

**SPARX Group Co., Ltd.
Consolidated Financial Results for
the 3rd Qtr of the FY2010 (April, 2010 – March, 2011)**

February 17, 2011



SPARX Group Co., Ltd.

Financial Results for the 3rd Qtr of the FY2010 & Future Plans



Executive Summary

▶ **Achievements:** While the business showed its stable recovery, it could not offset the goodwill amortization and loss due to impairment.

- Base earnings returned to profitability. AUM clearly is heading for recovery.
- Performance fee showed the significant increase, comparing to the previous quarter. The fund performance of SAM/Cosmo/PMA is strong.
 - The operating profit before goodwill amortization (3Qtr, accumulated total) is 0.56B JPY.
- The operating profit shows negative figure, because the goodwill-amortization of PMA and Cosmo can not be offset.
 - Goodwill amortization is 1.26B JPY and operating profit (accumulated total) is -0.69B JPY.
- In addition, the loss due to impairment of PMA's goodwill (1.52B JPY) was posted and the deficit of net profit increased.
 - The net profit is -3.46B JPY and the accounting capital decreased to 14.12B JPY.



There are no specific problems on financial situation.

▶ **Future Plans:** SPARX will accelerate the recovery of existing business and will make a big leap into new business as one group.

- Due to the good performance of funds and upturn of business environment, the recovery of existing business become apparent.
- Implementing the unification as one group and making a quantum leap by launching new investment strategies
 - Maintain and enhance the competitiveness of localized players and speed up the unification of marketing and operation
 - Launch “One-Asia Long-Short investment strategy” and “One-Asia Long-Only investment strategy”
 - Expand “Environment & Green-Tech. investment strategy”



Summary for 3rd Quarter (Profit-and-loss statement)

▶ Operating Revenue: 5.44B JPY (YoY change: -9.7%)

- The management fee is on a slow road to recovery. (3.70B JPY, YoY change: -21.9%)
 - Average of AUM decreased by 7.6%. (613.0B JPY) and net management fee rate decreased. (0.70%)
 - AUM made a recovery to 664.4B JPY (Jan 31, 2011) and has increased by 16.8% since Aug 2010.
- Performance fee (1.41B JPY) increased significantly. (YoY change: 154.4%)
 - Maintained good performance and expect high level of realized performance fee based on the current status toward HWM

▶ Operating and General Administrative Expenses: 61.4B JPY (YoY change: -6.9%)

- Ordinary expenses were reduced in line with the original schedule. (YoY change: -22.5%)
- Bonuses (related to performance fee, etc.) and extraordinary factor (payment of severance package to key members of overseas subsidiaries, etc.) caused an impermanent increase.
- Goodwill amortization (1.26B JPY)



Operating Loss: -0.69B JPY (3rd Qtr of FY2010: -1.00B JPY)

▶ Non-operating revenues (0.38B JPY)、Non-operating expenses (0.57B JPY)

- Exchange loss had a significant impact.

▶ Extraordinary profit (0.08B JPY)、Extraordinary loss (2.15B JPY)

- The loss due to impairment on PMA's goodwill (1.52B JPY) was posted.



Net Loss: -3.46B JPY (3rd Qtr of FY2010: -0.89B JPY)



(Note)

Operating loss (before goodwill amortization) does not include "Losses & gains from selling or buying investment securities (3rd Qtr of FY2009: 0.44 B JPY, 3rd Qtr of FY2010: nil.)"

Financial Highlights

		<u>FY2009</u>		<u>FY2010</u>	
		Apr – Dec 09	Full Year	Apr – Dec 10	YoY Change
Average AUM	(100MM JPY)	6,633	6,527	6,130	-7.6%
Operating Revenue	(MM JPY)	6,031	7,893	5,444	-9.7%
Operating & General Administrative Expenses	(MM JPY)	6,595	8,852	6,140	-6.9%
Operating Loss	(MM JPY)	-564	-959	-696	-
Recurring Loss	(MM JPY)	-190	-446	-889	-
Net Profit	(MM JPY)	896	398	-3,469	-
Number of Employees (as of the period-end)		203	203	176	-13.3%
TOPIX (as of the period-end)		907.59	978.81	898.80	-1.0%



(Note)

1. The figures above, excluding "YoY change" are truncated. "YoY change" is rounded to the nearest tenth of a percent.
2. Number of employees (period-end) shows the figure that does not include the number of "board members".
3. AUM figures cited above include those of Korean subsidiary (Cosmo Investment Management Co., Ltd.) and Hong Kong subsidiary (PMA Capital Management Limited). The figures for December 31, 2010 are based on in-house calculations and should be regarded as preliminary.

Breakdown of Operating Revenue & Percentage of AUM Eligible to Earn Performance Fees

Breakdown of Operating Revenue		FY2009		FY2010	
		Apr - Dec 2009	Apr 09 - Mar 2010	Apr - Dec 2010	YoY change (%)
Management fees	(MM JPY)	4,742	6,012	3,704	-21.9%
Net management fee rate	(%)	0.82%	0.79%	0.70%	-0.12
Performance fees	(MM JPY)	555	805	1,414	154.4%
Losses & gains from selling or buying investment securities	(MM JPY)	442	442	-	-
Other operating revenue	(MM JPY)	290	631	326	12.2%
Total operating revenue	(MM JPY)	6,031	7,893	5,444	-9.7%
Percentage of AUM eligible to earn performance fees		FY2009		FY2010	
		Apr - Dec 2009	Apr 09 - Mar 2010	Apr - Dec 2010	YoY change (%)
SPARX Asset Management Co., Ltd.	(100MM JPY)	1,187	1,203	920	-22.5%
	(%)	45.3%	43.1%	33.2%	-12.1
Cosmo Investment Management Co., Ltd.	(100MM JPY)	2,033	2,037	2,077	2.2%
	(%)	88.5%	84.2%	79.9%	-8.6
PMA Capital Management Limited	(100MM JPY)	962	918	515	46.5%
	(%)	68.1%	64.9%	52.7%	-15.4
Total	(100MM JPY)	4,182	4,159	3,512	-16.0%
	(%)	66.1%	62.8%	55.3%	-10.8

(Note)

- The figures stated above are truncated excluding "YoY change," "Net management fee rate(%)," and "Percentage of AUM eligible to earn performance fees(%)." "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
- The figures for December 31, 2010 are based on in-house calculations and should be regarded as preliminary.



Details of Expenses

(Units: MM JPY)	Category	FY2009		FY2010	
		Apr.- Dec. 2009	Full Year	Apr. – Dec. 2010	YoY change
		Bonus 455MM JPY		Bonus 970MM JPY	
Commissions paid	Operating	720	960	563	-21.8%
Personnel exp.	General admin.	2,403	3,379	2,687	11.8%
Entrusted fund admin. fees	Operating	108	127	53	-51.2%
Travel exp.	General admin.	174	219	151	-13.2%
Property rent	General admin.	581	732	363	-37.6%
Entrusted business expenses	General admin.	488	646	289	-40.7%
Depreciation on fixed assets	General admin.	157	202	116	-26.2%
Other expenses	General admin.	838	1,062	651	-22.3%
Amortization of goodwill	General admin.	1,121	1,522	1,263	12.7%
Total: Operating and general administrative expenses		6,595	8,852	6,140	-6.9%

5.54B JPY (FY2009)
Ordinary expenses
(annualized)
4.29B JPY (FY2010)



(Note)

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.
3. As amortization of negative goodwill, 86MM JPY (3Q of FY2009) and 74MM JPY (3Q of FY2010) are posted in non-operating income.
4. Other expenses (3Q of FY2010) includes "Other expenses (Operating)" and "Other expenses (General admin.)".

Goodwill and amortization plan

▶ **PMA: 2.77B JPY (as of the end of Dec 2010), amortization period (10 years)**

- Approx. 0.51B JPY amortization per year (until FY2015) is expected.

▶ **Cosmo社: 3.84B JPY (as of the end of Dec 2010), amortization period (5 years)**

- The schedule of amortization (until FY2015) is as follows.

- FY2011/FY2012: approx. 1.03B JPY
- FY2013: approx. 0.91B JPY
- FY2014: approx. 0.52B JPY
- FY2015: approx. 0.18B JPY



For the next three years, approx. 1.5B JPY (per year) will be expensed as goodwill amortization



(Note)

1. The goodwill of Cosmo is the total of amortized amount of positive goodwill and negative goodwill.
2. By applying new accounting standard, a certain portion of goodwill caused by the additional acquisition is recognized in foreign currency. Therefore, the actual amount will be influenced by the change of exchange rate.
3. Due to the introduction of IFRS, the goodwill might not be amortized on schedule.

Consolidated “Base Earnings”

Net management fee revenue vs. annualized ordinary expense

		<u>FY2009</u>	<u>FY2010</u>
		(Full Year)	Apr – Dec 10 (Annualized)
Average AUM	(100 MM JPY)	6,527	6,130
Net management fee rate (After the deduction of commissions paid)	(%)	0.79	0.70
Annualized net management fee revenue (After the deduction of commissions paid)	(MM JPY)	5,135	4,278
Annualized ordinary expenses	(MM JPY)	5,543	4,296
Annualized “Base earnings”	(MM JPY)	▲ 408	▲ 17

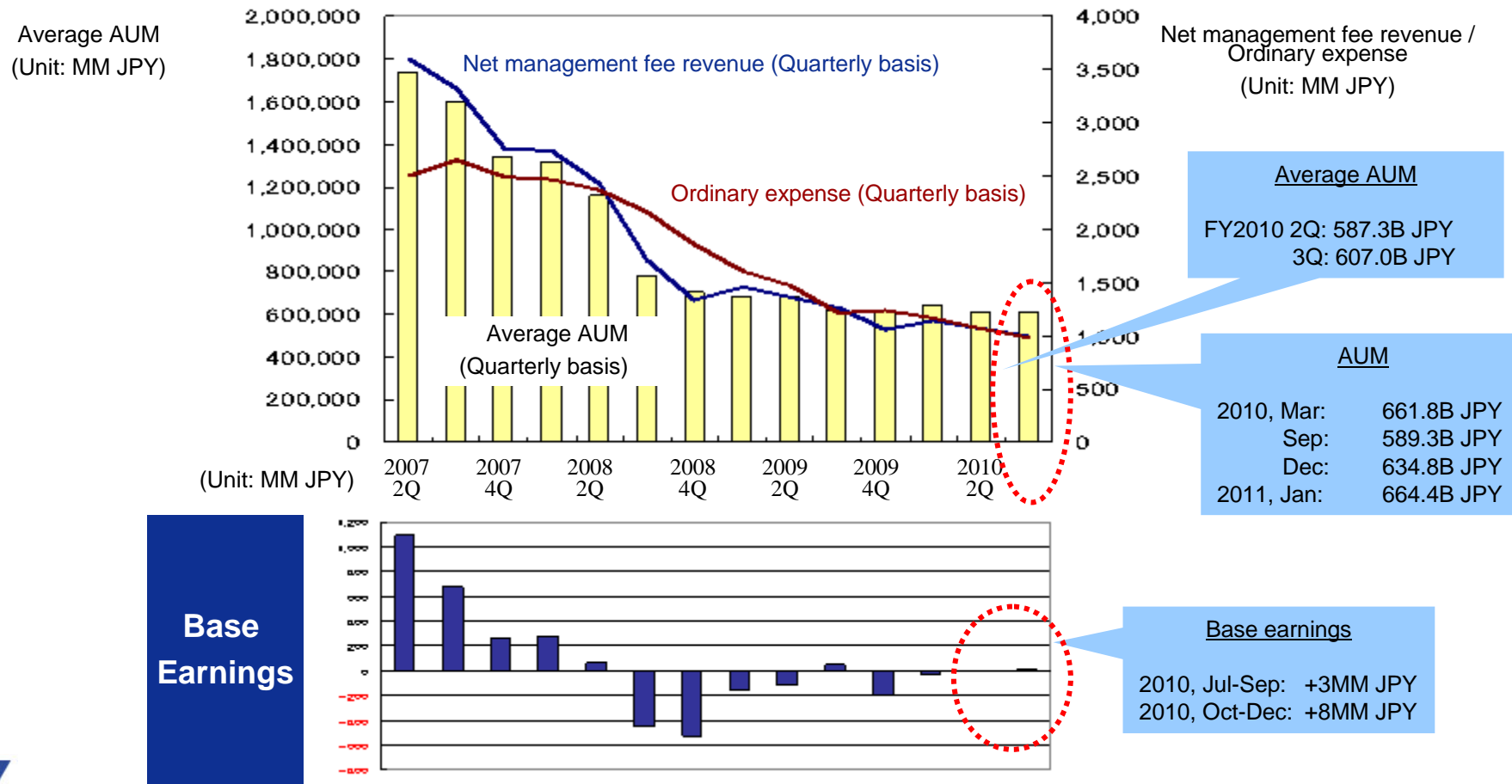
(Note)

1. The figures above are truncated. As preliminary figures, the “Annualized net management fee revenue” is calculated by multiplying the “Net management fee rate” and the “Average AUM” for the period.
2. The “Annualized ordinary expenses” is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses), (3) Severances package for key members of overseas subsidiaries and (4) Amortization of goodwill, from total operating and general administrative expenses.



“Base earnings (Quarterly basis) started to recover

Movement of average AUM / net management fee revenue / ordinary expenses / base earnings (Quarterly basis)



(Note)

1. The figures above are truncated. As preliminary figures, the “Annualized net management fee revenue” is calculated by multiplying the “Net management fee rate and the “Average AUM” for the period.
2. The “Annualized ordinary expenses” is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses), (3) Severances package for key members of overseas subsidiaries and (4) Amortization of goodwill, from total operating and general administrative expenses.



Summary for 3rd Quarter (Balance sheet)

- ▶ Assets: 30.90B JPY (36.77B JPY: as of Mar 31, 2010)
 - Cash and cash equivalent: 12.85B JPY (15.27B JPY: as of Mar 31, 2010)
 - Investment securities (7.53B JPY): The significant portion is seed money to SPARX funds.

- ▶ Liabilities: 15.08B JPY (15.68B JPY: as of Mar 31, 2010)
 - Long-term borrowings due within 1yr (8.00B JPY)
 - Repayment date (Jan 2011: 3.00B JPY, Nov 2011: 5.00B JPY)
 - Corporate bond (4.90B JPY, Maturity date: Sep 2012)

Repaid on Jan 2011 as scheduled

- Maintain the sufficient liquidity for external liabilities
- Operating cash-flow shows positive figure.

- ▶ Net Assets: 15.82B JPY (21.08B JPY: as of Mar 31, 2010)
 - The amount (= accounting capital (14.12B JPY) – fixed assets, including goodwill (6.62B JPY)) exceeds the required working capital significantly.

- Maintain the healthy Balance Sheet and liquidity



Balance sheet summary

(Units: MM JPY)	<u>Mar. 2010</u>	<u>Dec. 2010</u>	<u>YoY change</u>
Current assets	19,090	16,121	-15.6%
Cash and cash equivalents	15,270	12,852	-15.8%
Securities	726	861	18.5%
Fixed assets	17,684	14,787	-16.4%
Goodwill	7,623	6,622	-13.1%
Investment securities	9,254	7,536	-18.6%
Total assets	36,774	30,908	-16.0%
Long-term borrowings due within 1yr	3,000	8,000	166.7%
Corporate bond	5,000	4,900	-2.0%
Long-term borrowings	5,000	-	-100.0%
Total liabilities	15,689	15,080	-3.9%
Common stock, Add. Paid in Capital	26,696	26,728	0.1%
Retained earnings	-3,868	-7,329	-
Common stock in treasure at cost	-4,438	-4,438	-
Minority interests	2,715	1,600	-41.1%
Total Net Assets	21,084	15,827	-24.9%

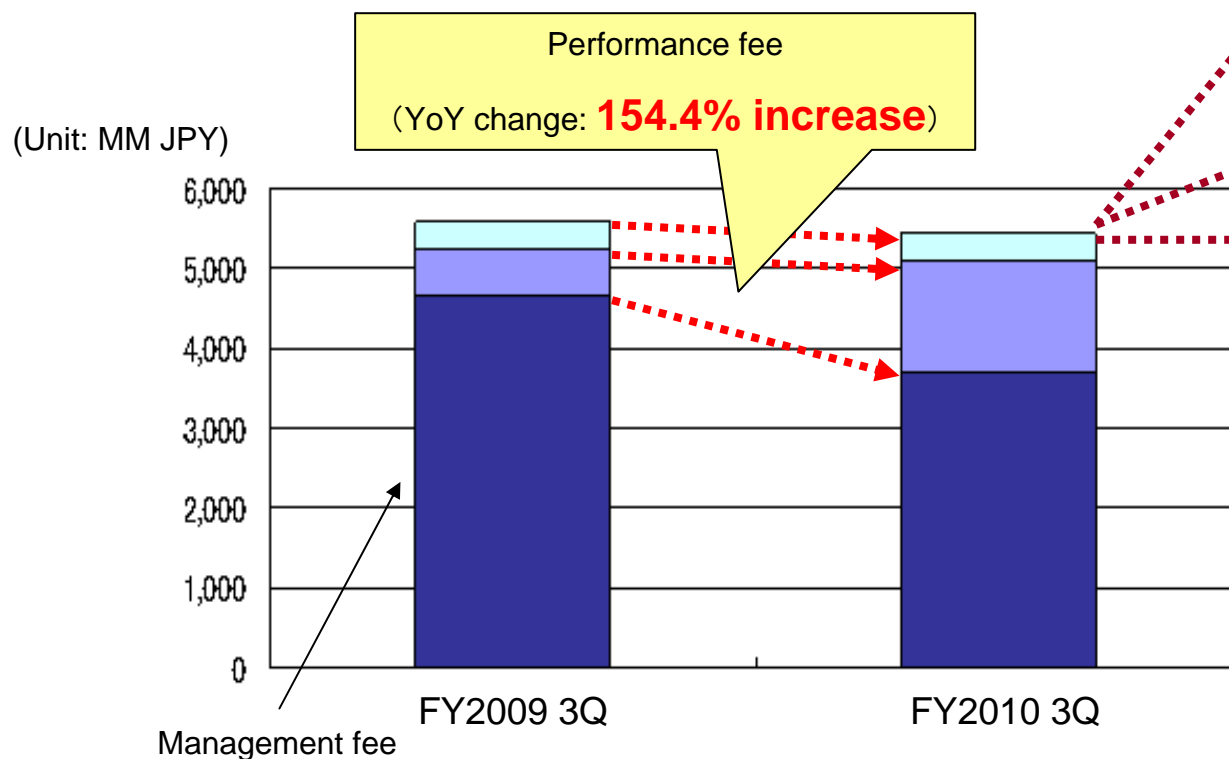


(Note)

1. The figures above, excluding "YoY change", are truncated. "YoY change" is rounded to the nearest tenth of a percent.
2. The investment securities includes the seed money of SPARX Group funds.

Expansion of “New Business” and Acceleration of “Recovery of Existing Business” as One Group

Movement of management fee / performance fee / other revenue (quarterly basis)



2 Expansion of New Business

- SPARX's unique products (One-Asia equity investment strategy, etc.)

1 Acceleration of "Recovery of Existing Business"

- Enhancement of marketing activity as one group (Recovery of AUM)
- Maintain competitive performance
 - Increase of performance fee
 - Recovery of AUM
- Good condition of equity market supports the recovery

(Note) The above-mentioned chart does not include the "Losses & gains from selling or buying investment securities".

1 SAM Status

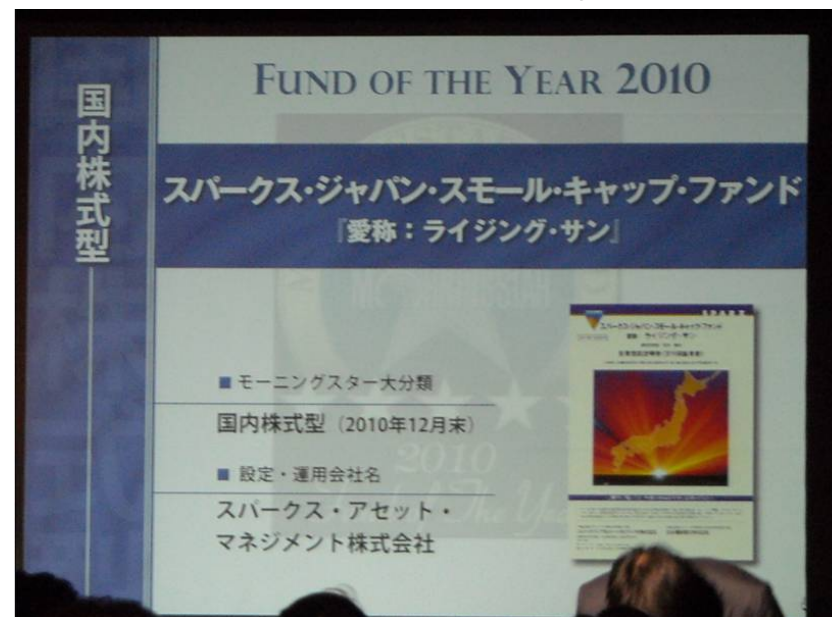
”Made a clear recovery of Japanese business”

- Improved the performance of Japanese equity investments
 - Improved the three-years performance record of all investment strategies
 - Major funds’ NAVs have come close to HWM
 - “Rising Sun” received the Morningstar 2010 Outstanding Performance Award of Japan Equity Fund two years in a row.
 - “Hennessy Select SPARX Japan Smaller Companies Fund” received 2010 Best Japan Equity Fund Award at WSJ’s Quarterly Fund Analysis
- Achieved positive figure of flow of funds (net basis)
 - Significant size subscription from overseas clients (High recognition toward the capability of Japanese equity investment and the capability of product development (“Smart Grid”))
 - Launched “SPARX Haitong Greater China Fund” (approx. 5.3B JPY as of the end of Jan 2011)



Case study: “Rising Sun” received the Morningstar 2010 Outstanding Performance Award of Japan Equity Fund two years in a row.

SPARX Japan Small Cap Fund (or “Rising Sun”) Morningstar 2010 Outstanding Performance Award of Japan Equity Fund



(Note)

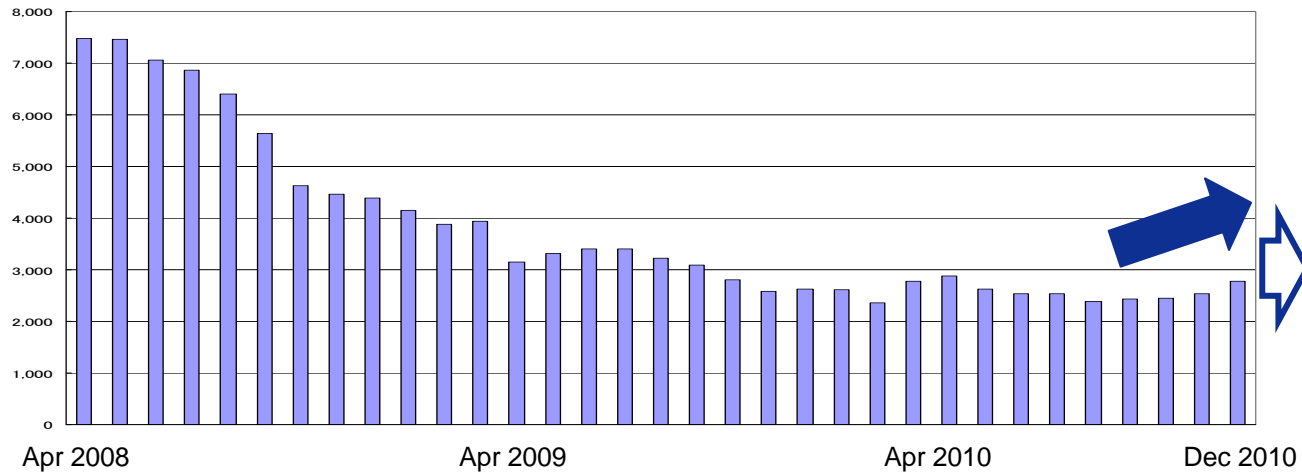
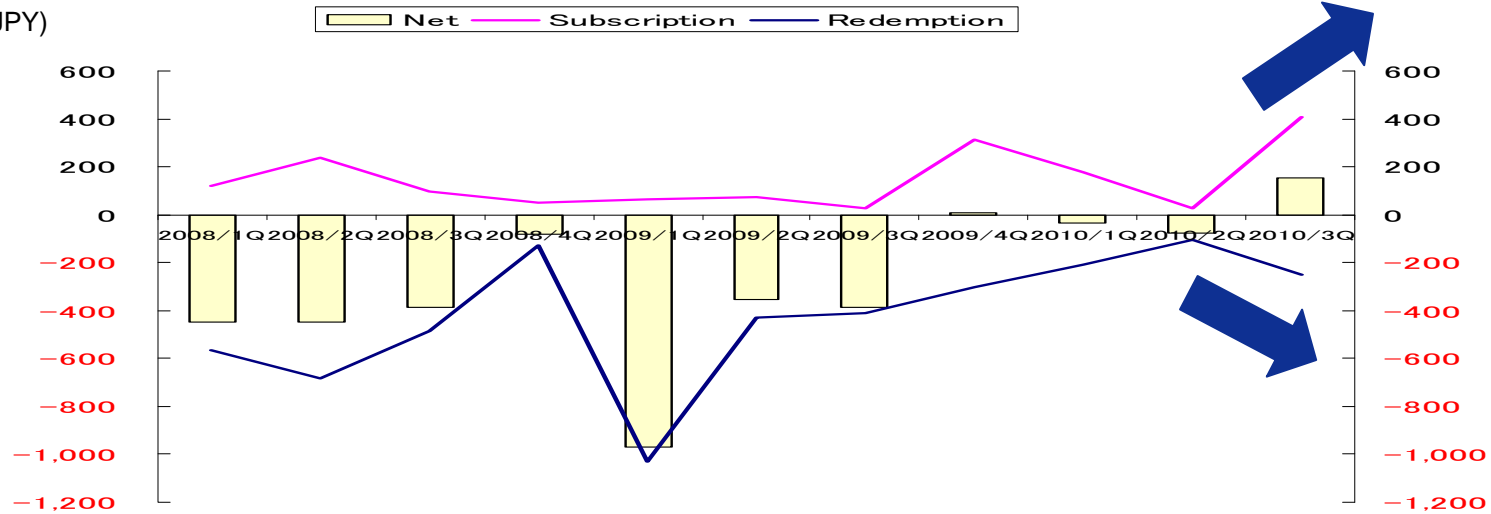
The selection of Morningstar Award “Fund of the Year 2010” is based on the past data and does not grantee the future performance. Also, the evaluation was made on the data that Morningstar identified reliable and, however, the preciseness and completeness are not guaranteed. The copyright, intellectual ownership and other rights belong to Morningstar, Inc. and can not be duplicated and reprinted without any approvals.

The Morningstar, Inc. selected and recognized the fund outstanding totally, from Japanese equity mutual funds (657 mutual funds) , based on the original quantitative analysis and qualitative analysis. The universe of Japanese equity mutual funds section consists of 657 mutual funds that have over 1 year track records.



SAM: AUM trend -- The Net inflow is positive due to the significant size subscriptions.

(Unit: 100 MM JPY)



287.4B JPY
(as of the end of Jan 2011)

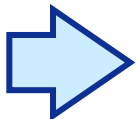


1 Cosmo Status

“Sustained good performance in AUM, investment activities and corporate financials”

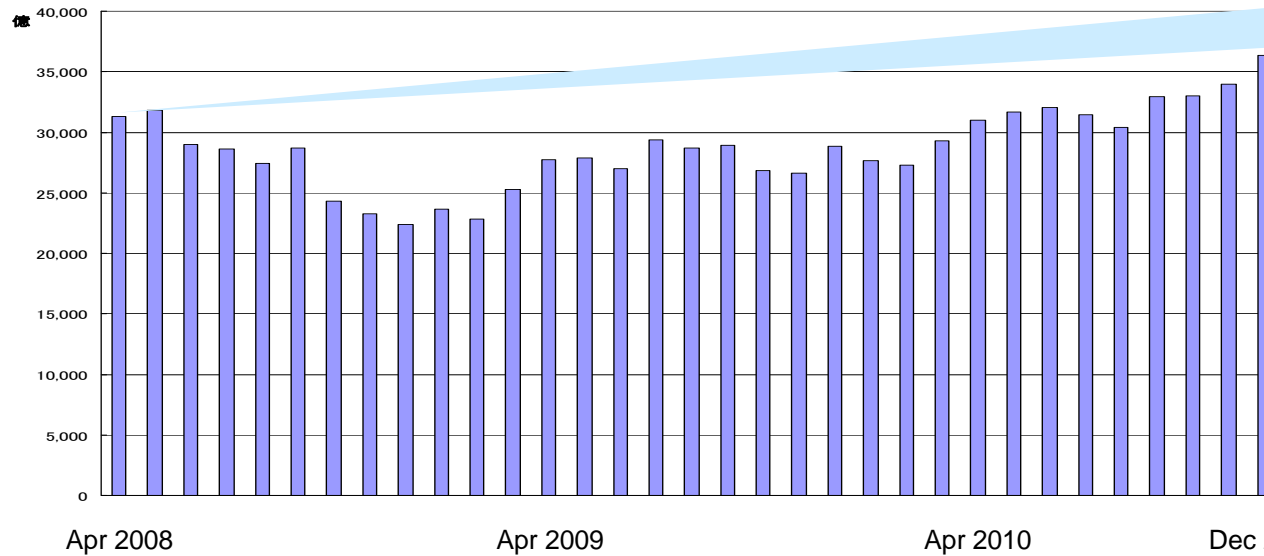
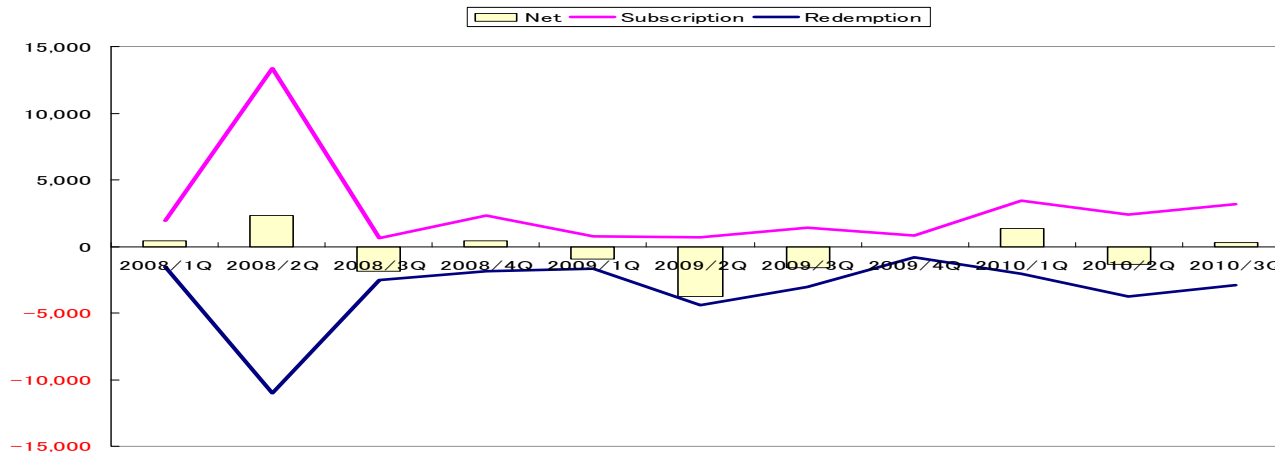
- New record for high AUM value
 - While the change of management team caused several redemptions from overseas clients, several subscriptions from large-sized Korean domestic institutional investors occurred.
 - The AUM (3.6 trillion KRW, as of the end of Dec 2010): 24.1% increase (YoY change), 3.8 trillion KRW (as of the end of Jan 2011)
- Achieved good investment performance continuously
 - The latest 1 year performance of Cosmo (AUM weighted average) exceeds 4.9% KOSPI index.
 - The performance fee of Cosmo (Apr – Dec 2010) is 12.5B KRW. (approx. 200% increase: YoY change)
- Accomplished good business performance
 - Cosmo’s net income increased by approx. 35% (YoY change) although bonuses (related to performance fee, etc.) and extraordinary factor (payment of severance package to key members, etc.) occurred.

- For subscriptions from overseas clients, Cosmo plans to launch new off-shore funds and to enhance its marketing capability as one group. Also, the process of collaboration with Korean domestic banks will be accelerated.
- Developed the organization for mutual fund business



Cosmo(KRW): Cosmo achieved a new record in AUM.

(Unit: 100 MM KRW)



As of Apr 2008
 3,127.0B KRW
 325.9B JPY



As of Jan 2011
 3,852.8B KRW (+23.2%)
 281.5B JPY (-13.6%)



1 PMA Status

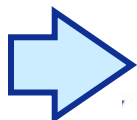
“Striving for the recovery of its existing business and become the hub of SPARX business operation under one Asia concept

- Several funds achieved high performance and re-valuation to their investment capability is expected.
 - Performance fee (3rd Qtr, accumulated basis) reached to 4.6MM USD mainly contributed by funds of Asian Macro / Asian Credit (3rd Qtr of FY2009: 2.6MM USD).
- New business generated by existing business (i.e. financial arrangement) was monetized steadily.
- Cost-reduction was implemented and its ordinary expenses were significantly reduced.
 - CY2009 (15.4MM USD) , CY2010 (13.2MM USD), CY2011 (11.0MM USD, estimated)
- Valuable Asian player that can provide the high quality hedge fund platform function



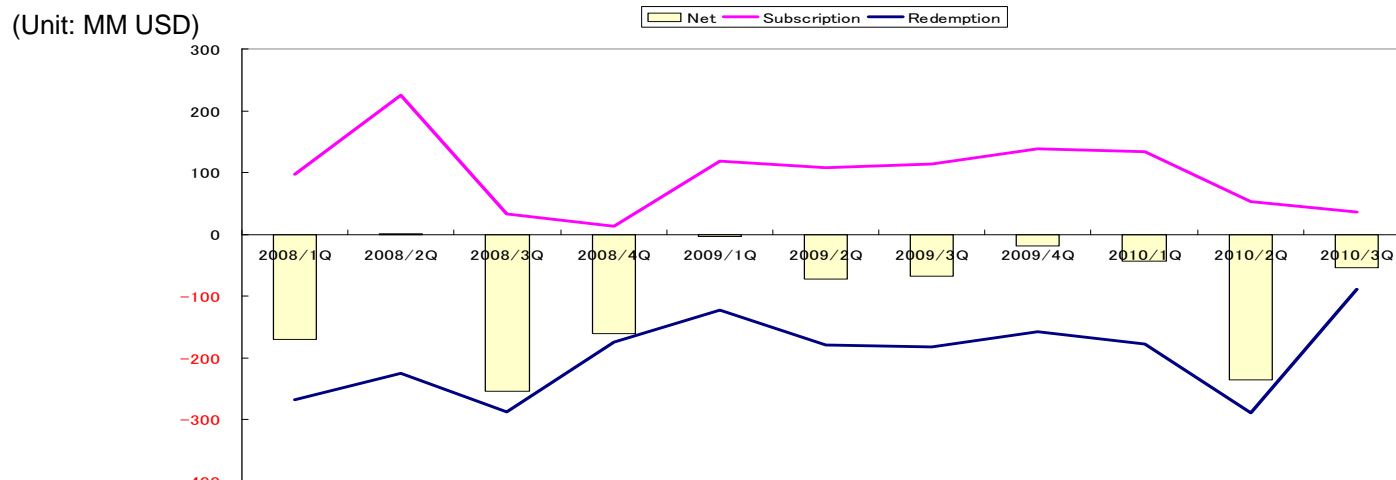
Intrinsic corporate value exits.

The damage of client base caused by the change of management team has not been fully recovered yet. Due to the slump of AUM, PMA corporate value was re-valuated conservatively and the loss of PMA's goodwill due to impairment was posted.

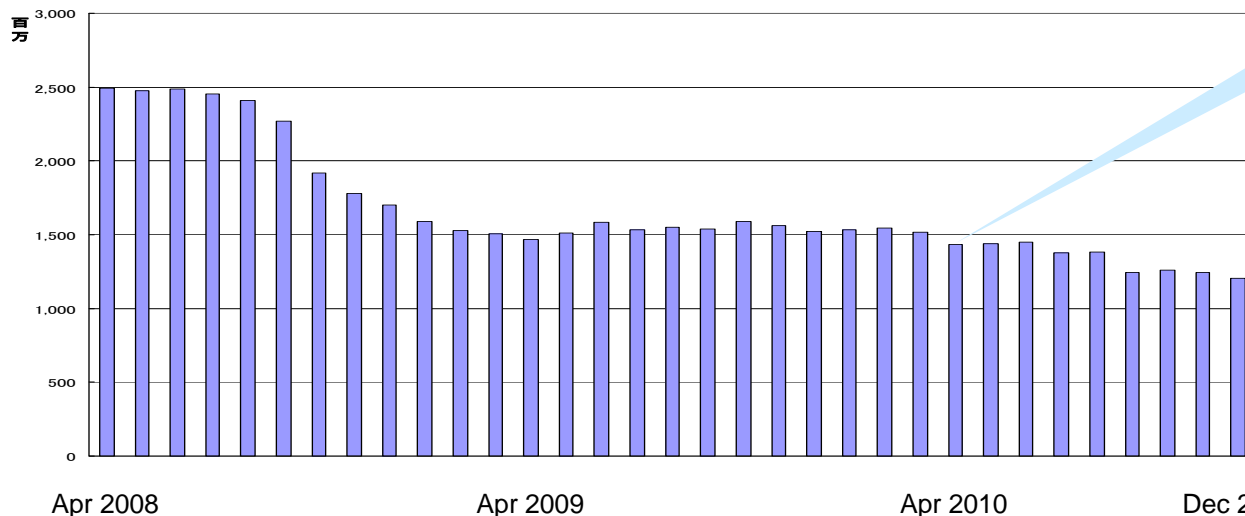


- Unique and highly capable investment team and well-experienced operation team are active. By utilizing the marketing forces of SPARX group and the innovation of products, the recovery of existing business is targeted.
- In terms of product development and selling as group-wide, PMA will play major roles in investment / operation / marketing platform. (this spring, SAM and Cosmo will send the staff to new PMA.)

PMA (in US\$): While AUM remains stagnant, it will bottom out.



As of April, 2010
 1,433MM US\$
 134.7B JPY



2 Expansion to new business: further growth stage (1)

By maximizing and aggregating the power and resources of SAM (Tokyo), Cosmo (Seoul) and PMA (Hong Kong), the principle of "Center for Asia Investment Intelligence" will be substantiated.

▶ Investment hypothesis

- Based on the intangible assets obtained through Japanese equity investment business, the hypothesis (how the "Asian Dynamism" (World's Factory & Mass Consumer Markets) will work for real markets.) will be introduced.

▶ Product development

- "One Asia Long-Short" investment strategy, "One-Asia Long-Only" investment strategy
- Environment & Green-Tech. investment strategy
- "Soft Activist"-type investment strategy

▶ Investment / research system

- Already created the investment/research team selected from group-wide people
- Based on the analytical skills of Japanese companies that SAM generated in long-term, Cosmo and PMA will act as "One-Asia" investment team with combining their intelligence and network .
- The base for their activities will be established in Hong Kong.



2 Expansion to new business: further growth stage (2)

- ▶ Marketing
 - Accelerate to launch the mutual funds in Japan and plan to create the core organization of group-wide global marketing activities in Hong Kong
- ▶ Operation
 - While the each operation of domestic mutual fund should be regulated by each local rules and regulations, the operation of “off-shore” business will be centralized in Hong Kong.
 - Implement the standardization of Information Technology, etc.
- ▶ Compliance
 - Build up the compliance organization for enabling the group-wide business activities and for respecting the local rules and regulations.
- ▶ HR & Management
 - Study the standardization level of HR system
 - Necessity to change the existing management system to the one well-fitted to business model



By establishing the “One-Asia” operation and by recovering its profitability, SPARX plans to build up Asian-wide network (Japan, South Korea, Hong Kong and other Asian regions)

Appendix



Flow of funds (March 31 – December 31, 2010)

(Units: 100 MM JPY)

SPARX Asset	March 31, 2010	Subscription	Redemption	Net	Appreciation etc.	Dec 31, 2010
Long-short strategy	759	32	-119	-86	33	706
Strategic (or "Focused") investment strategy	205	15	-38	-23	-15	166
Multi-manager alternative investment strategy	173	0	-135	-135	-37	0
All Cap strategy	339	6	-59	-53	-15	270
Mid-small cap strategy	1,253	192	-145	47	-24	1,276
Environment & Green-tech. investment strategy	0	198	0	198	25	224
Others	51	165	-67	97	-19	129
Total	2,783	610	-566	43	-54	2,773

COSMO	March 31, 2010	Subscription	Redemption	Net	Appreciation etc.	Dec 31, 2010
Korean index-relative strategy	1,622	380	-138	242	173	2,038
Korean active strategy	407	311	-296	15	-80	342
Korean long-short strategy	162	0	-95	-94	52	120
Korean strategic investment strategy	120	0	-36	-36	11	96
Others	104	0	-105	-105	0	0
Total	2,419	693	-671	21	157	2,598

PMA	March 31, 2010	Subscription	Redemption	Net	Appreciation etc.	Dec 31, 2010
Asian equity strategy	386	1	-166	-164	-5	216
Asian/Europe credit strategy	582	21	-239	-217	-98	265
Asian macro strategy	153	85	-16	68	-54	167
Others	292	84	-61	23	10	326
Total	1,415	193	-484	-290	-148	976



Notes:

1. The figures stated above are truncated.
2. "Appreciation etc." contains any gains and losses from the exchange rate differential between March 31, 2010 and December 31, 2010.
3. The figures for December 31, 2010 are based on in-house calculations and should be regarded as preliminary.

SAM: Annualized performance by strategy since inception

(Annualized)

(From Composite Start Date to December 31, 2010)

	Long-only Active (Commingled funds)	Mid & Small Caps	Long - Short (USD, Lev.2)	Long - Short	Strategic Investment
Composites	6.90%	2.27%	13.13%	3.04%	4.09%
Reference Index	-2.24%	-0.12%	-0.01%	-3.62%	-2.67%
Excess Return	9.14%	2.39%	13.14%	6.66%	6.79%

Reference Index	TOPIX dividend included	Russell/Nomur a Mid-Small Cap Index	TOPIX	Reference Index	TOPIX dividend included
Start Date	May 1997	Jan. 2000	Aug. 1997	Jun. 2000	Jul. 1999
Volatility of Composite Return (Annualized)	23.34%	18.57%	11.10%	6.76%	21.30%

1. The figures in the table above are calculated using the composite performance data of the major investment strategies and are based on the internal data. The "Reference index" is shown to facilitate comparisons and is not necessarily a representative of the "benchmark" indexes requested by clients.
2. The calculation methods used for the annualized returns above 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 above figures are rounded to the nearest tenth of a percent.
3. "TOPIX dividend included, USD hedged" is calculated by using the fully hedged month-end USD forward rate.



SAM: Annualized performance by strategy

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.

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

	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Active Long-only (Commingled funds)	60.69%	-14.57%	-28.93%	-34.48%	34.27%
Mid & Small Caps	44.34%	-11.86%	-28.95%	-25.64%	33.32%
Long - Short (USD, Lev.2)	27.95%	-3.74%	-14.43%	5.95%	8.77%
Long – Short (JPY, Lev.1)	18.68%	-7.50%	-11.31%	-4.13%	6.03%
Strategic Investment	48.94%	-18.71%	-10.14%	-25.67%	23.14%

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