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Company Name: Universal Entertainment Corporation

Representative: Jun Fujimoto

Representative Director and President

(JASDAQ Code: 6425)

Contact: Corporate Planning Dept., PR & IR Section

TEL: +81-3-5530-3055 (switchboard)

## Notice on Results of Investigation by Special Investigation Committee and Future Actions

Universal Entertainment Corporation (hereinafter referred to as the “Company”) hereby announces that as it disclosed in the “Notice on Receipt of Investigative Report from Special Investigation Committee” dated August 29, 2017, the Company received the final investigative report from that Special Investigation Committee dated the same day with regards to potentially fraudulent acts in which Mr. Kazuo Okada, former Chairman and Director of the Company (hereinafter referred to as “Mr. Okada”), and the former Director and General Manager of Administrative Division of the Company (hereinafter referred to as the “Director and General Manager of Administrative Division at the Time”), were involved. A summary of the report, future actions to be taken by the Company, etc. are disclosed below.

### 1. Overview of Investigative Results

For information on the investigation by the Special Investigation Committee, please refer to the attached “Investigative Report (For Disclosure).”

A summary of that report is as follows.

#### (1) Loan from Tiger Resort Asia Limited (hereinafter referred to as “TRA”) to a third party

Between February and March 2015, Mr. Okada had TRA provide a loan of HK\$135 million (approx. 2 billion yen) with no collateral and no interest (hereafter referred to as the “Loan”) to the oversea company, which has a close relationship with the third party referred to below, for the purpose of collecting on the loan credit of Okada Holdings Limited (hereinafter referred to as “Okada HD”), which is owned by Mr. Okada and his family, to the third party mentioned above and in order to obtain funds to be allocated to the payment of art work

which is a personal use. It can be recognized as having inflicted an economic loss of 2 billion yen to TRA for the purpose of Okada HD's gain, and consequently, for the purpose of Mr. Okada's personal gain. Moreover, Mr. Okada neither requested prior deliberation by the Company nor consulted the Company's Board of Directors and executed the Loan on his sole discretion

(2) Issuance of check by TRA

On May 11, 2015, Mr. Okada instructed the person in charge of accounting at TRA to prepare a check in the amount of HK\$16 million (equivalent to 2 billion yen) (hereinafter referred to as the "Check"), and signed and issued it. Furthermore, on May 14, the third party to whom the Check was made out deposited it, resulting in the payment of HK\$16 million from the HK\$ account belonging to TRA. Prior to issuing the Check, largely due to the fact that Mr. Okada had made a request that his personal officer remuneration be increased to the Director and General Manager of Administrative Division at the Time, one can conclude that the payment of HK\$16 million that Mr. Okada asked TRA to make from its HK\$ account based on the Check was intended to facilitate the gain of Mr. Okada himself.

These acts by Mr. Okada can only be construed as misappropriating the deposits of TRA to facilitate his own gain and causing economic losses to TRA in the process. Moreover, these transactions were conducted by Mr. Okada at his own discretion without going through designated internal procedures.

(3) Provision of collateral by Universal Entertainment Korea Co., Ltd. (hereinafter referred to as "UE Korea")

Around November or December 2013 when UE Korea, a wholly-owned subsidiary of TRA, had been negotiating over the purchase of land for a casino project in South Korea, after suddenly changing the lead business entity of that project from UE Korea to Okada Holdings Korea Co., Ltd. (hereinafter referred to as "Okada Korea"), a wholly-owned subsidiary of Okada HD, in order to raise the deposit for the purchase of said land in South Korea by Okada Korea, Mr. Okada borrowed 80 million USD through Okada HD by providing deposits belonging to UE Korea as collateral (hereinafter referred to as the "Provision of Collateral"). Even though the Director and General Manager of Administrative Division of the Company (currently serving in that position) repeatedly pointed out to Mr. Okada that providing deposits belonging to UE Korea as collateral in order to borrow monies through Okada HD infringed on regulations on Aggravated Breach of Trust, Mr. Okada chose to carry out the Provision of Collateral nonetheless.

The act by Mr. Okada of making UE Korea carry out the Provision of Collateral can be

evaluated as Mr. Okada breaching his duty as a Director of the Company and UE Korea for the purpose of facilitating the gain of Okada HD and, by extension, himself, and as causing economic losses to UE Korea.

Furthermore, Mr. Okada conducted these acts at his own discretion and without going through internal procedures.

## 2. Future actions by the Company, etc.

As a result of the investigation of the Special Investigation Committee, it has become clear that Mr. Okada led and conducted the fraudulent acts stated in (1) through (3) under 1. above. Additionally, in the investigative report, it has been recognized that, as for the three acts of fraudulence by Mr. Okada that have come to light, Mr. Okada “committed these acts for his own personal benefit, and it can only be said that this is an extreme intermingling of private and public affairs and that there was a lack of a sense of ethics that one should naturally have as a director of a listed company.” Simultaneously, the Director and General Manager of Administrative Division at the Time was found to have been involved in the aforementioned acts by acting on the instructions of Mr. Okada, and it is stated in the investigative report that if the Director and General Manager of Administrative Division at the Time objected to Mr. Okada’s decisions, he might be dismissed from his position or in some cases expelled from the Company Group, so in reality there is room for doubt about the extent to which he could have stopped Mr. Okada. Moreover, it has been ascertained based on objective materials that in fact, Mr. Okada paid a visit to the home of the Director and General Manager of Administrative Division at the Time to violently intimidate and threaten him with respect to the subject matter of the investigation by the Special Investigation Committee during the period of said investigation as well.

After taking all the aforementioned circumstances into consideration, the Company will proceed to examine the measures that it should take against Mr. Okada and the Director and General Manager of Administrative Division at the Time.

Additionally, based on the results of the investigation by the Special Investigation Committee and its suggestions for measures to prevent the reoccurrence of the acts in question, going forward, the Company will proceed to formulate and execute concrete measures to prevent that reoccurrence. Said concrete measures will be disclosed by the Company once they have been decided on.

Please note that the view of the Company is that the results of the investigation by the Special Investigation Committee as disclosed above will have no impact on the business performance of the Company for the current fiscal year.

August 29, 2017

Universal Entertainment Corporation

Investigation Report

Universal Entertainment Corporation Special Investigation Committee

Committee Chairman Michio Masaki [seal]

Committee Member Sotaro Matsuo [seal]

Committee Member Miya Miyama [seal]

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## I. Overview of the Investigation

### 1 Background to the establishment of the Special Investigation Committee

At the extraordinary meeting of the Board of Directors held on May 23, 2017, Full-time Auditor A1, on behalf of the Universal Entertainment Corporation (hereinafter, "UE"), made a report pursuant to Article 382 of the Companies Act and approved by the Board of Auditors, concerning the loan that was made by Board Director and Chairman O and Board Director and General Manager of Administrative Division B1 in March 2015 to a third party, Tiger Resort Asia Limited, a Hong Kong corporation that is a fully owned subsidiary of UE (hereinafter, "TRA") in the amount of \$HK135 million, that there is a risk that illegal acts such as not obtaining the appropriate internal approval among others may have been committed.

In response, UE suspended O and B1 of all authority to execute operations and to make commands to UE, UE subsidiaries, and UE affiliate companies. Meanwhile, A1, the Internal Audit Office and UE had already established an internal investigation team comprised of outside experts with no vested interest which had started its investigation by this time, and the internal investigation team reported that the above-described loan to a third party was in violation of UE's internal procedures, that after the above loan was made to said third party by those involved, HK\$130 million was transferred by O to Company A where O served as a Director at the time, and that the objective of the loan was also suspected of being for O's personal gain.

Given the above findings, UE, on June 8, 2017, established the Special Investigation Committee (hereinafter, "Special Investigation Committee") to conduct an expert and objective investigation of the above loan and whether or not other improprieties exist, in order to uncover the whole truth, and to devise measures to prevent recurrence of such an incident in the future.

### 2 Composition of the Special Investigation Committee

The Special Investigation Committee is comprised of 3 attorneys, with Michio Masaki as the Chairman, and Sotaro Matsuo and Miya Miyama as committee members. One additional attorney is also involved to provide support to the investigation.

The Special Investigation Committee was established due to the above-explained situation, and while it will respect the spirit of the "Guidelines for Third Party Committees Involved in Misconduct by Corporations, Etc." set forth by the Japan Federation of Bar Associations, it is not governed by said Guidelines.

### 3 Objectives of the Special Investigation Committee

The objectives of the Special Investigation Committee are the following:

- ① To investigate loan for HK\$135 million (approximately 2 billion yen) made by TRA to Company B on March 3, 2015 (hereinafter, "the loan").
- ② To investigate the existence and content of any other improprieties.
- ③ To uncover the causes behind the improper acts and to propose recurrence prevention measures.

### 4 Investigation period

The investigation period shall be from June 8, 2017 to August 29, 2017.

5 Investigation methods, etc.

(1) The Special Investigation Committee conducted the following as part of the investigation:

- ① An investigation of the PC data (including e-mails), smartphone short message service (hereinafter, “SMS”), etc. of the officers and employees of UE and its subsidiaries suspected of active involvement;
- ② An investigation of contracts, various meeting minutes, transaction histories of bank accounts, various *ringi* circulated request for approval forms, accounting related documents, etc. that were thought to be related
- ③ Interviews of B1 and other related people

In order to avoid redundancy and inefficiencies, a portion of the investigation that was conducted by the internal investigation team was utilized.

(2) Interview of O

The Special Investigation Committee received demands from the attorney representing O as conditions to O’s agreement to an interview such as ① disclosure to the representing attorney of documents that will relate to the interview at least 1 week prior to the interview, and ② attendance by O’s attorney at the interview. The Special Investigation Committee, on its belief that it would be desirable to affirm O’s requests, disclosed materials that it planned to use at the interview to O’s attorney on condition that O appear at the interview with the attorney representing him, and O’s attorney looked through said documents. However, on the day of the interview, O’s attorney communicated that O would not be giving the interview, and ultimately, O did not appear for the interview.

Due to the above background, the interview of O was not conducted.

(3) This report is a summary of the results of the investigation and analysis that were conducted to the greatest extent possible and believed to be appropriate based on the timeframe and conditions that were granted. The investigation had its limitations given that it was voluntary, and should any new facts or the like be discovered by future investigations, etc., it is possible that conclusions, etc. may change.

II. Overview of the facts discovered by the investigation

The Special Investigation Committee first focused on the loan from TRA to Company B in the amount of HK\$135 million that O and B1 made in March 2015. When examining various *ringi* approval forms, accounting related files, e-mails of related individuals, and other relevant documents and materials, suspicions of impropriety arose regarding the check that was drafted in the amount of HK\$16 million by TRA on May 11, 2015, as well as regarding the provision of collateral by Universal Entertainment Korea Co., Ltd. (hereinafter, “UE Korea”), a wholly owned subsidiary of TRA, of US\$80 million of the deposits held at the Bank C Branch b on February 24, 2014 when Company A borrowed US\$80 million from the Bank C Branch a

The following are the findings of the investigation in the order that the above events occurred.

### III. Facts discovered about the loan in question

#### 1 Company B and C1

Company B is a corporation that was established in the U.S. Virgin Islands, but the nature of its business is unknown. Company B is closely connected with C1, and B1 and others understood it to be “C1’s company.”

C1 apparently owned a residence in Kiyosumi, Koto-ku, Tokyo as of March 2015, but his origin, career background and the like are unknown.

#### 2 Loan of HK\$135 million from Company A to C1

(1) B1 joined UE in August 2014, and as of October 2014, he was a UE employee that worked in accounting related to overseas subsidiaries including TRA. Starting April 8, 2014, O became the only Director of TRA, and he was the person with decision-making authority for payment related *ringi* approval forms with the exception of those for expense settlements of small amounts. D is the person in charge of accounting at TRA and resides in Hong Kong. D worked out of the TRA office in Kowloon, and controlled TRA’s deposits and withdrawals, among other things. B1 did not have a position at TRA, but based on the instructions from O, he was essentially D’s boss and was in close contact with her regarding work matters and gave her instructions.

O also made B1 in charge of accounting operations. Furthermore, Company A had opened a deposit account at the Bank D in Hong Kong, and O had D manage the deposits and withdrawals of that account, while making B1 essentially her supervisor.

(2) O, until around the second half of October 2014, would tell B1 that he would be investing in junkets and the like, and that he would do this at Company A by going through C1. A junket is basically a business operator that solicits and brings in wealthy people as customers to the casino. B1, on instruction from O, negotiated with C1, but found that not only was the investment contract prepared by C1 sloppy, but C1 hadn’t conducted any due diligence that should obviously be conducted when any investment is going to be made, and so B1 recommended to O that a loan be made instead from Company A to C1. Consequently, a loan agreement was executed. In addition, the loan amount was initially discussed as being for 1 billion yen, but after O and C1 discussed it, it increased to 2 billion yen, and ultimately, the loan amount became HK\$135 million (approximately 2 billion yen based on the exchange rate at the time).

O, on November 24, 2014, at the urging of C1, decided to remit funds in advance of preparing a loan agreement, and instructed B1 to transfer HK\$135 million. B1 then gave D instructions to prepare a *ringi* approval form for the withdrawal from Company A, and upon signing said form himself, obtained O’s signature. B1 also had D prepare a remittance request form and enter the necessary information, and obtained O’s signature for that. B1 then instructed D to place the remittance request with the Bank D, and HK\$135 million was transferred from the Company A’s deposit account at the Bank D to Company B’s deposit account at Bank E Limited. That the beneficiary was to be Company B was something that was decided after talks between O and C1.

- (3) Later, a loan agreement was prepared for the above remittance, with Company A as the lender and C1 as the borrower. The content of the agreement is as follows:

Loan amount: HK\$135 million

Interest: No interest

Contract period: 36 months from the date of execution of above contract

It should be noted that the date that was recorded on the contract as the date on which C1 signed it is November 24, 2014, but it is unknown whether C1 signed it on that day, or if it was backdated.

3 UE's loan from Bank F and the transfer of funds to TRA

- (1) UE, on February 5, 2015, borrowed US\$170 million (approximately 20 billion yen) from the Bank F Branch a as a bridge loan to fund the casino construction in the Philippines. The following is a summary of that loan.

Time period: 3 months

Fund procurement cost: 3-month dollar LIBOR + spread

Spread: 2.50% (if the term is extended, the spread rises to 3.50%)

Collateral shares: 54,452,5000 shares (all UE shared owned by Company A)

The above loan period was subsequently extended for an additional 6 months (with a partial repayment made at the time of the initial 3-month expiration date), during which time UE procured 60 billion yen by issuing private placement bonds, and on August 25, 2015, the entire amount of the above loan and interest were repaid to Bank F.

(2) Remittance from UE to TRA

UE, on February 5, 2015 when the above loan was made, transferred US\$168,164,000 which is the balance after deducting handling fees, etc. from the above loan of US\$170 million to the TRA US dollar account that was opened at the Bank F Branch b (account no.XXXXXXXX; hereinafter, "USD account"). This remittance was processed as a suspense payment.

The balance in the USD account was US\$4,900,328.84, but after this remittance, it increased to US\$173,064,328.84.

4 The transfer of funds from TRA to Company B

- (1) In and around the time that the remittance of US\$168,164,000 was being made from UE to the TRA account, O told B1 that he "would like to have 2 billion yen remitted from TRA to C1, and for C1 to repay it to Company A" and such, and instructed that TRA funds be remitted to C1, and that the loan from Company A to C1 for HK\$135 million be repaid using those funds. Since 2 billion yen is a large sum of money, and furthermore, since the funds intended for the construction of a casino in the Philippines were going to be used for investment purposes, the contents of which are unknown, B1 thought it was necessary for UE headquarters to deliberate whether or not to make this remittance, and asked O, "Will this be approved by headquarters" to which O replied, "I will approve it, so it's fine" and the like, and ordered B1 to instruct D to make the remittance to C1. O also explained to B1 that the funds that are recovered in this way by Company A would be used to purchase art

work. Furthermore, O, between the hours of February 24, 2015 8:22 PM to February 25, 2015 5:56 AM sent SMS messages to B1 that said, “With the 2 billion yen investment that was made in the junket via C1, I want to pay for art work,” “This contract has not yet been created. ... I was thinking about how I would temporarily treat this matter,” and “I thought it would not be good to do a direct loan, so for the time being, I made it a remittance.”

B1, learning that O was trying to use TRA’s funds to recover the funds Company A loaned to C1 for the personal purpose of using those funds to purchase art work, thought that loaning HK\$135 million from TRA to C1 for such a purpose would be in breach of the duties of a UE Director. However, since B1 could not go against O’s order, he thought to at least make the loan a temporary one that could be recovered in a short period of time, and furthermore, as long as Company B was to be the borrower, he thought to make C1 himself the guarantor so as not to let him off the hook, and upon obtaining the understanding of O to move forward on this basis, B1 negotiated the terms with C1.

B1, on February 24, 2015 around 8:31 PM, sent O an SMS that read, “Chairman, I have let C1 know that he would be provided with 2 billion yen either as an investment from Tiger Asia, or as a temporary loan, and that we would build a scheme in which the funds would then be repaid to Company A. We need the counterparty’s information and bank account information to create the contract, and I am currently waiting for that. I will make another push tomorrow. B1” and on the following day on the 25<sup>th</sup>, around 9:31 AM, sent O another SMS that read, “Chairman, thank you for your hard work. 1. We will build a repayment scheme in which C1 makes repayment in a short period of time. 2. Tiger Asia will make the loan to C1’s company, and after that, procedures will be carried out to switch it to an investment in the junket company. 3. After Tiger Asia transfers the funds, C1 will make immediate repayment to Company A. As there is a limit, however, to the amount that can be sent in one remittance, the repayment will be broken up into several remittances. The total amount is final at 2 billion yen. 4. C1’s guarantee must be attached without fail to the loan from Tiger Asia. 5. Depending on how much money is collected from the junket, we will consider whether the repayment should be made to Tiger Asia or if the entire amount will be left as an investment. I am working to conclude all matters next week. That is all for now. B1.”

- (2) O, around March 2, 2015, instructed B1 to send HK\$135 million from TRA to Company B, and in response, B1 instructed D to prepare a *ringi* approval form for that amount. On March 3, 2015, B1 signed said approval form himself, and then obtained the signature of O. D then made the remittance request to Bank F, and had US\$17,432,851.24 (approximately HK\$135 million) sent from the USD account at the Bank F Branch b to Company B’s deposit account.
- (3) There is no record in the UE Board of Directors meeting minutes of O having requested prior consultation with UE or getting approval from UE concerning the above remittance.

- (4) The loan agreement between TRA and Company B for the above remittance was created around March 3, 2015. The content of the contract which included C1 being a guarantor is as follows:

Loan amount:	HK\$135 million
Interest:	No interest
Contract period:	36 months from the date of execution of the contract

- 5 C1's repayment to Company A and the remittance of funds from Company A to the personal account of O in Japan

(1) Repayment from C1 to Company A

As stated in the SMS from B1 to O on February 25, 2015 around 9:31 AM as described above in section 4 (1), due to there being a limit on the amount that can be remitted per remittance via internet banking, C1, between March 4, 2015, which was the day after Company B received the above remittance from TRA, and March 13, 2015, made remittances in installments totaling HK\$135 million to Company A's deposit account. The breakdown is as follows:

- |                  |                |
|------------------|----------------|
| ① March 4, 2015  | HK\$20 million |
| ② March 5, 2015  | HK\$20 million |
| ③ March 6, 2015  | HK\$20 million |
| ④ March 9, 2015  | HK\$20 million |
| ⑤ March 10, 2015 | HK\$10 million |
| ⑥ March 12, 2015 | HK\$20 million |
| ⑦ March 13, 2015 | HK\$20 million |

The above remittances comprise a portion of the repayment on the HK\$135 million that Company A loaned to C1 on November 24, 2014. C1 stated to B1 that "The remaining HK\$5 million was used up, so I will repay it later" but this amount has not been repaid to date.

(2) Remittance from Company A to O's personal account

- (a) O, around March 12, 2015, instructed B1 to send 887 million yen to his personal account so that he could make payments to a gallery called "Company G" and to E1, a fine arts dealer and deputy curator of the Museum O where O is an honorary director, for purchases of art.

O, on March 12, 2015 around 12:06 PM sent SMS messages that said, "I am sorry to trouble you but I would like to ask you to make payment remittances to Company G and E1 as payment for some works of art," and "For this reason, please send 887,000 yen (original text left as is) from Company A to my Bank H account t in Japan," both of which were sent to B1.

In response, B1 wrote back to O on the same day around 12:12 PM saying in an SMS, "Chairman, good morning. To confirm, you would like for 887,000,000 yen to be deposited to the Chairman's personal bank account at Bank H, is this correct? Should I confirm your personal account information with E2 Sensei? I do not have it myself, so please let me know what you would like me to do. B1" so as to confirm the amount and deposit account information. O then responded to B1 on the same day around 12:14 PM that "E3 knows my personal account information. They are fussy

about direct remittances, so I decided to use my account in Japan,” thereby confirming that the amount to be sent to O’s personal account was to be 887 million yen.

- (b) B1, on March 12, 2015, instructed D by e-mail to create a *ringi* approval form to remit 887 million yen from Company A to O’s personal account, to prepare the remittance documentation, and to obtain O’s signature.

D, after receiving these instructions from B1, created the *ringi* approval form to send 887 million yen to the personal account of O at the Bank H, and after receiving B1’s signature on the *ringi* approval form, she obtained O’s signature thereby obtaining approval for the remittance. D also entered the necessary information on the remittance request form, and obtained O’s signature for it as well, thereby obtaining approval for the remittance. D then placed the remittance request with the Bank D, and on March 13, 2015, 887 million yen was remitted from the deposit account of Company A to O’s personal account (ordinary XXXXXXXX. XXXXXXXX at the Bank H Branch a) as instructed by B1.

6 Results of the examination of the loan in question

- (1) (a) As stated above in section 5 (2), O decided to procure the funds needed for payments on art work to Company G and others from Company A, and in order to make those funds available to Company A, O thought to collect the HK\$135 million loan that was made by Company A to C1, and had TRA provide a loan to Company B, which has a close relationship with C1. For O to have had TRA provide a loan to Company B with no collateral (see below regarding the guarantee by C1) and no interest for the purpose of collecting on the loan credit of Company A, which is owned by O and his family, and in order to obtain funds to be allocated to the payment of art work which is a personal use, can be recognized as having inflicted an economic loss of 2 billion yen to TRA for the purpose of Company A’s gain, and consequently, for the purpose of O’s personal gain (If Company B, the debtor, or C1, the guarantor, had the adequate financial means to make the repayment, it would not have been necessary to involve the funds from TRA in this loan arrangement in the first place, so recovery of this loan was not certain by any stretch of the imagination. B1 has stated that the reason why he made C1 a guarantor of the loan was to prevent C1 from avoiding responsibility when the loan agreement with C1 was changed to be a loan agreement with Company B, and it was not at all that B1 was relying on C1’s financial resources. C1, after being prodded by B1 for repayment, as of April 13, 2017, sent a check from Company B to TRA post-dated June 15, 2017 for HK\$15 million as a partial repayment, indicating that Company B nor C1 have the adequate financial resources to repay the loan.)

- (b) Regarding the HK\$135 million loan from Company A to C1, there are some SMS exchanges that makes it sounds as though Company A invested in a junket via C1, but meanwhile, there are also the following communications that also took place.

- SMS from O to B1 on November 24, 2014 around 9:32 AM  
“I am sorry. Going forward, there is going to be talk about investing in the future in order to expand casino customers, but it is not possible to measure the degree of reliability of this, so it will be necessary to work on this issue.”

- SMS from O to B1 on February 24, 2015 around 8:22 PM  
“I am sorry but regarding the 2 billion yen junket investment via C1, I would like to make payments for art work.”
- SMS from O to B1 on the same day around 8:24 PM  
“This contract has not been created yet. The yield on the investment will be used by C2 to put towards expenses related to the Company I Litigation. In line with this, I was still thinking about what the temporary treatment of this would be.”
- SMS from O to B1 on February 25, 2015 around 5:56 AM  
“I was thinking that a direct loan would not be good, so I would first, and had it be a remittance.”
- SMS from O to B1 on the same day around 9:57 AM  
“The discussion was that the junket would be an investment. While this is risk, the plan was that large dividends could be extracted, but in the discussion about investing in C1, the talk about directly investing in the junket was avoided. Also, please allocate the dividends to C2’s activity expenses. But I do not know how much there is right now, or whether dividends have been issued yet.”

These communications show that it was not possible to secure a degree of reliability in the investment in the junket, and that because it carried a risk, it was going to be difficult for UE or TRA to make a direct investment in it, which is why Company A ended up making the loan to C1. Also, it appears that the contract between C1 and the junket had not been created either, and while there is reference to a plan for obtaining dividends, as of February 2015, it is apparent that even O had not ascertained how much there was in dividends or if dividends were even actually being distributed. Ultimately, while it was called an investment in a junket, it was clear that this was not a project from which UE or TRA could extract funds as much as 2 billion yen, and it is clear that the loan to C1 (or the investment in the junket) in November 2014 was not done in the interest of UE or TRA.

- (c) B1, who was in charge of managing Company A under the direction of O, has stated that as of March 13, 2015 when the 887 million yen was remitted, Company A had not settled its accounts, nor had a decision been made that day on the dividends that would be distributed to its shareholders, and that the 887 million yen was simply a transfer of funds that was carried out based on the instructions from O. Considering this account by B1, in combination with the SMS message referenced above in 4 (1) that says, “With the 2 billion yen investment that was made in the junket via C1, I want to pay for art work,” and the SMS message referenced above in 5 (2) that says, “I am sorry to trouble you but I would like to ask you to make payment remittances to Company G and E1 as payment for some works of art,” it is clear that the 887 million yen was transferred by O to his deposit account in Japan for no other reason than to put it towards his personal use (legally speaking, this should have been treated as a loan from Company A to O).

In light of the fact that O thought to procure funds from Company A to pay for art work, and to that end, gave instructions to B1 and devised the loan arrangement, indicates that as of March 13, 2015, Company A clearly did not have the funds to pay

out 887 million yen. The belief is that Company A was not able to send funds to O with only the HK\$135 million loan to C1 which was not expected to be recoverable, so by making this loan and recovering the HK\$135 million, the payment to O became possible, and O was able to make the payments for the art work.

Ultimately, by passing on to TRA the debt that Company A carried against C1 which had no prospect of recovery, O obtained the funds to use for personal purposes.

- (2) At UE, according to the decision-making authority chart, when an important agreement is to be executed (as a rule, when the contract amount is 1 billion yen or more), a resolution by the Board of Directors is required. In light of this stipulation, when a similar contract was to be executed with TRA, a subsidiary company, one would naturally know that the approval of the UE Board of Directors should be obtained, and it was based on this understanding that B1 thought the approval of UE headquarters needed to be obtained for this loan as well.

In addition, the rule has always been that when a subsidiary company of UE is to carry out an action that is stipulated as an action that requires prior deliberation in the former Affiliate Company Management Rules and the current Subsidiary Company Management Rules (effective March 1, 2010), the procedure is to request prior deliberation by UE, and financing by a subsidiary falls under the above-described category of actions that require prior deliberation.

Furthermore, the original funds for the TRA loan were disbursed as a suspense payment from UE, and so from that standpoint as well, the loaning of said cash without interest to Company B which is not even a UE group company should have required advance deliberation by UE, and if this loan were to be actually executed, the need to obtain the approval of the UE Board of Directors is believed to have certainly been high.

Yet, O, being a UE Director, and knowing full well the need for an approval resolution by the UE Board of Directors and the procedure for advance deliberations, neither requested prior deliberation by UE nor consulted the UE Board of Directors and executed the loan on his sole discretion, which is a serious violation of internal company procedures.

Additionally, B1, not being a Director or an employee of TRA nor having any decision-making authority at TRA, yet signed the *ringi* approval forms related to the loan and the like, and it is clear that he was deeply involved in the decision-making process, but O, at the very least, accepted this situation, which cannot be overlooked as a problem of governance as well.

- (3) Based on the above, it is possible to make the evaluation that for O to have made the loan in question, and to have acted in the interest of Company A and his own personal gain, are a violation of his duties as a Director of UE and TRA, and inflicted economic damage to TRA.

Additionally, for O to have acted on his sole discretion without going through the internal company procedures is a serious violation of internal company procedures.

#### IV. Facts discovered about the drafting of the check for HK\$16 million by TRA

- 1 The transfer of HK\$16 million (approximately US\$2 million) between TRA's accounts and the drafting of a check for the same amount

- (1) O, around April 2015, asked B1 by telephone to “Make my salary 2 billion yen. I will make the casino succeed,” asking that his Director’s salary be increased, but B1 did not comply stating that he would like O to consult the President about matters relating to Director’s salaries, and that a Director’s salary could not be changed in the middle of a fiscal term anyway.
- (2) O, on May 11, 2015, made a phone call to B1 who was in Tokyo, yelling and ordering him by saying, “Why didn’t you do what I told you to do? I need 200 million yen so prepare the check immediately.”

Later, O, at the TRA office, instructed D to prepare a check for US\$2 million. Since it was not possible at TRA to draft a check other than in Hong Kong dollars, D explained that to O, which then prompted O to order D to prepare a check for HK\$16 million which was the equivalent of US\$2 million. O also told D that the payee for the check had not yet been finalized, and to leave the “Pay” [sic] field (hereinafter, “Payee Field”) on the check blank.

D, having been instructed as such by O, prepared a check from TRA’s Hong Kong dollar account (account no. XXXXXXXX; hereinafter, “Main Account”) at the Bank F Branch b as the paying account (“UNIVERSAL ENTERTAINMENT HONG KONG LIMITED” which is TRA’s former trade name is printed on this check.), writing by hand the draft date as “11 5 2015,” the amount field as “Sixteen Million Only” to the right of where it is printed “HK Dollars,” and “16,000,000-“ to the right of where it is printed “HK\$” and writing nothing in the Payee Field, thereby creating one check for HK\$16 million with the Payee Field left blank.

Also, as of this point in time, the Main Account did not have a balance of HK\$16 million, and if the check were going to be issued, it was necessary to transfer HK\$16 million from the USD account to the Main Account, so D also created a *ringi* approval form and remittance instructions for this remittance to be made.

Having done these tasks, D handed O the check, *ringi* approval form and remittance instructions, and O signed the check thereby issuing it (hereinafter, “the check”), and also signed the *ringi* approval form and remittance instructions, thereby approving those, and instructed D to execute the above remittance.

In addition, O, when signing the decision-maker’s signature field on the above-referenced *ringi* approval form, also handwrote in a blank area on the *ringi* approval form, “This is the payment of handling fees for the art work (original text left as is).”

- (3) D, just before she handed the check and other documents to O, got in touch with B1 either by telephone or SMS, and reported to him that she was ordered by O to prepare a check. B1 asked D not to sign the *ringi* approval form as the preparer of the form so that she is not questioned for responsibility about O’s taking of funds for unknown purposes, and so she did not sign it. It is noted the B1 did not sign this *ringi* approval form either.
- (4) D, complying with O’s instructions, requested Bank F to transfer the funds, and as of the same day, US\$2,066,249.11 was converted to HK\$16 million and transferred to the Main Account.
- (5) There is no record of O having asked UE for advance deliberations concerning the drafting of this check, or that he obtained the approval for it from UE in any of the minutes of the UE Board of Directors meetings.

- 2 Payment by the check in question
  - (1) B2, President of Company J was handed the check for HK\$200 million by O at the TRA office in May 2015, and was instructed to go to the Philippines and hand the check to F1. B2 was familiar with F1, and he apparently has experience in hotel management and knows a lot about the hotel industry, but further details about this individual are unknown.

B2 telephoned F1 to tell him that he “has something to deliver to him from Chairman O,” and after traveling to Manila on the same day, B2 hand-delivered the above check to F1 at a bar at a hotel in Manila.
  - (2) On May 14, 2015, this check was exchanged and the funds were deposited to the Main Account, and the payment of HK\$16 million was made.

The payee on this check that was exchanged and deposited was recorded as being “Company K”, but the relationship between O and this company is unknown.
- 3 Record of the payment made by the check in question on the list of deposits and withdrawals

D recorded the payment of this check on the list of deposits and withdrawals for the Main Account by entering in the column for “5/14/2015” that HK\$16 million was paid to O by check (cheque) as “Employee salary.” Since it would be unclear to put down “handling fee for art work” which was what was recorded on the above *ringi* approval form, after consulting B1, D put down “Employee salary” as the reason for the payment. The Director’s salary that TRA regularly paid O was posted as “Monthly Salary,” so in order to differentiate it from that, she recorded the check as “Employee salary.” It should be noted that TRA never paid O a Director’s salary of HK\$16 million, nor was there any reason for O to be paid such compensation for being a Director.
- 4 Concerning the transaction trail that shows an accounting treatment of the payment made by the check in question that makes it appear as though the payment was for paintings purchased from F2
  - (1) O, around February 2016, instructed B2 to purchase approximately 50 paintings with a budget of 200 million yen and to address the invoice to TRA, but at that time, O did not say what the paintings were for nor did he provide instructions as to what kind of paintings to purchase.

B2 had no experience buying paintings, and did not know what type of paintings to purchase or what their use would be, but he heard that an acquaintance by the name of F2, an Australian who had inherited a large number of paintings and antiques was selling them at auctions, and thought that F2 could probably fill an order for 50 paintings. B2 received pamphlets from past auctions from F2, showed them to O, and obtained O’s consent to purchase paintings from F2.

B2, around February 2016, traveled to Sydney, selected 50 items from among the paintings F2 had, and purchased them for a total of US\$2 million. Afterwards, F2 emailed a PDF file of the invoice addressed to TRA for US\$2 million (hereinafter, “Invoice 1”), and B2 attached this PDF file to an e-mail that he sent to B1 on February 24, 2016. Invoice 1 was a bill from F2 to TRA for US\$2 million as payment for antiques and paintings, and it was signed by F2, but it was not dated.

TRA, as stated below in (5), on April 18, 2016, remitted HK\$15,535,630, the equivalent of US\$2 million, from its Main Account to an account designated by F2.

(2) B1, on March 7, 2016, sent an e-mail to D in which he forwarded the e-mail from B2 of February 24, 2016, and wrote in the main text of the e-mail in English, “TRA, as attached, plans to purchase approximately 100 pieces of art. These art work are to be stored by the seller until the opening of the Tiger Casino Hotel. Once Tiger opens, these art work will be transferred to Tiger. The accounting treatment should be the same as for Company L, as a “long-term investment.” In order to make payment for these, we are waiting for repayment from Company B, and C1 is saying that Company B would be able to make the repayment by March 15, 2016. As preparation for this payment, please prepare a *ringi* approval form without entering the date.” To this e-mail was attached Invoice 1.

(3) B1, on March 15, 2016, sent an e-mail to D stating that he obtained the “invoice” for the May 2015 payment of HK\$16 million (approximately US\$2 million) by check (hereinafter, “Invoice 2”), and instructed her change the accounting item journal entry from “Directors Salaries” to “Long-Term Investment.” Invoice 2 is an invoice from F2 to TRA for US\$2 million as payment for antiques and paintings, and it was signed by F2 but was not dated. Invoice 2 was of the same content as Invoice 1, and the signatures were also very similar.

Also, on March 15, 2016, D received an e-mail from A2 who is the person in charge of finance and accounting at UE saying that having confirmed with B1, she was requested to revise the above journal entry in the December 2015 books, and so D made the revision as communicated to her by A2.

(4) Meanwhile, B1, on and after March 10, 2016, communicated by e-mail and SMS with B2 regarding the change to the invoice from F2 to TRA and other matters.

Specifically, B1, on March 10, 2016, sent an e-mail to B2 that stated, “Please make 2 changes to the invoice. 1) Please change the date to “April 30, 2015,” and please have an itemized list prepared. 2) The addressee for the other invoice will be decided later, so please wait on that.”

Subsequently, on March 20, 2016 around 12:05 AM, B2 sent an e-mail to B1 saying that F2 had sent a draft invoice to TRA, but that the draft invoice was dated “March 1<sup>st</sup>, 2016.”

Also, on March 20, 2016 around 11:24 PM, B1 sent B2 an SMS message that said, “Regarding this matter, I think it will be okay if the two invoices are used. (Original text left as is.)” B2 responded to B1 on March 21, 2016 around 2:21 AM that “I have sent the final sample. Please contact tomorrow.” Around the same time as that message, B2 also e-mailed two draft invoices in the name of F2. One of these draft invoices was to TRA, but the other was to “Company M” instead of TRA, for payment of US\$2 million for antiques and paintings.

(5) B1 instructed D to prepare a *ringi* approval form for payment of US\$2 million from TRA to F2, and D, on April 15, 2016, created a *ringi* approval form that stated, as per the explanation provided by B1, “This application hereby requests the payment

of US\$2,000,000 to F2 as payment for the purchase of approximately 100 pieces of antiques and paintings from F2,” and obtained the signature and approval of O. When signing the *ringi* approval form, O wrote in a blank space by hand, “Let’s do this with caution.”

Subsequently, B1, on April 18, 2016, based on the *ringi* approval form for which O’s approval was obtained, and after having placed his signature on the remittance instructions to Bank F, had the equivalent of US\$2 million of HK\$15,535,630 transferred from the Main Account to an account designated by F2.

(6) B1, from around 4:19 PM on April 18, 2016 to around 1:41 PM on April 19, sent SMS messages to B2 about the remittance described above in (5) saying, “I obtained the Chairman’s signature, so the remittance will be made from Bank F Branch b. USD2M,” “The problem is the list! Please create two different types of lists,” and “Please make the list. If we don’t fool the accountant, there will be trouble! What an ordeal.”

(7) In March 2017, B2 was told by B1 that “It is required by accounting so please send the documents from when the paintings were purchased from F2,” among other things, and on March 23, 2017, B2 sent B1 an e-mail attaching a PDF file with the same content as Invoice 2.

B1, on the same day, sent an e-mail in English to both D and A2 that stated, “The attached document will serve as supporting material in an audit, so please store it.” The document that was attached to this e-mail was a sort of image of Invoice 2, and the content was the same as Invoice 2, with F2’s signature also being similar.

B1, on the next day, March 24, 2017 as well, sent an e-mail in English to both D and A2 that stated, “Please store the attached document. Basically, the two transactions are for the same amount.” The document that was attached to this e-mail appears to be a PDF file of a scanned document with the same content as Invoice 2, and while the content is the same as Invoice 2, there are differences such as that the words “F2” are written in the upper left, and the font is also different from Invoice 2, but F2’s signature is very similar to that on Invoice 2. For this reason, D let B1 know that the invoice that was attached to the e-mail of March 24, 2017 was the same as the invoice of March 23, 2017, but B1 replied to D saying, “Due to the audit of TRA, supporting documents for 2 transactions need to be submitted” and such. B1 subsequently forwarded invoices to D a number of times, but in all instances, the content was the same as that of Invoice 2.

Subsequently, on April 20, 2017, B1 sent an e-mail in English to both D and A2 that stated, “As attached, the reissued invoice was received, so please store it as accounting evidence.” The document that was attached to this e-mail is the same in content to Invoice 2, but the words “F2” are written in the upper left, and the date of “May 31<sup>st</sup>, 2015” is recorded in the upper right, and F2’s signature was different from that in Invoice 1 and Invoice 2.

(8) The purchase described above in (1) was the only time that B2 made arrangements to purchase paintings from F2, and Invoice 1 was the invoice for that purchase which

was paid by TRA on April 18, 2016. The 50 paintings that TRA purchased apparently still remain with F2 and have not been delivered to TRA.

B2 was in touch with F2 even after the purchase of the 50 paintings about the storage of the paintings and the like, and he has not heard of F2 selling more paintings and the like to TRA without going through B2.

5 Examination of the drafting of the check in question

- (1) It has been found that, as explained in 1 through 4 above, O, around May 2015, asked B1 to increase his salary but this was not made possible. Then, on May 11, 2015 when B1 was in Tokyo, O instructed D at the TRA office to create the check for HK\$16 million (approximately US\$2 million or 200 million yen) and signed it and issued it. This check, on May 14, 2015, was deposited by Company K and payment in the amount of HK\$16 million was made. It is also presumed that with O having instructed B2 to deliver the check to F1, the funds were ultimately distributed to Company K.

It is not known for what purpose O used the check, what the specific reasons were, or how the check was distributed to Company K, as O did not agree to an interview by the Special Investigation Committee. However, in light of the fact that O had asked that his own salary be increased prior to the issuance of the check, that the check was created leaving the Payee Field blank, that in the blank space of the *ringi* approval form for remitting HK\$16 million from TRA's USD account to the Main Account O wrote by hand, "This is the payment of handling fees for the art work," and that there is no record of such art work having been purchased by TRA, it is believed that O issued this check for personal use, and that he had TRA pay HK\$16 million to that end.

- (2) (a) O apparently told B1 as a reason for increasing his Director's salary things like "I will make the casino succeed," but as of May 2015, Tiger Resort Leisure and Entertainment, Inc. (hereinafter, "TRLEI"), a subsidiary of TRA, was still in the process of building the casino facility in the Philippines, and there was no rational reason for increasing O's salary to 2 billion yen at this point in time simply because he had the desire and will. At that time, TRA did not have profits that could even cover an annual salary of 2 billion yen, so for it to increase O's salary would only be for O's personal benefit and would be economically detrimental to TRA.
- (b) It has been found that B1, as supporting material to show that the payment by check of HK\$16 million was for the purchase of art work, based on Invoice 1 and Invoice 2 which originally were not dated, created and used invoices having added dates. While B2 was the one that made the arrangements for TRA to purchase paintings from F2, this was the only time that B2 made such arrangements with F2, and as payment for the art work, on April 18, 2016, HK\$15,535,630 which is equivalent to US\$2 million was paid from TRA's Main Account. Therefore, for HK\$16 million to have been paid with the check of May 14, 2015 is unrelated to the purchase by TRA of the 50 pieces of art from F2.

Yet, that B1 carried out the above-described manipulative actions indicates that he was trying to cover up the payment of HK\$16 million because the use of those funds could not be made known.

- (c) O wrote on the *ringi* approval form for the remittance of funds between the TRA accounts, “This is the payment of handling fees for the art work,” but from this notation, one would assume that he was referring to some sort of handling fee for purchasing art work and not the payment for the art work itself. Also, the details are not clear, such as what kind of art work this was for, who the art work was for, to whom the payment was being made.

If the art work was for O himself, this would clearly mean that it was for O’s personal gain and that TRA suffered an economic loss of HK\$16 million (approximately 200 million yen).

Furthermore, the existence of expensive art work that would render a handling fee of HK\$16 million (approximately 200 million yen), or art work that is valued at that amount cannot be confirmed at TRA (The paintings arranged for by B2 and purchased from F2 are not related to this.).

Furthermore, the Subsidiary Company Management Rules requires advance deliberation regarding “purchases of moveable assets (such as equipment)” that fall under the category of “acquisition of important assets,” so the purchase of expensive art work that would require a handling fee of as much as 200 million yen or the purchase of art work valued at 200 million yen would, at the very least, require advance deliberation by UE, but the required internal company procedures were not carried out. If the disbursement of 200 million yen as a handling fee for the purchase of art work or the like was in the interest of TRA, it should not have been a problem to go through the internal company procedures, so the fact that O carried out this payment without following the internal company procedures clearly indicates that O, himself, did not recognize this expenditure as being in the interest of TRA.

- (3) Based on the above, the fact that O used the check to make a payment of HK\$16 million from the Main Account is unmistakably use of TRA’s funds for the purpose of attaining personal gains and clearly inflicted economic damage on TRA. Additionally, for O to have acted on his sole discretion without going through the internal company procedures is a serious violation of internal company procedures.

#### V. Facts discovered about the provision of collateral by UE Korea

##### 1 The change in the primary contractor of the casino resort project in Korea

- (1) UE, from around 2010, began its casino resort project in Korea, and on October 14, 2011, it established UE Korea. This company was established as a wholly owned subsidiary of TRA (the trade name at the time was Universal Entertainment Hong Kong Limited) (sub-subsidiary of UE) which is a fully owned subsidiary of UE.

The casino resort project in Korea was comprised of the Incheon Business Sector II Project which was to be built on property leased from the Incheon International Airport grounds, and the Incheon World City Project (hereinafter, “IWC Project”) which was to be built on land purchased outside of the Incheon International Airport grounds. UE Korea was to file the application for the IWC Project through the casino advance authorization system, and negotiated the land purchase. UE Korea also had funds of approximately 18 billion yen at the Bank C Branch b to use as funds for the casino resort project.

(2) O, around November or December 2013, changed lead business unit for the land purchase for the IWC Project from UE Korea to Company N. Company N was established as a wholly owned subsidiary of Company A on October 14, 2011, the same day that UE Korea was established. Since Company N did not have an actual presence or any assets to show for it, O decided to use the assets of UE Korea for Company N to purchase the land, and he had B3 (a UE employee at the time, who also served concurrently as the Representative Director of UE Korea starting January 2014) and B4 (a Director of UE Korea at the time, who also served concurrently as a Director of Company A starting January 2014) carry out the related tasks.

B3 and his group received advice that if they were to make Company N the lead business entity for the casino project in Korea, Company A which is a Hong Kong corporation should obtain a loan from the Bank C, and by using those funds to purchase the land, it would be able to receive preferred treatment as a foreign capital investment. Therefore, the following framework was devised, and O's approval was obtained.

- Company A would borrow US\$80 million from the Bank C Branch a for the deposit on the land purchase.
- UE Korea would provide US\$80 million of the funds it had on deposit at the Bank C Branch b as collateral, and the same branch would issue a Stand-by L/C to the Bank C Branch a to guarantee Company A's loan.

(3) B3, while devising the above framework, around February 2014, made a request of A3 who was the UE Director and General Manager of Administrative Division General Manager that because the land purchase for the IWC Project will be handled by Company N, he would like for A3 to submit a letter stating that UE Korea would financially support Company A's procurement of US\$80 million for the deposit. A3, believing that for UE Korea to guarantee a debt of US\$80 million for Company A would be considered a crime of Aggravated Breach of Trust, on February 15, 2014 around 2:40 AM, sent an e-mail to O that stated, "I have been asked by B3 whether Universal Entertainment Korea would provide a letter indicating financial support to Company A which is to be the lead entity to execute the project. ... If such a financial support letter were to be submitted to the Korean authorities, I believe it may violate the laws under the Japanese Companies Act. The regulation I am referring to concerns the special crime for misappropriation (Should an officer, etc. take an action that is in breach of his duties with the objective of gaining profit for himself or a third party, or to inflict damage upon the company, and damages are suffered to the assets of said company, said officer shall be levied a fine or the like.). ... The lead business entity executing the project is on the Chairman's side of the business, so legal risks should be avoided on your side, but if such risk can be cleared, then I have no problem with this." O responded the following day, on February 16, 2014 around 10:18 AM by replying to the above e-mail citing its content, and therefore, it is found that O read the above e-mail.

A3 also visited the O residence in Tokyo and met with O around noon on February 15, 2014 (on the same day that the above e-mail was sent), and advised O that if UE Korea's funds were to be used to secure a loan for Company A, O could be charged

with the crime of Aggravated Breach of Trust and that A3 was therefore against O's doing this. At this time, O listened to what A3 had to say.

- (4) O, on February 21, 2014, at TRLEI's Manila office, held a meeting with B3, B4, A3, A4, A5 and others, and at this meeting, it was explained that UE Korea would be providing the collateral with funds on deposit at the Bank C Branch b, making it possible for Company A to obtain a loan for US\$80 million, and using said funds to pay the deposit on the land purchase to be made by Company N. Hearing this explanation, A3 pointed out to O that such actions would violate the provisions concerning the crime of Aggravated Breach of Trust under the Companies Act, but O said, "That is not the case," "If I say we are doing this, we are doing this," and the like, and turned a deaf ear to A3. Accordingly, A3 stated that he was going to confirm it with the attorney and ended the conversation at that time.

A3 immediately contacted the Law Firm O to obtain its opinion, and on February 21, 2014, the same day as the above meeting, G, an attorney from said law firm provided an opinion by e-mail stating that if the UE Board of Directors were to approve the provision of collateral using a UE subsidiary's funds for the purpose of procuring funds from a bank for Company A, which is the controlling shareholder of UE, there is a possibility that such actions would constitute a crime of Aggravated Breach of Trust. Within a few days of receiving this e-mail, A3 communicated the content of Attorney G's above opinion to B3.

2 The loan to Company A from the Bank C Branch a

- (1) Company A, on February 24, 2014, borrowed funds from the Bank C Branch a with the following terms (hereinafter, "the Loan"):

Loan amount:	US\$80 million
Interest:	2.23485%
Repayment date:	February 21, 2015

- (2) Of the US\$80 million, US\$78 million was remitted to Company A's account at the Bank C Branch b, and US\$2 million was deposited to Company A's account at the Bank C Branch a. The reason why the deposits were split in this way between two accounts is that while US\$78 million was sufficient to cover the deposit for the land purchase, it was decided that US\$2 million would be left in the account at the Bank C Branch a, which was the lender, to cover interest payments on this loan.

3 The provision of collateral by UE Korea for the Loan

- (1) UE Korea, when Company A took out this loan, provided as collateral US\$80 million from its deposit at the Bank C Branch b (hereinafter, "Provision of Collateral"), and said branch subsequently issued a Stand-by L/C to the Bank C Branch a to guarantee the loan.

- (2) O, despite having it pointed out to him by A3 that this provision of collateral would violate the provisions concerning the crime of Aggravated Breach of Trust under the Companies Act, instructed B3 to carry out the Loan and the Provision of Collateral.

Note that no evidence was found that O formulated a recovery plan or measures for UE Korea in the event that the security right was to be exercised against the deposit.

- (3) There is no record in the UE Board of Directors meeting minutes that O requested advance deliberation by UE or obtained UE's approval concerning the Provision of collateral.

#### 4 Monetary Payments from UE Korea to Company A

(1) In March, 2014, in his residence in ●● in Manilla, O instructed B4 to entirely cancel the Loan and the Provision of Collateral and have UE Korea pay the interest and fees of Company A. Following the instructions of O, when B4 repaid the loan in full to the Bank C Branch b and stated that he wanted UE Korea to be responsible for handling the interest and fees that Company A should pay, the bank branch prepared an invoice draft with the below details. Using this invoice draft, Company A issued an invoice to UE Korea with the same details dated 03/18/2014.

Management consulting fees	157,820.00 USD
Expenses for meeting with the requesting person	15,742.23 USD
Total	173,562.23 USD
Payment deadline	03/31/2014

Based on this invoice, UE Korea paid 173,562.23 USD to Company A on 03/31/2014.

(2) Company A did not in fact provide to UE Korea services necessitating payment of "Management consulting fees" and also did not hold a "meeting with the requesting person" necessitating payment of expenses to Company A.

#### 5 Repayment of the Loan by Company A

On 03/31/2014, Company A repaid the principal and the interest of the loan as below to the Bank C Branch a.

Principal	80,000,000 USD
Interest	173,821.67 USD
Total	80,173,821.67 USD

As a result of this, the Company A deposit balance in the Bank C Branch a was 0 USD.

#### 6 Examination of the Provision of Collateral

(1) As stated in 1 (2) above, when UE Korea was negotiating the purchase of land for the IWC project, O suddenly changed the project implementing entity from UE Korea to Company N. After that, to raise funds for Company N to make a deposit for the land purchase, Company A borrowed 80,000,000 USD with UE Korea's deposits as security.

Regardless of the fact that he is a director of UE and UE Korea, O pledged UE Korea deposits to Company A as security for the loan. O went so far as to pledge this security in spite of having been repeatedly instructed by A3 that it is against the crime of Aggravated Breach of Trust rules. Furthermore, subsidiary management rules at the time required prior consultation with UE when a UE subsidiary or second-tier subsidiary pledged security, and regardless of the fact that O actually was required to consult beforehand with UE President A6, he did not do so.

(2) O instructed B4 to entirely cancel the Loan and the Provision of Collateral and to have UE Korea pay the interest and fees of Company A. Following the instructions of O, B4 issued a false invoice from Company A to UE Korea under the name of management consulting fees and expenses for meeting with the requesting person to repay the loan to Company A and had UE Korea pay 173,562.23 USD. Regardless of the fact that there was no reason why UE Korea should be responsible for the interest on the loan, O had UE Korea remit almost the same amount of money to Company A.

Company A is a corporation owned by O and his family. O used funds from UE Korea for his own personal benefit.

(3) Based on the above, O having the Provision of Collateral for the Loan to Company A was to benefit Company A and O personally is against his duties as a director of UE and UE Korea and can be evaluated as inflicting economic losses on UE Korea.

Also, O having UE Korea remit to Company A almost the same amount of money as the interest on the Loan was to benefit Company A and O personally is against his duties as a director of UE and UE Korea and can be evaluated as inflicting economic losses on UE Korea.

Further, O arbitrarily engaging in these acts without going through internal procedures is a serious violation of these procedures.

## VI. Analysis of Causes of and Responsibility for Facts Revealed in the Investigation, Proposals for Recurrence Prevention Measures

### 1 Analysis of Causes of and Responsibility for Facts Revealed in the Investigation

(1) O's lack of a sense of ethics as a director of a listed company

(a). The facts in 3 to 5 above are all based on the instructions of O. Since he is the founder of UE, the Director with the power to represent Company A, which is the controlling shareholder of UE with 67.9% of the shares of UE, as well as the Chairman of UE, he has great authority over UE and UE group companies.

Specifically speaking, O monopolized the authority to manage personnel matters for executives and employees of UE and UE group companies who contravened his own wishes by stripping them of their positions as executives and dismissing them from employment. In such a situation, O arbitrarily and repeatedly committing unlawful acts was enabled by the fact that most executives and employees of UE and UE group companies could not raise objections to his instructions.

(b). Looking into these matters, the large loan from TRA of roughly 2,000,000,000 JPY is problematic, and with Company B still yet to repay this sum to TRA, 887,000,000 JPY of the funds that Company B borrowed from TRA that is also part of the money Lee repaid to Company A was remitted to O's personal account for his own personal use. Also, even in the TRA check issuance, O is thought to have made a personal gain equivalent to 16,000,000 HKD. Furthermore, the pledge of security by UE Korea was for the loan to Company A, which is owned by O and his family, in an attempt by Company A using the same money to purchase land in Company N that UE Korea had originally planned to purchase.

As such, O committed these acts for his own personal benefit, and it can only be said that this is an extreme intermingling of private and public affairs and that there was a lack of a sense of ethics that one should naturally have as a director of a listed company.

(2) Management of overseas subsidiaries was entrusted to O

In UE, since O managed overseas operations and communications between UE and UE overseas group companies were only conducted by him or someone following his instructions, it was difficult to report to UE information unfavorable to O.

Specifically, as of June 21., 2011 at latest, O, who was the Chairman of UE, managed overseas operations and UE overseas operations, President A6 managed domestic operations, and only O or a subordinate receiving his instructions (B3 or others) handled the role of communicating information to other directors. The 07/30/2013 UE Board of Directors meeting decided to separate management of domestic and overseas operations, and further clarity was brought to the system in which O managed UE overseas group companies and information could only be shared with other directors through O or a subordinate receiving his instructions (B3, B1 or others). Since it is difficult for UE to grasp the circumstances of geographically distant overseas group companies compared to domestic ones and since O was the one managing these overseas group companies, it became even more difficult for information going against the wishes of O to reach UE.

### (3) Governance systems in UE overseas group companies were insufficient

Aside from the above, the insufficiency of governance systems in UE overseas group companies was also a cause of the inability to prevent the unlawful acts in these companies and the fact that they were unable to easily detect them after the fact.

(a). Since O was managing overseas operations, the UE Internal Audit Office did not audit the affairs of overseas group companies. While local audit firms have been auditing group companies in Hong Kong and the Philippines for the past two years, no audits were conducted before that, and for UE account books prepared by an outside agency were checked to the extent necessary for consolidated accounts statements.

As such, since there was very little auditing of overseas group companies, it would have been difficult for UE to ascertain after the fact any problems that did occur.

(b). Past UE affiliated company management rules and current UE subsidiary management rules required the Corporate Planning Department to control the affairs of subsidiaries and the General Manager of the Corporate Planning Department to have subsidiaries submit documentation related to matters requiring prior consultation and demand that they engage in prior consultation or reporting. However, the name of the Corporate Planning Department was changed to the Executive Office in January, 2011, and this was not established until 06/30/2017. In the interim, there was no one to handle the role of General Manager of the Corporate Planning Department. As a result, subsidiary prior consultation with UE was done with UE President A6. However, O ignored such procedures, and even if there was consultation, information was only shared with UE through him or a subordinate receiving his instructions. This enabled O to manipulate information.

(c). UE received the investigation report concerning the Philippines casino project from the third party committee on 06/21/2013. The report found that the Overseas Business Division was not sufficiently incorporated into the UE governance system.

In spite of this, there were again problems concerning overseas operations, and it must be said that there were problems in the UE governance system for overseas group companies.

### (4) Responsibilities of O's Aides

O gave instructions to his aides, and they were involved in unlawful acts. Specifically, B1 received instructions from O with respect to the present loan and the present check, and B3 and

B4 received instructions from O with respect to the Provision of Collateral, and they were actively involved in implementing the intent of such instructions.

(a). In March and May 2013 when the issues with the present loan and the present check occurred, B1 was only the representative of the Administrative Division in connection with UE. However, he was in charge of accounting work of overseas group companies including TRA, and he was also in charge of accounting work for Company A. Although B1 was neither an officer nor an employee in relation to TRA, he actually assigned accounting work according to O's instructions, and as a supervisor to D, who was in charge of TRA's accounting, he was giving her instructions, such as deposits and withdrawals including the present unlawful acts.

(b). B3 was an employee of UE in February, when the issue of Provision of Collateral occurred, and was responsible for the promotion of business by UE overseas group companies. In addition, B3 was the representative director of UE Korea. In spite of this, he performed unlawful acts that caused economic losses to UE Korea in accordance with instructions from O.

(c). B4 was an employee of TRA in February 2014, when the issue of Provision of Collateral occurred, and was mainly responsible for the financial affairs of overseas group companies of UE and was a director of UE Korea. In spite of this, he was actively involved in bank negotiations in order to implement unlawful acts that caused economic losses to UE Korea in accordance with instructions from O.

(d). In particular, B1 and B3 were employees of UE when they were involved in each unlawful act (B1 was appointed as a director of UE in June 2015), and it should be said that they had a duty to report to UE if O was attempting to conduct unlawful acts.

As discussed in 1(1)(a) above, O effectively monopolized personnel rights, and if employees objected to O's decisions, they might be dismissed from their positions or in some cases expelled from the UE group, so in reality there is room for doubt about the extent to which B1 and B3 could have stopped O. In fact, B3 lost his position of representative director and director of UE Korea on April 1, 2014. However, it cannot be said that neglecting to report fraud to UE is acceptable just because there is a risk of losing one's own position in the company, and even if reporting the unlawful act while it was happening was difficult, O's unlawful act should have been reported to UE as soon as possible after the incident.

## 2 Measures to prevent recurrence

### (1) Building a unified system centered on the president of UE

A series of cases resulted from the fact that O, who was a director with the representative rights of the controlling shareholder of Company A, was overseeing overseas business and acting selfishly with respect to such overseas business and ignoring the president of UE. Going forward, the creating of independent departments within the group should be stopped, and a centralized system based on UE and the president of UE should be established.

Since O retired from the board of directors of UE as of June 2017 and organizational changes were implemented in July 2017, it can be said that O's influence on UE and the UE group companies has weakened. However, if O and/or other people create departments independent of UE, control will become ineffective and the same problems may occur.

It should be noted that, in the investigation by the committee, when asked why internal audits were not conducted for overseas group companies, it was explained that O controlled overseas business. It is thought that there was a culture within the company that promoted the idea of businesses originally controlled by O as a sanctuary, and first of all, we think it is necessary to reform this culture.

(2) Putting in place a governance structure for overseas group companies

The fact that the governance of overseas group companies was weak was also a reason that O was able to get away with his selfish acts, and it is necessary to improve the governance structure. For the domestic business, UE has adopted an electronic approval system, and it is said that UE is improving its governance system by way of clarifying the location of responsibilities. For overseas projects including overseas group companies, we believe that it is possible to strengthen the governance structure by developing a similar electronic approval system. However, in Japan and overseas, there are also many differences in languages, laws, business practices, infrastructure, etc. Therefore, it is desirable to consider introducing the electronic approval system to overseas projects as soon as possible while maintaining internal regulations and reviewing personnel allocation in the short term.

(3) Promotion of information sharing

In this investigation, we found that not only did employees fear O and feel that they could not defy him, but also that they acted so as to be as inconspicuous as possible to executives including O in order to avoid damaging O's mood. Even now that O is no longer a director of UE, there were also accounts of employees not wanting to say unnecessary things to executives and to only report essential information.

These sorts of practices create poor communication within the company, and the employees are less motivated and cannot even understand when a problem occurs, or alternatively they may not be able to respond properly. Therefore, this should be improved as soon as possible. To that end, we think that it is effective to express to the employees that directors and executives should take the initiative to improve communication.

End