

**SPARX Group Co., Ltd.  
Consolidated Financial Results for  
the 2<sup>nd</sup> Qtr of the FY2011 (April – Sep, 2011)**

**November 14, 2011**



**SPARX Group Co.,Ltd.**

# Financial Results for the 2<sup>nd</sup> Qtr of the FY 2011 & Future Plans



## Executive summary

**Maintained operating cash flow at the same level as last fiscal year  
although severe market environment existed**



**【We recognize the continuation of current severe market environment】**

- ▶ **AUM: Global market turmoil · appreciation of JPY · declining stock price  
⇒ Decrease of AUM toward to 2<sup>nd</sup> quarter-end**
- ▶ **Base Earnings: Downturn due to decrease in AUM and % of management fee**
- ▶ **Performance Fee · Other Revenue: Recorded JPY 440 million, but uncertain  
in the future**



**Focus on maintaining its quality of business operation and meet investor's expectation.**

**Market turmoil / Innovative mind to respond to investors' concern**

**(offer new cash flow )**



**Moving forward to greater efficiency (cost reduction)**



## Summary of 2<sup>nd</sup> quarter (April – September 2011)---P/L

- Although average AUM slightly increased on YoY basis, it has decreased recently ( 2<sup>nd</sup> quarter 2011 :620.6B JPY (2<sup>nd</sup> quarter 2010:610.6B JPY))
- Decrease in management fee due to lower % of management fee (2.130B JPY (PY2.540B JPY))
- Performance Fee·Other revenue has decreased in half (performance fee:0.46B JPY (PY 0.87B JPY) , other revenue0.13B JPY (PY0.3B JPY))

▶ Operating Revenue: 2.73B JPY (PY 3.72B JPY)

▶ Operating & General Admin. Exp: 3.27B JPY (PY 4.04B JPY)

Includes: 0.81B JPY of amortization of goodwill

▶ Operating Loss:                   ▲0.54B JPY (PY ▲0.31B JPY)



Operating Revenue before goodwill amortization  
+0.27B JPY。 (PY :0.46B JPY)

(Foreign exchange loss and other extraordinary loss has significantly decreased)

▶ Net Loss:                           ▲0.82B JPY (PY ▲1.21B JPY)



# P/L Summary

## Financial highlights

Operating profit (w/o goodwill amortization):  
467MM JPY

Operating profit (w/o goodwill amortization):  
273MM JPY

	FY2010		FY2011	
	Apr – Sep 2010	Full Year	Apr – Sep 2011	YoY change
Average AUM (100MM JPY)	6,160	6,260	6,206	0.7%
Operating Revenue (MM JPY)	3,726	7,101	2,732	-26.7%
Operating & General Administrative Expenses (MM JPY)	4,040	7,967	3,274	-19.0%
Operating Loss (MM JPY)	-314	-865	-541	-
Ordinary Loss (MM JPY)	-487	-998	-445	-
Net Profit (MM JPY)	-1,217	-3,698	-820	-
Number of Employees (period-end)	176	168	158	-10.2%
TOPIX (period-end)	829.51	869.38	761.17	-8.2%



(Note1) The figures above, excluding “YoY change” are truncated. “YoY change” is rounded to the nearest tenth of a percent.

(Note2) Number of employees (period-end) shows the figure that does not include the number of “directors and corporate auditors”.

(Note3) AUM figures shown above include those of Korean subsidiary (COSMO Investment Management Co., Ltd.) and Hong Kong subsidiary (SPARS Asia Capital Management Limited).

The figures for Sep 30, 2011 are based on in-house calculations and should be regarded as preliminary.

## Breakdown of Operating Revenue

Breakdown of operating revenue & percentage of AUM eligible to earn performance fees

Breakdown of Operating Revenue	FY2010		FY2011	
	Apr-Sep '10	Apr '10-Mar '11	Apr-Sep '11	YoY change (%)
Management fees (MM JPY)	2,541	4,869	2,137	-15.9%
Net management fee rate (%)	0.72%	0.67%	0.61%	-0.11
Performance fees (MM JPY)	876	1,873	462	-47.3%
Percentage of AUM eligible to earn performance fees (%)	60.9%	57.9%	55.1%	-5.7
Other operating revenue (MM JPY)	308	357	133	-56.9%
Total operating revenue (MM JPY)	3,726	7,101	2,732	-26.7%

**Due to the decrease of net management fee rate**

- The AUM of high management fee rate decreased by the transfer of FoF business
- The AUM of relatively low management fee rate increased by the investments from Korean-based investors.

Recorded 460MM JPY even in the current severe operational environment (decreased compared to PY)

(Note1) The figure 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 fee (%)" shows the amount of decrease/increase instead of percentage of change.

(Note 2) Net management fee rate = (Management fee – Related commissions and changes) / Average AUM

(Note 3) The figures for September 30, 2011 are based on in-house calculations and should be regarded as preliminary.



## Cost Breakdown: Continuous efforts of cost reductions

### Details of expenses

(Units: MM JPY)	Category	FY2010		FY2011		YoY change
		2 <sup>nd</sup> Quarter	Full Year	2 <sup>nd</sup> Quarter		
		<b>Bonus 696 MM JPY</b>		<b>Bonus 285 MM JPY</b>		
Commissions paid	Operating	327	767	264		-19.2%
Personnel exp.	General admin	1,797	3,413	1,265		-29.6%
Entrusted fund admin fees	Operating	35	71	36		3.5%
Travel exp.	General admin	98	193	86		-11.8%
Property rent	General admin	249	474	219		-12.0%
Entrusted business expenses	General admin	211	366	134		-36.3%
Depreciation on fixed assets	General admin	80	149	40		-49.9%
Other expenses	General admin	458	858	411		-10.2%
Amortization of goodwill	General admin	782	1,671	814		4.2%
Total: Operating and general administrative expenses		4,040	7,967	3,274		-19.0%

**4.18B JPY**  
**Ordinary Expenses**  
**(annualized) 3.85B JPY**



(Note1) The figures above, excluding "YoY change", are truncated. "YoY change" is rounded to the nearest tenth of a percent.

(Note2) The "Personnel Expenses" data includes payments for temporary staff, etc.

(Note3) As amortization of negative goodwill, 49 MM JPY (2Q of FY2010), 99 MM JPY (full year 2010), and 49 MM JPY (2Q of FY 2011) are recorded in non-operating income.

## Base Earnings: require further management efficiency

### Consolidated “Base Earnings”

		<u>FY2010</u>	<u>FY2011 1Q</u>	<u>FY2011 2Q</u>
		Full Year	(annualized)	(annualized)
Average AUM	(100 MM JPY)	6,260	6,616	6,206
Net management fee rate (After the deduction of commissions paid)	(%)	0.67	0.60	0.61
Annualized net management fee revenue (After the deduction of commissions paid)	(MM JPY)	4,199	3,970	3,766
Annualized ordinary expenses	(MM JPY)	4,187	4,049	3,853
Annualized “Base Earnings”	(MM JPY)	11	▲79	▲87



(Note1) The figures above 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.

(Note2) 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 of 2nd quarter (April – September 2011)---B/S

### (Assets/Liabilities)

- Retain 16.6B JPY of cash & cash equivalent, investment securities while having 9.9B JPY interest-bearing debt
- Further stabilization by issuance of 1.5B JPY privately-offered corporate bond
- No concern for repayment for current liability (with maturity date of within 1 year) to external 3<sup>rd</sup>-party (total 8.4B JPY)

### (Net Assets)

- Great impact on foreign currency translation adjustment by rapid appreciation of Yen/weakening US dollar and Korean Won (2011/Sep-end: ▲0.45B JPY (2011/Mar-end: +0.37B JPY))

The following exchange rate has been used

(Units: JPY)	Mar-end 2011	Sep-end 2011	YoY change
US Dollar	83.15	76.65	▲7.8%
Korean Won	0.0755	0.0652	▲13.6%

- Impact on valuation difference on AFS securities by global stock-price declining and appreciation of Yen (2011/Sep-end: ▲1.92B JPY (2011/Mar-end ▲0.93B JPY))
- ⇒ Net asset of 11.53B JPY is decreased by 2.63B JPY compared to Mar-end 2011, which is exceeding its net loss(0.82B JPY) (2011/Mar-end: 14.16B JPY)



## B/S Summary : Net assets decreased to 13.1B

### B/S Summary as of September 30, 2011

(Units: MM JPY)	<u>Mar. 2011</u>	<u>Sep. 2011</u>	YoY change
Current assets	13,281	12,714	-567
Cash and cash equivalents	8,659	8,880	221
Securities	1,959	2,220	261
Fixed assets	14,629	11,504	-3,125
Goodwill	6,338	5,371	-966
Investment securities	7,676	5,518	-2,157
<b>Total assets</b>	<b>27,911</b>	<b>24,218</b>	<b>-3,692</b>
Corporate bond due within 1yr	-	4,900	4,900
Long-term borrowing due within 1yr	5,000	3,500	-1,500
Corporate bond	4,900	1,500	-3,400
<b>Total liabilities</b>	<b>11,890</b>	<b>11,062</b>	<b>-828</b>
Common stock	12,435	12,440	5
Add'l paid-in-capital	14,295	14,300	4
Retained earnings	-7,566	-8,387	-820
Common stock in treasure at cost	-4,438	-4,438	-
Valuation difference on AFS securities	-931	-1,927	-995
Foreign currency translation adjustment	370	-455	-825
Minority interests	1,761	1,521	-239
<b>Total net assets</b>	<b>16,021</b>	<b>13,156</b>	<b>-2,864</b>



(Note1) The figures above are truncated.

(Note2) The investment securities includes the seed money of SPARX Group funds.

# Liquidity Management – Capital bases for recovery

B/S (Net Asset basis, after paying interest-bearing liabilities):

(As of the end of Sep 2011)

approximate calculation

(Units: MM JPY)

<b>Goodwill</b> 5,371 SPARX Asia 2,398 COSMO 2,974 <b>Fixed Asset, etc.</b> 800 Existing FA 600 New investment for IT 200	<b>【 1 】</b> <b>Fixed Asset</b> <b>6,171</b>	<b>Net Asset</b> <b>13,156</b>
<b>Current Asset, etc</b> 500 <b>Cash</b> 5,500 <i>SAM 2,000, COSMO 2,000</i> <i>SPARX Asia 500, SHC 1,000</i>	<b>【 2 】</b> <b>Required Working Capital</b> <b>6,000</b>	
<b>SPARX Fund-seed money</b> <b>Other investment securities</b> <b>Available cash</b>	<b>【 3 】</b>	
		<b>Available Equity 6,985</b> (985) <b>+ Financing 1,500</b>

If the operating profit before goodwill amortization increase, it will increase.

Need to monitor the "market value of securities" and "fluctuation in exchange" closely

•Although net asset decreased, it has more than enough to cover its required working capital of 6B JPY to cover 3 global office locations (Tokyo, Seoul, Hong Kong) for its management and further growth.

•Executed new financing, therefore maintaining seed-money at certain level is readily available.

## Prospects for targeted FY goals

Considering business performance up to 2Q, current AUM trend, investment performance, status for new business development process, current volatile and unstable market environment,

With greatest regret,

We have to announce that our targeted goal for this year to record positive net income and resume dividend payment to the shareholders have become unachievable.

We will do whatever it takes to make our business recover with strong will



## Challenges and Correspondence Plan

### Seoul (Cosmo)

- Business platform is stable with inflow trend for AUM under the current severe environment.
- Establish flexible investment system in highly volatile market.
- Expects to obtain full license for onshore Korean collective investment funds

### Hong Kong (SPARX Asia)

- Business operation platform is steady and in high quality although some of the investment strategies have been closed.
- Establish platform for global offshore marketing base for the group.
- Focus on expanding its assets and its quality for SPARX OneAsia Long-Short Fund.

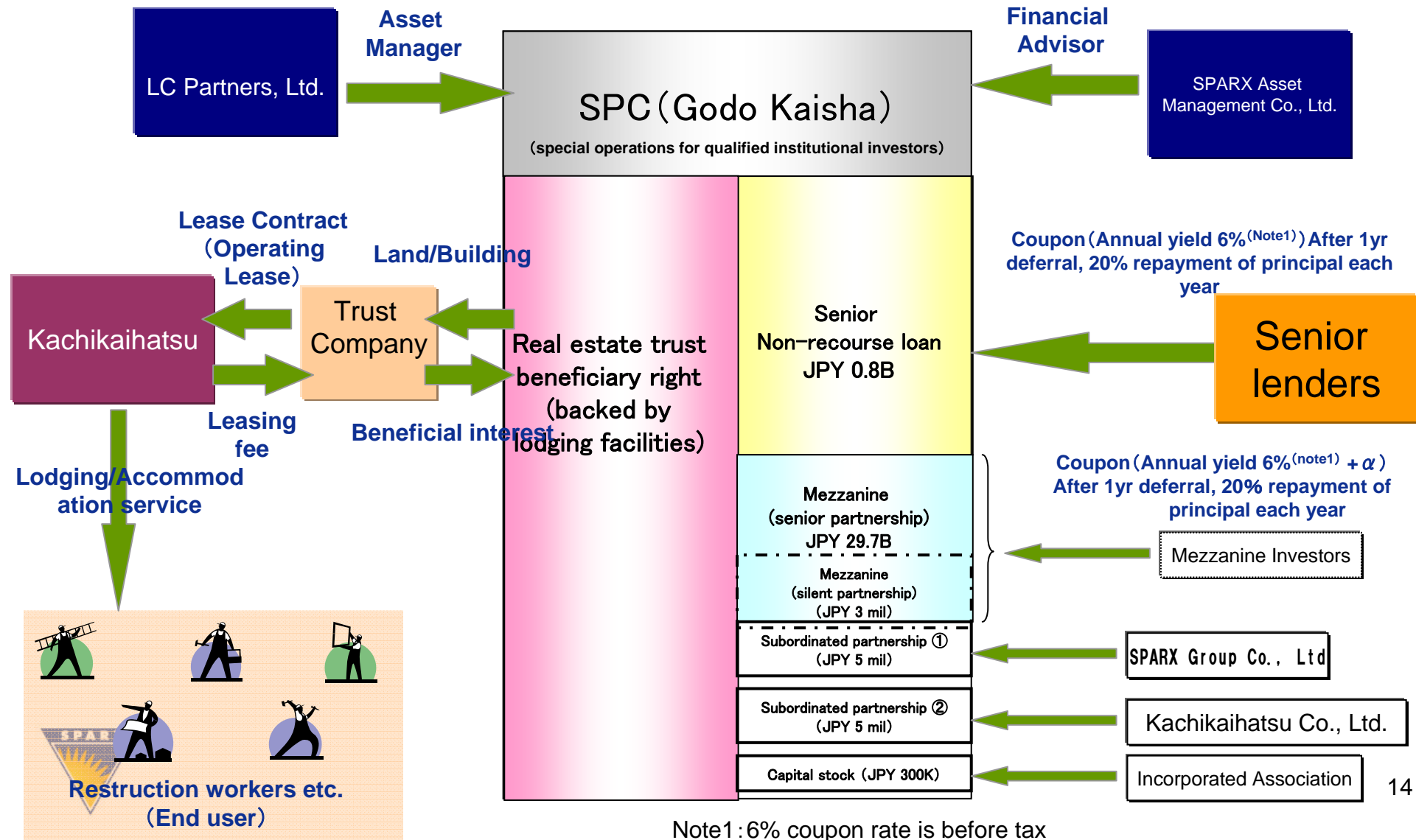
### Tokyo (SPARX Asset Management)

- Focus on maintaining and improving its core-business operation (especially for investment strategy for Japanese stocks) and meet investor's satisfaction
- Innovation spirit and realization ability are well existing.
  - ⇒ established 「Northeast Japan Reconstruction Fund No.1」 ... currently No. 2 &3 are in progress
  - ⇒ efforts to create investment structure for alternative energy field
  - ⇒ development of new investment perspective and strategy for Japanese stocks
- Review cost structure for further operational efficiency (to be undertaken within this year)



**Construct firm management culture to generate revenue even in the severe business environment**

# <Ref> Northeast Japan Reconstruction Fund No.1 Ultimate Structure



# Appendix



## SAM: Annualized performance by strategy since inception

(Annualized)

(From Composite Start Date to Sep. 30, 2011)

	Long-only Active (Commingled funds)	Mid & Small caps	Long-Short (USD, Lev.2)	Long-Short	Strategic Investment
Composites	5.86%	1.72%	11.76%	1.89%	3.38%
Reference Index	-3.10%	-0.83%	-0.66%	-4.60%	-3.65%
Excess Return	<b>8.96%</b>	<b>2.56%</b>	<b>12.42%</b>	<b>6.49%</b>	<b>7.03%</b>

Reference Index	TOPIX dividend included	Russell/Nomura Mid-Small Cap Index	TOPIX (Hedge in dollar)	Reference Index	TOPIX dividend included
Start Date	May 1997	January 2000	August 1997	June 2000	July 1997
Volatility of Composite Return (Annualized)	22.89%	18.23%	11.11%	7.04%	20.93%

(Note1) 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.

(Note2) 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.

(Note3) "TOPIX dividend included, USD hedged" is calculated by using the fully hedged month-end USD forward rate.

Source: SPARX Group Co., Ltd (Tokyo, Japan), as of September 30, 2011.



## SAM: Annualized performance by strategy

1. Each composite includes portfolios managed by companies of the SPARX group, excluding Cosmo and SPARX Asia.
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 (USD 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>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>
Active Long-only (Commingled funds)	-14.57%	-28.93%	-34.48%	34.27%	-5.74%
Mid & Small Caps	-11.86%	-28.95%	-25.64%	33.32%	-1.87%
Long-Short (USD, Lev.2)	-3.74%	-14.43%	5.95%	8.77%	8.23%
Long-Short (USD, Lev.1)	-7.50%	-11.31%	-4.13%	6.03%	4.00%
Strategic Investment	-18.71%	-10.14%	-25.67%	23.14%	-1.76%

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**SPARX Group Co., Ltd.**

Gate City Ohsaki East Tower 16F  
1-11-2 Ohsaki, Shinagawa-ku, Tokyo 141-0032, Japan  
Tel: +81-(0)3-5437-9700