

Securities Code No.: 3528

June 13, 2017

Dear Shareholders,

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

Prospect Co., Ltd.

Representative Director, President Curtis Freeze

Notice of Convening the 116th Annual General Meeting of Shareholders

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

We are pleased to inform you that the 116th Annual General Meeting of Shareholders will be held as stated below, and we request that you attend this meeting.

If, however, you are unable to attend the meeting on the scheduled day, you may exercise your voting rights in writing. Although we apologize in advance for any inconvenience, we ask that you enter your approval or disapproval of the proposals in the Form of Exercising Voting Rights enclosed, after careful consideration of the reference documents for the Annual General Meeting of Shareholders below, and return the form to the Company no later than 6:00 p.m., Tuesday, June 27, 2017.

Sincerely

- 1. Date** 10:00 a.m., June 28 (Wed.), 2017
- 2. Place** Conference Room, 4F, Kosei Hogo Kaikan
5-10-9 Sendagaya, Shibuya-ku, Tokyo
(Please refer to the information map of the venue at the end.)

3. Purpose of Meeting of Shareholders

- Reporting Matters**
1. Business report and report on the consolidated financial statements, and the results of audit of the consolidated financial statements conducted by the Accounting Auditors and the Board of Auditors for the 116th term (from April 1, 2016 to March 31, 2017)
 2. Report on the financial statements for the 116th term (from April 1, 2016 to March 31, 2017)

Resolution Matters

- | | |
|-------------------|--|
| Item No. 1 | Appropriation of surplus |
| Item No. 2 | Appointment of three (3) Directors |
| Item No. 3 | Appointment of two (2) Auditors |
| Item No. 4 | Issuance of the Company's common stock |
| Item No. 5 | Partial amendment to the Articles of Incorporation |

4. Matters Determined for Convening the General Meeting of Shareholders

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

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

(Attached Document)

Business Report
(From April 1, 2016
to March 31, 2017)

1. Current Status of Corporate Group

(1) Development and Results of Business

The Japanese economy in the current consolidated fiscal year has continued to trend along a path of gradual recovery as a whole as shown by improvements in corporate profits and a tightening of the employment environment due to continued economic and financial policies advanced by the government and the effect of monetary policies implemented by the Bank of Japan, etc. On the other hand, uncertainty remains about the future economy against the backdrop of uncertain overseas economic conditions in connection with issues surrounding the U.K.'s exit from the EU and uncertainty regarding the policy trends of the new U.S. administration.

In the condominium sales market in the Tokyo metropolitan area, while a policy to support housing purchases and low interest rate loans, etc., has supported demand, the difficulty in acquiring land for condominiums due to soaring land prices and construction costs remaining high has affected sales prices and uncertainty remains.

Under such a business environment, 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 benefit to all stakeholders.

Under such a philosophy, in order to break dependence on the single business of condominium sales, which is our core business, we have expanded business fields to custom-made homes, investment advisory business and construction business, etc., to strengthen our profit earning foundation. Further, we have strived to enhance the business portfolio of the Company Group by rolling out an overseas real estate business and development of a renewable energy business, including photovoltaic generation, etc., which means clean energy.

As a result, sales for the current consolidated fiscal year were ¥14,143 million (¥16,724 million in the previous consolidated fiscal year), operating loss was ¥43 million (operating profit of ¥386 million in the previous consolidated fiscal year), ordinary profit was ¥516 million (¥273 million in the previous consolidated fiscal year) and net profit attributable to owners of the parent was ¥488 million (¥7 million in the previous consolidated fiscal year).

Business performance by segment is as follows.

Segment Name	Previous Consolidated Fiscal Year From April 1, 2015 to March 31, 2016		Current Consolidated Fiscal Year From April 1, 2016 to March 31, 2017	
	Amount	Composition ratio	Amount	Composition ratio
	Thousand yen	%	Thousand yen	%
Real Estate Sales Business				
Condominium Sales Business	4,850,585	29.0	4,103,413	29.0
Land and Buildings	2,314,573	13.8	2,264,739	16.0
Custom-Made Homes	1,767,296	10.6	1,565,891	11.1
Asset Management Business	412,166	2.5	173,455	1.2
Construction Business	7,302,695	43.7	5,722,541	40.5
Solar Business	63,672	0.4	250,401	1.8
Total	16,710,989	100.0	14,080,441	99.6
Other	58,285	0.3	62,629	0.4
Elimination of intersegment transactions	△45,024	△0.3	-	-
Total	16,724,251	100.0	14,143,071	100.0

(Real Estate Sales Business, Condominium Sales Business)

We mainly sell condominiums for general customers in the Tokyo metropolitan area.

In the current consolidated fiscal year, we completed construction of three (3) buildings, 131 housing units for “GRO-BEL Condominium,” including “GRO-BEL Kita-Toda Station Arena” (total 30 housing units) (two (2) buildings, 81 housing units in the previous consolidated fiscal year).

As for sales, in the current consolidated fiscal year, we executed new contracts on 141 housing units of ¥4,799 million (89 housing units of ¥3,555 million in the previous consolidated fiscal year) and recorded sales of 115 housing units of ¥4,103 million and segment profit of ¥313 million (sales of 124 housing units, ¥4,850 million and segment profit of ¥343 million in the previous consolidated fiscal year).

(Real Estate Sales Business, Land and Buildings)

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

As for sales, in the current consolidated fiscal year, we executed new contracts of ¥2,139 million (¥2,439 million in the previous consolidated fiscal year) and recorded sales of ¥2,264 million and segment profit of ¥218 million (sales of ¥2,314 million and segment profit of ¥310 million in the previous consolidated fiscal year).

[Translation]

(Real Estate Sales Business, Custom-Made Homes)

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

As for sales, in the current consolidated fiscal year, we executed new contracts on 40 houses at ¥1,206 million (41 houses of ¥1,125 million in the previous consolidated fiscal year) and delivered 41 houses and recorded sales of ¥1,565 million and segment profit of ¥29 million (sales of 48 houses of ¥1,767 million and segment profit of ¥30 million in the previous consolidated fiscal year) (including reforms, etc.).

(Asset Management Business)

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

As for sales, we recorded in the current consolidated fiscal year sales of ¥173 million and segment loss of ¥39 million (sales of ¥412 million and segment profit of ¥170 million in the previous consolidated fiscal year).

(Construction Business)

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

As for sales, we recorded in the current consolidated fiscal year sales of ¥5,722 million and segment profit of ¥287 million (sales of ¥7,302 million and segment profit of ¥403 million in the previous consolidated fiscal year).

(Solar Business)

We sell electricity generated by PV to electric power companies.

As for sales, we recorded in the current consolidated fiscal year sales of ¥250 million and segment profit of ¥73 million (sales of ¥63 million and segment loss of ¥97 million in the previous consolidated fiscal year).

(Other)

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

In the current consolidated fiscal year, we recorded sales of ¥62 million and segment profit of ¥28 million (sales of ¥58 million and segment profit of ¥27 million 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, financing of ¥4,379 million in total was made in the solar business as funds for photovoltaic generation facility installation, etc.

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

No applicable matter.

(5) Tasks to be addressed

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

As specific results, we have partly promoted construction of a business portfolio which can respond to changing economic conditions, departing from the conventional approach of single business of condominium sales and we aim at further improvement in corporate value by implementing the following measures the tasks faced by each department.

[1] Expansion of business fields of the Company

- A. In the conventional condominium sales business approach in the Tokyo metropolitan area, it became difficult to secure profits due to high construction costs and soaring land prices. Therefore, not only by carefully selecting land to be acquired, but also through diversification of acquisition methods, we aim at securing stable sources of profit. Not only in the conventional condominium sales business, but also by promoting the expansion of fields of the extensive real estate business, we aim to secure profits in the future.
- B. As for the overseas real estate business, we conduct joint investments in condominium development projects and supply funds for independent housing sales projects, etc. Condominium development projects have steadily progressed and we expect that we can secure a rate of return and profit far exceeding the real estate development business in Japan. On the other hand, as we intend to record an allowance for doubtful accounts for some independent housing sales projects, we will strengthen our risk management through collaboration with local partners who are promoting development.
- C. As for the renewable energy power generation business, projects that have begun to sell electricity have expanded the photovoltaic power generation business. We continue to develop and commercialize the business, but on the other hand, considering the fact that the electricity purchase price in the photovoltaic power generation business has lowered, it is becoming difficult to develop new projects as previously. In order to

address such situations, we started a specific review of joint investments in the biomass fuel manufacturing plant in Russia, and we are promoting expansion of business fields in the renewal energy power generation business, including biomass power generation and wind power generation, etc.

[2] Tasks of group companies

- A. As for the custom-built home business, we will strengthen orders received for two-family housing, the inherent strength of SASAKI-HOUSE and aim at increasing profitability through development of products, utilizing the local features of Yamagata.
- B. As for the investment advisory business, we always aim to provide our customers with the best performance and increase assets under management, but depending on the fund management policy of customers, assets under management could significantly fluctuate. In order to compensate for this, not only carrying on conventional management of stocks, we will also promote development of businesses that generate fee income. In March 2017, the Securities and Exchange Surveillance Commission rendered a recommendation for an administrative monetary penalty on Prospect Asset Management, Inc. (Hawaii, USA), one of our subsidiaries carrying on the investment advisory business. The Company takes this action seriously and has focused efforts on enhancement and strengthening of corporate governance in order to continue to be a company trusted by all stakeholders.
- C. As for the construction business, utilizing the excellent technology and experience that leads the industry, mainly in propulsion construction, we will further strengthen our competitiveness both in Japan and overseas, aiming at receiving more highly lucrative orders.

[Translation]

(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	113th Term (FY ended March 31, 2014)	114th Term (FY ended March 31, 2015)	115th Term (FY ended March 31, 2016)	116th Term (FY ending March 31, 2017) (Current Consolidated Fiscal Year)
Sales	11,699,126	16,621,050	16,724,251	14,143,071
Operating profit or loss (Δ)	419,408	958,600	386,461	Δ43,869
Ordinary profit	376,886	1,033,254	273,251	516,457
Net profit attributable to owners of the parent	606,912	816,089	7,458	488,588
Net profit per share	6 yen 72 sen	7 yen 11 sen	0 yen 05 sen	2 yen 88 sen
Total assets	16,496,327	20,816,330	24,447,892	27,368,038
Net assets	7,507,787	9,984,310	12,209,222	12,489,433
Net assets per share	63 yen 20 sen	68 yen 70 sen	65 yen 96 sen	67 yen 77 sen

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

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

(Unit: Thousand yen)

Category \ Term	113th Term (FY ended March 31, 2014)	114th Term (FY ended March 31, 2015)	115th Term (FY ended March 31, 2016)	116th Term (FY ending March 31, 2017) (Current Consolidated Fiscal Year)
Sales	8,840,961	5,785,479	7,351,548	6,565,701
Operating profit or loss (Δ)	420,224	84,996	77,813	Δ96,371
Ordinary profit	426,355	375,117	142,072	643,691
Net profit	408,679	150,996	88,615	670,270
Net profit per share	4 yen 52 sen	1 yen 32 sen	0 yen 56 sen	3 yen 95 sen
Total assets	10,934,591	13,341,490	15,155,831	15,306,559
Net assets	6,871,217	8,720,986	10,980,829	11,493,053
Net assets per share	59 yen 76 sen	60 yen 57 sen	60 yen 11 sen	63 yen 11 sen

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

(7) Major Business Line (As of March 31, 2017)

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-Made 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 Japanese stock research business, real estate investment advisory agency business and real estate investments.

[5] Construction Business

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

[6] Solar Business

We sell electricity generated by PV to electric power companies.

(8) Major Business Offices (As of March 31, 2017)

(Head Office of the Company)

Head Office: Shibuya-ku, Tokyo

(Head Offices of Subsidiaries)

SASAKI-HOUSE CO., LTD.

Head Office: Yamagata-shi, Yamagata

Prospect Asset Management, Inc.

Head Office: Hawaii, USA

Prospect Asset Management (Channel Islands) Ltd.

Head Office: British Channel Islands

KIDOH CONSTRUCTION CO., LTD.

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

Prospect Energy Management Co., Ltd.

Head Office: Shibuya-ku, Tokyo

[Translation]

(9) Status of Employees (As of March 31, 2017)

[1] Status of employees of the corporate group

Number of employees	Increase/decrease from the end of the previous consolidated fiscal year
182	Δ8

[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
40	-	45 years and 10 months	12 years and 10 months

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

(10) Significant Status of Parent Company and Subsidiaries

(Status of parent company)

No applicable matter.

(Status of subsidiaries)

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

(11) Status of Major Lenders (As of March 31, 2017)

(Unit: Thousand yen)

Lender	Borrowings outstanding
Mizuho Bank, Ltd.	2,538,768
Shizuoka Chuo Bank, Ltd.	1,687,650
Resona Bank, Limited	1,323,000
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	648,300
AERIA AMERICA INC.	640,695

[Translation]

2. Status of Stocks of the Company (As of March 31, 2017)

(1) Authorized Number of Shares to be Issued 573,000,000 shares

(2) Number of Shares Issued 172,556,807 shares
(including treasury stock: 2,773,334 shares)

(3) Number of Shareholders 10,886

(4) Large Shareholders (Top 10)

Name of shareholder	Number of shares held	Stockholding ratio
	Shares	%
Prospect Japan Fund Limited	6,706,000	3.95
Japan Securities Finance Co., Ltd.	4,973,000	2.88
ORIX Corporation	3,400,323	1.97
Matsui Securities Co., Ltd.	3,265,000	1.89
SBI SECURITIES Co., Ltd.	2,260,000	1.31
Deutsche Bank AG, London 610	1,815,000	1.05
Masao Tsutsumi	1,400,000	0.81
Goso Shintei	1,264,000	0.73
Business Partner Shareholding Association	1,156,298	0.67
Shinsuke Nakajima	916,000	0.53

- (Note) 1. The Company holds 2,773,334 shares of treasury stock but is excluded from the large shareholders listed above.
2. Shareholding ratio is shown by rounding to the nearest 2nd decimal point.
3. Shareholding ratio is calculated by excluding treasury stocks.

3. Status of Stock Acquisition Rights, etc., of the Company

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

	1st Stock Acquisition Right	2nd Stock Acquisition Right	4th Stock Acquisition Right	
Date of resolution of issuance	May 29, 2013	October 18, 2013	December 16, 2015	
Number of stock acquisition rights	1,181,000	2,900,000	4,888	
Class and number of shares subject to stock acquisition rights	Common stock: 1,181,000 shares (1 share per stock acquisition right)	Common stock: 2,900,000 shares (1 share per stock acquisition right)	Common stock: 4,888,000 shares (1 share per stock acquisition right)	
Paid-in amount of stock acquisition rights	Payment is not required in exchange for stock acquisition rights	Payment is not required in exchange for stock acquisition rights	Payment is not required in exchange for stock acquisition rights	
Value of the property contributed in exercising the stock acquisition right	61 yen per stock acquisition right (61 yen per share)	60 yen per stock acquisition right (60 yen per share)	52,000 yen per stock acquisition right (52 yen per share)	
Period of exercising rights	From August 1, 2013 to January 26, 2021	From October 19, 2015 to October 18, 2023	From December 17, 2017 to December 16, 2025	
Conditions for exercise	(Note) 1	(Note) 2	(Note) 3	
Status of holdings by officers	Directors (except for Outside Directors)	Number of stock acquisition rights: 1,181,000 Number of subject shares: 1,181,000 shares Number of holding persons: 1 person	Number of stock acquisition rights: 1,900,000 Number of subject shares: 1,900,000 shares Number of holding persons: 2	Number of stock acquisition rights: 4,444 Number of subject shares: 4,444,000 shares Number of holding persons: 2
	Outside Directors	Number of stock acquisition rights: --- Number of subject shares: --- shares Number of holding persons: ---	Number of stock acquisition rights: 400,000 Number of subject shares: 400,000 shares Number of holding persons: 1	Number of stock acquisition rights: 444 Number of subject shares: 444,000 shares Number of holding persons: 1
	Auditors	Number of stock acquisition rights: --- Number of subject shares: --- shares Number of holding persons: ---	Number of stock acquisition rights: 600,000 Number of subject shares: 600,000 shares Number of holding persons: 3	Number of stock acquisition 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 Stock Acquisition Rights, exercise of the Stock Acquisition Rights, may not be made.

[2] Partial exercise of each Stock Acquisition Right per share may not be made.

[3] In a case where a Stock Acquisition Rights Holder died, the heirs may not inherit the Stock

Acquisition Rights.

- [4] Pledge and any other disposal of the Stock Acquisition Rights may not be made.
 - [5] Any other conditions for exercise of stock acquisition rights shall be in accordance with the “Stock Acquisition Rights Allotment Agreement” executed between the Company and the Stock Acquisition Rights Holders.
2. [1] Stock Acquisition Rights 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 stock acquisition rights shall be in accordance with the “Stock Acquisition Rights Allotment Agreement” executed between the Company and the Stock Acquisition Rights Holders based on the resolution of the board of directors.

[Translation]

3. [1] In a case where a Stock Acquisition Rights 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 Stock Acquisition 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 Stock Acquisition Rights Holder may not exercise the Stock Acquisition Rights.
- [3] If the total number of outstanding shares of the Company exceeds the authorized number of shares at that time by exercise of the Stock Acquisition Rights, the Stock Acquisition Rights may not be exercised.
- [4] Each of the Stock Acquisition Rights may not be exercised in a less-than-one unit.

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

No applicable matter.

(3) Other Status of Stock Acquisition Rights, etc.

**3rd Stock Acquisition Right issued
based on the resolution of the board of directors held on November 17, 2015**

Total number of stock acquisition rights	1,440
Class and number of shares subject to stock acquisition rights	Common stock: 144,000,000 shares (100,000 shares per stock acquisition right)
Paid-in amount of stock acquisition rights	¥200,000 per stock acquisition right
Payment date of stock acquisition rights	December 21, 2015
Value of the property contributed in exercise of stock acquisition rights	¥54 per share
Period of exercise of stock acquisition rights	From December 21, 2015 to December 20, 2020 (if the previous day falls on a bank holiday, to on the immediate preceding bank business day).
Issue price and capitalized amount where shares are issued by exercise of stock acquisition rights	(1) Issue price of shares where shares are issued by exercise of stock acquisition rights Issue price of the common stocks of the Company issued by exercise of Stock Acquisition Rights shall be the amount dividing the amount obtained by adding the total paid-in amount of Stock Acquisition Rights related to request for exercise to the total amount of the property contributed in exercise of Stock Acquisition Rights by the number of subject shares. (2) Increased capital and capital reserve where shares are issued by exercise of stock acquisition rights Where shares are issued by exercise of Stock Acquisition Rights, the amount of increased capital shall be the amount equal to 1/2 of the

[Translation]

	limit for the increase in capital, etc., calculated in accordance with the Company Accounting Regulations (in a case where a fraction less than one (1) yen accrues after calculation, the fraction shall be rounded up) and the amount of increased capital reserve shall be the amount reducing the increased capital from the limit for the increase in capital, etc.
Conditions for exercise of stock acquisition rights	Partial exercise of the Stock Acquisition Rights may not be made.
Person to be allocated	By a third party allotment, the total amount was allocated to Prospect Japan Fund, Limited.

4. Status of Officers of the Company

(1) Status of Directors and Auditors (as of March 31, 2017)

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

- (Note) 1. Director, Mr. Dominique Henderson is an Outside Director.
2. Three (3) persons of Auditors, Mr. Akio Tsukishima, Mr. Yuki Ichikawa and Mr. Thomas R. Zengage are Outside Auditors.
3. Four persons of Director, Mr. Dominique Henderson and Auditors, Mr. Akio Tsukishima, Mr. Yuki Ichikawa and Mr. Thomas R. Zengage are filed with the Tokyo Stock Exchange as independent officers who are unlikely to have any conflict of interest with general shareholders, as requiring designation by the Tokyo Stock Exchange.
4. Auditor, Mr. Akio Tsukishima has the qualification of tax attorney and Auditor, Mr. Yuki Ichikawa has the qualification of attorney, and each of them has reasonable knowledge of finance, accounting and laws as professionals of such fields.

[Translation]

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

Category	Number of persons paid	Amount of compensation
Directors	Number of Directors/Auditors 3	Thousand yen 132,272
(Out of which, Outside Director)	(1)	(13,596)
Auditors	3	14,280
(Out of which, Outside Auditors)	(3)	(14,280)
Total	6	146,552
(Out of which, Outside Officers)	(4)	(27,876)

- (Note) 1. In the total amount of compensation, etc., above, the following amount is included as the amount recorded for expenses in the current business year for stock acquisition rights allocated as stock options compensation.
- Three (3) Directors: ¥43,992 thousand (out of which one Outside Director: ¥3,996 thousand)
2. In the total amount of compensation, etc., above, retirement benefits for officers of ¥10,280 thousand are included as term expenses.

(3) Matters concerning Outside Officers

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

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

[Translation]

- [2] Relationship between a relative within the third degree of kinship and the Company or a business operator having a specific relationship with the Company

No matter to be stated.

- [3] Status of major activities of outside officers

Category	Name	Status of major activities
Director	Dominique Henderson	Attended all the 15 board of directors' meetings held during the current business year and stated opinions from time to time necessary to ensure the validity and appropriateness of decision-making of the board of directors.
Auditor	Akio Tsukishima	Attended all the 15 board of directors' meetings held during the current business year and utilized extensive experience and wide range of knowledge, which were nurtured in the financial and real estate industries, etc., and attended the board of directors' meetings and management committee, etc., and stated opinions from time to time necessary to ensure the validity and appropriateness of decision-making. Attended all the 12 board of auditors' meetings held during the current business year and exchanged opinions on the audit results, and had consultations, etc., on material matters concerning audit.
Auditor	Yuki Ichikawa	Attended all the 15 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 the validity and appropriateness of decision-making of the board of directors. Attended all the 12 board of auditors' meetings held during the current business year and exchanged opinions on the audit results, and had consultations, etc., on material matters concerning audit.
Auditor	Thomas R. Zengage	Attended all the 15 board of directors' meetings held during the current business year and stated opinions from a professional viewpoint mainly from the IR/CSR consulting industry from time to time necessary to ensure the validity and appropriateness of decision-making of the board of directors. Attended all the 12 board of auditors' meetings held during the current business year and exchanged opinions on the audit results, and had consultations, etc., on the material matters concerning audit.

- [4] Outline of the details of Liability Limitation Agreement

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

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

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

No matter to be stated.

5. Status of Accounting Auditor

(1) Name of Accounting Auditor

Audit Firm HIBISCUS

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

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

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

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

[1] Resolution method

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

[2] Specific events

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

- f. In the event that any event similar to the above was proved.
- B. No-reappointment
 - a. In the event that it was recognized as there was material defect or fault in the system to ensure proper execution of duties of Accounting Auditor.
 - b. Continuous years of audit became long, and there was the possibility of material doubt about independence of Accounting Auditor; provided, however, that we will carefully consider, taking into account the interruption of knowledge and experience, cost and practical difficulties, etc., in connection with replacement.
 - c. In the event that the basic manner, etc., of management of the Company or Accounting Auditor changed and it was recognized that it would be unreasonable to reappoint the Accounting Auditor.
 - d. Otherwise, any events similar to the above were proved.

6. System and Policy of the Company

(1) System to Ensure Proper Operations

- [1] System to ensure that execution of duties of Directors complies with the laws and the Articles of Incorporation
 - A. In the management philosophy, the direction to be aimed at by the Company is clarified and strict practices of compliance are provided in the code of conduct.
 - B. Directors execute their duties based on management organization and division of duties determined by the board of directors.
 - C. Directors report to the board of directors the status of execution of duties at least once every three (3) months.
 - D. By keeping Outside Directors, the supervising function of execution of duties of the Directors is maintained and improved.
 - E. Transactions of conflict of interest and unusual transactions are determined by the board of directors and reported to the board of auditors as necessary.
- [2] System for retention and management of information of execution of duties of the Directors
 - Important documents are appropriately retained and managed by determining the retention period under internal regulations.
- [3] Regulations and any other system for management of risk of loss
 - A. By the risk management regulations, operational risks at each department (including subsidiaries) are identified, analyzed and managed by market risk, business risk and disaster risk, etc., and General Affairs Department administers the management method, etc., through reports from the administered departments and monitoring.
 - B. General Affairs Department Manager regularly and as necessary reports to the

President and the board of auditors the information on risk management and makes proposals for improvement, etc.

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

subsidiaries, while respecting the autonomy of subsidiaries and determines the material matters through prior consultations on the details of operations.

[7] Matters concerning employees who are to assist duties of Auditors

If it is necessary to execute the duties, Auditors may delegate investigations to the employees of Audit Office and request a report from them.

[8] Matters concerning Independence of the employees under the preceding item from Directors

Appointment, dismissal and relocation of important employees of Audit Office are made, respecting the opinions of the board of auditors and efforts are made to ensure the independence of the employees and effectiveness of instructions of Auditors.

[9] System for Directors and employees to report to Auditors and other system for reporting to Auditors

A. When Directors and employees of the Company and subsidiaries discovered facts of material breach of the laws and the Articles of Incorporation and wrongful acts or facts that might adversely affect the Company in relation to execution of duties, they immediately report to the board of auditors.

B. When the details of whistleblowing, which were made using the Compliance Consultation Contact, might materially damage operations or assets, such facts are reported to the board of auditors without delay.

C. Any person who gave a report of breach of laws and wrongful acts by the Company and subsidiaries is not treated unfavorably by reason of the whistleblowing.

D. In a case where Directors and employees of the Company and subsidiaries are requested to report the status of execution of operations by the board of auditors, they promptly make reports.

[10] Other system for ensuring that audit of Auditors are effectively conducted

A. Standing Auditor attends the management committee and any other important meetings and states opinions as necessary. Important minutes and request forms for approval are forwarded to Auditors as needed.

B. Directors and employees of the Company and subsidiaries report to the board of auditors the monthly status of business and the quarterly status of closing as necessary and are heard by the board of auditors.

C. In a case where the details of whistleblowing made by using the Compliance Consultation Contact are related to accounting, internal control of accounting and audit, they may be directly reported to Auditors.

D. Audit Office Head reports to the board of auditors the internal audit plan and the results of audit.

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

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

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

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

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

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

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

In this regard, the annual dividend for the current consolidated fiscal year will be ¥3 by increasing ¥2 per share, as compared with ¥1 per share in the previous fiscal year.

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

[Translation]

Consolidated Balance Sheet

(As of March 31, 2017)

(Unit: Thousand yen)

Item	Amount	Item	Amount
Assets	27,368,038	Liabilities	14,878,604
Current Assets	12,949,590	Current Liabilities	5,898,968
Cash and deposits	5,409,806	Notes and accounts payable	833,260
Notes and accounts receivable	295,664	Accrued construction payment	1,759,135
Accounts receivable for completed construction projects	1,071,410	Short-term borrowings	181,400
Accounts receivable for investment advisory fees	16,397	Bonds to be redeemed within a year	51,900
Securities	790,188	Current portion of long-term borrowings	1,798,503
Real estate for sale	925,573	Corporate income tax, etc., payable	244,108
Real estate for sale in process	2,451,405	Amount received for uncompleted construction projects	179,947
Real estate for development	476,221	Reserve for bonuses	135,026
Expenses for uncompleted construction projects	27,631	Reserve for officers' bonuses	12,420
Raw materials and stores	21,088	Allowance for compensation for completed construction projects	11,375
Deferred tax assets	376,038	Allowance for construction projects losses	16,700
Other	1,137,521	Provision for loss on litigation	20,000
Allowance for doubtful accounts	△49,358	Other	655,190
Fixed assets	14,418,447	Fixed Liabilities	8,979,636
Tangible fixed assets	7,586,671	Bonds	146,700
Buildings	710,726	Long-term borrowings	7,854,349
Machinery, equipment and delivery equipment	3,372,631	Deferred tax liabilities	1,890
Tools, furniture and fixtures	53,093	Net defined benefit liabilities	136,674
Land	2,558,513	Reserve for retirement benefits for officers	114,822
Construction in progress	891,705	Allowance for compensation for completed construction projects	201,995
Intangible fixed assets	1,063,118	Provision for loss on compensation expenses	23,000
Goodwill	1,015,260	Asset retirement obligations	11,179
Software	17,602	Other	489,024
Other	30,255	Net Assets	12,489,433

[Translation]

Investments and other assets	5,768,658	Shareholders' equity	11,436,596
Investment securities	114,546	Capital	4,257,256
Contribution	2,761,293	Capital surplus	5,480,641
Long-term loans	2,445,624	Retained earnings	1,838,718
Deferred tax assets	11,567	Treasury stock	Δ140,020
Other	1,076,068	Accumulated other comprehensive income	69,318
Allowance for doubtful accounts	Δ640,442	Foreign currency translation adjustments	69,318
		Stock acquisition rights	778,640
		Non-controlling interest	204,878
Total Assets	27,368,038	Total Liabilities and Net Assets	27,368,038

[Translation]

Consolidated Profit and Loss Statement

(From April 1, 2016
to March 31, 2017)

(Unit: Thousand yen)

Item	Amount	
Sales		14,143,071
Cost of Goods Sold		11,880,035
Gross Profit on Sales		2,263,035
Selling, General and Administrative Expenses		2,306,904
Operating loss		43,869
Non-operating Income		
Interest income	428,683	
Dividend income	86,769	
Contribution operating income	837,545	
Penalties income	4,760	
Reversal of selling expenses	489	
Clerical affairs fee received	3,950	
Foreign currency exchange profit	22,071	
Other non-operating income	32,135	1,416,405
Non-operating Expenses		
Interest expenses	312,659	
Borrowing fees	20,184	
Valuation loss on investment securities	293	
Transfer to allowance for doubtful accounts	469,950	
Other non-operating expenses	52,991	856,078
Ordinary profit		516,457
Extraordinary Profits		
Profit on sale of fixed assets	1,226	
Profit on reversal of stock acquisition rights	7,593	8,820
Extraordinary Losses		
Retirement loss on fixed assets	366	
Transfer to allowance for loss from litigation	20,000	
Transfer to allowance for compensation for completed construction projects	41,622	
Transfer to provision for loss on compensation expenses	23,000	84,988
Net profit before taxes, etc., before dividends distribution from silent partnership		440,288
Dividends distribution from silent partnership	7,080	7,080
Net loss before taxes, etc.		433,207
Corporate income tax, resident tax and business tax payable	178,895	
Adjustment of corporate income tax, etc.	Δ221,470	Δ42,575
Net profit		475,783

[Translation]

Net loss attributable to non-controlling interests	12,804
Net loss attributable to owners of the parent	488,588

Consolidated Statements of Changes in
Shareholders' Equity and Other Net Assets
(From April 1, 2016
to March 31, 2017)

(Unit: Thousand yen)

	Shareholders' equity				
	Capital	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at the beginning of the current consolidated fiscal year	4,257,256	5,480,641	1,521,223	△71,368	11,187,752
Changes during the current consolidated fiscal year					
Dividend of surplus			△171,092		△171,092
Net profit attributable to owners of the parent			488,588		488,588
Acquisition of treasury stock				△68,652	△68,652
Changes in items other than shareholders' equity during the current consolidated fiscal year					
Total changes during the current consolidated fiscal year			317,495	△68,652	248,843
Balance at the end of the current consolidated fiscal year	4,257,256	5,480,641	1,838,718	△140,020	11,436,596

	Accumulated other comprehensive income		Stock acquisition 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	97,624	97,624	696,943	226,901	12,209,222
Changes during the current consolidated fiscal year					
Dividend of surplus		-			△171,092
Net profit attributable to owners of the parent		-			488,588
Acquisition of treasury stock		-			△68,652
Changes in items other than shareholders' equity during the current consolidated fiscal year	△28,305	△28,305	81,697	△22,023	31,368
Total changes during the current consolidated fiscal year	△28,305	△28,305	81,697	△22,023	280,211
Balance at the end of the current consolidated fiscal year	69,318	69,318	778,640	204,878	12,489,433

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: 21 companies

Names of Major Consolidated Subsidiaries

SASAKI-HOUSE CO., LTD.

KIDOH CONSTRUCTION CO., LTD.

Prospect Energy Management Co., Ltd.

Prospect Asset Management, Inc.

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

Names of Non-consolidated Subsidiaries

TAIWAN KIDOH ENGINEERING CO., LTD.

Reasons for exclusion from the scope of consolidation

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

2. Matters concerning application of the equity method

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

No applicable matter.

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

Names of Major Companies, etc.

TAIWAN KIDOH ENGINEERING CO., LTD.

Reasons for not applying the equity method

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

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

Out of the consolidated subsidiaries, the closing date of Prospect Asset Management, Inc. and other five (5) companies is December 31. In preparation of the consolidated financial statements, the financial statements as of the closing date of each company, and adjustment necessary for consolidation was applied for material transactions that accrued between the closing date.

4. Matters concerning Accounting Policy

(1) Valuation criteria and valuation method of material assets

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

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

Other securities

[Translation]

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

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

Inventories

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

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

Merchandise, and raw materials and stores:

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

(2) Depreciation method for important depreciable assets

Tangible fixed assets (except for leased assets):

The fixed percentage method is adopted.

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

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

Major usable years shall be as follows.

Buildings: 6 to 47 years

Machinery, equipment and vehicles: 6 years

Tools, fixing and equipment: 4 to 20 years

Intangible fixed assets (except for leased assets):

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

Leased assets:

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

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

(3) Treatment of deferred assets

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

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

Stock acquisition right issuance expenses:

All amount is treated as expenses where incurred.

(4) Posting standards for important allowances

Allowance for doubtful accounts:

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

Reserve for bonuses:

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

Reserve for officers' bonuses:

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

Allowance for compensation for completed construction projects

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

Allowance for construction projects losses:

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

Provision for loss on litigation:

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

Reserve for retirement benefits for officers:

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

Provision for loss on compensation expenses:

[Translation]

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

(5) Accounting method of retirement benefits

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

(6) Posting Standards of the Important Profits and Expenses

Posting standards of sales and sales cost related to construction business

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

(7) Method of Important Hedge Accounting

- [1] Method of Hedge Accounting: For interest rate swaps, special accounting is adopted as it satisfies the requirements for special accounting.
- [2] Hedge Means and Hedge Target: Hedge means: Interest rate currency swaps
Hedge target:
Foreign currency long-term borrowing
- [3] Hedge Policy: The Company uses interest rate swaps in order to avoid risks from interest rate fluctuations for part of borrowings from financial institutions.
- [4] Method of Evaluation of Effectiveness of Hedge: For interest rate swaps, as it satisfies the requirements for special accounting of interest rate swaps, evaluation of effectiveness is omitted.

(8) Method and Period of Depreciation of Goodwill

It is evenly depreciated for 5 to 10 years.

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

Accounting method of consumption taxes, etc.

Accounting is made exclusive of tax.

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

5. Notes to Changes in Accounting Policy

(Application of Practical Handling Concerning Changes in Depreciation Method Related to Amendment of Taxation System in 2016)

In connection with amendment of the Corporation Tax Act, the Company and subsidiaries in Japan have applied the “Practical Handling Concerning Changes in Depreciation Method Related to Amendment of Taxation System in 2016” (Practice Response Report No. 32, June 17, 2016) from the current consolidated fiscal year and changed the depreciation method of the facilities annexed to the building and structures, which are to be acquired on or after April 1, 2016, from the fixed percentage method to the straight-line method.

There is no impact on the consolidated financial statements by such amendments.

6. Additional Information

(Application of the Application Guidelines for Collectability of Deferred Tax Assets)

We have applied the “Application Guidelines for Collectability of Deferred Tax Assets” (Business Accounting Standards Application Guidelines No. 26, March 28, 2016) from the current consolidated fiscal year.

Notes to Consolidated Balance Sheet

1. Accumulated depreciation of tangible fixed assets	5,123,632 thousand yen
2. Assets for security and secured debt	
Assets provided as security	
Cash and deposits	48,754 thousand yen
Accounts receivable	22,475 thousand yen
Real estate for sale in process	2,451,405 thousand yen
Buildings	424,193 thousand yen
Machinery, equipment and delivery equipment	2,805,595 thousand yen
Land	2,167,903 thousand yen
Construction in progress	776,418 thousand yen
Long-term loans	1,448,609 thousand yen
Superficies	30,000 thousand yen
Liabilities with security for the above	9,455,403 thousand yen

In addition to the above, we have offered for security the stocks of subsidiaries (¥451,124 thousand) and contributions (¥160,486 thousand), which were eliminated from consolidation.

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

Notes to Consolidated Statement of Changes in Shareholders' Equity

1. Number of outstanding shares at the end of the current consolidated fiscal year

Common stock	172,556,807 shares
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2. Number of treasury stocks at the end of the current consolidated fiscal year

Common stock	2,773,334 shares
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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, 2016	Common Stock	171,092	1.00	March 31, 2016	June 29, 2016

- (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.

The Company proposes the matter concerning dividends of common stocks as a proposal for the annual general meeting of shareholders to be held on June 28, 2017.

- | | |
|-------------------------|----------------------|
| [1] Total dividends | 509,350 thousand yen |
| [2] Dividends per share | 3 yen |
| [3] Record date | March 31, 2017 |
| [4] Effective date | June 29, 2017 |

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

4. Class and number of shares subject to stock acquisition 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: 149,175,323 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 solar business, etc. Temporary surplus funds are managed by short-term deposits, etc. We set out a policy of not conducting speculative transactions, and derivatives are used only for avoiding fluctuation risks of borrowings.

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

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

Although part of borrowings is exposed to interest rate fluctuation risks, we use

[Translation]

interest rate swaps as means of a hedge. Please refer to the aforementioned notes to consolidated financial statements, “Notes, etc., to Underlying Material Matters for Preparation of Consolidated Financial Statements, 4. Matters concerning Accounting Policy, (7) Method of Important Hedge Accounting” for hedge means, hedge subjects, hedge policy and evaluation method of the effectiveness of a hedge, etc., related to hedge accounting.

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

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

The Company manages liquidity risks by the Accounting Department preparing and updating the financing plan in a timely manner based on reports from each department, etc.

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

The amount recorded in the consolidated balance sheet, market value and the difference as of March 31, 2017 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	5,409,806	5,409,806	-
(2) Notes and accounts receivable	295,664	295,664	-
(3) Accounts receivable for completed construction projects	1,071,410	1,071,410	-
(4) Accounts receivable for investment advisory fees	16,397	16,397	-
(5) Securities	790,188	790,188	-
(6) Long-term loans	2,445,624		
Allowance for doubtful accounts (*2)	△426,297		
	2,019,327	2,019,327	-
Total Assets	9,602,795	9,602,795	-
(7) Notes and accounts payable	(833,260)	(833,260)	-

[Translation]

(8) Accrued construction payment	(1,759,135)	(1,759,135)	-
(9) Short-term borrowings	(181,400)	(181,400)	-
(10) Bonds to be redeemed within a year	(51,900)	(52,297)	(397)
(11) Short-term borrowings	(1,798,503)	(1,807,062)	(8,558)
(12) Bonds	(146,700)	(143,364)	3,335
(13) Long-term borrowings	(7,854,349)	(7,843,531)	10,817
Total Liabilities	(12,625,248)	(12,620,051)	5,197
Derivative transactions	-	-	-

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

(*2) Allowance for bad debt, which is individually recorded in long-term loans, is deducted.

[Translation]

(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

For long-term loans, as to loans with fixed interest rates, the present value is calculated by discounting the total amount of principal and interest of the long-term loans categorized by a certain period by the expected interest rate for similar loans, and the market price is similar to that of book value, we calculate by that 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) Short-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
Contribution	2,761,293
Investment securities (Unlisted shares)	114,546

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

Notes to Leased Real Estate, etc.

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

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

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

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

(Unit: Thousand yen)

	Amount shown on Consolidated Balance Sheet	Market value
Leased Real Estate, etc.	835,559	1,173,540
Real estate including the portion used for leased real estate.	642,878	1,129,776

(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	67 yen 77 sen
Net profit per share	2 yen 88 sen

Notes to Material Subsequent Events

No applicable matter.

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

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

Audit Report of Independent Auditor

May 11, 2017

To: Board of Directors
Prospect Co., Ltd.

Audit Firm HIBISCUS

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

The Audit Firm conducted an audit of the consolidated financial statements, including the consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements of Prospect Co., Ltd. for the consolidated fiscal year from April 1, 2016 to March 31, 2017 under the Companies Act, Article 444, paragraph 4.

Responsibility of Management for Consolidated Statements

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

Responsibility of Auditor

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

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

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

Audit Opinions

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

Interest

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

[Translation]

Balance Sheet
(As of March 31, 2017)

(Unit: Thousand yen)

Item	Amount	Item	Amount
Assets	15,306,559	Liabilities	3,813,506
Current Assets	6,841,913	Current Liabilities	2,226,783
Cash and deposits	1,503,569	Accrued construction payment	129,142
Accounts receivable	6,661	Short-term borrowings	133,400
Securities	27,665	Bonds to be redeemed within a year	14,000
Real estate for sale	902,302	Current portion of long-term borrowings	1,421,381
Real estate for sale in process	2,467,533	Unpaid amount	5,696
Real estate for development	476,221	Accrued expenses	125,852
Prepaid expenses	104,703	Corporate income tax, etc., payable	217,144
Deferred tax assets	287,000	Advances received	105,796
Accounts receivable	84,451	Deposits received	42,961
Advance money	275,150	Advance revenues	1,507
Other	775,797	Reserve for bonuses	27,767
Allowance for doubtful accounts	△69,142	Other	2,134
Fixed assets	8,464,645	Fixed Liabilities	1,586,722
Tangible fixed assets	1,493,759	Bonds	51,000
Buildings	321,574	Long-term borrowings	1,299,577
Vehicles and delivery equipment	3,422	Reserve for retirement allowance	134,700
Machinery, equipment and delivery equipment	3,629	Reserve for retirement benefits for officers	76,731
Land	1,165,132	Long-term guarantee deposited	14,662
Intangible fixed assets	948,909	Other	10,052
Software	5,379	Net Assets	11,493,053
Goodwill	943,292	Shareholders' equity	10,714,412
Other	237	Capital	4,257,256
Investments and other assets	6,021,977	Capital surplus	5,523,577
Investment securities	101,649	Capital reserve	3,115,620
Stocks of affiliated companies	1,611,646	Other capital surplus	2,407,956
Contributions	2,719,592	Retained earnings	1,073,599
Contribution of affiliated companies	766,173	Reserve for retained earnings	83,651
Long-term loans	996,590	Other reserve for retained earnings	989,947
Long-term loans to employees	425	Retained earnings carried forward	989,947
Long-term prepaid expenses	13,480	Treasury stock	△140,020

[Translation]

Differed tax assets	5,000	Stock acquisition rights	778,640
Guarantee money deposited	20,500		
Other	213,249		
Allowance for doubtful accounts	Δ426,328		
Total Assets	15,306,559	Total Liabilities and Net Assets	15,306,559

[Translation]

Profit and Loss Statement

(From April 1, 2016
to March 31, 2017)

(Unit: Thousand yen)

Item	Amount	
Sales		6,565,701
Cost of Goods Sold		5,304,273
Gross Profit on Sales		1,261,428
Selling, General and Administrative Expenses		1,357,799
Operating loss		96,371
Non-operating Income		
Interest income	245,900	
Dividend income	206,813	
Contribution operating income	837,545	
Penalties income	4,760	
Clerical affairs fee received	3,950	
Reversal of selling expenses	489	
Miscellaneous revenue	72,676	1,372,135
Non-operating Expenses		
Interest on bond	361	
Interest expenses	78,428	
Borrowing fees	15,464	
Valuation loss on investment securities	293	
Transfer to allowance for doubtful accounts	469,950	
Miscellaneous losses	67,574	632,072
Ordinary profit		643,691
Extraordinary Profits		
Profit on reversal of stock acquisition rights	7,593	7,593
Net profit before tax		651,285
Corporate income tax, resident tax and business tax payable	176,115	
Adjustment of corporate income tax, etc.	△195,100	△18,984
Net profit		670,270

[Translation]

Statements of Changes in Shareholders' Equity and Other Net Assets

(From April 1, 2016
to March 31, 2017)

(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 Retained earnings carried forward	Total retained earnings
Balance at the beginning of year	4,257,256	3,115,620	2,407,956	5,523,577	83,651	490,769	574,421
Changes during the year							
Dividend of surplus				-		△171,092	△171,092
Net profit				-		670,270	670,270
Acquisition of treasury stock				-			-
Changes in items other than shareholders' equity during the year (net)							
Total changes during the year	-	-	-	-	-	499,177	499,177
Balance at the end of year	4,257,256	3,115,620	2,407,956	5,523,577	83,651	989,947	1,073,599

	Shareholders' equity		Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity		
Balance at the beginning of year	△71,368	10,283,886	696,943	10,980,829
Changes during the year				
Dividend of surplus		△171,092		△171,092
Net profit		670,270		670,270
Acquisition of treasury stock	△68,652	△68,652		△68,652
Changes in items other than shareholders' equity during the year (net)			81,697	81,697
Total changes during the year	△68,652	430,525	81,697	512,223
Balance at the end of year	△140,020	10,714,412	778,640	11,493,053

Notes to Non-Consolidated Financial Statements

Notes to Important Accounting Policy

1. Valuation criteria and valuation method of assets

(1) Valuation criteria and valuation method of securities

Securities held for sale and purchase:

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

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

Stocks of affiliated companies and contribution of affiliated companies:

Valued at cost by the moving-average method

Other securities

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

(1) Valuation criteria and valuation method of inventories

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

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

2. Depreciation method for fixed assets

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

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

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

The straight line method is adopted.

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

Goodwill is evenly depreciated for ten (10) years.

(3) Leased assets

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

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

3. Posting standards for allowances

(1) Allowance for doubtful accounts

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

(2) Reserve for bonuses

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

[Translation]

(3) Reserve for officers' bonuses

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

(4) Reserve for retirement allowance

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

(5) Reserve for retirement benefits for officers

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

4. Other Important Underlying Matters for Preparation of Financial Statements

(1) Treatment of deferred assets

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

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

Stock acquisition 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 Changes in Accounting Policy

(Application of Practical Handling Concerning Changes in Depreciation Method Related to Amendment of Taxation System in 2016)

In connection with amendment of the Corporation Tax Act, the Company and subsidiaries in Japan have applied the “Practical Handling Concerning Changes in Depreciation Method Related to Amendment of Taxation System in 2016” (Practice Response Report No. 32, June 17, 2016) to the current business year and changed the depreciation method of the facilities annexed to the building and structures, which are to be acquired on or after April 1, 2016, from the fixed percentage method to the straight-line method.

There is no impact on the financial statements by such amendments.

6. Additional Information

(Application of the Application Guidelines for Collectability of Deferred Tax Assets)

We have applied the “Application Guidelines for Collectability of Deferred Tax Assets” (Business Accounting Standards Application Guidelines No. 26, March 28, 2016) from the current business year.

Notes to Balance Sheet

1. Accumulated depreciation of tangible fixed assets 136,552 thousand yen

2. Assets for security and secured debt

Assets provided as security

Real estate for sale in process 2,467,533 thousand yen

Buildings 136,861 thousand yen

Land 860,640 thousand yen

Stocks of affiliated companies 451,124 thousand yen

Liabilities with security for the above 2,515,408 thousand yen

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

3. Guarantee Obligation Outstanding

The Company provides guarantee for the borrowing liabilities of the following affiliated

[Translation]

companies from financial institutions.	
<i>Godokaisha</i> Asagoshi Mega-solar	208,000 thousand yen
<i>Godokaisha</i> Prospect Tokujiro	1,323,000 thousand yen
<i>Godokaisha</i> Prospect Katori	737,650 thousand yen
<i>Godokaisha</i> Prospect Ushiku	442,740 thousand yen
<i>Godokaisha</i> Prospect Sanmu Higashi	1,102,000 thousand yen
<i>Godokaisha</i> Prospect Sendai	560,000 thousand yen
<i>Godokaisha</i> Prospect Rikuzen Takada	319,080 thousand yen

4. Monetary Claims to Affiliated Companies	
Short-term monetary claims	268,727 thousand yen
Long-term monetary claims	707,901 thousand yen
Short-term monetary liabilities	559 thousand yen
Long-term monetary liabilities	35,334 thousand yen

Notes to Profit and Loss Statement

Transaction amount with Affiliated Companies	
Sales	125,166 thousand yen
Transaction amount other than sales transactions	167,680 thousand yen

Notes to Statement of Changes in Shareholders' Equity

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

	Common stock	2,773,334 shares
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(Note) The increase in the number of treasury stocks is due to acquisition of 1,309,000 shares of the treasury stocks by a resolution of the board of directors and purchase of 114 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	2,929,372 thousand yen
Impairment loss on fixed assets	107,691 thousand yen
Accrued business tax	36,065 thousand yen
Reserve for bonuses	8,569 thousand yen
Reserve for retirement allowance	41,568 thousand yen
Officers' retirement allowance	23,679 thousand yen
Allowance for doubtful accounts	152,902 thousand yen
Other	483,582 thousand yen
Subtotal of Deferred tax assets	3,783,430 thousand yen
Reserve for valuation	<u>Δ3,491,430 thousand yen</u>
Total deferred tax assets	<u>292,000 thousand yen</u>

[Translation]

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

Statutory effective tax rate	30.9%
(Adjustment)	
Items which are not included in losses perpetually, including entertainment expenses, etc.	0.3%
Per capita basis amount of resident tax, etc.	0.6%
Increase or decrease in valuation reserve	Δ217.3%
Increase or decrease in loss brought forward	216.8%
Use of taxation loss brought forward	Δ38.3%
Items which are not included in profit perpetually, including dividend income, etc.	Δ5.7%
Stock compensation expenses	4.2%
Non-inclusion in profits of the dividend income, etc., from overseas subsidiaries	Δ3.1%
Depreciation of goodwill	6.9%
Aggregated income of specific overseas subsidiaries, etc.	3.1%
Other	Δ1.3%
Burden rate of corporate tax, etc., after applying tax effect accounting	<u>Δ2.9%</u>

Notes to Transactions with Related Parties
Subsidiaries and affiliated companies, etc.

(Unit: Thousand yen)

Type	Name of company, etc.	Location	Capital or contributions	Details of business	Ratio of voting rights holding (held)	Relationship with related parties	Details of trade	Trading amount	Item	Balance at the end of the year
Subsidiary	Godokaisha Prospect Sanmu Higashi	Shibuya-ku, Tokyo	10	Solar Business	100%	Contribution	Debt guarantee Offer of security	1,102,000	-	-
							Advance payment of land price, etc.	346,123	Advance money	0
Subsidiary	Godokaisha Prospect Tokujiro	Shibuya-ku, Tokyo	50	Solar Business	100%	Contribution	Debt guarantee	1,323,000	-	-
							Advance payment of land price, etc.	163,756	Advance money	49,836
Subsidiary	Godokaisha Prospect Katori	Shibuya-ku, Tokyo	50	Solar Business	100%	Contribution	Debt guarantee	737,650	-	-
Subsidiary	Godokaisha Prospect Sendai	Shibuya-ku, Tokyo	10	Solar Business	100%	Contribution	Debt guarantee	560,000	-	-
							Advance payment of land price, etc.	169,220	Advance money	203
Subsidiary	Godokaisha Prospect Ushiku	Shibuya-ku, Tokyo	100	Solar Business	100%	Contribution	Debt guarantee	442,740	-	-
Subsidiary	Godokaisha Prospect Rikuzen Takada	Shibuya-ku, Tokyo	50	Solar Business	100%	Contribution	Debt guarantee	319,080	-	-
Subsidiary	Godokaisha Asagoshi Mega-solar	Shibuya-ku, Tokyo	100	Solar Business	100%	Contribution	Debt guarantee	208,000	-	-
Subsidiary	Godokaisha Prospect Narita Kanzaki	Shibuya-ku, Tokyo	3,000	Solar Business	100%	Contribution	Advance payment of land price, etc.	41,356	Advance money	211,597

- (Note) 1. Terms of transactions and the policy for determination of terms of transactions, etc., are determined in a similar manner to general terms of transactions.
2. Debt guarantees are for the borrowings from financial institutions. In this regard, guarantee fees are not paid for debt guarantees.
3. Offer for security is the offer for security for borrowings from financial institutions.

[Translation]

Notes to Per Share Information

1. Net assets per share	63 yen 11 sen
2. Net profit per share	3 yen 95 sen

Notes to Important Events after Closing the Accounts

No applicable matter.

Other Notes

No applicable matter.

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

Certified Copy of Audit Report of Accounting Auditor

Audit Report of Independent Auditor

May 11, 2017

To: Board of Directors
Prospect Co., Ltd.

Audit Firm HIBISCUS

Designated Member	Certified Public	Mitsuyoshi Kogure
Operating Partner	Accountant	
Designated Member	Certified Public	Kohei Morisaki
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 notes to non-consolidated financial statements and schedules of Prospect Co., Ltd. for the business year from April 1, 2016 to March 31, 2017 under the Companies Act, Article 436, paragraph 2, item 1.

Responsibility of Management for Financial Statements, etc.,

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

Responsibility of Auditor

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

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

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

Audit Opinions

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

Interest

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

Certified Copy of Audit Report of Board of Auditors

Audit Report

The Board of Auditors prepared this Audit Report and submits as follows through deliberations based on the audit reports prepared by each Auditor on execution of duties of the Directors for the 116th business year from April 1, 2016 to March 31, 2017.

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

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

2. Audit Results

(1) Audit Results of Business Report, etc.

- [1] We recognize that the business report and its schedules correctly represent the status of the Company pursuant to the laws and the Articles of Incorporation.
- [2] We did not recognize wrongful acts related to execution of duties of Directors or material facts in violation of the laws or the Articles of Incorporation.
- [3] We recognize that the details of resolutions of the Board of Directors on the internal control system are reasonable. We did not recognize the facts to point out with respect to the details of business report on the internal control system and execution of duties of the Directors.

(2) Audit Results of Financial Statements and its Schedules

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

(3) Audit Results of Consolidated Financial Statements

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

May 12, 2017

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

Item No. 1: Appropriation of surplus

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

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

[1] Kind of distributed property

Money

[2] Matters concerning allotment of distributed property and the total amount

¥3 per share of the common stocks of the Company: Total amount: ¥509,350,419

[3] Effective date of dividend of retained earnings

June 29, 2017

Item No. 3: Appointment of two (2) Auditors

As the term of Auditors Akio Tsukishima and Thomas R. Zengage will expire at the closing of this general meeting of shareholders, we would like to ask for appointment of two (2) Auditors.

This proposal has been approved by the board of auditors.

Candidates for Auditors 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)	April 1974: Joined Sumitomo Trust Bank (currently Sumitomo Mitsui Trust Bank, Ltd.) June 1996: Standing Auditor of TDS CO., LTD. July 2006: Tosei REIT Advisors Inc., Risk Compliance Office Director February 2008: Prospect Co., Ltd., Administration Department Manager February 2008: Prospect Co., Ltd., Director, Administration Department Manager June 2009: Prospect REIT Advisors, Co., Ltd., Representative Director March 2011: Prospect Co., Ltd., Advisor June 2011: C.O. of the Company June 2013: Outside Auditor of the Company (current)	1,000 Shares
2	Thomas R. Zengage (Born on June 15, 1953)	January 1982: Joined IBI Co., Ltd. September 1998: IBI Co., Ltd., Representative Director January 2006: Pacific Communicators Inc., Representative March 2009: Edelman Japan, Representative Director, Chairman September 2009: Pacific Communicators Inc., Representative (current) December 2012: Investor Impact, Inc., Representative Director, President (current) June 2013: Outside Auditor of the Company (current)	0 Shares

- (Note) 1. There are no special interests between each candidate for Auditors and the Company.
 2. Candidates for Auditors, Mr. Akio Tsukishima and Mr. Thomas R. Zengage are candidates for Outside Auditors.
 3. Matters concerning a candidate for Outside Auditor are as follows.
 (1) Reasons for Nominating Candidates for Outside Auditors
 A. We would like Mr. Akio Tsukishima to utilize his extensive experience and wide range of knowledge nurtured during his long career in the financial and real estate industries, etc., for reinforcement of the audit system of the Company.
 B. Mr. Thomas R. Zengage has professional knowledge and a wide range of experience in the IR/CSR consulting industry and we would like him to play the role of an Outside Auditor from an outside viewpoint.
 (2) Agreement on Limitation of Liability between the Company and the Candidate for Outside Auditor
 The Company provides in the Articles of Incorporation that the Company may execute an agreement limiting damage liability to a certain extent so that the Company can invite a competent person as Outside Auditor. Mr. Akio Tsukishima and Mr. Thomas R. Zengage executed an

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agreement on limiting the damage liability under the Companies Act, Article 423, paragraph based on the Companies Act, Article 427, paragraph 1. The limit of damage liability under the Agreement is the minimum amount of liability provided for in the Companies Act, Article 425, paragraph 1 and if reappointment of Mr. Akio Tsukishima and Mr. Thomas R. Zengage are approved, we will continue the Agreement with both of them.

4. Both Mr. Akio Tsukishima and Mr. Thomas R. Zengage are currently Outside Auditors of the Company, the respective period of assuming the post of Auditor will be four (4) years at the closing of this general meeting of shareholders.
5. Both Mr. Akio Tsukishima and Mr. Thomas R. Zengage are candidates for Outside Auditors and are filed with the Tokyo Stock Exchange as independent officers who are unlikely to have any conflict of interest with general shareholders, required to be designated as such by the Tokyo Stock Exchange.

Item No.4: Issuance of the Company's common stock

Shareholder's approval is requested for the issuance of the Company's common stock in the following terms under Article 199 of the Companies Act as a case where the amount to be paid in for the shares for subscription is particularly favorable to the subscribers of such stocks.

1. Material terms of subscription

Type of shares for subscription	The Company's common stock
Number of shares for subscription	230,881,505 shares
Amount to be paid in per share	JPY 59
Total amount to be paid in	JPY 13,622,008,795
Contribution method of non-monetary property	The subject of the contribution will be the common stock of The Prospect Japan Fund ("TPJF") (the "Contribution Security"), which is a non-monetary property.
Description of the Contribution in Kind	92,352,602 shares of the Contribution Security (the "Contribution in Kind").
Allotment ratio	2.5 shares of the Company's common stock will be allotted for each share of the Contribution Security (provided that each shareholder of TPJF will have the number of shares, which fractional quantity is rounded off).
Value of the Contribution in Kind	JPY 13,834,050,369.192 (The final price on the London Stock Exchange, which is the market on which the Contribution Security is listed, on May 31, 2017, which is the date on which the value of the Contribution Security is determined (the "Value Determination Date"), multiplied by 92,352,602 shares, which is the number of outstanding shares of the Contribution Security (USD), then converted into Japanese Yen based on the USD telegraphic transfer spot middle rate of Mizuho Bank, Ltd. on the Value Determination Date (USD 1=JPY 110.96).
Amount of increase in capital and capital reserves	The amount of increase in capital will be 50% of the maximum amount of increase in capital, etc. that is calculated according to Article 14(1) of the Corporate Accounting Rules, and any amount less than JPY 1 shall be rounded up. The amount of increase in capital reserves will be the maximum amount of increase in capital, etc. reduced by the abovementioned amount of increase in capital.
Method of subscription	The Company will offer to purchase the TPJF stock held by all shareholders of TPJF using the Company's common stock as consideration in compliance with the City Code on Takeovers and Mergers of the UK and in compliance with the procedures for a

	<p>scheme of arrangement that is administered by a Guernsey court based on the Guernsey Law under which TPJF is organized.</p> <p>A scheme of arrangement is a procedure under the companies law of Guernsey for making across-the-board changes to a company's claims or capital structure through approval by a meeting of shareholders and sanctioning by a court rather than through individual agreements with shareholders and other parties, and in the present matter, it is a friendly method of acquisition that will be carried out based on the consent of the board of directors of TPJF and by obtaining the approval by a meeting of TPJF shareholders and the sanction of a Guernsey court.</p> <p>Through this procedure, the Company will acquire all outstanding shares of TPJF stock by issuing the Company's common stock to all shareholders of TPJF (the "Transaction").</p>
Date or period when the Contribution in Kind will be provided	The date to be decided by the Company's board of directors as the effective date of scheme of arrangement for the Transaction.
Other matters	Each of the items above will be subject to the approval by a meeting of TPJF shareholders and sanctioning of the Transaction by a Guernsey court.
Delegation of decision-making	In addition to the matters set forth above, all matters regarding the subscription requirements of the shares for subscription will be decided through a resolution of the Company's board of directors.

2. Purpose and reason of subscription

(1) Issuance of common stock for implementation of the Transaction

On May 31, 2017, the Board of Directors of the Company resolved the terms of a recommended all-share offer in overseas market for the entire issued and to be issued share capital of The Prospect Japan Fund ("TPJF") by the Company, which will be implemented by means of a scheme of arrangement under Part VIII of the Companies Law of Guernsey. TPJF is a company-type investment fund that is organized under the companies law of Guernsey, a Crown dependency ("Guernsey Law"), and is listed on the London Stock Exchange. The Company will commence the procedures for acquiring all outstanding shares of TPJF stock (the "Target Company Shares") in exchange for the Company's common stock and to make TPJF a wholly-owned subsidiary of the Company (the "Acquisition") as described in Section 2(4). The Independent TPJF Directors intend unanimously to recommend that TPJF Shareholders vote in favour of the Scheme at the Court Meeting and in favour of the resolutions to be proposed at the TPJF General Meeting. Today the Company and TPJF has also agreed to enter into the Cooperation Agreement to cooperate for the implementation of the Acquisition.

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The Acquisition will be a friendly transaction and the board of directors of TPJF is unanimously in favor of the Acquisition.

On May 31, 2017 (10:00 local time), in compliance with the City Code on Takeovers and Mergers in the UK, the Company made an announcement of a firm intention to make an offer in relation to the Acquisition.

As consideration for the Acquisition, the Company will be offering a premium of approximately 44.5% to the shareholders of TPJF relative to the market price of TPJF stock on May 30, 2017 as noted below with regard to the issuance of the Company's common stock that will be issued to all shareholders of TPJF at a ratio of 1:2.5. Accordingly, due to the facts that an extraordinary resolution at the shareholders meeting is required and the subscription requirements of the shares for subscription will be determined under Article 199 of the Companies Act as a case where the amount to be paid in for the shares for subscription is particularly favorable to the subscribers of such shares, and that the effective date of the Acquisition that will fall under the date of delivery of the properties contributed in kind will be fixed on a day following the date specified for the sanction of the scheme of arrangement by a Guernsey court, the Company has passed a resolution that the delegation of the determination of the subscription requirements of the shares for subscription to the Company's board of directors under Article 200 of the Companies Act will be proposed to the annual shareholders meeting.

(2) Background of the Acquisition

The Company's primary business has traditionally been its condominium sales business under the "GRO-BEL mansion series" brand. However, the Company has felt that, in the real estate industry, it is difficult to increase earnings due to the upward trend in land and construction costs and that fluctuations in the real estate market have a significant impact on this industry. Accordingly, the Company has implemented an M&A strategy to secure earnings and achieve stable growth as a company, starting with the acquisition of SASAKI-HOUSE Co., Ltd., a homebuilder, in November 2012 and then acquiring former Prospect Co., Ltd., a company engaged in the investment advisory and real estate business, in August 2013 and making Kidoh Construction Co., Ltd., a construction company, a wholly-owned subsidiary in March 2014. As a corporate group, the Company has expanded its business areas without limiting itself to condominium development and has made efforts to enhance its revenue base while diversifying its regional risk. In September 2014, the Company also started its solar business as real estate development for solar power generation and electricity sales business as new businesses that can be expected to produce a synergy effect.

Although the Company has expanded the business portfolio of its corporate group through the M&A and solar business investments described above, they still have not yet reached a level where they could be considered key sources of revenue as stable and core

businesses within the Company's corporate group, so in order to ensure stable earnings in the future and to seek future corporate growth, the Company believes that there is an urgent need to secure a revenue base and to improve its business portfolio through continuous M&A and the expansion of next-generation energy investment businesses including biomass. To achieve such business expansion, it is essential to raise funds through equity finance and increase its borrowing capacity through increasing its own equity capital. Accordingly, on December 21, 2015, the Company made the third-series issue of 1,440 stock acquisition rights (the number of potential shares: 144,000,000 shares) and in March 2016, a total of 90 stock acquisition rights were exercised and 486 million yen was paid in. However, the remaining 1,350 stock acquisition rights have remained unexercised due to its stock price as well as the general market conditions since then and the Company has not been able to raise additional growth capital. Thus, the business has not progressed as expected.

TPJF, which is a company-type investment trust formed to primarily invest in stocks that are listed in Japan and listed on the London Stock Exchange on December 20, 1994, has formed a value/growth investment portfolio, investing the funds provided through the funds invested principally by institutional investors and funds of funds in Europe and the United States in small-cap securities in the areas of real estate, finance and construction, specifically. TPJF is a listed closed-end fund and with investments from the funds and others that are its current shareholders, operates its investment portfolio, which includes the Company, without any debt. However, its daily trading volume on the London Stock Exchange was 14 thousand shares on average for the year 2016 and was 18 thousand shares simple average April 2017, and the liquidity has continued to remain low. In addition, its PBR was 0.67 (as of December 31, 2016), lower than 1.0, though its portfolio was composed principally of listed stocks, and thus, in the foreign market, the potential values and growth potentials of the Japanese small-cap stocks have not fully been evaluated.

The Company and TPJF have been building a friendly and cooperative relationship since the Company separated from its previous shareholder group in May 2007 to commence independent self-management and TPJF became a new shareholder of the Company. Since TPJF commenced investment in the Company, it has continued to hold the shares of the Company consistently up until now for the purposes of portfolio investment and making important proposals whenever necessary though it has changed the number of shares it holds through sales thereof to adjust its portfolio as a fund or otherwise. In addition, the Company and TPJF have a relationship under which Prospect Asset Management, Inc. ("PAMI"), a subsidiary of the Company that is responsible for the investment management business of Company's corporate group, and Prospect Asset Management (Channel Islands) Ltd. ("PAMCI"), a subsidiary of the Company, are each entrusted as an investment advisor for the management of Japanese stocks and providing investment advisory services for TPJF, as well as a personal relationship under which Curtis Freeze ("Freeze"), who is the President and CEO of the Company, serves as the Chief Investment Officer (CIO) of PAMI and an officer of PAMCI. Against the background of these capital, business and personal relationships, TPJF has a track record of subscribing to the allotment of the convertible bonds and stock acquisition rights issued by the Company upon obtaining approval of its board of directors in

the past, among others and has continued to understand the business objectives and management policies of the Company.

The Company and TPJF have continued a series of discussions based on the current situations where the business environment of both companies is growing increasingly severe. Consequently, both companies have confirmed that the materialization of the Acquisition will be of great significance to them as described in Section 2(3) below and come into a conclusion that the integration of the management resources of the companies will be an effective means to materialize solving the challenges facing the companies and rapidly increasing their enterprise value.

(3) Rationales for the Acquisition

The rationales for the Acquisition are as follows:

- As noted above, the investment portfolio of TPJF is composed principally of the companies with growth potentials related to real estate, finance and construction, which correspond to the target segments listed by the Company in its M&A strategy. Hence, the Company considers that the investees of TPJF include potential candidates for potent business partners and that through individual talks with such candidates for business partners, the Company will be able to see alliance and synergy opportunities in a wider range of businesses.
In the meantime, however, in the current form of investment fund management, there is a limit on injecting management resources to investees from the perspective of diversified investments by the fund and it may be difficult to materialize operational collaborations focused on the potentials of the investees.
- In addition, the Company considers that it will be able to apply the proceeds from any sales of the shares of investee companies towards its M&A strategy and next-generation energy business investments in order to accelerate its growth strategy.
- By acquiring TPJF, which operates without any debt, the Company is expected to significantly enhance its equity on a consolidated basis. The Board of the Company believes that, as a result, the Company should be able to procure third party debt funding to enable the Company to accelerate its growth strategy.
- As the Acquisition will be implemented by the method of allotting the shares of the Company to the shareholders of TPJF, the shareholders of TPJF will be able to have the opportunities to hold the shares of the Company (simple average daily trading volume of the shares of the Company for April 2017: 4,253 thousand shares) with a higher liquidity than those of TPJF while they maintain investments in the Japanese listed stocks, which have been their investment segment. In addition, the Company considers the Acquisition will be of great significance to the shareholders of TPJF because the increase in enterprise value through the implementation of the Company's growth strategy noted above will benefit not only the shareholders of the

Company but also the shareholders of TPJF who will become new shareholders of the Company as a result of the Acquisition.

(4) Method of the Acquisition

In the Acquisition, the Company will offer to purchase the Target Company Shares held by all shareholders of TPJF using the Company's common stock as consideration (TOB in consideration of own shares) in compliance with the City Code on Takeovers and Mergers of the UK and in compliance with the procedures for a scheme of arrangement that is administered by a Guernsey court based on the companies law of Guernsey under which TPJF is organized. The Company and TPJF have engaged in a series of discussions regarding the acquisition methods and made investigations into various methods. Consequently, both companies have determined that it is most appropriate for them to adopt this method of using the Company's common stock as consideration, but not a purchase using cash as consideration based on the expansion of a leverage by a borrowing, as it will maximize the effect of enhancing its equity on a consolidated basis for the Company's corporate group, which is one of the rationales for the Acquisition, and make it possible to continue to maintain the relationships with the shareholders of TPJF who have established the relationships with the Company's corporate group through investment advisory services or the like, as the shareholders of the Company.

A scheme of arrangement adopted as an acquisition method for the Acquisition is a procedure under the companies law of Guernsey for making across-the-board changes to a company's claims or capital structure through approval by a meeting of shareholders and sanctioning by a court rather than through individual agreements with shareholders and other parties, and in the present matter, it is a method of acquisition of 100% of the Target Company Shares that will be carried out based on the consent of the board of directors of TPJF on the Acquisition and by obtaining the approval by a meeting of TPJF shareholders and the sanction of a Guernsey court for the offer of a TOB using the Company's common stock as consideration. The approval of this scheme of arrangement by a meeting of TPJF shareholders will require approval by a majority of the participating and voting shareholders and the number of voting rights held by such shareholders must be at least 75% in value of TPJF shareholders (present and voting) that is called by a Guernsey court.

The Company plans to allot the Company's common stock to all shareholders of TPJF appearing in the final register of shareholders of TPJF at the closing time on the business day immediately preceding the date of sanction of a Guernsey court for the Acquisition (effective date), or the final trading day for the shares of TPJF on the London Stock Exchange, at an allotment ratio of 2.5 shares of the Company's common stock for each share of TPJF stock (the "Allotment Ratio") as consideration for acquiring all of the Target Company Shares, subject to, amongst other conditions, (i) the adoption of a resolution to approve the proposal for the determination of the subscription requirements for shares for subscription under Article 199 of the Companies Act and the delegation of the determination of the subscription requirements for shares for subscription under Article 200 of the Companies Act set forth in

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Section 4 below at the Company's annual shareholders meeting, and (ii) obtaining the abovementioned approval by a meeting of TPJF shareholders and sanction of a Guernsey court for the Acquisition. After allotting the Company's common stock according to the Allotment Ratio, if there is any fractional quantity that is less than one (1) share of the Company's common stock with regard to each shareholder of TPJF, such shareholder of TPJF will receive the number of shares, which fractional quantity is be rounded off.

The Company will acquire all outstanding shares of the TPJF stock through the procedures described above and upon the scheme of arrangement becoming effective TPJF will become a wholly-owned subsidiary of the Company.

(5) Method of settlement and possible partial sale of the Company's common stock which is consideration for the Acquisition

As noted above, the Company will allot the Company's common stock to all shareholders of TPJF as consideration for the Acquisition, but as all of the TPJF shareholders are foreign corporations or other non-residents, they will need to open securities accounts in compliance with the book-entry transfer system for stocks of Japan to receive the Company's common stock. However, it is expected that there will be a certain number of shareholders of TPJF who desire, but will not be in a position, to open such securities accounts by the time of the implementation of the Acquisition or who do not desire to do so. Accordingly, taking into consideration the situations of such shareholders of TPJF, the Company is to establish a scheme of settlement pursuant to which the shareholders of TPJF may receive the Company's common stock as consideration for the Acquisition, and obtain approval by a meeting of TPJF shareholders to be held by a Guernsey court.

First, for each shareholder of TPJF who shall have notified the Company of his/her/its account information by designating his/her/its securities account to receive the Company's common stock during the specified period, the Company's common stock in the number equivalent to that to be allotted will be delivered through the comprehensive account maintained on behalf of all shareholders of TPJF (the "Comprehensive Account B") to the account designated by such shareholder on the settlement date that shall be no later than 14 days from the effective date pursuant to the provisions of the City Code.

Second, any shareholder of TPJF who shall have declared his/her/its intention to hold the Company's common stock on the comprehensive account maintained on behalf of the shareholders of TPJF who shall have so desired (the "Comprehensive Account A") will receive the Company's common stock in the number equivalent to that to be allotted (through the Comprehensive Account B) in the Comprehensive Account A and shall have an option of either selling the Company's common stock held on the Comprehensive Account A at his/her/its instruction during the period of two years from the settlement date or transferring the Company's common stock so held to his/her/its desired securities account.

Third, for (i) any shareholder of TPJF who shall have not notified the Company of

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his/her/its intention to participate in the scheme of possession via the his/her/its desired securities account or the Comprehensive Account A, and will continuously hold the Company's common stock in the number equivalent to that to be allotted in the Comprehensive Account B and (ii) any shareholder of TPJF who shall have not completed transferring to any other securities account or selling the Company's common stock held on the Comprehensive Account A for the period of two years, the Company's common stock held by such shareholder on the Comprehensive Account B and the Comprehensive Account A will be sold on the Tokyo Stock Exchange on (i) after the elapse of one month following the settlement date or (ii) after the elapse of two years following the settlement date, respectively pursuant to sales policy described below to be approved at the meeting of TPJF shareholders set forth above, and the amount of total sales proceeds deducted by total sales expenses will be paid to such shareholders of TPJF upon the completion of the sales of the entire stock.

Items	Sales Policy
Sales policy applicable period	Until the next business day following the date when the number of outstanding shares in the Company to be sold becomes 10% of the sales volume per day or less.
Number of brokers	Sales orders of one day can not be placed through more than one securities company.
Order hours	Orders can not be placed within 30 minutes before the close of the market.
Order price	① Before the determination of opening price • An order shall be a limit order. • Offer price shall not be lower than the closing price or final quote of the previous day. ② After the determination of opening price • An order shall be a limit order. • Orders shall not be repeatedly placed at a price which is lower than the latest published price. • An order shall be placed at a price which is not lower than the lowest price of the day. • An order shall not be lower than 95% of the opening price of the day or the closing price of the previous trading day.
Order volume per day	25/30% of the average daily trading volume during 4 weeks preceding a week which the relevant sales day falls on. (25% for the first 6 months and 30% for the next 6 months)

3. Basis for calculating the consideration for the Acquisition

(1) Basis and grounds for estimation of the consideration for the Acquisition

The Company and TPJF began discussing and considering the Acquisition around mid-November of 2016. Since TPJF issued the Rule 2.4 Announcement under the City Code with

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respect to the progress of the Company's potential acquisition of TPJF on January 10, 2017, the Company also issued the Announcement regarding the discussion on the potential acquisition of TPJF (the "Previous Release") as of the same date to announce to start the feasibility study of the acquisition and to proceed with action to discussion with TPJF shareholders and/or authorities concerned. After careful/continuous discussion and consideration taking into account the companies' financial conditions and performance trends, the Company concluded with fresh scrutiny that the Acquisition is its best option for the sustainable growth of the companies and to increase its medium-to-long term enterprise value.

To ensure fairness and appropriateness of calculation of the allotment ratio that will be used for the Acquisition, the Company has decided to hire a third-party appraiser that is independent from both companies to calculate the allotment ratio, and has selected Mizuho Bank, Ltd. ("Mizuho Bank") as the third-party appraiser.

At the time of the Previous Release, the preliminary allotment ratio was calculated with the Net Asset Value ("NAV") per share of TPJF and the market price of the Company based upon the fact that TPJF is a company-type investment fund and that its portfolio is comprised mostly of Japanese listed shares. The discussion between TPJF and the Company started based upon the provisionally calculated allotment ratio where 2.5 shares of the Company shall be allocated to a TPJF share. The calculated premium against the share price of TPJF (US\$0.945) as of the previous trade date (January 9, 2017) at the London Stock Exchange was 52.7%, and the premium against the TPJF NAV per share (US\$1.2610) as of January 6, 2017 was 14.4%.

After taking into account the allotment ratio calculated and submitted by the third-party appraiser as well as both companies' financial conditions, performance trends, movements in their stock prices, and other factors, the Company and TPJF concluded that it would be reasonable to allot 2.5 shares of the Company's common stock for each share of TPJF stock as consideration for the Acquisition as set forth in the table below, and decided at the board of directors meeting that was held May 31, 2017 that the Acquisition will be carried out by issuing 230,881,505 shares of the Company's common stock to all shareholders of TPJF. While the premium for the allotment ratio against market price of TPJF share as of May 30, 2017 is 44.5%, the premium against the Adjusted Book Value based on the TPJF NAV per share is 19.3%, which the Company and TPJF believe the appropriate level and will not deteriorate shareholders' interest of each company given that the Acquisition is the necessary step to achieve the future growth strategy mentioned in "2.(3) Rationale for the Acquisition".

	The Company	TPJF
Allotment ratio for the Acquisition	1	2.5
Number of shares of the Company's stock that will be issued through the Acquisition	The Company's common stock: 230,881,505 shares	

The allotment ratio above offers a premium of approximately 44.5% to the shareholders of TPJF relative to the market price of TPJF stock on May 30, 2017, and as a case where the

amount to be paid in for the shares for subscription is particularly favorable to the subscribers of such shares, the Company plans to obtain approval through a special resolution under Article 309(2)(v) of the Companies Act as a favorable issuance at the annual shareholders meeting, 2017. In addition, because the Company's common stock that will be the consideration for the Acquisition will be issued as non-monetary consideration, a certificate regarding the fact that "the value under Article 199(1)(iii) of the Companies Act is reasonable" is expected to be obtained from an attorney and certified public accountant.

(2) Matters regarding the calculation of the consideration for the Acquisition

(i) Name of the appraiser and its relationship with the Company and TPJF

Mizuho Bank, the Company's third-party appraiser, is not a related party of the Company or TPJF, and has no material interest in the Acquisition.

(ii) Overview of the calculation

With regard to the Company, Mizuho Bank conducted the valuation using the Average Market Price Method because it is listed on the Second Section of the Tokyo Stock Exchange and there is a market share price May as well as the Discounted Cash Flow Method (the "DCF Method") to reflect future business activities in its valuation.

With regard to TPJF, Mizuho Bank conducted the valuation by using the Average Market Share Price Method because it is listed on the London Stock Exchange and there is a market share price and the Adjusted Book Value Method (which method was also considered for the Previous Release) based upon the TPJF NAV per share taking into consideration that TPJF is a company-type investment fund and that more than 70% of its portfolio is comprised of Japanese listed shares as disclosed in the Annual Finance Report for the year ended December 31, 2016.

In the Average Market Share Price Method of Previous Release, the reference date was set on a date before the Previous Release (January 6, 2017, "Ref Date I") and 1 month, 3 months and 6 months average closing price up to the Ref Date I in each stock exchange market (TSE Second Section for the Company and LSE for TPJF) were calculated since the Previous Release mentioned the provisionally calculated allotment ratio of 2.5 as one of the key conditions for discussion. Since the Previous Release was issued under the circumstance that both parties were investigating the viability of the Acquisition and the terms and conditions for the Acquisition were before detailed examination, which meant there were possibilities for the terms and conditions to change through the negotiation and 4 months have passed since the Previous Release, another reference date (the "Ref Date II") was set on May 30, 2017 and 1 month, 3 months and 6 months average closing price up to the Ref Date II in each stock exchange market were calculated.

Assuming that the equity value per share of the Company's stock is 1, the results of the calculation according to each calculation method are as follows:

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Method Used I		Calculated range of the allotment ratio
The Company	TPJF	
Average market share price method (Ref Date I)	Average market share price method (Ref Date I)	1.62 ~ 2.49
Average market share price method (Ref Date II)	Average market share price method (Ref Date II)	1.64 ~ 1.73
DCF method	Average market share price method (Ref Date I)	1.47 ~ 1.79
	Average market share price method (Ref Date II)	1.66 ~ 2.02

Method Used II		Calculated range of the allotment ratio
The Company	TPJF	
Average market share price method (Ref Date I)	Adjusted net book value method (Ref Date I)	2.18~ 3.27
Average market share price method (Ref Date II)	Adjusted net book value method (Ref Date II)	1.97 ~ 2.10
DCF method		2.02 ~ 2.35

When calculating the allotment ratio above, Mizuho Bank used information provided by the Company and publicly available information and assumed that all such documents, information, and the like are accurate and complete, and did not independently verify their accuracy and completeness. It also has not independently performed a valuation, appraisal, or assessment or asked a third-party organization to perform an appraisal or assessment of the assets or liabilities (including contingent liabilities) of the companies and their affiliates, including the analysis and valuation of individual assets and liabilities. The calculation of the allotment ratio by Mizuho Bank reflects the information and economic conditions up to May 30, 2017, and the Company's financial projections assume that they were reasonably considered or prepared based on the best forecast and judgment that can be obtained by the Company's management at the current time.

The allotment ratio calculated and submitted by Mizuho Bank does not express any opinion regarding the fairness of the allotment ratio for the Acquisition.

(3) Measures to ensure fairness

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The Company decided to hire Mizuho Bank, a third-party appraiser that is independent from the Company and TPJF, to analyze the allotment ratio, and received the results of this analysis. Also, as noted above, the Company's common stock that will be the consideration for the Acquisition will be issued as non-monetary consideration, so a certificate regarding the fact that "the value under Article 199(1)(iii) of the Companies Act is reasonable" has been obtained from an attorney and certified public accountant, Mr. Naomichi Yamamoto, pursuant to Article 207(9)(iv) of the Companies Act, therefore the investigation by the inspector will not be conducted.

The Company has not obtained a fairness opinion from a third-party organization.

(4) Measures to avoid conflicts of interest

PAMI, a wholly-owned subsidiary of the Company, and PAMCI, a wholly-owned subsidiary of the Company, are entrusted with management authority as investment advisors that have entered into an investment advisory agreement or discretionary investment agreement with TPJF. In addition, Freeze, who is the CEO of the Company, serves as the Chief Investment Officer of PAMI and an officer of PAMCI. TPJF is a shareholder that owns 6,706,000 shares in the Company's stock, which is 3.89% of the total number of outstanding shares in the Company's stock and 1,350 of the Series 3 Stock Acquisition Rights (which allocation date is December 21, 2015) that will be 135,000,000 shares in the Company's stock if all exercised. To avoid any conflict of interest, Freeze, as a person who has a special interest, did not participate in the deliberation and resolution of the Company's board of directors regarding the Acquisition.

4. Details of the target company of the acquisition

	Target company
Name	The Prospect Japan Fund
Address	Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands, U.K.
Title and name of the representative person	Chairman John Hawkins
Business description	A company type investment fund of which purpose is investment in Japanese stocks
Capital Amount	USD 92,352,602
Date of foundation	December 1, 1994
Number of outstanding shares	92,352,602
Fiscal year end	December 31
Major share holders and their shareholding	Lazard Asset Management LLC 23.87% 1607 Capital Partners LLC 21.19%

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percentage	CG Asset Management Ltd. 15.43% Wells Capital Management, Inc. 5.07% Bulldog Investors LLC 0.76% Smith & Williamson Investment Management LLP 0.69% Miton Asset Management Ltd. 0.41% Piguet Galland & Cie SA 0.22% (As of September 30 2016)		
Relationships between parties			
Capital relationship	According to the Annual Financial Report of TPJF for the year ended December 31, 2016, TPJF has 6,706,000 shares in the Company, or 3.89% of outstanding shares in the Company, and also 1,350 Series 3 Stock Acquisition Rights (allotted on December 21, 2015) of the Company (135,000,000 shares issuable upon exercise).		
Personnel relationship	The Company's representative director Freeze concurrently serves as the Chief Investment Officer of PAMI and an officer of PAMCI, which provide investment advisory services to TPJF.		
Transactional relationship	N/A		
Related parties or not	-		
Result of operations and financial conditions for the past three fiscal years			
Settlement of accounts	December 2014	December 2015	December 2016
	(in thousand U.S. dollar unless otherwise specified)		
Equity	129,423	125,297	121,923
Total assets	130,156	125,826	122,256
Equity per share	139.99 cent	135.53 cent	132.02 cent
Revenue	2,403	1,914	2,067
Operating profit/operating loss(Δ) (*)	-	-	-
Ordinary profit/loss(Δ) (*)	Δ572	Δ960	Δ2,915

[Translation]

Net profit / loss (Δ) for the period (*)	10,475	Δ4,126	Δ3,276
Net profit / loss (Δ) for the period per share	11.21 cent	Δ4.46 cent	Δ3.55 cent
Dividends per share	-	-	-

(*) TPJF is a company type fund. Certain figures in the above chart show the following figure of TPJF: "Revenue" shows the figures which appear as "Total income" in the item of "Revenue", "Ordinary profit/loss" shows the figures which appear as "(Loss) gain for the year before tax" in the item of "Revenue", "Net profit/loss for the period" shows the figures which appear as "(Loss) gain for the year after tax" in the item of "Total" and "Net profit/loss for the period per share" shows the figures which appear as "(Loss) gain per Ordinary Share – Basic & Diluted (in Cents)" in the item of "Total".

Item No. 5: Partial amendment to the Articles of Incorporation

1. Reasons for the proposition:

If new shares are issued as proposed for approval in Proposition No. 4 (Issuance of the Company's common stock), the total number of issued shares of the Company will amount to 403,438,312 shares and together with its dilutive shares in the number of 159,392,624 shares, will almost reach the total number of shares authorized to be issued by the Company (573,000,000 shares). Consequently, the number of shares authorized to be issued thereafter will be extremely limited.

Thus, to allow the Company to increase the liquidity of its shares and ensure fund-raising with agility in the future to prepare for future business expansion, it is necessary to ensure a scope of authorization to issue a certain number of shares. Hence, to increase the total number of shares authorized to be issued, it is hereby proposed that amendment be made to Article 6 of the existing Articles of Incorporation to change the total number of shares prescribed therein from 573,000,000 shares to 690,000,000 shares.

The amendment to the Articles of Incorporation as proposed herein shall become effective, subject to the approval of Proposition No. 4 (Issuance of the Company's common stock) as originally proposed.

2. Particulars of the amendment:

The particulars of the proposed amendment are set forth below:

(The underline shows the amendment.)

Existing Articles of Incorporation	Proposed amendment
(Total number of shares authorized to be issued) Article 6. The total number of shares authorized to be issued by the Company shall be <u>573,000,000 shares</u> .	(Total number of shares authorized to be issued) Article 6. The total number of shares authorized to be issued by the Company shall be <u>690,000,000 shares</u> .

Information of the Forum of Annual General Meeting of Shareholders

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

◎ Information Map



◎ Access

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

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

◎ Inquiries

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