

SPARX

S P A R X

C O M P A N Y

R E P O R T

Vol. **2**

[Apr.1 2005 – Mar.31 2006]



SPARX is moving forward to pursue its long-standing vision of becoming the most trusted and respected investment company in the world.

SPARX Asset Management Co., Ltd. (hereinafter “SPARX”) has vowed to become the world’s most trusted and respected investment company by delivering to investors in Japan and across the globe the highest level of creative and innovative investment intelligence based on a consistent investment philosophy.



We at SPARX constantly strive to be a cut above, to reach the pinnacle of our profession.
We look forward to new and difficult challenges.
Though the times and the business environment may change,
we never lose sight of our starting point: a set of principles we call the “Spirit of ARTS.”

A We will always act with an aggressive approach, reflecting our belief that bold and decisive actions enable us to make the best decisions with the best information.
g g r e s s i v e

R We will always act with speed and precision, reflecting our belief that alertness and agility are the best ways to deal with change.
e s p o n s i v e

T We will always act with discernment and care, reflecting our belief that innovative knowledge is created when one is meticulous and complete.
h o r o u g h

S We will always act with sympathy and dignity, reflecting our belief that treating clients and colleagues with empathy, sincerity and respect lead to harmony, goodwill and mutual growth.
y m p a t h e t i c

To Our Shareholders and Investors



CEO memo



The fiscal year ended March 2006 was an unforgettable year for me. That is because we were able to achieve a balance of assets under management (hereinafter “AUM”) of ¥1 trillion, our goal ever since SPARX went public.

At the beginning of last year we acquired an equity stake in South Korean investment company Cosmo Investment Management Co., Ltd. (hereinafter “Cosmo”). This marked the first time SPARX has made an equity investment in another company in our industry, and we faced a fresh challenge of integrating two corporate cultures. I am delighted that, thanks to the efforts of all concerned parties, Cosmo’s balance of assets under management has increased from ¥60 billion to ¥170 billion and its business base has been further strengthened since we made our investment. Following our equity participation in Cosmo, in August we established SPARX International (Hong Kong) Limited in Hong Kong and SPARX

Capital Partners Co., Ltd. in Japan. The year marked a significant first step toward establishing our business in Asia and principal investment operations. Japanese stock market conditions in the first half of 2005 were characterized by an uphill battle of advances and retreats as the economic sluggishness of the previous year dragged on. In the second half, however, the fog hanging over Japan’s economy suddenly dissipated and continued improvement in corporate profits came to be factored into stock prices. As a result, the Nikkei stock average recovered from 11,000 to above 17,000. Human psychology is an interesting thing: pessimism begets pessimism, and optimism amplifies optimism.

The market reflects the oscillations of that mentality like a mirror. Ever since Japan’s stock market hit a major bottom in March 2003, I have maintained that Japan has embarked on a new path of growth and have continued to invest actively. I think that it is because SPARX clearly recognized the historic turnaround in the underlying market trends, which pivoted on an escape from deflation, so we were confident enough to invest aggressively. The process of perceiving the dawn of a new era amid a sense of entrapment and stagnation prevalent throughout the market and finding one investment opportunity after another was by no means a simple matter. I believe that we were able to build the foundation that supports SPARX today as a result of having implemented this process with courage and foresight. In the fiscal year ending March 2007, I have renewed my determination to go back to basics and redouble my efforts and diligence as CEO. At the same time, as the person with ultimate responsibility for putting into practice the SPARX Way of Investing, I plan to not relax one iota my study of this fascinating field, by way of making SPARX the world’s most trusted and respected investment company. I request your continued support in the coming years.

President & CEO **Shuhei Abe**



Interview

Q. First, please describe the business environment during the previous fiscal year, including market trends and your assessment of SPARX's business performance.

I think that Japan's economy this past year has been groping for a path to dramatic new developments in a post-1990s asset "bubble" framework.

A recovery in corporate business performance carried forward into rising employment and incomes, which stimulated consumption. Many people began to sense a return to form for Japan's economy. Overall, it was a year filled with expectant vibrancy and energy owing to factors including the near eradication of deflation. Deflation has been under constant pressure from a zero-interest policy and quantitative deregulation, extraordinary government measures unprecedented anywhere in the world. This mood of expectation was reflected in the stock market, and both the Nikkei average and TOPIX rose by 46.2% from the end of the previous fiscal year.

SPARX's assets under management increased sharply by 88.3% year-on-year to ¥1,608,200 million as both capital inflows and investment developed favorably. This means that we achieved in a single year an increase in assets under management nearly equal to the more



than ¥800,000 million balance of assets we accumulated over a period of 16 years since the foundation.

As a result of these developments, we were able to deliver record-high operating results for the third consecutive year, posting operating revenues of ¥26,863 million, an increase of 88.2% year on year. Our operating revenues are broadly divided into management fees based on assets under investment and performance fees based on investment performance. During the previous fiscal year, revenue from both sources grew favorably: management fees increased by 58.0% year-on-year to ¥12,582 million, and performance fees increased by 129.0% to ¥13,764 million. As a result, profits increased sharply, with operating income, ordinary income, and net income all increasing by more than 100% year-on-year. With regard to my personal assessment of business results, however, I am by no means satisfied. I think that we earned a passing grade at best.

Q. Only a passing grade despite higher revenues and profits for three consecutive years? That's a harsh personal assessment, isn't it?

I have long said that I want people to have high expectations for the earnings potential of SPARX that will be revealed when the stock market normalizes. Although the previous fiscal year offered a hint of that potential, I think SPARX's power is far greater than that.

While the results are satisfying, I think there is substantial room for improvement. I think that if the CEO becomes satisfied with the status quo, it becomes impossible to maintain it, to say nothing of growth. Japan's stock market is in the process of normalizing, and the time to truly demonstrate the capabilities we have accumulated over the years will come a few years from now. I want to deliver results that do not belie everyone's expectations.

Q. In the previous fiscal year, SPARX achieved its longtime goal of ¥1 trillion in assets under management. What strategy do you have for further growth?

In August of last year, we achieved our goal of ¥1 trillion in assets under management, which we set when we went public. Although it's easy enough to say ¥1 trillion, it's a balance we have accumulated up from zero when I founded SPARX in 1989. Following the bursting of Japan's economic bubble, we have repeatedly built up balances only to see them collapse. We were driven to the wall on several occasions, and to tell the truth, I didn't think we would be able to reach our current position. Nevertheless, SPARX's assets under management are solid because, although it took time, they have been built up like a stone wall laid in place one stone at a time. I became convinced that the things that we have continued to do to-date would without fail lead to results from about the time we went public. I am by no means an especially clever person. Although we cleared the hurdle of ¥1 trillion, in pursuing investments in Japanese equities I want to continue to strengthen our existing business model.

I think that we can grow comfortably until we double or triple our current assets under management. However, if we overextend ourselves we will risk creating distortions and invite deterioration of the investment quality that we have provided clients over the years. I think that the challenge in our future growth process will be to determine the extent we can expand business scale while maintaining quality and devise a means of constructing an even better business model.

Q. The previous fiscal year brought a tremendous capital inflow that contributed to the increase in assets under management. What sort of capital flowed into the funds?

With regard to global flows, I feel that capital is actively coming round to Japanese equities. Specifically, I think three types of capital have begun to move significantly. First, there is a trend toward increasing the proportion of Japanese equities in European portfolios that are already actively invested in diversified international investments. The second type is money from the United States. With regard to the U.S., I feel that a large wheel has suddenly begun to turn.

Specifically, this is due to changes in asset allocation on the part of pension funds. Although it takes an extremely long time for large sources of capital such as pension funds to restructure their portfolios, a trend toward active investment in Asia has clearly manifested itself. That is owing to a sense of danger expected returns over five or ten years cannot be achieved if capital is over-concentrated in the U.S. The third type of capital is the movement of oil money.

Q. Recently one hears a great deal about the movement of petro-dollars, the third type of capital you mentioned. What is the impact of this on SPARX?

I think that the movement of oil money has been greater than expected. Oil producing countries for the past ten years have been transferring financial resources directly into enormous domestic infrastructure investments. This is to ensure that, as they look toward the future, the citizens of these countries, not just a small privileged class, can live prosperously. I think that those investments have now taken shape and are beginning to create new credit through financial intermediaries. Those countries have begun in earnest to seek returns unobtainable through domestic investments alone. Although until the 1990s it was



Interview

correct to invest unvaryingly in the U.S., I feel strongly that without question portfolios are now beginning to turn toward Asia. In fact, capital for investment in Japanese equities is flowing into SPARX from oil producing countries rather briskly, and the amount is becoming extremely large. These investments are not the size of trial investments we have seen in the past, but are rather large amounts from the beginning.

Q. Why is investment capital from around the world concentrating in Asia?

Money moves around the world in search of high growth and returns. Since the end of the so-called golden age for U.S. equities in the 1990s, I think that few people would object to the statement that the next growth opportunity is in Asia. I feel strongly that people's views of Asia are radically changing and that a new Asian growth structure centered on Japan is beginning to form. In the investment world heretofore, the categories "Japan" and "Asia excluding Japan" existed. When looking at the Asia of the future from the standpoint of global diversified investment, when you come to think about it, to talk of Asia without Japan, the world's second largest economic power, is unusual. This is even truer given

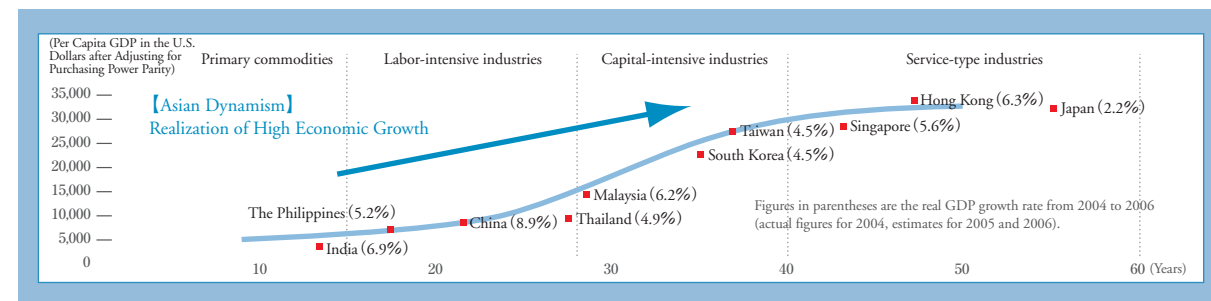
that Japanese investments have become pivotal to the Asian growth paradigm since the Plaza Accord. I think that people in Europe and North America, too, are beginning to clearly understand that.

Q. In April of this year, SPARX announced that it has agreed to acquire all outstanding shares of PMA Capital Management Limited (hereinafter "PMA"). What will the acquisition of PMA make possible?

Before I answer that question, I would like to briefly discuss the South Korean investment company Cosmo, which became a member of the SPARX Group in February 2005. Cosmo is a company that invests in South Korean equities on the basis of bottom-up research, an investment approach similar to that of SPARX.

Cosmo's growth in the previous fiscal year was nearly as great as our own: assets under management rose sharply, by 157.4% year-on-year to ¥171,100 million. More important than quantitative expansion is the change in the quality of assets under management.

Cosmo's traditionally low proportion of alternative investments has increased, and earnings potential in the form of investment trust management fee and the percentage of assets under management subject to performance fees are both increasing. Although



Source: Prepared by SPARX based on data from the IMF and Morgan Stanley Research (as of April 2006)



Cosmo was a tremendous investment company with excellent investment research capabilities, until we took an equity stake it was an "ordinary" investment company that provided traditional investment methods to institutional investors, primarily South Korean pension funds. However, Cosmo availed itself of the opportunity presented by our investment and began following our growth model by transplanting the SPARX business model. I regard this method as setting one direction for SPARX's future Asian strategy. Although at first glance it appears that applying our investment ideas to the South Korean market is a challenging task, in the end it makes possible investments with a high potential for success. That is because, after all, the South Korean and Japanese markets are moving in extremely similar directions separated only by a time lag of a few years. The acquisition of PMA is our equity participation in Cosmo, but on a larger scale. The union of SPARX and PMA will result in the leading alternative investment company in Asia. In terms of business scale, alternative assets under management will be about US\$8 billion (about ¥1 trillion), the highest in Asia. This will make possible the provision worldwide through a global client base of Asian investment intelligence that goes well beyond the bounds of conventional alternative investment.

The new SPARX will be able to integrate and construct an Asian

investment platform and provide high-quality, unique services.

Also, expansion of the base of operations will make possible the application of operational leverage. What's more, the strengthening of services provided to investors by means of a research network expanded to all parts of Asia will make possible the sharing of the ability to discover latent investor needs. I think that realizing this will create the potential for providing comprehensive investment services involving investments throughout the Asia-Pacific region.

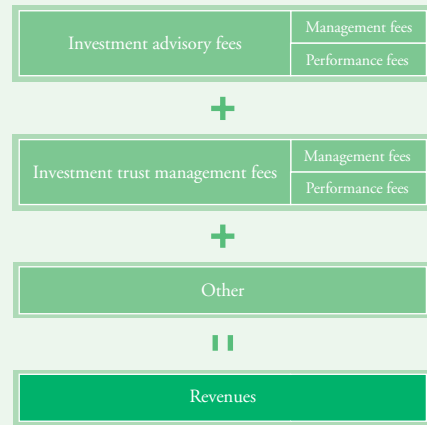
Q. How would you like to see the SPARX Group develop in the future?

Although this will be an extremely difficult challenge, I would like for SPARX to be a pilot that guides wealth accumulated in Japan and elsewhere in the world to Asia. Although to date SPARX has been a company that engaged in extremely segmented investment in Japanese equities, from now on I would like to establish a foothold as a company that engages in the highest level of Asian investment.

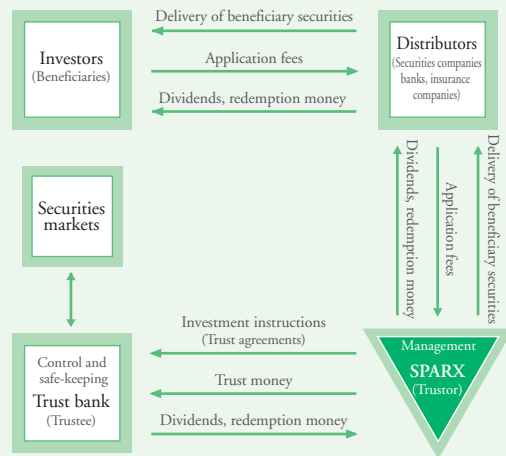
Specifically, I would like to become the center of investment intelligence in Asia by building on the business platform of PMA, which has recently become a Group company, and engaging in SPARX investment in a number of Asian countries. I think that the investment business is a process of discovering and packaging investment opportunities and selling them to clients. I would like for SPARX to become deeply involved in the process of creating the most intelligence-intensive investment intelligence. To use a metaphor, I want to make SPARX a company that plays a role similar to that of Intel in the personal computer industry. In the personal computer manufacturing process, it is Intel that dominates the core component that has the highest value added and for which it is difficult to substitute other products. I would like for SPARX to become in the investment business in Asia the company that provides the essential core of investment: that is, the creation of investment intelligence.

Business Model

Revenue Structure



Investment Trust (Contract Type) Structure (Note)



The majority of SPARX's operating revenues consist of income from the investment advisory business. Revenues from the investment advisory business can be broadly divided into management fees, calculated by multiplying the balance of assets under management (AUM) by the asset management fee rate, and performance fees based on asset management results. Management fees are received for all investment advisory business contracts. SPARX strives to receive performance fees from as many contracts as possible through negotiations with investors and distributors. At the end of March 2006, the percentage of AUM subject to performance fees was about 47% (for details, refer to AUM Data on page 15). In addition, brokerage commissions from SPARX Securities Co., Ltd. and other income are booked under other operating revenue.

Investment Trust Management Business

The investment trust management business involves the establishment and operation of investment trusts by entering into trust agreements with trust banks (trustees) and issuing instructions for the operation of investment trusts. As an investment trust management company that specializes in trust operation (trustor), SPARX collects capital from investors (beneficiaries) for the purpose of investing in investment trusts, engages in diversified investment in negotiable securities (in the case of SPARX, primarily Japanese stocks), and distributes the proceeds (investment gain or loss) to investors.

Note: There are two types of investment trusts: contract-type and corporation-type trusts. The principal type in Japan is the contract-type investment trust, and all the Japanese investment trusts operated by SPARX are contract-type investment trusts. The chart to the left shows the structure of contract-type investment trusts.

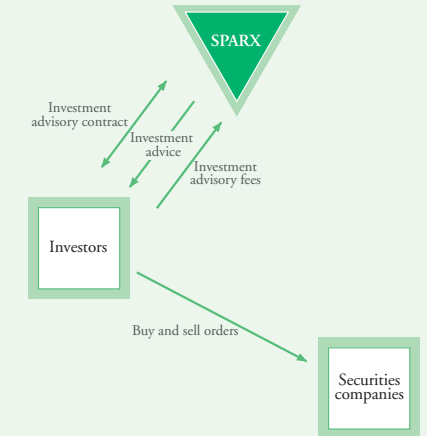
Investment Advisory Business

The investment advisory business involves acting in a specialist's capacity to provide advice to investors on investment decisions about stocks, bonds and other negotiable securities (decisions about types of negotiable securities, issues, price, and buy and sell timing and so forth).

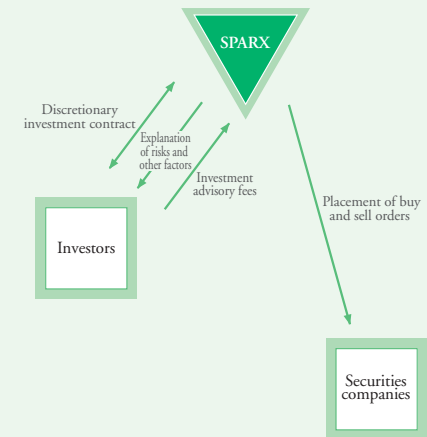
The investment advisory business can be further subdivided into two categories: investment advisory operations and discretionary investment management operations. In investment advisory operations, SPARX enters into investment advisory contracts with investors and provides investment advice in accordance with the contract details. Investors themselves make the actual investment decisions and place buy and sell orders.

In discretionary investment management operations, investors entrust SPARX with the authority necessary to make all or some investment decisions and to place buy and sell orders on their behalf. SPARX enters into discretionary investment management contracts with investors and, in accordance with the contracts, makes investment decisions about negotiable securities in which to invest investors' assets and places buy and sell orders.

Structure of Investment Advisory Operations



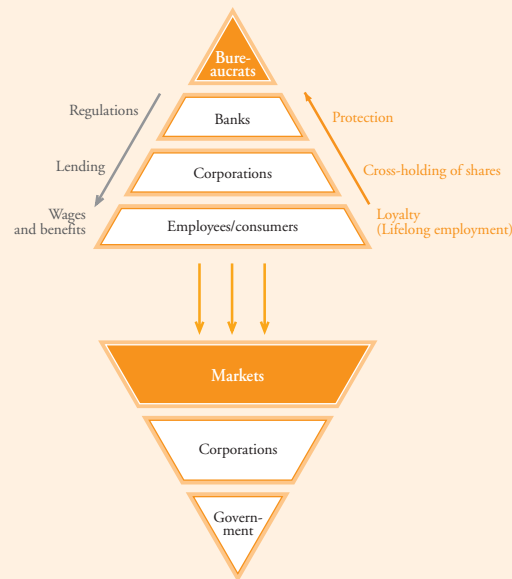
Structure of Discretionary Investment Management Operations





Investment Idea

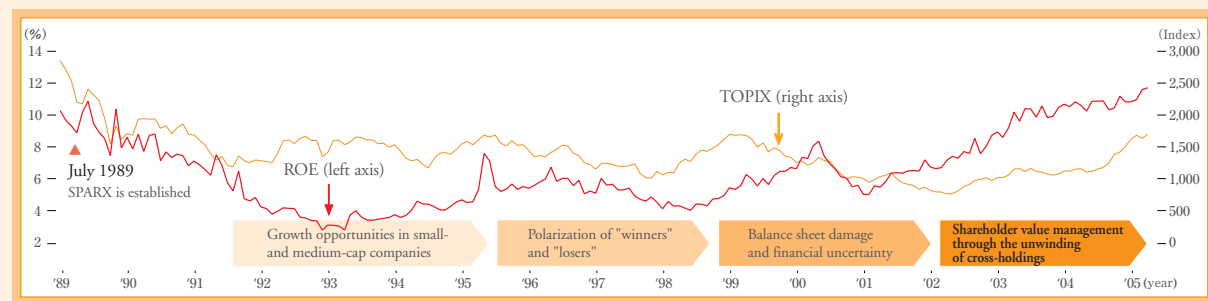
Change in the Governance Structure in Japan



Throughout its history, SPARX has expounded the investment hypothesis of a shift in Japan's socioeconomic system from a government-and-bureaucracy-driven system to a market-driven system. SPARX's basic business concept is to take advantage of this change in the socioeconomic system and provide optimal investment strategies.

When SPARX was founded, we invested primarily in over-the-counter small- and medium-cap stocks. The reason for this approach was that the impact of government and bureaucracy protection and regulation on small- and medium-cap companies is relatively small, and we believed that the next generation of growth companies would emerge from among these companies. At that time, nearly no other asset management firms invested in small- and medium-cap stocks or rigorously engaged in bottom-up research, and only a few pursued direct research with such companies. SPARX, however, placed importance on more deeply understanding the actual circumstances of companies by visiting them and talking directly with management. This is because we recognized that at small- and medium-cap companies the influence of management is powerful, and it is impossible to comprehend actual circumstances without directly approaching management. By implementing this research technique company-wide, we have established a high-quality bottom-up research method.

The Power to Implement Investment Strategies



Note: ROE is based on the IBES 12-month forecast.

Source: IBES, MSCI, Morgan Stanley Research and Bloomberg (as of March 2006)

quality of earnings, market growth potential, and management strategy. On that basis, we forecast the future earnings and other aspects of the companies we research and evaluate share value from the point of view of the actual circumstances affecting companies.

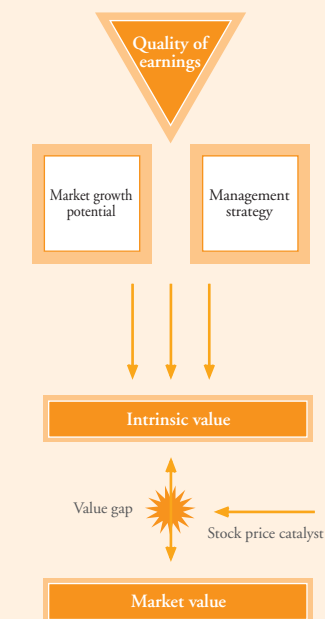
When that value has not been reflected in day-to-day stock prices, we regard the value gap that exists between market value and actual value as an investment opportunity. However, it is not sufficient merely to discover a value gap; it is important to examine whether a catalyst to eliminate the gap exists. After clearly ascertaining whether such a catalyst exists, we make an investment decision.

From the second half of the 1990s onward, SPARX has paid attention to the phenomenon of a "separation of winners and losers" that has occurred in the market. With the aim of producing stable returns regardless of the overall market direction by simultaneously taking long and short stock positions, we launched the "Long-Short Strategy" for Japanese equities. In addition, we adopted and implemented the "Strategic Investment Strategy", which involves making focused investments of large sums in companies that can seize the next growth opportunity, even companies among the "losers." Thinking that a separation of winners and losers was also occurring in the market for large-cap stocks, we launched the "Active Strategy", which covers all listed companies. In January 2003, we launched the "Value Creation Investment Strategy" with funds from The California Public Employees' Retirement System (CalPERS) with the objective of taking advantage of changes to the corporate governance structure that have come about from the unwinding of bank cross-holdings. We plan to deploy the investment strategies developed for Japanese equities in the greater Asian region. In addition to the existing "Multi-Manager Alternative Investment Strategy" and investment in South Korean equities, we would like to make use of the expanded range of investment vehicles encompassing the entire Asian region made available through the acquisition of PMA. We believe these will satisfy the needs of a broad client base.

Number of Company Meetings Made by SPARX Fund Managers and Analysts

	Year ended March 2005	Year ended March 2006
Total number of investment research projects	3,949	4,764
Analysts	2,523	1,692
Fund managers	1,426	3,072

The SPARX Investment Process



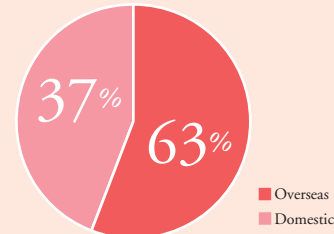
Global Network

Global Network

Global Development of the SPARX Group



Percentage of Assets Under Management Contributed by Domestic and Overseas Clients (As of March 31, 2006)



SPARX currently engages in marketing activities directed at overseas clients in five overseas countries and regions. The first overseas business base was created in Hawaii, where in July 1994, SPARX Investment & Research, USA, Inc. was established for marketing activities in the U.S. In October 2002, SPARX Investment & Research, USA, Inc. moved to New York in order to promote marketing activities and engage in the investment advisory business in the U.S.

In August 2004, SPARX Asset Management International, Ltd. began operations in London, where it has delivered solid results in providing services to existing clients in the European region and acquiring new clients.

To actively pursue business expansion in the Asian region, in February 2005, SPARX acquired a majority of the shares of South

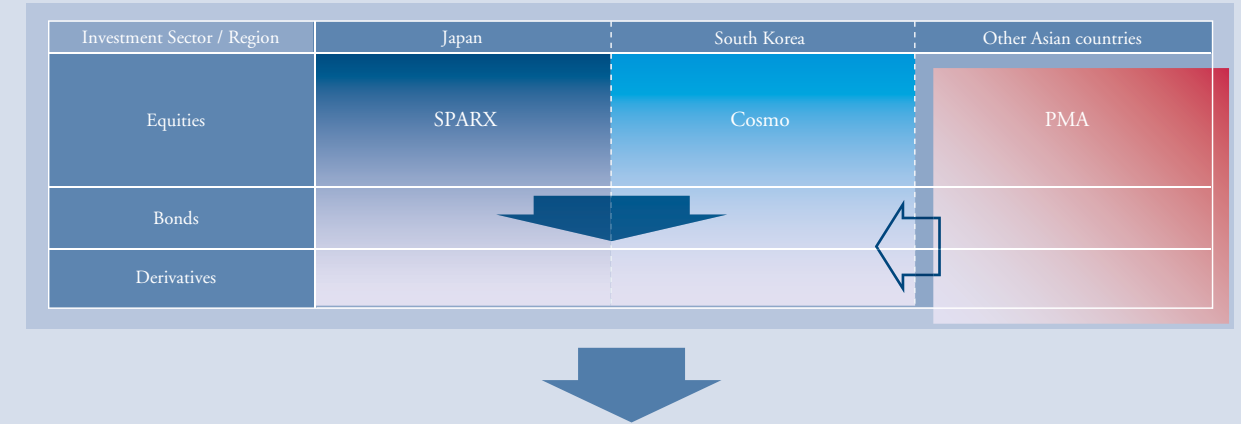
Korean investment company Cosmo Investment Management Co., Ltd., and in August 2005, opened subsidiary SPARX International (Hong Kong) Limited in Hong Kong to engage in the trading and operation of offshore funds. In April 2006, SPARX entered into a basic agreement to acquire all shares of PMA Capital Management Limited, which has the largest-scale alternative assets under management in the Asian region outside of Japan.

SPARX aims to construct a network that can provide the finest investment intelligence in the Asian region by sharing, throughout the Group, the investment methods and expertise SPARX has developed over the years and enabling Group companies to draw on one another's strengths. SPARX also intends to further strengthen its rigorous Group-wide compliance and highly transparent management structure.

Growth Strategy

Growth Strategy

The SPARX Group's Business Domain



Become the center of Asian investment intelligence

SPARX believes that the greatest investment opportunities in the world exist in the Asian region centered on Japan. Especially high market expansion is anticipated in the Asia outside of Japan as countries in the region develop not only as producing countries, but also as consuming countries.

SPARX has actively engaged in investment activities in Asia to pursue its ambitious investment goals and to secure new investment opportunities. Cosmo, which became a subsidiary last year, achieved a greater than expected increase in its balance of assets under management. This success was a strong indication that SPARX can successfully apply its management style elsewhere in the region.

Following the Cosmo investment, the acquisition of a 100% stake in PMA has made possible the opportunity for full-scale entry into the

investment business in the Asia outside of Japan. By means of this acquisition, SPARX intends to realize the construction of an investment platform to encompass all of Asia and achieve its long-term aim of providing investment intelligence content about Asia for global investors.

SPARX will actively leverage its combined knowledge of alternative investments with PMA, utilize its investment structure and research network, and expand its choice of investment vehicles throughout Asia. SPARX will also provide wide-ranging investment content through the sharing of investment services.

SPARX aims to transform itself from a specialist in Japanese equities into a specialist in Asian equities and become an investment company that plays a major role in the dissemination of Asian investment intelligence.

Consolidated Financial Statements



Financial Section

Consolidated Balance Sheets (Thousands of yen)

	Prior Period (As of March 31, 2005)	Current Period (As of March 31, 2006)
1 Assets		
Current assets	30,507,472	38,737,407
Cash and cash equivalents	26,955,593	22,113,974
Accrued investment trust management fees	764,825	1,013,814
Accrued investment advisory fees	1,539,450	5,222,872
Marketable securities	—	3,499,001
Investment securities	—	3,880,294
Accrued revenue	630,827	1,011,542
Prepaid expenses	100,130	130,100
Deposits	200,000	948,000
Deferred tax assets	293,651	825,383
Other current assets	22,992	92,425
Fixed assets	5,311,431	18,700,486
Tangible fixed assets	430,517	686,231
Intangible fixed assets	419,999	402,765
Investments and other assets	4,460,914	17,611,488
Total Assets	35,818,903	57,437,894
2 Liabilities		
Current liabilities	2,588,746	9,490,298
Accrued payables	748,037	3,332,152
Accrued income taxes	1,630,155	5,517,034
Other current liabilities	210,552	641,111
Long-term liabilities	246,579	6,209,748
Corporate bond	—	5,000,000
Deferred tax liabilities, non-current	246,579	1,209,748
Statutory reserves	49	49
Reserve for securities trading liabilities	49	49
Total liabilities	2,835,374	15,700,096
Minority Interests		
Minority interests	152,216	748,686
3 Shareholders' Equity		
Common stock	11,341,618	11,619,418
Additional paid-in capital	10,960,453	11,239,281
Retained earnings	12,014,105	19,369,969
Net unrealized appreciation (depreciation) on investment securities	216,776	1,797,472
Cumulative translation adjustments	(198,364)	(33,868)
Common stock in treasury at cost	(1,503,276)	(3,003,162)
Total shareholders' equity	32,831,313	40,989,112
Total Liabilities, Minority Interests and Shareholders' Equity	35,818,903	57,437,894

1 Assets

Current assets increased by ¥8,229 million from the previous period to ¥38,737 million. The increase was primarily due to factors including increases in trade receivables attendant on higher operating revenues, and in investments in operational investment securities. Fixed assets increased by ¥13,389 million to ¥18,700 million, mainly due to inflow into the Group's funds.

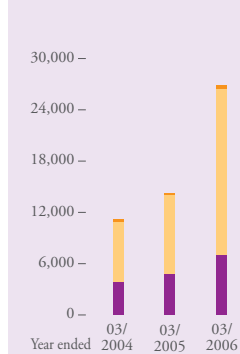
2 Liabilities

Total liabilities increased by ¥12,864 million from the previous period to ¥15,700 million. The increase was primarily due to an increase of ¥5,000 million in a corporate bond and an increase of ¥3,886 million in accrued income taxes.

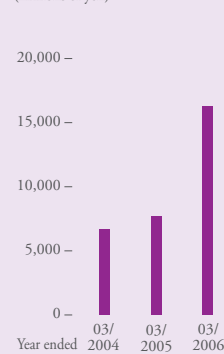
3 Shareholders' Equity

Shareholders' equity increased by ¥8,157 million from the previous period to ¥40,989 million. The increase was primarily due to an increase of ¥7,355 million in retained earnings owing to the accumulation of net income.

Revenues (millions of yen)



Ordinary Income (millions of yen)



■ Investment trust management fees
■ Investment advisory fees
■ Others

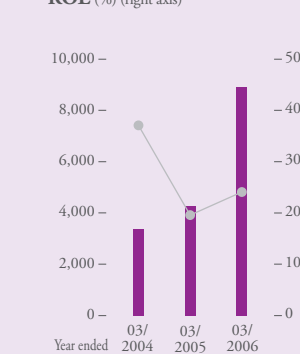
Financial Section



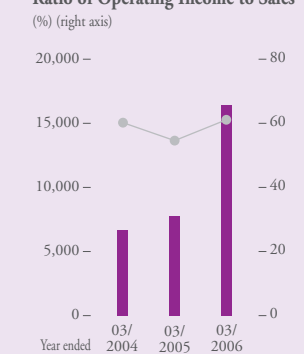
Consolidated Statements of Income (Thousands of yen)

	Prior Period (Year ended March 31, 2005)	Current Period (Year ended March 31, 2006)
4 Revenues	14,277,789	26,863,889
5 Operating expenses	2,066,972	3,486,830
6 General and administrative expenses	4,420,266	6,975,191
Operating income	7,790,550	16,401,867
Non-operating income	31,507	65,902
Non-operating expenses	151,303	187,295
Ordinary income	7,670,754	16,280,475
Extraordinary gains	30,996	12,711
Extraordinary losses	64,011	14,337
Net income before income taxes and minority interests	7,637,738	16,278,849
Income taxes-current and Income taxes-deferred	3,229,588	6,515,902
Minority interests in income of consolidated subsidiaries	143,851	868,722
Net income	4,264,298	8,894,224

Net Income (millions of yen) (left axis) ROE (%) (right axis)



Operating Income (millions of yen) (left axis) Ratio of Operating Income to Sales (%) (right axis)



Shareholders' Equity (millions of yen) (left axis) Equity Ratio (%) (right axis)



4 Revenues

Operating revenues are broadly divided into management fees and performance fees. During the year ended March 31, 2006, revenues from both sources developed favorably: management fees rose by 58.0% from the previous period to ¥12,582 million due to a sharp increase in the balance of assets under management. Performance fees jumped sharply by 129.0% to ¥13,764 million owing to excellent investment performance underpinned by a surge in the stock market.

5 Operating Expenses

Operating expenses increased by 68.7% from the previous period to ¥3,486 million owing to an increase in charges and commissions paid to distributors selling publicly offered investment trusts. These payments are part of our active marketing.

6 General and Administrative Expenses

General and administrative expenses increased by 57.8% from the previous period to ¥6,975 million as a result of an increase in employment costs primarily attributable to staffing increases attendant on business expansion and an increase in performance bonuses paid on favorable business performance.



Financial Section

Consolidated Statements of Retained Earnings (Thousands of yen)

	Prior Period (Year ended March 31, 2005)	Current Period (Year ended March 31, 2006)
Additional Paid-in Capital		
Balance at beginning of year	1,180,861	10,960,453
Increase in capital surplus	9,779,592	278,828
Balance at end of year	10,960,453	11,239,281
Retained Earnings		
Balance at beginning of year	8,387,865	12,014,105
Increase in retained earnings	4,264,298	8,894,224
Decrease in retained earnings	638,059	1,538,360
Balance at end of year	12,014,105	19,369,969

Consolidated Statements of Cash Flows (Thousands of yen)

	Prior Period (Year ended March 31, 2005)	Current Period (Year ended March 31, 2006)
7 Cash flows from operating activities	2,271,300	6,958,324
8 Cash flows from investing activities	(257,051)	(14,560,889)
9 Cash flows from financing activities	18,030,189	2,552,700
Effect of exchange rate changes on cash and cash equivalents	(53,190)	208,244
Net change in cash and cash equivalents	19,991,247	(4,841,619)
Cash and cash equivalents at beginning of year	6,964,346	26,955,593
Cash and cash equivalents at end of year	26,955,593	22,113,974

7 Cash Flows from Operating Activities

Net cash provided by operating activities increased by ¥4,687 million from the previous period to ¥6,958 million. The increase was due to an increase in net income as a result of favorable business performance.

8 Cash Flows from Investing Activities

Net cash used in investing activities increased by ¥14,303 million from the previous period to ¥14,560 million. The increase was due to payments for investments of ¥10,541 million in the Group's funds and Asian equities.

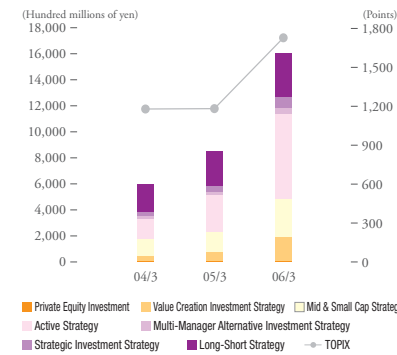
9 Cash Flows from Financing Activities

Net cash provided by financing activities decreased by ¥15,477 million from the previous period to ¥2,552 million. The decrease was due to a lower amount of bond issuance this fiscal year than that of equity offering in the previous period. It also reflects the payment of ¥485 million in interim dividends, and an increase of about ¥500 million in payments for purchases of treasury stock to ¥1,499 million.

AUM (Assets Under Management) Data

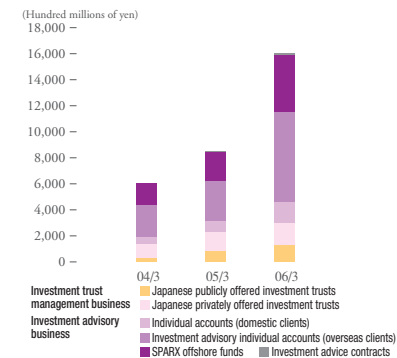


AUM Data (Excluding Cosmo)



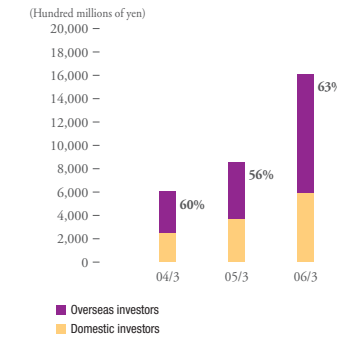
AUM Balance by Investment Strategy

Supported by a favorable stock market environment as indicated by a 46.2% increase in the TOPIX from the end of the previous fiscal year, SPARX's AUM balance increased by 88.3% year on year. The increases in the Active Strategy and Mid & Small Cap Strategy funds were particularly notable.



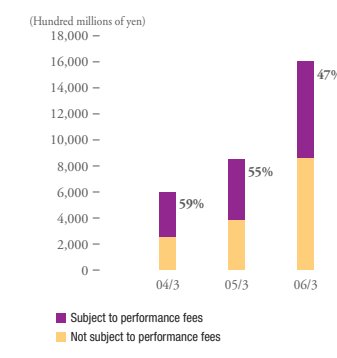
AUM Balance by Contract Type

SPARX offshore funds are funds established by SPARX's overseas subsidiaries. In the fiscal year ended March 2006, AUM at Japanese publicly offered investment funds increased sharply by 47.3%, and the balance of AUM rose to ¥123.6 billion.



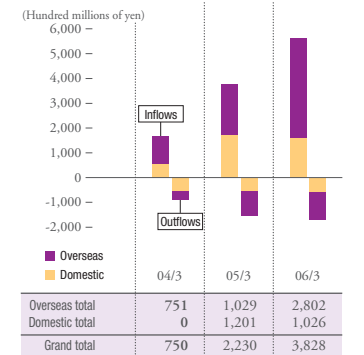
Percentage of AUM Contributed by Overseas Investors

This graph indicates the proportion of AUM entrusted to SPARX by overseas clients. For the past three years, more than half of the capital has been invested by overseas clients. This indicates the globally balanced composition of SPARX's client base.



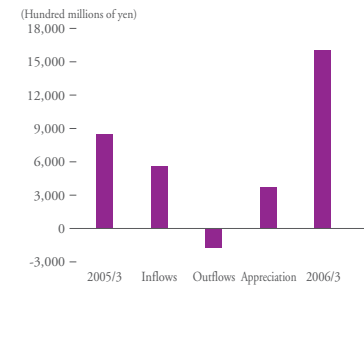
Percentage of AUM Subject to Performance Fees

This ratio indicates the proportion of current AUM to which performance fee contracts apply. In the fiscal year ended March 2006, the ratio fell to 47% owing to relatively large increases in AUM in the Active Strategy and Mid & Small Cap Strategy funds.



Fund Inflows and Outflows from Domestic and Overseas Sources

SPARX experienced powerful inflows of funds from overseas clients. Capital inflows from European clients and from the Middle East, including oil money, were particularly prominent. Total capital inflow reached a record high.



Funds Inflows and Outflows

SPARX recorded net increases in funds of ¥382.8 billion and the appreciation of ¥371 billion. The net inflow into the Active Strategy and Mid & Small Cap Strategy funds accounted for a particularly large proportion of the increase.

Note: The portion of figures for AUM for March 2006 are left as preliminary.

Stock Information



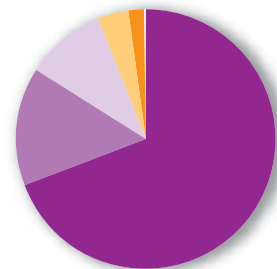
Investor Information

[Share-related Information]

(As of March 31, 2006)

Number of shares issued	1,005,170 shares
Number of shareholders	28,496
Trading unit	1 share

[Shareholder Composition]



Individuals and others	69.20%
Other corporations	14.74%
Foreigners	10.04%
Financial institutions	3.85%
Treasury stock	1.94%
Securities companies	0.23%

Note:
As of March 31, 2006 the Company owned 19,505.8 shares of treasury stock that is not included in the figures for the major shareholders stated at left.

[Major Shareholders]

Shareholders	Number of shares held	Percentage of voting rights
Shuhei Abe	429,382.4	43.56%
Abe Capital Co.	128,000.0	12.99
Citigroup Global Markets Inc.	18,917.0	1.92
The Bank of New York Jasdic Treaty Account	16,646.0	1.69
Japan Trustee Services Bank, Ltd. (trust account)	16,504.0	1.67
Katsuhisa Aga	13,713.6	1.39
JAPAN SECURITIES FINANCE CO., LTD.	12,091.0	1.23
Tomoko Abe	8,533.6	0.87
Investors Bank and Trust Company	6,653.0	0.67
Masatoshi Fukami	6,160.0	0.62

[Shareholders' Memo]

Fiscal year-end	March 31	Administrative agent for shareholders' list	The Chuo Mitsui Trust and Banking Company, Limited 3-33-1 Shiba, Minato-ku, Tokyo
Ordinary general meeting of shareholders	June	Transfer agent handling office	The Chuo Mitsui Trust and Banking Company, Limited Stock Transfer Agency Department (Stock Transfer Operation Center) 2-8-4 Izumi, Suginami-ku, Tokyo
Record date	March 31	Intermediating transfer offices	The Chuo Mitsui Trust and Banking Company, Limited branch offices JAPAN SECURITIES AGENTS, LTD. head office and branch offices
Methods of public notice	SPARX Asset Management Co., Ltd publishes public announcements on its company website, http://www.sparx.co.jp . In case of a website malfunction, such information will be published in The Nihon Keizai Shinbun.		
Stock listing	JASDAQ		
Code number	8739		

Corporate Profile



Corporate Data (As of March 31, 2006)

Company name	SPARX Asset Management Co., Ltd.
Head office	Gate City Osaki, 1-11-2 Osaki, Shinagawa-ku, Tokyo
Date of establishment	July 1, 1989
Capitalization	¥11,619.41 million
Number of group employees	201
Principal business activities	Japanese equities discretionary investment management business activities, investment advisory business activities, and investment trust management business activities directed at Japanese and foreign investors on the basis of investment advisor business registration, a discretionary investment management business license, and securities investment trust management business authorization in Japan.
Consolidated subsidiaries	<p>SPARX Investment & Research, USA, Inc. (United States)</p> <p>SPARX Global Strategies, Inc. (United States)</p> <p>SPARX Overseas Ltd. (Bermuda Islands)</p> <p>SPARX Securities Co., Ltd. (Japan)</p> <p>SPARX Value GP, LLC (United States)</p> <p>SPARX Asset Management International, Ltd. (United Kingdom)</p> <p>SPARX Securities, USA, LLC (United States)</p> <p>SPARX International, Ltd. (United Kingdom)</p> <p>Cosmo Investment Management Co., Ltd. (South Korea)</p> <p>SPARX International (Hong Kong) Limited (Hong Kong)</p> <p>Fairchild Advisors Limited (Cayman Islands)</p> <p>SPARX Capital Partners Co., Ltd. (Japan)</p> <p>SPARX Finance S.A. (Switzerland)</p>

Board of Directors, Corporate Auditors and Group Corporate Officers (as of June 23, 2006)

President & CEO	Shuhei Abe
Director	Toru Murayama
Director	Naotaka Murasumi
Director	Tadashi Yanai
Director	Yogo Kimura
Full-time Corporate Auditor	Toshiyuki Furukawa
Corporate Auditor	Masao Sato
Corporate Auditor	Soichiro Matsuda
Corporate Auditor	Minoru Koyama
Executive Officer/Global Officer	Kenzo Kosuda
Executive Officer/Global Officer	Jitsuo Tatsuno
Executive Officer/Global Officer	Shoichi Miyasaka
Executive Officer/Global Officer	Takeshi Suzuki
Executive Officer/Global Officer	Masaki Taniguchi
Subsidiary Company President/Global Officer	Mikiro Shimizu
Subsidiary Company President/Global Officer	Masatoshi Fukami
Subsidiary Company President/Global Officer	Shinji Naito
Subsidiary Company President/Global Officer	Taichi Wakabayashi



SPARX Asset Management Co., Ltd.
<http://www.sparxgroup.com>