



**SPARX Group Co., Ltd.**  
**Consolidated Semi-Annual Financial Results of**  
**the Fiscal Year Ending in March of 2008 (FY2007)**

**November 26, 2007**



**SPARX Group Co., Ltd.**  
[www.sparxgroup.com](http://www.sparxgroup.com)

## Discussion Topics

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- ▶ Financial Results of 1<sup>st</sup> Half, FY2007
- ▶ Outlook for SPARX Group
- ▶ Appendix



# Financial Results of 1<sup>st</sup> Half, FY2007



## Executive Summary

- ▶ **Maintained high level of management fees generated from assets under management (AUM)**
  - AUM of SPARX group reached JPY 1,685.4 billion, as of September, 2007:
    - ▶ SPARX Asset Management Co. Ltd. (“SAM”, JPY 1,062.6 billion), Cosmo Investment Management Co., Ltd. (“Cosmo”, JPY 391.0 billion), PMA Capital Management Limited (“PMA”, JPY 231.7 billion).
  - **Management fees in the period hit JPY 8.43 billion** (4.0% decrease, year-on-year comparison).
  - **Net management fee rate in the period totaled 0.83%** (0.01 percentage point increase, year-on-year comparison).
- ▶ **Performance fees in the period achieved JPY 4.46 billion** (25.6% decrease, year-on-year comparison).
  - Percentage of AUM eligible to earn a performance fee climbed to 65.0% (0.6 percentage point increase).
- ▶ **Recurring profit reached JPY 1.88 billion** (70.3% decrease, year-on-year comparison).
- ▶ **Net profit totaled JPY 0.11 billion** (96.1% decrease, year-on-year comparison).



## Selected Financial Highlights

		FY2006		FY2007	
		Six months ended Sep. 30	Twelve months ended Mar. 31	Six months ended Sep. 30	YoY change
Average AUM	(100 Mil. Yen)	19,696	18,922	17,668	-10.3%
Operating revenue	(Mil. Yen)	15,161	27,504	12,973	-14.4%
Operating and general administrative expenses	(Mil. Yen)	9,021	17,854	11,424	+26.6%
Operating profit	(Mil. Yen)	6,140	9,650	1,549	-74.8%
Recurring profit	(Mil. Yen)	6,338	10,119	1,881	-70.3%
Net profit	(Mil. Yen)	2,911	3,779	113	-96.1%
Number of personnel (period-end)		264	281	303	+14.8%
TOPIX (period-end)		1,610.73	1,713.61	1,616.62	+0.4%



## Notes:

1. The figures above, excluding "YoY change" are truncated. "YoY change" is rounded to the nearest tenth of a percent.
2. Number of personnel shows period-end figure.
3. AUM figures cited above include Korean subsidiary (Cosmo Investment Management Co., Ltd.) and Hong Kong subsidiary (PMA Capital Management Limited).

## Financial highlights of each quarter

	1 <sup>st</sup> quarter		2 <sup>nd</sup> quarter		Total	
	Amount (Mil. Yen)	YoY change (%)	Amount (Mil. Yen)	YoY change (%)	Amount (Mil. Yen)	YoY Change (%)
Operating revenue	8,047	- 9.1	4,926	- 22.0	12,973	-14.4
Management fees	4,292	3.7	4,139	- 10.8	8,432	- 4.0
Performance fees	3,716	- 20.5	749	- 43.6	4,466	- 25.6
Other operating revenue	38	2.9	36	- 89.1	74	- 80.1
Operating and general administrative expense	7,001	53.3	4,422	- 0.7	11,424	26.6
Operating profit	1,045	- 75.6	503	- 72.9	1,549	- 74.8
Recurring profit	1,354	- 69.6	527	- 72.0	1,881	- 70.3
Net profit	501	- 78.1	- 388	-	113	- 96.1



## Balance Sheet Summary

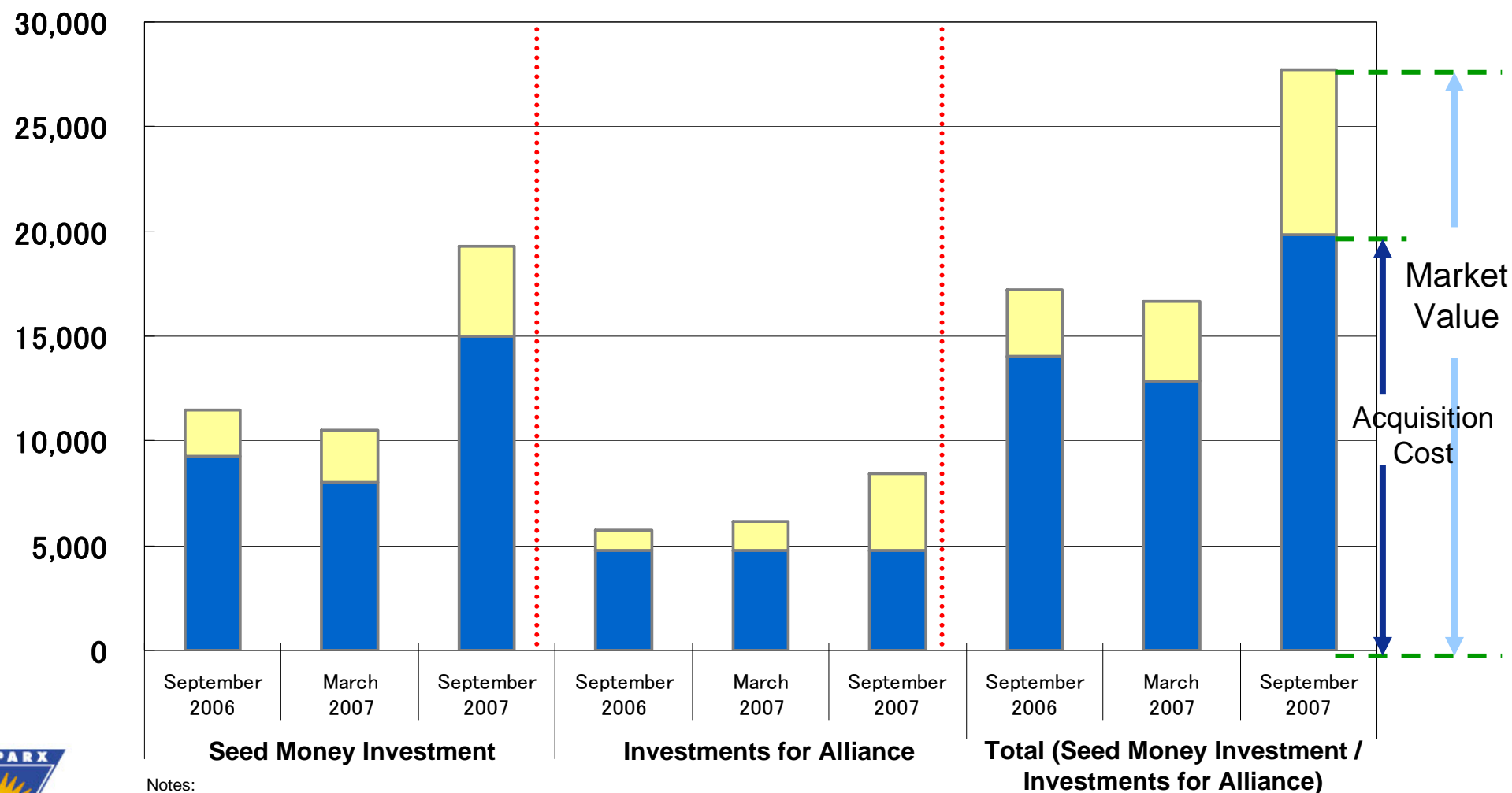
	<u>Sep. 30, 2006</u> (Mil. Yen)	<u>Sep. 30, 2007</u> (Mil. Yen)	YoY Change
Current Assets	33,661	30,737	-8.7%
Cash and Cash Equivalents	15,733	11,431	-27.3%
Fixed Assets	44,252	51,956	+17.4%
Goodwill	25,168	23,703	-5.8%
<b>Total Assets</b>	77,913	82,694	+6.1%
Short-term borrowings	14,500	4,300	-70.3%
Corporate bond	5,000	5,000	+0.0%
Long-term borrowings	-	12,000	-
<b>Total Liabilities</b>	27,429	29,006	+5.7%
Common stock, Additional Paid in Capital	25,150	25,604	+1.8%
Retained Earnings	20,128	18,820	-6.5%
Common Stock in Treasury at Cost	-438	-2,602	-
Minority Interests	1,659	3,635	+119.0%
<b>Total Shareholders' Equity</b>	50,484	53,688	+6.3%



Note: The figures above, excluding "YoY change", are truncated. "YoY change" is rounded to the nearest tenth of a percent.

# Principal Investment -Seed Money Investment and Investments for Alliance-

(Units: Mil. Yen)



Notes:

1. The figures above, excluding "YoY change", are truncated. "YoY change" is rounded to the nearest tenth of a percent.
2. "Investments for Alliance" does not include the acquisition cost of Cosmo.
3. It is not guaranteed that the asset will be sold at the market value mentioned above.

## Flow of Funds [Mar 2007~Sep 2007]

(Units: 100 million JPY)

Business entity	Mar. 31, 2007	Subscription	Redemption	Net	Appreciation etc.	Sep. 30, 2007
SPARX Asset Management Co., Ltd.	12,825	424	-1,821	-1,397	-800	10,626
Cosmo Investment Management Co., Ltd.	2,587	1,215	-781	433	888	3,910
PMA Capital Management Limited	2,370	243	-419	-175	122	2,317
SPARX Group (Total)	17,783	1,883	-3,002	-1,139	209	16,854

The data of the following table does not include Korean subsidiary (Cosmo Investment Management Co., Ltd.) and Hong Kong subsidiary (PMA Capital Management Limited).

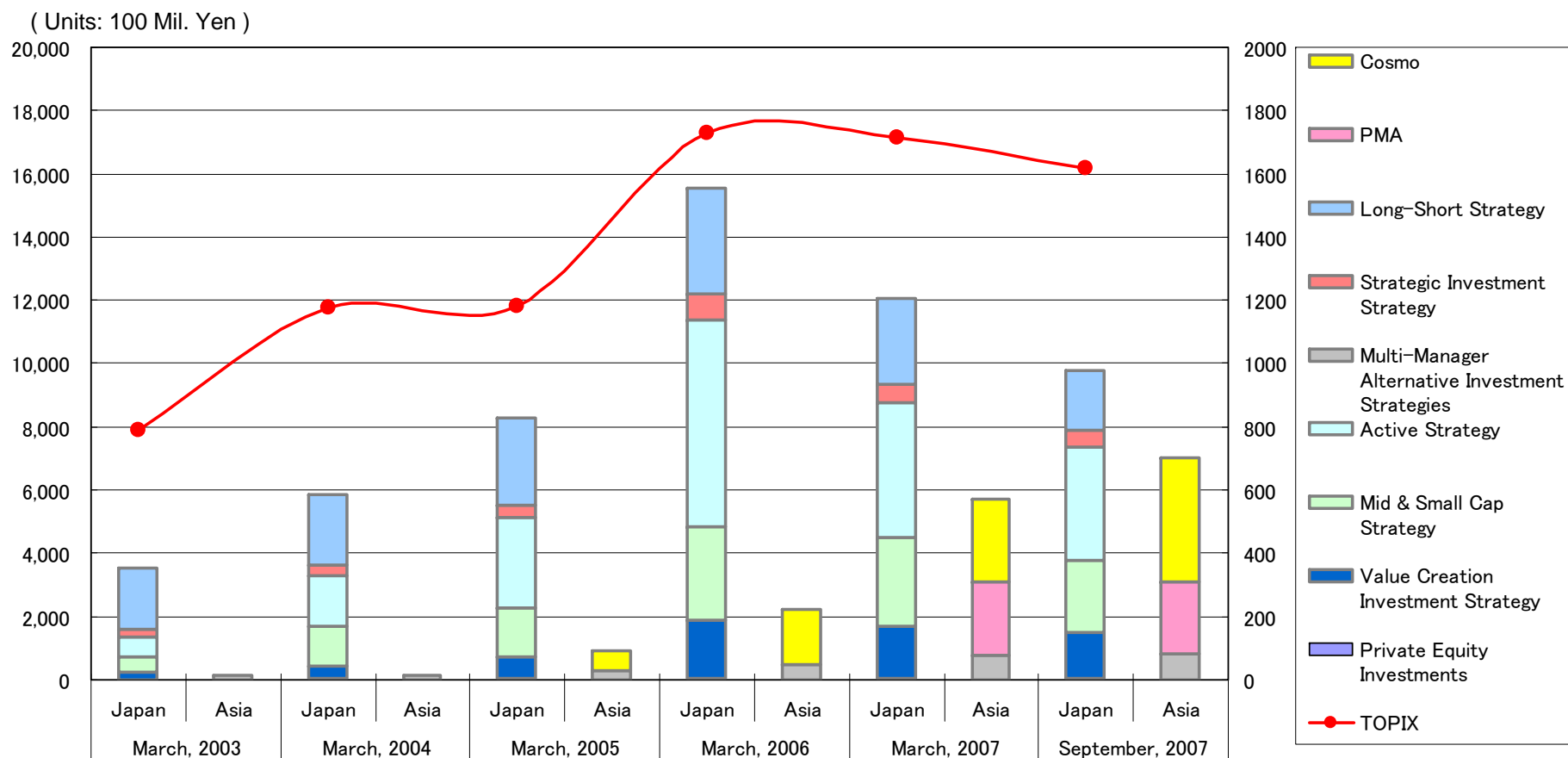
investment strategy	Mar. 31, 2007	Subscription	Redemption	Net	Appreciation etc.	Sep. 30, 2007
SPARX Asset Management Co., Ltd.						
Long-short strategy	2,704	102	-759	-657	-153	1,894
Strategic (or "Focused") investment strategy	620	15	-59	-44	-13	562
Multi-manager alternative investment strategies	751	120	-30	90	-35	806
Active strategy	4,247	49	-551	-501	-174	3,571
Mid & small cap strategy	2,821	117	-297	-180	-347	2,294
Value creation investment strategy	1,634	0	-123	-123	-95	1,415
Private equity investments	44	0	0	0	18	62
Others	0	20	0	20	0	19
Total	12,825	424	-1,821	-1,397	-800	10,626

Notes:

1. The figures above are truncated. "Redemption" figure includes mandate terminations.
2. "Appreciation etc." contains gain and loss from exchange rate differential between Mar. 31, 2007 and Sep. 30, 2007.
3. The figures for "Multi-Manager Alternative Investment Strategies" of SPARX Asset Management Co., Ltd for September 2007 are preliminary.



# Historical Asset Under Management – Asia, Japan



↑  
(February, 2005)  
Cosmo's acquisition

↑  
(June, 2006)  
PMA's acquisition

↑  
(January, 2007)  
FoF Team transferred to H.K.



## Breakdown of Consolidated Operating Revenue

	FY2006		FY2007	
	1H	Full Year	1H	
	SPARX Gr. Total	SPARX Gr. Total	SPARX Gr. Total	YoY change (%)
Management fees (Million in JPY)	8,780	17,414	8,432	-4.0%
Net management fee rate (%)	0.82%	0.80%	0.83%	+0.01
Performance fees (Million in JPY)	6,003	9,397	4,466	-25.6%
Percentage of AUM eligible to earn performance fees (%)	64.4%	62.4%	65.0%	+0.6
Other operating revenue (Million in JPY)	377	692	74	-80.1%
Total operating revenue (Million in JPY)	15,161	27,504	12,973	-14.4%

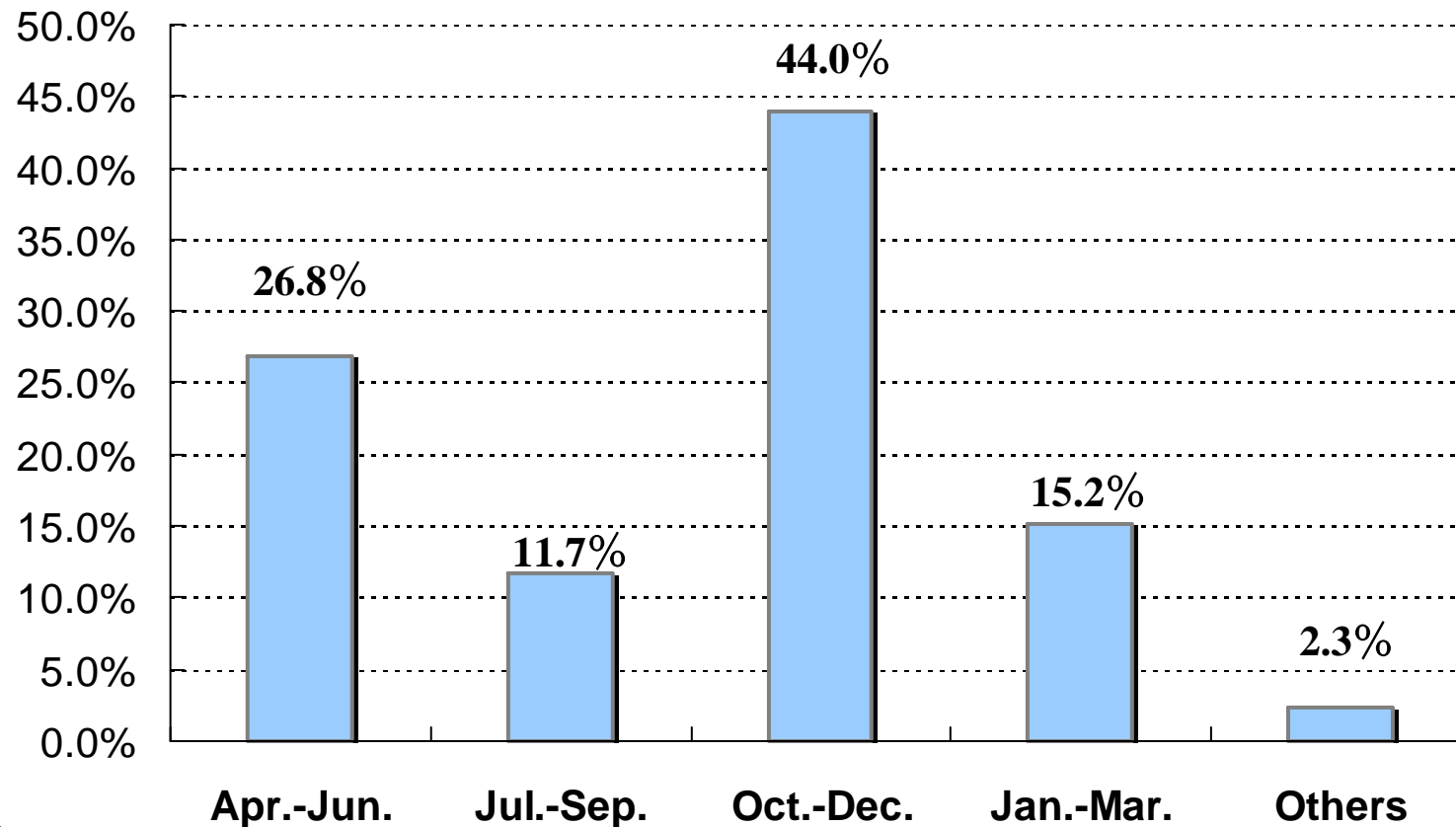
Note:

- The figures above, excluding "YoY change", "net management fee rate(%)" and "percentage of AUM eligible to earn performance fees(%)", are truncated. "YoY change" is rounded to the nearest tenth of a percent. "YoY change" of "net management fee rate" and "percentage of AUM eligible to earn performance fees(%)" shows the amount of decrease/increase instead of percentage of change.
- Net management fee rate = (management fee - related commissions and charges) ÷ average AUM  
 Since this 1<sup>st</sup> quarter, FY2007, the method used to calculate Net management fee rate has been changed. Net management fee rates on the 1<sup>st</sup> half, FY2006 and FY2006(Full-Year) are also calculated by the new method. Net management fee rate calculated in the same way as the previous method is as follows.  
 Net management fee rate = (management fee - related commissions, charge and minority interests) ÷ average AUM  
 1<sup>st</sup> Half, FY2006: 0.79% 1<sup>st</sup> Half, FY 2007: 0.81% FY2006(Full-Year): 0.78%



## Distribution of Base Date Calculation of Performance Fees (by Quarter)

% of AUM eligible to earn performance fees (as of Sep. 30, 2007)



Notes:

1. All funds managed by SPARX Group (investment trusts and discretionary investment accounts) as of Sep. 30, 2007, are classified by the performance fee value date in the above graph. In calculating these percentages, the following adjustments are made: (1) For funds with multiple payment periods, the divided values of the funds are added for each value date (month) (2) Funds without performance fees are excluded from the total AUM. (3) "Private equity investments" are classified as "Others" because these performance fees will be received at termination. The above data are rounded to the nearest tenth of a percent.
2. The figures are preliminary based on internal information and materials, and we do not guarantee their accuracy.



## Consolidated Expenses

(Unit: million JPY)

FY2006

FY2007

Expense Category	FY2006		FY2007	
	Six months ended Sep. 30	Twelve months ended Mar. 31	Six months ended Sep. 30	YoY change
Commissions paid	1,503	3,265	1,637	+8.9%
Entrusted fund administrative fees	130	236	115	-11.5%
Other operating expenses	236	467	174	-26.0%
Personnel expenses (Including temporary staff, etc.)	4,276	7,555	5,818	+36.1%
Travel expenses	221	447	358	+61.9%
Property rent	381	804	365	-4.2%
Entrusted business expenses	532	964	663	+24.6%
Depreciation on fixed assets	157	353	169	+7.3%
Amortization of goodwill	725	2,230	1,430	+97.1%
Other general administrative expenses	856	1,527	690	-19.3%
<b>Total (Operating &amp; general administrative) expenses</b>	<b>9,021</b>	<b>17,854</b>	<b>11,424</b>	<b>+26.6%</b>



Notes:

1. The figures above, excluding "YoY change", are truncated. "YoY change" is rounded to the nearest tenth of a percent.
2. The "Personnel Expenses" data includes payments for temporary staff, etc.

## Breakdown of Group Personnel (Full-Time)

(Unit: job)

Entity / Function	Mar. 31, 2007	Change	Sep. 30, 2007
<b>SPARX Group Co., Ltd.</b>	36	1	37
President / Director (Full-time) / Auditor (Full-time)	2	2	4
Executive Officer	2	-2	0
Advisor	1	-1	0
Legal & Compliance / Internal Audit	3	0	3
Corporate Planning & Administration / HR / Accounting / Finance	18	0	18
IT	10	2	12
<b>SPARX Asset Management Co., Ltd.</b>	75	12	87
Director (include those who holds double posts as employee)	4	0	4
Investment & Research	28	8	36
Trading	4	0	4
Marketing	16	2	18
General Affairs	2	3	5
Fund Administration	11	2	13
Legal & Compliance / Internal Audit	5	-2	3
Risk & Performance Measurement	5	-1	4
<b>SPARX Securities Co., Ltd.</b>	21	2	23
<b>SPARX Capital Partners Co., Ltd.</b>	9	2	11
<b>U.S. Subsidiaries</b>	21	-7	14
<b>U.K. Subsidiaries</b>	12	-1	11
<b>Hong Kong Subsidiaries</b>	18	3	21
<b>Cosmo Investment Management Co., Ltd.</b>	33	2	35
<b>PMA Investment Advisors Limited / PMA Capital Services Limited</b>	56	8	64
<b>Total</b>	<b>281</b>	<b>22</b>	<b>303</b>

(Executive officers system was abolished after the General Shareholder's meeting (June 21,2007)).



## Notes:

1. Executive Officers who are the presidents of subsidiaries are counted within subsidiaries in order to avoid double-counting.
2. Only "full-time" employees are counted and employees who hold "double-posts" are counted only for ONE position.

## Consolidated “Base Earnings”

“Base earnings” indicates the estimated level of ordinary profit which is derived solely from net management fee revenue (after deduction of commissions paid) and without any performance fee revenue.

		<u>FY2006</u>	<u>FY2007</u>
		Twelve months ended Mar. 31	Six months ended Sep. 30 ( <u>Annualized</u> )
Average AUM	(100 Mil. Yen)	18,922	17,668
Net management fee rate (After the deduction of commissions paid)	(%)	0.80	0.83
Annualized net management fee revenue (After the deduction of commissions paid)	(Mil. Yen)	15,137	14,664
Annualized ordinary expenses	(Mil. Yen)	9,120	10,107
Annualized “Base earnings”	(Mil. Yen)	6,017	4,557
Number of personnel (Full-Time : period-end)		281	303

Notes:

1. The figures above are truncated. As preliminary figures, the “Annualized net management fee revenue” data is calculated by multiplying the “Net management fee rate” and the “Average AUM” for the period.
2. The “Annualized ordinary expenses” data is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses), and (3) Amortization of goodwill from total operating and general administrative expenses.
3. The “Number of personnel (Full-Time : period-end)” data does not include non-executive directors.
4. Regarding PMA that has been consolidated since June 20, 2006, the PMA annualized ordinary expenses (from April 1, 2006 until June 19, 2006) are calculated on a pro-rate basis and be added on the total annualized ordinary expenses.



# Outlook for SPARX Group



## Key Points of SPARX Growth Strategy

- ▶ Asia
  
- ▶ Mutual Fund
  - Japan
  - U.S.
  
- ▶ Concentrated Investment Strategy
  
- ▶ Fine Tune the Quality of Japan Investment



# Growth Strategy in Asia

## North America

SPARX Investment & Research,  
USA, Inc. (NY)  
SPARX Securities ,USA, LLC  
SPARX Overseas Ltd. (Bermuda)

## Korea

Cosmo Investment Management Co., Ltd.  
**Hong Kong**  
SPARX International (Hong Kong) Limited  
PMA Investment Advisors Limited



## Europe

SPARX Asset Management International, Ltd.  
(London)  
PMA (Europe) LLP (London)

## Middle East

PMA Middle East FZ-LLC (Dubai)

## Japan

SPARX Group Co., Ltd.  
SPARX Asset Management Co., Ltd.  
SPARX Securities Co., Ltd.  
SPARX Capital Partners Co., Ltd.



Note: Company name will be changed to SPARX International (Dubai)

Source: SPARX Group Co., Ltd. (Tokyo, Japan) as of September 30, 2007.

## Topics of Mutual Fund Business in Japan and U.S.

**Japan**

- **NIKKO SPARX Asia & Middle East Equity Fund**

**U.S.**

- **SPARX Asia-Pacific Opportunities Fund**
- **SPARX Asia-Pacific Equity Income Fund**
- **SPARX Japan Smaller Companies Fund**



# Value Creation Investment Strategy

With some exceptions, most shareholder proposals were rejected (January 2007 to June 2007)

Month	Shareholder	Company	Main Proposal		Outcome	Approval vote
Jan.	Steel Partners	Sapporo Holdings	Elimination of takeover defense	X	Rejected	below 33%
Feb.	Ichigo Asset Management	Tokyo Kohtetsu Co.	Opposed co. proposal to make Osaka Steel 100% subsidiary at general shareholders meeting	✓	Merger was rejected	42.1%
Mar.	Fursa Alternative Strategies	Noritz Corp.	Dividend increase	X	Rejected	-
Mar.	TCI Fund Management	Electric Power Development (J-Power)	Dividend increase (year-end dividend of ¥100 from ¥30)	X	Rejected	30-35%
Mar.	Safe Harbor Investment	SNT Corp.	Dividend increase (year-end dividend of ¥70 from ¥12)	X	Rejected	about 35%
Mar.	TCI Fund Management	Chubu Electric Power	Dividend increase (year-end dividend of ¥60 from ¥30)	X	Rejected	below 20%
Mar.	Steel Partners	Aderans Company	Elimination of takeover defense	X	Rejected	about 45%
Apr.	Brandes Investment Management	Ono Pharmaceutical	Dividend increase (year-end dividend of ¥700 from ¥60)	X	Rejected	31.8%
Apr.	Dalton Investment	Nippon Fine Chemical	MEBO	X	Company in process of responding to MEBO proposal	-
Apr.	Dalton Investment	Fujitec Co.	MEBO, opposition to introduction of takeover defense	-	Takeover defence approved; Company in process of responding to MEBO proposal	about 30%
Apr.	SPARX	Pentax Corporation	Selection of directors, auditors (integration with HOYA)	✓	Approved; Pentax accepted takeover bid by HOYA	-
Apr.	Steel Partners	Inaba Denshi Co.	Dividend increase (year-end dividend of ¥244 from ¥115)	X	Rejected	13.7%
Apr.	Steel Partners	Fukuda Denshi Co.	Dividend increase (year-end dividend of ¥140 from ¥40)	X	Rejected	about 16%
Apr.	Steel Partners	Brother Industries	Dividend increase (year-end dividend of ¥43 from ¥13)	X	Rejected	below 33%
Apr.	Steel Partners	TTK Co.	Dividend increase (year-end dividend of ¥33 from ¥20)	X	Rejected	below 20%
Apr.	Steel Partners	Denki Kogyo Co.	Dividend increase (year-end dividend of ¥49 from ¥34)	X	Rejected	15.0%
Apr.	Steel Partners	Ezaki Glico Co.	Dividend increase (year-end dividend of ¥25 from ¥10)	X	Rejected	about 20%
Jun.	Steel Partners	Bull-Dog Sauce Co.	Approval for suspension of takeover defense	X	Rejected by Tokyo High Court	-

Note: As of June30. ✓ = shareholder proposal was approved, X = shareholder proposal was rejected.  
Source: Company data, Nikkei Shinbun, Goldman Sachs Research as of September 30, 2007



# Appendix



## SAM Annualized Performance by Strategy Since Inception I

(Annualized)

(From Composite Start Date to Sep. 30, 2007)

	Long-only Active (Commingled funds)	Mid & Small Caps	Long - Short (USD, Lev.2)	Long - Short (JPY, Lev.1)	Strategic (or "Focused") investment	Value Creation Investment (USD)
Composites	14.2%	6.5%	16.1%	4.7%	8.4%	25.7%
Reference Index	2.1%	5.8%	5.4%	1.9%	2.7%	20.2%
Excess Return	<b>12.1%</b>	<b>0.7%</b>	<b>10.7%</b>	<b>2.8%</b>	<b>5.7%</b>	<b>5.5%</b>

Reference Index	TOPIX dividend included	Russell/Nomura Mid-Small Cap Index	TOPIX dividend included, USD hedged	TOPIX dividend included	TOPIX dividend included	TOPIX dividend included USD hedged
Start Date	May 1997	Jan 2000	August 1997	June 2000	July 1999	Feb. 2003
Volatility of Composite Return (Annualized)	23.3%	16.7%	11.9%	6.6%	22.0%	18.1%

Notes:

- The figures in the above table are calculated using the composite performance data of major investment strategies and is based on internal data. The "Reference index" is shown to facilitate comparisons and are not necessarily representative of the "benchmark" indexes requested by clients.
- The calculation methods used for the above annualized returns are as follows: the modified Dietz method (pre-deduction of management related fees) is applied to Long-only Active (Commingled funds), Mid & Small Caps, Long-Short (USD, Lev.2) and Strategic Investment; the NAV per share method (management fee deducted) is applied to the Long-Short (JPY, Lev.1); the internal rate of return (pre-deduction of management fees) is applied to the Value Creation Investment (USD). The above figures are rounded to the nearest tenth of a percent.
- "TOPIX dividend included, USD hedged" is calculated as fully hedged using the month-end USD forward rate.

Source: SPARX Group Co., Ltd (Tokyo, Japan), as of 30 Sep. 2007.



## SAM Annualized Performance by Strategy Since Inception II

1. Each composite includes portfolios managed by companies of the SPARX group, excluding Cosmo and PMA.
2. Investment strategies of each composite are described below.

<u>Name of Composite</u>	<u>Type of investment strategy</u>
<b>Active Long-only (Commingled funds)</b>	Investment strategy of active, long-only portfolio management of commingled funds. The universe of this strategy includes all of the listed equity securities on Japanese exchanges.
<b>Mid &amp; Small Caps</b>	Investment strategy of investing companies in the medium and small cap stock universe.
<b>Long-Short (USD Lev.2)</b>	Investment strategy combining long and short positions. Leveraged within twice NAV, and aims to achieve stable absolute returns.
<b>Long-Short (JPY, Lev.1)</b>	Investment strategy combining long and short positions. Leveraged within NAV, and aims to achieve stable absolute returns.
<b>Strategic (or "Focused") Investment</b>	Investment strategy identifying and investing in undervalued companies through a concentrated portfolio.
<b>Value Creation Investment (USD)</b>	Investment strategy focusing on corporate governance.

### 3. Investment strategy performance appendix (Annual returns for the past five fiscal years)

	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>
<b>Active Long-only (Commingled funds)</b>	-25.58%	78.05%	5.54%	60.69%	-14.57%
<b>Mid &amp; Small Caps</b>	-19.98%	70.25%	13.26%	44.34%	-11.83%
<b>Long - Short (USD, Lev.2)</b>	-6.41%	37.92%	2.36%	27.95%	-3.75%
<b>Long - Short (JPY, Lev.1)</b>	-7.31%	27.76%	2.96%	18.90%	-7.50%
<b>Strategic Investment</b>	-10.51%	53.23%	3.13%	48.94%	-18.71%

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