300,000 yen) to a stock company that our company invests in (note: presumably Company c) and funds (3,000,000 yen) contributed to a general incorporated association (note: presumably Incorporated Association u), that general incorporated association records interim payments as advance payments and has net assets of about 2,600,000 yen. If that is the case, aside from the collectability of advance payments, we (note: presumably Company r) and you (note: presumably GONZO) will be able to conduct the fund transactions of the general incorporated association at a fair value (2,600,000 yen) and reduce the amount of collections in the form of rebates as we mentioned the other day (400,000 yen, which is the difference between 3,000,000 yen (the funds) and 2,600,000 yen, and 300,000 yen (the stock company's capital) will be collected in the form of rebates)." This leads the Panel to believe that Company r will collect Incorporated Association u's funds from GONZO. "u" means Incorporated Association u, and the representative at that time was Mr./Ms. K, who is a representative director of Company r.

As for the wire transfer of those funds, 3,324,000 yen was remitted to Company r on January 30, 2015 in accordance with the Agreement on Assignment of Receivables related to the Return of Funds to Incorporated Association u dated January 30, 2015, and GONZO processed that payment by recording 3,000,000 yen as "investment securities," 300,000 yen as "commission fees," and 24,000 yen as "suspense consumption tax paid." Consequently, with respect to Incorporated Association u, it was recorded as assets (investment securities) until the end of the fiscal year ended March 2016 and it was recorded as commission fees with respect to the acquisition of shares in Company c and therefore it became off-balance-sheet assets at GONZO.

On April 25, 2014, Section Manager A sent Mr./Ms. I of Company p an email with a draft of the receivables assignment agreement as an attachment, and then Mr./Ms. I of Company p informed Vice-president Y and Section Manager A that "the remittance amount would be 31,428,000 yen (= 32,400,000 yen (assigned amount) - 972,000 yen (3% commission fee))". Therefore it is recognized that the procurement of funds from Company p started in April 2014 (Email Material 6 *Email sent by Vice-president Y to Mr./Ms. I of Company p at 17:20 on April 25, 2014 with the subject "Re: Contract"*).

According to Vice-president Y's explanation, transactions with Company p started through an introduction from Mr./Ms. L of Audit Corporation a, which is GONZO's accounting auditor ("Mr./Ms. L of Audit Corporation a").

In addition, as explained above, the registration of Incorporated Association u's representative director was changed to Section Manager A on August 8, 2014, with May 30, 2014 as the change date.

Given the above, the production of Animation fff came to a standstill in around March 2014 at the latest, and at around the same time, Vice-president Y had negotiations and conducted procedures to change Company c into a company with the purpose of accepting receivables from GONZO and procuring GONZO's operating funds, etc. from Company p in the name of using those receivables as security. Accordingly, it is recognized that, at around that time, Company c was under the substantial control of Vice-president Y, who is a director of GONZO. In addition, as GONZO has actually procured funds from Company p via Company c since April 2014, it is recognized that Company c and its parent, Incorporated Association u and Company c, have been under the substantial control of GONZO since April 2014 at the latest.

Vice-president Y's explanation of the reason GONZO decided to procure funds from Company p at that time was that "[GONZO has been procuring funds from Company p] for one to two years, but until then Vice-president Y had personally gathered or borrowed money from acquaintances, which was a considerable burden on Vice-president Y personally, so Vice-president Y considered switching (to Company p) after that was suggested."

g. Changes of Company c's shareholders

Incorporated Association u is an entity that acquired shares in Company c from Company r for one yen on September 1, 2010 (the Share Purchase Agreement dated September 1, 2010).

As explained above, GONZO paid 3,000,000 yen (an amount equivalent to Incorporated Association u's funds) to Company r on January 30, 2015 and recorded that amount as investment securities, and it is recognized that GONZO became the parent company of Incorporated Association u from that time. On this point, Company r asked GONZO to make that payment by the end of July 2014 (Email Material 7 *Email sent by Mr./Ms. M to Mr./Ms. J of Company r at 15:25 on June 19, 2014 with the subject "Re: Company c Tasks to be Carried Out"*). However, since GONZO had not made that payment, Company r reminded GONZO again, and it is recognized that GONZO made the payment in January 2015.

On September 30, 2016, GONZO recognized impairment losses on investment securities (Incorporated Association u) and recorded a loss as losses on the valuation of investment securities.

As for shares in Company c, GONZO paid Company r an amount equivalent to Incorporated Association u's funds as well as 300,000 yen, the amount equivalent to the capital contribution from Company r to Company c, but it recorded this payment as expenses by recording them as commission fees, and shares in Company c effectively became off-balance-sheet assets.

However, since Incorporated Association u is still regarded as Company c's parent company, it is recognized that, even formally, GONZO, which has 100% control of Incorporated Association u, has been Company c's parent company since January 30, 2015 at the latest.

Consequently, as of April 2014, Company c was substantially controlled by Vice-president Y and became a company that procures funds for GONZO. It is also recognized that on January 30, 2015, the shares, etc. in Incorporated Association u and Company c were acquired from Company r.

Hence, it is recognized that Company c has been a subsidiary of GONZO since April 2014 and there was a possibility that Gonzo should have included Company c in GONZO's consolidated financial statements since the fiscal year ended March 2015 at the latest.

(2) Status of management of Company c by GONZO

As explained above, Company c has been under the substantial control of GONZO since April 2014. Hence, as explained below, Company c has been managed by Mr./Ms. C and Section Manager A who are subordinates of Vice-president Y.

a. Operations related to accounting

It is recognized that the accounting operations of Company c (accounting operations such as journal entries, preparation of monthly trial balances, etc. and preparation of tax returns, etc.) were performed by Mr./Ms. C, who reported from time to time to Vice-president Y, his/her senior.

With respect to the time when GONZO started to perform the accounting operations of Company c, it can be confirmed that Mr./Ms. C made a request to Mr./Ms. N of Company r ("Mr./Ms. N of Company r") on March 14, 2011 asking "could you provide me with the ledgers of Company c and Incorporated Association u for last year?" (Email Material 8 *Email sent by Mr./Ms. C to Mr./Ms. N of Company r at 11:07 on March 14, 2011 with the subject "RE: TK Accounting"*), and that Mr./Ms. N of Company r sent an email to Mr./Ms. C on the same day to which the ledger data of Company c for fiscal year 2009 was attached, and it is therefore believed that GONZO started to perform accounting operations of Company c around that time.

In addition, because Mr./Ms. C sent to Vice-president Y by email the total trial balance, etc. of Company c prepared by Mr./Ms. C as follows, it is considered that Vice-president Y was aware of the condition of Company c.

Date sent on	Attached Materials
November 10, 2011	Compound trial balance for September 2011
December 7, 2012	Compound trial balance for September 2012
September 3, 2013	Compound trial balance for June 2013
December 20, 2013	Compound trial balance for September 2013
March 25, 2014	Company c's tax returns (fiscal year ended February 2011, fiscal year ended February 2012, fiscal year ended February 2013) Incorporated Association u's tax returns (fiscal year ended February 2011, fiscal year ended February 2012, fiscal year ended February 2013)
January 15, 2015	Detailed statement of deposits in and withdrawals from account at Bank rr, Branch ss, compound trial balances of Company c and Incorporated Association u (as of January 15, 2015)
March 7, 2016	Compound trial balance for fiscal year ended February 2015

b. Operations related to deposits and withdrawals

As explained in "c. Procedures pertaining to financing" of "(3) Details of fund transactions with Company c" below, it is recognized that Mr./Ms. C had possession of the passbook of the ordinary deposit account, bank card, bank seal, etc. in the name of Company c and that operations related to deposits and withdrawals regarding bank deposits of Company c were performed by Mr./Ms. C based on Vice-president Y's instructions.

(3) Details of fund transactions with Company c

It appears as though GONZO assigned receivables held by it to Company c and Company c assigned those receivables to Company p for the purpose of security, but, as explained below, it is recognized that what actually happened in those transactions is that GONZO procured funds from Company p through Company c.

a. Fund Transactions between GONZO and Company c

The outline of the fund transactions between GONZO and Company c is as described in Material 1 "Outline of Fund Transactions with Company c."

GONZO received from Company c as a suspense receipt 31,400,000 yen on April 30, 2014, and following that, as its account processing, GONZO received funds 44 times in total and it procured 1,810,135,684 yen in total.

b. Execution of the agreement on the assignment of receivables

From the following facts, it is recognized that Company c executed a general agreement on the assignment of receivables with Company p.

In other words, in a document titled “Application for Advance Payment” (the “Application for Advance Payment”), which Company c is to submit to Company p when Company c obtains finances from Company p, it is stated that Company c executed a General Agreement on the Assignment of Receivables with Company p dated April 28, 2014.

In addition, Company c registered an assignment of receivables on April 28, 2014 under which the assignee is “Company v” and the cause of registration is “sale and purchase,” and Company c also registered an assignment of receivables on August 1, 2014 under which the assignee is “Company w” and the cause of registration is “sale and purchase.” As explained in j. below, it is confirmed that those registrations were not cancelled and existed as of December 19, 2016, which is during the period of the Investigation.

Both Company v and Company w are limited liability companies (*goudou kaisha*) operated by Company p (Material 2, “Recommendation based on Results of Inspection from the Securities and Exchange Surveillance Commission to Company x dated June 7, 2016”).

c. Procedures pertaining to financing

It is recognized that Company c submitted an Application for Advance Payment to Company v or Company w in advance when Company c procured funds from Company p.

The Applications for Advance Payment of which the Panel is aware are listed in Material 3 “List of Applications for Advance Payment,” and some of those of which the Panel is aware are dated during the period from April 2016 until October 2016.

From the following facts, it is recognized that at least from April 2014 to October 2016 (from the period that the Panel could confirm through the Investigation), those financing procedures were performed by Vice-president Y or by Section Manager A based on Vice-president Y’s instructions.

- With respect to financing by Company c obtaining financing from Company p, it is recognized that GONZO sent Company p a copy of a “billing statement” with GONZO’s customer as the counterparty as documented evidence of that financing, and that billing statement was sent by Section Manager A. In that “billing statement,” Company c, rather than GONZO, is the claim holder, but it is highly likely that that is a billing statement with false contents (Email Material 9 *Material attached to Email sent by Section Manager A to Mr./Ms. I of Company p at 15:50 on February 2, 2016 with the subject “Company c Billing Statement for January (8,100,000 yen (including tax)”*).
- Vice-president Y or Section Manager A based on Vice-president Y’s instructions conducted negotiations concerning financing with Mr./Ms. I of Company p (“Mr./Ms. I

of Company p") or Mr./Ms. O, who was the representative director of Company p, ("Representative Director O of Company p") (Email Material 10 *Set of relevant emails*). The person in charge at Company p was initially Mr./Ms. I of Company p, but that subsequently changed to Representative Director O of Company p from March 2016 at the latest.

- When money was sent from Company p to Company c, Mr./Ms. I of Company p informed Vice-president Y or Section Manager A by email of the obligor and the amount of the claim to be assigned (Email Material 10).

d. Status of management of financing by Company c

Funds procured from Company p were transferred into a deposit account in the name of Company c, but it is recognized that operations related to deposits and withdrawals of money related to that deposit account in the name of Company c were performed by Mr./Ms. C as follows.

Mr./Ms. C, in accordance with Vice-president Y's instructions, conducted processing such as transfers into a deposit account in the name of GONZO of funds procured by Company c from Company p (Email Material 11 *Emails related to Mr./Ms. C*).

Repayments to Company p were made by direct money transfers from the deposit account in the name of GONZO to Company v or Company w, but at that time, those transfers were made in the name of an obligor (GONZO's customer) pertaining to an obligation that was referred to as being assigned to Company p rather than GONZO (Material 4 "Bank tt e-business site, list of transfer requests," Email Material 12 *Email sent by Mr./Ms. C to Mr./Ms. C of Company p at 11:16 on January 14, 2016*). Mr./Ms. C also reported to Vice-president Y by email concerning matters related to deposits and withdrawals of money and the balance of Company c's deposit account as shown below (Email Material 11).

Words in quotation marks are transcribed from the emails.

Date sent on	Contents
May 30, 2014	Report that the outstanding balance of Company c is 51,756,351 yen
July 29, 2014	"This relates to the matter of transferring funds received by Company c to GONZO tomorrow. There are many approvals for the general transfer tomorrow. If there are funds the day before, a general transfer will be made. I think that the account to which the transfer will be made tomorrow should be [not disclosed]."
July 30, 2014	"I have transferred funds from Company c to the [not disclosed] account of GONZO. The outstanding balance is 49,331,710 yen."
January 30, 2015	Report of the outstanding balance of the bank deposit of Company c
March 9, 2015	"I intended to prepare an application document for Company c but there is something that I do not understand. There was a receipt of money from Company p to Company c that is transferred to GONZO. At the time, the funds were transferred with some funds left with Company c, so there is a suspense receipt balance of 24,657 yen as of the end of February. I recorded that amount as a suspense receipt/unpaid money GONZO because I believe those funds will be

	transferred to GONZO at some point. Is it okay to treat that amount as an advance payment/suspense receipt on the GONZO side (each account will be added)? Please confirm and instruct.”
April 28, 2015	“These are details of money deposited with and withdrawn from Company c. Please confirm.” (Deposit account of Company c (bank name unknown, [not disclosed] branch, ordinary account [not disclosed]) for the period from March 30, 2015 to April 28, 2015). As a result of comparing the details of money deposited and withdrawn with the transactions of money deposited by and withdrawn from GONZO regarding its ordinary deposit, it was found that there is money deposited and withdrawn that was not accounted for by GONZO.
July 30, 2015	“38,000,000 yen was deposited in an account of Company c. Please confirm and instruct.”
November 4, 2015	“20,092,500 yen was deposited with Company c. I will withdraw 20,090,000 yen and transfer that to GONZO.”
March 7, 2016	“I am sending the compound trial balance of Company c.” The compound trial balance sent was for fiscal year ended February 2015 of Company c.
June 13, 2016	“I completed the procedures at the bank to transfer 20,000,000 yen from Company c to Company v.”
July 4, 2016	“Two money transfers from Company c (a transfer of funds to GONZO, and a transfer of funds from GONZO to Bank y) have all been completed. The amount of funds transferred from Company c to GONZO is 10,290,000 yen. Please confirm.”

On this point, it should be highlighted that on April 20, 2016 Mr./Ms. C notified Vice-president Y that “Company c is in the balance confirmation. I was told to treat that as if it did not exist (!) and there is no accounting data. I do not know about the end of March. The seal is also placed to placing (note: it is believed that “to placing” is a typographical error and should be “on the back”), but is it okay to affix the seal and submit that as is?” (Email Material 13 *Email sent by Mr./Ms. C to Vice-president Y at 15:25 on April 20, 2016 with the subject “Company c”*).

The details with respect to the contents of that email are unclear, but it is believed that it is possible Mr./Ms. C said that “there is no accounting data” because, when the balance confirmation letter was sent by an accounting auditor of Company p to Company c and received by Mr./Ms. C, Mr./Ms. C had deleted the accounting data related to Company c in *Kanjo Bugyo*, the accounting software used by GONZO, because he/she was instructed by Vice-president Y, with respect to the existence of Company c, to “treat that as if it did not exist!” prior to when that email was sent.

With respect to the deletion of the accounting data, Vice-president Y initially explained that “if the accounting data of Company c is left on *Kanjo Bugyo*, it would cause problems in the

DD (at the time of the acquisition of GONZO shares by ADK)," and he/she subsequently explained that "there is no particular reason for that" and "although we were performing accounting operations (as of the end of March, 2016), we deleted that data because I thought we would adopt a scheme in which we would not actually perform those accounting operations," but Vice-president Y finally explained that the accounting data of Company c had been taken over to Representative Director D of Company b so it was no longer there.

e. Transfer of funds from Company c to GONZO

It is recognized that funds transferred from Company p into a deposit account in the name of Company c were transferred to a deposit account, etc. in the name of GONZO.

In other words, according to Company c's trial balance for the fiscal year ended February 2015 (Material 5), the total debit amount of the ordinary deposit account of Company c for the fiscal year ended February 2015 was 1,118,537,174 yen and the total credit amount was 1,118,833,972 yen, and it is recognized that Company c received cash in an amount of 1,118,537,174 yen and withdrew 1,118,833,972 yen, almost the same amount, during that fiscal year. That amount is almost the same as 1,118,509,000 yen in total, which was received by GONZO as a "suspense receipt" and for which GONZO stated "Company c" in the space for notes in its accounting books. As stated in Material 1, with respect to the receipt of funds for which "Company c" is registered in the space for notes in GONZO's accounting books, "deposit [not disclosed]" is registered in the "transaction details" section of GONZO's deposit account passbook, which means that the processing of the receipt of money was completed at the counter of Bank z, Branch aa (branch number: [not disclosed]). In light of the contents of Email Material 11 above, it is believed that Mr./Ms. C presented the bank deposit passbook or bank card in the name of Company c and the bank deposit passbook or bank card in the name of GONZO at the counter of Bank z, Branch aa, and deposited the funds withdrawn from the deposit account in the name of Mr./Ms. C into the deposit account in the name of GONZO.

It is also recognized that even in and after April 2016, Mr./Ms. C made fund transfers for the purpose of financing utilizing Company c based on Vice-president Y's instructions. In other words, in the account processing of GONZO, a processing was conducted in which GONZO withdrew 20,000,000 yen as "Animation nnn production cost" as of June 13, 2016. However, in GONZO's deposit passbook, the transferee of 20,000,000 yen as of that date is "Transfer (kabushiki kaisha) Company c," and Mr./Ms. C sent an email to Vice-president Y on the same day stating "I completed the procedures at the bank to transfer 20,000,000 yen from Company c to Company v." Given the foregoing, it is recognized that Mr./Ms. C, based on Vice-president Y's instructions, transferred 20,000,000 yen from GONZO to the deposit account in the name of Company c, and then transferred funds from the deposit account in the name of Company c to Company v, and, in order to conceal that fact in GONZO's accounting books, Mr./Ms. C conducted account processing that was contrary to the facts.

Further, similarly, in GONZO's accounting books, processing was conducted in which, as of July 4, 2016, GONZO received 10,290,000 yen, which is recorded as "Animation nnn production cost" in the space for notes in the general ledger and as "outsourcing manufacturing cost (cost)" in the account item in the general ledger. However, Mr./Ms. C sent an email to

Vice-president Y on the same date stating that "the amount of funds transferred from Company c to GONZO is 10,290,000 yen. Please confirm." From those facts, it is recognized that based on Vice-president Y's instructions Mr./Ms. C transferred 10,290,000 yen from the deposit account in the name of Company c to the deposit account in the name of GONZO and conducted account processing that was contrary to the facts in order to conceal that fact.

f. Repayment (withdrawal) of funds in the name of assignment of receivables at GONZO

It is recognized that GONZO repaid to Company p funds procured from Company p through Company c by (i) repaying them through Company c or (ii) directly repaying them.

In other words, as shown in Material 1, GONZO made large withdrawals that were registered as "Company c" in the space for notes until March 2016. However, when confirming the corresponding bank deposit passbook in the name of GONZO, "transfer Company v," "transfer Company w," or "withdrawal ([not disclosed])" is registered in the "transaction details" section of the passbook.

It is therefore recognized that the withdrawals that are registered as "transfer Company v" or "transfer Company w" in the passbook were used by GONZO to make repayments to Company p directly. Those transfers were conducted using internet banking, and in those cases, the transferor was a party that was described as a "third party obligor" in the Application for Advance Payment (i.e., a customer of GONZO) rather than GONZO (Material 4).

Further, with respect to the withdrawals that are registered as "withdrawal ([not disclosed])" in the passbook, those registrations were made when a deposit withdrawal was processed upon presentation of the deposit passbook or deposit card at the counter of Bank z Branch aa, but, in connection with the 46,332,000 yen that is registered as "withdrawal ([not disclosed])" on January 14, 2016 in the accounting books of GONZO, it is recognized that Mr./Ms. C transferred to Company v the same amount on the same day with Company bb designated as the transferor in that transfer (Email Material 12). It is therefore highly likely that Mr./Ms. C conducted the same processing in connection with other withdrawals registered as "withdrawal ([not disclosed])."

g. Use of procured funds and source of repayment

The details of the deposits and withdrawals of GONZO on the days on which fund transfers were made between GONZO and Company c are as stated in Material 6.

In light of those details, it is recognized that initially the funds procured from Company c were applied to payments related to operating funds at GONZO such as outsourcing costs, etc., but following that, those funds were also applied to repayments to Company c and payments to Vice-president Y, and there were also occasions where funds received from Vice-president Y were used for payments to Company c.

Considering the fact that Vice-president Y had procured funds from external third parties, etc. to manage GONZO's cash-flow and he/she applied those funds to operating funds of GONZO (see "V. Funds transactions between GONZO and Vice-president Y and GONZO and President X" below), it is recognized that around mid-2014, GONZO was in a situation where it was forced to procure additional funds to repay procured funds.

h. Statement of cash-flow

Vice-president Y prepared a statement of cash-flow in order to manage GONZO's cash-flow, and that statement of cash-flow contained a table describing the amount of funds procured from Company p and the repayment dates of those funds (Material 7).[8] The "finance activity" column in that statement of cash-flow also contained registrations of "Company p," "Vice-president Y," "Company d," and "Company cc."

From the above, it is clear that Vice-president Y had knowledge of and managed the status of financing from Company p through Company c.

Vice-president Y also explained to Representative B of Audit Corporation a in November 2014 the status of the funds transaction with Company c using that statement of cash-flow, and explained that 21 million yen in commission fees would be incurred as an amount corresponding to fees related to financing transactions from Company p (Email Material 14 *Email sent by Vice-president Y to Representative B of Audit Corporation a at 18:22 on November 28, 2014 with the subject "Re: Sending of re-request for material and questions"*). GONZO recorded that commission fee as cost in (interim) period ended September 2014, but it does not recognize that in its books in any subsequent period (including any interim period).

i. Registration of assignment of receivables

Company c has made the following registrations of assignment of receivables.

Purpose of registration	Registration of assignment of receivables	Registration of assignment of receivables
Assignor		
Head office, etc.	[not disclosed]	10-6, Kamiogi 1-chome, Suginami-ku, Tokyo
Trade name, etc.	Company c	Company c
Assignee		
Head office, etc.	[not disclosed]	[not disclosed]
Trade name, etc.	Company v	Company w

[8] Vice-president Y prepared "cash-flow 2014 0827-(2)" (the date section changes according to the date of preparation each month) from August 2014 at the latest, and prepared a table describing the funds procured from Company p and repayment date therefor in the last sheet of such file. However, since September 2015, that file was not updated until the statement of cash-flow prepared in October 2016, which the Panel was able to confirm. The only exception was that the amount on that sheet in the file of statement of cash-flow prepared on April 20, 2016 was updated.

Date of cause of registration	April 28, 2014	August 1, 2014
Cause of registration	Sale and purchase	Sale and purchase
Date of expiration of effective period of registration	April 30, 2019	December 31, 2019
Registration number	[not disclosed]	[not disclosed]
Date and time of registration	10:47 on May 29, 2014	13:31 on August 28, 2014
Date of registration confirmation	As of December 16, 2016	As of December 19, 2016

At 13:46 on April 6, 2016, based on a request from Vice-president Y Section Manager A sent an email to Mr./Ms. P of GONZO stating "regarding Vice-president Y's request, which I asked about orally, please prioritize confirming whether a registration of claim security has been made for Company c, and, if possible, please conduct procedures for cancellation registration today. If you cannot proceed because information needed for the cancellation registration is not available, please report the contents thereof. Section Manager A or Vice-president Y will support you depending on the contents." (Email Material 15 *Email sent by Mr./Ms. P to Vice-president Y, Mr./Ms. C and Section Manager A at 20:17 on April 6, 2016 with the subject "RE: FW: urgent_ Request for cancellation procedures of bond collateral registration of Company c"*).

However, as explained above, the registration of assignment of receivables still exists even now, and although the situation during that period is unclear, it is believed there is a possibility that in the end the cancellation registration was not made due to a reason such as that (i) they decided that there was no need to conceal the assignment of receivables for which Company c was the assignor since the name of GONZO did not appear in the registration, (ii) they decided that even if the cancellation registration were made, it would have no meaning because the registration would remain in a closed registration, and (iii) they could not obtain consent from Company p with respect to the cancellation of the registration.

j. Payment status of the advance payments and details of the advance payments

GONZO paid to Company p 108,000 yen (including consumption tax) as advance payment for fees related to financing transactions from Company p since July 2014, and the total amount was 1,080,000 yen for the fiscal year ended March 2015 and 1,296,000 yen for the fiscal year ended March 2016.

It was found that the entire amount of the balance of those advance payments was recorded as a loss as "other extraordinary losses (loss on business settlement)" as of the end of the fiscal year ended March 2015, and the entire amount was recorded as "outsourcing manufacturing costs (cost)" as of June 30, 2016 in the following fiscal year for the fiscal year ended March 2016.

Even in and after April 2016, GONZO paid 216,000 yen, which is believed to be the amount for two months' worth, on May 31, 2016 and recorded that cost as "outsourced manufacturing cost (cost)."

(4) Outline of account processing related to fund transactions with Company c

The following is an explanation of an outline of the account processing for each period (including interim periods) related to fund transactions between GONZO and Company c.

a. Interim period ended September 2014

In the interim period ended September 2014, GONZO set off (i) 333,119,670 yen as the amount sent by GONZO to Company v and Company w that was processed for the purpose of accounting as a temporary payment against (ii) the suspense receipt balance of 545,838,000 yen as the difference between the amount received by GONZO from Company c and the amount sent by GONZO to Company v, Company w, and elsewhere, and recorded 234,175,067 yen as deposits received, which is the total of (iii) 212,718,330 yen, which is the balance after that set-off ((iii) = (ii) – (i)) and (iv) 21,456,737 yen as the amount corresponding to the fee related to financing from Company c. That amount should normally be recorded as a borrowing.

On November 13, 2014, after Mr./Ms. C asked by email "I am sending the suspense receipt (others) and temporary payment (others). The amounts are excessive. Is there anything supposedly relating to setting off those amounts, such as changing the items, or doing something else? Please confirm and instruct," and Vice-president Y answered on the same day "Also could you set off the temporary payment (total amount of Company v and Company w) and the temporary payment (Company c) and treat the difference as an advance received (Company c)? Thank you" (Email Material 16 *Email sent by Vice-president Y to Mr./Ms. C at 14:42 on November 13, 2014 with the subject "Re: Suspense Receipt and Temporary Payment"*).

In GONZO's final account processing, those amounts are recorded as deposits received instead of advances received as instructed in the above email, and, with respect to the account processing related to Company c, it is recognized that Mr./Ms. C confirmed with Vice-president Y and then Vice-president Y instructed Mr./Ms. C.

In addition, as explained above, Vice-president Y communicated by email with Representative B of Audit Corporation a concerning the commission fee to Company c, and it is recognized that at that time Vice-president Y shared certain information with Audit Corporation a concerning Company c (Email Material 14).

As of the end of the interim period ended September 2014, an amount corresponding to the fee related to financing from Company c was recorded as a commission fee, but no commission fee is recorded after that.

b. Fiscal year ended March 2015

In the fiscal year ended March 2015, the 234,175,067 yen that was recorded as deposits received from Company c in the interim period ended September, 2014 was transferred to the suspense receipt account as of October 1, 2014.

After that, fund transactions with Company c in the second half of the fiscal year ended March 2015 were processed in the suspense receipt account, and as of the end of the fiscal year ended March 2015, of the suspense receipt balance of 84,844,678 yen to Company c, 84,844,378 yen was transferred to the advance receipt account, leaving 300 yen in the suspense receipt account. It is unclear why that transfer leaving 300 yen was conducted.

c. Interim period ended September 2015

In the interim period ended September 2015, fund transactions with Company c during that interim period were processed in the suspense receipt account.

The balance of suspense receipt (Company c) was 16,698,984 yen as of the end of the interim period ended September 2015, but the balance of advances received (Company c) of 84,844,378 yen as of the end of the previous period was transferred to the suspense receipt account on September 30, 2015, and 101,543,362 yen, which is the total when added to the aforementioned balance, was transferred again to the advance receipt account.

d. Fiscal year ended March 2016

In the fiscal year ended March 2016, fund transactions with Company c during the second half of the period were processed in the suspense receipt account, and as a result, the balance of the suspense receipt (Company c) as of the end of the fiscal year ended March 2016 was negative (i.e., minus 9,486,000 yen).

As of March 31, 2016, of the 101,543,362 yen that was transferred to the advance receipt account during the interim period ended September 2015, 83,288,299 yen was transferred to the amount of production sales and recorded as sales. At the same time, 6,663,063 yen was transferred from the advance receipt account to the suspense consumption tax received account as suspense consumption tax received pertaining to those sales, the remaining advance received (Company c) balance of 11,592,000 yen was transferred to the suspense receipt account, the negative figure in the suspense receipt account was eliminated, and the balance of the suspense receipt to Company c became 2,106,000 yen. However, no balance of suspense receipt to Company c was recorded in the statement of the suspense receipt account as of the end of the fiscal year ended March 2016.

On that point, within the breakdown of the suspense receipt account as of the end of the fiscal year ended March 2016, the balance of the suspense receipt pertaining to Company bb was minus 2,160,000 yen, so it can be understood that the negative balance was set off against the balance of the suspense receipt to Company c in the suspense receipt account.

(5) Examination of the explanation by Vice-president Y concerning Company c

a. Explanation concerning the amount of production sales to Company c during the fiscal year ended March 2016

With respect to the recording of the amount of production sales to Company c, Vice-president Y stated that it was for "production of CG, development of webpages, etc. from around two years ago" or that he/she received orders for production of CG and "used Okinawa GONZO," but his/her explanation of the timing and content of that was vague, and although the Panel asked Vice-president Y to submit specific documented evidence such as contracts and invoices, etc., he/she responded that there was nothing in particular of that kind.

In response to the Panel's question to Vice-president Y that inquired "(while there are many exchanges of funds between GONZO and Company c,) do you know which amounts are due to factoring and which amounts are due to the business relationship?," Vice-president Y stated "I do not know. When the figure ultimately became 80,000,000 yen, it was agreed that the remaining amount was for business conducted until then. Therefore, we will not make any repayment." And with respect to "14GI" recorded in the general ledger with respect to sales, Vice-president Y stated "14GI is a code related to pachinko. 14GI is stated for those sales, but it does not have a special meaning" and he/she continued to give an explanation that was unnatural and unreasonable.

b. Explanation about substantial control of Company c

Vice-president Y explained that the interest in Company c was sold to Representative Director D of Company b around 2014 when production of Animation fff came to a standstill, and following that, Company c was a company of Representative Director D of Company b. However, as explained below, the explanation by Vice-president Y is clearly inconsistent with objective facts and it is recognized that the explanation is contrary to the facts.

(a) Status of sale to Representative Director D

On April 25, 2016, Vice-president Y communicated with Representative B of Audit Corporation a by email about Company c. In that communication, in response to a question from Representative B of Audit Corporation a asking "in connection with Company c, which we discussed since last week, I understand that Company c is scheduled to be sold to Representative Director D together with Company dd. I think that there being no capital relationship with Company c for the scheme is a major premise, so is it not necessary to record the sale of Company dd in the books?" Vice-president Y responded that "the contract is already proceeding. I will contact you later" (Email Material 17 *Email sent by Vice-president Y to Representative B of Audit Corporation a at 14:25 on April 25, 2016 with the subject "Re: Company c"*), and from the contents of that email, it is recognized that the interest in Company c had not yet been sold to Representative Director D of Company b as of April 25, 2016.

It is believed that "Company dd" in that email is a parent company of Company c, in which Section Manager A acts as the representative manager, and the fund of which was paid to Company r, or in other words, it is believed that Company dd is Incorporated Association u.

Further, it is recognized that on April 26, 2016, a draft of the sale and purchase agreement concerning shares in Company c between Incorporated Association u and Representative Director D of Company b was being prepared (Email Material 18 *Email sent by Representative Director D of Company b to Vice-president Y at 11:53 on April 26, 2016 with the subject "Re: Request for consideration: Agreement on Assignment of Receivables, Agreement between Company r and GONZO regarding Incorporated Association u (referred to as "Incorporated Association u")*).

Further, in that draft, the date of sale and purchase of the shares in Company c was March 1, 2015, and it is believed that the date of the agreement was at least one year prior to the actual preparation date.

As explained above, judging from the appearance of that sale and purchase transaction, it is recognized that the interest in Company c was transferred to Representative Director D of Company b during or after April 2016, so it is recognized that the explanation by Vice-president Y concerning the timing of the transfer of the interest in Company c was untrue.

The Panel deems that Company c continued to actually be under the management of Vice-president Y and that the sale and purchase transaction under which Incorporated Association u transferred the shares in Company c to Representative Director D was merely a sham transaction because it is recognized that, even after April 2016, Mr./Ms. C of GONZO was involved in procedures at the time of financing from Company p in July 2016 and that Vice-president Y procured funds from Company p using GONZO's receivables as security in October 2016.

In addition, it is believed that "the scheme" that Representative B of Audit Corporation a referred to in an email to Vice-president Y possibly refers to a transaction where trade receivables in foreign currency that are long-term overdue receivables as of the end of the fiscal year ended March 2016 were to be assigned to Company b, as explained in III. "Transactions with Company b" below.

Further, with respect to Company dd, namely Incorporated Association u, recording assets was conducted at GONZO as investment securities as of the end of the fiscal year ended March 2016, and recording of loss was conducted as loss on valuation of investment securities as of the end of the interim period ended September 2016, as explained in "g. Changes of Company c's shareholders" of "(1) Outline of Company c" above.

(b) Status of registration

With respect to the registration of Company c, Section Manager A sent an email to Representative Director D of Company b with the subject "Change of Representative Director and Address of Company c" on September 26, 2016, and after that, Section Manager A sent an email to Vice-president Y and Representative Director D of Company b on October 3, 2016 stating, "I plan to go to the Legal Affairs Bureau in Suginami tomorrow, and I ask for your cooperation as I have two or three matters that need clarification. First, I set the date of resignation notification and the letter of acceptance of appointment and extraordinary general shareholders' meeting July 8, 2015 as instructed by Vice-president Y."

In reality, the change registration to change an officer of Company c from Section Manager A to Representative Director E was made on October 7, 2016, however, it is recognized that the date of change was stated as July 8, 2015 based on instructions from Vice-president Y.

(c) Status of management of Company c

The fact that the management work of Company c was conducted based on instructions by Vice-president Y to Mr./Ms. C is as stated in “(2) Status of Management of Company c by GONZO” above.

Further, the fact that although Company c was a company that principally only borrowed money from Company p and provided those procured funds to GONZO, that business was performed by Vice-president Y, Section Manager A, and Mr./Ms. C as stated in “(3) Details of fund transactions with Company c” above.

That management situation contradicts the explanation by Vice-president Y that Company c has been a company of Representative Director D of Company b since around 2014.

(6) Related administrative action

As explained below, the details of the activities of Company p are referred to in the recommendation based on results of an inspection on Company x by the Securities and Exchange Surveillance Commission dated June 7, 2016 (Material 2). That recommendation was made regarding the fact that Company x made a false statement in the sale of private placement bonds issued by Company v and Company w; however, in that recommendation, it is judged that (i) although it is indicated that Company v and Company w (the “Two Companies”) purchased general trade receivables from general operating companies (the “Client Companies”) as underlying assets of private placement bonds, the general trade receivables indicated as being purchased did not exist, and as a matter of fact unsecured loans were made to the Client Companies and that (ii) although it was indicated that the payment of the general trade receivables purchased by the Two Companies was made by the obligor to the Two Companies directly, the situation was that most of the Client Companies made payments to the Two Companies in the fake name of the obligor based on a request by Company p in order to make the situation appear as though the payments were made by the obligor directly.

Even in this case, it is recognized that Company c, which is one of the Client Companies, did not actually hold receivables against GONZO’s customer, and it is also recognized that, as explained above, Mr./Ms. C processed money transfers to the Two Companies in the name of GONZO’s customer. In other words, it can be seen that the scheme under which Company p made loans to GONZO in this case was used by Company p broadly. As such, the fact that the method used by Company p indicated in the above recommendation was also used in this case is one piece of evidence that GONZO was financed from Company p through Company c.

2. Facts

○ Act of making a false statement with respect to the execution of a contract for financial instruments transaction or solicitation thereof

Company p (Chuo-ku, Tokyo, Representative Director O, no registration of a financial instruments business; "Company p") established Company v and Company w ("Company v" and "Company w" respectively, and together, the "Two Companies") and manages and operates overall purchase operations of general trade receivables made by the Two Companies based on the business service agreement entered into with the Two Companies.

(omitted)

a. It is stated that the Two Companies were purchasing general trade receivables from general operating companies (the "Client Companies") as "underlying assets," but from the beginning of the purchase operations of general trade receivables, the general trade receivables stated as being purchased did not exist with respect to some of the Client Companies, and in fact unsecured loans were made to the Client Companies.

As of April 5, 2016, approximately 60% of the general trade receivables that were said to have been purchased by the Two Companies did not exist, and unsecured loans were made, and at least and around two-thirds of that loan amount was uncollectable.

In addition, even with respect to the general trade receivables that were actually purchased by the Two Companies:

b. Although the Two Companies established a standard in connection with obligors (the "Obligors") of general trade receivables to be purchased from the Client Companies that each of those Obligors must be a company that is "a listed company, an affiliate of a listed company, or has 55 or more rating points of a major investigation company," from the beginning of the purchase operations of general trade receivables, general trade receivables relating to Obligors that did not satisfy those standards were purchased.

As of April 5, 2016, approximately 40% of the Obligors did not satisfy those standards.

Although it is said that the payments of general trade receivables purchased by the Two Companies were made by the Obligors directly to the Two Companies, the situation was that most of the Client Companies made payments to the Two Companies in the fake name of the Obligor based on a request by Company p in order to make the situation appear as though those payments were made by the Obligors directly.

The Company most of the time did not examine the contents of the instruments or issuers, etc. in the sale of the Two Bonds, and it usually did not conduct ex-post monitoring after the start of the sales, so it was not aware of the facts in a and b above. Given the above, the following issues were found in connection with the sale of the Two Bonds by the Company.

(Remainder omitted)

3. Conclusion

(1) Account processing issues

a. Recording sales (14GI)

As explained above, 83,288,299 yen was recorded as sales (14GI) to Company c in the fiscal year ended March 2016, but considering, among other things, (i) that Company c was actually under the management of Vice-president Y and it basically only conducted fund transactions related to loans with Company p and the status of fund transfers between Company c and GONZO, (ii) that the explanation by Vice-president Y concerning sales transactions with Company c is not specific and there are no particular grounds for that explanation, and (iii) the explanation by Vice-president Y that Company c was a company of Representative Director D of Company b from 2014 is also untrue, it is recognized that the recorded amount merely represents part of the outstanding balance of fund transactions concerning loans between GONZO and Company c that was transferred to sales, and that those sales constitute insubstantial fictitious transactions.

b. Failure to record interest payments

It is not recognized that GONZO has recorded costs with respect to commissions, etc. pertaining to fund transactions with Company c since the fiscal year ended March 2015, and those costs have not been recorded. However, given that GONZO borrows money from Company c, it is necessary to record costs corresponding to interest. In fact, “prepaid commission” is stated in the Application for Advance Payment submitted by Company c to Company v or Company w.

It is believed that, as a result, that amount of costs became part of the difference between the credits and debits in the suspense receipt account. In other words, it is believed that with respect to (i) funds procured from Company p after deducting an amount corresponding to the commission, GONZO repaid to Company p (ii) the principal amount of the assigned receivables including the amount corresponding to the commission ((i) < (ii)), that the balance in the “suspense receipt” account that was used to process those fund transactions was understated with respect to the amount corresponding to the commission, and that as of the end of the fiscal year ended March 2015 and the end of the fiscal year ended March 2016, respectively, at least that understated amount constituted off-balance-sheet liabilities of GONZO.

The understated amounts (the amount of the off-balance-sheet liabilities) as of the end of the fiscal year ended March 2015 and the end of the fiscal year ended March 2016, respectively, are unclear because Vice-president Y refused to submit the deposit passbook in the name of Company c and the accounting data of Company c, etc.

c. Possibility of existence of off-balance-sheet liabilities

GONZO recorded 83,288,299 yen out of the balance of the suspense receipt to Company c as sales related to 14GI at the end of the fiscal year ended March 2016. However, in light of the following facts, although the Panel cannot ascertain the details because Vice-president Y refuses to submit the deposit passbook in the name of Company c and accounting data, etc., the Panel cannot deny the possibility that GONZO has off-balance-sheet liabilities even as of the date hereof.

- GONZO has procured funds from Company p even during and after the fiscal year ended March 2016, and a registration of the assignment of receivables for the purpose of security still exists.
- GONZO does not record interest payments that should be recorded, and as a result, the balance of the suspense receipt is understated. This point is as described in "b Failure to record interest payments" above.
- With respect to the receipt of 23,458,684 yen on June 1, 2015 for which "Company c" is stated in the space for notes in GONZO's accounting books, the transferor of that amount is stated as "transfer Company cc" (it is believed that is Company cc ("Company cc")) in the statement of deposit passbook on that date, and that amount was not actually received from Company c (Material 1). Although the background of that account processing is unclear, if GONZO had conducted some kind of financing from Company cc (as stated above, "Company cc" is mentioned in the "financial activity" section of the statement of cash-flow prepared by Vice-president Y), that was not properly reflected in the accounting books as a liability.
- Since mid-2014, as shown in Material 6, there was a situation where GONZO took out new loans for the purpose of repaying borrowings, and it is assumed that it was difficult to ascertain the accurate amount of the outstanding liabilities.

d. Consolidation

As explained above, Company c has been under substantial control of GONZO at least since April 2014, and it has had capital ties with and been a wholly-owned subsidiary of GONZO at least since January 2015.

Furthermore, Company c has actually been an important company responsible for procuring funds for GONZO, which proves that Company c has been a substantial subsidiary of GONZO since April 2014.

The Panel therefore believes that GONZO should have prepared a consolidated financial statement for the fiscal year ended March 2015 (including the interim period) and the subsequent periods by consolidating Company c.

By consolidating Company c, it would have at least been possible to resolve problems such as the fictitious sales, the failure to record interest payments, and the possibility of the existence of off-balance-sheet liabilities, for the fiscal year ended March 2016. However, GONZO's non-consolidated financial statements need to be amended individually.

On that point, Representative B of Audit Corporation a sent an email to Vice-president Y on June 3, 2015 in which he/she stated "I received the financial statements of Company c today.

The balance sheet shows that the value of the content copyright suspense account is exactly 100M, whereas the total asset amount of GONZO is just 945M, so the materiality exceeds 10 percent. We, of course, do not want to consolidate accounts, so we are considering various reasons. I would like to know what the content copyright of Company c was invested in the first place. (I might have asked you this question previously, but I do not remember. In addition to that, I believe Section Manager A is a representative director of this company, but is there any company other than Company c where an employee is the representative director?" (Email Material 19 *Email sent by Representative B of Audit Corporation a to Vice-president Y at 13:09 on June 3, 2015 with the subject "Regarding Company ee and Company c"*). That email shows that Vice-president Y was also aware of the need to consolidate the account of Company c.

Despite the fact that these kinds of emails were exchanged between Vice-president Y and Representative B of Audit Corporation a, eventually the consolidated financial statement consolidating Company c as a subsidiary for the fiscal year ended March 2015 is not prepared, and the reason for that is unclear.

(2) Involvement of Vice-president Y

It is recognized that the above account processing related to fund transactions with Company c was conducted entirely based on the decision of Vice-president Y.

Although Vice-president Y's motive with respect to that is unclear, it is believed he/she made that decision in light of the following circumstances: the liabilities were recorded as sales (which was a drastic accounting approach) in March 2016; and it became highly likely that ADK would acquire the shares in GONZO in around April 2016, which was when the financial statements for the fiscal year ended March 2016 were being prepared.

(3) Involvement of President X

Vice-president Y explained that he/she thinks President X knows that the transactions between GONZO and Company c involved the assignment of receivables, but he/she does not know about the recoding of sales to Company c.

Based on this Vice-president Y's explanation, it is believed President X was not involved in recording the fictitious sales to Company c.

Further, in the investigation, the Panel did not find emails and other materials, etc. indicating that President X was somehow involved in recording the fictitious sales to Company c.

III. Transactions with Company b

1. Issues

In the fiscal year ended March 2016, GONZO sold to Company b overdue foreign receivables of 48,121,938 yen. However, since the Panel had doubts about the time of sales and the sale price, etc. the Panel conducted the investigation.

2. Facts revealed as a result of the investigation

The investigation by the Panel has revealed that the selling of overdue foreign receivables to Company b was a sham transaction for the purpose of evading the recording of an allowance for doubtful accounts against those overdue foreign receivables of 48,121,938 yen.

(1) Company b

The representative of Company b is Representative Director D. According to Vice-president Y's explanation, Representative Director D of Company b was involved in starting GONZO's business with President X, and Representative Director D of Company b encouraged Vice-president Y to move to GONZO. Also, according to Vice-president Y's explanation, Representative Director D of Company b was a high school classmate of Vice-president Y.

(2) Transaction involving an assignment of receivables to Company b

a. Outline of the transaction

GONZO requested Audit Corporation a to consider recording an allowance for doubtful accounts against the overdue foreign receivables of 48,121,938 yen for the fiscal year ended March 2016 on the condition that those overdue foreign receivables would be sold to Company b.

b. Status of fund transactions related to the assignment of receivables

On June 2, 2016, 12,000,000 yen was transferred in the name of Company b into GONZO's ordinary deposit account at Bank ff, Branch gg as deposit and withdrawal regarding funds related to that assignment of receivables.

However, in an email sent by Mr./Ms. C to Vice-president Y at 13:05 on June 1, 2016 with the subject "I have made the bank transfer" (Email Material 20), Mr./Ms. C said "I have transferred 12,500,000 yen to Company b's account at Bank hh, Branch ii. I have made an urgent request for that transfer. Best regards." However, the payment of 12,500,000 yen mentioned in that email was not paid out of GONZO's deposit account. Therefore, in light of that email, it is believed that it is highly likely that the funds of 12,500,000 yen, which was transferred into GONZO's account on June 2, 2016 in the name of Company b, was paid by Company c (which is under the control of Vice-president Y and Mr./Ms. C), whose deposit account is separate from that of GONZO. This is because, while it is unclear how many deposit accounts there are that are similar to that account, it is believed Company c, which has funds acquired from Company p, has the most available funds.

In response, the Panel requested Vice-president Y to submit the deposit passbook and accounting data of Company c, but, as explained above, Vice-president Y refused to submit those.

c. Execution of the agreement

The following facts have been identified with respect to the preparation and execution of the agreement on the assignment of receivables to Company b.

In an email sent by Vice-president Y to Representative Director D of Company b at 5:48 on June 3, 2016, Vice-president Y said, “Good Morning, Mr./Ms. D. I have prepared an agreement as per the attached. I would like to discuss this with you first thing in the morning. Best regards.” The Panel did not find the agreement attached to that email during its investigation, but according to messages in the subsequent emails, it is believed that the attached agreement was an agreement for the assignment of receivables. Furthermore, according to the following email message sent to Mr./Ms. Q of Audit Corporation a, it is believed that the date of the agreement was probably April 30, 2016.

In an email sent by Vice-president Y to Mr./Ms. Q of Audit Corporation a at 15:39 on the same date, Vice-president Y attached a draft agreement on the assignment of receivables and said, “the counterparty is out of the office all day today. They have agreed to seal the agreement, but I do not know what time they will return, so I would like to send you the draft right away.”

Before receiving this email, Mr./Ms. Q of Audit Corporation a said to Vice-president Y “there is one thing I would like to confirm with you about the agreement. I am sure that it is probably not necessary to remind you again but, just to make sure, I would like to ask you to use a date that is before the date of the audit report. If possible, please set the date as sometime in April. If the date is going to be sometime in May, a date in the first third of May would be preferable. I am asking you this because, if the date is set at or around the end of May, it could be suspected that the transaction was forced to be done for the sake of not providing an allowance for doubtful accounts. This is just to remind you, although I know that I do not need to remind you about this.”

It is believed that on June 4, Representative Director D of Company b sent to Vice-president Y a reply email to which the draft agreement on the assignment of receivables was attached, saying, “I am sending you the draft.” At 7:32 on June 5, the following day, Vice-president Y sent to Representative Director D of Company b an email (Email Material 21), to which a draft agreement on the assignment of receivables dated April 30, 2016 was attached, saying “Mr./Ms. D, I would appreciate it if you could seal the attached draft because the date was wrong. I am sorry to trouble you.”

Following that, Vice-president Y sent an email to Mr./Ms. Q of Audit Corporation a at 10:28 on June 6, 2016, to which the sealed agreement on the assignment of receivables was attached (Email Material 22).

d. Response to Audit

According to an email with the subject “Re: Valuation of Trade Receivables in Foreign Currency” (Email Material 23), which was sent by Mr./Ms. C to Mr./Ms. Q of Audit Corporation a at 13:41 on June 2, 2016, Audit Corporation a, which is GONZO’s accounting auditor responsible for auditing that assignment of receivables, responded as follows.

(i) April 25, 2016

On April 25, 2016, in the accounting audit on GONZO by Audit Corporation a, Mr./Ms. Q of Audit Corporation a questioned Vice-president Y about delinquent trade receivables in foreign currency.

(ii) May 31, 2016

Vice-president Y suggested to Audit Corporation a that “we will transfer the trade receivables in foreign currency that are still delinquent at 90% of the amount of the receivables. We will make the assignee first pay 40% of the amount, and then pay the remaining amount by around August. In view of that, I would like to say that 90% of the amount of those trade receivables in foreign currency is collectable.”

(iii) 9:57 on June 1, 2016

After considering that suggestion by Vice-president Y with Representative B of Audit Corporation a, Mr./Ms. Q of Audit Corporation a, based on the suggestion by Vice-president Y, said that he/she “would assess the receivables and examine the allowance for doubtful accounts” upon reviewing the agreement on the assignment of receivables and the progress of collecting the receivables.

(iv) 13:37 on June 1, 2016

At 13:37 on June 1, 2016, Vice-president Y sent an email to Mr./Ms. Q of Audit Corporation a regarding the status of payment in relation to the assignment of receivables, in which he/she said that “12 million yen is scheduled to be transferred today or tomorrow (depending on the time it takes to conduct banking transaction).”

As mentioned in “b. (Status of fund transactions related to the assignment of receivables” above, in the email sent by Mr./Ms. C to Vice-president Y at 13:05 on June 1, Mr./Ms. C said that “I have transferred 12,500,000 yen to Company b’s account at Bank hh, Branch ii. I have made an urgent request for that transfer. Best regards.” Given the content of that email, it is believed that Vice-president Y responded after he/she read that email from Mr./Ms. C.

Furthermore, in the email sent to Mr./Ms. Q of Audit Corporation a, Vice-president Y asked, “we will make final adjustments with the counterparty later today, and we are currently preparing the agreement. By when do you need the agreement?"

(v) 13:51 on June 1, 2016

In an email sent by Mr./Ms. Q of Audit Corporation a to Vice-president Y, Mr./Ms. Q said that "I would like to have the agreement as soon as possible. Would it be possible for you to send me the agreement by the end of this week? I would appreciate it if you could send it as a PDF."

(vi) June 2, 2016

Mr./Ms. C sent an email to Mr./Ms. Q of Audit Corporation a to which a breakdown showing the amount received from Company b was attached, and in that email Mr./Ms. C said that "here is a breakdown of the amount deposited and withdrawn today. The amount received from Company b is the amount in question. I would appreciate it if you could check that."

e. Summary

Given the above, it is recognized that the assignment of receivables with Company b conducted in the fiscal year ended March 2016 was a sham transaction for the purpose of evading recording the allowance for doubtful accounts against receivables of 48,121,938 yen.

Furthermore, it is also recognized that that transaction was conducted based on the decision by Vice-president Y based on the fact that GONZO's account processing was conducted entirely due to the decision by Vice-president Y and the details of that transaction were determined between Vice-president Y and Representative Director D of Company b.

As mentioned above, in order to clarify the facts pertaining to that transaction, the Panel requested Representative Director D of Company b to attend an interview and Vice-president Y to submit the deposit passbook in the name of Company c and accounting data, etc., but they both refused.

(3) Other matter: Sales transaction with Company b (Animation mmm)

It is believed that the sales transaction (Animation mmm) of 10,268,800 yen with Company b, which was recorded on March 31, 2016, probably did exist. However, the Panel has doubts about the background of recording Company b as the counterparty of the transaction.

To be specific, on May 27, 2015, Representative Director E, as an employee of GONZO, sent an agreement concerning Animation mmm to Mr./Ms. R of Company jj and Mr./Ms. S of Company kk, explaining that "I would like to ask you one thing about the company that will enter into the agreement. GONZO does not officially create illustrations that are restricted to over 18. Therefore, if possible, we would like to use, "Kabushiki Kaisha b," a stock company that received a capital contribution from GONZO, as the party to enter into an agreement" Furthermore, on May 30, 2015, Representative Director E sent an email to Mr./Ms. R and

Mr./Ms. T of Company jj, Mr./Ms. S of Company kk and Mr./Ms. U of Company ll, in which he/she said that “I will insert the name of the wholly-owned subsidiary of GONZO in the agreement and send that to you next week.”

It is unclear why Representative Director E of Company b gave an explanation that was contrary to the facts, i.e., the company did not receive a capital contribution from GONZO and is not a wholly-owned subsidiary of GONZO. One possible reason was that in this case GONZO used Company b to mediate the transaction since GONZO had to provide some form of benefit to Company b (in return for some sort of benefit provided), despite the fact that it would have been natural for GONZO to conduct the transaction directly with its customer. GONZO used Company b as an intermediary by explaining that to the counterparty to the transaction.

It can be pointed out that the relationship between Company b and GONZO is unnatural because, among other reasons, (i) Vice-president Y explained that Company b is the substantial counterparty to the sales transaction with Company c, as described in “II. Fund transactions and sales transactions with Company c” above, (ii) Company b is the counterparty of Incorporated Associations u in the sham transaction pertaining to the sale and purchase transaction of the shares in Company c, and (iii) Company b is the counterparty of GONZO in the sham transaction relating to the assignment of receivables.

3. Conclusion

(1) Account processing issues

It is recognized that the transaction involving the assignment of the overdue foreign receivables of 48,121,938 yen to Company b in the fiscal year ended March 2016 was a sham transaction using GONZO’s off-balance-sheet funds as a source of funds for the purchase.

It is therefore necessary to cancel that transaction from the financial statement for the fiscal year ended March 2016, and then record an appropriate allowance for doubtful accounts against those overdue receivables.

(2) Involvement of Vice-president Y

As explained above, it is recognized that that transaction was conducted based on a decision by Vice-president Y. Vice-president Y’s motive is unclear. However, it is believed that since fictitious sales, etc. to Company c were recorded in the fiscal year ended March 2016, and, in around May 2016 (when Representative Director D of Company b and Representative B of Audit Corporation a were exchanging emails about that transaction), there were discussions at Company nn, which operates mm investment limited partnership (i.e., a major shareholder of GONZO), to sell the shares of GONZO it holds to ADK, Vice-president Y probably made the decision in view of such situation.

(3) Involvement of President X

In the process of the Investigation, the Panel did not find any evidence indicating that President X was or might have been involved in that transaction.

IV. Fund transactions with Company d

1. Issues

On March 31, 2016, GONZO recorded 18,518,519 yen as sales to Company d for the fiscal year ended March 2016. However, since looking at the date of recording those sales, the Panel had doubts about whether that sales transaction actually took place, and the Panel conducted the investigation.

2. Facts revealed as a result of the investigation

The investigation by the Panel revealed that the sales of 18,518,519 yen to Company d, which was recorded on March 31, 2016, was a fictitious sales transaction.

(1) Status of the transaction with Company d

Company d is an outsourcing subcontractor of GONZO, but at the same time, it is also GONZO's financer. It is believed that Company d is GONZO's financer because GONZO at a later date reimbursed the money received from Company d, which was recorded as a suspense receipt, but it is also clear by looking at the statement of cash-flow, which was prepared by Vice-president Y, stating Company d as a financer.

(2) Sales to Company d

GONZO recorded the following sales to Company d in the fiscal year ended March 2016.

• March 31, 2016

Debit		Credit	
Item	Amount	Item	Amount
Ordinary deposit	20,000,000 yen	Suspense receipt	20,000,000 yen

• March 31, 2016 (adjusting entries for account settlement)

Debit		Credit	
Item	Amount	Item	Amount
Suspense receipt	20,000,000 yen	Production sales	18,518,519 yen
		Suspense consumption tax received	1,481,481 yen

"Notes" stated "Fiscal year ended March 2016," "14G1," and "Recording of sales Company d."

(3) Fund transaction relating to the transaction of sales to Company d

The following shows the emails exchanged between Vice-president Y and Mr./Ms. V of Company d (Email Material 24 *Email sent by Vice-president Y to Mr./Ms. V of Company d at 15:26 on May 30, 2016 with the subject "Transfer at the end of the month"*).

Date sent on	Sent by/to	Message
March 30, 2016	From: Vice-president Y To: Mr./Ms. V of Company d	Dear Mr./Ms. V, I am sorry to trouble you, but I sincerely appreciate your cooperation. The amount and bank details are as follows: 20,000,000 yen Bank ff, Branch gg Ordinary deposit account [not disclosed] (kabushiki kaisha) GONZO Best regards, Vice-president Y
March 31, 2016	From: Vice-president Y To: Mr./Ms. V of Company d	Dear Mr./Ms. V, I am sorry to ask you for a big favor. I will reimburse the amount at the end of April. Best regards, Vice-president Y
April 28, 2016	From: Mr./Ms. V of Company d To: Vice-president Y	Dear Vice-president Y, Please urgently pay the principal without any interest. Thank you for your cooperation. Best regards, Mr./Ms. V

April 28, 2016	From: Vice-president Y To: Mr./Ms. V of Company d	Dear Mr./Ms. V, I am sending you this email because I could not get through to you on the phone. I would like to confirm with you whether the bank account is the same as the one we usually use. If possible, I would appreciate it if we could make the payment on May 2 due to audit-related reasons. Is that possible? I would appreciate it if you could give me a call. Thank you for your cooperation. Best regards, Vice-president Y
May 30, 2016	From: Mr./Ms. V of Company d To: Vice-president Y	Dear Vice-president Y, This is Mr./Ms. V from Company d. I just want to ask you whether you could reimburse the amount on or around June 10. Best regards, Mr./Ms. V
May 30, 2016	From: Vice-president Y To: Mr./Ms. V of Company d	Dear Mr./Ms. V, I would like to thank you for considering what is convenient for our company. I am pleased to say that we are only one step away. The future schedule, etc. will be decided today and tomorrow, so I will call you again tomorrow. Thank you for your cooperation. Best regards, Vice-president Y

(4) Source of funds, etc.

In the Investigation, the Panel could not find a payment to Company d on or “around” June 10, 2016, which is mentioned in the above email.

However, Vice-president Y was in a position to move the funds procured by Company c in the name of the consideration for the assignment of GONZO’s receivables. Further, on April 28, 2016, Vice-president Y informed Mr./Ms. V of Company d that Vice-president Y wished to have that amount reimbursed on May 2, while on April 28, Vice-president Y submitted an Application for Advance Payment to Mr./Ms. O of Company p for an advance payment in the amount of 94,912,000 yen by requesting him/her to make that advance payment on May 2. Therefore it is believed that it is possible Vice-president Y initially intended to use those funds procured from Company p to reimburse Company d.

Furthermore, on May 30, Vice-president Y submitted an Application for Advance Payment to Mr./Ms. O of Company p for two advance payments of 20,000,000 yen and 55,000,000 yen, respectively, by requesting Mr./Ms. O to make the advance payments on May 30, and it is possible Vice-president Y used those funds procured from Company p to reimburse to Company d.

(5) Sales to Company d

Besides the aforementioned transactions conducted in the fiscal year ended March 2016, there were other doubtful transactions that were conducted between GONZO and Company d as described below.

a. Sales to Company d in the fiscal year ended March 2012

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 a return on investment of 24,000,000 yen in the account for "oo return on investment."

According to the findings in the investigation by the Panel, it is believed "oo" refers to Company oo, but the Panel has not been able to find any investment related to that return on investment.

In an email sent by Mr./Ms. C to Vice-president Y at 14:23 on April 10, 2012 with the subject "RE: Request for processing part of the suspense receipt," Mr./Ms. C asked Vice-president Y about how to process the suspense receipt from Company d and Company oo. In response to this email, Vice-president Y answered that "I expect both will be processed as sales. We are currently preparing an agreement." Furthermore, at 17:04 on April 17, 2012, Vice-president Y sent an email with the subject "RE: Matters related to receivables" to Mr./Ms. C, in which Vice-president Y said that "I will give instructions from tomorrow morning" in reply to the question from Mr./Ms. C asking that "tomorrow, which is April 18, is the date of confirming receivables. I have previously been told that the suspense receipts from Company d and Company oo will be processed as "sales," but we have not processed them yet. Will the receivables be confirmed after these figures are entered?"

Those email messages indicate 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 financer; and (iii) the timing of the receipt of the payment.

b. Payment of temporary payment to Company d on April 1, 2013

On April 1, 2013, GONZO paid a temporary payment of 7,730,280 yen to Company d. That temporary payment was transferred to the content copyright suspense account on March 31, 2013, which is one year later, and the balance of that content copyright suspense account was recorded as an "extraordinary loss" in the entries for account settlement in the fiscal year ended March 2015.

c. Payments in the name of development costs to Company d since August 2015

Since August 2015, GONZO recorded outsourcing costs in the name of "development costs" to be paid to Company d, and from September, the following month, until March 2016, GONZO paid 2,700,000 yen every month in seven installments in total (which came to a total of 18,900,000 yen).

In relation to that payment, Mr./Ms. V of Company d said to Vice-president Y in an email with the subject "Payment for copyright," which was sent by Mr./Ms. V of Company d to Vice-president Y at 17:43 on June 1, 2015, that "by the way, with reference to the subject matter, the total amount of those shown in the document received from you was 21,663,000 yen, inclusive of tax. Would it be possible for you to pay 20,898,000 yen (= 19,350,000 yen x 1.08) instead? I am asking because if we calculate the amount by using 5% as consumption tax, we will definitely be asked about that in a tax inspection. It would be helpful if you could pay the difference with the uncalculated amount at a later date. It would be wonderful if the name of that payment were related to some outsourced service provided to our company by your company. Also, would it be okay to make the payment at the end of June?"

Furthermore, on July 27, 2015, Mr./Ms. V of Company d sent an email to Vice-president Y in which he/she said that "could you start from next month or so? Otherwise, as we approach the end of the year, the payments made in each installment will become large, and therefore will stand out." In response to that email, Vice-president Y sent an email to Mr./Ms. V of Company d at 11:07 on June 28, the following day, in which he/she said that "I will start making payments from next month in installments until the end of the year. I apologize for causing you trouble."

Furthermore, an email with the subject "Matters regarding request for payment," which was sent by Mr./Ms. V of Company d to Vice-president Y at 19:21 on August 28, 2015, said that "here is the summary of what we discussed on the phone: (1) We request a payment of 2.5 million yen (excluding tax) every month, (2) I am waiting for Vice-president Y to tell me what the transaction title should be. I would also like to know what the invoice date, etc. should be."

In light of the above background, it is believed the payments of outsourcing costs in the name of development costs paid by GONZO to Company d since August 2015 were transactions without substance.

d. Summary

The details described above show that Vice-president Y is suspected of having recorded fictitious sales by using the fund transactions with Company d since the fiscal year ended March 2012.

Further, in March 2012, GONZO received 25,200,000 yen from Company d, while in April 2013, GONZO paid 7,730,280 yen to Company d and it also paid a total of 18,900,000 yen between August 2015 and March 2016, which means GONZO paid a total of 26,630,280 yen to Company d.

On this point, since there is a long time-span between that incoming payment and the outgoing payments, it is not clear how they were linked. Having said that, considering the aforementioned doubt, it is suspected those transactions involving incoming and outgoing payments also probably did not actually take place.

3. Conclusion

(1) Account processing issues

Given the above, it is recognized that 18,518,519 yen in sales to Company d, which was recorded on March 31, 2016, was fictitious sales. Although it is not possible to confirm the flow of funds to Company d, the Panel has deemed that the transaction was a fictitious transaction from the emails and other communications, the fund transfers and other evidence.

(2) Involvement of Vice-president Y

As explained above, it is clear that those transactions were conducted based on a decision by Vice-president Y.

Vice-president Y's motive is unclear, but in an email sent by Vice-president Y to Mr./Ms. V of Company d on May 30, 2016, Vice-president Y said that "I am pleased to say that we are only one step away. The future schedule, etc. will be decided today or tomorrow, so I will call you again tomorrow." From that email, it can be seen that Vice-president Y was aware of Company nn's intention to sell GONZO's shares. Furthermore, it is believed that since fictitious sales to Company c were recorded and fictitious assignments of receivables to Company b were conducted in the fiscal year ended March 2016, and under the circumstances at that time ADK submitted a letter of intent (bid document showing the amount and conditions) to Company nn on May 24, 2016 and Company nn was planning to determine the buyer of shares in GONZO on May 31, 2016, Vice-president Y made that decision in view of such situation.

(3) Involvement of President X

In the process of the Investigation, the Panel did not find any evidence indicating that President X was or might have been involved in that transaction.

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

1. Issues

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, on the other hand, it also appears that GONZO's funds were flowing out for the purpose of Vice-president Y's cash management. In view of the fund transactions with Company c, the Panel cannot deny the possibility that GONZO might have off-balance-sheet liabilities.

2. Facts revealed as a result of the investigation

(1) Status of fund transactions between GONZO and Vice-president Y

a. Explanation by Vice-president Y

According to Vice-president Y's explanation, he/she procured funds from his/her "acquaintance" in his/her name for the purpose of GONZO's cash management and used those funds as GONZO's operating funds. Vice-president Y also claimed that no interest accrued on the fund transactions conducted between GONZO and him/her.

b. Fund transactions between GONZO and Vice-president Y (general ledger)

The fund transactions between GONZO and Vice-president Y were initially conducted by using the "suspense receipt" account and then following that the "unpaid liabilities (employees, etc.)" account.

Since GONZO's accounting books do not have any supplementary items with respect to "suspense receipt," it is not possible to extract the figures. However, the ordinary deposit account passbook in the name of GONZO shows the deposits and withdrawals after March 2013 that are marked as "Vice-president Y" in the space for notes are as follows.

(Unit: yen)

	Deposits	Withdrawals
Fiscal year ended March 2013	202,119,900	192,527,153
Fiscal year ended March 2014	359,563,000	370,684,000

The following table shows the figures recorded under the supplementary item "Vice-president Y" in the "unpaid liabilities (employees, etc.)" account in GONZO's general ledger.

(Unit: yen)

	Beginning Balance	Debit	Credit	Ending Balance
Fiscal year ended Mar. 2014	521,869	0	28,175,055	28,696,924
Interim period ended Sept. 2014	28,696,924	173,402,000	144,705,076	0
Fiscal year ended Mar. 2015	28,696,924	483,487,658	454,790,734	0
Interim period ended Sept. 2015	0	90,800,000	100,627,957	9,827,957

Fiscal year ended Mar. 2016	0	168,222,264	168,222,264	0

The amount of 12,057,688 yen of the credit amount of 28,175,055 yen in the "suspense receipt" account for the fiscal year ended March 2014 was, as of March 31, 2014, the amount recorded as a result of transferring to the "unpaid liabilities" account the amount of excess receipt on the GONZO side (difference between the amount paid to GONZO by Vice-president Y and the amount paid to Vice-president Y by GONZO) in the deposit and withdrawal transactions conducted by GONZO with Vice-president Y at that time by using the "suspense receipt" account, etc. Following that, the "unpaid liabilities" account, etc. was used for fund transactions between Vice-president Y and GONZO. In other words, GONZO processed payment of funds to Vice-president Y in "unpaid liabilities/ordinary deposits" account, and processed receipt of funds from Vice-president Y in the "ordinary deposits/unpaid liabilities" account, and the increases and decreases in the amounts of debits and credits recorded under the supplementary item "Vice-president Y" in the "unpaid liabilities (employees, etc.)" account indicates mainly the situation of fund transactions between Vice-president Y and GONZO.

c. Eliminating the negative balance of unpaid liabilities owed to Vice-president Y

The account for unpaid liabilities owed to Vice-president Y in the fund transactions between GONZO and Vice-president Y showed a negative balance (that is, a net cash inflow to Vice-president Y) at the end of each fiscal year. If the fund transactions between GONZO and Vice-president Y were conducted for the purpose of GONZO's cash management as Vice-president Y explained, the very act of recording a negative balance at the end of the fiscal year would be unusual and it is doubtful whether the explanation made by Vice-president Y is true, but it is recognized that GONZO took the following steps to eliminate the negative balance.

(a) Setting off the balance against advances received from Company pp

On March 2, 2015, GONZO transferred 117,000,000 yen to Vice-president Y. Meanwhile, on the same day, Company pp paid 105,300,000 yen into the ordinary deposit account of GONZO, and GONZO recorded that amount as a "suspense receipt."

After that, on March 30, 2015, Mr./Ms. C sent to Vice-president Y an email (with the subject "Re: the balance of Vice-president Y," which was sent at 10:22 on March 30, 2015), which said that "the supplemental ledger balance of Vice-president Y (unpaid liability: Employee Y) is -98,706,459 yen, even if the salary for March is included. We only have two days left, including today. Please advise me on what I should do." That email shows that the negative balance of unpaid liabilities owed to Vice-president Y was 98,706,459 yen as of that date.

Furthermore, on March 31, 2015, GONZO set off the suspense receipt and the unpaid liabilities at 89,291,567 yen, which is described in the notes as a "Company pp item correction," and GONZO set off the negative balance of the unpaid liabilities owed to Vice-president Y against the suspense receipt from Company pp.

According to Vice-president Y’s explanation, Company pp is a partnership, the purpose of which is making venture investments and its partners are four individuals including Vice-president Y, President X, and Representative Director D of Company b.

Following that, GONZO conducted the following account processing at the end of the interim period ended September 2015.

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
*09/30/2015	25	Company pp, Period ended September 2015. item transfer	Advances received	29,611,303	Unpaid liabilities	29,611,303

In that journalization, the balance of advances received from Company pp, which is mentioned above, was transferred to the account for unpaid liabilities.

(b) Temporary elimination of negative balances by taking advantage of money received from Company c

The following account processing was conducted at GONZO at the end of the interim period ended September 2015.

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
09/30/2015	656	Refund from Mr./Ms. W	Petty cash	838,162	Unpaid liabilities	838,162
09/30/2015	656	Refund from President X	Petty cash	12,079,574	Unpaid liabilities	12,079,574
09/30/2015	656	Refund from Vice-president Y	Petty cash	8,172,264	Unpaid liabilities	8,172,264
			Total	21,090,000	Total	21,090,000

That journalization means that GONZO received in cash the overpaid amounts of unpaid liabilities from Mr./Ms. W, President X, and Vice-president Y on September 30, 2015. As a result, as of the last day of September 2015, the respective balances of the unpaid liabilities owed to Mr./Ms. W and President X were zero yen while the balance of the unpaid liabilities with respect to Vice-president Y was 9,827,957 yen.

Further, the following account processing was conducted as of October 1, 2015, the day after that journalization, and October 2, 2015.

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
10/01 /2015	416	Reversal of journalization for account settlement at the end of the interim period ended	Unpaid liabilities	838,162	Petty cash	838,162
10/01/ 2015	416		Unpaid liabilities	12,079,574	Petty cash	12,079,574
10/01/ 2015	416		Unpaid liabilities	8,172,264	Petty cash	8,172,264
			Total	21,090,000	Total	21,090,000

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
10/02/ 2015	9	Company c	Ordinary deposit	21,090,000	Suspense receipt	21,090,000

As shown above, although GONZO conducted account processing where it received in cash the overpaid amounts of unpaid liabilities from Mr./Ms. W, President X, and Vice-president Y in petty cash on September 30, 2015, GONZO reversed those journal entries on October 1, the following day, which means that refunds were paid to each of those people in cash.

Further, on October 2, the following day, GONZO conducted account processing where it received the same amount of 21,090,000 yen from Company c. In the ordinary deposit account passbook in the name of GONZO, the transaction details of that payment are recorded as a "deposit ([not disclosed])," and it can be understood that that is a transaction where money was deposited in cash at Bank z, Branch aa.

In the email sent by Mr./Ms. C to Vice-president Y on November 13, 2015 (Email Material 25 *Email sent by Mr./Ms. C to Vice-president Y at 15:02 on November 13, 2015 with the subject "Recent discussions by telephone"*), Mr./Ms. C said that "this is regarding the matter discussed over the phone earlier. Which attached document should be used for processing? The first document is regarding 21,090,000 yen received from Company c on October 2 and the second one is regarding -18,995,421 yen for President X, Vice-president Y, and Mr./Ms. W. Vice-president Y, previously said that because the balances are negative, they should perhaps treat them as though they were paid upon the account settlement." In other words, it can be seen that as of November 13, 2015, GONZO was trying to cover the overpayments to President X and Vice-president Y, etc. with money received from Company c.

The fact is that money was received from Company c on October 2, 2015, so that money could not have been used to make the payment to GONZO on September 30, 2015. It can therefore be inferred that, to disguise that, GONZO processed for the purpose of accounting the money received not as a bank transfer but as "petty cash," as if it received the money in cash directly from Vice-president Y and others.

Given the above, it is recognized that GONZO conducted account processing to eliminate even temporarily the negative balance of 18,995,421 yen in unpaid liabilities owed to Vice-president Y and others as of September 30, 2015 by taking advantage of the payment of 21,090,000 yen from Company c on October 2. On October 1, 2015, GONZO reversed the journal entries dated September 30, 2015 (slip No. 656), bringing the balances of unpaid liabilities owed to each person back to negative figures.

(c) Elimination of negative balances using meeting expenses

GONZO conducted the following account processing at the end of the fiscal year ended March 2016.

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
03/31/ 2016	688	Vice-president Y Recording of small expenses	Meeting expenses (cost)	3,335,388	Unpaid liabilities	3,335,388
03/31/ 2016	688	Vice-president Y Recording of small expenses	Suspense consumption tax paid	266,830	Unpaid liabilities	266,830
03/31/ 2016	688	President X Recording of small expenses	Meeting expenses (cost)	4,203,052	Unpaid liabilities	4,203,052
03/31/ 2016	688	President X Recording of small expenses	Suspense consumption tax paid	336,244	Unpaid liabilities	336,244

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
*03/31/ 2016	128	Item transfer Mr./Ms. W Vice-president Y	Unpaid liabilities	2,497,298	Unpaid liabilities	2,497,298

In the journalization of Slip No. 688, entries were recorded at the end of the fiscal year as unpaid liabilities for meeting expenses owed to Vice-president Y and President X.

As the respective balances of the unpaid liabilities owed to Vice-president Y and President X were zero at the end of the fiscal year ended March 2016, it is believed those balances were negative before those journal entries.

It is therefore believed that the journal entries of Slip No. 688 were made to reconcile the negative balances of the unpaid liabilities (payment in excess of receipt) owed to Vice-president Y and President X by recording unpaid liabilities in the name of meeting expenses. On that point, the actual condition of those meeting expenses is unclear.

Further, the unpaid liabilities owed to Vice-president Y recorded in Slip No. 688 are partly transferred to the unpaid liabilities owed to Mr./Ms. W in Slip No. 128.

(d) Possibility of elimination of negative balances using GONZO's funds

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
03/31/ 2016	298	Vice-president Y	Ordinary deposit	6,000,000	Unpaid liabilities	6,000,000

Slip No. 298 shows a journal entry where 6,000,000 yen was transferred from Vice-president Y as a settlement of unpaid liabilities. Also in the ordinary deposit account passbook in the name of GONZO, that is recorded as "transfer Vice-president Y."

On the same day, however, a withdrawal transaction of 43,050,000 yen from the ordinary deposit account in the name of GONZO is recorded in the passbook as "withdrawal ([not disclosed])" (while in the general ledger, that is recorded as a withdrawal in the name of a repayment of suspense receipt to Company c). Given that Company c was substantially controlled by Vice-president Y as mentioned above, it cannot be ruled out that part of that money might have been used to settle the negative balance of unpaid liabilities owed to Vice-president Y. Although the Panel asked Vice-president Y to submit the passbook in the name of Company c and accounting data, he/she refused to do so, preventing the Panel from clarifying the actual condition.

d. Use of procured funds and source of repayment

It is believed that the funds received by GONZO from Vice-president Y were initially intended for payments to subcontractors, etc. and that the source of the funds withdrawn from GONZO to Vice-president Y was the money received from GONZO's customers, etc.

As evidenced by Material 6, however, it is recognized that from April 2014, when financing from Company p through Company c started, some funds GONZO received from Vice-president Y were used as a source of repayments to Company p, while funds procured from Company p were used as the source of the funds paid to Vice-president Y. Thus, in around mid-2014, at GONZO, funds procured from outside sources were used to repay borrowings rather than being used as operating funds for GONZO, as it should be. It is believed that GONZO, Vice-president Y and Company c were cash-strapped and were just managing to survive.

e. Summary

As shown above, although the fund transactions between GONZO and Vice-president Y were conducted in order to secure operating funds for GONZO, it is recognized that dubious account processing was conducted: for example, funds procured by GONZO from Company c have been used for repayments to Vice-president Y since mid-2014 and Company c has been used in the elimination of the negative balance of unpaid liabilities owed to Vice-president Y since March 2015. As such, the actual condition of the fund transactions between GONZO and Vice-president Y is extremely opaque and difficult to verify, which makes the accurate balance of unpaid liabilities owed to Vice-president Y (namely, GONZO's borrowings through Vice-president Y) unclear.

In addition, as stated earlier, the amount equal to interest on the funds procured by Vice-president Y from third parties is not recorded as a cost at GONZO. Based on the recognition that the funds procured by Vice-president Y are in substance GONZO's liabilities, it can be pointed out that off-balance-sheet liabilities at least equal to those interest payments might have been incurred by GONZO. 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(s).

Given the above, it is unclear how much off-balance-sheet liabilities have been incurred with respect to the funds procured by GONZO through Vice-president Y. Further, it is consequently impossible to verify whether all of the money paid from GONZO to Vice-president Y was used to repay procured funds or if some of the money was diverted to other uses.

(2) Increases and decreases in unpaid liabilities owed to President X

Between GONZO and President X as well, it is recognized that the unpaid liabilities account has increased and decreased as follows.

a. Situation of the "unpaid liabilities (employees, etc.)" account

The following table shows the figures recorded under the supplementary item "President X" in the account for "unpaid liabilities (employees, etc.)" in GONZO's general ledger.

(Unit: yen)

	Beginning balance	Debits	Credits	Ending balance
Fiscal year ended Mar. 2013	29,052	5,399,644	5,826,853	456,261
Interim period ended Sep. 2013	456,261	11,055,143	14,106,277	3,507,395
Fiscal year ended Mar. 2014	456,261	19,745,113	28,098,869	8,810,017
Interim period ended Sep. 2014	8,810,017	6,000,000	430,316	3,240,333
Fiscal year ended Mar. 2015	8,810,017	24,157,276	15,347,259	0
Interim period ended Sep. 2015	0	12,500,000	12,500,000	0
Fiscal year ended Mar. 2016	0	30,579,574	30,579,574	0

b. Elimination of the negative balance of unpaid liabilities owed to President X

As mentioned in (1) c. (b) and (c) above, it is recognized that dubious account processing was conducted in connection with the elimination of the negative balance of unpaid liabilities owed to President X.

c. Summary

As mentioned above, there are suspicious transactions with respect to the settlement of the unpaid liabilities using questionable journal entries at the end of the fiscal year ended March 2016.

However, 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. Considering that the unpaid liabilities owed to President X include remuneration payable and that President X basically was not actively involved in detailed account processing at GONZO, it is not recognized that there were transactions with a similar nature as the above suspicious fund transactions conducted by Vice-president Y.

3. Conclusion

(1) Account processing issues

a. Unrecorded interest payments

As explained above, given that the funds procured by Vice-president Y for GONZO's operating funds and other uses are in substance liabilities of GONZO and borrowings from outside sources, interest payments on those liabilities should have been automatically incurred.

However, the Panel did not find any evidence showing that those interest payments were recorded at GONZO.

It is therefore highly likely that the interest payments pertaining to the funds procured by Vice-president Y for GONZO's operating funds and other uses were not recorded in the past.

b. Possibility of existence of off-balance-sheet liabilities

In connection with the above unrecorded interest payments, unpaid liabilities owed to Vice-president Y were consequently understated, which means that it is possible off-balance-sheet liabilities exist.

Further, under those circumstances, liabilities related to the funds procured by Vice-president Y from third parties are in substance GONZO's liabilities, and under current circumstances where it is not possible to clearly identify the respective liabilities owed to Company c, Company p and "acquaintances" who are Vice-president Y's financers, it is unclear how much off-balance-sheet liabilities actually exist at GONZO.

c. Possibility of misappropriation of funds by Vice-president Y

Given that it is not known how much off-balance-sheet liabilities exist at GONZO, which means that the actual fund transactions between GONZO and Vice-president Y are opaque, and that 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) Involvement of Vice-president Y

Vice-president Y is responsible for finance and accounting at GONZO, and it is recognized that he/she has made decision over all account processing at GONZO, aside from some exceptions. It is therefore recognized that Vice-president Y was also proactively involved in the above fund transactions.

(3) Involvement of President X

It is recognized that Vice-president Y has made decision over all cash management, accounts processing and other related matters at GONZO, aside from some exceptions. Under those circumstances, even if President X was involved in the increases and decreases in unpaid liabilities, it is believed he/she would have played a subordinate role.

VI. Other doubtful transactions

1. Transactions with Company qq

In adjusting entries for account settlement for the fiscal year ended March 2016, GONZO recorded sales of 30,000,000 yen to Company qq as a “consulting fee.”

While Company qq is an outsourcing subcontractor of GONZO, it is also a financer.

Transactions with Company qq are recorded as follows in GONZO’s general ledger.

- Fiscal year ended March 2016

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
02/01/2016	41	Company qq	Suspense payment	10,800,000	Ordinary deposit	10,800,000
02/29/2016	89	Company qq	Suspense payment	10,800,000	Ordinary deposit	10,800,000
*03/31/2016	120	Due to suspension of production of Animation fff	Other extraordinary loss	21,600,000	Suspense payment	21,600,000
*03/31/2016	113	Consulting fee Company qq	Trade receivable	30,000,000	Other sales	30,000,000
			Trade receivable	2,400,000	Suspense consumption tax received	2,400,000

- Interim period ended September 2016

(Unit: yen)

Date	Slip No.	Notes	Debit		Credit	
			Item	Amount	Item	Amount
05/31/2016	496	Company qq	Ordinary deposit	14,999,580	Trade receivable	14,999,580
06/15/2016	101	Production cost for Animation ooo	Outsourced manufacturin g cost	9,259,260	Ordinary deposit	10,000,000
			Suspense consumption tax paid	740,740		
07/15/2016	175	Production cost for Animation ooo	Outsourced manufacturin g cost	9,259,260	Ordinary deposit	10,000,000
			Suspense consumption tax paid	740,740		
08/15/2016	118	Production cost for Animation ooo	Outsourced manufacturin g cost	9,259,260	Ordinary deposit	10,000,000
			Suspense consumption tax paid	740,740		
08/31/2016	271	Company qq	Ordinary deposit	14,999,580	Trade receivable	14,999,580

As mentioned above, sales of 30,000,000 yen (excluding taxes) were recorded in the name of a consulting fee to Company qq for the fiscal year ended March 2016.

Further, as a collection of trade receivables of 32,400,000 yen pertaining to that sales transaction, a total of 29,999,160 yen was collected—14,999,580 yen on May 31, 2016 and August 31, 2016, respectively.

However, between the first collection date and the second collection date, GONZO paid to Company qq 10,000,000 yen (including taxes) on each of June 15, July 15 and August 15, 2016, respectively, in the name of outsourcing costs.

Given the above, it is believed that the source of the collected trade receivable of 30,000,000 yen (excluding taxes), which GONZO recorded as sales to Company qq in the fiscal year ended March 2016, might have been the total of 30,000,000 yen GONZO paid to Company qq during that period in the name of outsourcing costs. In that case, that sales transaction would be a fictitious sale.

Further, besides that transaction, GONZO paid to Company qq a total of 21,600,000 yen as suspense payment in February 2016, but shortly thereafter on March 30, 2016, that suspense payment was transferred to extraordinary loss due to the suspension of production of Animation fff, and as a result, a loss was recorded.

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 has been conducted.

2. Regarding the 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. It seems that sales figures have been a matter of concern since September 2011, namely the fiscal year ended March 2012, at the latest.

Although that email is a correspondence between Section Manager A and Mr./Ms. C, given that it is recognized that Vice-president Y was involved in and made decisions on all account processing of GONZO, aside from some exceptions, the Panel judges that it is highly likely that these are conducted based on a decision by Vice-president Y.

Chapter 4 Involvement of people concerned in Questionable Accounting

I. Vice-president Y

1. Status of involvement of Vice-president Y

The Investigation has revealed that all of the following inappropriate accounting processes were willfully conducted based on a decision by Vice-president Y.

Month/Year	Description of transaction
March 2012	(1) Possible fictitious sales to Company d
March 2013	(2) Change the basis for recording revenue to Revenue at Time of Billing Statement, and bring forward recordings of sales of the following animations works: “Animation aaa,” “Animation bbb” and “Animation ccc”
March 2015	(2) Record 150 million yen as management fee to Company e
March 2016	(4) Record fictitious sales to Company c, and remove liabilities from the balance sheet (5) Record fictitious sales to Company d
June 2016	(6) Conduct a sham transaction to assign receivables to Company b (in the fiscal year ended March 2016)

2. Vice-president Y’s motive

All of the above accounting processes have in common the fact that the brought-forward recording of sales and the recording of fictitious sales helped make sales amounts look larger than they actually were. In that regard, it is believed that Vice-president Y possibly brought forward the recording of sales (the Country X Project) and recorded fictitious sales (to Company d) since the fiscal year ended March 2012 at the latest. Those accounting processes increased between February and June 2016 when negotiations were conducted to sell GONZO’s shares held by Company nn to ADK. It is therefore inferred that Vice-president Y was conducting account processing with Company nn’s exit in mind at all times.

In particular, according to the explanations by President X and Vice-president Y, although GONZO was initially supposed to receive two billion yen when Company nn became a major shareholder, GONZO actually received only one billion yen as new funds due to the Lehman shock (i.e. the Global Financial Crisis) and other reasons. As a result, GONZO became cash-strapped from around 2008.

It is true that Vice-president Y has not held shares in GONZO and has not been in a position to benefit directly from selling shares in GONZO to ADK. At the same time, however, according to Vice-president Y’s explanation, he/she provided GONZO with funds he/she borrowed in his/her name when GONZO was cash-strapped, and as a Chief Financial Officer (CFO), Vice-president Y was responsible for cash management at GONZO. Judging from those points, 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.).

If Vice-president Y had a motive to record fictitious sales, etc., the Panel believes that it is highly likely that he/she intended to bring forward the recording of sales when the basis for recording revenue for animation production was changed from the existing Revenue at Time of Delivery to Revenue at Time of Billing Statement for the fiscal year ended March 2013.

II. President X

Based on the explanations by President X and Vice-president Y, it is recognized that President X was not actively involved in account processing at GONZO.

In that regard, given the change from the existing Revenue at Time of Delivery to Revenue at Time of Billing Statement, sales for animation works that had not yet been broadcasted started to be recorded in the fiscal year ended March 2013. Under those circumstances, it would not be surprising if President X had noticed the questionable recording of sales.

According to Vice-president Y's explanation, however, President X was not informed much about accounting matters. President X also explained that he/she left accounting matters to Vice-president Y and therefore President X did not know until the first half of 2016 that the basis for recording revenue for animation production had been changed from Revenue at Time of Delivery to Revenue at Time of Billing Statement.

Also, even with respect to the fund transactions with Company c, according to Vice-president Y's explanation, he/she thinks that President X knew that funds were procured, but he/she does not think that President X knew about the recording of sales to Company c.

As explained above, during the course of the Investigation, the Panel did not find any evidence, etc. showing that President X was, or was likely to have been, involved in inappropriate account processing at GONZO, except for the Presale Transaction. It is also recognized that the account processing for the Presale Transaction in which President X was involved was due to negligence.

Chapter 5 Measures to prevent recurrence

I. Causes of issues pertaining to Questionable Accounting

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

As the CFO, Vice-president Y makes all decisions on account processing at GONZO on his/her own, and there is no evidence showing that he/she provided the executive committee or others with information on the accounts process. President X basically left accounting matters to Vice-president Y, resulting in a situation where there was no checks-and-balances function.

It is recognized that under those circumstances, Vice-president Y instructed the administration department staff including Section Manager A and Mr./Ms. C to conduct the inappropriate account processing described above.

2. Lack of normative consciousness by Vice-president Y

Decision-making authority on account processing at GONZO was concentrated in the hands of Vice-president Y, but as acknowledged above, Vice-president Y conducted account processing that is clearly inappropriate such as recording fictitious sales with willful intent and it is recognized that he/she lacked normative consciousness regarding accounting.

In that regard, according to Vice-President Y's explanation, for example, when the basis for recording revenue for animation production changed to Revenue at Time of Billing Statement, Vice-president Y explained that to Audit Corporation a, an accounting auditor, in advance, but when the auditor pointed out the necessity to consider recording an allowance for doubtful accounts because trade receivables in foreign currency had remained overdue for a long time, it is recognized that Vice-president Y deceived Auditor Corporation a by using Company b to conduct a sham transaction so that it appeared as though receivables had been assigned.

Therefore, the possibility cannot be ruled out that also at the time of the change to Revenue at Time of Billing Statement, Vice-president Y obtained approval from Audit Corporation a by giving a false explanation as if the actual condition had changed.

Given the above, the Panel believes that Vice-president Y lacks normative consciousness regarding accounting and lacks the qualification to be a director in charge of finance and accounting.

In connection with that, it should also be noted how Vice-president Y responded in the Investigation.

The Panel interviewed Vice-president Y seven times (for about 17 hours in total). As mentioned above, his/her explanations contradicted emails, evidenced documents, and other materials, so the Panel pointed out those contradictions and asked for further explanations. However, Vice-president Y did not give any rational explanation, saying only "I don't know," "I have no idea," "I cannot cooperate in the investigation if you treat me in such a high-handed manner," and the like.

The Panel also asked Vice-president Y to provide current accounting data of Company c and its deposit account passbook, but he/she refused to cooperate, saying, among other things, that "Company c has been owned by Representative Director D of Company b for two years, and Representative Director D told me that such a response was not necessary." The Panel also asked Vice-president Y to make an interview request to Representative Director D of Company b, Representative Director E, Section Manager A and Mr./Ms. C, but he/she refused to do that as well.

Given those circumstances, the Panel judged that it was difficult to obtain further cooperation from Vice-president Y and it did not conduct any more interviews.

II. Recommendations on measures to prevent recurrence

As a result of the Investigation, the Panel recommends the following measures to prevent recurrence.

1. Appointment of an appropriate officer in charge of finance and accounting

The inappropriate account processing at GONZO found in the Investigation, including the recording of fictitious sales and the sham transaction to evade recording of an allowance for doubtful accounts, are clearly malicious acts based on a fraudulent intent.

Therefore, to prevent recurrence in the future, the Panel believes that it is important to appoint an appropriate person with normative consciousness of accounting, in particular as a finance and accounting officer.

2. Strengthening of the supervisory function of the board of directors and (the board of) corporate auditors

The inappropriate account processing at GONZO found in the Investigation was mainly caused by the fact that Vice-president Y lacked normative consciousness as a finance and accounting officer, but the Panel believes that such processing was also partly caused by an inadequate supervisory function of the board of directors and the board of corporate auditors over the performance of Vice-president Y's services as a director.

Therefore, to prevent recurrence in the future, it is necessary to strengthen the functions of the board of directors and (the board of) corporate auditors, and to that end, appropriate people must be selected as directors (members of the board of directors) and (the board of) corporate auditors.

In particular, now that GONZO has become a subsidiary of ADK, ADK personnel have been dispatched to GONZO. Going forward, the Panel believes that ADK's corporate auditors, internal audit department and others will also need to audit its subsidiaries in an adequate manner.

3. Strengthening of the administration department and the internal control system

One of the factors that made the inappropriate account processing at GONZO found in the Investigation possible was a sloppy management system resulting from the downsizing of the administration department as part of cost reduction efforts after delisting. In other words, GONZO has not maintained evidenced documents, including contracts and acceptance certificates, which are normally supposed to be retained, so the Panel has been unable to use objective evidenced documents to verify whether Vice-president Y's explanations are true, allowing Vice-president Y to give false explanations as if they were true. That is considered to be one of the causes.

Therefore, the Panel believes that going forward it is necessary to establish an operational flow, appoint personnel, etc. and allocate a budget so it is possible to determine whether account processing at GONZO is appropriate and verify accounting processing ex-post facto.

End of document

[Materials and email materials are not disclosed.]