



31 May 2017

Company Name: Prospect Co., Ltd.

Representative: President and CEO Curtis Freeze

(Security Code: 3528 TSE 2nd Section)

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**Notice regarding the correspondence to  
the Financial Services Agency's hearing proceeding decision**

On 22 March 2017, the Securities and Exchange Surveillance Commission ("SESC") has recommended to the Prime Minister of Japan and the Financial Services Agency Commissioner that an administrative monetary penalty payment order be issued pursuant to Article 20(1) of the Act for Establishment of the Financial Services Agency (the "Recommendation"), contending that Prospect Asset Management, Inc. ("PAMI"), which is our U.S. subsidiary, has violated the Financial Instruments and Exchange Act ("FIEA") (insider trading). In response to the Recommendation, on 29 March 2017, the Financial Services Agency Commissioner made a decision to commence a hearing proceeding (the "Decision") as provided below. In response to this, on 31 May 2017, PAMI has submitted the answer in writing (the "Answer") to the effect that PAMI will admit the fact and amount of the monetary penalty stated in the Decision as follows.

1. Contents of the Decision

- (1) The amount of administrative monetary penalty to be paid

JPY 3,290,000

- (2) Outline of the fact

Outline of the fact of law violation regarding the Decision is that while PAMI knew the information that Tri-Stage Inc. ("Tri-Stage") had decided to buyback its own shares (the

"Important Fact") by around 24 September 2015 at the latest, PAMI purchased the shares in Tri-Stage for its own account during the period between 25 September 2015 and 19 October 2015 before the time when the Important Fact was publicly announced.

2. PAMI's response to the Decision

On 31 May 2017, which is the deadline for submission of the Answer, PAMI submitted to the trial examiner of the Financial Services Agency (the "FSA") the Answer to the effect that PAMI will admit the facts provided in the Decision and the amount of administrative monetary penalty. Accordingly, the hearing procedure will not be held and the administrative monetary penalty payment order will be issued (Article 183(2) of the FIEA).

3. Our Perspective

We contemplated that the investment officer of PAMI was not in a position to know the Important Fact during the period when PAMI was continuing the trading of Tri-Stage shares. Our recognized fact was that PAMI officer had received the Important Fact from Tri-Stage one day before the public announcement date of the repurchase of its own stock, then PAMI stopped its trading of Tri-Stage shares on the same day accordingly.

As a background of this event, we noted that there was a huge difference in perception on the transaction in question between PAMI (investment manager) and Tri-Stage (its substantial amount of shares were held by investment funds operated by PAMI). For instance, as a consequence of our investigation, while the important business point for PAMI, as an investment manager, was a sale of Tri-Stage shares at the best available price irrespective of the counter party, the best option for Tri-Stage was a repurchase of its own shares from the largest shareholder among their takeover defense tools (including a poison pill that Tri-Stage notified PAMI the possibility to issue the rights). We had an intention to prove these facts in the hearing procedure of the FSA in order to recover PAMI's reputation in the market as asset management professionals.

[Translation]

However, since PAMI is operating asset management business in the U.S. by a limited number of specialists, PAMI officer's participation in the FSA's hearing procedure in Japan would not only cause a burden on the PAMI officers in charge but also affect the continuing operation of PAMI's asset management business. Moreover, though we seek a recovery of PAMI's reputation, we suspect that a misunderstanding or good faith of PAMI officer could not work as an excuse for PAMI in the FSA's hearing procedure since the purpose of the administrative monetary penalty is not a moral condemnation but a prevention of unlawful action on a no discretion basis.

We have conducted our investigation on this matter including a hearing on PAMI officers, legal opinion from the lawyers who handle this case, and fact analysis and review on this case by capital market specialist lawyers. Though we had been in a position to challenge the SESC's ruling in the FSA's hearing procedure, we have changed our stance on this case after our investigation. We learned to know that such challenge against the SESC's ruling would cause a heavy burden on our PAMI officers and the chance to win the case would be remote.

As our conclusion, we should acknowledge that PAMI faced a suspicion of the violation of the FIEA, accept the Recommendation and move on. As such, PAMI has decided to make payment of the administrative monetary penalty, continue to observe capital markets rules carefully as a professional asset manager, and we should concentrate on our mission for further growth of our group companies. Though a constructive communication with the company for the benefit of all shareholders has been an important task for an investment fund, we reconfirmed that a discussion between the company officer and a large shareholder might confront a legal risk under securities laws like this event. Given this lesson, we considered that it would be really important for us to set a higher standard of our whole group governance framework.

We also express our sincere apologies for causing any trouble for our stakeholders including our shareholders, business partners and banks as a result of the fact that PAMI received the Recommendation.