

Securities Code No.: 3528

June 11, 2019

Dear Shareholders,

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

## **Prospect Co., Ltd.**

Representative Director, President Masato Tabata

### **Notice of Convening the 118th Annual General Meeting of Shareholders**

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

We are pleased to inform you that the 118th 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 by electromagnetic means (Internet, etc.) or in writing as stated in the “Information on How to Exercise Voting Rights” (p.3). Please consider the reference documents for the annual general meeting of shareholders below, and exercise your voting rights no later than 6:00 p.m., Wednesday, June 26, 2019.**

Sincerely

- |                 |   |
|-----------------|---|
| <b>1. Date</b>  | 10:00 a.m., June 27 (Thu.), 2019  |
| <b>2. Place</b> | Conference Room, 4F, Kosei Hogo Kaikan<br>5-10-9 Sendagaya, Shibuya-ku, Tokyo<br>(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 118th term (from April 1, 2018 to March 31, 2019)
  2. Report on the financial statements for the 118th term (from April 1, 2018 to March 31, 2019)

#### **Resolution Matters**

- Proposition No. 1** Partial Amendment of the Articles of Incorporation (1)
- Proposition No. 2** Partial Amendment of the Articles of Incorporation (2)
- Proposition No. 3** Partial Amendment of the Articles of Incorporation (3)
- Proposition No. 4** Reduction in the amount of capital reserve and reserve for retained earnings and distribution of surplus
- Proposition No. 5** Appointment of four (4) Directors (except for Directors who are Audit and Supervisory Committee Members)
- Proposition No. 6** Appointment of four (4) Directors who are Audit and Supervisory Committee Members
- Proposition No. 7** Establishment of compensation for Directors (except for Directors who are Audit and Supervisory Committee Members)
- Proposition No. 8** Establishment of compensation for Directors who are Audit and Supervisory Committee Members
- Proposition No. 9** Appointment of Accounting Auditor
- Proposition No. 10** Granting Retirement Benefits to Resigning Directors

### **4. Matters Determined for Convening the General Meeting of Shareholders (Information on Exercising Voting Rights)**

- (1) If you do not indicate approval or disapproval of each proposal in the Form for Exercising Voting Rights, it shall be treated as expressing your intention that you approve of the Company's proposals and disapprove of the shareholders' proposals.
- (2) If you exercised your voting rights multiple times via the Internet, the last time that you exercised your voting rights shall be treated as valid.
- (3) If you exercised your voting rights both by the Form for Exercising Voting Rights and via the Internet, the exercise of voting rights on the Internet shall be treated as valid, regardless of the arrival date.
- (4) If you wish to diversely exercise your voting rights, you are requested to give a written notice to that effect and the reasons therefore to the Company 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 for 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>).

## Information on How to Exercise your Voting Rights

If you are unable to attend the general meeting of shareholders, you may exercise your voting rights by either method below. Please exercise your voting rights no later than 6:00 p.m., Wednesday, June 26, 2019, the due date for exercising your voting rights.

### 1. Exercising Voting Rights via the Internet

#### (1) Method of “Smart Exercise”

[1] Read the QR Code shown on the right side of the enclosed Form for Exercising Voting Rights by smartphones, etc., to access the “Smart Exercise” website designated by the Company and enter your approval or disapproval in accordance with the instructions displayed on the screen (You are not required to enter the voting rights exercise code (ID) and password).

[2] Exercising voting rights by “Smart Exercise” shall be limited to one time.

If you wish to change your approval or disapproval after exercising your voting rights, you are required to exercise again by the method described in paragraph (2) below.

#### (2) Method by Entering Your Voting Rights Exercise Code (ID) and Password

[1] Access the “Voting Rights Exercising Website” (URL below), log in with the voting rights exercise code (ID) and the password shown on the right side of the enclosed Form for Exercising Voting Rights on the back of the form and enter your approval or disapproval in accordance with the instructions displayed on the screen. Password must be changed at the initial login.

<https://soukai.mizuho-tb.co.jp/>

[2] Voting Rights Exercise Code (ID) and Password (including those changed by a shareholder) shall be newly issued at each general meeting of shareholders.

[3] As the password is a means to confirm that the person exercising voting rights is the shareholder itself, please handle with care. The Company (shareholder registry administrator) will not request your password.

[4] You will not be able to use the password if you continuously enter your password incorrectly exceeding the prescribed number of times. In such a case, please take the procedure in accordance with the instructions displayed on the screen.

### 2. Exercising Voting Rights by Mail

Indicate your approval or disapproval on the enclosed Form for Exercising Voting Rights and return it by the due date for exercising your voting rights. Use the enclosed surface protection seal for your return.

### 3. Inquiries

If you have any questions, please contact Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Department, the shareholder registry administrator.

[Contact for inquiries regarding how to operate “Smart Exercise,” “Voting Rights Exercise Website”]

Toll-free: 0120-768-524 (Weekdays: 9:00 a.m. - 9:00 p.m.)

(Attached Document)

**Business Report**  
( From April 1, 2018  
to March 31, 2019 )

## **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 corporate revenues, employment and income conditions continued to improve, and personal consumption also picked up. However, at the same time, there remain concerns with regard to uncertainty in overseas economic conditions, including US-Chinese trade friction, and the UK's exit from the EU.

In the condominium sales market in the Tokyo Metropolitan Area, while low interest rate loans and housing purchase support mechanisms are maintained, demand remains steady mainly in central Tokyo. However, sales prices continue to rise as a result of intensifying competition to acquire available land for condominiums and construction costs remain high, which makes it difficult to obtain sufficient profit. Meanwhile, solar power generation business operation and development have been progressing steadily.

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 this philosophy, while expanding our core businesses from a single business approach of condominium sales to custom-built homes, investment advisory business and construction business, etc., we are working to expand the Company Group's portfolio based on a global perspective by promoting the overseas real estate business and domestic and overseas renewable energy business.

In this regard, we have sold all shares held by the Company in KIDOH CONSTRUCTION CO., LTD., our consolidated subsidiary which engages in the construction business, through a MBO transaction.

As a result, sales for the current consolidated fiscal year were 4,937 million yen (11,688 million yen in the previous consolidated fiscal year), operating loss was 8,041 million yen (1,543 million yen in the previous consolidated fiscal year), ordinary loss was 8,167 million yen (1,098 million yen in the previous consolidated fiscal year), and net loss attributable to owners of the parent was 9,833 million yen (net profit attributable to owners of the parent of 1,483 million yen in the previous consolidated fiscal year).

In addition, regarding the year-end dividend in the current consolidated fiscal year, we apologize to all of our shareholders but taking into consideration the need to strengthen our business performance and financial position, etc., from a comprehensive point of view, we will not pay out a dividend.

Business performance by segment is as follows.

Segment Name	Previous Consolidated Fiscal Year From April 1, 2017 to March 31, 2018		Current Consolidated Fiscal Year From April 1, 2018 to March 31, 2019	
	Amount	Composition ratio	Amount	Composition ratio
	Thousand yen	%	Thousand yen	%
Real Estate Sales Business				
Condominium Sales Business	4,926,757	42.1	3,829,005	77.5
Land and Buildings	-	-	-	-
Custom-Built Homes	1,482,837	12.7	2,098,035	42.5
Asset Management Business	158,072	1.4	△7,273,723	△147.3
Construction Business	4,615,440	39.4	6,226,073	126.1
Renewable Energy Business	533,713	4.6	569,504	11.5
Total	11,716,820	100.2	5,448,895	110.3
Other	50,159	0.4	45,333	0.9
Elimination of intersegment transactions	△78,262	△0.6	△556,527	△11.2
Total	11,688,717	100.0	4,937,701	100.0

(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.

In the current consolidated fiscal year, we completed construction of 3 buildings, 111 housing units for “GRO-BEL Mansion,” including “The GRO-BEL Omori Sanno” (total 34 housing units) (3 buildings, 120 housing units in the previous consolidated fiscal year).

As for sales, in the current consolidated fiscal year, we executed new contracts for 103 housing units of 4,271 million yen (115 housing units of 4,379 million yen in the previous consolidated fiscal year) and delivered 96 housing units and recorded sales of 3,829 million yen and segment profit of 321 million yen (137 housing units, sales of 4,926 million yen and segment profit of 602 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.

As for sales, in the current consolidated fiscal year, we executed one contract for a condominium (total 37 housing units, total space of 1,508.01m<sup>2</sup>) for 1,950 million yen, but no sales results were recorded (no contract or sales results recorded in the previous consolidated fiscal year).

(Real Estate Sales Business, Custom-Built Homes)

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

As for sales, in the current consolidated fiscal year, we executed new contracts for 78 houses at 2,104 million yen (58 houses of 1,659 million yen in the previous consolidated fiscal year) and delivered 58 houses and recorded sales of 2,098 million yen and segment profit of 69 million yen (40 houses, sales of 1,482 million yen and segment profit of 12 million yen in the previous consolidated fiscal year) (including reforms, etc.).

(Asset Management Business)

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

As for sales, in the current consolidated fiscal year, we recorded sales of  $\Delta$ 7,273 million yen and segment loss of 7,543 million yen (sales of 158 million yen and segment loss of 122 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 6,226 million yen and segment profit of 327 million yen (sales of 4,615 million yen and segment profit of 261 million yen in the previous consolidated fiscal year).

In connection with the transfer of all shares of KIDOH CONSTRUCTION CO., LTD. in March 2019, we abolished the construction business in the reported segment at the end of the current consolidated fiscal year.

Profit on sales of the shares of affiliated companies of 49 million yen in connection with the transfer of the shares was recorded in extraordinary profit.

(Renewable Energy Business)

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

As for sales, in the current consolidated fiscal year, we recorded sales of 569 million yen and segment profit of 65 million yen (sales of 533 million yen and segment profit of 155 million yen in the previous consolidated fiscal year).

(Other)

Mainly as a real estate lease business, we lease condominiums, etc., owned by the Company.

As for sales, in the current consolidated fiscal year, we recorded sales of 45 million yen and segment profit of 16 million yen (sales of 50 million yen and segment profit of 20 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 6,956 million yen 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**

The Company sold all shares of KIDOH CONSTRUCTION CO., LTD. held by the Company to Kidoh Global Holdings Co., Ltd. as of March 29, 2019 and KIDOH CONSTRUCTION CO., LTD. is no longer a subsidiary of the Company.

## **(5) Tasks to be addressed**

The Company recorded significant losses in the current consolidated fiscal year and determined the dividend forecast to be nil. Therefore, the urgent task of the Company is to recover its reputation in the market by promptly restoring business results and to realize resumption of a dividend and recovery of share price. Utilizing diverse human resources which are a strength of the Company, we will seek to take on rational business opportunities, and maintain a sound and steady management and a financial structure that will survive changes in market environments and aim at restoring business results effectively.

Under the current economic environment where uncertainties concerning the global economy are of a concern, in Japan, the announcement of a new era name and the holding the Rugby World Cup in autumn have brought a vibrant air, however, there are economic concerns such as the upcoming increase in consumption tax, scheduled in October.

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 have constructed a business portfolio that can respond to changing economic conditions from the former single business approach of condominium sales, but in the current consolidated fiscal year, we recorded large valuation losses in the asset management business.

Based on the above, measures to achieve objectives set forth in the first paragraph are as follows.

### **[1] Expansion of business fields of the Company**

- A. In the conventional condominium sales business in the Tokyo Metropolitan Area, as competition for acquiring residential land is intensifying and construction costs remain high, the situation is making it more difficult to secure profitability. Therefore, not only by carefully selecting land to be acquired, but also through diversification of business approaches, including joint projects with construction companies, we aim to secure an increase in profit. In addition to the conventional condominium sales business, we will expand the real estate business to include sales of detached homes and renovation resales and develop products that match needs, and secure revenues.
- B. As for the overseas real estate business, we supply funds for detached home sales projects and condominium development projects. In some overseas projects, however, as we were forced to carry out impairments after appropriate valuation, we will strengthen control of the responsible departments and strengthen recovery efforts by carrying out risk management through collaboration with local partners.

- C. As for the domestic renewable energy business, beginning with financing by convertible bonds in November 2014, we have promoted development of photovoltaic power plants throughout Japan. Eight projects have already begun selling electricity and the Narita-Kanzaki Project (24MWh), the largest project developed by the Company has steadily progressed. Regarding the photovoltaic power generation business, we expect transition to the next phase from the development phase, which will significantly increase revenues from the sale of electricity. For future prospects of the photovoltaic power generation industry, it is expected that business opportunities for new projects will scale-down due to lowering FIT, but the Company will focus on new projects, including profitable projects and secondary markets.
- D. As for the overseas renewable energy business, we launched a new biomass related business. Specifically, in April 2018, we executed a shareholder agreement with a Russian partner to construct a biomass fuel (wood pellet) manufacturing plant in Russia, targeting completion of the plant in the Autumn of 2019 and the work in progress is on schedule. A plan to expand the manufacturing capacity of the plant currently under development has been taking shape. Furthermore, as we believe the overseas renewable energy business still has great business potential, we will actively consider new projects. On the other hand, while 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 are carrying out business development in a proactive manner and adopting a well-defined approach based on professional knowledge in each field, including legal, accounting, tax, financial, etc., from the phase of business selection.

[2] Tasks of group companies

- A. As for the custom-built home business, we will strengthen orders received for highly air-tight and insulated 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, after the Prospect Japan Fund Limited became a subsidiary, the business category changed in scope transforming from a stock investment management business that managed traditional client funds in Japanese stocks to proprietary (own-account) management. Therefore, since the current policy does not assume that new stock investment management will be conducted, the company will be dissolved and liquidated and the fund format will be recognized to reallocate management resources.

### [3] Tasks of the Entire Group

The Company Group had to submit in the current consolidated fiscal year a correction report of past financial reports, etc., due to a correction in tax expenses, etc., for the overseas real estate business and correction of consolidated accounting, etc., on acquisition of a subsidiary, which caused much trouble and concern to our stakeholders, including our shareholders and investors. The Company Group takes the matter seriously and as recurrence prevention measures, has assigned the appropriate personnel by appointing an advisor who is well-acquainted with domestic and international tax accounting and overseas projects as well as improving skills of existing personnel to strengthen the internal management system, including construction of an organization that can promptly respond to the occurrence of problems. Furthermore, in order to strengthen the governance system, we have determined to transition to a Company with an Audit and Supervisory Committee with regard to corporate governance organ after the annual general meeting of shareholders. For officers, we have nominated two (2) persons with qualifications as certified public accountants as candidates as Directors who are Audit and Supervisory Committee Members to strengthen appropriate accounting and taxation.

In the future, along with system reinforcement, in order to effectively improve business profitability through construction and operation of a highly effective internal control system, we will make every effort as group to recover our business results, restore our credibility and raise our stock price.

## (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	115th Term (FY ended March 31, 2016)	116th Term (FY ended March 31, 2017)	117th Term (FY ended March 31, 2018)	118th Term (FY ended March 31, 2019) (Current Consolidated Fiscal Year)
Sales	16,724,251	14,143,071	11,688,717	4,937,701
Operating profit or loss (Δ)	386,461	Δ43,869	Δ1,543,756	Δ8,041,395
Ordinary profit or loss (Δ)	273,251	516,457	Δ1,098,369	Δ8,167,983
Net profit attributable to owners of the parent or net loss attributable to owners of the parent (Δ)	7,458	213,029	1,483,797	Δ9,833,754
Net profit per share or net loss per share (Δ)	0 yen 05 sen	1 yen 25 sen	4 yen 46 sen	Δ22 yen 18 sen
Total assets	24,447,892	27,432,530	40,541,850	30,780,872
Net assets	12,209,222	12,213,875	25,218,682	15,750,522
Net assets per share	65 yen 96 sen	66 yen 15 sen	59 yen 89 sen	34 yen 04 sen

(Note) 1. The figures for the 116th and 117th terms reflect the previous year's closing corrections.

2. "Net profit per share or net loss per share (Δ)" 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	115th Term (FY ended March 31, 2016)	116th Term (FY ended March 31, 2017)	117th Term (FY ended March 31, 2018)	118th Term (FY ended March 31, 2019) (Current Business Year)
Sales	7,351,548	6,565,701	5,103,662	3,985,512
Operating profit or loss (Δ)	77,813	Δ96,371	Δ1,123,672	Δ751,798
Ordinary profit or loss (Δ)	142,072	643,691	Δ299,823	Δ1,522,751
Net profit or loss (Δ)	88,615	394,712	Δ335,877	Δ8,190,696
Net profit per share or net loss per share (Δ)	0 yen 56 sen	2 yen 32 sen	Δ1 yen 01 sen	Δ18 yen 47 sen
Total assets	15,155,831	15,371,051	32,799,237	21,221,254
Net assets	10,980,829	11,217,495	25,396,621	16,018,975
Net assets per share	60 yen 11 sen	61 yen 48 sen	56 yen 98 sen	34 yen 50 sen

(Note) 1. The figures for the 116th and 117th terms reflect the previous year's closing corrections.

2. "Net profit per share or net loss per share (Δ)" 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, 2019)**

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] 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, 2019)**

(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

The Prospect Japan Fund Limited

Head Office: British Channel Islands

Prospect Energy Management Co., Ltd.

Head Office: Shibuya-ku, Tokyo

Prospectbiomass Co., Ltd.

Head Office: Shibuya-ku, Tokyo

**(9) Status of Employees (As of March 31, 2019)**

[1] Status of employees of the corporate group

Number of employees	Increase/decrease from the end of the previous consolidated fiscal year
88	Decreased by 100

(Note) Number of employees decreased by 100 as compared with the end of previous year due to the fact that KIDOH CONSTRUCTION CO., LTD. is no longer a consolidated subsidiary.

[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	0	47 years and 4 months	13 years and 2 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
The Prospect Japan Fund Limited	92,352 thousand USD	100.0%	Investment, etc., in Japanese stocks
Prospect Energy Management Co., LTD.	10 million yen	100.0%	Advisory agency and contracting of business concerning Renewable Energy Business, etc.
Prospectbiomass Co., Ltd.	1 million yen	100.0%	Operation and management of power generation by natural energy, etc.

(Note) As of March 29, 2019, the Company transferred all shares of KIDOH CONSTRUCTION CO., LTD. held by the Company.

**(11) Status of Major Lenders (As of March 31, 2019)**

(Unit: Thousand yen)

Lender	Borrowings outstanding
Resona Bank, Limited	3,774,405
Shizuoka Chuo Bank, Ltd.	3,594,975
The Chiba Bank, Ltd.	536,000
The 77 Bank, Ltd.	486,200
The Mie Bank, Ltd.	469,000

**2. Status of Stocks of the Company (As of March 31, 2019)****(1) Number of Shares to be Issued** 1,740,000,000 shares**(2) Number of Shares Issued** 447,090,984 shares  
(including treasury stock: 2,780,118 shares)**(3) Number of Shareholders** 26,177**(4) Large Shareholders (Top 10)**

Name of shareholder	Number of shares held	Stockholding ratio
	Shares	%
Hiroshi Nishimura	37,307,600	8.40
SHINWA INDUSTRY CO., LTD.	10,735,500	2.42
Clearstream Banking S.A.	6,710,979	1.51
Rakuten Securities, Inc.	4,060,900	0.91
UEDA YAGI TANSHI Co., Ltd.	3,811,000	0.86
State Street Bank and Trust Company 505223	3,229,950	0.73
Euroclear Bank SA/NV	3,188,898	0.72
Shinsuke Nakajima	2,966,500	0.67
Masao Tsutsumi	2,500,000	0.56
INTERNATIONAL CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	2,349,775	0.53

(Note) 1 Shareholding ratio is calculated by excluding treasury stocks (2,780,118 shares).  
2. Shareholding ratio is shown by rounding to the nearest 2nd decimal point.

### 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	5th New Share Subscription Rights	
Date of resolution of issuance	May 29, 2013	October 18, 2013	December 16, 2015	June 28, 2018	
Number of new share subscription rights	1,181,000	2,400,000	1,644	72,520	
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: 2,400,000 shares (1 share per new share subscription right)	Common stock: 1,644,000 shares (1,000 shares per new share subscription right)	Common stock: 72,520,000 shares (1,000 shares 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	100 yen per new share subscription right	
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)	49,000 yen per new share subscription right (49 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	From April 1, 2019 to March 31, 2029	
Conditions for exercise	(Note) 1	(Note) 2	(Note) 3	(Note) 4	
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	Number of new share subscription rights: 72,520 Number of subject shares: 72,520,000 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: --- Number of subject shares: --- shares Number of holding persons: ---	Number of new share subscription rights: --- Number of subject shares: --- shares Number of holding persons: ---	Number of new share subscription rights: --- Number of subject shares: --- shares Number of holding persons: ---
	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: ---	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 authorized to be issued at that time by exercising New Share Subscription Rights, the New Share Subscription Rights may not be exercised.

[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 outstanding shares of the Company exceed the number of shares authorized to be issued at that time by exercising 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 at less-than-one unit.
- 4. [1] Regarding the closing price of the ordinary trading of the shares of the Company at the Tokyo Stock Exchange, if the average price of consecutive 21 trading days during the Exercise Period becomes lower than the price obtained by multiplying the then effective Exercise Price at that time by 20%, the price obtained by multiplying the then effective Exercise Price at that time after the following day by 45% (a fraction less than one yen shall be rounded up) shall be the Exercise Price and New Share Subscription Right Holder shall exercise all New Share Subscription Rights held by the end of the Exercise Period; except for either of the following cases.
  - (a) If it was proved that materially false information was included in the information disclosed by the Company.
  - (b) If it was proved that the Company has not properly disclosed material facts to be disclosed in accordance with laws and rules of financial instruments exchanges.
  - (c) If delisting of the shares of the Company, commencement of legal bankruptcy proceedings of the Company occurred or any other material changes occurred from the circumstances assumed as of the date of issue of the New Share Subscription Rights.
- [2] Heirs to the New Share Subscription Right Holders may not exercise the New Share Subscription Rights.
- [3] If the total outstanding shares of the Company exceed the total number of shares authorized to be issued 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 at less-than-one unit.
- 5. 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**

		5th New Share Subscription Rights
Date of resolution of issuance		June 28, 2018
Number of new share subscription rights		7,480
Class and number of shares subject to new share subscription rights		Common stock: 7,480,000 shares (1,000 shares per new share subscription right)
Paid-in amount of new share subscription rights		100 yen per new share subscription right
Value of the property contributed in exercising the new share subscription right		49,000 yen per new share subscription right (49 yen per share)
Period of exercising rights		From April 1, 2019 to March 31, 2029
Conditions for exercise		(Note)
Status of issuance to Employees, etc.	Employees of the Company	Number of new share subscription rights: 4,480 Number of subject shares: 4,480,000 shares Number of persons subject to issuance: 8
	Officers and employees of subsidiaries	Number of new share subscription rights: 3,000 Number of subject shares: 3,000,000 shares Number of persons subject to issuance: 2

(Note) [1] Regarding the closing price of the ordinary trading of the shares of the Company at the Tokyo Stock Exchange, if the average price of consecutive 21 trading days during the Exercise Period becomes lower than the price obtained by multiplying the then effective Exercise Price at that time by 20%, the price obtained by multiplying the then effective Exercise Price at that time after the following day by 45% (a fraction less than one yen shall be rounded up) shall be the Exercise Price and New Share Subscription Right Holder shall exercise all New Share Subscription Rights held by the end of the Exercise Period; except for either of the following cases.

- (a) If it was proved that materially false information was included in the information disclosed by the Company.
  - (b) If it was proved that the Company has not properly disclosed material facts to be disclosed in accordance with laws and rules of financial instruments exchanges.
  - (c) If delisting of the shares of the Company, commencement of legal bankruptcy proceedings of the Company occurred or any other material changes occurred from the circumstances assumed as of the date of issue of the New Share Subscription Rights.
- [2] Heirs to the New Share Subscription Right Holders may not exercise the New Share Subscription Rights.
- [3] If the total outstanding shares of the Company exceed the total number of shares authorized to be issued 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 at less-than-one unit.

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

No applicable matter.

#### 4. Status of Officers of the Company

##### (1) Status of Directors and Auditors (as of March 31, 2019)

Position	Name	Status of responsibilities and important concurrent positions of officers
Representative Director, President	Masato Tabata	Group CEO In charge of administration department
Director	Curtis Freeze	CIO, in charge of overseas business department Prospect Asset Management, Inc., CIO Prospectbiomass Co., Ltd., Representative Director
Director	Nicholas Cant	Jefferies Singapore Ltd., 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, Chairman & CEO

- (Note) 1. Director, Mr. Nicholas Cant is Outside Director.  
 2. Three (3) persons of Auditors, Mr. Akio Tsukishima, Mr. Yuki Ichikawa and Mr. Thomas R. Zengage are Outside Auditors.  
 3. Reshuffling of positions and responsibilities of Directors during the current business year are as follows.

Name	Before Reshuffling	After Reshuffling	Date of Reshuffling
Masato Tabata	Representative Director, Managing Director In charge of administration department	Representative Director, President Group CEO In charge of administration department	December 13, 2018
Curtis Freeze	Representative Director, President Group CEO Prospect Asset Management, Inc., CIO	Director, CIO, in charge of overseas business department Prospect Asset Management, Inc., CIO	December 13, 2018

4. Four persons of Director, Mr. Nicholas Cant 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.  
 5. 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 4	Thousand yen 105,828
(Out of which, Outside Director)	(2)	(2,900)
Auditors	3	15,930
(Out of which, Outside Auditors)	(3)	(15,930)
Total	7	121,758
(Out of which, Outside Officers)	(5)	(18,830)

- (Note) 1. In the above table, one Director (out of which one Outside Director) who resigned at the closing of the 117th annual general meeting of shareholders held on June 28, 2018 is included.
2. The above Amount of compensation includes ¥ 13,048 thousand for executive retirement benefits, which are accounted for the expenses to be borne during the year.
3. Contribution to the defined contribution pension started from February 2019 and the contribution is included in the statement.

**(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	Nicholas Cant	Jefferies Singapore Ltd.	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, Chairman & CEO	We have no material transactions or any other relationship.

[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	Nicholas Cant	Attended all the 24 board of directors' meetings held after being appointed on June 28, 2018 and stated his 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 27 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 17 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 27 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 17 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 27 board of directors' meetings held during the current business year and stated opinions from a professional viewpoint mainly from the IR/ESG consulting industry from time to time necessary to ensure validity and appropriateness of decision-making of the board of directors.  Attended all the 17 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	59,500 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	59,500 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.
  4. The accounting auditor's compensation for the current consolidated fiscal year included compensation for audit work related to the correction of the Company's previous fiscal years' financial statements in accordance with the Financial Instruments and Exchange Act.

### (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.

In the current business year, after suspicion of improper accounting by the Company was determined, the Company established an independent investigation committee to ascertain the causes and determined and promptly implemented various measures for strengthening the tax and accounting department, including transition to a company with an Audit and Supervisory Committee (schedule), utilization of external experts and providing training, etc.

**(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.

However, as we recorded extraordinary loss in the current consolidated year and for other reasons, which resulted in recording a large net loss, we apologize that no dividend will be paid in the current year. In the future, we will aim at early resumption of a dividend by strengthening the internal management system, focusing on increasing profitability, and ensuring a system to secure stable profits through fundamental business structural reforms.

(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, 2019)

(Unit: Thousand yen)

Item	Amount	Item	Amount
<b>Assets</b>	<b>30,780,872</b>	<b>Liabilities</b>	<b>15,030,349</b>
<b>Current Assets</b>	<b>16,784,711</b>	<b>Current Liabilities</b>	<b>3,997,090</b>
Cash and deposits	5,049,760	Notes and accounts payable	57,720
Notes and accounts receivable	130,663	Accrued construction payment	295,807
Accounts receivable for completed construction projects	21,087	Short-term borrowings	272,625
Accounts receivable for investment advisory fees	2,511	Bonds to be redeemed within a year	74,000
Securities	6,904,372	Current portion of long-term borrowings	1,823,069
Real estate for sale	1,263,907	Corporate income tax, etc., payable	35,805
Real estate for sale in process	2,409,079	Amount received for uncompleted construction projects	79,208
Real estate for development	442,074	Reserve for bonuses	34,053
Expenses for uncompleted construction projects	55,122	Reserve for officers' bonuses	10,000
Raw materials and stores	4,550	Allowance for compensation for completed construction projects	3,929
Other	502,703	Other	1,310,871
Allowance for doubtful accounts	△1,122	<b>Fixed Liabilities</b>	<b>11,033,259</b>
<b>Fixed assets</b>	<b>13,996,160</b>	Bonds	48,000
<b>Tangible fixed assets</b>	<b>9,876,685</b>	Long-term borrowings	10,366,761
Buildings	192,591	Net defined benefit liabilities	144,860
Machinery, equipment and delivery equipment	3,764,366	Reserve for retirement benefits for officers	138,571
Tools, furniture and fixtures	3,849	Asset retirement obligations	68,820
Land	994,538	Deferred tax liabilities	14,247
Leased assets	2,860	Other	251,998
Construction in progress	4,918,480	<b>Net Assets</b>	<b>15,750,522</b>
<b>Intangible fixed assets</b>	<b>186,554</b>	<b>Shareholders' equity</b>	<b>14,868,037</b>
Goodwill	4,929	Capital	12,086,958
Software	2,993	Capital surplus	10,217,645
Other	178,631	Retained earnings	△7,296,146
<b>Investments and other assets</b>	<b>3,932,920</b>	Treasury stock	△140,420
Investment securities	230,517	<b>Accumulated other comprehensive income</b>	<b>254,680</b>
Investments in capital	1,368,009	Foreign currency translation adjustments	254,680
Long-term loans	2,365,201	<b>New share subscription rights</b>	<b>533,381</b>
Deferred tax assets	27,229	<b>Non-controlling interest</b>	<b>94,423</b>
Other	697,622		
Allowance for doubtful accounts	△755,660		
<b>Total Assets</b>	<b>30,780,872</b>	<b>Total Liabilities and Net Assets</b>	<b>30,780,872</b>

## Consolidated Profit and Loss Statement

( From April 1, 2018  
to March 31, 2019 )

(Unit: Thousand yen)

Item	Amount	
<b>Sales</b>		<b>4,937,701</b>
<b>Cost of Goods Sold</b>		<b>10,289,751</b>
<b>Gross Loss on Sales</b>		<b>5,352,050</b>
<b>Selling, General and Administrative Expenses</b>		<b>2,689,345</b>
<b>Operating loss</b>		<b>8,041,395</b>
<b>Non-operating Income</b>		
Interest income	68,467	
Dividend income	172,740	
Gain on investments in capital	506,467	
Clerical affairs fee received	3,550	
Penalties income	100	
Foreign currency exchange profit	63,749	
Reversal of selling expenses	1,270	
Other non-operating income	75,727	892,074
<b>Non-operating Expenses</b>		
Interest expenses	174,051	
Investment loss by equity method	3,280	
Borrowing fees	125,594	
Valuation loss on securities	5,872	
Transfer to allowance for doubtful accounts	665,937	
Other non-operating expenses	43,925	1,018,662
<b>Ordinary loss</b>		<b>8,167,983</b>
<b>Extraordinary Profits</b>		
Profit on sale of fixed assets	1,822	
Profit on sale of stocks of affiliated companies	49,193	
Profit on sale of investments in capital	262,231	
Profit on reversal of new share subscription rights	8,090	321,336
<b>Extraordinary Losses</b>		
Loss on sale of fixed assets	733	
Retirement loss on fixed assets	3,315	
Special investigation expenses	140,437	
Loss on impairment	729,687	
Valuation loss on new treasury share subscription right	895,707	
Valuation loss on investments in capital	19,106	1,788,987
<b>Net loss before taxes, etc., before dividends distribution from silent partnership</b>		<b>9,635,633</b>
Dividends distribution from silent partnership	△30,652	△30,652
<b>Net loss before taxes, etc.</b>		<b>9,604,980</b>
Corporate income tax, resident tax and business tax payable	58,263	
Adjustment of corporate income tax, etc.	181,232	239,495
<b>Net loss</b>		<b>9,844,476</b>
Net loss attributable to non-controlling interests		10,722
<b>Net loss attributable to owners of the parent</b>		<b>9,833,754</b>

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

( From April 1, 2018  
to March 31, 2019 )

(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	11,803,729	11,546,845	3,049,406	△140,389	26,259,592
Cumulative amount affected by corrections	-	120,423	△511,798	-	△391,375
Balance at the beginning of period reflecting corrections	11,803,729	11,667,268	2,537,608	△140,389	25,868,217
Changes during the current consolidated fiscal year					
Issue of new shares	283,228	283,228			566,457
Dividends of surplus		△1,732,852			△1,732,852
Net loss attributable to owners of the parent			△9,833,754		△9,833,754
Acquisition of treasury stock				△30	△30
Changes in items other than shareholders' equity during the current consolidated fiscal year (net)					
Total changes during the current consolidated fiscal year	283,228	△1,449,623	△9,833,754	△30	△11,000,179
Balance at the end of the current consolidated fiscal year	12,086,958	10,217,645	△7,296,146	△140,420	14,868,037

	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	156,437	156,437	△975,219	209,646	25,650,456
Cumulative amount affected by corrections	△80,558	△80,558	40,159	-	△431,774
Balance at the beginning of period reflecting corrections	75,878	75,878	△935,059	209,646	25,218,682
Changes during the current consolidated fiscal year					
Issue of new shares		-			566,457
Dividends of surplus		-			△1,732,852
Net loss attributable to owners of the parent		-			△9,833,754
Acquisition of treasury stock		-			△30
Changes in items other than shareholders' equity during the current consolidated fiscal year (net)	178,802	178,802	1,468,441	△115,223	1,532,019
Total changes during the current consolidated fiscal year	178,802	178,802	1,468,441	△115,223	△9,468,159
Balance at the end of the current consolidated fiscal year	254,680	254,680	533,381	94,423	15,750,522

## 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: 20 companies

Names of Major Consolidated Subsidiaries

SASAKI-HOUSE CO., LTD.

Prospect Energy Management Co., Ltd.

Prospect Asset Management, Inc.

As KIDOH CONSTRUCTION CO., LTD. and its three subsidiaries are no longer subsidiaries of the Company due to transfer of shares, they have been excluded from the scope of consolidation at the end of the current consolidated fiscal year. In the consolidated profit and loss statement, profit and loss by the end of the current consolidated fiscal year have been included.

##### (2) Names of major non-consolidated subsidiaries, etc.

No applicable matter.

#### 2. Matters concerning Application of the Equity Method

##### (1) Number of affiliated companies to which the equity method was applied

Name of the companies to which the equity method is applied:

RFP Wood Pellets, LLC

The Company has newly acquired an equity interest in RFP Wood Pellets, LLC, which has been accounted as an affiliated company under the equity method.

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

No applicable matter.

##### (3) Among the companies to which the equity method was applied, the financial statements for the fiscal year of each company are used for the companies whose closing dates differ from the consolidated closing date.

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

Out of the consolidated subsidiaries, the closing date of Prospect Asset Management, Inc. and other six (6) 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 to 17 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  
recorded for general accounts receivables, and for  
specified claims such as doubtful accounts receivables, the  
estimated uncollectible amount is recorded in  
consideration of the collectability of each claim.
- 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.

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.

(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. The Company has 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: 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.

#### 5. Notes to the Changes in Presentation

(Consolidated Balance Sheet)

“Ordinance of the Ministry for Partial Amendment of the Regulation for Enforcement of the Companies Act and Regulation on Corporate Accounting” (Ordinance of the Ministry of Justice, No.5, March 26, 2018) arising from “Partial Amendment of the ‘Accounting Standards for Tax Effect Accounting’” (Accounting Standards for Business Enterprises No. 28, February 16, 2018) has been applied from the current consolidated fiscal year. Accordingly, deferred tax assets are indicated in the category of investments and other assets and deferred tax liabilities are indicated in the category of fixed liabilities.

#### 6. Notes to Corrections

In the current consolidated fiscal year, after it was determined errors were made in accounting regarding the amount, etc., of tax expenses in the past year, corrections were made. The cumulative amount affected by corrections is reflected in the book value of net assets at the beginning of the current consolidated fiscal year. As a result, for the balance at the beginning of the Consolidated Statements of Changes in Shareholders’ Equity and Other Net Assets, capital surplus increase by 120,423 thousand yen, earned surplus decreased by 511,798 thousand yen, foreign currency translation adjustments decreased by 80,558 thousand yen, and new share subscription rights increased by 40,159 thousand yen.

#### Notes to Consolidated Balance Sheet

1. Accumulated depreciation of tangible fixed assets	945,848 thousand yen
2. Assets for security and secured debt	
Assets provided as security	
Cash and deposits	87,115 thousand yen
Accounts receivable	71,951 thousand yen
Securities	1,409,900 thousand yen
Real estate for sale	60,845 thousand yen
Real estate for sale in process	1,881,458 thousand yen
Real estate for development	442,074 thousand yen
Buildings	10,456 thousand yen
Machinery, equipment and delivery equipment	3,756,902 thousand yen
Land	375,925 thousand yen
Construction in progress	4,918,480 thousand yen
Liabilities with security for the above	11,901,180 thousand yen

In addition to the above, we have offered for security (178,538 thousand yen), which has been eliminated from consolidation.

In addition, for security of earnest money to the credit guarantee company, we have offered for security other (investments and other assets) of 24,500 thousand yen. We have also offered securities of 10,000 thousand yen as sales security deposit.

#### Notes to Consolidated Statement of Changes in Shareholders’ Equity and Other Net Assets

- Number of outstanding shares at the end of the current consolidated fiscal year  
Common stock 447,090,984 shares
- Number of treasury stocks at the end of the current consolidated fiscal year

Common stock 2,780,118 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, 2018	Common Stock	1,732,852	4.00	March 31, 2018	June 29, 2018

- (2) 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.

No applicable matter.

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: 128,087,552 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. Some consolidated subsidiaries have conducted investment management business of listed Japanese stocks, etc., and 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, accounts receivable for completed construction projects and long-term loans 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 Group 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, 2019 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	5,049,760	5,049,760	-
(2) Notes and accounts receivable	130,663	130,663	-
(3) Accounts receivable for completed construction projects	21,087	21,087	-
(4) Accounts receivable for investment advisory fees	2,511	2,511	-
(5) Securities	6,904,372	6,904,372	-
(6) Long-term loans Allowance for doubtful accounts (*)	2,365,201	2,365,201	-
	△755,660	△755,660	-
	1,609,541	1,609,541	-
<b>Total Assets</b>	<b>13,717,936</b>	<b>13,717,936</b>	
(7) Notes and accounts payable	(57,720)	(57,720)	-
(8) Accrued construction payment	(295,807)	(295,807)	-
(9) Short-term borrowings	(272,625)	(272,625)	-
(10) Bonds to be redeemed within a year	(74,000)	(74,155)	(155)
(11) Current portion of long-term borrowings	(1,823,069)	(1,823,234)	(165)
(12) Bonds	(48,000)	(47,461)	538
(13) Long-term borrowings	(10,366,761)	(10,374,272)	(7,510)
<b>Total Liabilities</b>	<b>(12,937,984)</b>	<b>(12,945,277)</b>	<b>(7,292)</b>
Derivative transactions	-	-	-

(\*) 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) Long-term loans

The market values of general accounts receivables are calculated by present value, discounting the total amount of principal and interest at the interest rate expected for similar loans. For doubtful accounts receivables, we calculate the estimated amount of bad debt based on the present value of the estimated future cash flow, or the expected recoverable amount, etc., with securities and guarantees. Accordingly, market values are similar to the amount deducting the current allowance for doubtful accounts from the amount recorded in the consolidated balance sheet as of the consolidated closing date, and it is recorded at book value.

(7) Notes and accounts payable, (8) Accrued construction payment, and (9) 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.

(10) Bonds to be redeemed within a year, (11) Current portion of long-term borrowings, (12) Bonds, and (13) 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
Investments in capital	1,368,009
Investment securities (Unlisted shares)	230,517

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.	261,197	236,591
Real estate including the portion used for leased real estate.	73,379	199,642

(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	34 yen 04 sen
Net loss per share	22 yen 18 sen

### Notes to Material Subsequent Events

#### 1. Dissolution of a consolidated subsidiary

At the Board of Director's Meeting held on May 15, 2019, the Company adopted a resolution to dissolve and liquidate the Prospect Japan Fund Limited (hereinafter referred to as "TPJF"), currently a consolidated subsidiary of the Company.

##### (1) Reason for dissolution

The Company will directly hold TPJF's invested assets (hereinafter referred to as "TPJF-owned assets") through transferring the TPJF-owned assets to the Company, and we can expect efficiency in the decision-making process regarding these assets. Therefore, the Company has determined that it is necessary to dissolve and liquidate TPJF.

##### (2) Outline of Disbanded Subsidiary

[1] Company Name	The Prospect Japan Fund Limited
[2] Address	Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands, U.K.
[3] Name of Representative	John Hawkins
[4] Capital	92,352,602 USD
[5] Grounds of Incorporation	The Companies Law of Guernsey, a Crown dependency
[6] Purpose of Composition	A company-type investment fund the purpose of which is investment in stocks, etc.
[7] Equity ratio	100% wholly-owned consolidated subsidiary of the Company.

- (3) Schedule of dissolution and liquidation  
The Company will disclose it as soon as the schedule of procedures such as the selection of the local liquidator, etc. is determined.
- (4) Impact of dissolution  
A ¥895 million impairment loss of Stock Acquisition Right has already been posted for TPJF. However, additional profit or loss may occur in the future dissolution and liquidation process. The impact on the consolidated business results of the Company for the fiscal year ending March 2020 is currently being calculated, and we will disclose promptly if significant impact or other factors are identified.

2. Reduction in the amount of capital reserve and reserve for retained earnings and distribution of surplus.

At the Board of Director's Meeting held on May 15, 2019, the Company decided to propose a reduction in the amount of capital reserve and reserve for retained earnings and distribution of surplus at the 118th Annual General Meeting of Shareholders to be held on June 27, 2019.

- (1) Purpose of reducing in the amount of capital reserve and reserve for retained earnings and distribution of surplus  
The Company determined to reduce the amount of capital reserve and reserve for retained earnings and make appropriation of surplus for the purpose of supplementing a deficit of retained earnings carried forward, resuming dividends distribution and securing flexibility of capital policy in the future.
- (2) Matters concerning reduction in the amount of capital reserve and reserve for retained earnings  
Under the Companies Act, Article 448, paragraph 1, part of the amount of capital reserve and the entire amount of reserve for retained earnings will be decreased and the amount will be transferred to other capital surplus and retained earnings carried forward.
  - [1] Items and amount of reserves to be decreased  
Capital reserve: ¥7,562,779,594 out of ¥10,945,323,164  
Reserve for retained earnings: ¥83,651,561
  - [2] Items and amount of surplus to be increased  
Other capital surplus: ¥7,562,779,594  
Retained earnings carried forward: ¥83,651,561
- (3) Matters concerning distribution of surplus  
Under the Companies Act, Article 452, on condition of effectuation of the decrease in part of capital reserve and the entire reserve for retained earnings and the increase in other capital surplus and retained earnings carried forward, by transfer all the increased other capital surplus to retained earnings carried forward, we would like to supplement the deficit in retained earnings carried forward.
  - [1] Item and amount of surplus to be decreased  
Other capital surplus: ¥8,237,883,268
  - [2] Item and amount of surplus to be increased  
Retained earnings carried forward: ¥8,237,883,268
- (4) Results of paragraph (2), (3) above  
Each item will be as follows:

Capital reserve: ¥3,382,543,570

Other capital surplus: ¥0

Reserve for retained earnings: ¥0

Retained earnings carried forward: ¥0

(5) Effective Date of Decrease in Capital Reserve and Appropriation of Surplus

[1] Date of Resolution of the Board of Director's Meeting: May 15, 2019

[2] Date of Resolution of the General Meeting of Shareholders: June 27, 2019  
(Scheduled)

[3] Effective Date: June 27, 2019 (Scheduled)

(6) Future prospect

As this matter involves a transfer within the accounting items in "Net Assets", the amount of net assets of the Company will not be changed and it will not affect the business results of the Company. The above content is on condition that the proposals are approved at the 118th Annual General Meeting of Shareholders to be held on June 27, 2019.

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

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

**Audit Report of Independent Auditor**

May 23, 2019

To: Board of Directors  
Prospect Co., Ltd.

**Audit Firm HIBISCUS**

Designated Member	Certified Public	Kohei Morisaki
Operating Partner	Accountant	
Designated Member	Certified Public	Katsuyuki Takahashi
Operating Partner	Accountant	
Designated Member	Certified Public	Kaisuke Abe
Operating Partner	Accountant	

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 other net assets and notes to consolidated financial statements of Prospect Co., Ltd. for the consolidated fiscal year from April 1, 2018 to March 31, 2019 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.

**Emphasized Matter**

As stated in the notes to corrections, the Company made a correction in the current consolidated fiscal year and corrected the amount of net assets at the beginning of the year.

This matter shall not affect the opinions of the Audit Firm.

**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, 2019)

(Unit: Thousand yen)

Item	Amount	Item	Amount
<b>Assets</b>	<b>21,221,254</b>	<b>Liabilities</b>	<b>5,202,279</b>
<b>Current Assets</b>	<b>8,849,394</b>	<b>Current Liabilities</b>	<b>2,862,326</b>
Cash and deposits	3,682,984	Accrued construction payment	39,641
Accounts receivable	963	Short-term borrowings	107,400
Securities	72,006	Bonds to be redeemed within a year	14,000
Real estate for sale	1,205,712	Current portion of long-term borrowings	1,503,230
Real estate for sale in process	2,409,079	Unpaid amount	580,877
Real estate for development	442,074	Accrued expenses	130,529
Prepaid expenses	76,991	Advances received	449,802
Accounts receivable	169,526	Deposits received	19,456
Advance money	111,318	Reserve for bonuses	15,588
Other	1,022,740	Other	1,800
Allowance for doubtful accounts	△344,005	<b>Fixed Liabilities</b>	<b>2,339,952</b>
<b>Fixed assets</b>	<b>12,371,860</b>	Bonds	23,000
<b>Tangible fixed assets</b>	<b>571,595</b>	Long-term borrowings	1,953,020
Buildings	109,811	Reserve for retirement allowance	143,523
Land	461,784	Reserve for retirement benefits for officers	138,571
<b>Investments and other assets</b>	<b>11,800,264</b>	Long-term guarantee deposited	2,908
Investment securities	2,000	Other	78,930
Other securities of affiliated companies	231,798	<b>Net Assets</b>	<b>16,018,975</b>
Stocks of affiliated companies	7,596,973	<b>Shareholders' equity</b>	<b>15,329,082</b>
Investments in capital	1,070,298	<b>Capital</b>	<b>12,086,958</b>
Investments in capital of affiliated companies	1,531,249	<b>Capital surplus</b>	<b>11,620,426</b>
Long-term loans	2,362,258	Capital reserve	10,945,323
Long-term loans to employees	2,943	Other capital surplus	675,103
Long-term prepaid expenses	9,054	<b>Retained earnings</b>	<b>△8,237,883</b>
Guarantee money deposited	25,500	Reserve for retained earnings	83,651
Differed tax assets	176,370	Other reserve for retained earnings	△8,321,534
Other	67,312	Retained earnings carried forward	△8,321,534
Allowance for doubtful accounts	△1,275,494	<b>Treasury stock</b>	<b>△140,420</b>
		<b>New share subscription rights</b>	<b>689,893</b>
<b>Total Assets</b>	<b>21,221,254</b>	<b>Total Liabilities and Net Assets</b>	<b>21,221,254</b>

## Profit and Loss Statement

( From April 1, 2018  
to March 31, 2019 )

(Unit: Thousand yen)

Item	Amount	
<b>Sales</b>		<b>3,985,512</b>
<b>Cost of Goods Sold</b>		<b>3,031,552</b>
<b>Gross Profit on Sales</b>		<b>953,959</b>
<b>Selling, General and Administrative Expenses</b>		<b>1,705,758</b>
<b>Operating loss</b>		<b>751,798</b>
<b>Non-operating Income</b>		
Interest income	106,574	
Dividend income	242,761	
Penalties income	100	
Gain on investments in capital	506,467	
Clerical affairs fee received	3,550	
Reversal of selling expenses	1,270	
Miscellaneous revenue	234,448	1,095,173
<b>Non-operating Expenses</b>		
Interest on bond	221	
Interest expenses	81,838	
Valuation loss on investment securities	5,872	
Borrowing fees	9,393	
Transfer to allowance for doubtful accounts	1,528,639	
Miscellaneous losses	240,160	1,866,127
<b>Ordinary loss</b>		<b>1,522,751</b>
<b>Extraordinary Profits</b>		
Profit on sale of fixed assets	1,811	
Profit on sale of stocks of affiliated companies	1,398,875	
Profit on sale of investments in capital	262,231	
Profit on reversal of new share subscription rights	8,090	1,671,007
<b>Extraordinary Losses</b>		
Loss on sale of fixed assets	733	
Valuation loss on stocks of affiliated companies	7,173,918	
Loss on impairment	797,666	
Special investigation expenses	140,437	
Loss on liquidation of affiliated companies	113,274	8,226,030
<b>Net loss before tax</b>		<b>8,077,774</b>
Corporate income tax, resident tax and business tax payable	△24,916	
Adjustment of corporate income tax, etc.	137,839	112,922
<b>Net loss</b>		<b>8,190,696</b>

## Statements of Changes in Shareholders' Equity and Other Net Assets

( From April 1, 2018  
to March 31, 2019 )

(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	11,803,729	10,662,094	2,407,956	13,070,050	83,651	300,936	384,588
Cumulative amount affected by corrections	-	-	-	-	-	△431,774	△431,774
Balance at the beginning of period reflecting corrections	11,803,729	10,662,094	2,407,956	13,070,050	83,651	△130,837	△47,186
Changes during the year							
Issue of new shares	283,228	283,228		283,228			-
Dividends of surplus			△1,732,852	△1,732,852			-
Net loss				-		△8,190,696	△8,190,696
Acquisition of treasury stock				-			-
Changes in items other than shareholders' equity during the year (net)							
Total changes during the year	283,228	283,228	△1,732,852	△1,449,623	-	△8,190,696	△8,190,696
Balance at the end of year	12,086,958	10,945,323	675,103	11,620,426	83,651	△8,321,534	△8,237,883

	Shareholders' equity		New share subscription rights	Total net assets
	Treasury stock	Total shareholders' equity		
Balance at the beginning of year	△140,389	25,117,978	710,417	25,828,396
Cumulative amount affected by corrections	-	△431,774	-	△431,774
Balance at the beginning of period reflecting corrections	△140,389	24,686,204	710,417	25,396,621
Changes during the year				
Issue of new shares		566,457		566,457
Dividends of surplus		△1,732,852		△1,732,852
Net loss		△8,190,696		△8,190,696
Acquisition of treasury stock	△30	△30		△30
Changes in items other than shareholders' equity during the year (net)			△20,524	△20,524
Total changes during the year	△30	△9,357,122	△20,524	△9,377,646
Balance at the end of year	△140,420	15,329,082	689,893	16,018,975

## 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 investments in capital 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

##### (2) 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 recorded for general accounts receivables, and for specified claims such as doubtful accounts receivables, the estimated uncollectible amount is recorded in consideration of the collectability of each claim.

##### (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 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.

(4) 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.

5. Notes to the Changes in Presentation

(Consolidated Balance Sheet)

“Ordinance of the Ministry for Partial Amendment of the Regulation for Enforcement of the Companies Act and Regulation on Corporate Accounting” (Ordinance of the Ministry of Justice, No.5, March 26, 2018) arising from “Partial Amendment of the ‘Accounting Standards for Tax Effect Accounting’” (Accounting Standards for Business Enterprises No. 28, February 16, 2018) has been applied from the current consolidated business year. Accordingly, deferred tax assets are indicated in the category of investments and other assets and deferred tax liabilities are indicated in the category of fixed liabilities.

6. Notes to Corrections

In the Company, after it was determined errors were made in accounting regarding the amount, etc., of tax expenses in the past year, corrections were made. As a result, retained earnings at the beginning of the current business year decreased by 431,774 thousand yen.

**Notes to Balance Sheet**

1. Accumulated depreciation of tangible fixed assets 156,835 thousand yen

2. Assets for security and secured debt

Assets provided as security

Real estate for sale 60,845 thousand yen

Real estate for sale in process 1,881,459 thousand yen

Real estate for development 442,074 thousand yen

Buildings 10,456 thousand yen

Land 9,511 thousand yen

Liabilities with security for the above 1,676,600 thousand yen

In addition to the above collateral, the borrowed securities of 1,409,900 thousand yen and we have offered for security the deposited securities of 24,500 thousand yen for security of earnest money to the credit guarantee company. We have also deposited securities of 10,000 thousand yen 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	176,000 thousand yen
<i>Godokaisha</i> Prospect Tokujiro	1,228,405 thousand yen
<i>Godokaisha</i> Prospect Katori	651,975 thousand yen
<i>Godokaisha</i> Prospect Ushiku	378,800 thousand yen
<i>Godokaisha</i> Prospect Sanmu Nishi	469,000 thousand yen
<i>Godokaisha</i> Prospect Sanmu Minami	612,000 thousand yen
<i>Godokaisha</i> Prospect Sendai	494,676 thousand yen
<i>Godokaisha</i> Prospect Narita Kanzaki	4,489,000 thousand yen
<i>Godokaisha</i> Prospect Rikuzen Takata	277,724 thousand yen

### 4. Monetary Claims to Affiliated Companies

Short-term monetary claims	1,087,171 thousand yen
Long-term monetary claims	3,095,878 thousand yen
Short-term monetary liabilities	23,375 thousand yen

### Notes to Profit and Loss Statement

Transaction amount with Affiliated Companies	
Sales	117,701 thousand yen
Transaction amount other than sales transactions	646,037 thousand yen

### Notes to Statement of Changes in Shareholders' Equity and Other Net Assets

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

Common stock 2,780,118 shares

(Note) The increase in the number of treasury stocks is due to purchase of 634 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	2,412,362 thousand yen
Impairment loss on fixed assets	136,739 thousand yen
Accrued business tax	24,264 thousand yen
Reserve for bonuses	4,773 thousand yen
Impairment loss of subsidiary	7,173,918 thousand yen
Reserve for retirement allowance	43,946 thousand yen
Reserve for retirement benefits for officers	42,430 thousand yen
Allowance for doubtful accounts	495,890 thousand yen
Other	502,657 thousand yen
Subtotal of Deferred tax assets	10,836,983 thousand yen
Reserve for valuation	<u>△10,665,583 thousand yen</u>
Total deferred tax assets	<u>171,400 thousand yen</u>

## 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	Godokaiisha Prospect Narita Kozaki	Shibuya-ku, Tokyo	3,000	Renewable Energy Business	100%	Investment	Guarantee obligation	4,489,000	-	-
Subsidiary	Prospect-biomass Co., Ltd.	Shibuya-ku, Tokyo	1,000	Renewable Energy Business	100%	Investment	Loan of funds	1,607,526	Long-term loans	1,607,526
Subsidiary	Godokaiisha Prospect Tokujiro	Shibuya-ku, Tokyo	50	Renewable Energy Business	100%	Investment	Debt guarantee	1,228,405	-	-
Subsidiary	The Prospect Japan Fund Limited	British Channel Islands	92 thousand USD	Renewable Energy Business	100%	Holding of shares	Loan of funds	1,100,000	Short-term loans	680,000
							Payment of rent	420,000		
Subsidiary	Godokaiisha Prospect Katori	Shibuya-ku, Tokyo	50	Renewable Energy Business	100%	Investment	Debt guarantee	651,975	-	-
Subsidiary	Godokaiisha Prospect Sanmu Minami	Shibuya-ku, Tokyo	10	Renewable Energy Business	100%	Investment	Debt guarantee	612,000	-	-
Subsidiary	Godokaiisha Prospect Sendai	Shibuya-ku, Tokyo	10	Renewable Energy Business	100%	Investment	Debt guarantee	494,676	-	-
Subsidiary	Godokaiisha Prospect Sanmu Nishi	Shibuya-ku, Tokyo	10	Renewable Energy Business	100%	Investment	Debt guarantee	469,000	-	-
Subsidiary	Prospect Asset Management, Inc.	Hawaii USA	1,301 thousand USD	Asset Management Business	100%	Holding of shares	Loan of funds	282,600	Short-term borrowings	277,475
Subsidiary	Godokaiisha Prospect Rikuzen Takata	Shibuya-ku, Tokyo	50	Renewable Energy Business	100%	Investment	Debt guarantee	277,724	-	-
Affiliated	RFP Wood Pellets, LLC	Russia	245,108 Russian Ruble	Renewable Energy Business	49%	Investment	Underwriting of capital increase	231,798	-	-

- (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.

### Notes to Per Share Information

1. Net assets per share 34 yen 50 sen  
2. Net loss per share 18 yen 47 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 23, 2019

To: Board of Directors  
Prospect Co., Ltd.

#### Audit Firm HIBISCUS

Designated Member	Certified Public	Kohei Morisaki
Operating Partner	Accountant	
Designated Member	Certified Public	Katsuyuki Takahashi
Operating Partner	Accountant	
Designated Member	Certified Public	Kaisuke Abe
Operating Partner	Accountant	

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 other net assets and notes to non-consolidated financial statements and schedules of Prospect Co., Ltd. for the 118th business year from April 1, 2018 to March 31, 2019 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.

#### Emphasized Matter

As stated in the notes to corrections, the Company made a correction in the current consolidated fiscal year and corrected the amount of net assets at the beginning of the year.

This matter shall not affect the opinions of the Audit Firm.

#### 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 118th business year from April 1, 2018 to March 31, 2019.

#### 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 other net assets 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 other net assets 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 24, 2019

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: Partial Amendment of the Articles of Incorporation (1)

##### 1. Reasons for Proposal

(1) In order to further improve the transparency of management by strengthening the supervisory function of the Board of Directors and corporate governance, the Company will transition to a company with an Audit and Supervisory Committee. Accordingly, the establishment of new provisions of Audit and Supervisory Committee Members and the Audit and Supervisory Committee and deletion of provisions of Auditors and the Board of Auditors, etc., shall be made.

In addition, in order to improve the environment where competent and various personnel can be invited and these personnel can fully exert their expected rolls, part of the current Articles of Incorporation, Article 29 will be amended so that Directors other than Executive Directors can also enter into a liability limitation agreement. For the purpose of realizing prompt decision-making and flexible operation execution, a new provision that enables delegation of important decisions on operation execution to Directors will be established. Also, Supplementary Provisions shall be established as a transitional measure in connection with deletion of the provision exempting the liabilities of Outside Auditors. Consent of each Auditor was obtained to the amendment of the current Articles of Incorporation, Article 29.

(2) In addition, we have changes in kanji conversion, new establishment or deletion of Articles, and changes of the Article numbers etc.

(3) In this regard, amendment of the Articles of Incorporation in this Proposition shall become effective at the closing of the annual general meeting of shareholders.

##### 2. Details of Change

The details of the change are as follows.

(Underlined portions indicate the changed portion).

Current Articles of Incorporation	Change Proposal
Chapter 1 General Provisions (Organs)	Chapter 1 General Provisions (Organs)
Article 4 The Company shall establish the following corporate governance organs in addition to the general meeting of shareholders and Directors. (1) Board of Directors (2) <u>Auditor</u> (3) <u>Board of Auditors</u> (4) Accounting Auditor	Article 4 The Company shall establish the following corporate governance organs in addition to the general meeting of shareholders and Directors. (1) Board of Directors <Deleted> (2) <u>Audit and Supervisory Committee</u> (3) Accounting Auditor
Chapter 4 Directors and the Board of Directors (Number of Directors)	Chapter 4 Directors and the Board of Directors (Number of Directors)
Article 19 The Company shall establish <u>three (3) or more Directors.</u>	Article 19 The Company shall establish <u>not more than four (4) Directors (except for Directors who are Audit and Supervisory Committee Members).</u>
<New Provision>	<u>2. The Company shall establish not more than four (4) Directors who are Audit and Supervisory Committee Members.</u>

Current Articles of Incorporation	Change Proposal
<p>(Appointment of Directors) Article 20 &lt;New Provision&gt;</p> <p>Resolutions for appointment of Directors shall require that shareholders representing at least one-third (1/3) of the voting rights of the shareholders entitled to exercising of their voting rights be in attendance at the meeting, and shall be adopted by a majority of voting rights of the shareholders.</p> <p><u>2.</u> Resolutions for appointment of Directors shall not adopt cumulative voting.</p>	<p>(Appointment of Directors) Article 20 <u>Directors shall be appointed at the general meeting of shareholders, distinguishing the Directors who are Audit and Supervisory Committee Members from other Directors.</u></p> <p><u>2.</u> Resolutions for appointment of Directors shall require that shareholders representing at least one-third (1/3) of the voting rights of the shareholders entitled to exercising of their voting rights be in attendance at the meeting, and shall be adopted by a majority of voting rights of the shareholders.</p> <p><u>3.</u> Resolutions for appointment of Directors shall not adopt cumulative voting.</p>
<p>(Term of Office of Directors) Article 21 Term of office of Directors shall expire at the closing of the annual general meeting of shareholders held for the last business year ending within one (1) year after their appointment.</p> <p>&lt;New Provision&gt;</p> <p>&lt;New Provision&gt;</p>	<p>(Term of Office of Directors) Article 21 Term of office of Directors <u>(except for Directors who are Audit and Supervisory Committee Members)</u> shall expire at the closing of the annual general meeting of shareholders held for the last business year ending within one (1) year after their appointment.</p> <p><u>2. Term of office of Directors who are Audit and Supervisory Committee Members shall expire at the closing of the annual general meeting of shareholders held for the last business year ending within two (2) years after their appointment.</u></p> <p><u>3. For the term of office of a Director who is an Audit and Supervisory Committee Member and appointed to fill a vacancy of the Director who was an Audit and Supervisory Committee Member and resigned before the expiration of the term, it shall be by the expiration of the term of the resigned Director who was an Audit and Supervisory Committee Member.</u></p>

Current Articles of Incorporation	Change Proposal
<p>(Representative Director and Directors with Titles)            Article 22 A Representative Director shall be appointed by resolution of the Board of Directors.</p> <p>2. By resolution of the Board of Directors, one Director, Chairman, one Director, President, and a few Directors, Vice President, Senior Managing Directors and Managing Directors may be appointed.</p>	<p>(Representative Director and Directors with Titles)            Article 22 A Representative Director shall be appointed <u>from among the Directors (except for Directors who are Audit and Supervisory Committee Members)</u> by resolution of the Board of Directors.</p> <p>2. By resolution of the Board of Directors, one Director, Chairman, one Director, President, and a few Directors, Vice President, Senior Managing Directors and Managing Directors may be appointed <u>from among the Directors (except for Directors who are Audit and Supervisory Committee Members)</u>.</p>
<p>(Convenor and Chairperson of the Board of Directors' Meeting)            Article 23 The Board of Directors' meetings shall be convened and presided by Director, President, except as otherwise provided for in laws and regulations.</p> <p>2. If Director, President is prevented from doing so, one of other Directors shall do so on behalf of Director, President in the order predetermined by the Board of Directors.</p>	<p>(Convenor and Chairperson of the Board of Directors' Meeting)            Article 23 (The same as the current provision)</p> <p>2. (The same as the current provision)</p>
<p>(Convening the Board of Directors' Meeting)            Article 24 Convening notice of the Board of Directors' meeting shall be sent to each Director <u>and each Auditor</u> at least three (3) days before the date designated for the meeting; provided, however, that the said period may be shortened in case of emergency.</p> <p>2. If all the Directors <u>and Auditors</u> agree, the Board of Directors' meeting may be held without convening procedures.</p>	<p>(Convening the Board of Directors' Meeting)            Article 24 Convening notice of the Board of Directors' meeting shall be sent to each Director at least three (3) days before the date designated for the meeting; provided, however, that the said period may be shortened in case of emergency.</p> <p>2. If all the Directors agree, the Board of Directors' meeting may be held without convening procedures.</p>
<p>&lt;New Provision&gt;</p>	<p><u>(Delegation of Decision on Important Operation Execution)</u>  <u>Article 25 The Company may, under the Companies Act, Article 399-13, paragraph 6, delegate to the Directors all or part of decisions on important operation execution by resolution of the Board of Directors (except for the matters set forth in each item of paragraph 5 of the same Article).</u></p>

Current Articles of Incorporation	Change Proposal
(Resolution Method of the Board of Directors' Meeting) Article <u>25</u> (Text omitted)	(Resolution Method of the Board of Directors' Meeting) Article <u>26</u> (The same as the current provision)
(Omission of Resolutions of the Board of Directors) Article <u>26</u> (Text omitted)	(Omission of Resolutions of the Board of Directors) Article <u>27</u> (The same as the current provision)
(The Board of Directors Regulations) Article <u>27</u> (Text omitted)	(The Board of Directors Regulations) Article <u>28</u> (The same as the current provision)
(Compensation for Directors, etc.) Article <u>28</u> Compensation for Directors, etc., shall be determined by resolution of a general meeting of shareholders.	(Compensation for Directors, etc.) Article <u>29</u> Compensation for Directors, etc., shall be determined by resolution of a general meeting of shareholders, <u>distinguishing the Directors who are Audit and Supervisory Committee Members from other Directors.</u>
(Liability Exemption of <u>Outside</u> Directors) Article <u>29</u> The Company may execute with an <u>Outside</u> Director an agreement limiting damage liability due to negligence of duties under the Companies Act, Article 427, paragraph 1; provided, however, that the damage liability limit under the Agreement shall be the amount specified by laws and regulations.	(Liability Exemption of Directors) Article <u>30</u> The Company may execute with a Director <u>(except for Executive Directors)</u> an agreement limiting damage liability due to negligence of duties under the Companies Act, Article 427, paragraph 1 <u>if the Director is without knowledge and is not grossly negligent</u> ; provided, however, that the damage liability limit under the Agreement shall be the amount specified by laws and regulations.
<u>Chapter 5 Auditor and Board of Auditors</u> <u>(Number of Auditors)</u> <u>Article 30 The Company shall establish three (3) or more Auditors.</u>	<Deleted>  <Deleted>
<u>(Appointment of Auditors)</u> <u>Article 31 Resolutions for appointment of Auditors shall require that shareholders representing at least one-third (1/3) of the voting rights of the shareholders entitled to exercising of their voting rights be in attendance at the meeting, and shall be adopted by a majority of voting rights of the shareholders.</u>	<Deleted>

Current Articles of Incorporation	Change Proposal
<p><u>(Term of an Auditor)</u>  <u>Article 32 Term of office of Auditors shall expire at the closing of the annual general meeting of shareholders held for the last business year ending within four (4) years after their appointment.</u>  <u>2. Term of office of an Auditor who is appointed to fill a vacancy shall be by the expiration of the term of the resigned Auditor.</u></p>	<p>&lt;Deleted&gt;  &lt;Deleted&gt;</p>
<p><u>(Standing Auditor)</u>  <u>Article 33 The Board of Auditors shall appoint Standing Auditors by resolution of the Board of Auditors.</u></p>	<p>&lt;Deleted&gt;</p>
<p><u>(Convening the Board of Auditors' Meeting)</u>  <u>Article 34 Convening notice of the Board of Auditors' meeting shall be sent to each Auditor at least three (3) days before the date designated for the meeting; provided, however, that the said period may be shortened in case of emergency.</u></p>	<p>&lt;Deleted&gt;</p>
<p><u>(Resolution Method of the Board of Auditors)</u>  <u>Article 35 Resolutions of the Board of Auditors shall be adopted by a majority of the Auditors except as otherwise specified in laws and regulations.</u></p>	<p>&lt;Deleted&gt;</p>
<p><u>(Board of Auditors Regulations)</u>  <u>Article 36 Matters concerning the Board of Auditors shall be in accordance with the Board of Auditors Regulations determined by the Board of Auditors in addition to laws and regulations and the Articles of Incorporation.</u></p>	<p>&lt;Deleted&gt;</p>
<p><u>(Compensation for Auditors, etc.)</u>  <u>Article 37 Compensation for Auditors, etc., shall be determined by resolution of the general meeting of shareholders.</u></p>	<p>&lt;Deleted&gt;</p>
<p><u>(Liability Exemption of Outside Auditors)</u>  <u>Article 38 The Company may execute with an Outside Auditor an agreement limiting damage liability due to negligence of duties under the Companies Act, Article 427, paragraph 1; provided, however, that the damage liability limit under the agreement shall be the amount specified by laws and regulations.</u></p>	<p>&lt;Deleted&gt;</p>

Current Articles of Incorporation	Change Proposal
<New Provision>	Chapter 5 Audit and Supervisory Committee <u>(Standing Audit and Supervisory Committee Member)</u>
<New Provision>	<u>Article 31 The Audit and Supervisory Committee may appoint Standing Audit and Supervisory Committee Members by resolution of the Audit and Supervisory Committee.</u>
<New Provision>	<u>(Convening Notice of the Audit and Supervisory Committee)</u> <u>Article 32 Convening notice of the Audit and Supervisory Committee meeting shall be sent to each Audit and Supervisory Committee Member at least three (3) days before the date designated for the meeting; provided, however, that the said period may be shortened in case of emergency.</u> <u>(Resolution Method of the Audit and Supervisory Committee)</u>
<New Provision>	<u>Article 33 Resolutions of the Audit and Supervisory Committee shall require that a majority of Audit and Supervisory Committee Members entitled to join the voting be in attendance at the meeting and shall be adopted by a majority of Audit and Supervisory Committee Members.</u> <u>(Audit and Supervisory Committee Regulations)</u>
<New Provision>	<u>Article 34 Matters concerning the Audit and Supervisory Committee shall be in accordance with the Audit and Supervisory Committee Regulations determined by the Audit and Supervisory Committee in addition to laws and regulations and the Articles of Incorporation.</u>
<New Provision>	<u>Supplementary Provision</u> <u>(Transitional Measures for Liability Exemption of Outside Auditors)</u>

Current Articles of Incorporation	Change Proposal
<p data-bbox="475 533 655 562">&lt;New Provision&gt;</p>	<p data-bbox="810 533 1233 853"><u>Article 1 Agreement on limiting damage liability under the Companies Act, Article 423, paragraph 1 regarding the acts of Outside Auditors before the close of the 118th annual general meeting of shareholders (including those who were Outside Auditors) shall continue to be in accordance with the Articles of Incorporation, Article 38 before the amendment by resolution of the same annual general meeting of shareholders.</u></p>

**Proposition No. 2:** Partial Amendment of the Articles of Incorporation (2)

1. Reasons for Proposal

- (1) In order to clarify the matters concerning Accounting Auditor, one of the organs of the Company, a new provision of Accounting Auditor will be established (from Article 35 to Article 38) in Chapter 6.
- (2) In this regard, amendment of the Articles of Incorporation in this Proposition shall become effective at the closing of the annual general meeting of shareholders.

2. Details of Change

The details of the change are as follows. In addition, the following Articles numbers are based on the approval of the Proposition No. 1 "Partial Amendment of the Articles of Incorporation (1)", and in other cases, the Articles numbers will be adjusted according to the result.

(Underlined portions indicate the changed portion).

Current Articles of Incorporation	Change Proposal
<New Provision>	Chapter 6 Accounting Auditors <u>(Appointment of Accounting Auditors)</u>
<New Provision>	<u>Article 35 Accounting Auditors shall be appointed by resolution of the general meeting of shareholders.</u>
<New Provision>	<u>(Term of Office of Accounting Auditors)</u> <u>Article 36 Term of office of Accounting Auditors shall expire at the closing of the annual general meeting of shareholders held for the last business year ending within one (1) year after their appointment.</u>
<New Provision>	<u>2. Unless any resolution was otherwise adopted at the general meeting of shareholders under the preceding paragraph, the Accounting Auditors shall be deemed to have been reappointed.</u>
<New Provision>	<u>(Compensation for Accounting Auditor, etc.)</u> <u>Article 37 Compensation, etc., for Accounting Auditors shall be determined by Representative Director with the consent of the Audit and Supervisory Committee.</u>
<New Provision>	<u>(Liability Limitation Agreement of Accounting Auditors)</u> <u>Article 38 The Company may execute with an Accounting Auditor an agreement limiting damage liability due to negligence of duties under the Companies Act, Article 427, paragraph 1 if the Accounting Auditor is without knowledge and is not grossly negligent, however, that the damage liability limit under the Agreement shall be the amount specified by laws and regulations.</u>

**Proposition No. 3: Partial Amendment of the Articles of Incorporation (3)**

1. Reasons for Proposal

- (1) As of March 31, 2019, the total number of shares issued by the Company is 447,090,984 shares, number of dilutive shares is 208,087,552 shares (1st to 4th New Share Subscription Rights of 128,087,552 shares + 5th New Share Subscription Rights of 80,000,000 shares) and the total is 655,178,536 shares. The Company changed the total number of shares authorized to be issued under the current Articles of Incorporation, Article 6 (Total Number of Shares Authorized to be Issued) to 1,740 million shares from 690 million shares by the resolution at the 117th annual general meeting of shareholders held last year. However, based on concerns from shareholders regarding the future dilution of net assets and profit per share, in order to realize a stable and flexible dividend policy under the new system after corporate governance organ change as a result of transition to a company with an Audit and Supervisory Committee, we would like to change the total number of shares authorized to be issued to 870 million shares.
- (2) In addition, we have changes in kanji conversion, new establishment or deletion of Articles, and changes of the Article numbers etc.
- (3) In this regard, amendment of the Articles of Incorporation in this Proposition shall become effective at the closing of the annual general meeting of shareholders.

2. Details of Change

The details of the change are as follows. In addition, the following Articles numbers are based on the approval of the Proposition No. 1 "Partial Amendment of the Articles of Incorporation (1)", as well as the Proposition No. 2 "Partial Amendment of the Articles of Incorporation (2)". And in other cases, the Articles numbers will be adjusted according to the result.

(Underlined portions indicate the changed portion).

Current Articles of Incorporation	Change Proposal
Chapter 2 Shares (Total Number of Shares Authorized to be Issued) Article 6 Total number of shares authorized to be issued by the Company shall be <u>1,740 million</u> shares.	Chapter 2 Shares (Total Number of Shares Authorized to be Issued) Article 6 Total number of shares authorized to be issued by the Company shall be <u>870 million</u> shares.

**Proposition No. 4: Reduction in the Amount of Capital Reserve and Reserve for Retained Earnings and Distribution of Surplus**

1. Reasons for Proposal

Due to valuation loss on Stock Acquisition Rights, recording of large losses by subsidiaries, loss on impairment of fixed assets, recording of investigation expenses of the special investigation committee for correction of the past closing in extraordinary losses and sluggish sales of condominium sales business in the Tokyo Metropolitan Area, which is our core business, we recorded a deficit of 8,321,534,829 yen in retained earnings carried forward at the end of March 2019.

Under these circumstances, we would like to decrease the amount of capital reserve and reserve for retained earnings and appropriate a surplus as stated below for the purpose of supplementing the deficit in retained earnings carried forward and secure flexibility in future financial strategies.

In this regard, as already announced in the “Notice of Adjustment of Dividend (No Dividend)” dated February 14, 2019, we apologize that no dividend will be paid at the end of the current year.

2. Matters concerning Reduction in the Amount of Capital Reserve and Reserve for Retained Earnings

Under the Companies Act, Article 448, paragraph 1, we will decrease part of capital reserve and the entire reserve for retained earnings and transfer respectively to other capital surplus and retained earnings carried forward.

(1) Items and amount of reserves to be decreased

Capital reserve: 7,562,779,594 yen out of 10,945,323,164 yen

Reserve for retained earnings: 83,651,561 yen

(2) Items and amount of surplus to be increased

Other capital surplus: 7,562,779,594 yen

Retained earnings carried forward: 83,651,561 yen

3. Matters concerning Appropriation of Surplus

Under the Companies Act, Article 452, on condition of effectuation of the decrease in part of capital reserve and the entire reserve for retained earnings and the increase in other capital surplus and retained earnings carried forward, by transfer all the increased other capital surplus to retained earnings carried forward, we would like to supplement the deficit in retained earnings carried forward.

(1) Item and amount of surplus to be decreased

Other capital surplus: 8,237,883,268 yen

(2) Item and amount of surplus to be increased

Retained earnings carried forward: 8,237,883,268 yen

4. Effective date of reduction in the amount of capital reserve and reserve for retained earnings and distribution of surplus

June 27, 2019



3 *	Dominic Henderson (Born on August 3, 1963)	September 1985: Robert Fleming Securities, London June 1988: Jardine Fleming Securities Ltd., Tokyo February 1994: Director of Robert Fleming Securities Ltd., New York July 2001: Vice President and Equity Department Manager of JP Morgan Securities, Inc. March 2003: Tokyo Managing Director and Equity Division Manager of ING Securities Ltd. August 2004: Tokyo Branch Manager and Equity Division General Manager of Macquarie Capital Securities (Japan) Ltd. January 2009: Partner of Bendigo Partners, LLC (current) May 2009: President and Representative Director of Bendigo K.K. (current) June 2009: Outside Director of the Company June 2013: Director of Akatsuki Corp. (current) June 2017: Executive Officer in charge of Overseas Business of the Company (current)	Shares  10,300
4 *	Thomas R. Zengage (Born on June 15, 1953)	January 1982: IBI Inc. September 1998: Representative Director of IBI, Inc. January 2006: Representative of Pacific Communicators, Inc. March 2009: Representative Director, Chairman of Japanese Corporation, Edelman Public Relations September 2009: Representative of Pacific Communicators, Inc. (current) December 2012: Representative Director, Chairman & CEO of Investor Impact, Inc. (current) June 2013: Outside Auditor of the Company (current)	Shares  0

- (Note) 1. \* indicates new candidates for director.
2. There are no special interests between each candidate for Directors and the Company.
3. A candidate for Director, Mr. Thomas R. Zengage 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
- We would like Mr. Thomas R. Zengage 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 IR/ESG consulting industry.
- He is currently an Outside Auditor of the Company and the period of being an Auditor will be six (6) years as of the end of the general meeting of shareholders.
- (2) Liability Limitation Agreement between the Company and the Candidates for Outside Directors
- The Company executed an agreement with Mr. Zengage on limiting damage liability under the Companies Act, Article 423, paragraph 1 based on the Companies Act, Article 427, paragraph 1. The damage liability limit under the Agreement shall be the minimum liability amount provided for in the Companies Act, Article 425, paragraph 1 and if his appointment is approved, we will execute a new liability limitation agreement as a Director (except for a Director who is an Audit and Supervisory Committee Member).
5. Mr. Thomas R. Zengage 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. 6:** Appointment of four (4) Directors who are Audit and Supervisory Committee Members

The Company will transition to a company with an Audit and Supervisory Committee if Proposition No.1 “Partial Amendment of the Articles of Incorporation (1)” is approved as proposed. Accordingly, we would like to request appointment of four (4) Directors who are Audit and Supervisory Committee Members.

In this regard, the consent of the Board of Auditors was obtained with regard to this Proposition.

This Proposition shall become effective on condition of effectuation of the amendment of the Articles of Incorporation as set forth in Proposition No.1 “Partial Amendment of the Articles of Incorporation (1)”.

Candidates for Directors who are Audit and Supervisory Committee Members 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 *	Akio Tsukishima (Born on September 7, 1950)	<p>April 1974: The Sumitomo Trust and Banking Co., Ltd. (currently Sumitomo Mitsui Trust Bank, Limited)</p> <p>June 1996: Standing Auditor of TDS Co., Ltd.</p> <p>July 2006: Risk Compliance Office Manager of Tosei REIT Advisers, Inc.</p> <p>February 2008: Administration Department Manager of Prospect Co., Ltd.</p> <p>June 2008: Director and Administration Department Manager of Prospect Co., Ltd.</p> <p>June 2009: Representative Director of Prospect REIT Advisers Co., Ltd.</p> <p>March 2011: Adviser of Prospect Co., Ltd.</p> <p>June 2011: CO of Prospect Co., Ltd.,</p> <p>June 2013: Auditor of the Company (current)</p>	<p>Shares</p> <p>15,000</p>
2 *	Yuki Ichikawa (Born on July 21, 1970)	<p>April 1997: Registered as an attorney</p> <p>April 1997: Hamayotsu &amp; Hamayotsu</p> <p>April 2010: Outside Auditor of Yasuragi Co., Ltd. (currently, Katitas Co., Ltd.) (current)</p> <p>June 2010: Outside Auditor of the Company (current)</p>	<p>Shares</p> <p>0</p>
3 *	Hitoshi Matsufuji (Born on March 3, 1952)	<p>October 1975: Deloitte Haskins and Sells Joint Firm</p> <p>April 1982: Registered as a certified public accountant</p> <p>July 1996: Partner of the above company</p> <p>August 2006: Deloitte Tohmatsu FAS, Co., Ltd., Forensic Service Department</p> <p>June 2016: Outside Auditor of NIHON TOKUSHU TORYO CO., LTD. (current)</p> <p>August 2016: Outside Director of Oracle Corporation Japan (Audit and Supervisory Committee Member)</p>	<p>Shares</p> <p>0</p>
4 *	Tomonori Utsumi (Born on September 25, 1976)	<p>October 2001: Asahi Audit Corporation (currently, KPMG AZSA LLC)</p> <p>September 2005: Registered as a certified public accountant</p> <p>July 2012: Transferred to Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation)</p> <p>July 2015: Reinstated to KPMG AZSA LLC</p> <p>September 2016: Utsumi Certified Public Accountant Office (current)</p> <p>July 2017: Auditor of Withsoft Co., Ltd.</p> <p>April 2019: ProCUBE Japan Co., Ltd. (current)</p>	<p>Shares</p> <p>0</p>

(Note) 1. \* indicates new candidate for Director who is an Audit and Supervisory Committee Members.

2. There are no special interests between each candidate for Director and the Company.
3. Matters concerning candidates for Outside Director who are Audit and Supervisory Committee Members are as follows.

(1) Reasons for Appointment

- (A) As Mr. Akio Tsukishima has qualifications as a certified public tax accountant and we would like him to make full use of his extensive experience and wide-ranging knowledge cultivated during his long career in the financial and real estate business for reinforcement of the audit system of the Company, we nominated him as a candidate for Outside Director.  
He is currently an Outside Auditor of the Company and the period of being an Auditor will be six (6) years as of the end of the general meeting of shareholders.
- (B) 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 nominated him as a candidate for Outside Director. 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.  
He is currently an Outside Auditor of the Company and the period of being an Auditor will be nine (9) years as of the end of the general meeting of shareholders.
- (C) As Mr. Hitoshi Matsufuji has qualifications as a certified public accountant and we would like him to make full use of his considerable knowledge of accounting and sufficient knowledge of corporate management for reinforcement of the audit system of the Company, we nominated him as a candidate for Outside Director. 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.
- (D) As Mr. Tomonori Utsumi has qualifications as a certified public accountant and we would like him to make full use of his considerable knowledge of accounting and sufficient knowledge of auditing for reinforcement of the audit system of the Company, we nominated him as a candidate for Outside Director. 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.

(2) Independent Director Member

The Company has designated both Mr. Akio Tsukishima and Mr. Yuki Ichikawa as independent director members 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. If they are appointed, they will continue to be designated as independent director members.

Both Mr. Hitoshi Matsufuji and Mr. Tomonori Utsumi satisfy the requirements as independent director members under the provisions of the Tokyo Stock Exchange and if they are appointed, they will be designated as independent director members and the Tokyo Stock Exchange will be so notified.

(3) Liability Limitation Agreement between the Company and Candidates for Outside Directors who are Audit and Supervisory Committee Members.

The Company executed an agreement with both Mr. Akio Tsukishima and Mr. Yuki Ichikawa on limiting damage liability under the Companies Act, Article 423, paragraph 1 based on the Companies Act, Article 427, paragraph 1. The damage liability limit under the Agreement shall be the minimum liability amount provided for in the Companies Act, Article 425, paragraph 1. If appointment of Mr. Akio Tsukishima and Mr. Yuki Ichikawa is approved, we will execute a new liability limitation agreement as Directors who are Audit and Supervisory Committee Members. Also, if appointment of Hitoshi Matsufuji and Mr. Tomonori Utsumi is approved, the Company will execute a similar liability limitation agreement.

**Proposition No. 7:** Establishment of compensation for Directors (except for Directors who are Audit and Supervisory Committee Members)

A resolution on compensation for Directors of the Company was reached, and it was resolved to be 888 million yen annually or less at the 114th annual general meeting of shareholders held on June 26, 2015 and continued to be effective up to the present day. If Proposition No.1 “Partial Amendment of the Articles of Incorporation (1)” is approved as proposed, the Company will transition to a company with an Audit and Supervisory Committee.

Accordingly, we would like to repeal the current provisions for compensation for the Directors and, considering the previous compensation for Directors and various factors including recent economic circumstances, establish the compensation for Directors (except for Directors who are Audit and Supervisory Committee Members) at 230 million yen annually or less (out of which compensation for Outside Directors shall be 12 million yen annually or less).

There are three (3) Directors (one (1) is an Outside Director) and the number of Directors related to this Proposition (except for Directors who are Audit and Supervisory Committee Members) will be four (4) (one (1) is an Outside Director) if Proposition No.5 is approved.

This Proposition shall become effective on condition of effectuation of the amendment of the Articles of Incorporation as set forth in Proposition No.1 “Partial Amendment of the Articles of Incorporation (1)”.

**Proposition No. 8:** Establishment of compensation for Directors who are Audit and Supervisory Committee Members

If Proposition No.1 “Partial Amendment of the Articles of Incorporation (1)” is approved as proposed, the Company will transition to a company with an Audit and Supervisory Committee.

Accordingly, considering the duties and responsibilities as well as various factors including recent economic circumstances, we would like to establish compensation for Directors who are Audit and Supervisory Committee Members at 28 million yen annually or less.

Number of Directors who are Audit and Supervisory Committee Members related to this Proposition will be four (4) if Proposition No.6 is approved.

This Proposition shall become effective on condition of effectuation of the amendment of the Articles of Incorporation as set forth in Proposition No.1 “Partial Amendment of the Articles of Incorporation (1)”.

**Proposition No. 9: Appointment of Accounting Auditor**

As the Accounting Auditor of the Company, Audit Firm HIBISCUS will resign at the closing of the general meeting of shareholders due to the expiration of the term of office, and we would like to request appointment of a new Accounting Auditor.

This Proposition was proposed based on the decision of the Board of Auditors.

As a reason for that the Board of Auditors nominates Yotsuya Audit Corporation as a candidate for Accounting Auditor, we can expect audits from a new perspective, considering the duration of service of the current Accounting Auditor and we determined that it was appropriate as a result of comprehensively considering the quality management system as an accounting auditor, existence of independence and professionalism and understanding of businesses deployed by the Company on a global scale.

Name, address of principal office and history, etc., of the candidate for Accounting Auditor are as follows.

Name	Yotsuya Audit Corporation
Principal Office	Rokubancho Gakuendori Building, 7-4 Rokubancho, Chiyoda-ku, Tokyo
History	July 1977: Yotsuya Certified Public Accountants Joint Office established December 2008: Yotsuya Audit Corporation established
Profile	Number of members and staff (as of March 31, 2019) Members (Certified Public Accountants) 12 persons Staff (Certified Public Accountants) 6 persons Staff (Those who passed the examination of certified public accountants) 2 persons (Total) 20 persons Clients to whom Audit Certificates are issued: 10 companies Investment in capital: 9 million yen

(Note) If Yotsuya Audit Corporation is appointed, we will execute an agreement with the Corporation on limiting damage liability under the Companies Act, Article 423, paragraph 1 based on the Companies Act, Article 427, paragraph 1 if the Corporation is without knowledge and is not grossly negligent on condition that Proposition No.2 “Partial Amendment of the Articles of Incorporation (2)” is approved as proposed. The damage liability limit under the Agreement shall be the minimum liability amount provided for in the Companies Act, Article 425, paragraph 1.

**Proposition No. 10: Granting Retirement Benefits to Resigning Directors**

Director, Mr. Curtis Freeze will resign at the closing of the general meeting of shareholders due to the expiration of the term of office. For retirement benefits for the Director, we would like to grant 132,444,001 yen adding 20% as a merit bonus to the amount of 110,370,001 yen, calculated by monthly compensation by office  $\times$  period of assuming post by office (years)  $\times$  office coefficient under the “Internal Regulations for Retirement Benefits for Directors.”

After being appointed as an Outside Director of the Company in June 2009, he was appointed as Representative Director of the Company in June 2010 and has significantly contributed to the corporate business up to the present day. Specifically, while the Company had engaged in single business approach of condominium sales when he became a Director, the Company conducted M&A strategies effectively under his direction, added the custom-built homes business, AM business and construction business to our business portfolio, and as a result of entering the renewable energy business such as the photovoltaic power generation business and biomass related business as core businesses, the Company could survive various economic crises, including an economic downturn precipitated by the “Lehman Brothers Shock” in 2008.

In the year ended March 31, 2009, the share price of the shares of the Company was sluggish and the total market value at bottom had fallen to about 400 million yen, as a result of the aforementioned measures, the Company continued to grow and the total market value at the end of the current consolidated fiscal year was about 8,000 million yen significantly expanding corporate scale and enhancing the foundations for future growth.

In the current consolidated fiscal year, we recorded large losses by recording losses on impairment and provision for part of the accumulated assets and we are compelled to forgo payment of a dividend. However, as his contributions have been great as stated above, the Company would like to grant retirement benefits as set forth above. In addition, in response to the circumstances in which the share price of the Company has been sluggish since November 2018, he offered to return about 56.4 million yen which is equivalent to 10% of the amount payable to him in unpaid bonuses for officers determined in the year ended March 31, 2018.

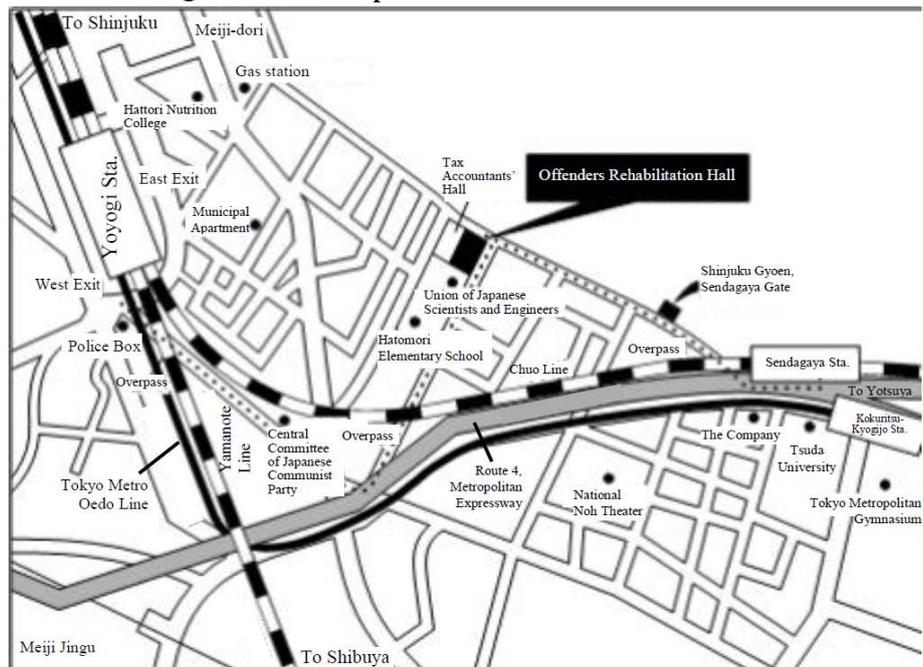




## **Information of the Forum of Annual General Meeting of Shareholders**

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

### **◎ Information Map**



### **◎ Access**

- 7 minute walk from JR “Sendagaya Station”
- 7 minute walk from Toei Metro Oedo Line “Kokuritsu-kyogijo Station”
- 9 minute walk from JR / Toei Metro Oedo Line “Yoyogi Station (West Exit)”

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)