

Securities Code No.: 3528

June 12, 2018

Dear Shareholders,

1-30-8 Sendagaya, Shibuya-ku, Tokyo

Prospect Co., Ltd.

Representative Director, President Curtis Freeze

Notice of Convening the 117th Annual General Meeting of Shareholders

Thank you very much for your continuous support and good offices.

We are pleased to inform you that the 117th Annual General Meeting of Shareholders will be held as stated below, and we request that you attend this meeting.

If, however, you are unable to attend the meeting on the scheduled day, you may exercise your voting rights in writing. Although we apologize in advance for any inconvenience, we ask that you enter your approval or disapproval of the proposals in the Form of Exercising Voting Rights enclosed, after careful consideration of the reference documents for the Annual General Meeting of Shareholders below, and return the form to the Company no later than 6:00 p.m., Wednesday, June 27, 2018.

Sincerely

1. **Date** 10:00 a.m., June 28 (Thu.), 2018
2. **Place** Conference Room, 4F, Kosei Hogo Kaikan
5-10-9 Sendagaya, Shibuya-ku, Tokyo
(Please refer to the information map of the venue at the end.)

3. Purpose of Meeting of Shareholders

- Reporting Matters**
1. Business report and report on the consolidated financial statements, and the results of audit of the consolidated financial statements conducted by the Accounting Auditors and the Board of Auditors for the 117th term (from April 1, 2017 to March 31, 2018)
 2. Report on the financial statements for the 117th term (from April 1, 2017 to March 31, 2018)

Resolution Matters

- Proposition No. 1** Disposal of surplus
- Proposition No. 2** Partial Amendment of the Articles of Incorporation
- Proposition No. 3** Appointment of three (3) Directors
- Proposition No. 4** Appointment of one (1) Auditors

4. Matters Determined for Convening the General Meeting of Shareholders

Shareholders who diversely exercise his/her voting rights are requested to give written notice to that effect and the reasons therefore no later than three (3) days prior to the date designated for the meeting of shareholders.

- ◎ If you can attend the Annual General Meeting of Shareholders on the date noted above, we would kindly ask that you present the enclosed Form of Exercising Voting Rights at the meeting reception desk.
- ◎ In the event that it becomes necessary to revise the matters to be stated in the reference documents for the Annual General Meeting of Shareholders, as well as business report, financial statements and consolidated financial statements, the revised matters will be published on the Company's website (<http://www.prospectjapan.co.jp>).

(Attached Document)

Business Report
(From April 1, 2017
to March 31, 2018)

1. Current Status of Corporate Group

(1) Development and Results of Business

The Japanese economy during the current consolidated fiscal year continued along a moderate recovery track as a whole as employment and income continued to improve and also partly due to the effects from various policy measures, while there remain concerns with regard to uncertainty in overseas economic conditions and the impact from fluctuations in financial and capital markets.

In the condominium sales market in the Tokyo Metropolitan Area, while low interest rate loans and housing purchase support mechanisms are maintained, sales prices continue to rise due to difficulties in acquiring available land for condominiums and construction costs remain high, leaving the outlook uncertain.

The Company Group has promoted the group slogan: “Challenge & Ambition,” which sets out the philosophy of sharing a future vision from a long-term perspective, challenging creation and maximization of new value, and pursuit of strategies that brings benefits to all stakeholders.

Upholding such a philosophy, while expanding our business fields to custom-built homes, investment advisory business and construction business, etc., in order to break our dependence on a single business approach of condominium sales which is our core business, we have strived to enhance the robustness of the business portfolio of the Company Group by promoting the overseas real estate business and renewable energy business, including participating in joint investment ventures related to clean energy, specifically, photovoltaic power generation and construction of a biomass fuel manufacturing plant, etc.

Further, in this year of the 80th anniversary of our foundation, we made the Prospect Japan Fund Limited (hereinafter “PJF”) which is listed on the London Stock Exchange a subsidiary of the Company. This has reinforced our financial foundation exponentially as we aim for further growth in the future.

As a result, sales for the current consolidated fiscal year were 11,927 million yen (14,143 million yen in the previous consolidated fiscal year), operating loss was 1,354 million yen (43 million yen in the previous consolidated fiscal year), ordinary loss was 909 million yen (ordinary profit of 516 million yen in the previous consolidated fiscal year), and net profit attributable to owners of the parent was 1,720 million yen (488 million yen in the previous consolidated fiscal year).

In this regard, in the current consolidated fiscal year, in connection with PJF becoming a subsidiary, we recorded profit on negative goodwill of 2,420 million yen in extraordinary profit.

Business performance by segment is as follows.

In addition, the name of the reported segment has been changed since the current consolidated fiscal year. The previously named “Solar Business” has been renamed the “Renewable Energy Business” due to the start of the biomass related business. There is no other impact on the segment information other than the name change.

Segment Name	Previous Consolidated Fiscal Year From April 1, 2016 to March 31, 2017		Current Consolidated Fiscal Year From April 1, 2017 to March 31, 2018	
	Amount	Composition ratio	Amount	Composition ratio
	Thousand yen	%	Thousand yen	%
Real Estate Sales Business				
Condominium Sales Business	4,103,413	29.0	4,926,757	41.3
Land and Buildings	2,264,739	16.0	-	-
Custom-Built Homes	1,565,891	11.1	1,482,837	12.4
Asset Management Business	173,455	1.2	396,942	3.3
Construction Business	5,722,541	40.5	4,615,440	38.7
Renewable Energy Business	250,401	1.8	533,713	4.5
Total	14,080,441	99.6	11,955,690	100.2
Other	62,629	0.4	50,159	0.4
Elimination of intersegment transactions	-	-	△78,262	△0.6
Total	14,143,071	100.0	11,927,587	100.0

(Real Estate Sales Business, Condominium Sales Business)

We mainly sell condominiums for general customers in the Tokyo Metropolitan Area.

In the current consolidated fiscal year, we completed construction of three (3) buildings, 120 housing units for “GRO-BEL Mansion,” including “GRO-BEL The Koenji Premium” (total 43 housing units) (three (3) buildings, 131 housing units in the previous consolidated fiscal year).

As for sales, in the current consolidated fiscal year, we executed new contracts on 115 housing units of 4,379 million yen (141 housing units of 4,799 million yen in the previous consolidated fiscal year) and delivered 137 housing units and recorded sales of 4,926 million yen and segment profit of 602 million yen (115 housing units, sales of 4,103 million yen and segment profit of 313 million yen in the previous consolidated fiscal year).

(Real Estate Sales Business, Land and Buildings)

We focus our sales on residential land and detached homes as well as individual buildings, etc.

As for sales, in the current consolidated fiscal year, no contracts or sales results were recorded (contracts of 2,139 million yen, sales of 2,264 million yen and segment profit of 218 million yen in the previous consolidated fiscal year).

(Real Estate Sales Business, Custom-Built Homes)

We undertake contract construction and reform construction for detached homes, etc., mainly in Yamagata Prefecture as a business area.

As for sales, in the current consolidated fiscal year, we executed new contracts on 58 houses at 1,659 million yen (40 houses of 1,206 million yen in the previous consolidated fiscal year) and delivered 40 houses and recorded sales of 1,482 million yen and segment profit of 12 million yen (41 houses, sales of 1,565 million yen and segment profit of 29 million yen in the previous consolidated fiscal year) (including reforms, etc.).

(Asset Management Business)

We conduct management business of real estate and securities, comprised of Japanese stocks.

As for sales, in the current consolidated fiscal year, we recorded sales of 396 million yen and segment profit of 66 million yen (sales of 173 million yen and segment loss of 39 million yen in the previous consolidated fiscal year).

(Construction Business)

We conduct propulsion construction and pre-stressed concrete (PC) construction, etc.

As for sales, in the current consolidated fiscal year, we recorded sales of 4,615 million yen and segment profit of 261 million yen (sales of 5,722 million yen and segment profit of 287 million yen in the previous consolidated fiscal year).

(Renewable Energy Business)

We conduct renewable energy business, the main revenue source of which is the sale of electricity generated by photovoltaic power systems, etc.

As for sales, in the current consolidated fiscal year, we recorded sales of 533 million yen and segment profit of 155 million yen (sales of 250 million yen and segment profit of 73 million yen in the previous consolidated fiscal year).

(Other)

For others, mainly as real estate lease business, we lease condominiums, etc., owned by the Company.

In the current consolidated fiscal year, we recorded sales of 50 million yen and segment profit of 20 million yen (sales of 62 million yen and segment profit of 28 million yen in the previous consolidated fiscal year).

(2) Status of Capital Investment

There was no material capital investment conducted during the current consolidated fiscal year.

(3) Status of Financing

During the current consolidated fiscal year, a total of ¥1,814 million in financing was raised for the renewable energy business including funds for photovoltaic generation facility installation, etc.

(4) Status of Acquisition or Disposal of Stocks and Other Equities or New Share Subscription Rights, etc., of Other Companies

No applicable matter.

(5) Tasks to be addressed

Under the management philosophy with a group slogan: “Challenge & Ambition,” The Company Group shares a future vision from a long-term perspective, under ever-changing economic conditions and challenges creation and maximization of new value.

As specific results, we believe that we have exerted considerable effect by partly promoting formation of a business portfolio that can respond to changing economic conditions from the former approach of the single business of condominium sales. By doing so, we aim at further improvement in corporate value by implementing the following measures in response to the challenges facing each department.

[1] Expansion of business fields of the Company

- A. In the conventional condominium sales business approach in the Tokyo metropolitan area, it became difficult to secure profits due to high construction costs and soaring land prices. Therefore, not only by carefully selecting land to be acquired, but also through diversification of acquisition methods, we aim at securing stable sources of profit. Not only in the conventional condominium sales business, but also by promoting the expansion of fields of the extensive real estate business, we aim to secure profits in the future.
- B. As for the overseas real estate business, we conduct joint investments in condominium development projects and supply funds for independent housing sales projects, etc. Condominium development projects have steadily progressed and have achieved certain results, securing a rate of return and profit far exceeding industry-wide domestic real estate development projects. On the other hand, in the independent housing sales project, as we intend to record an allowance for doubtful accounts for some independent housing sales projects, we will strengthen our risk management through a collaborative effort with local partners.
- C. As for the renewable energy business, projects that have begun to sell electricity in the photovoltaic power generation business have expanded and we continue to

commercialize our business by promoting development of new projects. On the other hand, considering the fact that the electricity purchase price in the photovoltaic power generation business has lowered, it is becoming difficult to develop projects as previously. In order to respond to such situations and expand the renewable energy business, we recently launched a biomass related business and in April 2018, we executed a shareholder agreement to construct a biomass fuel (wood pellet) manufacturing plant in Russia, targeting completion of the plant in the Autumn of 2019. We believe these businesses have potential for future growth, but taking into consideration that they are new businesses as well as overseas projects, an advanced level of risk management is imperative. Therefore, we carry out business development proactively and adopt a well-defined approach based on professional knowledge in each field.

[2] Tasks of group companies

- A. As for the custom-built home business, we will strengthen orders received for two-family housing, the inherent strength of SASAKI-HOUSE and aim at increasing profitability through development of products, utilizing the local features of Yamagata.
- B. As for the investment advisory business, in connection with the Prospect Japan Fund Limited becoming a subsidiary in July 2017, the business category has changed in scope transforming from a stock investment management business that managed traditional client funds in Japanese stocks to proprietary (own-account) management. We will continue to strengthen the various operations mainly related to our overseas business which we have traditionally developed in our company group and aim at strengthening the internal management system.
- C. As for the construction business, utilizing the excellent technology and experience that leads the industry, mainly in propulsion construction, we will further strengthen our competitiveness both in Japan and overseas, aiming at receiving more highly lucrative orders.

(6) Changes in Status of Assets and Loss and Profit

[1] Changes in status of assets and loss and profit of the corporate group

(Unit: Thousand yen)

Category \ Term	114th Term (FY ended March 31, 2015)	115th Term (FY ended March 31, 2016)	116th Term (FY ended March 31, 2017)	117th Term (FY ended March 31, 2018) (Current Consolidated Fiscal Year)
Sales	16,621,050	16,724,251	14,143,071	11,927,587
Operating profit or loss (Δ)	958,600	386,461	Δ43,869	Δ1,354,427
Ordinary profit or loss (Δ)	1,033,254	273,251	516,457	Δ909,040
Net profit attributable to owners of the parent	816,089	7,458	488,588	1,720,037
Net profit per share	7 yen 11 sen	0 yen 05 sen	2 yen 88 sen	5 yen 17 sen
Total assets	20,816,330	24,447,892	27,368,038	40,396,840
Net assets	9,984,310	12,209,222	12,489,433	25,650,456
Net assets per share	68 yen 70 sen	65 yen 96 sen	67 yen 77 sen	60 yen 98 sen

(Note) “Net profit per share” is calculated by the average number of shares during the year and “Net assets per share” is calculated by the number of shares issued at the end of the year. In this regard, the average number of shares during the year and the number of shares issued at the end of the year are calculated by excluding the number of treasury stocks.

[2] Changes in status of assets and loss and profit of the Company

(Unit: Thousand yen)

Category \ Term	114th Term (FY ended March 31, 2015)	115th Term (FY ended March 31, 2016)	116th Term (FY ended March 31, 2017)	117th Term (FY ended March 31, 2018) (Current Consolidated Fiscal Year)
Sales	5,785,479	7,351,548	6,565,701	5,103,662
Operating profit or loss (Δ)	84,996	77,813	Δ96,371	Δ1,123,672
Ordinary profit or loss (Δ)	375,117	142,072	643,691	Δ299,823
Net profit or loss (Δ)	150,996	88,615	670,270	Δ179,660
Net profit per share or net loss per share (Δ)	1 yen 32 sen	0 yen 56 sen	3 yen 95 sen	Δ0 yen 54 sen
Total assets	13,341,490	15,155,831	15,306,559	32,654,226
Net assets	8,720,986	10,980,829	11,493,053	25,828,396
Net assets per share	60 yen 57 sen	60 yen 11 sen	63 yen 11 sen	57 yen 98 sen

(Note) “Net profit per share” is calculated by the average number of shares during the year and “Net assets per share” is calculated by the number of shares issued at the end of the year. In this regard, the average number of shares during the year and the number of shares issued at the end of the year are calculated by excluding the number of treasury stocks.

(7) Major Business Line (As of March 31, 2018)

The Company Group mainly carries on the following businesses.

[1] Real Estate Sales Business, Condominium Sales Business

We engage in construction and sales of “GRO-BEL Condominium” developed by the Company, mainly in the Tokyo metropolitan area.

[2] Real Estate Sales Business, Land and Buildings

We focus our sales on residential land and detached homes as well as individual buildings, etc.

[3] Real Estate Sales Business, Custom-Built Homes

We engage in contract construction and reform construction for detached homes, etc., mainly in Yamagata Prefecture as a business area.

[4] Asset Management Business

We engage in the research and management business of Japanese stocks, real estate investment advisory agency business and real estate investments.

[5] Construction Business

We conduct propulsion construction and pre-stressed concrete (PC) construction, etc.

[6] Renewable Energy Business

We conduct sales of electricity generated by photovoltaic power, development of power plants and biomass related business, etc.

(8) Major Business Offices (As of March 31, 2018)

(Head Office of the Company)

Head Office: Shibuya-ku, Tokyo

(Head Offices of Subsidiaries)

SASAKI-HOUSE CO., LTD.

Head Office: Yamagata-shi, Yamagata

Prospect Asset Management, Inc.

Head Office: Hawaii, USA

Prospect Asset Management (Channel Islands) Ltd.

Head Office: British Channel Islands

KIDOH CONSTRUCTION CO., LTD.

Head Office: Fukushima-ku, Osaka-shi, Osaka

Prospect Energy Management Co., Ltd.

Head Office: Shibuya-ku, Tokyo

The Prospect Japan Fund Limited

Head Office: British Channel Islands

(9) Status of Employees (As of March 31, 2018)

[1] Status of employees of the corporate group

Number of employees	Increase/decrease from the end of the previous consolidated fiscal year
188	Increased by 6

[2] Status of employees of the Company

Number of employees	Increase/decrease from the end of the previous fiscal year	Average age (years old)	Average years of service
41	Increased by 1	46 years and 7 months	12 years and 8 months

(Note) Number of employees indicates regular employees and does not include temporary workers.

(10) Significant Status of Parent Company and Subsidiaries

(Status of parent company)

No applicable matter.

(Status of subsidiaries)

Company name	Capital	Voting rights ratio	Business line
SASAKI-HOUSE CO., LTD.	80 million yen	100.0%	Contract construction and reform construction for detached homes
Prospect Asset Management, Inc.	1,301 thousand USD	100.0%	Japanese stock research, real estate investment advisory agency, and real estate investments, etc.
Prospect Asset Management (Chanel Islands) Limited	15 thousand USD	100.0%	Investment advisory
KIDOH CONSTRUCTION CO., LTD.	83 million yen	94.9%	Propulsion construction and pre-stressed concrete (PC) construction, etc.
Prospect Energy Management Co., LTD.	10 million yen	100.0%	Advisory agency and contracting of business concerning Renewable Energy Business, etc.
The Prospect Japan Fund Limited	92 thousand USD	100.0%	Investment, etc., in Japanese stocks

(11) Status of Major Lenders (As of March 31, 2018)

(Unit: Thousand yen)

Lender	Borrowings outstanding
Resona Bank, Limited	2,641,723
Shizuoka Chuo Bank, Ltd.	2,532,675
ORIX Bank Corporation	1,041,180
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	563,100
Mizuho Bank, Ltd.	543,984

(Note) The tradename of The Bank of Tokyo-Mitsubishi UFJ Ltd. has changed to MUFG Bank, Ltd. as of April 1, 2018.

2. Status of Stocks of the Company (As of March 31, 2018)

- (1) Number of Shares to be Issued 690,000,000 shares
- (2) Number of Shares Issued 435,992,628 shares
(including treasury stock: 2,779,484 shares)
- (3) Number of Shareholders 22,115

(4) Large Shareholders (Top 10)

Name of shareholder	Number of shares held	Stockholding ratio
	Shares	%
Clearstream Banking S.A.	10,277,544	2.37
Japan Securities Finance Co., Ltd.	7,639,000	1.76
State Street Bank and Trust Company 505103	7,382,499	1.70
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	6,994,000	1.61
SBI SECURITIES Co., Ltd.	5,383,543	1.24
Euroclear Bank SA/NV	5,192,188	1.20
RBC IST-OMNIBUS 15.315 NON LENDING - CLIENT ACCOUNT	4,945,794	1.14
BNYMSANV RE BNYMSANVLON RE MITON GLOBAL OPPORTUNITIES PLC	4,550,000	1.05
JP Morgan Securities Japan Co., Ltd.	4,202,257	0.97
GMO CLICK Securities, Inc.	3,950,000	0.91

- (Note) 1 Shareholding ratio is shown by rounding to the nearest 2nd decimal point.
2 Shareholding ratio is calculated by excluding treasury stocks.

3. Status of New Share Subscription Rights, etc., of the Company

(1) Status of New Share Subscription Rights Issued as Consideration for Execution of Duties Held by the Officers of the Company at the End of the Current Business Year

	1st New Share Subscription Rights	2nd New Share Subscription Rights	4th New Share Subscription Rights	
Date of resolution of issuance	May 29, 2013	October 18, 2013	December 16, 2015	
Number of new share subscription rights	1,181,000	2,800,000	2,047	
Class and number of shares subject to new share subscription rights	Common stock: 1,181,000 shares (1 share per new share subscription right)	Common stock: 2,800,000 shares (1 share per new share subscription right)	Common stock: 2,047,000 shares (1,000 share per new share subscription right)	
Paid-in amount of new share subscription rights	Payment is not required in exchange for new share subscription rights	Payment is not required in exchange for new share subscription rights	Payment is not required in exchange for new share subscription rights	
Value of the property contributed in exercising the new share subscription right	56 yen per new share subscription right (56 yen per share)	55 yen per new share subscription right (55 yen per share)	48,000 yen per new share subscription right (48 yen per share)	
Period of exercising rights	From August 1, 2013 to January 26, 2021	From October 19, 2015 to October 18, 2023	From December 17, 2017 to December 16, 2025	
Conditions for exercise	(Note) 1	(Note) 2	(Note) 3	
Status of holdings by officers	Directors (except for Outside Directors)	Number of new share subscription rights: 1,181,000 Number of subject shares: 1,181,000 shares Number of holding persons: 1 person	Number of new share subscription rights: 1,900,000 Number of subject shares: 1,900,000 shares Number of holding persons: 2	Number of new share subscription rights: 1,644 Number of subject shares: 1,644,000 shares Number of holding persons: 2
	Outside Directors	Number of new share subscription rights: --- Number of subject shares: --- shares Number of holding persons: ---	Number of new share subscription rights: 400,000 Number of subject shares: 400,000 shares Number of holding persons: 1	Number of new share subscription rights: 403 Number of subject shares: 403,000 shares Number of holding persons: 1
	Auditors	Number of new share subscription rights: --- Number of subject shares: --- shares Number of holding persons: ---	Number of new share subscription rights: 500,000 Number of subject shares: 500,000 shares Number of holding persons: 3	Number of new share subscription rights: --- Number of subject shares: --- shares Number of holding persons: ---

(Note) 1. [1] If the total outstanding shares of the Company exceed the number of shares to be issued at that time by exercising new share subscription rights, exercise of the new share subscription rights, may not be made.

[2] Partial exercise of each New Share Subscription Right per share may not be made.

[3] In a case where a New Share Subscription Holder died, the heirs may not inherit the New Share Subscription Rights.

- [4] Pledge and any other disposal of the New Share Subscription Rights may not be made.
- [5] Any other conditions for exercise of new share subscription rights shall be in accordance with the “New Share Subscription Rights Allotment Agreement” executed between the Company and the New Share Subscription Right Holders.
- 2. [1] New Share Subscription Right Holders must be in positions of Director of the Company or Auditor of the Company at the time of exercising rights; except in a case where Director or Auditor resigned due to expiration of the term and where there are any other due reasons.
- [2] Any other conditions for exercise of new share subscription rights shall be in accordance with the “New Share Subscription Rights Allotment Agreement” executed between the Company and the New Share Subscription Right Holders based on the resolution of the board of directors.
- 3. [1] In a case where a New Share Subscription Right Holder lost any of the status of a Director, an Auditor, an adviser or an employee of the Company or the subsidiaries of the Company, the person may not exercise the New Share Subscription Rights thereafter; except for resignation due to expiration of the term, retirement due to age limit or due to any reasons on the side of the Company.
- [2] Heirs to the New Share Subscription Right Holder may not exercise the New Share Subscription Rights.
- [3] If the total number of outstanding shares of the Company exceeds the number of shares at that time by exercise of the New Share Subscription Rights, the New Share Subscription Rights may not be exercised.
- [4] Each of the New Share Subscription Rights may not be exercised in a less-than-one unit.
- 4. By issuance of common stock of the Company as of July 28, 2017, adjusted “amount of properties contributed in exercise of new share subscription rights” are stated.

(2) Status of New Share Subscription Rights Issued to Employees, etc., as Consideration For Execution of Duties during the Current Business Year

No applicable matter.

(3) Other Status of New Share Subscription Rights, etc.

**3rd New Share Subscription Right issued
based on the resolution of the board of directors held on November 17, 2015**

Total number of new share subscription rights	1,440
Class and number of shares subject to new share subscription rights	Common stock: 144,000,000 shares (100,000 shares per new share subscription right)
Paid-in amount of new share subscription rights	¥200,000 per new share subscription right
Payment date of new share subscription rights	December 21, 2015
Value of the property contributed in exercise of new share subscription rights	¥54 per share
Period of exercise of new share subscription rights	From December 21, 2015 to December 20, 2020 (if the previous day falls on a bank holiday, to on the immediate preceding bank business day).

Issue price and capitalized amount where shares are issued by exercise of new share subscription rights	<p>(1) Issue price of shares where shares are issued by exercise of new share subscription rights Issue price of the common stocks of the Company issued by exercise of New Share Subscription Rights shall be the amount dividing the amount obtained by adding the total paid-in amount of New Share Subscription Rights related to request for exercise to the total amount of the property contributed in exercise of New Share Subscription Rights by the number of subject shares.</p> <p>(2) Increased capital and capital reserve where shares are issued by exercise of new share subscription rights Where shares are issued by exercise of New Share Subscription Rights, the amount of increased capital shall be the amount equal to 1/2 of the limit for the increase in capital, etc., calculated in accordance with the Company Accounting Regulations (in a case where a fraction less than one (1) yen accrues after calculation, the fraction shall be rounded up) and the amount of increased capital reserve shall be the amount reducing the increased capital from the limit for the increase in capital, etc.</p>
Conditions for exercise of new share subscription rights	Partial exercise of the New Share Subscription Rights may not be made.
Person to be allocated	By a third party allotment, the total amount was allocated to PJF.

(Note) 1. Number of new share subscription rights decreased by 351 as of March 31, 2018 from the time of issuance due to the exercise of rights.

2. “Number of shares subject to new share subscription rights” and the “Value of the property contributed in exercise of new share subscription rights” have been adjusted as follows by the issuance of common stock of the Company as of July 28, 2017.

- Number of shares subject to new share subscription rights: 109,756 per unit

- Value of the property contributed in exercise of new share subscription rights: ¥49.2 per share

4. Status of Officers of the Company

(1) Status of Directors and Auditors (as of March 31, 2018)

Position	Name	Status of responsibilities and important concurrent positions of officers
Representative Director, President	Curtis Freeze	Group CEO Prospect Asset Management, Inc., CIO
Representative Director, Managing Director	Masato Tabata	In charge of administration department
Director	Dominique Henderson	Bendigo Partners, Partner Bendigo Co., Ltd., Representative Director, President Akatsuki Corp., Director TradeIt Japan <i>Godokaisha</i> , Representative Director
Full-time Auditor	Akio Tsukishima	
Auditor	Yuki Ichikawa	Attorney, Katitas Co., Ltd., Outside Auditor
Auditor	Thomas R. Zengage	Pacific Communicators, Inc., Representative Investor Impact, Inc., Representative Director, President

- (Note) 1. Director, Mr. Dominique Henderson is Outside Director.
2. Three (3) persons of Auditors, Mr. Akio Tsukishima, Mr. Yuki Ichikawa and Mr. Thomas R. Zengage are Outside Auditors.
3. Four persons of Director, Mr. Dominique Henderson and Auditors, Mr. Akio Tsukishima, Mr. Yuki Ichikawa and Mr. Thomas R. Zengage have been designated as independent officers who are not likely to cause any conflict of interest with shareholders requiring designation by the Tokyo Stock Exchange and it has been so notified with the Tokyo Stock Exchange.
4. Auditor, Mr. Akio Tsukishima has the qualification of tax attorney and Auditor, Mr. Yuki Ichikawa has the qualification of attorney, and each of them has reasonable knowledge of finance, accounting and laws as professionals of such fields.

(2) Amount of Compensation, etc., for Directors and Auditors in the Current Business Year

Category	Number of persons paid	Amount of compensation
Directors	Number of Directors/Auditors 3	Thousand yen 887,274
(Out of which, Outside Director)	(1)	(12,597)
Auditors	3	14,280
(Out of which, Outside Auditors)	(3)	(14,280)
Total	6	901,554
(Out of which, Outside Officers)	(4)	(26,877)

- (Note) 1. In the total amount of compensation, etc., above, the following amount is included as the amount recorded for expenses in the current business year for new share subscription rights allocated as stock options compensation.
- Three (3) Directors: ¥32,994 thousand (out of which one Outside Director: ¥2,997 thousand)
2. In the total amount of compensation, etc., above, the following amount is included, which was recorded as reserve for officers' bonuses as officers' bonuses.
- Two (2) Directors: ¥717,000 thousand
3. In the total amount of compensation, etc., above, retirement benefits for officers of ¥41,280 thousand are included as term expenses.

(3) Matters concerning Outside Officers

[1] Relationship between significant corporations where concurrent positions by officers are held

Category	Name	Name of the company where concurrent positions by officers are held	Details of concurrently holding office	Relationship with other corporations, etc.
Director	Dominique Henderson	Bendigo Partners	Partner	We have no material transactions or any other relationship.
		Bendigo Co., Ltd.	Representative Director, President	We have no material transactions or any other relationship.
		TradeIt Japan <i>Godokai</i> sha	Representative Director	We have no material transactions or any other relationship.
Auditor	Akio Tsukishima			
Auditor	Yuki Ichikawa	Katitas Co., Ltd.	Outside Auditor	We have no material transactions or any other relationship.
Auditor	Thomas R. Zengage	Pacific Communicators, Inc.	Representative	We have no material transactions or any other relationship.

		Investor Impact, Inc.	Representative Director, President	We have no material transactions or any other relationship.
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[2] Relationship between a relative within the third degree of kinship and the Company or a business operator having a specific relationship with the Company

No matter to be stated.

[3] Status of major activities of outside officers

Category	Name	Status of major activities
Director	Dominique Henderson	Out of 19 meetings of the board of directors' meetings held during the current business year, attended 18 meetings and stated opinions from time to time necessary to ensure validity and appropriateness of decision-making of the board of directors.
Auditor	Akio Tsukishima	Attended all the 19 board of directors' meetings held during the current business year and making full use of extensive experience and wide-ranging knowledge cultivated in the financial and real estate industries, etc., and stated opinions from time to time necessary to ensure validity and appropriateness of decision-making at material meetings including board of directors' meetings and management committees, etc. Attended all the 12 board of auditors' meetings held during the current business year and exchanged opinions on the audit results, and had consultations, etc., on material matters concerning audit.
Auditor	Yuki Ichikawa	Attended all the 19 board of directors' meetings held during the current business year and stated opinions from a professional viewpoint as an attorney from time to time necessary to ensure validity and appropriateness of decision-making of the board of directors. Attended all the 12 board of auditors' meetings held during the current business year and exchanged opinions on the audit results, and had consultations, etc., on material matters concerning audit.
Auditor	Thomas R. Zengage	Attended all the 19 board of directors' meetings held during the current business year and stated opinions from a professional viewpoint mainly from the IR/CSR consulting industry from time to time necessary to ensure validity and appropriateness of decision-making of the board of directors. Attended all the 12 board of auditors' meetings held during the current business year and exchanged opinions on the audit results, and had consultations, etc., on the material matters concerning audit.

[4] Outline of the details of Liability Limitation Agreement

The Company, the Outside Director and each of Outside Auditors executed the agreements to limit the damage liabilities provided for in the Companies Act, Article 423, paragraph 1 under the Companies Act, Article 427, paragraph 1.

The Outside Director and each of Outside Auditors of the Company shall be liable for the damages up to the minimum liability amount provided for in the Companies Act, Article 425, paragraph 1 for the liabilities under the Companies Act, Article 423, paragraph 1.

[5] Amount of compensation, etc., received from the parent or subsidiaries of the parent for the officers in the current term

No matter to be stated.

5. Status of Accounting Auditor

(1) Name of Accounting Auditor

Audit Firm HIBISCUS

(2) Amount of Compensation, etc., for Accounting Auditor in the Current Consolidated Fiscal Year

Amount of compensation, etc., for Accounting Auditor in the current consolidated fiscal year	31,000 thousand yen
Amount of compensation, etc., for the engagement provided for in the Certified Public Accountant Act (Act No. 103 of 1948), Article 2, paragraph 1	
Total amount of money and any other proprietary interest to be paid by the Company and subsidiaries	31,000 thousand yen

- (Note) 1. In the audit agreement between the Company and Accounting Auditor, the amount for audit under the Companies Act and audit compensation, etc., under the Financial Instruments and Exchange Act are not clearly separated and they cannot be separated in fact, in the amount of compensation, etc., for Accounting Auditor in the current consolidated fiscal year, the total amount is stated.
2. The board of auditors made a decision to approve the compensation, etc., for Accounting Auditor after conducting necessary review of the details of the audit plan of Accounting Auditor, the status of performance of accounting audit and whether the grounds for calculating, etc., the estimation of compensation are appropriate.
 3. Out of the important subsidiaries of the Company, Prospect Asset Management, Inc. and Prospect Asset Management (Channel Islands) Ltd. receive audits by a public certified accountant or audit corporation other than Accounting Auditor of the Company.

(3) Policy for Determination of Dismissal or No-reappointment

[1] Resolution method

If it fell under any of the specific events set forth below, it shall be referred to the general meeting of shareholders; provided, however, that in the case of [2] A. b. through d., where a resolution of dismissal of the board of auditors was adopted, it shall be reported to the general meeting of shareholders.

[2] Specific events

- A. Dismissal
 - a. In the event that Accounting Auditor no longer has the statutory qualification.
 - b. In the event that Accounting Auditor breached the official obligations or failed to perform its duties.
 - c. In the event that Accounting Auditor committed any act inappropriate as an Accounting Auditor.
 - d. If Accounting Auditor had difficulty in execution of duties or cannot execute.
 - e. In the event that the quality of audit was recognized to have significantly deteriorated and it was determined that Accounting Auditor could not be expected

to execute duties properly.

f. In the event that any event similar to the above was proved.

B. No-reappointment

a. In the event that it was recognized as there was material defect or fault in the system to ensure proper execution of duties of Accounting Auditor.

b. Continuous years of audit became long, and there was the possibility of material doubt about independence of Accounting Auditor; provided, however, that we will carefully consider, taking into account the interruption of knowledge and experience, cost and practical difficulties, etc., in connection with replacement.

c. In the event that the basic manner, etc., of management of the Company or Accounting Auditor changed and it was recognized that it would be unreasonable to reappoint the Accounting Auditor.

d. Otherwise, any events similar to the above were proved.

6. System and Policy of the Company

(1) System to Ensure Proper Operations

[1] System to ensure that execution of duties of Directors complies with the laws and the Articles of Incorporation

A. In the management philosophy, the direction to be aimed at by the Company is clarified and strict practices of compliance are provided in the code of conduct.

B. Directors execute their duties based on management organization and division of duties determined by the board of directors.

C. Directors report to the board of directors the status of execution of duties at least once every three (3) months.

D. By keeping Outside Directors, the supervising function of execution of duties of the Directors is maintained and improved.

E. Transactions of conflict of interest and unusual transactions are determined by the board of directors and reported to the board of auditors as necessary.

[2] System for retention and management of information of execution of duties of the Directors

Important documents are appropriately retained and managed by determining the retention period under internal regulations.

[3] Regulations and any other system for management of risk of loss

A. By the risk management regulations, operational risks at each department (including subsidiaries) are identified, analyzed and managed by market risk, business risk and disaster risk, etc., and General Affairs Department administers the management method, etc., through reports from the administered departments and monitoring.

- B. General Affairs Department Manager regularly and as necessary reports to the President and the board of auditors the information on risk management and makes proposals for improvement, etc.
- [4] System to ensure that execution of duties of the Directors is efficiently made
- A. As for the material matters concerning management which affects the Company and the entire Company Group, the management system of deliberation and decision at the management committee, comprised of Managing Directors and Executive Officers, etc., is established.
 - B. Division of duties and functional authorities are provided for in the internal regulations and a system to properly and efficiently execute the duties of Directors determined by the board of directors is established.
- [5] System to ensure that execution of duties of employees complies with the laws and the Articles of Incorporation
- A. In the management philosophy, the direction to be aimed at by the Company is clarified and strict practices of compliance are provided in the code of conduct.
 - B. In order to ensure the proper operations, General Affairs Department promotes compliance and risk management and Audit Office conducts monitoring of the status of operation of internal control.
 - C. Clarify the guidelines for employees to take actions in compliance with the management philosophy, internal regulations, the laws and the Articles of Incorporation and social norms, etc., by providing compliance training and distribution of the compliance manual, etc.
 - D. The compliance contact is established in collaboration with outside attorneys and the whistleblowing system has been constructed in a case where employees discovered acts in breach of internal regulations, laws, Articles of Incorporation and social norms, etc., and efforts are made for appropriate operation thereof and prevention of doubtful acts regarding compliance.
- [6] System to ensure the proper operations of the Company and the corporate group, comprised of the subsidiaries of the Company
- A. Establish the regulations for management of affiliated companies and conduct appropriate management such as checking the details of transactions of subsidiaries and properly understanding the details of business.
 - B. Dispatch Directors and Auditors of subsidiaries from the Company depending on situations and conduct monitoring and supervision of the status of execution of operations at subsidiaries.
 - C. Auditors and internal audit department of the Company conducts an audit of operations of subsidiaries as necessary.

- D. The Company receives regular reports on the details of operations from subsidiaries, while respecting the autonomy of subsidiaries and determines the material matters through prior consultations on the details of operations.
- [7] Matters concerning employees who are to assist duties of Auditors
- If it is necessary to execute the duties, Auditors may delegate investigations to the employees of Audit Office and request a report from them.
- [8] Matters concerning Independence of the employees under the preceding item from Directors
- Appointment, dismissal and relocation of important employees of Audit Office are made, respecting the opinions of the board of auditors and efforts are made to ensure the independence of the employees and effectiveness of instructions of Auditors.
- [9] System for Directors and employees to report to Auditors and other system for reporting to Auditors
- A. When Directors and employees of the Company and subsidiaries discovered facts of material breach of the laws and the Articles of Incorporation and wrongful acts or facts that might adversely affect the Company in relation to execution of duties, they immediately report to the board of auditors.
 - B. When the details of whistleblowing, which were made using the Compliance Consultation Contact, might materially damage operations or assets, such facts are reported to the board of auditors without delay.
 - C. Any person who gave a report of breach of laws and wrongful acts by the Company and subsidiaries is not treated unfavorably by reason of the whistleblowing.
 - D. In a case where Directors and employees of the Company and subsidiaries are requested to report the status of execution of operations by the board of auditors, they promptly make reports.
- [10] Other system for ensuring that audit of Auditors are effectively conducted
- A. Standing Auditor attends the management committee and any other important meetings and states opinions as necessary. Important minutes and request forms for approval are forwarded to Auditors as needed.
 - B. Directors and employees of the Company and subsidiaries report to the board of auditors the monthly status of business and the quarterly status of closing as necessary and are heard by the board of auditors.
 - C. In a case where the details of whistleblowing made by using the Compliance Consultation Contact are related to accounting, internal control of accounting and audit, they may be directly reported to Auditors.
 - D. Audit Office Head reports to the board of auditors the internal audit plan and the

results of audit.

- E. The board of auditors receives explanations about the audit plan from Accounting Auditor and may hear the status of audit from the Accounting Auditor as necessary.
- F. In a case where Auditor requested payment of the expenses for execution of duties, the expenses are borne, except as the expenses were recognized as unnecessary for execution of duties of the Auditor.

[11] Basic idea and system for exclusion of antisocial force

- A. The Company and subsidiaries basically shut out any relationships with antisocial force, following the “Officers and Employees Ethical Code of Conduct” and the “Compliance Manual” and make them thoroughly understood by the officers and employees.
- B. As for responses to antisocial force, close cooperation with the police and outside organizations is kept and the system to prepare for unexpected situations is established.

(2) Outline of the Status of Operation of the System to Ensure Proper Operations

The Company and subsidiaries, in accordance with the Financial Instruments and Exchange Act, evaluate the status of preparation and operation of internal control every term and conduct an audit of the appropriateness by the Outside Auditor. For the purpose of maintaining and strengthening the control level, Audit Office conducts an audit of the Company and subsidiaries every term and makes reports to the management and the board of directors and the board of auditors as necessary.

(3) Policy for Determination of Dividend, etc., of Surplus

The Company puts return of profits to shareholders as a top priority of management. We implement our basic policy to ensure maintaining of a stable and continuous dividend and paying a dividend, also taking into account business results, while securing internal reserves required for stable growth of the Company and to respond to changes in the business environment.

In this regard, the annual dividend for the current consolidated fiscal year will be ¥4 by increasing ¥1 per share, as compared with ¥3 per share in the previous fiscal year.

(Note) The amount stated in the Business Report is indicated by rounding down the amount less than the unit of indication.

Consolidated Balance Sheet

(As of March 31, 2018)

(Unit: Thousand yen)

Item	Amount	Item	Amount
Assets	40,396,840	Liabilities	14,746,383
Current Assets	27,900,558	Current Liabilities	6,737,418
Cash and deposits	10,681,319	Notes and accounts payable	1,024,294
Notes and accounts receivable	481,156	Accrued construction payment	1,038,014
Accounts receivable for completed construction projects	1,008,222	Short-term borrowings	792,900
Accounts receivable for investment advisory fees	2,521	Bonds to be redeemed within a year	43,800
Securities	10,563,962	Current portion of long-term borrowings	1,791,784
Real estate for sale	611,780	Corporate income tax, etc., payable	254,016
Real estate for sale in process	2,580,616	Amount received for uncompleted construction projects	186,669
Real estate for development	640,226	Reserve for bonuses	237,986
Expenses for uncompleted construction projects	76,496	Reserve for officers' bonuses	725,580
Raw materials and stores	12,939	Allowance for compensation for completed construction projects	11,556
Deferred tax assets	247,111	Allowance for construction projects losses	6,300
Other	1,044,265	Deferred tax liabilities	83
Allowance for doubtful accounts	△50,062	Other	624,433
Fixed assets	12,496,282	Fixed Liabilities	8,008,965
Tangible fixed assets	7,675,319	Bonds	147,900
Buildings	724,029	Long-term borrowings	7,007,450
Machinery, equipment and delivery equipment	3,608,734	Deferred tax liabilities	1,437
Tools, furniture and fixtures	37,638	Net defined benefit liabilities	135,947
Land	2,084,909	Reserve for retirement benefits for officers	153,232
Leased assets	3,640	Allowance for compensation for completed construction projects	201,995
Construction in progress	1,216,367	Provision for loss on compensation expenses	11,500
Intangible fixed assets	881,907	Asset retirement obligations	11,187
Goodwill	831,991	Other	338,314
Software	16,319	Net Assets	25,650,456
Other	33,595	Shareholders' equity	26,259,592
Investments and other assets	3,939,056	Capital	11,803,729
Investment securities	114,546	Capital surplus	11,546,845
Contribution	2,669,647	Retained earnings	3,049,406
Long-term loans	946,376	Treasury stock	△140,389
Deferred tax assets	9,226	Accumulated other comprehensive income	156,437
Other	920,107		
Allowance for doubtful accounts	△720,848		

		Foreign currency translation adjustments	156,437
		New share subscription rights	Δ975,219
		Non-controlling interest	209,646
Total Assets	40,396,840	Total Liabilities and Net Assets	40,396,840

Consolidated Profit and Loss Statement

(From April 1, 2017
to March 31, 2018)

(Unit: Thousand yen)

Item	Amount	
Sales		11,927,587
Cost of Goods Sold		9,345,211
Gross Profit on Sales		2,582,375
Selling, General and Administrative Expenses		3,936,803
Operating loss		1,354,427
Non-operating Income		
Interest income	309,707	
Dividend income	1,101	
Profits on sale of securities	3,017	
Gain on investments in capital	706,112	
Valuation profit on securities	6,622	
Clerical affairs fee received	4,550	
Reversal of selling expenses	393	
Other non-operating income	40,589	1,072,093
Non-operating Expenses		
Interest expenses	319,771	
Bond issuance cost, etc.	1,225	
Borrowing fees	61,084	
Foreign currency exchange loss	95,153	
Transfer to allowance for doubtful accounts	78,151	
Other non-operating expenses	71,319	626,706
Ordinary loss		909,040
Extraordinary Profits		
Profit on sale of fixed assets	11,966	
Profit on sale of investment in capital of subsidiaries	569,177	
Profit on reversal of new share subscription rights	8,320	
Profit on negative goodwill	2,420,250	
Reversal of provision for loss on litigation	4,871	3,014,586
Extraordinary Losses		
Retirement loss on fixed assets	1,267	1,267
Net profit before taxes, etc., before dividends distribution from silent partnership		2,104,277
Dividends distribution from silent partnership	3,164	3,164
Net loss before taxes, etc.		2,101,113
Corporate income tax, resident tax and business tax payable	238,911	
Adjustment of corporate income tax, etc.	129,841	368,753
Net profit		1,732,359
Net profit attributable to non-controlling interests		12,322
Net profit attributable to owners of the parent		1,720,037

**Consolidated Statements of Changes in
Shareholders' Equity and Other Net Assets**

(From April 1, 2017
to March 31, 2018)

(Unit: Thousand yen)

	Shareholders' equity				
	Capital	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at the beginning of the current consolidated fiscal year	4,257,256	5,480,641	1,838,718	△140,020	11,436,596
Changes during the current consolidated fiscal year					
Issue of new shares	7,546,473	6,186,627			13,733,101
Dividends of surplus			△509,350		△509,350
Net profit attributable to owners of the parent			1,720,037		1,720,037
Acquisition of treasury stock				△369	△369
Disposal of treasury stock		△120,423			△120,423
Changes in items other than shareholders' equity during the current consolidated fiscal year (net)					
Total changes during the current consolidated fiscal year	7,546,473	6,066,204	1,210,687	△369	14,822,996
Balance at the end of the current consolidated fiscal year	11,803,729	11,546,845	3,049,406	△140,389	26,259,592

	Accumulated other comprehensive income		New share subscription rights	Non-controlling interest	Total net assets
	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at the beginning of the current consolidated fiscal year	69,318	69,318	778,640	204,878	12,489,433
Changes during the current consolidated fiscal year					
Issue of new shares		-			13,733,101
Dividends of surplus		-			△509,350
Net profit attributable to owners of the parent		-			1,720,037
Acquisition of treasury stock		-			△369
Disposal of treasury stock		-			△120,423
Changes in items other than shareholders' equity during the current consolidated fiscal year (net)	87,118	87,118	△1,753,860	4,768	△1,661,973
Total changes during the current consolidated fiscal year	87,118	87,118	△1,753,860	4,768	13,161,022
Balance at the end of the current consolidated fiscal year	156,437	156,437	△975,219	209,646	25,650,456

Notes to Consolidated Financial Statements

Notes, etc., to Underlying Material Matters for Preparation of Consolidated Financial Statements

1. Matters concerning the Scope of Consolidation

(1) Number of consolidated subsidiaries: 22 companies

Names of Major Consolidated Subsidiaries

SASAKI-HOUSE CO., LTD.

KIDOH CONSTRUCTION CO., LTD.

Prospect Energy Management Co., Ltd.

Prospect Asset Management, Inc.

From the current consolidated fiscal year, Prospectbiomass Co., Ltd. and the Prospect Japan Fund Limited (hereinafter referred to as "PJF") have been included in the scope of consolidation. Inclusion in the scope of consolidation is due to new establishment of Prospectbiomass Co., Ltd. in the current consolidated fiscal year, and making PJF a wholly-owned subsidiary.

In this regard, *Godokaisha* Prospect Sanmu Higashi, a consolidated subsidiary in the previous consolidated fiscal year, was excluded from the scope of consolidation due to sale thereof.

(2) Names of Major Non-consolidated Subsidiaries, etc.

Names of Non-consolidated Subsidiaries

TAIWAN KIDOH ENGINEERING CO., LTD.

Reasons for exclusion from the scope of consolidation

As the non-consolidated subsidiary is small, and its total assets, sales and net profit/loss (amount corresponding to the interest), etc., do not significantly affect the consolidated financial statements, they are excluded from the scope of consolidation.

2. Matters concerning application of the equity method

(1) Non-consolidated Subsidiaries to which the equity method was applied

No applicable matter.

(2) Non-consolidated Subsidiaries to which the equity method was not applied

Names of Major Companies, etc.

TAIWAN KIDOH ENGINEERING CO., LTD.

Reasons for not applying the equity method

As the impact on the consolidated financial statements is insignificant if it is excluded from the subject of the equity method in terms of net profit/loss (amount corresponding to the interest) and retained earnings (amount corresponding to the interest), etc., and they are not material, it was excluded from the scope of application of the equity method.

3. Matters concerning Business Year, etc., of Consolidated Subsidiaries

Out of the consolidated subsidiaries, the closing date of Prospect Asset Management, Inc. and other five (5) companies is December 31. In preparation of the consolidated financial statements, the financial statements as of the closing date of each company, and

adjustment necessary for consolidation was applied for material transactions that accrued between the closing date.

4. Matters concerning Accounting Policy

(1) Valuation criteria and valuation method of material assets

Securities held for sale and purchase: Market value method (sales cost is calculated by the moving-average method)

Bonds held for maturity: Depreciation cost method (straight-line method)

Other securities

Securities with market value: Valued at market value based on the market price on the last day of the term, etc. (All valuation differences are transferred directly to net assets and sales cost is calculated by the moving-average method.)

Securities without market value: Valued at cost by the moving-average method

Inventories

Real estate for sale, real estate for sale in process, real estate for development and expenses for uncompleted construction projects:

Valued at cost by the specific identification method (The value in the consolidated balance sheet is calculated by writing down the book value due to declined profitability.)

Merchandise, and raw materials and stores:

Valued at cost by the FIFO method (The value in the consolidated balance sheet is calculated by writing down the book value due to declined profitability.)

(2) Depreciation method for important depreciable assets

Tangible fixed assets (except for leased assets):

The fixed percentage method is adopted.

Provided, however, that buildings are mainly valued by the straight-line method.

For buildings, usable years were shortened as a result of the amendment of the taxation system in 1998, but the usable years before the amendment have continuously been applied. To the facilities annexed to buildings and structures, which were acquired on or after April 1, 2016, the straight-line method has been applied.

Major usable years shall be as follows.

Buildings:	6 to 47 years
Machinery, equipment and vehicles:	6 years
Tools, fixing and equipment:	4 to 20 years

Intangible fixed assets (except for leased assets):

For software (for internal use), the straight-line method based on the usable years (5 years) is adopted.

Leased assets:

Leased assets related to finance lease in which the ownership is transferred

The straight-line method is adopted, where the period of a lease is set as the useful life and the salvage value is set at zero.

(3) Treatment of deferred assets

Bond issuance expenses: All amounts are treated as expenses where incurred.

Stock issuance expenses: All amount is treated as expenses where incurred.

New share subscription right issuance expenses:

All amount is treated as expenses where incurred.

(4) Posting standards for important allowances

Allowance for doubtful accounts:

In order to reserve for losses, etc., on monetary claims, etc., the amount calculated at the actual rate of default is charged for normal claims, and a write-down as non-collectible has been charged on the basis of the expected amount of default in each instance for specified claims such as those which present concerns about default.

Reserve for bonuses:

In order to appropriate to payment of bonuses for executive officers and employees, it is recorded based on the expected amount of payment.

Reserve for officers' bonuses:

In order to appropriate to payment of bonuses for officers, it is recorded based on the expected amount of payment.

Allowance for compensation for completed construction projects

In order to prepare for expenses for repair to be conducted free of charge in relation to the completed construction projects, for the construction projects delivered before the end of the current consolidated fiscal year, in addition to the expected amount of compensation based on the previous actual rate, for specific individual construction projects, loss of which can reasonably be estimated, future expected amount for compensation is recorded.

Allowance for construction projects losses:

In order to prepare for losses from construction projects for which orders were received, for the construction projects from which losses are expected to accrue and the amount can be reasonably estimated, the estimated amount is recorded.

Provision for loss on litigation:

In order to prepare for losses related to litigation, etc., losses expected to accrue in the future are estimated and the amount deemed to be necessary is recorded.

Reserve for retirement benefits for officers:

In order to prepare for payment of retirement benefits for officers and executive officers, the amount required to pay at the end of the year is recorded in accordance with the internal regulations.

Provision for loss on compensation expenses:

In order to prepare for payment of future compensation, the expected amount of payment is recorded.

(5) Accounting method of retirement benefits

The Company and consolidated subsidiaries adopt, in calculation of liabilities for net defined benefit liabilities and expenses for retirement benefits, a simplified method recording the amount of voluntary based retirement benefits at the end of the year in relation to retirement benefits as the retirement benefit liabilities. Some group companies have established the defined contribution scheme.

(6) Posting Standards of the Important Profits and Expenses

Posting standards of sales and sales cost related to construction business

To the construction works the certain results of which are recognized for the progress by the end of the current consolidated fiscal year, the standards for progress of works (the cost-to-cost method is applied to the estimate of the work progress rate) and to other works, construction completion standards are applied.

(7) Method of Important Hedge Accounting

[1] Method of Hedge Accounting: For interest rate swaps, special accounting is adopted as it satisfies the requirements for special accounting.

[2] Hedge Means and Hedge Target: Hedge means: Interest rate currency swaps
Hedge target:

Foreign currency long-term borrowing

[3] Hedge Policy: The Company uses interest rate swaps in order to avoid risks from interest rate fluctuations for part of borrowings from financial institutions.

[4] Method of Evaluation of Effectiveness of Hedge: For interest rate swaps, as it satisfies the requirements for special accounting of interest rate swaps, evaluation of effectiveness is omitted.

(8) Method and Period of Depreciation of Goodwill

It is evenly depreciated for 5 to 10 years.

(9) Other Underlying Material Matters for Preparation of the Consolidated Financial Statements

Accounting method of consumption taxes, etc.

Accounting is made exclusive of tax.

Consumption taxes, etc., on inventories, etc., which are not deductible, are accounted for the expenses to be borne during the year.

Notes to Consolidated Balance Sheet

1. Accumulated depreciation of tangible fixed assets	5,013,642 thousand yen
2. Assets for security and secured debt	
Assets provided as security	
Cash and deposits	168,308 thousand yen
Accounts receivable	43,588 thousand yen
Real estate for sale	380,272 thousand yen
Real estate for sale in process	2,580,616 thousand yen
Real estate for development	640,226 thousand yen
Buildings	512,655 thousand yen
Machinery, equipment and delivery equipment	3,538,276 thousand yen
Land	1,661,937 thousand yen
Construction in progress	1,200,196 thousand yen
Other (Intangible fixed assets)	30,000 thousand yen
Liabilities with security for the above	8,918,182 thousand yen

In addition to the above, we have offered for security the stocks of subsidiaries (¥451,124 thousand) and investments in capital (¥3,260 thousand), which were eliminated from consolidation.

In addition, for security of earnest money to the credit guarantee company, we have offered for security the deposited securities of ¥19,500 thousand. We have also deposited securities of ¥10,000 thousand as sales security deposit.

Notes to Consolidated Statement of Changes in Shareholders' Equity

- Number of outstanding shares at the end of the current consolidated fiscal year
Common stock 435,992,628 shares
- Number of treasury stocks at the end of the current consolidated fiscal year
Common stock 2,779,484 shares

3. Matters concerning Dividends

(1) Dividends paid

Resolution	Class of Stock	Total Dividends (thousand yen)	Dividends per Share (yen)	Record Date	Effective Date
Annual general meeting of shareholders on June 28, 2017	Common Stock	509,350	3.00	March 31, 2017	June 29, 2017

- Out of dividends the record date of which belongs to the current consolidated fiscal year, those the effective date of dividends of which is the next consolidated fiscal year.

The Company proposes the matter concerning dividends of common stocks as a proposal for the annual general meeting of shareholders to be held on June 28, 2018.

[1] Total dividends	1,732,852 thousand yen
[2] Dividends per share	4 yen
[3] Record date	March 31, 2018
[4] Effective date	June 29, 2018

In this regard, we expect to appropriate the retained earnings for the dividend resource.

4. Class and number of shares subject to new share subscription rights at the end of the current consolidated fiscal year (except for those the 1st day of the period of exercising rights of which has not arrived.)

Common stock: 139,510,908 shares

Notes to Financial Instruments

1. Matters concerning the Status of Financial Instruments

(1) Policy for Handling Financial Instruments

The Company Group finances necessary funds (mainly borrowings from banks and issuance of bonds) in consideration of the procurement plan of the lands, etc., in the real estate sales business and the capital investment plan in the construction business and renewable energy business, etc. Temporary surplus funds are managed by short-term deposits, etc. We set out a policy of not conducting speculative transactions, and derivatives are used only for avoiding fluctuation risks of borrowings.

(2) Details, Risks and Risk Management System of Financial Instruments

Notes and accounts receivable, which are operating receivables, and accounts receivable for completed construction projects are exposed to credit risks of customers. Operating receivables in foreign currencies, which accrue from overseas business are exposed to foreign currency exchange fluctuation risks. Regarding such risks, we strive to reduce risks by regularly checking the credit status of customer companies and recognizing the outstanding receivables from time to time.

Although part of borrowings is exposed to interest rate fluctuation risks, we use interest rate swaps as means of a hedge. Please refer to the aforementioned notes to consolidated financial statements, "Notes, etc., to Underlying Material Matters for Preparation of Consolidated Financial Statements, 4. Matters concerning Accounting Policy, (7) Method of Important Hedge Accounting" for hedge means, hedge subjects, hedge policy and evaluation method of the effectiveness of a hedge, etc., related to hedge accounting.

Securities are securities held for sale and purchase, bonds held to maturity and stock of the companies having business relationships and each of them is exposed to market price fluctuation risks and credit risks of issuers. However, for bonds held to maturity, as they are Japanese government bonds, credit risk is small, and for stocks, we strive to regularly check the financial conditions of issuers and continue to review the status of holdings.

All of the notes and accounts payable, which are operating payables, and accrued construction payment will become due within a year. Borrowings are made and bonds are issued mainly for financing the business funds for acquisition of lands and capital investment and the repayment date is within 17 years at the longest after the closing date.

The Company manages liquidity risks by the Accounting Department preparing

and updating the financing plan in a timely manner based on reports from each department, etc.

2. Matters concerning Market Value, etc., of Financial Instruments

The amount recorded in the consolidated balance sheet, market value and the difference as of March 31, 2018 are as follows. In this regard, for items it is deemed to be extremely difficult to recognize the market value, the market value is not included in the following table.

(Unit: Thousand yen)

	Amount recorded on the consolidated balance sheet (*1)	Market value (*1)	Difference
(1) Cash and deposits	10,681,319	10,681,319	-
(2) Notes and accounts receivable	481,156	481,156	-
(3) Accounts receivable for completed construction projects	1,008,222	1,008,222	-
(4) Accounts receivable for investment advisory fees	2,521	2,521	-
(5) Securities	10,563,962	10,563,962	-
Total Assets	22,737,181	22,737,181	-
(6) Notes and accounts payable	(1,024,294)	(1,024,294)	-
(7) Accrued construction payment	(1,038,014)	(1,038,014)	-
(8) Short-term borrowings	(792,900)	(792,900)	-
(9) Bonds to be redeemed within a year	(43,800)	(44,113)	(313)
(10) Short-term borrowings	(1,791,784)	(1,796,458)	(4,674)
(11) Bonds	(147,900)	(145,506)	2,393
(12) Long-term borrowings	(7,007,450)	(7,008,023)	(573)
Total Liabilities	(11,846,143)	(11,849,311)	(3,167)
Derivative transactions	-	-	-

(*1) Those which are recorded as liabilities are indicated in parentheses.

(Note 1) Matters concerning calculation method of market values of financial instruments

(1) Cash and deposits, (2) Notes and accounts receivable, (3) Accounts receivable for completed construction projects, and (4) Accounts receivable for investment advisory fees

As these are settled within a short period of time and the market values are similar to the book values, they are recorded at the book values.

(5) Securities

Market values of securities are determined as follows: bonds are according to the prices presented by issuers, stocks are according to the prices on the stock exchange, and investment trusts are according to the published reference prices.

(6) Notes and accounts payable, (7) Accrued construction payment, and (8) Short-term borrowings

As these are settled within a short period of time and the market values are similar to the book values, they are recorded at the book values.

(9) Bonds to be redeemed within a year, (10) Short-term borrowings, (11) Bonds, and (12) Long-term borrowings

For market values of bonds and long-term borrowings, as to those with fixed interest rates, they are calculated by discounting the total amount of principal and interest by the expected interest rate for similar borrowings. As to those with variable interest rates, it is determined by the book value, because it reflects the market interest rate in a short period of time and the creditworthiness of the Company has not significantly changed after drawing down and it is considered to be similar to book value.

Derivative transactions

As the items accounted by special accounting of interest rate swaps are accounted together with long-term borrowings, the subject of a hedge, the market value is stated, included the market price of the long-term borrowings.

(Note 2) Financial instruments whose market value is deemed to be extremely difficult to recognize

(Unit: Thousand yen)

Category	Amount shown on Consolidated Balance Sheet
Contribution	2,669,647
Investment securities (Unlisted shares)	114,546

As these have no market price and it is deemed to be extremely difficult to recognize market values, they are excluded from disclosure of market value.

Notes to Leased Real Estate, etc.

1. Matters concerning Status of Leased Real Estate, etc.

The Company and some subsidiaries hold condominiums, office buildings and warehouses, etc., (including lands) for lease in Tokyo and other areas.

As some of the office buildings for lease are used by some subsidiaries, they are indicated as real estate including the portion used for leased real estate.

2. Matters concerning Market Value of Leased Real Estate, etc.

(Unit: Thousand yen)

	Amount shown on Consolidated Balance Sheet	Market value
Leased Real Estate, etc.	739,179	1,157,368
Real estate including the portion used for leased real estate.	655,862	1,194,347

(Note 1) The amount shown on the consolidated balance sheet is the amount deducting the accumulated depreciation and accumulated impairment losses from the acquisition cost.

(Note 2) Market value at the end of the current consolidated fiscal year is the price calculated by the Company mainly based on the “Fixed Asset Tax Assessment Price.”

Notes to Per Share Information

Net assets per share	60 yen 98 sen
Net profit per share	5 yen 17 sen

Notes to Material Subsequent Events

No applicable matter.

Other Explanatory Notes

Explanatory Notes to Business Combination
Business Combination by acquisition

1. Overview of Business Combination

(1) Name and business line of the acquired company

Name of the acquired company: PJF

Business Line: Corporate-type fund for the purpose of investing in Japanese stocks

(2) Reasons for Business Combination

Investment portfolio of PJF is mainly comprised of companies with growth potential in real estate, finance and construction related industries. The Company believes that it can locate alliances and synergies with PJF investment companies by making PJF a wholly-owned subsidiary, and as necessary, allocate funds gained by the sale of some of the shares held by PJF to advance M&A strategies and investment in the next generation energy business and as a result, accelerate the growth strategy of the Company and realize strengthening of its financial foundation and expansion of its earnings base at dramatically higher levels.

(3) Date of Business Combination

July 28, 2017

(4) Legal Form of Business Combination

Acquisition of shares in consideration for new shares of the Company

(5) Name after Business Combination

No change

(6) Acquired voting rights ratio

100%

(7) Major Reason for determination of the acquired company

As a result of comprehensive consideration of the elements to determine acquisition under the accounting standards for business combination and various factors, the Company determined to acquire the company.

2. Period of business results of the acquired company included in the consolidated financial statements

From July 1, 2017 to December 31, 2017

3. Breakdown by type of acquisition cost and consideration of the acquired company

Consideration for acquisition:

Market price of common stock of the Company: ¥12,005,838 thousand

4. Details and amount of major acquisition related expenses

Compensation and fees, etc., for advisors: ¥760,509 thousand

5. Exchange ratio by class of shares and calculation method and the number of shares issued

(1) Exchange ratio of shares by class

1 share of common stock of PJF: 2.5 shares of common stock of the Company

(2) Calculation method of share exchange ratio

The Company requested a third party calculation organization independent of both companies for calculation of the allocation ratio and it was calculated through consultations between the parties based on the submitted report.

(3) Number of shares issued

230,881,505 shares

6. Amount of accrued profit on negative goodwill and cause for accrual

(1) Amount of accrued negative goodwill

¥2,420,250 thousand

(2) Cause for accrual

As the market price of net assets at the time of business combination exceeded the acquisition cost, the difference is recorded as accrued profit on negative goodwill.

7. Amount of assets accepted and liabilities assumed at the time of business combination and major breakdown

Current Assets	14,653,662 thousand yen
<hr/>	
Total Assets	14,653,662 thousand yen
Current Liabilities	227,573 thousand yen
<hr/>	
Total Liabilities	227,573 thousand yen

(Note) Amounts stated in the consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements are indicated by rounding down the figure less than the indicated unit.

**Certified Copy of
Audit Report of Accounting Auditor on Consolidated Financial Statements**

Audit Report of Independent Auditor

May 11, 2018

To: Board of Directors
Prospect Co., Ltd.

Audit Firm HIBISCUS

Designated Member	Certified Public	
Operating Partner	Accountant	Mitsuyoshi Kogure
Designated Member	Certified Public	
Operating Partner	Accountant	Kohei Morisaki

The Audit Firm conducted an audit of the consolidated financial statements, including the consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements of Prospect Co., Ltd. for the consolidated fiscal year from April 1, 2017 to March 31, 2018 under the Companies Act, Article 444, paragraph 4.

Responsibility of Management for Consolidated Statements

It is the responsibility of management to prepare and properly present consolidated statements in accordance with the corporate accounting standards generally accepted in Japan. This includes improvement and operation of internal control which was determined by management to be necessary for preparing and properly presenting consolidated statements free of material misstatement by fraud or error.

Responsibility of Auditor

It is our responsibility to express our opinions regarding these consolidated statements from an independent position based on the audit conducted by us. We audited in accordance with the audit standards generally accepted in Japan. The audit standards expect us to develop an audit plan and conduct an audit based on the plan in order to obtain a reasonable assurance as to whether material misstatement exists or not in the consolidated statements.

In the audit, procedures are carried out for obtaining audit evidence for the amount and disclosure of the consolidated statements. Audit procedures are selected and applied based on the assessment of risk of material misstatement in the consolidated statements by fraud or error. The objective of an audit is not to express opinions on the validity of internal control, but we review internal control related to preparation and proper presentation of consolidated statements in order to develop appropriate audit procedures corresponding to the situations in conducting risk assessment. The audit also includes a review of the presentation of consolidated statements as a whole, including the assessment of the accounting policy adopted by management and the method of its application and estimate made by management.

We believe we have obtained sufficient and appropriate audit evidence constituting a foundation for expressing our opinions.

Audit Opinions

The Audit Firm recognizes that the above consolidated financial statements fairly represent in every material aspect, conforming to the corporate accounting standards generally accepted in Japan, the status of assets and profit/loss of the corporate group, comprised of Prospect Co., Ltd. and consolidated subsidiaries for the period of the consolidated financial statements.

Interest

There exists no special interest between the Company and this audit corporation or the operating partners to be stated under the provisions of the Certified Public Accountants Law.

Balance Sheet
(As of March 31, 2018)

(Unit: Thousand yen)

Item	Amount	Item	Amount
Assets	32,654,226	Liabilities	6,825,830
Current Assets	10,223,858	Current Liabilities	4,297,809
Cash and deposits	5,288,564	Accrued construction payment	275,061
Accounts receivable	5,711	Short-term borrowings	1,528,900
Securities	148,713	Bonds to be redeemed within a year	14,000
Real estate for sale	555,780	Current portion of long-term borrowings	1,136,246
Real estate for sale in process	2,580,616	Unpaid amount	38,723
Real estate for development	640,226	Accrued expenses	166,680
Prepaid expenses	77,116	Corporate income tax, etc., payable	236,031
Deferred tax assets	166,700	Advances received	13,929
Accounts receivable	118,448	Deposits received	38,327
Advance money	111,461	Reserve for bonuses	135,109
Other	589,052	Reserve for officers' bonuses	713,080
Allowance for doubtful accounts	△58,533	Other	1,720
Fixed assets	22,430,368	Fixed Liabilities	2,528,021
Tangible fixed assets	1,057,556	Bonds	37,000
Buildings	358,958	Long-term borrowings	2,221,970
Vehicles and delivery equipment	4,852	Reserve for retirement allowance	134,792
Machinery, equipment and delivery equipment	1,465	Reserve for retirement benefits for officers	121,299
Land	692,280	Long-term guarantee deposited	2,908
Intangible fixed assets	802,163	Other	10,052
Software	3,754	Net Assets	25,828,396
Goodwill	798,170	Shareholders' equity	25,117,978
Other	237	Capital	11,803,729
Investments and other assets	20,570,648	Capital surplus	13,070,050
Investment securities	101,649	Capital reserve	10,662,094
Stocks of affiliated companies	15,738,840	Other capital surplus	2,407,956
Investments in capital	2,629,679	Retained earnings	384,588
Contribution of affiliated companies	1,418,201	Reserve for retained earnings	83,651
Long-term loans	945,442	Other reserve for retained earnings	300,936
Long-term loans to employees	934	Retained earnings carried forward	300,936
Long-term prepaid expenses	17,795	Treasury stock	△140,389

Guarantee money deposited	20,500	New share subscription rights	710,417
Differed tax assets	2,500		
Other	210,194		
Allowance for doubtful accounts	△515,089		
Total Assets	32,654,226	Total Liabilities and Net Assets	32,654,226

Profit and Loss Statement

(From April 1, 2017
to March 31, 2018)

(Unit: Thousand yen)

Item	Amount	
Sales		5,103,662
Cost of Goods Sold		3,772,857
Gross Profit on Sales		1,330,805
Selling, General and Administrative Expenses		2,454,478
Operating loss		1,123,672
Non-operating Income		
Interest income	124,126	
Dividend income	121,130	
Profit on sale of securities	3,017	
Contribution operating income	706,112	
Valuation profit on securities	6,622	
Clerical affairs fee received	4,550	
Reversal of selling expenses	393	
Miscellaneous revenue	199,579	1,165,532
Non-operating Expenses		
Interest on bond	291	
Interest expenses	81,312	
Borrowing fees	8,502	
Foreign currency exchange loss	95,091	
Transfer to allowance for doubtful accounts	78,151	
Miscellaneous losses	78,332	341,682
Ordinary loss		299,823
Extraordinary Profits		
Profit on sale of fixed assets	10,108	
Profit on sale of investment in capital of subsidiaries	440,883	
Profit on reversal of new share subscription rights	8,320	459,311
Net profit before tax		159,488
Corporate income tax, resident tax and business tax payable	216,349	
Adjustment of corporate income tax, etc.	122,800	339,149
Net loss		179,660

Statements of Changes in Shareholders' Equity and Other Net Assets

(From April 1, 2017
to March 31, 2018)

(Unit: Thousand yen)

	Shareholders' equity						
	Capital	Capital surplus			Retained earnings		
		Capital reserve	Other capital surplus	Total capital surplus	Reserve for retained earnings	Other retained earnings	Total retained earnings
					Retained earnings carried forward		
Balance at the beginning of year	4,257,256	3,115,620	2,407,956	5,523,577	83,651	989,947	1,073,599
Changes during the year							
Issue of new shares	7,546,473	7,546,473		7,546,473			-
Dividends of surplus				-		△509,350	△509,350
Net loss				-		△179,660	△179,660
Acquisition of treasury stock				-			-
Changes in items other than shareholders' equity during the year (net)							
Total changes during the year	7,546,473	7,546,473	-	7,546,473	-	△689,011	△689,011
Balance at the end of year	11,803,729	10,662,094	2,407,956	13,070,050	83,651	300,936	384,588

	Shareholders' equity		New share subscription rights	Total net assets
	Treasury stock	Total shareholders' equity		
Balance at the beginning of year	△140,020	10,714,412	778,640	11,493,053
Changes during the year				
Issue of new shares		15,092,946		15,092,946
Dividends of surplus		△509,350		△509,350
Net loss		△179,660		△179,660
Acquisition of treasury stock	△369	△369		△369
Changes in items other than shareholders' equity during the year (net)			△68,223	△68,223
Total changes during the year	△369	14,403,566	△68,223	14,335,343
Balance at the end of year	△140,389	25,117,978	710,417	25,828,396

Notes to Non-Consolidated Financial Statements

Notes to Important Accounting Policy

1. Valuation criteria and valuation method of assets

(1) Valuation criteria and valuation method of securities

Securities held for sale and purchase:

Market value method (sales cost is calculated by the moving-average method)

Bonds held for maturity: Depreciation cost method (straight-line method)

Stocks of affiliated companies and contribution of affiliated companies:

Valued at cost by the moving-average method

Other securities

Securities without market value: Valued at cost by the moving-average method

(1) Valuation criteria and valuation method of inventories

Real estate for sale, real estate for sale in process, and real estate for development:

Valued at cost by the specific identification method
(The value in the consolidated balance sheet is calculated by writing down the book value due to declined profitability.)

2. Depreciation method for fixed assets

(1) Tangible fixed assets (except for leased assets)

The fixed percentage method is adopted. Provided, however, that buildings which were acquired on or after April 1, 1998 (excluding facilities annexed to buildings and structures) and facilities annexed to buildings and structures which were acquired on or after April 1, 2016, are valued by the straight-line method.

(2) Intangible fixed assets (except for leased assets)

The straight-line method is adopted.

For internal-use software, the straight-line method based on the internal usable years (5 years) is adopted.

Goodwill is evenly depreciated for ten (10) years.

(3) Leased assets

Leased assets related to finance lease in which the ownership is transferred

The straight-line method is adopted, where the period of a lease is set as the useful life and the salvage value is set at zero.

3. Posting standards for allowances

(1) Allowance for doubtful accounts

In order to reserve for losses, etc., on claims such as operating receivables and loans, the amount calculated at the actual rate of default is charged for normal claims, and a write-down as non-collectible has been charged on the basis of the expected amount of default in each instance for specified claims such as those which present concerns about default.

(2) Reserve for bonuses

In order to appropriate to payment of bonuses for executive officers and employees, it is recorded based on the expected amount of payment.

(3) Reserve for officers' bonuses

In order to appropriate to payment of bonuses for officers, it is recorded based on the expected amount of payment.

(4) Reserve for retirement allowance

In order to prepare for payment of retirement benefits of employees, based on the retirement benefits liabilities at the end of the business year by the simplified method, the amount recognized to accrue at the end of the business year is recorded.

(5) Reserve for retirement benefits for officers

In order to prepare for payment of retirement bonuses for officers and executive officers, the amount required to pay at the end of the year is recorded in accordance with the regulations on reserve for retirement benefits for officers.

4. Other Important Underlying Matters for Preparation of Financial Statements

(1) Treatment of deferred assets

Bond issuance expenses: All amounts are treated as expenses where incurred.

Stock issuance expenses: All amount is treated as expenses where incurred.

New share subscription right issuance expenses:

All amount is treated as expenses where incurred.

(2) Accounting method of consumption taxes, etc.

Accounting is made exclusive of tax.

Consumption taxes, etc., on inventories, etc., which are not deductible, are accounted for the expenses to be borne during the year.

Notes to Balance Sheet

1. Accumulated depreciation of tangible fixed assets	149,080 thousand yen
2. Assets for security and secured debt	
Assets provided as security	
Real estate for sale	380,272 thousand yen
Real estate for sale in process	2,580,616 thousand yen
Real estate for development	640,226 thousand yen
Buildings	182,145 thousand yen
Land	358,023 thousand yen
Stocks of affiliated companies	451,124 thousand yen
Liabilities with security for the above	3,477,164 thousand yen
For security of earnest money to the credit guarantee company, we have offered for security the deposited securities of ¥19,500 thousand. We have also deposited securities of ¥10,000 thousand as sales security deposit.	
3. Guarantee Obligation Outstanding	
The Company provides guarantee for the borrowing liabilities of the following affiliated companies from financial institutions.	
<i>Godokaisha</i> Asagoshi Mega-solar	192,000 thousand yen
<i>Godokaisha</i> Prospect Tokujiro	1,315,723 thousand yen
<i>Godokaisha</i> Prospect Katori	696,675 thousand yen
<i>Godokaisha</i> Prospect Ushiku	412,160 thousand yen
<i>Godokaisha</i> Prospect Sendai	532,004 thousand yen
<i>Godokaisha</i> Prospect Narita Kanzaki	1,326,000 thousand yen
<i>Godokaisha</i> Prospect Rikuzen Takada	301,356 thousand yen
4. Monetary Claims to Affiliated Companies	
Short-term monetary claims	115,068 thousand yen
Long-term monetary claims	1,356,650 thousand yen
Short-term monetary liabilities	843,593 thousand yen
Long-term monetary liabilities	22,045 thousand yen

Notes to Profit and Loss Statement

Transaction amount with Affiliated Companies

Sales

141,010 thousand yen

Transaction amount other than sales transactions

380,630 thousand yen

Notes to Statement of Changes in Shareholders' Equity

Class and number of treasury stocks at the end of current business year

Common stock 2,779,484 shares

(Note) The increase in the number of treasury stocks is due to purchase of 6,150 shares of a less-than-a unit stock.

Notes to Tax Effect Accounting

1. Breakdown by major cause of occurrence of deferred tax assets

Deferred tax assets	
Loss brought forward	2,658,384 thousand yen
Impairment loss on fixed assets	105,338 thousand yen
Accrued business tax	42,426 thousand yen
Reserve for bonuses	41,370 thousand yen
Reserve for retirement allowance	41,273 thousand yen
Officers' retirement allowance	37,141 thousand yen
Allowance for doubtful accounts	175,643 thousand yen
Other	484,445 thousand yen
Subtotal of Deferred tax assets	3,586,023 thousand yen
Reserve for valuation	△3,416,823 thousand yen
Total deferred tax assets	169,200 thousand yen

2. Breakdown of major items that were the causes of the difference between statutory effective tax rate and the burden rate of corporate tax, etc., after applying tax effect accounting.

Statutory effective tax rate	30.9%
(Adjustment)	
Items which are not included in losses perpetually, including entertainment expenses, etc.	3.5%
Per capita basis amount of resident tax, etc.	2.4%
Increase or decrease in valuation reserve	△30.0%
Increase or decrease in loss brought forward	156.8%
Use of taxation loss brought forward	△156.8%
Amount of officers' salaries excluded from deductible expenses	0.8%
Reserve for officers' bonuses	138.0%
Items which are not included in profit perpetually, including dividend income, etc.	△22.9%
Stock compensation expenses	12.8%
Non-inclusion in profits of the dividend income, etc., from overseas subsidiaries	△8.1%
Depreciation of goodwill	28.1%
Aggregated income of specific overseas subsidiaries, etc.	47.3%
Adjustment of decreased deferred tax assets at the end of year due to a change in the tax rate	0.8%
Other	9.1%
Burden rate of corporate tax, etc., after applying tax effect accounting	212.7%

Notes to Transactions with Related Parties

Subsidiaries and affiliated companies, etc.

(Unit: Thousand yen)

Type	Name of company, etc.	Location	Capital or investments in capital	Details of business	Ratio of voting rights holding (held)	Relationship with related parties	Details of trade	Trading amount	Item	Balance at the end of the year
Subsidiary	Godokaisha Prospect Narita Kanzaki	Shibuya-ku, Tokyo	3,000	Renewable Energy Business	100%	Investment	Guarantee Obligation	1,326,000	-	-
							Advance payment of construction price, etc.	379,463	Advance money	59,501
							Land rent	219	-	-
Subsidiary	Godokaisha Prospect Tokujiro	Shibuya-ku, Tokyo	50	Renewable Energy Business	100%	Investment	Debt guarantee	1,315,723	-	-
							Advance payment of expenses, etc.	365	Advance money	0
Subsidiary	Godokaisha Prospect Katori	Shibuya-ku, Tokyo	50	Renewable Energy Business	100%	Investment	Debt guarantee	696,675	-	-
Subsidiary	Godokaisha Prospect Sendai	Shibuya-ku, Tokyo	10	Renewable Energy Business	100%	Investment	Debt guarantee	532,004	-	-
							Advance payment of construction price, etc.	17,005	Advance money	17,000
Subsidiary	Godokaisha Prospect Ushiku	Shibuya-ku, Tokyo	100	Renewable Energy Business	100%	Investment	Debt guarantee	412,160	-	-
Subsidiary	The Prospect Japan Fund Limited	British	92 thousand USD	Renewable Energy Business	100%	Holding of shares	Borrowing of funds	800,000	Short-term borrowings	800,000
							Payment of interest	20,239	Accrued expenses	1,093

- (Note) 1. Terms of transactions and the policy for determination of terms of transactions, etc., are determined in a similar manner to general terms of transactions.
2. Debt guarantees are for the borrowings from financial institutions. In this regard, guarantee fees are not paid for debt guarantees.
3. Borrowing of funds of The Prospect Japan Fund Limited is determined taking into consideration the market interest rate and the repayment terms are paid in a lump-sum within a period of one year of the current portion. In this regard, we have not offered security.

Notes to Per Share Information

1. Net assets per share	57 yen 98 sen
2. Net loss per share	0 yen 54 sen

Notes to Important Events after Closing the Accounts

No applicable matter.

Other Notes

No applicable matter.

(Note) The amounts stated in the balance sheet, profit and loss statement, statements of changes in shareholders' equity and other net assets and notes to non-consolidated financial statements are indicated by rounding down the amount less than the unit of indication.

Certified Copy of Audit Report of Accounting Auditor

Audit Report of Independent Auditor

May 11, 2018

To: Board of Directors
Prospect Co., Ltd.

Audit Firm HIBISCUS

Designated Member Operating Partner	Certified Public Accountant	Mitsuyoshi Kogure
Designated Member Operating Partner	Certified Public Accountant	Kohei Morisaki

The Audit Firm conducted an audit of the financial statements, including the balance sheet, profit and loss statement, statement of changes in shareholders' equity and notes to non-consolidated financial statements and schedules of Prospect Co., Ltd. for the 117th business year from April 1, 2017 to March 31, 2018 under the Companies Act, Article 436, paragraph 2, item 1.

Responsibility of Management for Financial Statements, etc.,

It is the responsibility of management to prepare and properly present financial statements and schedules in accordance with the corporate accounting standards generally accepted in Japan. This includes improvement and operation of internal control which was determined by management to be necessary for preparing and properly presenting financial statements and schedules free of material misstatement by fraud or error.

Responsibility of Auditor

It is our responsibility to express our opinions regarding these financial statements and schedules from an independent position based on the audit conducted by us. We audited in accordance with the audit standards generally accepted in Japan. The audit standards expect us to develop an audit plan and conduct an audit based on the plan in order to obtain a reasonable assurance as to whether material misstatement exists or not in the financial statements and schedules.

In the audit, procedures are carried out for obtaining audit evidence for the amount and disclosure of the financial statements and schedules. Audit procedures are selected and applied based on the assessment of risk of material misstatement in the financial statements and schedules by fraud or error. The objective of an audit is not to express opinions on the validity of internal control, but we review internal control related to preparation and proper presentation of financial statements and schedules in order to develop appropriate audit procedures corresponding to the situations in conducting risk assessment. The audit also includes a review of the presentation of financial statements and schedules as a whole, including the assessment of the accounting policy adopted by management and the method of its application and estimate made by management.

We believe we have obtained sufficient and appropriate audit evidence constituting a foundation for expressing our opinions.

Audit Opinions

The Audit Firm recognizes that the above financial statements and schedules fairly represent in every material aspect, conforming to the corporate accounting standards generally accepted in Japan, the status of assets and profit/loss of the corporate group, comprised of Prospect Co., Ltd. and consolidated subsidiaries for the period of the financial statements and schedules.

Interest

There exists no special interest between the Company and this audit corporation or the operating partners to be stated under the provisions of the Certified Public Accountants Law.

Certified Copy of Audit Report of Board of Auditors

Audit Report

The Board of Auditors prepared this Audit Report and submits as follows through deliberations based on the audit reports prepared by each Auditor on execution of duties of the Directors for the 117th business year from April 1, 2017 to March 31, 2018.

1. Method of Audit by the Auditors and the board of auditors and their Details
 - (1) The board of auditors determines the policy for audit, focused audit items, etc., and received reports on the implementation status and results of audit from each Auditor and received reports from Directors, etc., and Accounting Auditor on the status of execution of their duties and requested explanations as necessary.
 - (2) Each Auditor communicated with Directors, internal audit department and any other employees, etc., in accordance with the policy for audit and audit plan, etc., determined by the board of auditors and made efforts to collect information and improve the environment of audit and conducted an audit by the following methods.
 - [1] Auditors attended the board of directors' meetings and any other important meetings, received reports on the status of execution of duties from Directors and employees, etc., and requested explanations as necessary, read important approval documents, etc., and conducted investigations of the status of operations and assets at head office, etc. For subsidiaries, Auditors communicated and exchanged information with Directors and Auditors, etc., of subsidiaries and received reports on business from subsidiaries as necessary.
 - [2] Auditors received reports regularly from the Directors and employees, etc., on the status of construction and operation of the system to ensure that execution of duties of the Directors stated in the business report shall comply with the laws and the Articles of Incorporation and the details of resolution of the board of directors for establishment of the system, provided for in the Companies Act, Enforcement Regulations, Article 100, paragraph 1 and paragraph 3, which are required to ensure the proper operations of the company group comprised of *kabushikikaisha* and its subsidiaries, and the system (internal control system) established according to the resolution, and requested explanations as necessary and stated opinions.
 - [3] Auditors monitored and examined whether Accounting Auditor kept independent position and conducted an appropriate audit and Auditors received the report from Accounting Auditor on the status of execution of its duties and requested explanations as necessary. Auditors also received the notice from Accounting Auditor that Accounting Auditor has put in place the "system to ensure that performance of duties is properly made" (matters set forth in each item of Article 131 of the Corporation Accounting Regulations) in accordance with the "Standards for Quality Management of Audit" (Business Accounting Council, October 28, 2005), etc.

Based on the above method, the Board of Auditors reviewed the business report and its schedules, financial statements (balance sheet, profit and loss statement, statement of changes in shareholders' equity and notes to non-consolidated financial statements) and their schedules and consolidated financial statements (consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements) for the business year.

2. Audit Results

(1) Audit Results of Business Report, etc.

[1] We recognize that the business report and its schedules correctly represent the status of the Company pursuant to the laws and the Articles of Incorporation.

[2] We did not recognize wrongful acts related to execution of duties of Directors or material facts in violation of the laws or the Articles of Incorporation.

[3] We recognize that the details of resolutions of the Board of Directors on the internal control system are reasonable. We did not recognize the facts to point out with respect to the details of business report on the internal control system and execution of duties of the Directors.

(2) Audit Results of Financial Statements and its Schedules

We recognize that the method and result of audit conducted by Audit Firm HIBISCUS are reasonable.

(3) Audit Results of Consolidated Financial Statements

We recognize that the method and result of audit conducted by Audit Firm HIBISCUS are reasonable.

May 15, 2018

Board of Audit, Prospect Co., Ltd.

Full-time Auditor Akio Tsukishima

Auditor Yuki Ichikawa

Auditor Thomas R. Zengage

(Note) Auditors, Akio Tsukishima, Yuki Ichikawa and Thomas R. Zengage are Outside Auditors provided for in the Companies Act, Article 2, item 16 and Article 335, paragraph 3.

Reference Documents for the Annual General Meeting of Shareholders

Propositions and Reference Matters

Proposition No. 1: Appropriation of surplus

The Company Group puts return of profits to shareholders as a top priority of management. We implement our basic policy to ensure maintaining of a stable and continuous dividend and paying a dividend, also taking into account business results, while securing internal reserves required for stable growth of the Company and to respond to changes in the business environment.

Under the above basic policy, we would like to pay the year-end dividend as follows.

- [1] Kind of distributed property
Money
- [2] Matters concerning allotment of distributed property and the total amount
¥4 per share of the common stocks of the Company: Total amount: ¥1,732,852,576
- [3] Effective date of dividends of retained earnings
June 29, 2018

In this regard, we expect to appropriate other capital surplus for the dividend resource.

Proposition No. 2: Partial Amendment of the Articles of Incorporation

1. Reasons for Proposal

- (1) As of March 31, 2018, the Company’s total number of shares issued and outstanding is 435,992,628 shares and together with residual shares of 139,510,908 shares, the number of shares to be issued by the Company to the total number of shares to be issued by the Company of 690,000,000 shares is limited.

The Company has previously carried out launching new business and large scale M&A activities through financing by issuance of new shares. In order to continue to steadily carry out measures for increasing profitability and future growth as well as to improve shareholder and corporate value, as it is necessary to adopt a flexible capital policy and secure its maneuverability, we would like to change the total number of shares to be issued by the Company to 1,740,000,000 shares, the upper limit permitted by law from the total number of shares to be issued by the Company of 690,000,000 shares under the current Articles of Incorporation, Article 6 (Total Number of Shares to be Issued) (Amendment Proposal, Article 6).

- (2) National stock exchanges aim at unifying the sales unit of shares of the domestic listed companies to 100 shares based on the “Action Plan for Aggregating Share Trading Units” and determined the transfer should be made by October 1, 2018 in the “Determination of Transfer Due Date for 100 Shares of Trading Units” (December 17, 2015). The Company, listed on the Tokyo Stock Exchange, Inc., respecting the above purpose, at the board of directors’ meeting held on May 15, 2018, adopted a resolution to change the number of share units provided for in the current Articles of Incorporation, Article 8 to 100 shares from 1,000 shares as of October 1, 2018. This time, we amend the Articles of Incorporation based thereon (Amendment Proposal, Article 8).

2. Details of Change

The details of the change are as follows.

(Underlined portions indicate the changed portion).

Current Articles of Incorporation	Change Proposal
<p>(Total Number of Shares to be Issued) Article 6 Total number of shares to be issued by the Company shall be <u>690,000,000 shares</u>. (Number of Share Units) Article 8 Number of share units of the Company shall be <u>1,000 shares</u>. (New Provision)</p>	<p>(Total Number of Shares to be Issued) Article 6 Total number of shares to be issued by the Company shall be <u>1,740,000,000 shares</u>. (Number of Share Units) Article 8 Number of share units of the Company shall be <u>100 shares</u>. <u>Supplementary Provision</u> <u>(Transitional Measures for the Number of Share Units)</u> <u>Amendment of Article 8 (Number of Share Units) shall become effective as of October 1, 2018 and this Supplementary Provision shall be deleted as of the same date.</u></p>

Proposition No. 3: Appointment of three (3) Directors

The term of all the present Directors (3 persons) will expire at the closing of this general meeting of shareholders. Accordingly, we would like to ask for appointment of the three (3) Directors.

Candidates for Directors are as follows.

Candidate No.	Name (Date of birth)	Career summary, position and responsibility at the Company and important concurrent positions	Number of stocks of the Company held
1	Curtis Freeze (Born on June 19, 1962)	<p>April 1988: The Nikko Securities Co., Ltd. (currently, SMBC Nikko Securities, Inc.)</p> <p>September 1989: Shearson Lehman Brothers</p> <p>June 1990: DB Morgan Grenfell Asset Management, Senior Fund Manager</p> <p>September 1994: Established Prospect Asset Management, Inc. (USA), President</p> <p>June 2003: (Former) Prospect, Co., Ltd., Director</p> <p>September 2004: Prospect Residential Advisors, Inc. (currently, Prospect REIT Advisors, Co., Ltd.), Director</p> <p>November 2004: (Former) Prospect, Co., Ltd., Representative Director</p> <p>December 2004: (Former) Prospect, Co., Ltd., Director</p> <p>September 2005: Prospect Asset Management, Inc. CIO (Chief Investment Officer, Part-time) (Current)</p> <p>April 2007: Yasuragi Co., Ltd. (currently Katitas Co., Ltd.), Outside Director (Part-time)</p> <p>August 2007: (Former) Prospect, Co., Ltd., Representative Director, President</p> <p>June 2009: Outside Director of the Company (Part-time)</p> <p>November 2009: Prospect REIT Advisors, Co., Ltd., Director (Part-time)</p> <p>June 2010: Representative Director, President of the Company (Current)</p>	<p>Shares</p> <p>1,612,000</p>
2	Masato Tabata (Born on January 23, 1968)	<p>April 1991: Japan Housing Loan Co., Ltd.</p> <p>September 1996: Japan Housing Loan Administration Corporation (currently, Resolution and Collection Corporation)</p> <p>September 2006: Audit Office Director of the Company</p> <p>June 2008: General Affairs Department Manager of the Company</p> <p>June 2011: Director of the Company</p> <p>July 2012: In charge of Administration Department (current)</p> <p>September 2013: Representative Director, Managing Director (current) of the Company</p>	<p>Shares</p> <p>88,000</p>

Candidate No.	Name (Date of birth)	Career summary, position and responsibility at the Company and important concurrent positions	Number of stocks of the Company held
3	* Nicholas Cant (Born on January 22, 1961)	September 1983: The Japan Exchange and Teaching Programme (ALT) September 1984: Savory Milln Securities (London) January 1986: Warburg Securities (Tokyo) February 1987: Barings Securities (currently, ING Barings Securities) (Tokyo) February 1994: ING Barings Securities (New York) January 1996: Prospect Asset Management, Inc., Head of Marketing January 1997: Schroder Securities (Tokyo) January 1999: HSBC (New York) August 2001: Macquarie Securities (Tokyo), Director January 2011: Macquarie Securities (Singapore), Director	Shares 0

- (Note) 1. * indicates a new candidate for director.
2. There are no special interests between each candidate for Directors and the Company.
 3. A candidate for Director, Mr. Nicholas Cant is a candidate for Outside Director.
 4. Matters concerning a candidate for Outside Director are as follows.
 - (1) Reasons for nominating the candidate for Outside Director

Mr. Nicholas Cant has not previously been directly involved in management of companies, but we would like him to contribute to strengthening management of the Company by receiving advice from him on management of the Company in general based on extensive experience and wide-ranging knowledge cultivated during his long career in the securities industry.
 - (2) Liability Limitation Agreement between the Company and the Candidate for Outside Director

The Company provides in the Articles of Incorporation that the Company may execute an agreement limiting damage liability to the Company to a certain extent so that the Company can invite a competent person as Outside Director. If Mr. Nicholas Cant is appointed, the Company will execute an agreement on limiting the damage liability under the Companies Act, Article 423, paragraph 1 with him based on the Companies Act, Article 427, paragraph 1. The limit of damage liability under the Agreement is the minimum amount of liability provided for in the Companies Act, Article 425, paragraph 1.
 5. Mr. Nicholas Cant is a candidate for Outside Director and if he is appointed, he shall be designated as an independent officer who is not likely to cause any conflict of interest with shareholders requiring designation by the Tokyo Stock Exchange and it shall be so notified with the Tokyo Stock Exchange.

Proposition No. 4: Appointment of one (1) Auditor

As the term of Auditor Yuki Ichikawa will expire at the closing of this general meeting of shareholders, we would like to ask for appointment of one (1) Auditor.

This proposal has been approved by the board of auditors.

Candidates for Auditors are as follows.

Name (Date of birth)	Career summary, position and responsibility at the Company and important concurrent positions	Number of stocks of the Company held
Yuki Ichikawa (Born on July 21, 1970)	April 1997: Registered as an attorney April 1997: Hamayotsu & Hamayotsu April 2009: Yasuragi Co., Ltd. (currently, Katitas Co., Ltd.) outside auditor (current) June 2010: Outside auditor of the Company (current)	Shares 0

- (Note) 1. There are no special interests between the candidate for Auditor and the Company.
2. The candidate for Auditor, Mr. Yuki Ichikawa is a candidate for Outside Auditor.
3. Matters concerning a candidate for Outside Auditor are as follows.

(1) Reasons for Nominating Candidates for Outside Auditors

As Mr. Yuki Ichikawa has qualifications as an attorney and we would like him to make full use of his extensive experience and wide-ranging knowledge cultivated during his long career in the legal profession for reinforcement of the audit system of the Company, we continue to request his appointment. He has no previous experience of being involved in the management of companies other than being an outside officer, but we have determined that he could properly perform his duties as an outside auditor by the aforementioned reasons.

The period of being an auditor of the Company will be eight (8) years as of the end of the general meeting of shareholders.

(2) Agreement on Limitation of Liability between the Company and the Candidate for Outside Auditor

The Company provides in the Articles of Incorporation that the Company may execute an agreement limiting damage liability to a certain extent so that the Company can invite a competent person as Outside Auditor. Mr. Yuki Ichikawa executed an agreement on limiting the damage liability under the Companies Act, Article 423, paragraph based on the Companies Act, Article 427, paragraph 1. The limit of damage liability under the Agreement is the minimum amount of liability provided for in the Companies Act, Article 425, paragraph 1 and if reappointment of Mr. Yuki Ichikawa is approved, we will continue the Agreement with him.

4. Mr. Yuki Ichikawa is a candidate for Outside Auditor and has been designated as an independent officer who is not likely to cause any conflict of interest with shareholders requiring designation by the Tokyo Stock Exchange and it has been so notified with the Tokyo Stock Exchange.

If reappointment of Mr. Ichikawa is approved, we will continue to designate him as an independent officer.

Information of the Forum of Annual General Meeting of Shareholders

Venue: Conference Room, 4F, Kosei Hogo Kaikan
5-10-9 Sendagaya, Shibuya-ku, Tokyo
TEL: 03 (3356) 5721 (Key)

◎ Information Map



◎ Access

- 5 minute walk from JR "Sendagaya Station"
- 5 minute walk from Toei Metro Oedo Line "Kokuritsu-kyogijo Station"
- 8 minute walk from JR / Toei Metro Oedo Line "Yoyogi Station"

As parking spaces are not available, please refrain from driving a car when you visit the venue.

◎ Inquiries

General Affairs Department of the Company
TEL: 03 (3470) 8411 (Key)