[ENGLISH TRANSLATION]

Investigation Report

(Summary Version)

July 19, 2017

UKC Holdings Corporation

Independent Investigation Committee

Pease note that this document is an English translation of the original investigation report prepared in Japanese language and is prepared for reference purpose only. In case there is any inconstancy between the two, the original Japanese version will prevail.

To UKC Holdings Corporation

UKC Holdings Corporation Independent Investigation Committee

Committee Chairman: Osamu Sudoh

Committee Member: Yoshihiro Kai

Committee Member: Michiko Chiba

Table of Contents

Glossary List

In order to protect sales & marketing confidential information and individual privacy, limited parts of this report have been masked by the Company.

Term	Description
The Company	UKC Holdings Corporation
UKC (H.K.)	UKC Electronics (H.K.) Co., Ltd.
UKC Shenzhen	UKC Electronics (Shenzhen) Co., Ltd.
KPMG AZSA	KPMG AZSA LLC
KPMG Hong Kong	KPMG Hong Kong
President A	President & Representative Director of the Company
Vice President B	Executive Vice President & Representative Director of the Company
Administration Group Manager C	Administration Group Manager of the Company
Accounting Division Manager D	Accounting Division Manager of the Company
Mr. E	Chairman & President of UKC (H.K.)
Mr. F	Representative of Company b
Mr. G	Representative of Company c
Company a	Business partner of UKC (H.K.)
Company b	Business partner of UKC (H.K.)
Company c Hong Kong	Business partner of UKC (H.K.) in Hong Kong
Company c China	Business partner of UKC (H.K.) in China
Company c Australia	Business partner of UKC (H.K.) in Australia
Company c Group	Generic term to refer to Company c Hong Kong, Company c China, and Company c Australia
Company d	Related company of Company c Group
Company e	Related company of Company c Group
Company g	Owner of collateral in Australia
w Factory	Factory in w City, China owned by Company c Group
w City	City in China where w Factory is situated
Company aa	LCD manufacturer
Company bb	LCD manufacturer
Company cc	Business partner of Company c Group
Company gg	Business partner of Company c Group
Company hh	Business partner of Company c Group
Company ii	Business partner of Company c Group
X	TV brand name produced by Company c Group

I Investigation Overview

1 Background of the formation of Independent Investigation Committee

During the process of preparing for the announcement of financial statements of the fiscal year ended March 2017 on May 10, 2017, the Company became aware of the need for a close inspection of the evaluation of assets such as advance payment for UKC (H.K.), one of the Company's consolidated subsidiary companies, and there were concerns about a portion of the recoverability of approximately 4 billion yen as the total advance payment of March 2017, and concerns about the recoverability of approximately 2-4 billion yen of accounts receivable for assets other than the advance payment, so the Company disclosed on May 10, 2017 that outside experts were selected and stipulated for a close inspection.

After the Company selected outside experts as assistants and conducted an internal investigation (hereinafter referred to as **"the Internal Investigation"**), doubts (hereinafter referred to as **"the issue in doubt"**) were raised regarding the accounts receivable recovery relating to a portion of the advance payment to Company a.

Accordingly, in order to investigate the fact and cause, to understand the impact of the issue in doubt on the Company's business performance and to propose effective recurrence prevention measures, the Company set up an Independent Investigation committee (hereinafter referred to as **"the Committee"**), comprised of outside experts who have no stakes in the Company on May 30, 2017 and timely disclosed its intent on the same date.

2 Commissioned Matters (Investigation Scope)

The Committee commenced its investigation with the confirmation of the facts of the issue in doubt, cause analysis, investigation of the existence of events similar to the issue in doubt, and proposal of recurrence prevention measures as the tentative commissioned matters.

After understanding the overview of the facts relating to the issue in doubt from the initial investigation, the Committee exchanged information with the Company's independent auditor, KPMG AZSA and as a result, the Committee proposed to make the following items as official commissioned matters for an adequate investigation scope to fulfill the accountability to the Company's stakeholders and reached an agreement with the Company on June 30, 2017.

1) Investigation of the facts of the following items relating to the issue in doubt
   I. A clarification of the scheme of the LCD panel transactions and TV transactions (LCD and TV transactions hereinafter referred to as **"LCD panel transactions"** and **"TV transactions"**, respectively, and collectively as **"target transactions")**, conducted among UKC (H.K.), Company c Hong Kong and its affiliates, and Company a during the period between fiscal year ended March 2015 and fiscal year ended March 2017, especially the actual situation of the occurrence and recovery of the advance payment and accounts receivable for the transactions
   II. A clarification of the background of UKC (H.K.)'s acquisition of a convertible bond (hereinafter referred to as **"CB"**) issued by Company c Hong Kong on March 31, 2017 and the matters pertaining to the corresponding acquisitions
2) Investigation of the existence of events similar to the issue in doubt
3) Cause analysis pertaining to the issue in doubt and the facts above
4) Proposal of recurrence prevention measures

3 **Members of the Committee**

The members of the Committee are as follows. The Chairman and the Committee members have never been commissioned any business from the Company, and do not have any stake in the Company.

Chairman/Lawyer: Osamu Sudoh (Sudoh & Partners)
Committee Member/Lawyer: Yoshihiro Kai (Anderson Mori & Tomotsune)
Committee Member/Certified Public Accountant: Michiko Chiba (Chiba Certified Public Accountant Office)

The Committee has selected the following persons as assistants to support the investigation.

Anderson Mori & Tomotsune
(Lawyers: Hidetaka Miyake, Takao Kawakami)

Ernst & Young ShinNihon LLC FIDS (Fraud Investigation & Dispute Services)
Certified Public Accountants and other professionals: Naoki Taya, Hitoshi Yorozu, Yasuo Tanaka, Stacy Wang, Kazuhiro Fuse, and others including 29 EY member firm experts)

In carrying out the investigation, the Committee used the Company's employee at internal audit division that was not involved in the issue in doubt or the target transactions as a secretariat.

IIOverview of the Investigation Procedures

1 Investigation Implementation Period

The Committee carried out the investigation and a study based on the investigation results for the period between May 30, 2017 and July 19 of the same year.

2Investigation Target Period

The accounting period from the fiscal year ended March 2015 to the fiscal year ended March 2017.

3Overview of the Implemented Investigation Procedures

(1)Understanding and Succession of the Internal Investigation

The Committee understood the Internal Investigation's progress with the explanation provided by the parties assisting with the Internal Investigation and took over the evidence collected by the Internal Investigation such as interview results with 5 UKC (H.K.) related persons from the Internal Investigation.

(2)Interview with Related Persons

The Committee has implemented a total of 26 interviews over one or multiple sessions per person via face-to-face interview or over the teleconference with a total of 19 related persons such as UKC (H.K.) officers and employees.

In addition to the aforementioned interview, the Committee also conducted a hearing with a former officer of the Company, who also served as a former UKC (H.K.) officer, via teleconference.

(3)Confirmation and Close Examination of Related Documents

The Committee has confirmed and closely examined the related documents obtained from the Company and UKC (H.K.) and external evidence obtained from third-parties such as Company c Group and its business partners.

(4)Digital Forensics

The Committee has implemented data preservation and recovery using certain special software for the 11 computers (7 laptops and 4 desktop computers) belonging to 9 related persons from the Company and UKC (H.K.) who were assumed to be key persons suspected for their involvement in the issue in doubt.

The Committee reviewed a total of 44,395 items narrowed down, without limiting the target period, from a total of 487,606 items of e-mail data and a part of file data contained in the 10 computers (7 laptops and 3 desktop computers) selected from the 11 computers that were subject to data preservation and recovery by keyword searches using keywords determined by the Committee as being effective in extracting data relevant to the issue in doubt.

As a result, a total of 2,702 items of e-mail data/file data related to this case were extracted.

(5)**Overseas Sites Visits**

The Committee has conducted the overseas sites visits of the UKC (H.K.) office, Company c Hong Kong office, and Company c China's TV factory to clarify the actual situation of the target transactions.

(6)**Information Exchange with Independent Auditors**

Considering the possibility that the investigation results would impact on the Company's financial results, the Committee has had a total of 10 meetings with KPMG AZSA engagement partners and other team members engaged in the audits of the Company.

(7)**Questionnaire Survey**

In order to investigate the existence of similar events to the issue in doubt, the Committee implemented a questionnaire survey for 9 officers and employees at the level of executive officers or above of the Company (excluding outside directors and outside corporate auditors) and 83 officers and employees at the level of department general manager or above of domestic and foreign subsidiaries (excluding outside directors.).

4**Assumptions**

The following items are the Committee's assumptions for its investigation.

(1) All documents provided to the Committee by the Company, UKC (H.K.), and other related persons shall be true and complete originals or exact copies thereof
(2) The Committee's investigation is not based on compulsory investigation authorities but based on the voluntary cooperation of related parties
(3) The Committee's investigation is not intended to pursue legal liability of related parties involved in the issue in doubt, and not to assume that the report should be used for such purpose

5**Restrictions**

The Committee's investigation was restricted by the following items.

(1) In order to verify the rationality of the business plans of the Company c Group including Company c Hong Kong as the issuer of the CB, the Committee requested to arrange interviews with 2 major clients of Company c China as the counterparties of their main transactions via Company c Hong Kong. However, the business relationships between Company c China and these clients are still shallow so no interviews have been set up based on concerns about possible adverse effects of the interviews on trading relationships in the future.
(2) The Committee requested interviews with 2 outside directors of the Company

serving during the investigation target period to verify the Company’s governance, but no interview with one of them has been set up as he refused to cooperate.

III Facts Discovered during the Investigation

1 Overview of UKC Group's Overseas Businesses

(1) UKC Group Overview

The Company was established as a joint holding company of USC Corporation (hereinafter referred to as **"former USC"**) and Kyoshin Technosonic Co., Ltd. (hereinafter referred to as **"former Kyoshin Technosonic"**) in October 2009 and the Company was listed on the First Section of the Tokyo Stock Exchange, and in October 2011 the company name was changed to UKC Electronics Corporation due to the merger of these two companies, and became an operating holding company in April 2015.

The Company adopts a group executive system (hereinafter referred to as **"UKC Group"**) in which the Company is the core enterprise, and UKC Group mainly conducts, as a core business, the semiconductor and electronic component business which handles domestic and overseas semiconductors and high-performance electronic components such as Sony's products. UKC Group also conducts the electronic device and system equipment businesses additionally. In sales results of the fiscal year ended March 2016, semiconductors and electronic component business accounted for more than 90 percent, and semiconductors such as Sony image sensor accounted for more than 40 percent of all products sold in such business.

(2) UKC Group's Overseas Business and Governance Structure

(i) Overseas Business

UKC Group owns foreign subsidiaries headquartered in Hong Kong, Singapore, South Korea, China, Vietnam and Thailand, which involve in the sale of domestic, and foreign manufactures' semiconductors and electronic components such as Sony's products in Asian area, mainly in China and ASEAN regions.

(ii) Governance Structure

UKC Group has capital ties centered by the Company and, in relation to each group company's business execution, adopts group executive officer system from July 1, 2013 in order to maintain flexible management system corresponding to the changes in business environments and to develop executive class personnel who materialize UKC Group's mid and long term growth systematically by strengthening the governance and clarifying responsibilities of the Company and its each group company.

2 Overview of UKC (H.K.)

(1) Business and Company History

UKC (H.K.) was established through the business integration and merger thereafter in January 2011 between "USC ELECTRONICS (H.K.) CO. LIMITED" which was Hong Kong based wholly-owned subsidiary of former USC and

"KYOSHIN TECHNOSONIC (ASIA.) LTD." (hereinafter referred to as "KTS Hong Kong") which was Hong Kong based wholly-owned subsidiary of former Kyoshin Technosonic. Currently, UKC (H.K.) is a trading company that handles electronic components such as semiconductors.

(2)**Organizational Structure**

In the investigation target period, Mr. E was appointed as Managing Director and President in October 2014. Before the current accounting manager joined UKC (H.K.) in February 2016, the current administration manager doubling with Taipei branch manager had served as accounting manager.

3**The Company's Business Management System**

(1) Group Company Management

(i)**Group Company Management Regulations**

The Company, as the UKC Group's holding company, managed foreign subsidiaries including UKC (H.K.) by establishing "Group Company Management Regulations".

(ii)**Group Company Credit Management Bylaws**

The Company added a new provision for monitoring the group companies' credit management to the "Group Company Management Regulations" on April 1, 2017 and established the "Group Company Credit Management Bylaws" which sets out monitoring procedures and methods in accordance with such new provision on the same day.

(iii)**Operation of Organization for the Group Company Management**

A. Group Executive Officer System

As previously mentioned, UKC Group adopts the group executive officer system in order to strengthen the governance and clarify responsibilities for the group companies.

Although each group company has significant executive authority under the group executive officer system, the Company's management executives established a solid governance structure which enables group executive officers to have close relationship with the Company's management executives so that group executive officers can make a direct report and consultation regarding significantly important business executions.

B.**Management Meeting**

As an operating holding company, the Company conducts semiconductor and electronic component sales business under its own device business division. Executive officers who manage domestic operation attend weekly management meeting in which their daily business executions will be reported and monitored.

Such daily business executions are monitored in such meeting with the attendance of President A, Vice President B and domestic group executive officers.

C.**Budget Meeting**

With respect to UKC Group's business, monthly budget meeting of each business is held with the attendance of President A, Vice President B, group executive officers who double with the top management of a subsidiary or affiliate with significant annual sales volume (excluding several companies with annual sales of several hundred million yen), and the Company's sales senior general managers and department managers at its headquarters.

In such meeting P/L forecast of each business for coming 6 months from the time of the meeting is reported. In addition, other topics such as uncollected accounts receivables (overdue by 3 months or more from the due date, and amount worth of 10 million yen or more with overdue for 1 month or more and less than 3 months), accounts receivables for unlisted local companies which exceed such company's own capital amount, and the slow moving inventories (expected 3 months or more to deliver) are also reported.

(2) Internal Audit and Corporate Auditor's Audit

The Company establishes a system to ensure the proper operation in the subsidiaries through operational audit performed by internal auditors and corporate auditors' operational audit performed in cooperation with internal audit.

4**Overview of the Target Transaction's Scheme**

(1)**Peculiar Characteristics in the UKC (H.K.)'s Panel Business For Local Companies**

(i)**UKC Hong Kong's Business Activities**

The business taken over from former USC Hong Kong and currently conducted by UKC (H.K.) is called as shift business which mainly involves sales of Sony's electronic components to Japanese companies expanded to overseas. On the other hand, the main business taken over from a Hong Kong subsidiary of former Kyoshin Technosonic by UKC (H.K.) was a LCD panel business with Company b, a business partner located in Nanjing, China, in which UKC (H.K.) purchases LCD panels from Company b and sells them to local Chinese companies (TV manufactures). As Company b was based in Nanjing, this business was so called as "Nanjing business" within the Company and UKC (H.K.).

Of the businesses carried out by UKC (H.K.), this LCD panel sales business makes up the majority of the sales shares.

(ii)**Background of the Initiation of Nanjing Business and its Peculiarity**

The Hong Kong subsidiary of former Kyoshin Technosonic began the Nanjing business to sell Company aa LCD panels purchased from Company b which became an official distributor of Company aa in or after around 2005 to Chinese TV manufacturers.

The Nanjing business is a business model where Chinese entrepreneurs who are not well financed but have important business connections or who excel in sales channel development, develop and secure sales channels to multiple small and medium-scale companies to increase the volume of purchased merchandise such as LCD panels, and then receiving volume discounts from the corresponding manufacturers while seeking funding from Japanese companies for the purchase from the manufacturers. Through these transactions, the parties arranging this business model (Company b, in this case) are able to purchase items from the merchandise manufacturers for relatively cheaper by being in the position of a high volume and stable buyer, and they are able to earn commissions by sharing this advantage with the customers and with the funders.

Former Kyoshin Technosonic's subsidiary and UKC (H.K.) played the role of the funder. In this business model, UKC (H.K.) which was a buyer and distributer of LCD panels had a very unique business form because it never conducts sales activities towards either the suppliers or the customers by themselves.

In the Nanjing business, unlike general trading firm finances where strict credit control is in place, there was almost no credit control for customers and all sales activities from purchasing through sales of the LCD panels were entrusted to Company b.

As evidenced from above, UKC (H.K.) had no contact with TV manufactures as their customers in the Nanjing business (rather, contact was restricted), and it was the role of Company b to grasp the demand of the customers and collect the accounts receivables. Therefore, for UKC (H.K.), it was a business model where sales and profit could be recognized without conducting any sales activities or client management as long as they paid advance payments to Company b in order to settle the payment for the LCD panels with cash.

(2)**Actual Situation of the LCD Panel Transactions with Company c Hong Kong**

(i) Background of Initiations of Transactions and Distribution Channels

A. The Nanjing business had continued with Chinese TV manufacturers as their customers. However, UKC (H.K.) was introduced to Company c Hong Kong from Company b as one of its customers and began purchasing LCD panels from Company b and selling them to Company c Hong Kong from around 2013.

B. Company c Hong Kong is not a TV manufacturer consuming LCD panels, but Company c China manufactures TVs using the LCD panels purchased by Company c Hong Kong, and such TVs are sold primarily in Australian market. In other words, the Company c Group was established to carry out a series of activities from manufacturing to sales; Company c Hong Kong exists as a trading company, under which Company c China exists as the end user of the LCD panels which owns a TV manufacturing factory in w City (hereinafter referred to as **"w Factory"**). In addition, the TVs manufactured by Company c China are exported to Company c Australia and eventually sold as "X" brand named products through Company cc, an Australian consumer electronics retailer.

C. The detailed characteristics and payment conditions of the LCD panel transactions between UKC (H.K.) and Company c Hong Kong at the time are as follows.

Advance payment transaction	As cash settlements were the standard business practice in LCD panel transactions, an advance payment was paid to Company b as the panel procurement funds and recorded as an asset. Then it was expensed to purchases and sales were recognized against Company c Hong Kong when the goods were shipped
Logistics	The LCD panels were directly sent to Company c china, the end user, and UKC (H.K.) did not keep or manage the inventories
Collection terms	Company aa products: Full payment within 45 days from the invoice date Company bb products: Full payment within 60 days from the invoice date
Collection	The collection of the accounts receivables from Company c Hong Kong was carried out by Company b, and UKC (H.K.) received the total collected funds from Company b and paid commissions to Company b separately.

(ii) **Retaining of US$46 Million of Accounts Receivables from Company c Hong Kong and Initial Response**

The LCD panel transactions between UKC (H.K.) and Company c Hong Kong steadily transitioned after they commenced the transaction in around 2013, and the monthly sales grew up to approximately US$10 to 30 million soon after April 2014, and the collection of the accounts receivable did not stagnate.

However, around February 28, 2015, as Company b informed UKC (H.K.) of a loss of US$28 million (equivalent to HK$220 million) discovered at Company c Hong Kong. Mr. E visited Company b in Nanjing around March 10, 2015, and he was told that a total of US$46 million of accounts receivable, a portion of the accounts receivable that would reach the payment date in March 2015 and accounts receivable reaching the payment date in April 2015, would be overdue.

As the Nanjing business was handled by Mr. E's predecessor, Mr. E had never met Mr. G at that time. They met for the first time at Company c China's w Factory on around March 11, 2015, and Mr. G gave an explanation regarding the situation and a request to consider concessions on repayments.

In order to clarify the reason for the significant loss at Company c Hong Kong, Mr. E examined the profit-and-loss situation of Company c Hong Kong and Company c China as well as the financial situation of Company c China, and performed a hearing against Mr. G. As a result, he tentatively determined that

Company c Hong Kong had a financial obligation of roughly US$28 million. At the time in March 2015, Mr. E reported US$46 million of retained UKC (H.K.)'s accounts receivable from Company c Hong Kong to President A and Vice President B. Since the accuracy of the amount was still unclear at that time, President A instructed Mr. E to get a clearer understanding of the amount of the retained accounts receivable and to investigate the assets of Company c Group and its representative Mr. G.

(iii) **Management Decision to Support the Company c Group**

Mr. E visited Japan with Mr. G and Mr. F from Company b and introduced them to President A and Vice President B on April 2, 2015. The meeting of the aforementioned 5 members was held to discuss the general direction of the collection of accounts receivable by UKC (H.K.) from Company c Hong Kong. In this meeting, Mr. G reported the state of the financial situations for each of the Company c Group companies, and discussed and reviewed the future of the businesses carried out by Company c Group. While a measure to collect the accounts receivable by stopping the business and selling the w Factory was considered, there were also discussions regarding the future development of the TV business based on the contract situations with the clients and the production plans.

As a result of these discussions and reviews, President A, Vice President B, and Mr. E made the management decision to continue Company c Group's business under the support of UKC Group and use those profits to collect the accounts receivables from Company c Hong Kong, while at the same time carrying on clarifying the flow of the money and the business of Company c Group's TV business and considering the conservation of the collection of the accounts receivable.

(iv) **Financial Support for Company c China and Company c Hong Kong**

Afterwards, around April 10, 2015, Mr. E received a request from Mr. G regarding the urgency level of funds needs of Company c China, who possessed the w Factory. Mr. G requested to provide 9.1 million Chinese Yuan as operation support because their cash on hand was only 2.6 million Chinese Yuan and funds could not be raised to temporarily repay their bank loans and were in risk of being forced to shut down due to the w Factory possibly being seized by the bank unless cash was sent immediately.

Around April 13, 2015, Mr. E made a proposal to Vice President B, Administration Group Manager C, and Accounting Division Manager D by preparing a document describing the methods to support the normalization of Company c China's operation and collect UKC (H.K.)'s accounts receivable from the business profits. In the document, he proposed that, if the Company decides to support Company c China by fund transfer, the Company should transfer the funds immediately on the same days, prepare a loan agreement based on the Company's format and execute the necessary document signed by Mr. G.

However, if the loan to Company c China was to be provided, a resolution of the board of directors was required, and because immediate support was difficult, several days passed while the administration department was considering the options. In the meantime, Vice President B, Administration Group Manager C, and Accounting Division Manager D shared their awareness that it would be difficult to obtain authorization from the board of directors regarding the loan to a local Chinese company.

On April 16, 2015, the general manager of the administration department and accounting manager of UKC (H.K.) at the time (hereinafter referred to as **"UKC (H.K.) administration department manager"**) sent an email addressed to Vice President B, Administration Group Manager C, Accounting Division Manager D, Mr. E and one other recipient, and notified them that based on information confirmed by Mr. E with Mr. G, the necessary amount for the operational costs was 9.1 million Chinese Yuan, and also asked if it was acceptable, the Company b funds (including the advance payment from UKC (H.K.)) were going to be transferred to the w Factory.

This was a proposal to support the Company c China's cash schedule financing by temporarily using the advance payment paid to Company b to purchase the LCD panels and transfer it to Company c China, instead of a loan provision under the loan agreement proposed by Mr. E. In response, Accounting Division Manager D sent a reply to the effect of "we considered the RMB 9.1M issue at HD and received consent from President A, so please contact them and provide support."

With these circumstances, President A and Vice President B recognized the situation of the retained accounts receivable of US$46 million to Company c Hong Kong and of the situation that w Factory could be forced to shut down if the Company did not provide financial support, but as previously stated as of April 2, 2015, the future prospects of Company c Group businesses were recognized and a management decision was made to support the Company c Group and continue the TV business and determined that it was due to the worsening of the urgency level of funds needs of Company c China, they authorized the transfer of the advance payment paid out to Company b to Company c China.

On April 17, 2015, UKC (H.K.) funded a total of 9.1 million Chinese Yuan (equivalent to US$1.4 million) for Company c China's repayment of bank loans and other general expenses using the advance payment paid out to Company b.

Afterwards, under the Company's management decision to collect the retained US$46 million accounts receivable by supporting Company c Group to continue the TV business, the decision was made to provide financial support to Company c Hong Kong using the advance payment paid out to Company b, and UKC (H.K.) provided a total of US$11 million using funds from the advance payment paid out to Company b between April 17 to June 9, 2015 in order to support the repayment of bank loans and other general expenses of Company c Hong Kong and Company c China.

(v)**Extension of the Collection Term of LCD Panel Transactions with Company c Hong Kong**

As previously mentioned, in the wake of the delay of the US$46 million accounts receivable to Company c Hong Kong in March 2015, UKC (H.K.) investigated Company c Group's financial details and found out, around mid-April 2015, that Company c Hong Kong's ability to repay their debts was significantly lower than initially expected. As such, the Company determined that timely financial support was necessary for Company c Hong Kong depending on the situation of Company c Group's finances. Based on the understanding that the Company's board of directors was not expected to approve a loan to a local Chinese company, UKC (H.K.) consulted with Vice President B, Administration Group Manager C, Accounting Division Manager D and decided to provide support to Company c Group with the extension of the collection term. The extension to 180 day of the collection term was applied retrospectively to past invoices such as a portion of the panel fees from December 2014, because it was intended to prevent delays in the collections which would be a trigger for the audit firm to point out the necessity of recognizing the allowance for doubtful accounts.

(vi)**Accounting Process of Fiscal Year Ended March 2015**

The Company hid the fact about the collection delay of the US$46 million, the financial support using advance payment to Company b, and the extension of the collection term, and did not provide any explanations to KPMG AZSA about these facts at audit of fiscal year ended March 2015.

As a result, the Company did not recognize an allowance for doubtful accounts without consultation with KPMG AZSA at fiscal year ended March 2015.

(3)**Overview of Target Transaction after TV Transaction Commenced**

(i) Management Decision of the Start of TV Transactions

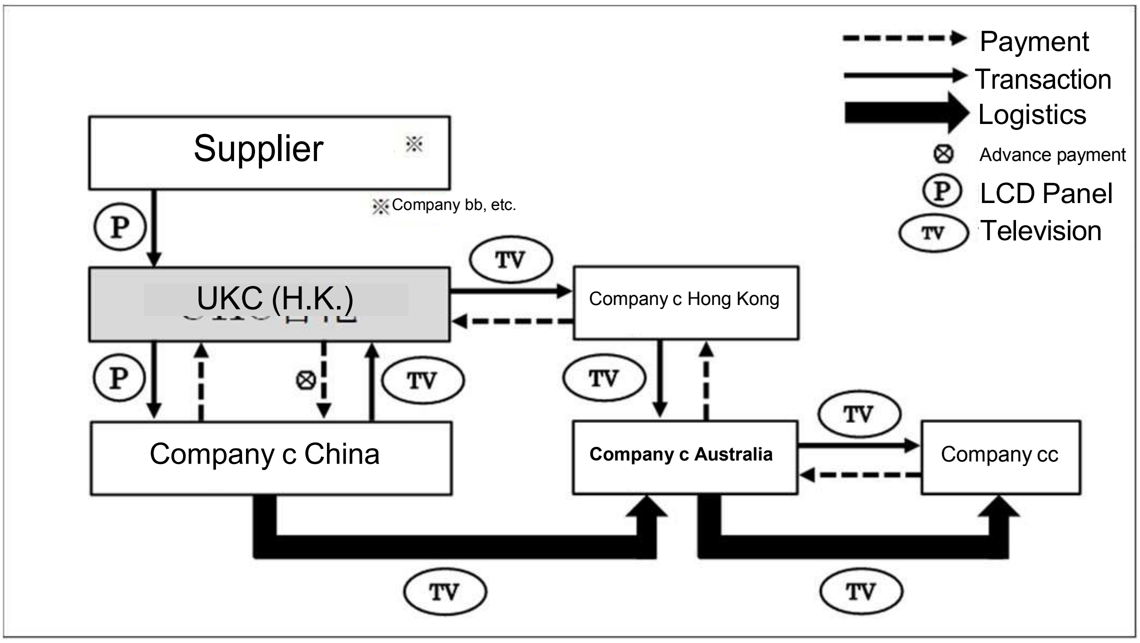
After receiving instructions from President A, UKC (H.K.), in cooperation with an employee of the Company's Singapore subsidiary who was familiar with the accounting and administration (hereinafter referred to as **"UKC Singapore employee"**), conducted an investigation from March to May 2015 and grasped Company c Group's cash flow almost completely. Based on the investigation results, President A, Vice President B, and Mr. E had discussions in May 2015 and decided that although there were several problems and concerns about Company c Group, UKC (H.K.)'s continuous support could resolve and improve the situation, and that the retained accounts receivable from Company c Hong Kong by UKC (H.K.) would be collected while normalizing the TV business from the manufacturing to sales process of Company c Group.

(ii) **Distribution Channels of TV Transaction**

A. After receiving the aforementioned management decision, UKC (H.K.) made a decision to register Company c China as a new client (collection term 180 days) between June to July 2015, and to change the provisions of the collection term for Company c Hong Kong and Company c China paying the full amount within 180 days from the invoice date to paying the full amount within 270 days to provide financial support, and from July 2015 began the sales transactions of TVs purchased from Company c China to Company c Hong Kong (then sold from Company c Hong Kong to Company c Australia and ultimately sold by Company cc to consumers mainly).

B. With the start of the TV transactions, the LCD panel transactions that continued from the past were changed to UKC (H.K.) purchasing the Company bb manufactured panels and directly selling them to Company c China. As a result of the changed LCD panel transaction, in addition to a distribution channel of selling TVs purchased from Company c China to Company c Hong Kong, the overall distribution channels of the transactions between UKC (H.K.) and Company c Group became as follows.

(TV transaction distribution flow image)



(iii) **Collection of Retained Receivables of LCD Panel Transaction by Rewriting of Accounts Receivable**

A. Since July 2015, the Company made Company c Hong Kong pay preferentially using the funds collected from Company cc made by Company c group’s manufacturing and sales of TVs, and conducted an accounting processing of deleting the retained receivables of the LCD panel transactions that the payment deadline arrived earlier (US$46 million as of March 2015).

Due to this, the retained accounts receivable from the LCD panel transactions were decreased and the accounts receivable of the TV transactions were left uncollected, so these processes were referred to as “rewriting of the accounts receivable” at UKC Hong Kong, and Vice President B, Administration Group Manager C, and Accounting Division Manager D also recognized that the collection of the retained accounts receivable of the LCD panel processing could be expected to be facilitated due to these processes.

However, the collection of accounts receivable from Company c Hong Kong was not as initially expected in July 2015, and of the US$13.5 million of the account receivable, a collection delay of US$10.5 million occurred related to the sales from January 2015 due to the new collection term that was changed to 180 days.

However, at Q1 ended June 2015, KPMG AZSA accepted the Company’s accounting processing without recognizing allowance for doubtful accounts even though the collection of the accounts receivable did not proceed as stipulated after being explained that the collection delay had occurred from the new collection term due to the full-scale operation of the TV manufacturing at Company c China under the new proposed distribution channel being shifted from April to June.

B. Afterwards, based on the occurrence of collection delays with the new collection term, the Company determined that there was a certain credit risk for the accounts receivable for Company c Hong Kong and recognized US$0.4 million and US$1.2 million for the allowance for doubtful accounts at Q2 ended September 2015 and Q3 ended December 2015.

(iv) **the Advance Payment to Company c China for the TV Transactions and Disguised Collection**

A. **Purpose for the Funds of Advance Payments**

In the wake of the commencement of the TV transaction of the distribution flow consisting of purchasing TVs from Company c China and selling them to Company c Hong Kong, a total of US$66 million was paid to Company c China as advance payments over 36 installments between June 17, 2015 and March 20, 2017 by UKC Hong Kong.

These advance payments were paid by UKC Hong Kong in order to take on the business operational costs of Company c China, Company c Hong Kong, and Company c Australia, which make up the Company c Group. So, the UKC Hong Kong administration department manager continuously created documents including the statement of changes of the advance payments with its purpose as internal management documentation, and managed by grasping the situations of not only for the purchases but also for Company c Group's repayment of debts or operational costs.

On the other hand, under its own responsibility, the Committee obtained the bank transaction records of UKC Hong Kong, Company c China, Company c Hong Kong, and Company c Australia, analyzed the content, verified the situation of the transfer of the advance payments paid by UKC Hong Kong to Company c China, and confirmed the use of the funds for expenses, purchases and debt repayments.

B. **Disguised Collection of Accounts Receivable**

As a result of analyzing the aforementioned bank transaction records, the Committee confirmed that the US$2.0 million paid to Company c China by UKC Hong on April 12, 2016 as an advance payment for the TVs was transferred to Company c Hong Kong disguised among other funds of Company c China, and on April 15, 2016 UKC Hong Kong had received US$7.4 million as a collection of the accounts receivable.

In addition to these facts, when verifying the transfer of the balance of Company c Hong Kong's bank account, of the amount of money related to circulation that was clarified above, not less than US$0.7 million of the funds paid by UKC Hong Kong as an advance payment was confirmed to be returned to circulation as the collection of the accounts receivable of UKC Hong Kong.

The Committee's investigation did not detect any evidence that directly prove that UKC Hong Kong disguised the collection of accounts receivable, but after taking all the circumstantial evidence and the interview results of concerned parties, it was recognized that the disguised collection of the accounts receivable was conducted intentionally by UKC Hong Kong in order to avoid the recognition of allowance for doubtful accounts at the end of the fiscal year ended March 31, 2016.

(v) **Accounting Treatment of Fiscal Year Ended March 2016**

Despite the occurrence of a collection delay for the US$16.9 million of the accounts receivable in March 2016, the Company determined that the risk of an irrecoverable debt was low because the collection delay was resolved after the collection of US$16.9 million in April 2016, and did not record the allowance for doubtful accounts, while the accounting processing was accepted by KPMG AZSA.

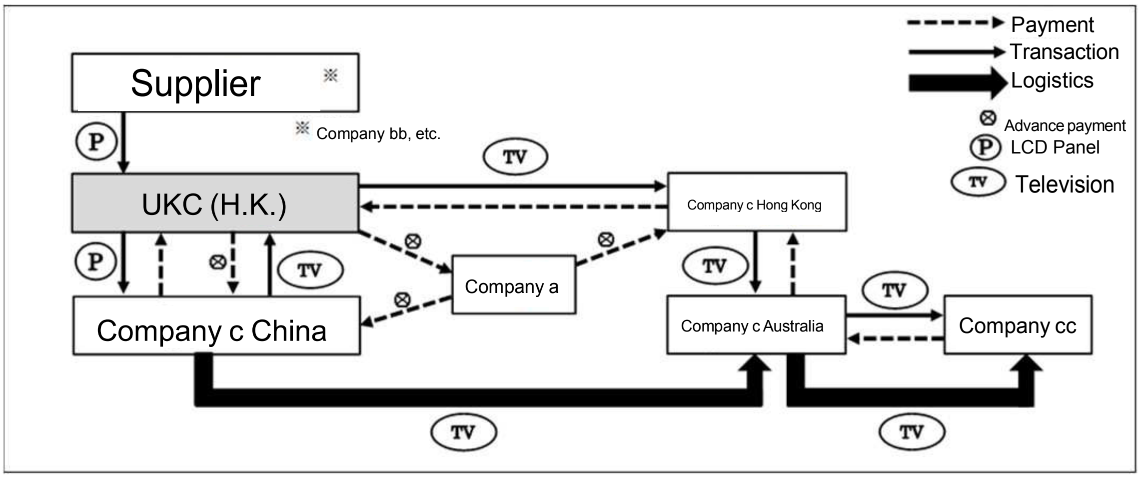
However, the Company did not disclose the fact that the advance payment for Company c China was used as operational costs of Company c Group or that of the US$16.9 million collected in April 2016, not less than US$0.7 million was a disguised collection of the accounts receivable circulated from the advance payment for Company c China to KPMG AZSA.

(4)Overview of Target Transactions After the start of LCD Panel Transactions with Company a

(i)Changes to Distribution Channels with Adding Company a

UKC (H.K.) registered Company a as a new vendor on May 24, 2016, and changed their previous distribution channel of UKC (H.K.) directly purchasing from Company bb to Company a mediating between UKC (H.K.) and Company bb for the LCD panel transactions which end user is Company c China.

(Distribution channel image of the TV transactions with adding Company a)



(ii) Background of Starting LCD Panel Transactions with Company a

According to the interview results that the Committee held with Mr. G and various supportive facts, Company a was recognized as a company that was substantially controlled by Mr. G, and in the interview results with Mr. G and Mr. E regarding the background of assigning Company a to mediate the distribution channels, both implied that there was some kind of business reason for assigning Company a to mediate the purchasing the LCD panels.

However, from the investigation results of Company a's bank transaction records performed by the Committee, since there was no evidence of Company a purchasing LCD panels from suppliers, and Company a was recognized as a paper company, the Committee had to accept that the interview results of Mr. E and Mr. G were contrary to the facts.

Eventually, the Committee's investigation did not detect any evidence to directly clarify the background that led to Company a mediating the LCD panel transaction distribution channels, and there was no rational reason for assigning Company a as intermediary. Moreover, considering the fact that UKC (H.K.)'s advance payment to Company a which deemed as a paper company was used for paying the expenses of Company c Group and for the disguised collection of UKC (H.K.)'s accounts receivable, as well as the situation that would be difficult to implement such treatment without a consent of both UKC (H.K.) and Mr. G, and the interview results of concerned parties, it was recognized that Company a was assigned to mediate for the purpose of using the advance payments for the said reasons upon agreement with UKC (H.K.) and Mr. G.

(iii) Disguised Collection of Advance Payments and Accounts Receivable of LCD Panel Transactions with Company a

A. Purpose of Advance Payments

After starting the LCD panel transactions using a distribution channel of purchasing LCD panels by assigning Company a as intermediary, UKC (H.K.) made prepayment to Company a a total of 25 times of US$58 million from June 3, 2016 to March 31, 2017.

These advance payments were paid by UKC (H.K.) for the purpose of bearing operating costs of the businesses of Company c China, Company c Hong Kong, and Company c Australia. Regarding the purpose of advance payments, the UKC (H.K.) general manager continuously prepared the statement of changes of the advance payments as internal document in order to grasp the situation that the funds were used for Company c Group’s expenses and UKC (H.K.)’s accounts receivable collection (US$10.8 million) other than purchasing panels (US$19.5 million).

Under the Committee’s own responsibility, by obtaining the bank transaction records of UKC (H.K.), Company c China, Company c Hong Kong, and Company c Australia, the Committee analyzed them and verified the situation of the transfer of the advance payments paid by UKC (H.K.) to Company a. As a result, the Committee confirmed that the funds were used for Company c Group’s expenses and UKC (H.K.)’s accounts receivable collection (US$16.6 million) other than purchasing the panels (US$17.1 million).

B. Disguised Collection of Accounts Receivable

As a result of analyzing the aforementioned bank transaction records, the Committee recognized the fact that, for the prepayments made in June, July, August, and October of 2016, a total of US$16.6 million was circulated as the collection of the UKC (H.K.)’s accounts receivable from Company c Hong Kong (however, a portion was processed as accounts receivable collection from Company c China) by transferring from Company a to Company c Hong Kong, under the situation that there would be insufficient funds for Company c Hong Kong to make payment for UKC (H.K.)’s accounts receivable without such prepayments.

According to the evidence from UKC (H.K.)’s aforementioned internal documents and e-mails exchanged among the employees at UKC (H.K.), it was obvious that UKC (H.K.) intentionally disguised the collection of the accounts receivable for these circulation of the funds.

C. Regarding the Company’s Recognition and Action

When UKC (H.K.) disguised the collection of the accounts receivable of US$3 million in August 2016, the UKC (H.K.) general manager received pressure from Accounting Division Manager D regarding the collection results of the accounts receivable from Company c Hong Kong and Company c China, and had frequent contact with him regarding the collection status of the accounts receivable and Company c Hong Kong's financing situation. Meanwhile, through an e-mail from the UKC (H.K.) general manager on August 5, 2016, Accounting Division Manager D noticed that UKC (H.K.) had arranged the collection of accounts receivable of US$3.75 million from Company c Hong Kong by circulating a portion of the advance payments made to Company a, and on the same day at the latest, he became aware that UKC (H.K.) was disguising the collection of the accounts receivable by circulating advance payments made to Company a.

At that time, a collection delay of US$11.5 million for accounts receivable from Company c Hong Kong and US$7.1 million for accounts receivable from Company c China had occurred at the end of Q1 in June 2016, but a payment on August 5, 2016 resolved the delay and the Company avoided recognizing the allowance for doubtful accounts.

Afterwards, the balance of UKC (H.K.)'s advance payments made to Company a increased rapidly, and when it exceeded US$31 million in October 2016, the Company's managing department requested breakdown of the balance of advance payments made to Company a. In response to the request, as a result of submitting the advance payment balance breakdown prepared by UKC (H.K.) general manager via e-mail on October 26, 2016, at least, Vice President B, Administration Group Manager C, and Accounting Division Manager D, became aware that the advance payments made to Company a were used for the operating expenses of Company c Hong Kong, Company c China, and Company c Australia, as well as a total of US$10.8 million was circulated for the collection of UKC (H.K.)'s accounts receivable.

As a result of considering an action plan primarily by administration group, the Company instructed in late October 2016 that the advance payments of US$10.8 million which were circulated as the collection of UKC (H.K.)'s accounts receivable to be decreased to zero by the end of December 2016.

However, regardless of these instructions by the Company, UKC (H.K.)'s advance payments made to Company a did not decrease, and UKC (H.K.)'s retained accounts receivable from Company c Hong Kong remained uncollected.

Under such situation, since UKC (H.K.) had no methods other than recording the purchase of the LCD panels from Company a in order to decrease the balance of advance payments made to Company a, the Company recorded purchase of US$4.1 million from Company a and sales of US$4.2 million to Company c China on November 30, 2016, even when there were no actual purchase from Company a.

D.The Company's Accounting Treatment in Fiscal Year Ended March 2017

(until Q3 of December 2016)

At the end of Q1 in June 2016, though there was a delay in the collection of accounts receivable from Company c Hong Kong and Company c China, the Company did not record the allowance for doubtful accounts due to collection delay from the end of June 2016 being resolved by the payment made in August 2016, including the disguised collection.

Furthermore, though a collection delay also occurred in Q2 ended September 2016, the Company used 3.54% as actual bad debt loss ratio of the latest three fiscal years, and recognized allowance for doubtful accounts of US$0.4 million in Q2 ended September 2016 and US$3.4 million in Q3 ended December 2016.

Such accounting treatment made by the Company was accepted by KPMG AZSA, but the Company and UKC (H.K.) intentionally did not explain the facts regarding the usage of the advance payments and the disguised collection of the accounts receivable to KPMG AZSA, the Company's independent auditor, and KPMG Hong Kong, UKC (H.K.)'s independent auditor.

(iv) **Actual Situation of Sales Transactions After Starting the TV Transactions**

Considering the possibility that fictitious sales were included in the TV transactions, which means purchasing from Company c China and selling to Company c Hong Kong, from the facts that a portion of UKC (H.K.)'s advance payments made to Company c China for the TV products were circulated to collect accounts receivable from Company c Hong Kong, in order to clarify the actual situation of UKC (H.K.)'s sales transactions of TV products made to Company c Hong Kong during the period from June 2015 to March 2017, the Committee made an investigation by examining the copies of B/L etc. obtained from Company c Hong Kong regarding a total of 43 transactions.

As a result, no transactions suspected as fictitious sales being detected, and there were no major reasons to doubt an existence of fictitious sales by other investigations conducted by the Committee.

In addition to above, considering the possibility that fictitious sales were included in the LCD panel transactions, which means purchasing from Company a and selling to Company c China, from the facts that a portion of UKC (H.K.)'s advance payments made to Company a for the LCD panels were circulated to collect accounts receivable from Company c Hong Kong (however, a portion was processed as the accounts receivable collection from Company c China), in order to clarify the actual situation of UKC (H.K.)'s sales transactions of LCD panels made to Company c China during the period from June 2016 to March 2017, the Committee made an investigation by examining the copies of customs document etc. obtained from Company c Hong Kong regarding a total of 30 transactions.

As a result, there was one transaction with no supporting documents from UKC (H.K.). The Committee confirmed the reason and discovered that the sales of LCD panels of US$4.2 million made to Company c China on November 30, 2016 was not an actual transaction.

5 **Actual Situation of CB Acquisition by UKC (H.K.)**

(1) Proposal of CB by UKC (H.K.)

The situation continued where the accounts receivable from Company c Group remained uncollected after the start of the TV transaction by UKC (H.K.). Therefore, the Company split the account receivable from Company c Group into current and long-term operating receivables and obtained collateral for the long-term operating receivables and then started considering a policy where UKC (H.K.) enters into an agreement with Company c Hong Kong for Company c Hong Kong to repay the long-term debt during 3 to 5 years and direct UKC (H.K.) accordingly.

However, Mr. G, the representative of Company c Group requested to settle the payables for the purchase of panels in arrears which UKC (H.K.) was planning to change into long-term debt by the debt equity swap and expressed reluctance to the Company's policy where the receivables are changed from current to long term or secured long term debt and the assets of Company c Group's including the factory in w City are put into collateral, and thus, they didn't reach an agreement.

In order to overcome these situations, Mr. E consulted with an outside consultant around November 2016, and received a suggestion to change the outstanding accounts receivable into convertible bonds, and since then commenced discussion and study for the purpose of achievement of this proposal with the Company.

As a result of the discussion and study with the Company, UKC (H.K.) obtained a valuation report of Company c Hong Kong from an outside specialist during February and March 2017 and implemented legal, financial and tax diligence on the premise that it would be presented to the board of directors meeting scheduled to be held on March 30, 2017 that UKC (H.K.) prescribes convertible bonds to be issued by Company c.

Mr. G displayed a positive attitude towards Mr. E's proposal to settle the outstanding payables that had already reached US$100 million by the issuance of convertible bonds and a discussion was moved ahead between Mr. E and Mr. G regarding the issuance of the convertible bonds.

Mr. G accepted the plan presented by UKC (H.K.) where UKC (H.K.) acquires 51% of the shares after the conversion of the convertible bonds, and as a result of discussions with the Company, he also agreed that the both of the acquisition of the convertible bonds by UKC (H.K.) and granting of the collaterals are to be executed simultaneously.

(2) **Decision to Acquire CB by the Company**

(i) **Procedures at the Board of Directors Meeting**

The terms of the CB which includes the contents of the following table was presented at the board of directors meeting held on March 30, 2017, and all members approved without objection UKC (H.K.)'s acquisition of the CB issued by

Company c Hong Kong. Thus UKC (H.K.) acquired the CB on March 31, 2017, and US$103 million of the accounts receivable from Company c Hong Kong and Company c China held by UKC (H.K.) at that time were completely settled out.

Principal amount	US$100 million At the time of the closing, the principal amount will be set off against the outstanding accounts receivables payable by Company c Hong Kong (in the subscription agreement it stipulates that this includes the receivables payable by Company e, Company c China, Company c Australia, and Company d, the related companies of Company c Hong Kong).
Term	5 years
Coupon	Zero coupon
Conversion price	US$4.8039215 per share
Condition precedent for CB Issuance and subscription	(1) Group restructuring of organization where Company d, Company e and Company c Australia become direct or indirect subsidiaries of Mr. G by transferring the shares of these companies to Company c (H.K.) (2) Personal guarantee by Mr. G (3) Corporate guarantee by Company d, Company c China, Company c Australia, and Company e (4) Create a mortgage on assets of Company c China located in PRC (5) Create a mortgage on assets held by Company g's in Australia If the aforementioned conditions are not met by March 31, 2017, both parties can execute the closing with UKC (H.K.)'s consent. However, if these conditions are not fulfilled by April 30, 2017, The CB will be become due and payable in which case UKC (H.K.) can demand full repayment of the CB and also claim damages against Company c Hong Kong and Mr. G.
Board of directors	UKC Hong Kong possesses the right to designate two directors for Company c Hong Kong. Initial designated directors will be Mr. E and the UKC Singapore employee.

(ii) Advance Explanation to the Board of Directors

Prior to the board of directors meeting on March 30, 2017, a preliminary explanation and question-and-answer session for the board of directors (all the board members and corporate auditors) regarding the subscription of the CB were held on March 22, 2017.

After Mr. E explained the terms and conditions, Vice President B, Mr. E, Administration Group Manager C, Accounting Division Manager D, and the UKC Singapore employee answered questions from the board of director members regarding several issues.

Following the question-and-answer session, the discussion converged after President A stated that “no risks would be added on” regarding the CB subscription and it was agreed that the issues would be resolved at the board of directors meeting on March 30, 2017.

(iii) Common Understanding of the Members Who Participated in the Board of Directors Meeting

It was agreed upon by the members who participated in the board of directors meeting on March 30, 2017 that the CB would not accompany a contribution of cash by the Company like a regular convertible bonds, but that it was an advantageous transactions that would help acquire new collateral from the counterparty from which US$103 million of accounts receivables were outstanding unsecured as of the board of directors meeting and resolve such unsecured status.

President A and Vice President B both acknowledged that of the accounts receivable that would be settled off with the issuance of the CB, up to approximately US$40 million had been outstanding as of March 2015 and that the collection situation afterwards had not been improved . President A and Vice President B were recognizing these situations, and because of such recognition, they considered that these transactions were advantageous because they could obtain collateral for these accounts receivable. Through preliminary explanation, the outside directors were also aware that the accounts receivables that to be offset with the subscription of the CB included a certain amount of accounts receivables in arrears as well as ordinary receivables. Therefore, they were aware that this CB had an aspect as a countermeasure against the receivables in arrears and would be benefits in this regard.

Further, regarding the business plan that was the premise of the CB issuance, detailed explanation was provided mainly by Mr. E in advance, and the participating members at the board of directors meeting were considering that there was no issue with the investment decision where it is assumed that the CB would be converted and become shares and Company c Group would be placed under the umbrella of UKC Group.

(3)**CB valuation**

(i)**Company c Hong Kong's Stock Value**

A.**Valuation Report Obtained by the Company**

As mentioned above, the Company has requested a third party to evaluate Company c's share and obtained a valuation report dated on March 13, 2017 (hereinafter referred to as **"the valuation report"**) which was based on DCF method as of February 28, 2017, the valuation date.

The business plan, a prerequisite of the stock valuation, was prepared based on the premise that the following businesses would grow up during the fiscal years from 2017 to 2021 with a consolidated basis assuming the related companies would become a wholly owned subsidiaries of Company c Hong Kong.

(1) TV business in Australian market where TVs made in China are sold to Company cc

(2) Digital signage business in China where digital signage related products are sold to Company gg, Company hh, and Company ii

B.**Examination of the Reasonableness of the Business Plan**

As UKC (H.K.) are expecting stable profits from the transactions with Company cc and sharp increase of the profits from "Company ii and others" as well in the 5-year business plan, the Committee examined the reasonableness of the business plan primarily on these expected earnings.

The Committee tried to verify the existence of the facts to support the expected revenue for both of TV sales to Company cc in Australia and digital signage business in China; however, no concrete evidence was found. Accordingly, to the extent that the Committee examined, the above mentioned business plan could not be regarded to have reasonable grounds.

Thus, the results of the valuation of Company c Hong Kong's share stated in the valuation report which used the business plans as the basis could not be regarded as appropriate.

(ii) **Valuation of the CB**

A. **Valuation Report Obtained by UKC (H.K.)**

In order to recognize and measure the CB on the balance sheet, it was pointed out by KPMG that the valuation report which evaluated the Company c's share was not sufficient but the evaluation of the CB, itself was necessary. As such, UKC (H.K.) requested the professional who prepared the valuation report to perform the valuation of the CB, and obtained the "Company c Hong Kong ZERO COUPON US$100,000,000 CONVERTIBVLE BOND evaluation report" (hereinafter referred to as **"the CB evaluation report"**) dated May 8, 2017.

The valuation of the CB was carried out on the premise of using the total value of the shares of Company c Hong Kong reported in the valuation report (1. Minimum value of US$221 million, 2. Maximum value of US$316 million) and for the 3 cases where the conversion occurs in 1 year, 2 years or at the maturity date (in 5 years) by setting March 31, 2017 as valuation date. As a result, the CB was valued at US$190 million at least based on the premise that the stock value was a minimum of US$221 million and the conversion rights are exercised in 1 year.

B. **Reasonableness of the Evaluation Results**

An evaluation method called the Monte Carlo simulation was applied for the CB evaluation report, and there were no issues with the method itself, but the results of the valuation report was used as the estimate of the CB's basic value.

As explained above, the business plan that is the prerequisite of the valuation report could not be regarded to have reasonable grounds to the extent that the committee examined as no concrete evidence of the expected revenue in either of businesses was seen. Accordingly, it is hard to say that it is reasonable as the basis of the valuation of the CB in the CB evaluation report which was prepared on the premise that such business plan is reasonable.

(iii) **Pledged Assets in China**

A. **Legal Composition and Effectiveness of Pledged Assets**

UKC (H.K.) has taken out a mortgage on the land possessed by Company c China as collateral for the CB issued by Company c Hong Kong.

As described above, there was a plan to simultaneously conduct the CB acquisition and putting up the collateral at the end of March 2017, but the preparations of collateralize did not make it in time and the mortgage was placed after the CB was acquired on March 31 of the same year.

Although efforts were made in setting up collateral on the land possessed by

Company c China through a technical scheme to avoid China's cross-border collateral regulations, but it cannot be said that the procedure were fully considered in advance, and, any legal opinion that states the CB collateral was legal, valid and enforceable could not be obtained from a local law firm in spite of that the main purpose of the acquisition of the CB was to secure the accounts receivables by obtaining the collaterals.

Therefore, the Committee could not consider the mortgage taken out by UKC Shenzhen on the land possessed by Company c China as collateral for the CB at the evaluation of the CB.

B. **Collateral Value**

The asset evaluation report dated October 12, 2016 was obtained for the land possessed by Company c China provided as pledged assets for the CB, and it reported the evaluation result of 400,596,000 Chinese Yuan as of October 8, 2016.

However, as stated above, there were doubts in the legal effectiveness of the collateral, and thus, the corresponding report could not be used for the evaluation of the CB.

(iv) **Pledged Assets in Australia**

UKC Hong Kong placed a mortgage on the land possessed by Company g, in Victoria, Australia as collateral for the CB issued by Company c Hong Kong.

UKC Hong Kong requested an outside specialist to evaluate the land's market value, and obtained an evaluation report titled "REPORT AND VALUATION" dated April 28, 2017, which states the value of the land as of April 24, 2017 was AUS$5.5 million with the valuation date set as April 24, 2017.

6 **About the Transaction between UKC (H.K.) and Company b**

During the process of investigating the absence or presence of events similar to the issue in doubt, the following facts were found regarding the transactions between UKC (H.K.) and Company b that are closely related to the target transactions.

During the period from July through November 2016, Company b did not pay the collected receivables for the panel sales to UKC (H.K.) and applied the funds to the advance payments without consent from UKC (H.K.). Because of this, UKC (H.K.) was faced with a situation where the collection of the receivables from the sales of the LCD panels sold to the Chinese TV manufacturers remained outstanding. Therefore, UKC

(H.K.) held discussions with Company b hastily and exchanged memorandums every month that indicated that UKC (H.K.) admitted for Company b to apply the collected accounts receivables into the advance payments for the time being. Based on these memorandums, UKC (H.K.) made reclassifications from accounts receivables from customers to advance payments to Company b for the purchase of LCD panels for the amount of US$33,161 thousand during the period from July to November 2016. This reclassification was made in order to avoid missing the opportunity to buy Company aa LCD panels due to short of supply by temporarily utilizing the funds received from customer by Company b for the purchase of Company aa LCD panels.

Afterwards, Company b has kept utilizing the funds collected from the receivables which were held by UKC (H.K.) from Chinese mid-level TV manufacturers as advanced payments. On June 2, 2017, UKC (H.K.) entered into an agreement with Company b which is similar to the memorandum mentioned above, and is considering reclassifying the receivables to advance payments to Company b at the end of June 2017.

7 Impact on the Company’s Consolidated Financial Statements

(1) Period between FY2015 ended March to Q3 ended December 2016

Based on the premise of the facts discovered by the Committee’s investigation, there is at least a need to correct or consider correcting the following accounting treatment for the Company’s consolidated financial statements during the period from the fiscal year ended March 2015 to Q3 ended December 2016.

(i) Correction of Accounting Treatment That Reflects Actual State of Advance Payments

UKC (H.K.) circulated advance payments to Company c China in April 2016, and disguised the collection of accounts receivable from Company c Hong Kong. Therefore, it is necessary to journalize to cancel the collection, and recognize accounts receivable from Company c Hong Kong again, of US$713,947, and cancel the same amount of advance payments to Company c China.

(Unit: US dollars)

Consolidated quarterly accounting period	Debit	Amount	Credit	Amount
Q1 ended June 2016	Accounts Receivable	713,947.00	Advance payments	713,947.00

UKC (H.K.) circulated advance payments for Company a 4 times during the period from June to October 2016, and disguised the collection of accounts receivable from Company c Hong Kong (part of the collection was processed as a collection of accounts receivable from Company c China). Therefore, it is necessary to journalize to cancel the collection, and recognize accounts receivable from Company c Hong Kong and Company c China again, of US$16,646,695.32, and cancel the same amount of advance payments to Company a.

(Unit: US dollars)

Consolidated quarterly accounting period	Debit	Amount	Credit	Amount
Q1 ended June 2016	Accounts Receivable	7,032,972.48	Advance payments	7,032,972.48
Q2 ended September 2016	Accounts Receivable	6,819,259.73	Advance payments	6,819,259.73
Q3 ended December 2016	Accounts receivable	2,794.463.11	Advance payments	2,794.463.11

(ii) **Timing of Recognizing Allowance for Doubtful Accounts Pertaining to Accounts Receivable/Correction of Amount**

As described above, the Company recognized a certain amount of allowance for doubtful accounts against accounts receivable from Company c Hong Kong and Company c China during the period from the fiscal year ended March 2015, to Q3 ended December 2016. However, based on the series of facts discovered by the Committee's investigation, allowance for doubtful accounts was deemed not to have been recognized based on a reasonable estimate in light of the Company's awareness of Company c Group's financial position and the situation of collection of the Company's accounts receivable from said Group.

As for this, during the progress of the Committee's investigation, based on the financial position of Company c Group and usage of the advance payments actually recognized by the Company and the situation of collection of accounts receivable and advance payments, the Company depicts, as of the submission date of this report, the policy for correcting the financial statements for prior periods by recognizing allowance for doubtful accounts against accounts receivable and advance payments for Company c Group (including Company d and Company a in this case) using the following methods.

(1) Recognize allowance for doubtful accounts in the full amount of accounts receivables that exceed 60 days, which is the appropriate days sight for collection after the occurrence of the collection delay of US$46 million of accounts receivable for the LCD panel transactions with Company c Hong Kong.

(2) Recognize allowance for doubtful accounts in the full amount of receivables including advance payments because the truth of the collection is not determined after the occurrence of the disguise of collection of accounts receivable from Company c Hong Kong, to which advance payments were circulated.

The Company's estimate of allowance for doubtful accounts was a mechanical processing based on the payment term. However, as, in addition to 60 days being deemed to be appropriate for the payment term of the LCD panel transactions, it is difficult to say that the financial information of Company c Group is enough for the accurate estimate of allowance for doubtful accounts, and due to the difficulty in the precise estimate of the future cash flows based on the Company's current understanding of the operational and financial information of said company, it is deemed to be reasonable to some extent to apply the aforementioned methods to estimate allowance for doubtful accounts against accounts receivable and advance payments for Company c Group.

The balance of allowance for doubtful accounts based on such estimates for each fiscal year and quarterly accounting period is as follows as of the submission date of this report.

(Unit: Million US dollars)

Consolidated fiscal year or Consolidated quarterly accounting period	Before correction	After correction	Difference
Fiscal year ended March 2015	–	16.0	16.0
Q1 ended June 2015	–	48.7	48.7
Q2 ended September 2015	0.4	48.5	48.1
Q3 ended December 2015	1.2	69.7	68.5
Fiscal year ended March 2016	–	75.5	75.5
Q1 ended June 2016	–	98.8	98.8
Q2 ended September 2016	0.4	115.3	114.8
Q3 ended December 2016	3.4	143.8	140.4

(iii) **Treatment for Insubstantial Sales of the LCD Panel Transaction with Company c China**

As described in III-4-(4)-(iii)-C and III-4-(4)-(iv) above, it was confirmed that the sale of US$4.25 million LCD panels to Company c China on November 30, 2016, was a fictitious transaction. Therefore, it is necessary to correct as follows for Q3 ended December 2016, in which the said transaction occurred.

(Unit: US dollars)

Quarterly accounting	Debit	Amount	Credit	Amount

Period				
Q3 ended December 2016	Net sales	4,252,500.00	Accounts receivable	4,252,500.00
	Advance payments	4,125,000.00	Purchase	4,125,000.00

(iv) **Impact on the Consolidated Statement of Income**

As a result of reflecting the correction in the aforementioned (ｉ) to (iii) to the Company's consolidated statement of income, the impact on profit for each consolidated fiscal year and consolidated quarterly accounting period as of the submission date of this report is as follows:

(Unit: Million US dollars)

Consolidated fiscal year or consolidated quarterly cumulative accounting period	Provision of allowance for doubtful accounts (accounts receivable)	Provision of allowance for doubtful accounts (advance payments)	Other*	Total
Fiscal year ended March 2015	16.0	—	—	16.0
Three months ended June 2015	32.7	—	—	32.7
Six months ended September 2015	32.1	—	—	32.1
Nine months ended December 2015	52.5	—	—	52.5
Fiscal year ended March 2016	59.5	—	—	59.5
Three months ended June 2016	9.1	14.1	—	23.2
Six months ended September 2016	20.3	18.9	—	39.2
Nine months ended December 2016	31.4	33.4	0.1	64.9
Amount of financial impact (full business year)				140.5

* Impact of the correction of aforementioned (iii)'s sales of US$4.2 million and purchase of US$4.1 million

(2)**Impact at end of the Fiscal Year Ended March 2017**

(i) CB Evaluation

UKC (H.K.) acquired the CB on March 31, 2017, and the Committee's investigation results of the acquisition process and actual circumstances are described within the aforementioned III-5-(1) to (3).

Financial results of the fiscal year ended March 2017 are not fixed yet, but the Company should evaluate the CB based on the premise of the following facts discovered by the Committee's investigation.

(i) The main objective of the Company's acquisition of the CB is to establish collateral for Company c Group's assets and preserve accounts receivable from the same Group. The CB in substance should be deemed as accounts receivable from the same Group.

(ii) In addition the aforementioned (i), there is no rationality for the CB's business plan that was used as premise of the share valuation report and the CB evaluation report.

(iii) As of the submission date of this report, there are no legal opinions or other evidence to prove the actual enforceability as collateral of the mortgage established for Company c China's assets expected to work as collateral for the CB, and there are doubts on the enforceability.

(ii) Other Accounting Treatment

As described in III-6 above, the collection of receivables from the LCD panels occurred by Company b's operating activities under the Nanjing business system is deferred, and UKC (H.K.) took measures to transfer part of the receivables to advance payments.

Based on the high probability of the difficult situation of collection of accounts receivable related to the LCD panels via Company b and advance payments transferred from accounts receivable on the discretion of Company b or under UKC (H.K.)'s ex post facto approval, the financial details of Company b as well as the collection situation of accounts receivable and usage of advance payments should be considered comprehensively, and accounting measures such as appropriate estimate of allowance for doubtful accounts will be required.

ⅣExistence of Similar Events as the Issue in Doubt

1 Overview of the Procedures

Based on the facts discovered in the investigation in III above (hereinafter referred to as "the issue"), the Committee has performed procedures to extract similar events mainly from the perspective of the locations, methods, and people to investigate the existence of similar events.

2 Procedures Performed and Findings

(1) Questionnaire Survey

As a result of the questionnaire survey, there were no similar events discovered that have not been grasped by the Company or the independent auditor.

(2)Financial Analysis

Upon obtaining the financial data between the fiscal year ended March 2015 to the fiscal year ended March 2017 from the Company and all its 13 domestic and overseas subsidiaries (combined financial schedule), the Committee has confirmed whether there were any unusual items by performing a turnover analysis of the accounts receivable and variation analysis of the advance payments. As a result of those procedures, existence of the retained receivables was not recognized, and no situations with retained advance payments that were not expected to be recovered were recognized.

(3)Investigation of the Accounts Receivable

After obtaining the accounts receivable details of the foreign subsidiaries and locations as of the end of April 2017, detailed investigations were performed on the accounts receivable by extracting the non-Japanese unlisted company clients from the clients with accounts receivable balances over 100 million yen. As a result, the facts pertaining to the transactions between UKC (H.K.) and Company b were discovered listed in Ⅲ-6 above.

(4)Investigation of the Advance Payments

After obtaining UKC (H.K.)'s advance payment details of the fiscal year ended March 2017 and performed a detailed investigation of the advance payments paid to the suppliers other than Company a and Company c China. As a result, as described in the aforementioned III-6, it was discovered that there was a suspicion of the retained advance payments regarding Company b.

In addition, after investigating the details of the advance payments of the Company's foreign subsidiaries excluding UKC (H.K.) as of the fiscal year ended March 2017. As a result, it was confirmed that, for 1 company, advance payments made to one of the clients that had been outstanding and unchanged for a year was under 1 million yen.

(5)**E-Mail Review**

Using keywords by adding general keywords associated with fraud, the Committee performed an e-mail review. As a result, the e-mail data references related to the transactions between UKC (H.K.) and Company b described in the aforementioned (3) "Investigation of the Accounts Receivable" was detected, but no other unusual items were confirmed that referenced the existence of similar events to the issue in doubt.

\

Ⅴ Cause Analysis

1 Introduction

(1) The case is regarding the fact that appropriate accounting treatment was not conducted on the loss in profits that occur or have a high probability occurring during the business development of the LCD panel and TV transactions conducted by UKC Hong Kong with local Chinese and Australian company groups. During the process of the investigation by the Committee, issues such as the involvement of the Company's financial management department and other management-level members was made aware, in addition to UKC Hong Kong's accounting treatment. Based on these results, the financial statements pertaining to the consolidated accounting disclosed by UKC Group did not properly reflect the results of the business activities by UKC Group. As a result, judgments of the investors and other stakeholders were distorted, and also the integrity of the stock market was damaged.

(2) The main cause of this case was a lack of responsibility and ethics by the Company's management towards investors, shareholders, and the stock market. For listed companies, there are already thorough requests to observe compliance, but transmitting accurate management information to investors and other stakeholders is a lifeline and a raison d'être. Under the recent competitive management environment, in order to beat out competitors who are also expanding globally, it is absolutely necessary to have strong leadership to make swift and decisive decisions and continue actively challenges on a daily basis. However, if your own management decisions are not suitable with the management environment and the applied business strategies fail unfortunately, accepting that and publishing any losses can create new opportunities to challenge new business activities.

(3) However, in this case, President A and Vice President B granted significant executive authority to Mr. E for UKC Hong Kong's business developments and held discussions after receiving reports of the business development on a frequent basis, leading to an error in the processing of retained accounts receivable of up to US$46 million that occurred in March 2015 due to setbacks in the Nanjing business that Hong Kong subsidiary of the former Kyoshin Technosonic was carrying out prior to the business integration of UKC Group. When the stagnation occurred, the weak points were exposed that UKC (H.K.) did not understand the financial state of the client or the accounts receivable details at all, due to the fact that UKC Hong Kong had failed to manage the credit of its clients, and could not obtain enough information

of the accounts receivable (unlike the credit controls such as transaction amounts and sight management were implemented by the screening department even for designated accounts transactions). However, the investigation was able to uncover the facts about the Company c Group, and based on the results, President A, Vice President B, and Mr. E made management decision to collect the retained receivables from the profits gained by UKC Hong Kong from their transactions with Company c Group, supporting Company c Group to continue their business by providing financial and other managerial support. After April 2015, the transactions between UKC Hong Kong and Company c Group expanded from LCD panels to TV transactions, but the collection of the retained receivables from the profit gained through the transactions did not move ahead, leading to a situation of stagnation of the accounts receivable.

(4) Under these conditions, Administration Group Manager C, and Accounting Division Manager D, who feared that the allowance for doubtful accounts from the Company's retained receivables would be pointed out during the audit conducted by KPMG AZSA, and acted to reflect the events with the accounting treatment, but could not persuade President A and Mr. E, who were pushing the new business developments under the Group's support of Company c Group, and Accounting Division Manager D was forced to put great pressure on UKC Hong Kong's finance department regarding the already retained receivables and the collection of accounts receivable for Company c Group that were likely to be retained, which led the case to move ahead. As a result, it led to the previously mentioned inappropriate accounting treatment for the advance payments and accounts receivable, and the issuance of the CB wiped out events pertaining to these accounts receivable and moving ahead to forge a new relationship with Company c Group.

(5) Looking at this sequence of events, if the top management level had an attitude of understanding the retention status of the accounts receivable with watchful prudence, they could have listened to the finance management department's advice to change ship towards accurate accounting processing, and the finance management department could have avoided taking improper actions and put pressure on UKC Hong Kong's accounting department regarding the collection of the accounts receivable.

In addition to the issues pointed out here, the Company placed an emphasis on sales while not paying enough attention to finance management and other management departments, and as a result functions of the structure and organization were not assumed for the management department to oversee the sales, and instead were positioned to exclusively support sales.

The following mentions the cause analysis of the events based on individual facts, and the issues based on the facts not touched on (or are not sufficiently touched on) as a cause of the case.

2**About the Nanjing Business**

As stated previously, UKC Hong Kong implemented a unique business model called the “Nanjing business” that enabled them not to partake in any sales activities or credit control for their clients, and assigned all responsibilities related to the client such as grasping the financial details and actual demand, and collection of accounts receivable of the client (Company c Hong Kong) to Company b. When former USC and former Kyoshin Technosonic merged, there were those who questioned the uniqueness of the Nanjing business such as the former USC executives, who did not have any experience working with this style of business model, but those concerns were left ignored due to the sales and profit that the transaction would bring in. As a result, when notified about the delay of the US$46 million of the accounts receivable in March 2015, the negative side that the Company was not aware of the credit control was exposed, and the financial status of Company c Hong Kong and the rest of the Company c Group was not grasped at an early stage, and eventually leading to the management decision for UKC Group to provide financial support without verification of the financial situations of Company c Hong Kong and the rest of the Company c Group was not sufficiently implemented.

The Company expanded overseas with barely any strict credit management with its history in developing its commercial business towards Japanese blue-chip companies, and did not conduct any credit management for transactions with overseas local clients above a certain amount, instead entrusting the responsibility to each group company, resulting in a sloppy credit management system. On April 1, 2017, the “Group company receivables management bylaws” were finally established.

3**About the Response after the Delay of the US$46 Million of the Accounts Receivable**

(1) After President A and Vice President B were notified of the delay of the US$46 million of the accounts receivable in March 2015, as stated above in 2,

considering that the Company's inability to properly understand Company c Hong Kong's financial situation from the unique Nanjing business, what should have happened was a report to the board of directors meeting and a decision to establish a policy upon careful discussion.

Not only for the case of the financial support of Company c Hong Kong, there weren't many reports and discussions of important matters at the Company's board of directors meeting in general.

(2) As previously stated, financial support was provided to Company c Hong Kong using the advance payments to Company b in April 2015, but this financial support was also not reported or discussed at the board of directors meeting, and the decision was made by a few employees under President A and the information was not shared among the rest of the Company.

(3) As previously stated, UKC Hong Kong gained approval from the Company to extend the collection term to 180 days in order to provide financial support to Company c Group in May 2015. This extension was applied retrospectively to invoices from after January 2015, including a portion from December 2014 in order to prevent delays in the collections which would be a trigger for the audit firm to point out.

(4) As previously stated, the Company assigned UKC Singapore employees to UKC Hong Kong to conduct an investigation and report on Company c Group's financial situation, but the investigation results were only shared with President A, Vice President B, and Mr. E, and never reported to the board of directors. While the information was not widely spread, President A made a management decision to normalize Company c Group's businesses and collect the retained receivables of UKC Hong Kong from Company c Hong Kong, as long as there was a possibility for improvement by enabling UKC Hong Kong to give continuous support to the Company c Group. However, the start of UKC Hong Kong's TV transactions led to the retained receivables increasing even more.

(5) As previously stated, UKC Hong Kong started their TV transactions from July 2015, but under normal circumstances, there should have been the option of withdrawing from the transactions with Company c Group or switching to long term bonds, but the process of selecting to start the TV transactions and collecting the retained

receivables remains unclear. Under normal circumstances, when changing the form of transaction, which involved a large amount of retained receivables, with Company c Group, it should have been reported to the board of directors and then carefully discussed before making a decision, but a select few under President A shared the information and decided to start the TV transactions.

(6) Emphasizing the negative impact to the business due to the recording of the allowance for doubtful accounts, the Company did not share information with KPMG AZSA such as the collection delay of US$46 million, the financial support using the advance payments to Company b, and the extension of the collection term, and avoided recording the allowance for doubtful accounts.

(7) When the collection delay of US$46 million occurred in March 2015, it should have been reported and shared with the board of directors so that discussions could be held to decide on a policy, but the select few shared information and decided on a policy without clearness was the major cause of this case.

Also, as stated previously, the Company introduced a group executive officer system on July 1, 2013, and UKC Hong Kong's Managing Director and President Mr. E became able to report directly to, President A, and Vice President B, all group executives, and President A and Vice President B became able to directly make decisions, but the group executive officer system resulted in promoting decisions while only a select few share information, and became an obstacle that prevented the sharing of information.

4**About the Response after March 2016**

(1) As stated previously, in order to avoid the recording of the allowance for doubtful accounts in FY2016 ended March, UKC Hong Kong paid Company c China US$2 million as an advance payment for the TVs in April 2016, which was then transferred to Company c Hong Kong together with Company c China's other funds, and began disguising the collection of accounts receivable received by UKC Hong Kong. The disguised collection of the accounts receivable was started under the decision of UKC Hong Kong related persons, and this information was only shared among a select few of UKC Hong Kong without being reported to the Company.

(2) UKC Hong Kong registered Company a, which was introduced by Mr. G in order to disguise the collection of accounts receivable on May 24, 2016, as a new vendor,

and assigned Company a to mediate the distribution channels of the panel transactions. The details of the sequence of events that led to allowing Company a to mediate the distribution channels were not made clear, but the decision was made to give Company a this responsibility regardless of the risks of the flow of the funds with a company that had a relationship with Mr. G. After registering Company a as a new vendor, UKC Hong Kong disguised the collection of accounts receivable using Company a, and the truth about this was only shared among a select few of UKC Hong Kong and never reported to the Company.

(3) As stated previously, Accounting Division Manager D was made aware that UKC Hong Kong circulated the advance payment for Company a as collection disguise of the accounts receivables through emails on August 5, 2016. Later, Vice President B and Administration Group Manager C, among others, became aware of the facts about the disguise of the collection of accounts receivable in October 2016, and finally instructed to eliminate the advance payments pertaining to the collection disguise.

(4) As stated above, the problem was only a select few share the important information which is in advance of the collection disguise.

5**The disguised Collection of the Accounts Receivable**

(1) The Company became aware of the delay in the collection of US$46 million of the accounts receivable from Company c Group through a report from UKC Hong Kong in March 2015. However, they concerned about the negative impact on the business caused by recording of the allowance for doubtful accounts, and determined a basic policy where they normalize the business and proceed the collection of the receivables in arrears by providing financial support to Company c Group. This avoidance of the recognizing the allowance for doubtful accounts led to the extension of the collection terms and the disguising collection of accounts receivable by utilizing the advance payments

(2) The Company repeatedly ordered UKC (H.K.) to collect the outstanding receivables in order to avoid recognizing the allowance for doubtful accounts, and it became strong pressure for UKC (H.K.) and caused disguised collection of the accounts receivables utilizing the advance payments and Company a.

(3) In spite of the Company's optimistic outlook for the basic policy of collecting retained receivable from the financial support to Company c Group, the Company requested strongly to UKC (H.K.) to collect the accounts receivable, and it ended up in the disguised collection of the accounts receivable utilizing the advance payments.

(4) As stated above, the Company gave pressure to UKC (H.K.) regarding the collection of the retained receivables, and this led to the disguised collection afterwards.

6**Regarding the Management and Controls for UKC (H.K.)**

The Company had a policy to exert management and controls on UKC (H.K.) through the group executive officer policy. Based on the group company management regulations, the directors in charge of the finance department became the head of the management department, but their main role is to coordinate the partnerships with each of the Company's related departments and other group companies, so there were no supervisors or departments that independently managed the group companies. Such policy let decisions made quicker, but it was difficult to adequately manage the group companies, and the decisions were easy to make along with the intent of the group companies.

UKC (H.K.) took a basic policy to collect retained receivables while providing financial support to Company c group to normalize its business, and they also started the TV transactions, but the retained receivables could not be collected along with the initial plan. However, UKC (H.K.) avoided to report information to the Company that would be harmful for continuing the transactions with Company c Group and to the development of the TV business, and only reported positive information. As stated above, UKC (H.K.) entered Company a into the distribution channels and used the advance payments for the disguised collection of the accounts receivable.

As such, it can be said that proper management and controls were not operated for UKC (H.K.).

7**Dysfunction of the Board of Directors Meeting**

As advised between the aforementioned 3 to 6, under the group executive officer policy, the Company's important business executions were decided and taken into action by President A, Vice President B, and Mr. E, but the board of directors was never reported to or discussed. The reason for this was because Mr. E, the head of a local subsidiary was granted significant executive authority, and the directing was conducted solely by President A and Vice President B.

As a result, there was no sufficient verification at the Company regarding the entering into new business (Company c Group's TV business), and the decision was made by President A and Mr. E (and Vice President B).

Under the Companies Act, though important business executions are placed under the supervision of the board of directors, no significant business execution items were reported to the board of directors and were never placed on agenda, so there was no supervision by the board of directors, resulting in dysfunction of the board of directors meeting.

8 **Absence of the Department for the management of Overseas Group Company**

(1) As mentioned before, under the group executive officer system, the president and vice-president are to ensure timely and direct governance of UKC (H.K.)'s business activities. As such, there was no company regulation to restrict the power possessed by UKC Hong Kong's top executives. As a result, there were no internal departments to monitor or supervise to check whether the authority was being executed within the framework of established company regulations.

In general trading house business, even for the designated accounts transactions as trading house finance function, company rules stipulate the setting of the credit limit and credit management exists, and a department to review the effectiveness of the credit management also exists.

However, due to the lack of the related company rules and the related department, UKC Group's overseas business expansion were not in conformity with certain rules, instead, those were left on the hands of the head executives such as President A and Vice President B.

In addition, Mr. E, who was entrusted with the business activities with UKC (H.K.) was highly trusted by President A and Vice President B and was recognized for being well-versed in the local business, the executives from UKC (H.K.) could not raise objections with Mr. E regarding the regular business activities on which they don't have consultation with President A and Vice President B, and the UKC headquarters could not control or monitor the situation. As a result, decisions were made based on the assumption that Mr. E's opinions were correct, and the Company committed to business with Company c Group without adequate consideration on the future prospects and risks.

(2) This type of internal system has been resulted from the lack of the awareness of the importance of credit management as there was relatively few risk in the domestic

business where they sells Sony products to domestic blue-chip companies. However, in this case, due to the expansion of the business with non-Japanese local companies without the awareness of the situation, timely assessment of the situation was delayed.

9 **Weakening of Headquarters Management Departments such as the Compliance Department and the Internal Auditing Department**

(1) As previously stated, the Company had a compliance promotion policy developed under corporate regulations, but looking companywide, there was not one executive dedicated to compliance. Under these circumstances, there were no way to promote compliances for each group company led by the head-quarter, and there were no traces of education or training implemented for compliance at UKC (H.K.).

Under these conditions, there is no way to develop a corporate culture that strives to achieve proper accounting treatment for the sales expanded by Mr. E under consultation and trust from President A and Vice President B.

(2) Also, there were only a few employees in the Company's internal audit department, and sufficient monitoring could not be implemented. In addition, there were requests to improve the situation at the management headquarters, but adequate support was not implemented.

Under these conditions, the monitoring of UKC (H.K.) by the internal audit department did not work effectively.

10 **Lack of Risk Management Perspective**

Every month, monthly reports were prepared by the chief of the business executions, including the group executives, and the management-level employees could view them through the Company intranet system, and every quarter, the risk management committee discussed the action plan for each risk based on the risk reports prepared by the head of each group company and the head of each department and reported the results to the board of directors. As stated previously, certain accounts receivable information was reported at the budget meeting that was held once a month.

In these monthly reports, risk reports, and in the document at budget meeting, the retaining information of the accounts receivable that occurred in March 2015 were fragmentary, but were shared throughout the Company.

However, no attention was placed on the risk reports in the Company's budget meetings and board of director meetings, and there were no instructions for collaborating with other departments such as analyzing and collecting additional information.

The overall perception and awareness of treating the risk reports as viable information, checking it, and utilizing it for management was lacking companywide.

11 **Lack of Sufficient Communication with the Audit Firm**

It was obvious when issuing the CB, there was not enough prior discussion with the audit firm about the handling of the accounting treatment. Using the CB issuance as an example, the discussion with the Company and the audit firm were suspended and the audit firm noticed the facts and details of the CB issuance from the Company’s press release.

Such situation was certainly unusual. It was unclear what kind of background there was between the Company and the audit firm, but there was a clear lack of communication between the two regarding the accounting treatment other than the CB issuance.

VI **Proposal of Recurrence Prevention Measure**

1 **Thoroughness of Responsibility of the Managements**

Based on the issue, most important thing is that the managements should be deeply aware of the Company being a listed company, and release financial reports based on a proper accounting treatment, and fulfill their responsibility to the investors, other stakeholders, and the stock market.

2 **Reform of Corporate Culture**

To expand the business and to increase profits under powerful leadership is a matter of course, the Company should be thorough on management from the diversified perspectives such as finance management, subsidiary management, compliance, internal audit, and risk management, as well as reforming corporate culture that shows focusing only on sales and not attaching much importance on management by improving the management's attitude, and promote a balanced management.

3 **Thorough Credit Management and Other Management of Foreign Subsidiaries**

The Company's group executive officer policy likely allowed business execution made by the discussion only among the president, vice president, and management of the foreign subsidiary that led to insufficient monitoring and managing.

For the business executions of foreign subsidiaries, the Company should be thorough on credit and business management such as setting up the credit limit, and to make effective management on foreign subsidiaries by using the Company's division such as inspecting division or overseas business management department.

4 **Enhancement of the Functions of the Board of Directors Meeting**

The board of director's primary functions, such as monitoring and directing on important and new business expansion firstly for sales by the business execution department, were not sufficiently exerted.

For the items that should be submitted as subjects of discussion or should be reported at the board of directors meeting, the operation should be reformed to enable direct and flexible request submissions from each of the business departments, including foreign subsidiaries, and the functions of the board of directors should be enhanced.

5 **Utilization of Outside Directors**

As the Company retains outside directors and outside auditors with excellent backgrounds and business performances, their knowledge should be effectively utilized and enhance monitor of the business executions by the board of directors. To meet this target, new regulations or operations should be considered to improve the supervision in addition to enhancing the board of directors.

6**Cooperation with the Corporate Auditors and Audit Firm**

In spite of the corporate auditors' cooperation with audit firm when receiving reports of the quarterly review result based on the corporate governance code, it seems that there is not enough communication between the executives and the corporate auditors, and between the executives and the audit firm. In addition to ensuring thoroughness stipulated by the corporate governance code, there is a need to set up periodic communication among executives, corporate auditors, outside executives, and the audit firm beyond the existing institutional frame.

7**Enhancement of the Internal Audit Department**

As stated previously, it cannot be said that the formation of the internal audit department provides sufficient audit for the business executions in foreign subsidiaries. These points should be improved and new personnel should be assigned to further enhance the internal audit department.

8**Establishing a Risk Management Department**

Since March 2015, the risk information of the retained receivables was scattered throughout the Company.

However, there were no departments that could swiftly and accurately detect the meaning of these kinds of risk information. It is urgently necessary to set up a department that can appropriately handle such risk information. However, it should be noted that the recruitment of talented personnel is required for the department to operate effectively.

9**Enhancement of the Compliance Department**

The Company needs personnel who can ensure thorough compliance for the foreign subsidiaries.

Such personnel should be recruited to ensure the enhancement of the compliance department.

Ⅶ**Conclusion**

Through the investigation, the Committee understood that UKC Group's top-down communication was overly thorough and there was no free communication among related departments and personnel for the business execution items, and the spontaneous and active stance of the employees were lacking. Furthermore, the Committee recognized a lack of sense of crisis on the efforts of each person for this issue, and it almost seemed like the issues were being treated as somebody else's business.

In a sense this issue was brought on by the internal corporate climate, so from now on, all employees up to the top management must become fully aware of their roles, and promote free discussions to come up with measures to support the severe management environment, and work together as one to increase the Company's corporate value.

(END)