

SPARX Group Co., Ltd.

**Consolidated Financial Results for 1st Qtr of the
Fiscal Year ending in March 2009 (FY 2008)**

August 25, 2008



SPARX Group Co., Ltd.
www.sparxgroup.com

Financial Results for the 1st Quarter, FY2008



Executive Summary

- ▶ **Recurring profit totaled JPY -0.27 billion** (Corresponding period in 2007; JPY 1.35 billion)
- ▶ **Net profit totaled JPY -0.8 billion** (Corresponding period in 2007; JPY 0.5 billion)
- ▶ **Asset under management (AUM) as of the end of June 2008**
 - SPARX group: JPY 1,263.3 billion
 - SPARX Asset Management Co. Ltd. (“SAM,” JPY 705.9 billion)
 - Cosmo Investment Management Co., Ltd. (“Cosmo,” JPY 293.6 billion)
 - PMA Capital Management Limited (“PMA,” JPY 263.7 billion)
- ▶ **Management fees in the period totaled JPY 3.20 billion (25.3% decrease, year-on-year comparison)**
 - Net management fee rate in the period totaled 0.84% (0.01 percentage point increase, year-on-year comparison).
- ▶ **Performance fees in the period totaled JPY 1.17 billion (68.5% decrease, year-on-year comparison).**
 - Percentage of AUM eligible to earn a performance fee was 62.5% (1.4 percentage point decrease).



Selected Financial Highlights

	FY2007		FY2008	
	Three months ended Jun. 30	Twelve months ended Mar. 31	Three months ended Jun. 30	YoY change
Average AUM (100 Mil. Yen)	18,009	16,197	13,102	-27.2%
Operating revenue (Mil. Yen)	8,047	30,552	3,735	-53.6%
Operating and general administrative expenses (Mil. Yen)	7,001	22,933	4,396	-37.2%
Operating profit (Mil. Yen)	1,045	7,619	-660	-
Recurring profit (Mil. Yen)	1,354	8,157	-273	-
Net profit (Mil. Yen)	501	3,213	-809	-
Number of personnel (period-end)	289	312	334	+15.6%
TOPIX (period-end)	1,774.88	1,212.96	1,320.10	-25.6%



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 (period-end) shows the figure that does not include the number of "not full-time personnel" with adjustment of double-counting.
3. The figure of personnel, excluding board members, is 293 as of the end of June 2008.
4. AUM figures cited above include Korean subsidiary (Cosmo Investment Management Co., Ltd.) and Hong Kong subsidiary (PMA Capital Management Limited).

Balance Sheet Summary

	<u>Jun. 30, 2007</u> (Mil. Yen)	<u>Jun. 30, 2008</u> (Mil. Yen)	YoY Change
Current Assets	40,279	28,336	-29.6%
Cash and Cash Equivalents	18,340	15,929	-13.1%
Operational investment securities	10,761	5,504	-48.9%
Fixed Assets	51,995	40,184	-22.7%
Goodwill	25,826	21,215	-17.9%
Investment securities	24,119	16,822	-30.3%
Total Assets	92,274	68,521	-25.7%
Short-term borrowings	5,300	604	-88.6%
Long-term debt due within one year	-	2,000	-
Corporate bond	5,000	5,000	0.0%
Long-term borrowings	12,000	10,000	-16.7%
Total Liabilities	35,413	22,483	-36.5%
Common stock, Additional Paid in Capital	25,543	26,696	+4.5%
Retained Earnings	19,499	18,880	-3.2%
Common Stock in Treasury at Cost	-2,438	-4,438	-
Minority Interests	3,714	2,963	-20.2%
Total Shareholders' Equity	56,860	46,037	-19.0%



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

Flow of Funds [Mar 2008~Jun 2008]

<AUM by Company>

(Units: 100 million JPY)

Business entity	Mar. 31, 2008	Subscription	Redemption	Net	Appreciation etc.	Jun. 30, 2008
SPARX Asset Management Co., Ltd.	7,159	119	-566	-446	346	7,059
Cosmo Investment Management Co., Ltd.	2,928	195	-154	40	-32	2,936
PMA Capital Management Limited	2,561	102	-281	-178	254	2,637
SPARX Group (Total)	12,649	417	-1,002	-584	568	12,633

<AUM by Investment Strategy>

(Units: 100 million JPY)

SPARX Asset Management Co., Ltd.	Mar. 31, 2008	Subscription	Redemption	Net	Appreciation etc.	Jun. 30, 2008
Long-short strategy	1,310	52	-78	-25	31	1,316
Value creation investment strategy	744	0	-138	-138	16	622
Strategic (or "Focused") investment strategy	525	21	-31	-9	-31	485
Multi-manager alternative investment strategies	701	0	-109	-109	11	603
All Cap strategy	2,431	17	-117	-99	239	2,570
Mid & small cap strategy	1,345	27	-91	-63	80	1,361
Private equity investments	53	0	0	0	0	53
Others	47	0	0	0	-1	45
Total	7,159	119	-566	-446	346	7,059

Notes:

1. The figures above are truncated. "Redemption" figure includes mandate terminations.
2. "Appreciation, etc." contains any gains and losses from the exchange rate differential between Mar. 31, 2008 and Jun. 30, 2008.



Flow of Funds 【Mar 2008~Jun 2008】

(Units: 100 million JPY)

Cosmo Investment Management Co., Ltd.	Mar. 31, 2008	Subscription	Redemption	Net	Appreciation etc.	Jun. 30, 2008
Korean index-relative strategy	1,050	105	-31	74	-43	1,536
Korean active strategy	742	80	-111	-31	-20	690
Korean long-short strategy	409	9	-11	-2	33	441
Korean strategic investment strategy	142	0	0	0	-2	139
Others	128	0	0	0	0	129
Total	2,928	195	-154	40	-32	2,936

(Units: 100 million JPY)

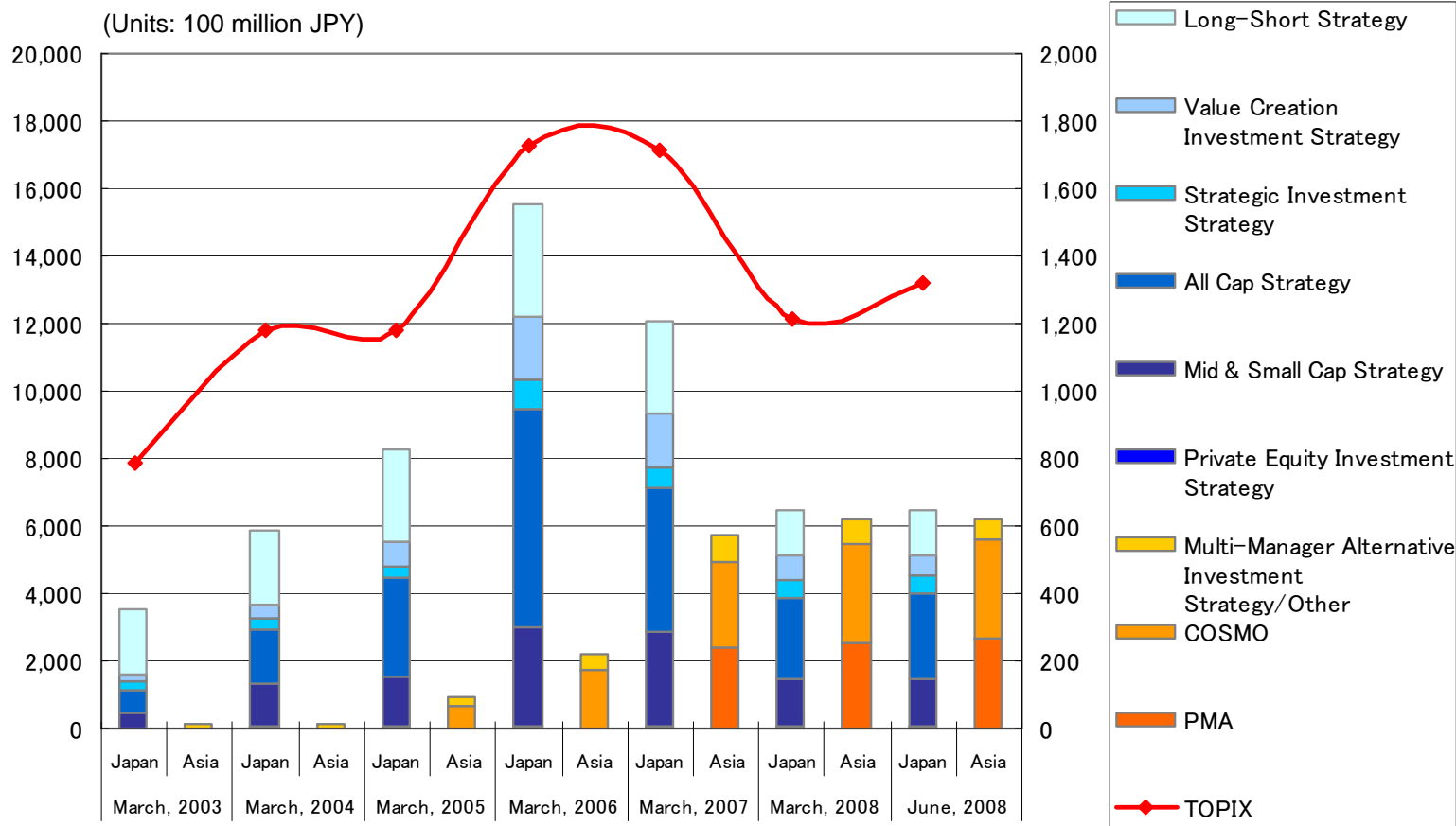
PMA Capital Management Limited	Mar. 31, 2008	Subscription	Redemption	Net	Appreciation etc.	Jun. 30, 2008
Asian equity strategy	1,417	11	-111	-99	95	1,412
Asian/Europe credit strategy	988	82	-141	-59	135	1,064
Asian macro strategy	155	8	-28	-19	24	160
Total	2,561	102	-281	-178	254	2,637

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, 2008 and Jun. 30, 2008.



Historical Assets Under Management – Asia & Japan



Note:
 February, 2005 COSMO's acquisition
 June, 2006 PMA's acquisition
 January, 2007 Transfer of operation of "Multi-manager alternative investment strategy"

Breakdown of Consolidated Operating Revenue and Percentage of AUM Eligible to Earn Performance Fees

Breakdown of Consolidated Operating Revenue	FY2007		FY2008	
	1Q	Full Year	1Q	
	SPARX Gr. Total	SPARX Gr. Total	SPARX Gr. Total	YoY change (%)
Management fees (Million in JPY)	4,292	15,745	3,205	-25.3%
Net management fee rate (%)	0.83%	0.83%	0.84%	+0.01
Performance fees (Million in JPY)	3,716	12,897	1,171	-68.5%
Appraisal losses and gains on investment securities (Million in JPY)	-	-	-647	-
Other operating revenue (Million in JPY)	38	1,909	5	-84.6%
Total operating revenue (Million in JPY)	8,047	30,552	3,735	-53.6%

Percentage of AUM eligible to earn performance fees	FY2007		FY2008	
	1Q	Full Year	1Q	
	SPARX Gr. Total	SPARX Gr. Total	SPARX Gr. Total	YoY change (%)
SPARX Asset Management Co., Ltd. (100 Million JPY)	6,287	3,607	3,339	-46.9%
(%)	50.4%	50.4%	47.3%	-3.1
Cosmo Investment Management Co., Ltd. (100 Million JPY)	3,071	2,553	2,541	-17.3%
(%)	85.9%	87.2%	86.5%	+0.6
PMA Capital Management Limited (100 Million JPY)	2,476	1,922	2,009	-18.9%
(%)	100.0%	75.1%	76.2%	-23.8
Total (100 Million JPY)	11,835	8,082	7,891	-33.3%
(%)	63.9%	63.9%	62.5%	-1.4

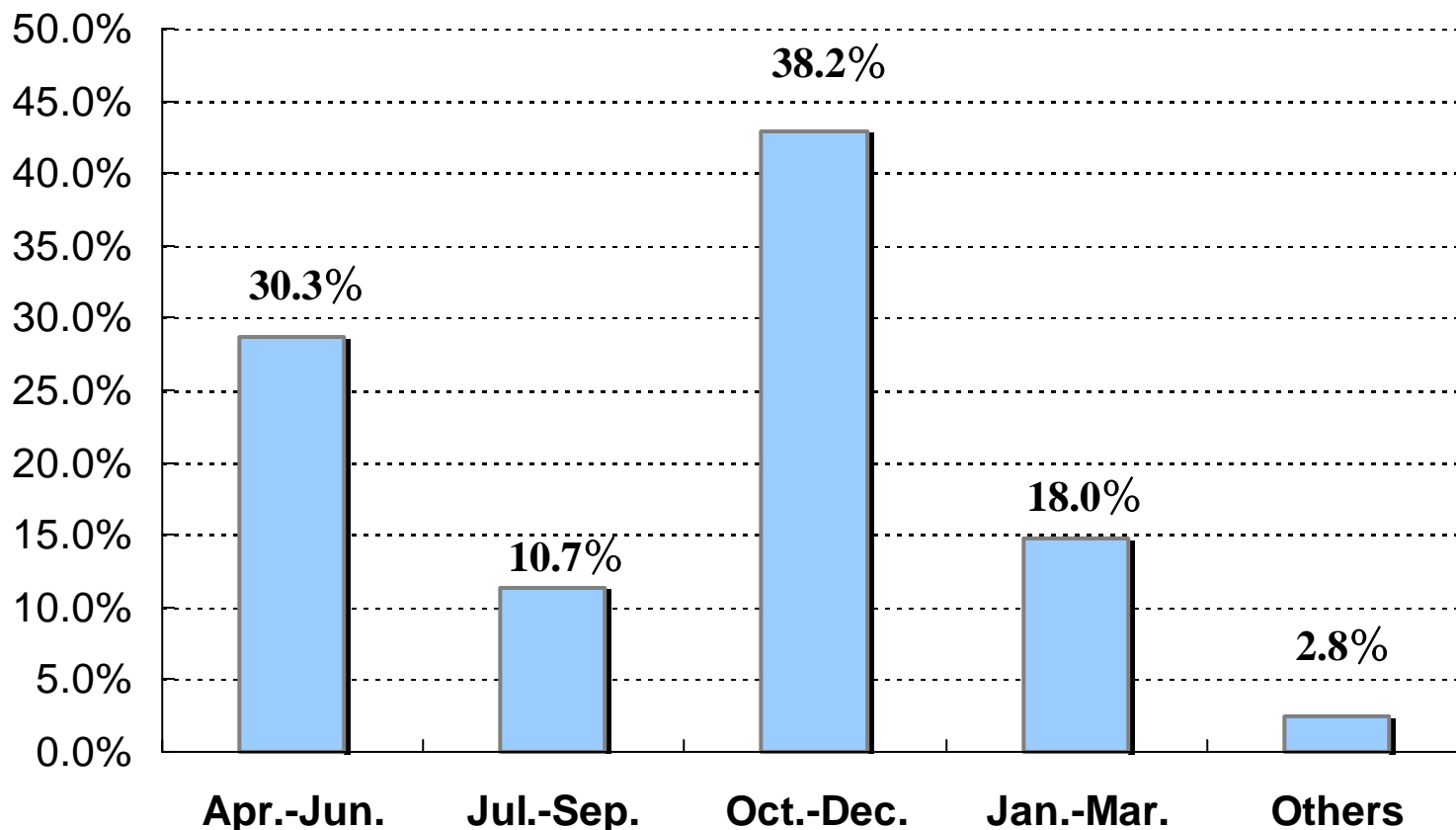
Note:

- 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



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

% of AUM eligible to earn performance fees (as of Jun. 30, 2008)



Notes:

- All funds managed by SPARX Group (investment trusts and discretionary investment accounts) as of Jun. 30, 2008, 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.
- The figures are preliminary based on internal information and materials, and we do not guarantee their accuracy.



Consolidated Expenses

(Unit: million JPY)

Expense Category	FY2007		FY2008	
	Three months ended Jun. 30	Twelve months ended Mar. 31	Three months ended Jun. 30	YoY change
Commissions paid	1,073	3,558	467	-56.5%
Entrusted fund administrative fees	46	247	43	-6.2%
Other operating expenses	97	422	101	+4.2%
Personnel expenses (Including temporary staff, etc.)	3,837	11,059	1,911	-50.2%
Travel expenses	92	692	193	+109.6%
Property rent	215	821	236	+9.7%
Entrusted business expenses	367	1,421	296	-19.2%
Depreciation on fixed assets	89	372	76	-14.8%
Amortization of goodwill	720	2,772	693	-3.8%
Other general administrative expenses	460	1,564	376	-18.2%
Total (Operating & general administrative) expenses	7,001	22,933	4,396	-37.2%



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.

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>FY2007</u> Twelve months ended Mar. 31	<u>FY2008</u> Three months ended Jun. 30 (<u>Annualized</u>)
Average AUM	(100 Mil. Yen)	16,197	13,102
Net management fee rate (After the deduction of commissions paid)	(%)	0.83	0.84
Annualized net management fee revenue (After the deduction of commissions paid)	(Mil. Yen)	13,414	10,952
Annualized ordinary expenses	(Mil. Yen)	10,197	9,867
Annualized “Base earnings”	(Mil. Yen)	3,216	1,085
Number of personnel (Full-Time : period-end)		312	334

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 shows the figure that does not include the number of “not full-time personnel” with adjustment of double-counting.



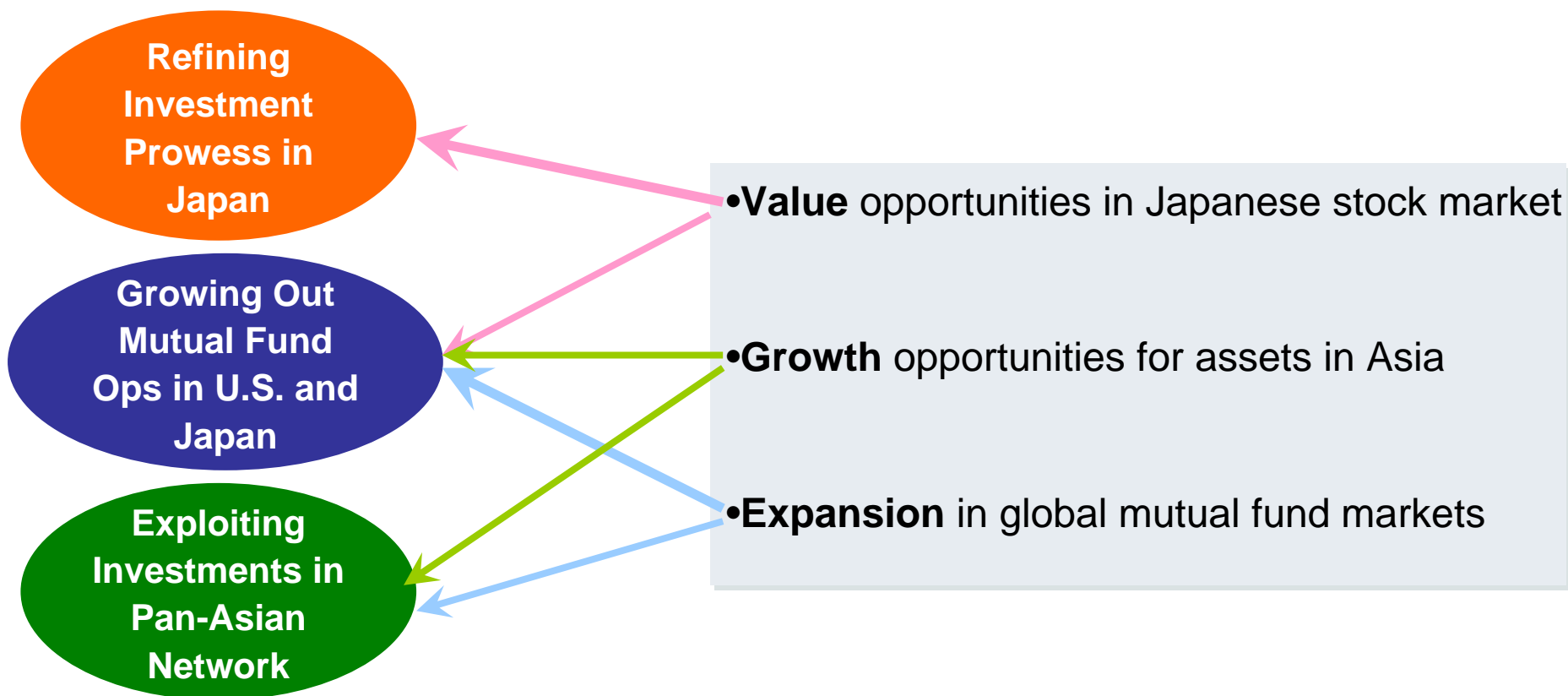
Update on SPARX Group's Growth Strategy



Going Forward: Key Growth Strategies in 2008

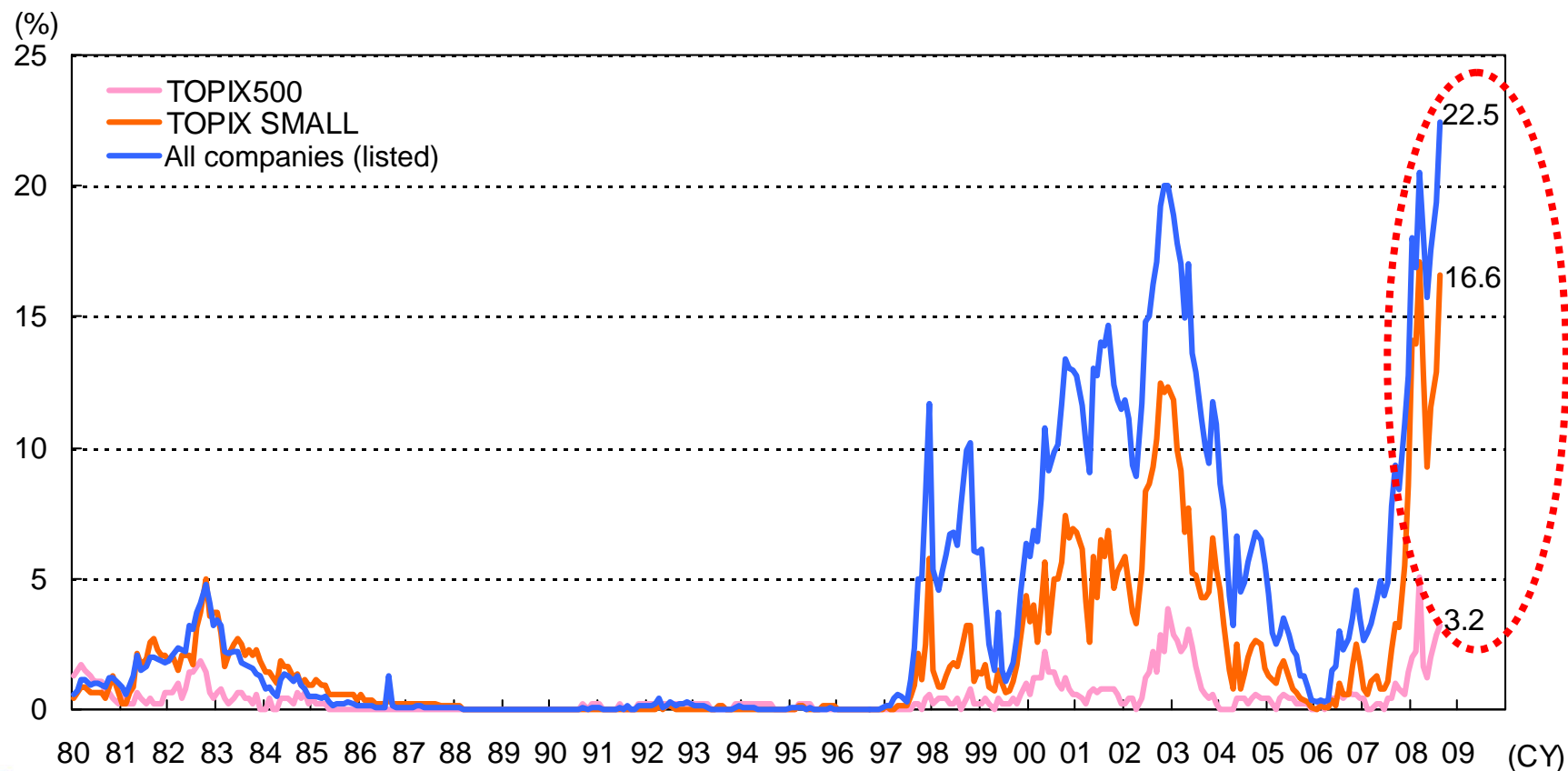
Our Strategy

Market Opportunities



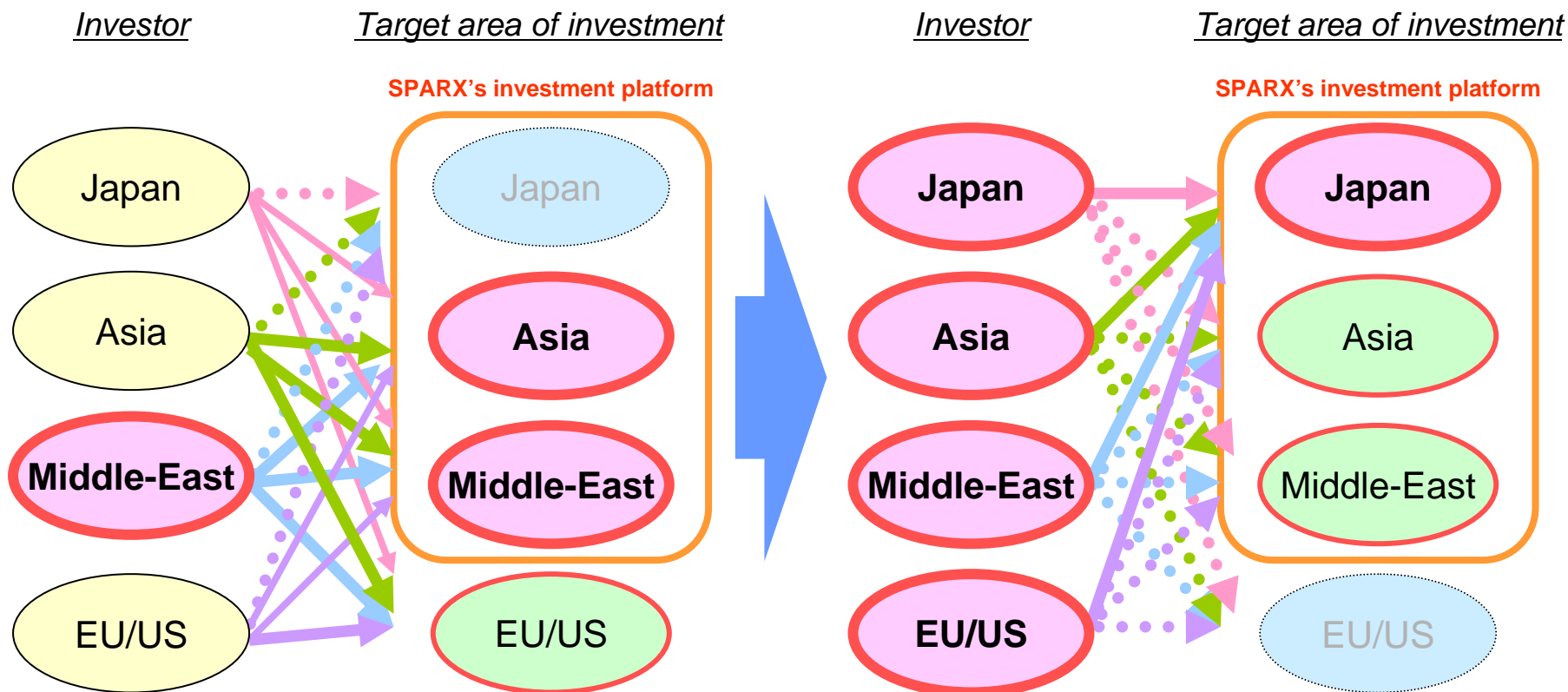
Buy Low: Japan's Valuations at Historically Attractive Levels

% of Stocks with PBR \leq 1.0x and Estimated PER \leq 10.0x



Note: PBR \leq 1.0x and Estimated PER \leq 10.0x ratios are given as a percentage of all publicly listed stocks in Japan.
Source: Daiwa Research Institute; Analysis based on Toyo Keizai data (as of August month-end, 2008)

Maximum Capacity: SPARX's Greater Asia Investment Platform



Fine-Tuning: Concentrated, L-S Strategy Upgrades

Concentrated Investment Strategy (CIS)

- Issue**
-
- Gap developed between time horizons of key client and SPARX in regard to investments targeting corporate value creation activities
 - Evolution of SPARX's investment approach to corporate value creation activities

Current Status

- Discussed best practices with clients to create new framework
 - Set longer lock-up period
- Developed plans to launch new product
 - Utilize status as key investor to increase frequency of meetings with top managers of target firms.

Long-Short Investment Strategy (L-S)

-
- Issue**
-
- Underperformance amid a broad down-trend in Japan's equity market
 - Poorly-timed gross and net exposure adjustment
 - Over-reliance on small-caps and illiquid positions
 - Sub-optimal loss management and profit-taking discipline

- Current Status**
-
- Improved fund performance by enhancing risk-management capabilities
 - Increase number of risk measurements
 - Professionalized risk management
 - Enhancement to portfolio management
 - Bottom-up approach with top-down overlay elements
 - Better disciplined and more transparent exit process



Appendix



SAM Annualized Performance by Strategy Since Inception (1)

(Annualized)

(From Composite Start Date to Jun. 30, 2008)

	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	11.2%	4.1%	14.6%	3.4%	5.9%	8.6%
Reference Index	0.2%	3.1%	3.7%	-0.7%	0.3%	14.4%
Excess Return	11.0%	1.0%	10.9%	4.1%	5.6%	-5.8%

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)	23.4%	16.9%	11.8%	6.6%	21.4%	21.1%

Notes:

1. 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.
2. 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.
3. "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 Jun. 2008.



SAM Annualized Performance by Strategy Since Inception (2)

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>
Active Long-only (Commingled funds)	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.
Mid & Small Caps	Investment strategy of investing companies in the medium and small cap stock universe.
Long-Short (USD Lev.2)	Investment strategy combining long and short positions. Leveraged within twice NAV, and aims to achieve stable absolute returns.
Long-Short (JPY, Lev.1)	Investment strategy combining long and short positions. Leveraged within NAV, and aims to achieve stable absolute returns.
Strategic (or “Focused”) Investment	Investment strategy identifying and investing in undervalued companies through a concentrated portfolio.
Value Creation Investment (USD)	Investment strategy focusing on corporate governance.

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

	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>
Active Long-only (Commingled funds)	78.05%	5.54%	60.69%	-14.57%	-28.93%
Mid & Small Caps	70.25%	13.26%	44.34%	-11.86%	-28.95%
Long - Short (USD, Lev.2)	37.92%	2.36%	27.95%	-3.74%	-14.43%
Long – Short (JPY, Lev.1)	27.76%	2.96%	18.68%	-7.50%	-11.31%
Strategic Investment	53.23%	3.13%	48.94%	-18.71%	-10.14%

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