



[Translation]

August 12, 2020

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Representative: Chairman and Representative  
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**Notice regarding Keynote Co., Ltd. becoming a wholly owned subsidiary through  
a simplified share exchange and the change of major shareholders**

At the board of directors meeting held today, Prospect Co., Ltd. (hereinafter "Company") has resolved to have a simplified share exchange (hereinafter "Share Exchange") with Keynote Co., Ltd. (hereinafter "Keynote") and became its wholly owning parent company. The Company entered into a share exchange agreement (hereinafter "Share Exchange Agreement") with Keynote today as follow. The Share Exchange is without the approval from the General Meeting of Shareholders of the Company as this exchange follows the simplified share exchange procedure under the provisions of Article 796, Paragraph 2 of the Company's Act. The effective date is set to be September 3, 2020, after receiving approval from Keynote's the Extraordinary General Meeting of Shareholders held today.

The Company also informs of the change of its major shareholders due to the Share Exchange.

Note

I. About the Share Exchange

1. Purpose of becoming a wholly owned subsidiary through the Share Exchange

The real estate business, which is the Group's core business, consists of a construction and sales business for self-developed condominiums under the brand name "Gro-bel Mansion" in the Tokyo metropolitan area and a subsidiary of single-family home builder Sasaki House Co., Ltd. (hereinafter "Sasaki House") in Yamagata Prefecture. As of the end of March 2020, the cumulative number of condominium units sold under Glo-bel condominiums exceeded 8,100 units. Taking into account not only "planning and location conditions in accordance with life plans" but also "environmental coexistence, health, parenting, information, crime prevention, disasters" etc., the brand has provided customers with the best living environment and the most comfortable residence. In addition, Sasaki House, as a locally rooted company, specializes in constructing highly airtight and insulated homes, as well as homes for multi-generations.



According to the Industrial Market Research Institute, the annual condominium supply in the Tokyo metropolitan area in 2019 was 34,141 units, down 5,433 units year-on-year due to intensifying competition for land acquisition and high construction costs. The average annual contract rate was 68.8%, below the break point of 70%, a level distinguishing between strong and weak market conditions. For our company, the sales result declined to 45 units in the previous term (from 103 units 2 terms ago). In addition, the spread of the novel coronavirus infection magnified the uncertainty of the future business environment.

Regarding the Company's future business policy, under the newly appointed management system at the Extraordinary General Meeting of Shareholders held on June 1, 2020 and the 119th Annual General Meeting of Shareholders held on June 30, 2020, the Company intends to aggressively promote acquisitions of companies through M&A to build a business portfolio that can withstand such uncertain times.

Keynote engages in a wide range of real estate businesses such as planning and selling custom-built homes and commercial facilities, renovating old homes, and real estate consulting mainly in the Tokyo metropolitan and Kinki area. Keynote processes special know-how and its own network.

While the Company was actively in search of M&A projects, we learned that Keynote's wholly owning parent company KeyHolder Co., Ltd., was considering selling the Keynote's real estate business in order to concentrate on its entertainment business. Therefore, the Company started considering to acquire Keynote immediately.

As a result of careful examination, the Company will be able to provide customers with both condominiums and single-family homes in the Tokyo metropolitan area. The Company also expects to be able to expand existing businesses such as developing condominiums in the Kansai area, which was not able to be done with conventional resources. In addition, Keynote processes know-how on real estate consulting and CRE strategy. It is expected that the number of companies and owners who will need to reassess their real estate strategies due to the impact of the novel coronavirus will increase in the future. Therefore, opportunities for providing solution services will arise.

From the above reasons, the addition of Keynote to the Company will expand the real estate business portfolio, from adding sales of single-family homes in the Tokyo metropolitan and Kinki area, as well as consulting services. We have concluded this Share Exchange Agreement because we believe it will improve our corporate value from exerting synergies such as sharing real estate information, customer networks, and know-how.



## 2. Outline of the Share Exchange

### 1) Schedule of the Share Exchange

- a) Board resolution date (the Company) August 12, 2020
- b) Execution date of the Share Exchange Agreement August 12, 2020
- c) Resolution date of Extraordinary General Meeting of Shareholders (Keynote) August 12, 2020
- d) Effective date of the Share Exchange September 3, 2020

(Note) The Share Exchange is without the approval from the General Meeting of Shareholders of the Company as this exchange followed the simplified share exchange procedure under the provisions of Article 796, Paragraph 2 of the Company's Act. The effective date is set to be September 3, 2020, after receiving approval from Keynote's the Extraordinary General Meeting of Shareholders held today.

### 2) Method of the Share Exchange

It will be a share exchange in which the Company is the wholly owning parent company and Keynote is the wholly owned subsidiary.

### 3) Allotment details of the Share Exchange

	The Company (wholly owning parent company)	Keynote (wholly owned subsidiary)
Share Exchange ratio	1	26,860
Number of shares to be delivered by the Share Exchange	The Company's common stock: 53,720,000 shares	

(Note 1) Share allotment ratio: 26,860 shares of the Company's stock will be allotted and delivered for each Keynote common share.

(Note 2) Number of new shares of the Company to be issued from the Share Exchange: common stock 53,720,000 shares

### 4) Handling of stock acquisition rights and bonds with stock acquisition rights accompanying the Share Exchange

Keynote does not include any stock acquisition rights or bonds with stock acquisition rights, so there is no applicable matter.

## 3. Basis for the allotment details of the Share Exchange

### 1) Basis and reason for the allotment



Based on the fact that the Company is listed on the second section of Tokyo Stock Exchange (hereinafter “TSE”) and the available market share prices, the market share price method was used to calculate the Company's share value to determine the Share Exchange ratio for the Share Exchange (hereinafter “Share Exchange Ratio”). The calculation base date was August 11, 2020 (hereinafter “Calculation Reference Date”). The base price for the calculation is the closing price at TSE on the Calculation Reference Date, and the average closing share price for each period of one month, three months, and six months prior to the Calculation Reference Date. After careful consultation between the parties, the most recently traded price in the intra-market transaction is the most useful reference for evaluating the value of the Company's shares, which is considered the latest evaluation of the Company's shares by market participants. 38 yen per share was determined based on the closing price at TSE on the Calculation Reference Date. We also obtained an opinion from Plutus Consulting Co., Ltd. (hereinafter “Plutus Consulting”), and came to the conclusion that it is not unreasonable to rely on the market share price method to evaluate the value of the Company's shares.

The Company requested Consulting Mall Co., Ltd. (hereinafter “Consulting Mall”) for a valuation appraisal to ensure fairness and appropriateness of Keynote's share value.

Based on Consulting Mall's valuation of Keynote's share value, along with consideration of Keynote's current financial status, assets situation, and future business activity prospects, the exchange ratio was decided to be 26,860 shares of the Company's stock to 1 share of Keynote stock as a result of careful discussions between the two parties.

## 2) Summary of the valuation

a) Name of the valuation institution and relationship with the Company and the buyer Consulting Mall, which is a third-party valuation institution independent of the Company and Keynote, does not fall under the related parties of the Company and Keynote, and has no significant interests regarding the Share Exchange.

### b) Summary of the valuation

Consulting Mall used the DCF method (calculation base date is the end of December 2019) and the net asset method (calculation base date is the end of March 2020) to calculate Keynote's share value.

Consulting Mall's DCF valuation method is based on the premise that the synergy benefits are expected to be realized under Keynote's business plan through executing the Share Exchange (hereinafter “Synergy Effect”). The operating income is expected to increase to 662 million yen in the period ending December



2021 from 470 million yen in the period ending December 2020 (40.85% increase). We anticipate a significant increase in profits mainly due to an increase in sales of single-family homes and an increase in crowdfunding income for the year ending December 2021.

Valuation method	Range of share value
DCF method	1,115 thousand yen ~ 1,224 thousand yen
Net asset method	1,020 thousand yen ~ 1,177 thousand yen

The Company examined the Share Exchange Ratio and conducted negotiations with Keynote based on the above calculation results. And decided the ratio at 26,860 shares of the Company's stock as described in "1) Basis and reason for the allotment" above.

As stated in "1) Basis and reason for the allotment", the Company's share price was calculated by the market share price method based on the Calculation Reference Date. Consulting Mall's DCF valuation method incorporated the Synergy Effect under Keynote's business plan, while the market share price on the Calculation Reference Date does not reflect the Synergy Effect. It is difficult to estimate how much Synergy Effect should be reflected in the market share price. Therefore, it is considered appropriate that the Share Exchange Ratio is determined within the range of share value calculated by Consulting Mall in each method (lower limit of 1,020 thousand yen under the net asset method and the upper limit of 1,224 thousand yen under the DCF method) on the Calculation Reference Date August 11, 2020.

4. Expected delisting and its reason

No applicable matter.

5. Measures to ensure fairness

In order to ensure the fairness of the Share Exchange, the Company requests independent third-party valuation institutions, Consulting Mall to calculate the Keynote's share value and Plutus Consulting to evaluate the Company's share value. The Company obtained opinion that stated it is not unreasonable to rely on the market share price method. The Company has not obtained from the Consulting Mall and Plutus Consulting a statement of opinion (so-called fairness opinion) which agrees the Share Exchange is appropriate for each shareholder from a financial standpoint.



## 6. Measures to avoid conflicts of interest

The Company implemented the following measures to avoid conflicts of interest.

### 1) Obtaining a written opinion from a special committee with no interest

The Company exercised caution in the Company's Board of Directors' decision-making process regarding the Share Exchange, eliminated the risk of conflict of interest to ensure its fairness. On August 6, 2020, a special committee of five members (hereinafter "Special Committee") were formed to confirm the Share Exchange would not be disadvantageous to the minority shareholders of the Company. The five committee members are the Chairman Dai Sakai (Tokyo Sowa Law Office Counsel), the Vice Chairman Naoki Ouchi (Too Tax Accountant Corporation), along with the Company's outside directors Hiroshi Kurotori, Etsushi Fukuda, and Susumu Mita who have registered as independent officers with the TSE. The Special Committee have questioned (1) the legitimacy of the Share Exchange's purpose, (2) fairness of the Share Exchange's procedures, (3) validity of the Share Exchange's conditions, and (4) given the above (1) and (3) and other matters, whether the Share Exchange is disadvantageous to the minority shareholders of the Company (hereinafter "Inquiries").

The Special Committee met twice on August 6, 2020 and August 7, 2020 to discuss the Inquiries and specifically requested the Company to provide disclosure materials, calculation documents from each valuation institution, and other related materials, to examine the contents of the materials. Questions and answers session were held regarding the business conditions, management issues, purpose and procedures of the Share Exchange, and details of measures taken to ensure fairness or avoid conflicts of interest of the Share Exchange.

After the Special Committee diligently discussed and considered through the above procedures, they decided that the decision regarding the Share Exchange will not be deemed as disadvantageous to the minority shareholders of the Company. A report containing the following was submitted to the Company's Board of Directors on August 11, 2020.

- a) The Company believes the expansion of the business portfolio and synergies from the Share Exchange will be the solution of our management issues such as the current sluggish construction and subcontracting business and the uncertain outlook. The purpose of the Share Exchange is justified, since there is no particular irrational point and it enhances the Company's corporate value.



- b) The Company obtained a written opinion and a share valuation regarding the calculation method from a third-party valuation institution, which is independent of the Company and Keynote. The involvement of Nobuyoshi Fujisawa was also excluded in the consideration and negotiation of the Share Exchange at the Company. Substantial consideration and negotiations have been made regarding the calculation method. And from the perspective of protecting the interests of minority shareholders, Nobuyoshi Fujisawa did not participate in the discussion and resolution of the Share Exchange at the Company's Board of Directors meeting. Since the Special Committee was established and the opinions of the Special Committee were respected when considering the Share Exchange. The procedures for the Share Exchange were considered fair.
  
  - c) There are no particular unreasonable points regarding the method and process of calculating the share value of the Company's shares and Keynote's shares. The Share Exchange Ratio is considered appropriate because it is within the range of the calculation results by an independent third-party valuation institution. The market share price method did not incorporate the Synergy Effect of the Share Exchange in the calculation of the Company's share value, while Keynote incorporated the Synergy Effect of the Share Exchange in the calculation of its share value based on the DCF method. In this regard, the final share price adopted in the Share Exchange was based on not only the DCF method but also the share value based on the net asset method, which was a more advantageous conclusion for the Company's shareholders while the Company's business plan has not been formulated, but the business plan has been formulated on the Keynote side. While the uncertainty of business plans is increasing due to the impact of the novel coronavirus, taking into account that the market share price method and net asset method are both objective valuation methods, it is not unreasonable that the Company adopted the market price method while Keynote calculated its stock value based on the DCF method.
  
  - d) Based on (a) to (c) of the above, the contents and conditions of the Share Exchange are considered appropriate and not deemed as disadvantageous to the minority shareholders.
- 2) Approval from all directors with no interest



When resolving the Share Exchange agenda at the Company's Board of Directors Meeting held on August 12, 2020, from the perspective of avoiding conflicts of interest, 11 directors other than Nobuyoshi Fujisawa, a director of Keynote's parent company KeyHolder Co., Ltd., have deliberated and resolved the agenda with the approval of all. Also, from the perspective of avoiding conflicts of interest, Nobuyoshi Fujisawa has not participated in discussions or negotiations concerning the Share Exchange from the standpoint of the Company.

#### 7. Overview of the companies involved in the Share Exchange

	Parent company in Share Exchange	Wholly Owned subsidiary in Share Exchange
1. Name	Prospect Co., Ltd.	Keynote Co., Ltd.
2. Head office location	1-30-8 Sendagaya, Shibuya-ku, Tokyo	1-7-12 Toranomom, Minato-ku, Tokyo
3. Title and name of representative	Chairman and Representative Director, Nobuyoshi Fujisawa	President, Kenichi Fujita
4. Business content	Condominium sales business, custom home building business, real estate investment management business, renewable energy business	Real estate business, commercial facility construction business
5. Amount of capital	12,086,958 thousand yen	100,000 thousand yen
6. Date of establishment	December 1, 1937	July 10, 1996
7. Number of shares issued	447,090,984 shares	2,000 shares
8. Fiscal year	March	December
9. Number of employees (As of March 31, 2020)	38	41
10. Main business partners	General customer	Tokyu Fudosan Co., Ltd.
11. Main bank	Shizuoka Central Bank Resona Bank	Sawayaka Shinkin Bank Mizuho Bank
12. Major shareholders and shareholding ratio	Hiroshi Nishimura 8.86% Shinwa Industry Co., Ltd. 4.32%	KeyHolder Co., Ltd. 100.00%



(As of March 31, 2020)	Japan Pocket Co., Ltd. 4.23%					
	Euro Clear Bank SNA 2.10%					
	Nobuyoshi Fujisawa 1.69%					
13. Relationship between the parties	Capital ties		No applicable matter.			
	Personnel relationship		No applicable matter.			
	Business relationship		No applicable matter.			
	Status of related party		No applicable matter.			
14. Business performance and financial condition for the last 3 years (unit: thousand yen)						
	Prospect Co., Ltd. (consolidated)			Keynote Co., Ltd. (nonconsolidated)		
Settlement period	March, 2018	March, 2019	March, 2020	March, 2018	March, 2019	December, 2019
Net assets	25,218,682	16,738,698	15,369,336	1,598,700	1,606,965	1,943,656
Total assets	40,541,850	31,754,801	29,764,089	6,541,091	8,427,242	8,811,608
Net assets per share (yen)	59.89	36.23	33.40	2,664,500	2,678,275	3,239,428
Sales	11,688,717	6,325,565	6,731,412	6,927,950	8,928,172	5,455,016
Operating income	(1,543,756)	(6,653,531)	(1,281,138)	242,183	136,151	487,449
Ordinary income	(1,098,369)	(6,780,119)	(435,457)	151,175	25,607	401,158
(Attributable to parent company shareholders)	1,483,797	(8,445,890)	237,773	140,175	8,265	336,691
Net income						
Net income per share (yen)	4.46	(19.05)	0.54	233,626	13,775	561,152
Dividend per share (yen)	4.00	—	1.00	—	—	—

#### 8. Status after the Share Exchange

	Parent company in Share Exchange
1. Name	Prospect Co., Ltd.
2. Head office location	1-30-8 Sendagaya, Shibuya-ku, Tokyo
3. Title and name of representative	Chairman and Representative Director, Nobuyoshi Fujisawa



4. Business content	Condominium sales business, custom home building business, real estate investment management business, renewable energy business
5. Amount of capital	12,086,958 thousand yen
6. Fiscal year	March
7. Net assets	Not determined at this time.
8. Total assets	Not determined at this time.

#### 9. Accounting treatment overview

The accounting treatment for the Share Exchange and the amount of goodwill, etc. have not been determined at this time and will be announced as soon as they are available.

#### 10. Outlook

The impact of the Share Exchange on the Company's consolidated business results has not been determined at this time. In the future, the Company will promptly disclose if a significant impact on the business performance is determined.

## II. Changes in major shareholders

### 1. Background of changes

The major shareholders of the Company are expected to change with the execution of the Share Exchange, as Keynote's shareholder KeyHolder Co., Ltd. acquired 53,720,000 shares of the Company's common stock.

### 2. Overview of new major shareholders

1. Name	KeyHolder Co., Ltd.
2. Head office location	1-7-12 Toranomom, Minato-ku, Tokyo
3. Title and name of representative	President, Shigeru Hataji
4. Business content	Holdings business (comprehensive entertainment business, video production business, advertising agency business, real estate business, commercial facility construction business)
5. Amount of capital	4,799,008 thousand yen (as of March 31, 2020)



3. Change in number of voting rights (number of shares owned) and percentage of total voting rights held by the shareholders

	Number of voting rights (Number of shares owned)	Percentage of total voting rights	Major shareholder ranking
Before change (April 30, 2020)	-	-	-
After change (September 3, 2020)	537,200 units (53,720,000 shares)	10.79%	Second largest

(note)

1. The percentage of total voting rights before the change is calculated based on total 4,442,958 units of voting rights, which is the number of shares with no voting rights (2,795,184 shares) deducted from the number of issued shares (447,090,984 shares) as of April 30, 2020.
2. The percentage of total voting rights after the change is calculated based on total 4,980,158 units of voting rights, which is the number of shares with no voting rights (2,795,184 shares) deducted from the number of issued shares (447,090,984 shares), and plus the number of voting rights for new shares to be issued in the Share Exchange (537,200) as of April 30, 2020.
3. The percentage of total voting rights is rounded to the second decimal place.
4. The ranking of major shareholders is an assumption made by the Company based on the shareholder registry as of April 30, 2020.

5. Scheduled date of change

September 3, 2020

6. Outlook

The change of major shareholders will not affect the Company's consolidated business results.

End