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Notice of Formal Demand for Disciplinary Measures against Attorney (Former Auditor of Company)

Universal Entertainment Corporation (hereinafter referred to as the “Company”) hereby announces that it has filed a formal demand with the Dai-Ichi Tokyo Bar Association for disciplinary measures pursuant to Article 58.1 of the Attorney Act to be taken against an attorney who served as an Auditor of the Company (Term of service: June 26, 2014 – June 26, 2015). Details are as follows.

1. Date of Filing of Formal Demand for Disciplinary Measures and Applicable Attorney

Date of Filing of Formal Demand for Disciplinary Measures: October 22, 2018

Applicable Attorney: Yuki Arai (Member of Dai-Ichi Tokyo Bar Association; hereinafter referred to as “Mr. Arai”)

2. Causes behind Formal Demand for Disciplinary Measures

The Company filed a formal demand for disciplinary measures based on its belief that the acts, etc. by Mr. Arai summarized below are in violation of the provisions of Article 72 (Prohibition of the Provision of Legal Services by Non-Attorneys) of the Attorney Act as well as in violation of Article 11 (Affiliation with Non-Lawyers), Article 12 (Restrictions on Sharing Fees), Article 14 (Promotion of Unlawful Conduct), Article 15 (Participation in Degrading Business), Article 16 (Maintaining Dignity in the Engagement in Business Operations), Article 24 (Legal Fees), and Article 29 (Explanation Upon Acceptance of a Matter) of the Japanese Federation of Bar Associations’ Basic Rules on the Duties of Practicing Attorneys (hereinafter referred to as the “Rules in Question”) and Article 5.1 (Explanation of Remuneration and Preparation of Written Contract) of said Federation’s Rules on Attorney Remuneration, and that said acts, etc. fall

under “misbehaving in a manner that impairs one’s integrity as an attorney,” one of the grounds for disciplinary action set forth in Article 56.1 of the Attorney Act.

Moreover, as a result of a Company-conducted internal investigation prompted by Mr. Arai billing the Company for an enormous sum based on an illegal and invalid contract as stated below, (1) and (2) below were found to have taken place, hence the reason why the Company filed the formal demand for disciplinary measures in question.

(1) Mr. Arai made the Company enter an agreement that is believed to be in violation of Article 72 of the Attorney Act.

In November 2012, the Company entered a power of attorney agreement with Mr. Arai with regards to disputes between the Company and specific third parties. Subsequently, Mr. Arai made a request to change the main executing entity of the contract in light of the fact that he planned to station himself in Hong Kong at an early date, and that the handling of overseas litigations, etc. rather than the handling of domestic litigations would form the core of his work. Based on this request of his, on October 1, 2013, the contract in question was changed over to a power of attorney contract with a corporation on the British Virgin Islands where Mr. Arai serves as representative (hereinafter referred to as “Virgin Islands Corporation in Question”) that still retained the work content delegated by the Company to Mr. Arai (hereinafter referred to as “Power of Attorney Contract in Question”). Despite the Virgin Islands Corporation in Question being neither an attorney nor a legal professional corporation, it engaged in the business of general legal services for the purpose of obtaining compensation, which is in violation of Article 72 (Prohibition of the Provision of Legal Services by Non-Attorneys) of the Attorney Act and Article 11 (Affiliation with Non-Lawyers) of the Rules in Question. Additionally, upon changing the contract over to the Power of Attorney Contract in Question, Mr. Arai stated false reasons and committed other acts that constitute violations of Article 14 (Promotion of Unlawful Conduct), Article 15 (Participation in Degrading Business) and Article 16 (Maintaining Dignity in the Engagement in Business Operations) of the Rules in Question. Moreover, on top of violating Article 29 (Explanation Upon Acceptance of a Matter) of the Rules in Question and Article 5.1 (Explanation of Remuneration and Preparation of Written Contract) of the Japanese Federation of Bar Associations’ Rules on Attorney Remuneration, in March 2018, Mr. Arai, having uniquely interpreted the “economic benefit” stipulated in the Power of Attorney Contract in question, billed the Company for an enormous sum in excess of approx. 11.2 billion JPY (converted to Japanese yen using the exchange rate at the time) as a contingent fee based on that contract, which did not go beyond services provided by the single attorney in question. That billing, which was made in the name of “Director Yuki Arai” of the Virgin Islands Corporation in Question, was accompanied with a threatening notice. Such acts are in violation of Article 24 (Legal Fees) of the Rules in Question, which stipulates the

following: “An attorney shall present appropriate and reasonable fees, considering the economic benefit, difficulty of the case, time and labor and other circumstances.”

(2) Mr. Arai has not responded to demands by the Company to return attorney remuneration paid in excess.

Even after the termination of the multiple contracts it had executed with Mr. Arai (through his law firm Wealth Management), the Company mistakenly continued to make monthly payments of attorney remuneration to Mr. Arai, resulting in the excess payment of attorney remuneration in the amount of 7,882,200 JPY, and also paid an excess amount of 900,000 JPY to the Virgin Islands Corporation in Question. For that reason, on February 27, 2017, the Company demanded to Mr. Arai that he return the payments made in excess, which totaled 8,782,200 JPY. However, Mr. Arai completely ignored those demands without so much as a reply, and has continued to do so as of today. Such acts by Mr. Arai, in which he illegally obtained monies that were granted without legal cause, essentially constitute nothing less than a misappropriation of monies, and fall under grounds for disciplinary action in the form of “misbehaving in a manner that impairs one’s integrity as an attorney” (Article 56.1, Attorney Act).

3. Impact on Business Results

The impact of this matter on the consolidated business results of the Company for the fiscal year ending December 31, 2018 is negligible.