

SPARX

S P A R X
C O M P A N Y
R E P O R T

Vol. **4**

[Apr.1 2007-Mar.31 2008]





SPARX Group (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.”

Aggressive

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.

Responsive

We will always act with speed and precision, reflecting our belief that alertness and agility are the best ways to deal with change.

Thorough

We will always act with discernment and care, reflecting our belief that innovative knowledge is created when one is meticulous and complete.

Sympathetic

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.

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

In the fiscal year ended March 31, 2008, the business environment was extremely challenging. The subprime loan crisis in the U.S in the summer of 2007 brought worldwide tumult to the financial markets, and Japanese stock prices fell sharply. Under these circumstances, business development in Asia outside of Japan proved to be an effective strategy for us.

While equity markets declined in developed countries, the fall in Japanese equity prices was especially conspicuous. Due to adverse circumstances of credit contraction, overseas investors withdrew funds from the Japanese market, and SPARX experienced a capital outflow from some clients.

However, significantly improved business performance on the part of South Korean investment company Cosmo Investment Management Co., Ltd. (Cosmo) helped SPARX to compensate for this slump. In 2005, SPARX took an equity stake in Cosmo as the first step toward the establishment of a Center for Asia Investment Intelligence.

Also, the assets under management (“AUM”) of the NIKKO SPARX Asia & Middle East Equity Fund, an investment trust we established by taking advantage of the Asian investment capabilities of PMA Capital Management in Hong Kong, exceeded ¥70,000 million, and we launched three new investment trusts in the U.S. These achievements mean that we took a solid first step toward becoming the most trusted guide to Asian investments.

To sum up, it was a year in which we once again saw the importance of business diversification based on a solid management direction.

Although the business environment will continue to be difficult, I believe Japan has become extremely attractive for medium-term and long-term investors. Our country has close geographical and cultural ties to the fast-growing markets of Asia. Also, due to last year’s sharp fall in Japanese equity prices, many Japanese companies have become comparatively inexpensive troves of business value.

As global business structures continue to change, new opportunities will arise. We will accurately ascertain these opportunities and link them to future growth.

In the fiscal year ending March 31, 2009, I intend to redouble my efforts as CEO and open the way for SPARX to become the most trusted and respected investment company in the world. I request your continued support in the coming years.

President & CEO Shuhei Abe

An Interview with the President



Q1. Please describe the business environment during the previous fiscal year, including market trends and your assessment of SPARX's business performance.

When the subprime loan crisis surfaced in the U.S. in August of 2007, the world's financial markets underwent a major shock. The decline in Japan's equity markets was especially conspicuous. Concerns over a worldwide credit contraction fuelled economic uncertainty, and I think that fear of a worldwide financial panic amplified the tumult in the financial markets, and, in a vicious circle, that begat more anxiety about the global economy.

If we analyze the fundamentals in Japan, I think that problems unique to the country increased the magnitude of the correction in Japanese equities. From 2007 into 2008, deflationary policies were adopted in the government's monetary, fiscal and regulatory policies, such as the

Bank of Japan's termination of its quantitative easing and "zero interest rates," the phasing out of stimulatory income tax cuts, and the revision of Japan's Building Standards Law, which drastically lengthened the approval process for new buildings. These measures suppressed economic activity. I also think that former Prime Minister Shinzo Abe Cabinet's sudden resignation in September of 2007 and the subsequent malfunctioning of government weakened the confidence of consumers and investors, and thereby helped push Japanese equity prices lower. The worldwide trend of investor risk avoidance and credit contraction, as well as falling Japanese stock prices, led SPARX's AUM to decrease substantially.

However, there were also positive developments. From 2005 onward, when SPARX's business performance and Japan's equity markets were buoyant, we acquired Cosmo in South Korea and PMA in Hong Kong as part of our management strategy to expand into Asia outside of Japan.

We have also reinforced our fund-of-funds business using Hong Kong as our base, and moved forward with a shift from a business model specializing in Japanese stocks to a one involving a regional network built by expanding into continental Asia. These initiatives have gradually begun to bear fruit; notably, the robust growth of Cosmo last year contributed

greatly to our overall business performance.

As a result, in the year ended March 31, 2008, amid an overall sharp decline in Japanese equity AUM, SPARX achieved business performance on a par with the previous year. It was a year in which we once again saw the importance of not relying on a single business, but instead diversifying carefully on the basis of a solid strategy.

The future direction of the external business environment defies prediction. Yet, it is probably true that from a global perspective Japan's equity market has become comparatively very inexpensive as a result of the decline in equity prices since last year.

Also, on the foreign exchange market, the yen depreciation seen over the past few years has stopped; instead the yen has been pushed upward due to a weakening dollar. I believe the world's financial markets are undergoing a major shift: from a unipolar global economic structure centered on the U.S. toward a multipolar structure in which North America, Europe, Asia and the Middle East construct their own economic foundations.

The yen, which has historically been undervalued on a real effective rate basis, has come under re-examination. We think that investors will next take a second look at Japanese stocks, which are undervalued on a historical and

global comparative basis. We will stay alert to such changes in the global economic structure and to investment opportunities arising in the undervalued Japanese market, and link those changes and opportunities to future growth.

Q2. What impact did the subprime loan crisis have on business performance?

The subprime loan crisis was a bubble directly linked to U.S. home prices and adjustment problems in a rapidly expanding U.S. mortgage market. The crisis triggered rapid contraction of the credit creation function in financial markets, which had been expanding for the past four to five years. As a result of this global flight toward liquidity, Japanese equity prices fell sharply.

With regard to the impact on our business performance, the declining prices of Japanese stocks and the risk avoidance of investors led to redemptions that, in turn, caused a decrease in Japanese equities AUM. In circumstances in which supply and demand factors control the market in this way, valuation based on bottom-up analysis of fundamentals loses its significance. As a result, it became more difficult for us to secure additional earnings from performance fees.

Nevertheless, there has been an increase in the number of companies whose share prices

can be considered as having fallen sharply below their fundamental value. For this reason, I think that the Japanese equity market offers attractive investment opportunities over the medium-term to long-term.

Q3. Last year, the Bull-Dog Sauce Co. judicial precedent and the expanded introduction of anti-takeover defenses in Japan fuelled criticism of aggressive investor activities. What is your view on this?

I share the feeling of other investors that the Bull-Dog Sauce judicial precedent is extremely regrettable. It is very disturbing that the Japanese judiciary condemned an investor as "abusive" with respect to rules that the capital market should decide. If an investor is to be labeled "abusive," the responsibility of the company that failed to effectively utilize shareholder capital—a management resource—for many years should be mentioned as well in the same breath. Otherwise, it isn't fair.

Taking Bull-Dog Sauce as an example,

“ The expansion of our Asian network contributed greatly to revenues. ”

I think the inability of the judiciary to take Japanese public opinion into consideration is one reason for this precedent. The corporate managers are by no means lazy; the problem is that they got away with not paying attention to capital cost and capital efficiency.

When the return on capital raised on the stock market is low, it means nothing less than that the precious money of individual investors is being used wastefully. To ensure effective utilization of capital, I think we investors have a duty as market spokesmen to promote corporate value enhancement.

After the economic bubble burst, the cross-holding ratios of Japanese corporations rapidly decreased as companies began selling their shares they held in other companies. Yet, in many cases, managers have been unable to adapt to a new era in which the type of stable shareholder structure created by cross-holding is no longer viable. Managers are now in a situation where they need to constantly reflect on what is best for shareholders, and perform accordingly. However, I think many are incapable of con-

cretely connecting the market's demands for capital efficiency with day-to-day management.

No one wants to experience drastic change. I think that a psychological rejection of sudden change with an unknown outcome prompted more companies to introduce anti-takeover defenses. However, the directions of companies and investors are not opposed in every respect. I would like to increase corporate value over time by creating a succession of win-win relationship success stories in which both the timeframes of traders, who seek short-term gain in share prices, and the more long-term timeframes of managers are considered.

Q4. SPARX attracted attention with the management integrations of HOYA and Pentax and JVC and Kenwood. What are the reasons for SPARX's success as "a shareholder that speaks out?"

Let's take Pentax as an example. Pentax has three core businesses: cameras, optical components and medical equipment, principally endoscopes. Optical technologies such as these are a field in which Japan has a global competitive advantage, and in which Pentax enjoys an excellent reputation for its technological capabilities. Nevertheless, its camera business has been eroded by the growth

of rivals, such as Canon. In the medical field, Olympus, Pentax, and Fuji Film nearly monopolize the world market, yet when one considers Olympus' market share of about 70% and the overwhelming power of Fuji Film's parent company, it is clear that Pentax is likely to find itself in the weakest position in the future.

In our view, the only way for Pentax to survive was to do business with a partner of capital strength, earning power, global marketing capabilities and a strong balance sheet, and with which business synergies could be expected while the Pentax brand remained strong. Although I think that, as a rule, shareholders should step to the fore only infrequently, I believe that to ignore a state of high risk to shareholder value is to fail to act responsibly as the largest shareholder. In the case of Pentax, SPARX acted as "a shareholder that speaks out."

When acting as a representative of the market, we must constantly consider what should be protected. The fact is, companies belong to their shareholders, but they do not exist thanks to shareholders alone. Pentax, for instance, has 5,700 employees and 20 million customers worldwide. Surely what deserves protection goes beyond the current management team or a limited group of shareholders. If Pentax does not at this time take tough decisions, employees

who should have a future at Pentax for the next decade may lose their jobs. Those using Pentax products around the world will be inconvenienced as well. In my view, it is those employees and customers who should be protected. From that perspective, I think that the reason we succeeded was that we patiently continued our dialog with the company's stakeholders.

Q5. Considering the adverse operating environment, did you implement any change in the management system?

We think that the world economy and financial markets have entered a major transition phase triggered by the subprime loan crisis. In the midst of this major transformation, we will be required to accurately assess the impacts of change and act promptly. To that end, we changed to a management system that clearly defines responsibility and authority for each business group.

Specifically, we divided the organization into a number of groups, each with its own specific focus. The respective focus areas are:

- * corporate value creation and management of focused investments
- * Long-Short and Long-Only investment strategies for Japanese equities
- * domestic and overseas investment trusts

- * one-on-one consulting solutions for clients
- * the fund-of-funds business
- * investment in the Asia region (excluding Japan)
- * middle office and back office functions
- * the SPARX Group overall

The leader of each business group has management responsibility. By giving managers responsibility and authority for each business area in this way, we seek to create a structure for decision making and action that is highly responsive to changes in the external environment and that stimulates further growth in the coming years.

Q6. How do you plan to focus management resources as you develop the business?

We are progressing step by step toward the objective of reaching ¥5 trillion in AUM in fiscal 2010 while coping with change in the operating environment. As we advance toward that goal, in fiscal 2008 we will focus on three points: 1) recovery in Japanese equity investment management, and in particular reinforcement and expansion of corporate value creation and management of focused investments; 2) reinforcement and expansion of the investment trust fund global network and its AUM; and 3) reinforcement of a network to achieve deeper penetration into Asian

markets that offer prospects for medium-term to long-term growth.

First of all, regarding the recovery of Japanese equity investment management and the reinforcement and expansion of corporate value creation and management of focused investments, since last year there has been a marked increase in the number of Japanese companies whose share prices have fallen below their fundamental corporate value. This is due to the turmoil in the financial markets.

Also, Japanese companies have just transitioned from balance sheet adjustment to selection and focus-driven growth strategies, and we can expect to see ROE increases as old inefficiencies are improved upon. As this type of market environment should be attractive to investors, SPARX intends to approach sovereign wealth funds (SWFs), a new class of investor, and reinforce and expand corporate value creation and management of focused investment while reinforcing Long-Short and Long-Only investment strategies for Japanese equities.

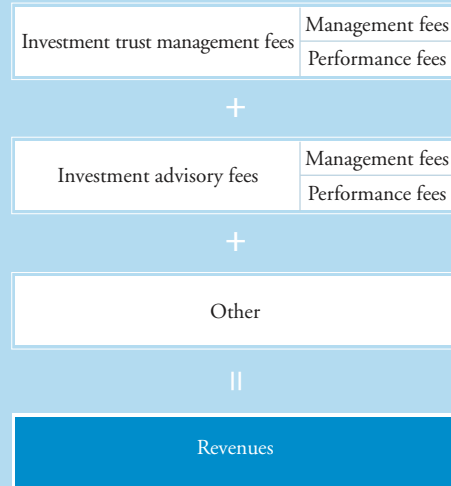
Next is reinforcement of the investment trust fund business. In Japan, a shift from saving to investment has just begun. Considering the fact that cash and deposits account for more than 50% of individual financial assets totaling more than ¥1,500 trillion, far and away the highest ratio among developed countries, we



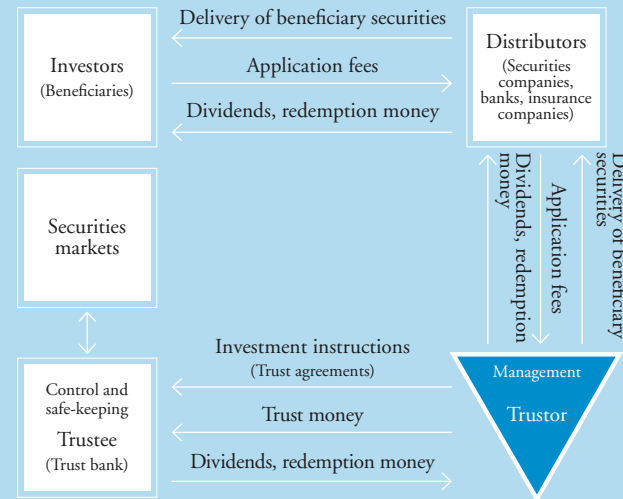
think that the investment market in Japan will expand in the medium-term to long-term. In the U.S. investment trust market, where AUM exceeds \$12 trillion, investment in Asian markets, including Japanese stocks, has just begun, and future growth is expected. Amid this expectation for worldwide expansion of the investment trust market, we will reinforce the investment trust business by leveraging the SPARX brand.

Finally, there is reinforcement of our network in Asian markets. Relatively robust growth has continued in Asia even since the subprime loan crisis unfolded in the U.S. last year. We think that a major reason for this growth is that Asia has begun to establish an independent economic power position due to population expansion and higher income levels. We intend to continue to reinforce our network in Asia to capture the investment opportunities that will arise amid this tremendous change, and provide those opportunities to clients in the form of investment intelligence.

Revenue Structure



Investment Trust (Contract Type) Structure (Note)



Business Model

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.

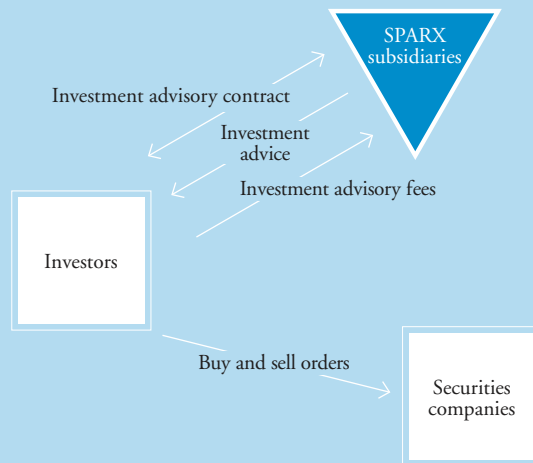
Investment Advisory Business

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).

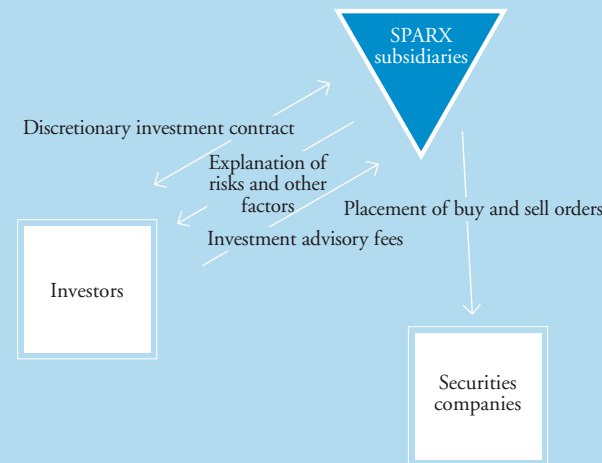
The investment advisory business can be further subdivided into two categories: investment advisory operations and discretionary investment management operations. In investment advisory operations, SPARX enters into investment advisory contracts with investors and provides investment advice in accordance 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 Capabilities — A Keen Eye for Current Opportunities

Throughout its history, SPARX has expounded the investment hypothesis based on 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.

In conducting bottom-up research, SPARX focuses on three points of view: 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.

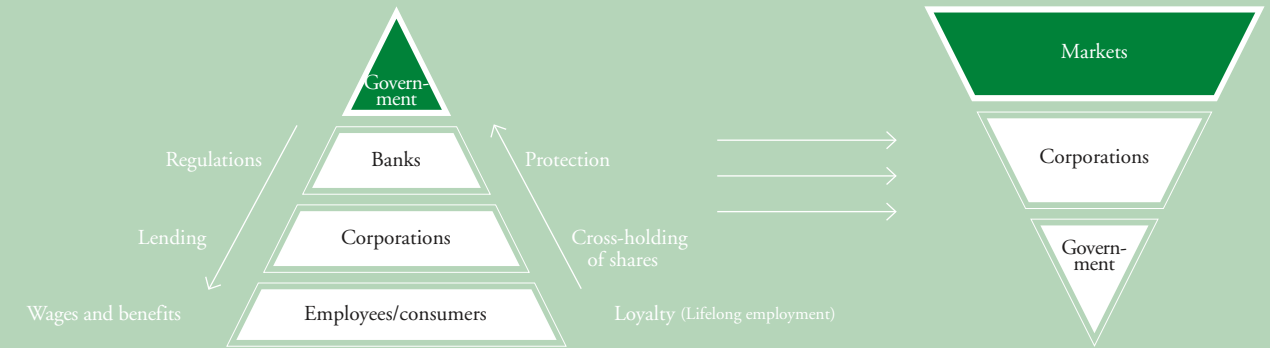
From the second half of the 1990s onward, SPARX has paid attention to the phenomenon of a "separation of winners and losers" that has occurred in the market. With the aim of producing stable returns regardless of the overall market direction by simultaneously taking long and short stock positions, we launched the Long-Short Strategy for Japanese equities.

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.

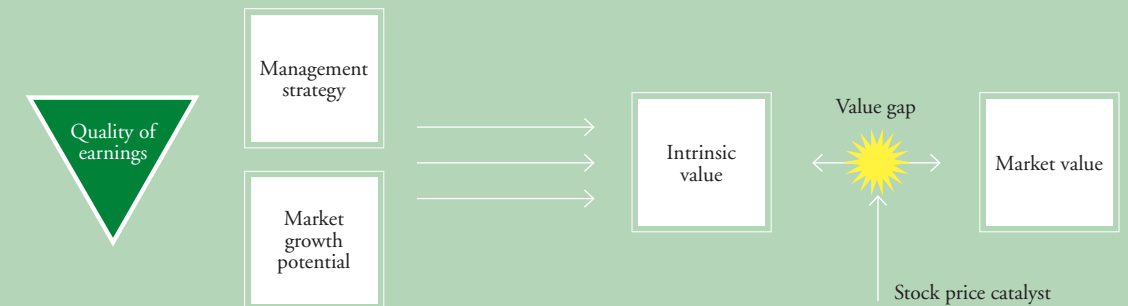
In addition, to capture new growth opportunities, we have launched and operate the Strategic Investment Strategy and Value Creation Investment Strategy. Both of these concentrate investment of large sums in companies whose enterprise value SPARX can aim to increase.

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.

Change in the Governance Structure of Japan



The SPARX Investment Process



Global Development of SPARX



Asia Investment Intelligence



Global Network

SPARX currently engages in marketing activities directed at overseas clients in five regions.

The first overseas business base, SPARX Investment & Research USA, Inc., was established in Hawaii in July 1994 for marketing activities in the U.S. SPARX also engages in offshore fund management and administration via SPARX Fund Services, Inc., established in January 1996.

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 invest-

ment 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 June 2006, SPARX acquired 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

SPARX believes that there are tremendous investment opportunities in the Asia region centered on Japan. Especially high market expansion is anticipated in the Asia region outside Japan as these countries develop not only as producers, but also as consumers.

SPARX has actively engaged in investment activities in the Asia region to maintain its high level of investment performance and to secure new opportunities. In the process of developing the business by making Cosmo Investment Management Co., Ltd. in South Korea and PMA Capital Management Ltd. in Hong Kong subsidiaries, SPARX received a strong indication that we can capitalize on the investment expertise that we have accumulated over the years in other Asian markets.

In the future, we aim to actively take advantage of the alternative investments that are PMA's strength, and utilize its investment structure and

research network to expand investment outlets to the greater Asia region. We also intend to provide investors with investment intelligence content for the entire Asia region by constructing an investment platform encompassing all of Asia and by offering common investment services.

SPARX aims to transform itself from a specialist in Japanese equities to a specialist in Asian equities, and become an investment company that plays a central role in Asian investment intelligence.

Financial Section

Financial Section

Consolidated Balance Sheets (Millions of yen)

	Prior Period (As of March 31, 2007)	Current Period (As of March 31, 2008)
1 Assets		
Current assets	37,245	33,176
Cash and cash equivalents	14,914	15,833
Accrued investment trust management fees	825	574
Accrued investment advisory fees	4,868	4,666
Marketable securities	3,623	257
Investment securities	8,772	6,153
Accrued revenue	294	3,821
Prepaid expenses	197	236
Deposits	2,896	714
Deferred tax assets	702	250
Other current assets	150	667
Fixed assets	43,970	40,880
Tangible fixed assets	836	650
Intangible fixed assets	25,154	22,058
Investments and other assets	17,979	18,171
Total assets	81,215	74,056

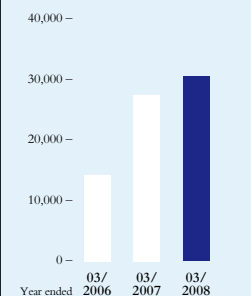
2 Liabilities

	Prior Period (As of March 31, 2007)	Current Period (As of March 31, 2008)
Current liabilities	10,213	10,607
Short-term bank loans	4,000	2,506
Long-term debt due within one year	—	2,000
Accrued payables	1,991	2,051
Accrued income taxes	2,850	3,235
Bonus payment reserve	—	323
Deferred income taxes	1,104	201
Other current liabilities	266	289
Long-term liabilities	18,403	15,828
Corporate bond	5,000	5,000
Long-term debt	12,000	10,000
Deferred tax liabilities, non-current	1,389	165
Goodwill	—	598
Other	13	63
Statutory reserves	0	0
Total liabilities	28,617	26,435

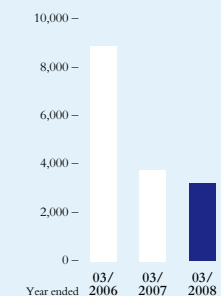
3 Net Assets

Shareholders' equity		
Common stock	11,806	12,144
Additional paid-in capital	13,692	14,030
Retained earnings	20,996	21,685
Common stock in treasury at cost	△2,438	△4,438
Total shareholders' equity	44,056	43,422
Accumulated gain (losses) from revaluation and translation adjustments		
Net unrealized appreciation (depreciation) on investment securities	2,390	40
Cumulative translation adjustments	2,908	1,037
Total accumulated gain (losses) from revaluation and translation adjustments	5,299	1,077
Treasury stock, at cost	—	45
Minority interests	3,243	3,075
Total net assets	52,598	47,621
Total liability and net assets	81,215	74,056

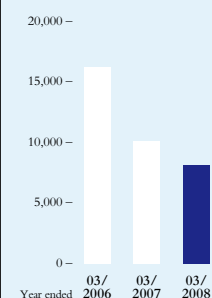
Operating Revenues (millions of yen)



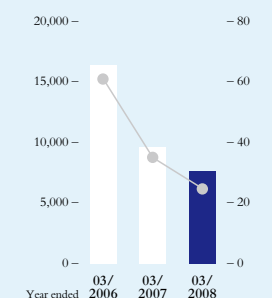
Net Income (millions of yen)



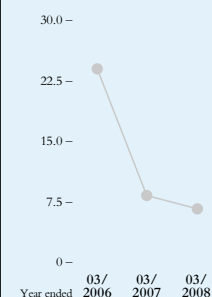
Ordinary Profit (millions of yen)



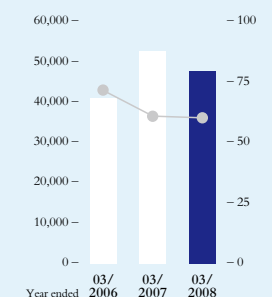
Recurring Profit (millions of yen, left axis) Ratio of Recurring Profit to Operating Revenues (right axis)



ROE (%)



Total Assets (millions of yen, left axis) Equity Ratio (% right axis)



Consolidated Statements of Income (Millions of yen)

	Prior Period (Year ended March 31, 2008)	Current Period (Year ended March 31, 2008)
4 Operating revenues	27,504	30,552
5 Operating expenses	3,969	4,228
6 General and administrative expenses	13,884	18,704
Operating profit	9,650	7,619
Non-operating income	799	1,331
Non-operating expenses	330	794
Recurring profit	10,119	8,157
Extraordinary gains	349	2,083
Extraordinary losses	191	1,078
Net income before income taxes and minority interests	10,277	9,162
Income taxes-current and income taxes-deferred	5,442	4,572
Minority interests in income of consolidated subsidiaries	1,055	1,375
Net profit	3,779	3,213

1 Assets

Assets decreased by ¥7,159 million year on year to ¥74,056 million. This was principally due to decreases of ¥3,365 million in marketable securities, ¥2,619 million in investment securities, ¥2,181 million in deposits, and ¥3,053 million in goodwill, which offset increases of ¥918 million in cash and cash equivalents and ¥3,527 million in accrued revenue.

2 Liabilities

Liabilities decreased by ¥2,181 million from the previous period to ¥26,435 million. The principal reasons for the change were decreases of ¥1,493 million in short-term bank loans and ¥1,223 million in deferred tax liabilities (non-current).

3 Total Assets

Total net assets decreased by ¥4,977 million year on year to ¥47,621 million. The principal reasons were decreases of ¥2,350 million in net unrealized appreciation on investment securities and ¥1,871 million in cumulative translation adjustments, and an increase of ¥1,999 million in common stock in treasury at cost.

4 Operating Revenues

Overall operating revenues increased by 11.1% year on year to ¥30,552 million. Although management fees decreased by 9.6% to ¥15,745 million, performance fees increased by 37.2% to ¥12,897 million and other revenues increased by 176.0% to ¥1,909 million.

5 Operating Expenses

Operating expenses increased by 6.5% year on year to ¥4,228 million, reflecting factors including an increase in commissions paid to distributors.

6 General and Administrative Expenses

General and administrative expenses increased by 34.7% to ¥18,704 million due to factors including higher employment costs, primarily attributable to staffing increases, and goodwill amortization resulting from the PMA acquisition.

Financial Section

Consolidated Statements of Changes in Net Assets (Millions of yen)

Year ended March 31, 2008	Shareholders' equity					Accumulated gains (losses) from revaluation and translation adjustments			Subscription rights	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other investment securities	Foreign currency translation adjustment	Total accumulated gains (losses) from revaluation and translation adjustments			
Balance at March 31, 2007	11,806	13,692	20,996	△2,438	44,056	2,390	2,908	5,299	—	3,243	52,598
Changes in the current fiscal year											
Issue of new share	338	338	—	—	676	—	—	—	—	—	676
Payment of retained earnings	—	—	△2,211	—	△2,211	—	—	—	—	—	△2,211
Adjustments of LLP dividends of prior periods	—	—	△313	—	△313	—	—	—	—	—	△313
Net income	—	—	3,213	—	3,213	—	—	—	—	—	3,213
Purchase of treasury stock	—	—	—	△1,999	△1,999	—	—	—	—	—	△1,999
Net change in the current fiscal year (excl. shareholders' equity)	—	—	—	—	—	△2,350	△1,871	△4,221	45	△167	△4,343
Net change in the current fiscal year	338	338	689	△1,999	△633	△2,350	△1,871	△4,221	45	△167	△4,977
Balance at March 31, 2008	12,144	14,030	21,685	△4,438	43,442	40	1,037	1,077	45	3,075	47,621

Consolidated Statements of Cash Flows (Millions of yen)

	Prior Period Year ended (March 31, 2008)	Current Period Year ended (March 31, 2008)
7 Cash flows from operating activities	△2,881	8,096
8 Cash flows from investing activities	△18,886	△433
9 Cash flows from financing activities	13,626	△5,159
Effect of exchange rate changes on cash and cash equivalents	941	△1,584
Net change in cash and cash equivalents	△7,200	918
Cash and cash equivalents at beginning of year	22,113	14,914
Cash and cash equivalents at end of year	14,914	15,833

7 Cash Flows from Operating Activities

Net cash provided by operating activities was ¥8,096 million, an increase in cash of ¥10,977 million year on year. This was mainly due to the recording of ¥9,162 million in net income before income taxes and minority interests, ¥2,772 million in goodwill amortization, and ¥4,129 million in proceeds from the sale of investment securities, as well as ¥1,730 million in gains on sales of trade investments ("eigyō yuka shoken"), ¥2,005 million in gains on the sales of investment securities, and ¥4,783 million in income taxes paid.

8 Cash Flows from Investing Activities

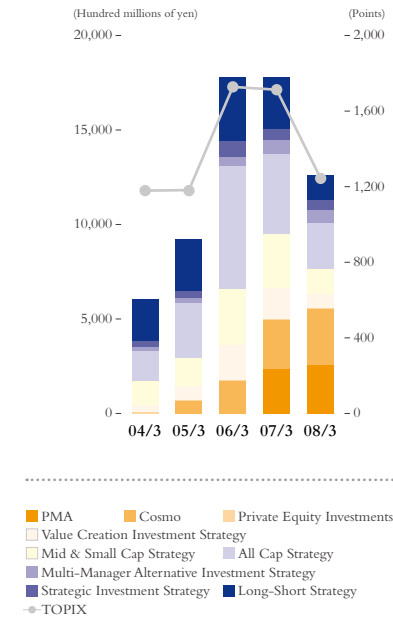
Net cash used in investing activities was ¥433 million, an increase of ¥18,453 million year on year. This was mainly due to ¥3,406 million in proceeds from the redemption of marketable securities, ¥6,684 million in proceeds from the sale and redemption of investment securities, and a reduction of ¥2,182 million in deposits for the acquisition of investment securities, which offset payments of ¥12,191 million for the acquisition of investment securities.

9 Cash Flows from Financing Activities

Net cash used in financing activities was ¥5,159 million, a decrease of ¥18,786 million year on year. This was mainly due to payments of ¥5,500 million for repayment of short-term bank loans, payments of ¥2,000 million for the acquisition of money held in trust, and ¥1,995 million in cash dividends paid, which offset proceeds of ¥4,007 million from short-term bank loans.

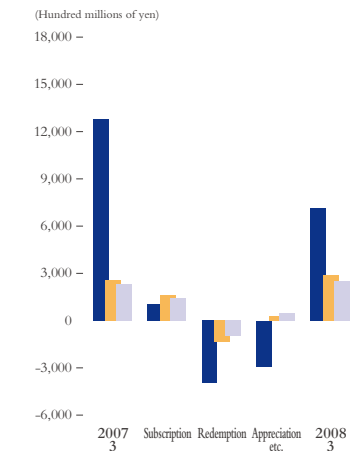
AUM Data

AUM Data



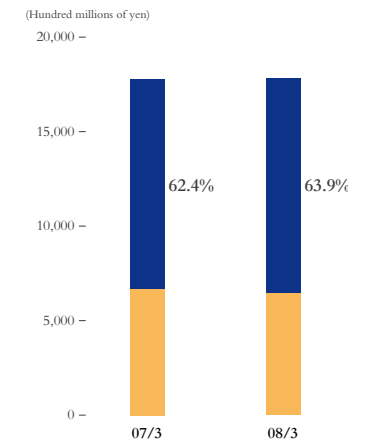
AUM Balance by Investment Strategy

In a stock market environment characterized by a year on year decrease of 27.5% in the Nikkei 225 stock average and of 29.2% in the TOPIX index of all shares traded on the first section of the Tokyo Stock Exchange, SPARX AUM fell by ¥5,134 million (28.9%) year on year.



Funds Inflows and Outflows

In the fiscal year ended on March 31, 2008, SPARX recorded a net outflow of funds of ¥2,054 million and a decrease of ¥3,079 million in appreciation and exchange gains and losses, etc.



Percentage of AUM Eligible to Earn Performance Fees

This ratio indicates the proportion of current AUM for which performance fee contracts apply. In the fiscal year ended on March 31, 2008, the ratio rose to 63.9% due to contributions from PMA and other Group companies.

Stock Information

Investor Information

▶▶ Share-related Information

(As of March 31, 2008)

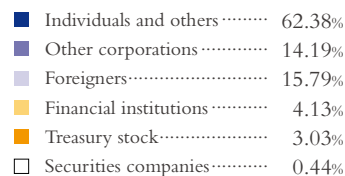
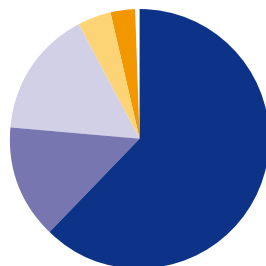
Number of shares issued	2,054,840 shares
Number of shareholders	23,290
Trading unit	1 share

▶▶ Major Shareholders

(As of March 31, 2008)

Shareholders	Number of shares held	Percentage of voting rights
Shuhei Abe	825,431.8	41.4%
Abe Capital Co.	256,000.0	12.8
Mitsui Asset Trust and Banking Company, Limited	49,000.0	2.5
The Bank of New York Jasic Treaty Account	38,582.0	1.9
Katsuhisa Aga	25,327.2	1.3
HSBC International Trustee GWS	23,053.0	1.2
Northern Trust Corporation (AVFC) Sub Account American Client	22,823.0	1.1
Yokohama Investments Limited	22,222.0	1.1
Northern Trust Corporation (AVFC) RE Fidelity Funds	20,756.0	1.0
CBNY-ORBIS SICAV	20,133.0	1.0

▶▶ Shareholder Composition



Note:

As of March 31, 2008 the Company owned 62,424.6 shares of treasury stock that is not included in the figures for the major shareholders stated at left.

▶▶ 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
Methods of public notice	SPARX Group Co., Ltd. publishes public announcements on its company website, http://www.sparx.jp In case of a website malfunction, such information will be published in The Nihon Keizai Shimbun.		
Stock listing	JASDAQ		JAPAN SECURITIES AGENTS, LTD. head office and branch offices
Code number	8739		

Corporate Profile

Corporate Data (As of March 31, 2008)

Company name	SPARX Group Co., Ltd.
Head office	Gate City Osaki, 1-11-2 Osaki, Shinagawa-ku, Tokyo
Date of establishment	July 1, 1989
Capitalization	¥12,144.3 million
Number of Group employees	312
Principal business activities	Holding company
Major consolidated subsidiaries	<p>SPARX Asset Management Co., Ltd. (Tokyo, Japan)</p> <p>SPARX Securities Co., Ltd. (Tokyo, Japan)</p> <p>SPARX Capital Partners Co., Ltd. (Tokyo, Japan)</p> <p>SPARX Investment & Research, USA, Inc. (U.S.)</p> <p>SPARX Asset Management International, Ltd. (London, U.K.)</p> <p>SPARX International, Ltd. (London, U.K.)</p> <p>SPARX Value GP, LLC (U.S.)</p> <p>SPARX Securities, USA, LLC (U.S.)</p> <p>SPARX Overseas Ltd. (Bermuda)</p> <p>SPARX International (Hong Kong) Limited (Hong Kong)</p> <p>Cosmo Investment Management Co., Ltd. (Seoul, South Korea)</p> <p>PMA Capital Management Limited (Cayman Islands)</p> <p>PMA Investment Advisors Limited (Hong Kong)</p> <p>PMA Middle East FZ-LLC (Dubai)</p> <p>PMA Capital Services Limited (London, U.K.)</p>

Directors, Corporate Auditors and Corporate Advisors (as of July 1, 2008)

President & CEO	Shuhei Abe
Managing Director	Masatoshi Fukami
Director	Naotaka Murasumi
Director	Yogo Kimura
Director	Mikio Fujii
Director	Hironobu Goto
Full-time Corporate Auditor	Katsumasa Fujita
Corporate Auditor	Toshiyuki Furukawa
Corporate Auditor	Masakazu Katada
Corporate Auditor	Kenji Hashidate
Corporate Advisor	Tohru Murayama
Corporate Advisor	Tadashi Yanai



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