
INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

We employ internal controls and procedures designed to help ensure that our pachinko and pachislot hall operations are conducted in a professional manner and in compliance with the Amusement Business Law, as enforced by the National Public Safety Commission* (國家公安委員会), and all applicable laws and regulations in Japan. Further, even though there are currently no specific obligations imposed on pachinko hall operators under the AML laws of Japan, we have voluntarily established various policies and procedures designed to identify and mitigate money-laundering activities in our pachinko and pachislot hall operations and avoid dealing in the proceeds of any indictable offence. Our internal control measures enable us to detect irregularities and unusual activities or trends in the transactions that take place in our pachinko halls which, if detected, are reported to our Directors and senior management for investigation, remediation and, if necessary, reporting to the relevant authorities in Japan. In addition, our hall staff are trained to detect irregular customer activities, particularly those involving large amounts of cash. Money-laundering is difficult to carry out through pachinko operations, in general, because (1) pachinko ball and pachislot token dispensers are only able to release a maximum of approximately 750 pachinko balls or 600 pachislot tokens per minute due to inherent mechanical limitations; (2) the value of balls shot into the playing field is limited by regulations to ¥400 per minute; and (3) payout ratios are also limited by regulations. Furthermore, as with all pachinko hall operators in Japan, we are subject to on-site supervision by the Prefectural Public Safety Commission* (都道府県公安委員会). See “Applicable Laws and Regulations” for more information regarding the regulations to which we are subject.

INTERNAL CONTROLS RELATING TO PACHINKO AND PACHISLOT HALL OPERATIONS

Our Internal Control Framework

Our pachinko and pachislot hall operations are subject to risks of loss resulting from employee or customer dishonesty. Minimising such risks requires a set of robust procedures that can control the authorisation, accountability and safekeeping of pachinko balls and tokens, cash and pachinko-related equipments, such as pachinko and pachislot machines. We have implemented anti-cheating and anti-counterfeiting surveillance systems designed to detect irregularities incurred during our daily operations, which includes a surveillance system and an internal audit team which is responsible for hall operational audits, as described below. Prevention and investigation of fraud and cheating in our pachinko halls are primarily carried out by our hall operations staff with the cooperation of our internal audit team. To ensure the integrity of operations and compliance with operational policies and procedures, our internal audit team operates independently from our hall operations units.

Fraud Prevention and Detection Measures

We also have in place measures in our pachinko and pachislot hall operations to detect potential fraud, cheating or counterfeiting activities. For instance, our pachinko and pachislot machines have mechanisms detect and reject any counterfeit bank notes inserted. Each of our

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pachislot tokens feature a “NIRAKU” stamp. To ensure that no altered or counterfeited pachinko balls or pachislot tokens are brought into or taken out of our pachinko halls, the entrances of our pachinko halls are monitored by our hall operations staff supported by surveillance cameras.

Hall Management System

Our hall management system (licensed from a third party supplier) captures data on the number of pachinko balls and pachislot tokens played and paid out at each machine. At the end of each day, our assistant hall managers in each hall reconcile the opening balance of pachinko balls and pachislot tokens against the ending balance, and carry out investigation on any discrepancies greater than a certain number of balls or pachislot tokens, which may vary depending on the number of machines in the relevant hall.

Anti-Modification Controls

The operations of our pachinko and pachislot machines are monitored by surveillance cameras and our hall computers. Our hall operations staff who patrol the hall and monitor the footage of surveillance cameras as well as our hall computers are able to detect and prevent any attempts to tamper with the pin angle maintenance adjustments, payout setting adjustments or otherwise illegally manipulate the machines. Our hall operations staff are responsible for daily tasks relating to machine maintenance, such as cleaning. However, our hall operations staff are prohibited from performing any maintenance on a machine that results in a modification of its systems, electronic components, or any other major changes affecting machine function. Such adjustments are done by machine manufacturers with the requisite certification from regulatory authorities and subject to regulatory approval before that adjustment or modification is made. However, hall managers are authorised to check and make daily adjustments to the pachinko machines in order to ensure continued compliance with relevant regulations.

Hall Operations Staff and Internal Audit Team

Our internal audit team has an average of more than 18 years of work experience in the pachinko industry and is familiar with fraud detection mechanisms. Our hall operations staff are required to regularly patrol the hall to monitor our machines and equipments for alerts and errors, player traffic inside the halls, and certain customer behaviours that may be indicative of fraudulent acts, and to report any perceived irregularities to our hall managers.

Cooperation with Police

We work closely with officers of the prefectural police agency. If a member of our staff identifies suspicious activity which may constitute a crime, we will report such activity to the local police for further investigation. Our pachinko halls also cooperate with the pachinko halls within the relevant operation area to alert and notify other halls of persons suspected of cheating or engaging in other suspicious or illegal activity. Our pachinko halls exchange surveillance photos of such persons to ensure that such persons are not allowed entry into our pachinko halls.

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Whistleblowing Policy

Our officers, employees and their relatives could report irregularities or suspected fraud to management verbally through a “whistleblowing” telephone hotline or in writing. Our whistleblowing policy further requires such reporting when any officer or employee becomes aware of any act that falls within the range reportable acts specified in our policy. Our internal audit team who reports directly to our Audit Committee is responsible for handling all reports received and conducting the appropriate enquiries. Upon receiving of such result of reports, our internal audit team will consolidate and escalate these cases to our Audit Committee which determines if further investigation is necessary, in which case our internal audit team must then open an investigation file and notify the whistleblower of the results of the investigation and corrective measures taken or, if the investigation is discontinued, the reason for the discontinuation. A written report must be provided to our Audit Committee, which is responsible for reporting to our Board of Directors. The identities of any whistleblowers are kept confidential and our policy protects any whistleblowers from retaliatory action by our Company. Our Board of Directors is, if required under the relevant laws and regulations in Japan, required to report any findings of irregularities and defrauds to the relevant authorities in Japan.

INTERNAL CONTROLS RELATING TO CASH AND G-PRIZES

Cash and G-prize Handling Measures

We employ stringent internal control measures with respect to the handling of cash and G-prizes in our pachinko halls. Such measures include the followings:

- Handling of significant amounts of cash and G-prizes is required to be done in the presence of at least two staff, who are either a hall manager, an assistant hall manager or the designated staff in charge of cash management, and such activity is recorded by our surveillance cameras. All significant amounts of cash for daily use are stored in the safe(s) located inside a separate locked room in each of our pachinko halls which is only accessible by our hall managers, assistant hall managers and the designated staff in charge of cash management, while G-prizes are stored in the locked drawers at each hall counter. The key and password of the safe(s) and the key of the hall counter drawer of each of our pachinko halls are kept by our hall managers, assistant hall managers and designated staff in charge of cash management;
- Our hall managers, assistant hall managers or the designated staff in charge of cash management will conduct an inventory check of cash and G-prizes after the close of business each day, regardless of whether the safe(s) or locked hall counter drawers have been accessed during the day, and cross-check the total actual amount on hand against the daily system record which is updated to reflect all inventory movements of cash or G-prizes;

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- Based on the inventory record, our hall managers or assistant hall managers determine the quantity of G-prizes to be purchased in order to replenish the G-prize inventory to an appropriate level. Purchase orders for G-prizes must be maintained in our prize management system, which is used for prize ordering and inventory management. Our hall managers or assistant hall managers are authorised to approve G-prize purchase orders in our prize management system;
- G-prizes are delivered in the presence of our hall managers, assistant hall managers or the designated staff in charge of cash management. Quantity of G-prizes delivered are cross-checked against purchase orders and the inventory records in our prize management system are updated accordingly, of which our headquarters have real-time access. The payment for such deliveries are also handled by these authorised staff members;
- The staff in charge of cash management and our assistant hall managers carry out manual cash count which is stored in our sales reporting system and sign off our daily hall reports at the close of each business day, subject to the ultimate approval of each hall managers. Our headquarters have real-time access to our sales reporting system as well as access and review authority to daily hall reports of each pachinko hall; and
- Our headquarters perform a daily review of sales record and the amount of cash collected and reported by each hall in our sales reporting system. Reconciliation between the daily statements of cash collection provided by the security transportation company, an independent third party, and the amount reported by each pachinko hall is performed on a monthly basis.

Cash Management and Collection Guidelines

We have established written guidelines on the maximum amount of cash to be kept at each pachinko hall for daily operations, which is ¥35 million, which includes changes, pay-ins and money for buying G-prize. We also contract with a security transportation company, an independent third party, for the collection of cash in excess of the amount necessary for daily operations as prescribed in the guidelines. Such excess cash is deposited into a secure safe that is located in each of our pachinko halls, which is only accessible for collection by our transportation company. Upon deposit into the safe, a deposit slip is automatically generated, and risks of loss are transferred to our transportation company. Our transportation company collects cash from our safes on a regular basis ranging from daily to weekly, which may vary depending on the number of machines in the relevant hall, transports it to the bank and deposit the cash into our account. We reconcile the amount collected by our transportation company against the amount credited to our bank accounts on a monthly basis.

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Financial Statement Reconciliation

Our accounting system, which is licensed from an independent third party supplier, is used for accounts preparation. Our finance department reconciles our cash balances with various records, including bank-in statements provided by our transportation company and the amount of cash collected and reported by pachinko halls in our sales reporting system. The accounting entries which record cash bank-ins are subject to approval from the designated personnel in our finance department in our accounting system.

Prize Management System

Our prize management system keeps up-to-date inventories of our various prizes, including G-prizes. This enables our prize management system to keep up-to-date and accurate inventories, including tracking transactions in which customers exchange pachinko balls or pachislot tokens for prizes. Daily reports are generated and reviewed by our hall managers in which irregularities such as abnormal increases in the volume of G-prizes being exchanged can be detected. These information are also accessible by our headquarters to identify any abnormalities.

INTERNAL CONTROLS RELATING TO INFORMATION TECHNOLOGY AND COMPUTER SYSTEMS

Internal controls related to Information Technology and Computer Systems

Our information technology department supports several systems which are only accessible by authorised employees in order to ensure smooth operations. To ensure the security of our information technology systems, we have implemented certain measures, such as:

- access rights to the various systems are assigned to employees based on their designated roles and responsibilities;
- our major systems, including our prize management system, hall computers, sales reporting system, accounting system and human resources and payroll system are password-protected;
- our computing facilities in Tokyo (東京都) and Koriyama City (郡山市) are accessible only by authorised personnel; and
- To protect our information, we have a backup plan in place for critical systems and data. Full backups are performed on a daily basis.

INTERNAL CONTROLS ON MONEY LAUNDERING

We believe that, money laundering risks associated with our pachinko and pachislot hall operations are inherently low, due to the stringent regulations and machine limitations pertaining to the number of pachinko balls or pachislot tokens that can be played as well as won at our

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pachinko and pachislot machines. Even though there are currently no specific obligations imposed on pachinko hall operators under the AML laws of Japan, we have voluntarily established various policies and procedures designed to identify and mitigate money laundering activities in our pachinko and pachislot hall operations and avoid dealing in the proceeds of any indictable offence. Such policies and procedures have been designed, implemented and are operating with reference to the guidance paper titled International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation issued by the Financial Action Task Force in 2012 and the Amusement Business Law. In addition, the pachinko industry is regulated by the Amusement Business Law which requires the independence of the parties involved in the Three Party System being us, our G-prize wholesalers and the G-prize buyers engaged by them.

Our AML Governance

Our Board of Directors is responsible for (among others) overseeing the overall management of compliance risks, including the review and approval of AML measures as well as remediation of any issues that arise.

Our Audit Committee is responsible for (among others) reviewing any internal control issues highlighted by our internal audit department and reporting such findings to our Board of Directors on a regular basis to highlight any deficiencies in our AML measures and internal control systems.

Our senior management is responsible for ensuring that there is a robust AML framework in place that is commensurate with any risks present in the pachinko industry. Furthermore, they also ensure that such a framework is operating effectively to facilitate the identification and mitigation of money laundering risks. Our AML framework covers systems, controls, policies and procedures across all key areas relevant to our operations. Our framework includes clear lines of escalation, transparent and accurate reporting and formalised risk management at both the entity and business unit level. This helps us make informed decisions as to whether pachinko hall transactions and customer relationships exceed our acceptable risk levels.

Our Risk Management Committee consists of 12 members and is headed by Mr. Akinori OHISHI (大石明德), an Executive Officer. Our Risk Management Committee is responsible for, among others, identifying, assessing and mitigating the risks faced by our business, which include those pertaining to money laundering and compliance with the Three Party System. Our Risk Management Committee periodically reviews these risks and the results of our internal audit department's testing and report their findings to our Audit Committee.

Our internal audit department is required to ensure adequate supervision over key aspects relating to the prevention and detection of money laundering with respect to our operations. This includes: (1) an inspection of each pachinko hall at least once every two months; (2) periodic reviews of our compliance framework and effectiveness of our AML measures; (3) verification and testing of our compliance with AML measures; and (4) reporting any findings to our Audit Committee.

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See “Directors and Senior Management” for further details on the duties and responsibilities of our Board of Directors, Audit Committee and Risk Management Committee and for information on the background and experience of Mr. Akinori OHISHI (大石明德).

Our AML Operational Controls

We have implemented the following controls to help detect and mitigate money laundering risks in our pachinko halls:

- appropriate due diligence procedures are conducted (including but not limited to background checks with respect to criminal records, employment history and financial information) and documented on our directors, as well as senior management, and area and hall managers of the our pachinko halls to among other things, identify and avoid connections to anti-social forces and ensure high standards of integrity. Such procedures include screening of individuals against external search engines such as SP Networks Co., Ltd* (株式会社エス・ピー・ネットワーク) to identify high risk individuals. In addition, annual background checks are conducted on our G-prize wholesalers and the G-prize buyers engaged by them, including their directors and shareholders, in order to identify and avoid any connections with anti-social forces. Such procedures include screening of individuals against external search engines such as SP Networks Co., Ltd* (株式会社エス・ピー・ネットワーク) to identify high risk individuals;
- written representations are obtained on a periodic basis from the G-prize wholesalers confirming (among others): (i) their independence from us; (ii) their independence from the G-prize buyers with whom they conduct business; (iii) they and their representatives, statutory auditors, executive officer, shareholders and directors and also the G-prize buyers with which they conduct business with do not have any connections with anti-social forces, or are, or will be involved in any actions or activities using, or jointly associate with, any anti-social force; (iv) a complete and accurate list of all G-prize buyers engaged by them who have G-prize buying shops near our halls, and the shareholder(s) or (ultimate owner(s)) of such G-prize buyers; (v) they undertake to conduct their own regular background checks against any G-prize buyers engaged by them in order to monitor any potential independence issues between them, and if there are any such issues, to inform us and resolve them immediately to ensure compliance with the Three Party System; and (vi) they undertake to report to us in a timely manner any change in their shareholding structure and composition of their board of directors, or if they become aware of any change in the same of the G-prize buyers engaged by them or other matters that may affect their own or such G-prize buyers’ independence within the Three Party System;
- written representations are obtained (through the relevant G-prize wholesaler) on a periodic basis from G-prize buyers confirming (among others): (i) their independence from the us; (ii) their independence from the G-prize wholesalers engaged by us; (iii) they and their representatives, directors, statutory auditors, executive officers or shareholders do not have any connections with anti-social forces, or are, or will be

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involved in any actions or activities using, or jointly associate with, any anti-social force; (iv) they are not aware of any of our G-prize wholesalers having connections with anti-social forces, or are, or will be involved in any actions or activities using, or jointly associate with, any anti-social force; (v) they have undertaken to the G-prize wholesaler that engaged them that they shall report to such G-prize wholesaler in a timely manner any change in their shareholding structure or board of directors or any other matters that may affect their independence within the Three Party System; and (vi) G-prizes are only paid for using cash and not any other form of payment such as bank remittance or cheques;

- external reputable corporate data research agencies are engaged to provide enhanced due diligence information for any potentially suspicious customers or those customers with whom there is an intention to conduct transactions exceeding a predefined transaction threshold of ¥500,000;
- periodic transfer of area managers and pachinko hall managers are conducted in order to prevent development of illicit relationships, such as those involving bribery. Our personnel development department shall have control over personnel matters;
- we reinforce monitoring of suspicious activities of customers and periodic evaluation. Efforts shall be made to ensure the early detection and reporting of persons who intend to gain profit illicitly by conducting thorough checks on suspicious activities;
- there is continuous monitoring of the automated systems in place in our pachinko halls, including but not limited to our prize management system, information technology system and hall computers, as well as analysis of financial and operating data, to monitor and detect unusual fluctuations that may indicate suspicious activity;
- there is appropriate guidance in place to ensure the timeliness, appropriateness and quality of both internal reporting to our headquarters and external disclosure to the relevant authorities in Japan;
- in the event where suspicious activities are discovered upon conducting an exhaustive check of suspicious activities relating to anti-social forces and money laundering, our staff in charge of compliance will be promptly alerted, in accordance with our emergency response flow. Our staff in charge of compliance shall share such information with our sales department and the responsible Director, and implement appropriate responses when there is suspicion of money laundering;
- early detection of and response to abnormal values in our systems is also conducted. In particular, any act of exchanging pachinko balls or pachislot tokens for prizes without playing shall be investigated. Our hall staff perform regular monitoring of customers during operation hours to identify (among others) customers exchanging prizes without playing. Further, at the end of each day, our hall managers compare the ratio of the number of balls played to the number of balls rented at the pachinko hall, with historical figures. If abnormal values are detected, our hall manager will instruct

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hall staff to review surveillance camera footage of the day to identify any customers who exchanged prizes without playing. Hall staff will also pay special attention to customers on the next day to identify such suspicious activity. If the person engaged in such activity does not cease the relevant activity after being asked to do so, such act shall be immediately reported to the police. We may request such person to immediately leave the premises and refuse the exchange of rent balls earned without playing;

- data checks are also performed on sales per machine and other business data every two hours during business hours to discover any renting of balls or tokens for purposes other than entertainment;
- moreover, at the end of each day, each hall must aggregate the number of pachinko balls and pachislot tokens rent to customers, used in play, collected or exchanged with prizes and check for any abnormalities. Any ball which was not played but exchanged into prizes will also be detected and the hall operations staff will need to report such instances to our headquarters. This aggregation serves as an aid in detecting abnormal payout status of prizes;
- employee education for the prevention of money laundering shall be conducted in compliance with our management manual, and education on anti-money laundering guidelines and other supplementary and updated information shall be conveyed through various training programs. This will help ensure that there is sufficient awareness from our staff of money laundering activities and risks;
- we record customer information in relation to, and report to our headquarters instances of, all transactions in which pachinko balls or pachislot tokens totalling ¥500,000 or more are exchanged for prizes (per transaction). When a customer seeks to redeem more than 100 G-prizes of large denomination, our hall managers or staff of a higher rank will (i) request for identification document; (ii) record the name and address of the relevant customers and the circumstances of the redeem request; and (iii) if there is any suspicious matter, track the relevant customer through his/her play history and the surveillance camera footage of the relevant customer;
- mechanical limitations, under which pachinko ball and pachislot token dispensers are only able to release a maximum of approximately 750 pachinko balls or 600 pachislot tokens per minute;
- specifications of the pachinko machines as regulated by the Amusement Business Law, the Enforcement Ordinance and the enforcement regulations prescribed under the Amusement Business Law, which limit the possible payouts to (among others): (1) for pachinko machines, it cannot release more than twice, or keep more than half, the number of pachinko balls played in a ten-hour period; and (2) for pachislot machines, its payouts must be between 0.55 to 1.2 times the number of tokens played over 17,500 continuous plays.

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- our Board of Directors is required to report any actual or potential money laundering activity that has come into their attention through any internal communication channels or reporting mechanism described in this section to the relevant authorities in Japan.

In particular, as a result of the machine limitations set out above (some of which are required under Japan laws and regulations), money laundering through pachinko and pachislot hall operations is difficult, especially as a lengthy period of time would be required to convert sizable sums of money into balls or tokens, and unusual activity in connection with play or failure to play will be observed and reported by our staff. See “Applicable Laws and Regulations” for details on the Japan laws and regulations relating to pachinko and pachislot hall operations and machines.

PACHINKO TRUSTY BOARD

We are one of the members of the Pachinko Trusty-Board* (一般社団法人パチンコ・トラスティ・ボード) (“PTB”), which is an organisation comprised of pachinko hall operators as well as third party professionals, such as lawyers, accountants and experts in business and corporate governance. The PTB’s Monitor Committee of third party professional members investigates and evaluates corporate governance and compliance of pachinko hall operators and provides suggested standards regarding management and operation of pachinko halls. We hope that our involvement with the PTB will raise corporate governance standards and industry standards for the operation of pachinko halls in order to bolster a positive image of pachinko in the community.

Through the work of its various committees of third party professionals and experts, the PTB has developed a set of pachinko hall accounting standards which is based on generally accepted corporate accounting practices in Japan while taking into consideration the environment and characteristics of pachinko and pachislot hall operations. These standards propose methods for the treatment of pachinko ball deposits and IC cards, costs of pachinko operations, recording of sales and other items unique to accounting in pachinko and pachislot hall operations. PTB also has a set of evaluation standards covering governance, internal controls, legal compliance, labour and employee and internal audit issues. PTB rates its member companies based on these evaluation standards and gives letter ratings which may be published upon request in order to encourage and improve transparency across the industry. Our own internal controls measures take into account concerns raised in the findings and suggested standards of the PTB’s monitor committee.