

The following is an English version of the official Japanese announcement, which has been given to the Tokyo Stock Exchange and the media in Tokyo, Japan.



May 6, 2022

For Immediate Release

SPARX Group Co., Ltd.  
President and Group CEO Shuhei Abe  
(Code: 8739, TSE Prime Market)

## Notice on Implementing a Performance-Based Stock Compensation System for Directors

TOKYO—May 6, 2022—SPARX Group Co., Ltd. (the “Company”) would like to inform you that the Board of Directors, at its meeting held today, voted to implement a performance-based stock compensation system (the “System”) for the Company’s non-Audit and Supervisory Committee directors (excluding outside directors; hereinafter, “Director” refers to non-Audit and Supervisory Committee directors who are not outside directors). The Company decided to submit a proposal regarding the System’s implementation at its 33rd Ordinary General Meeting of Shareholders of the Company, scheduled for June 10, 2022 (the “General Shareholders’ Meeting”).

### 1. Regarding the System’s implementation

Until now, the Company’s director compensation package consisted of a base salary, short-term performance bonuses, and medium- to long-term performance bonuses. However, the new System will introduce a stock compensation to replace the medium- to long-term performance bonuses.

The System aims to raise director awareness of improving medium- to long-term performance and improving corporate value. It should achieve this goal by further clarifying the link among director compensation, corporate performance, and stock value, while sharing with shareholders the risks and benefits of share price fluctuations.

With the System’s implementation, the Company’s director compensation package shall consist of a base salary, short-term performance bonuses, and stock compensation.

Implementing the System is conditional upon the Ordinary General Meeting of Shareholders’ approval vote.

In the event that the shareholders vote to approve the proposal to implement the System as is, the Company shall no longer pay medium- to long-term performance bonuses. However, these bonuses are meant to raise director awareness of improving medium- to long-term performance and growing corporate value, the same purpose of the System. Therefore, the Company shall pay directors based on the new System, using the number of shares equal in value to the medium- to long-term performance bonus the Company had planned to pay as compensation for duties performed over the period from FY2019 through FY2021.

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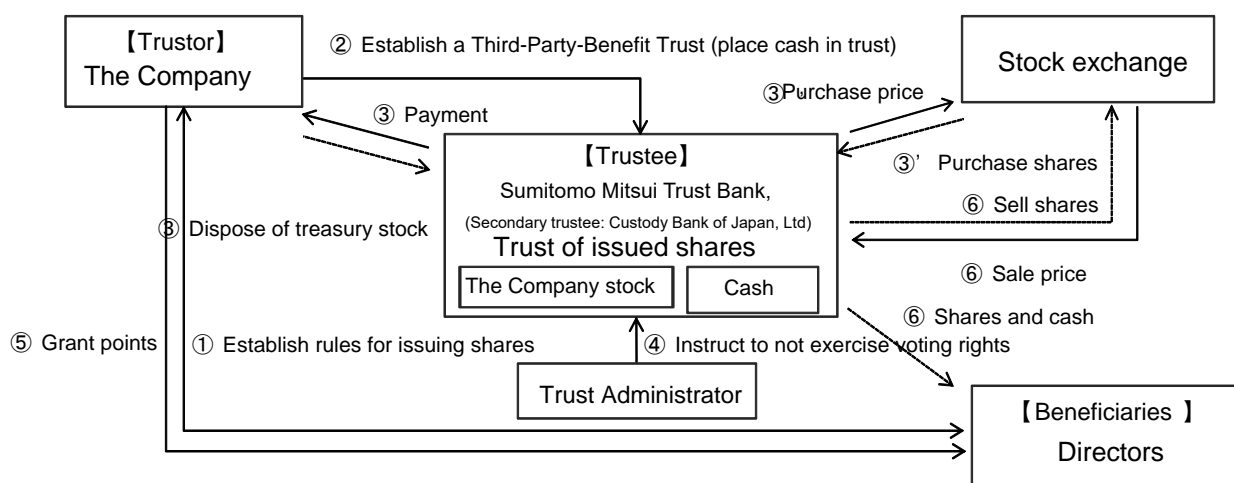
## 2. System overview

### (1) System framework

Under this Stock Compensation System, a trust (the “Trust”) established through monetary contributions from the Company shall acquire the Company’s shares. The Company shall use the Trust to issue its directors shares in numbers equal to the number of points it has granted each director.

The Company shall issue shares through the System to its directors who serve over the four fiscal years from FY2022 through FY2025 (the “Target Period”). In principle, directors shall receive issued shares three years after the Company grants them points.

#### System framework overview



- ① The Company shall establish rules for issuing shares to directors.
- ② The Company shall establish the Trust, a trust of issued shares (a third-party-benefit trust) with the directors as beneficiaries. When doing so, the Company shall entrust cash equal to the cost of acquiring shares to the trustee (however, this cash amount shall be within the range approved by the Ordinary General Meeting for shareholders.).
- ③ In one transaction, the trustee shall acquire the Company’s shares equal to the number it expects to issue. (The trustee shall acquire the shares from the stock exchange (including off-floor trading) or the Company’s disposal of treasury shock.)
- ④ A trust administrator (who shall be independent of the Company and the Company’s executives) shall be appointed to supervise the trustee and protect the interests of the beneficiaries subject to the rules for issuing shares during the trust period. The trust administrator shall instruct the trustee not to exercise voting rights concerning the Company’s shares in the Trust. The trustee shall follow these instructions and refrain from exercising these voting rights throughout the trust period.
- ⑤ The Company shall grant points to directors based on the rules for issuing shares.
- ⑥ Directors who satisfy the requirements stipulated in the rules for issuing shares and the trust agreement for the Trust, as beneficiaries of the Trust, will receive from the trustee the Company’s issued shares in proportion to the points they receive. In the event that certain circumstances specified in advance in the rules for issuing shares or the trust agreement apply, the trustee shall sell a portion of the Company’s shares meant to be issued on the stock exchange and provide the directors with cash.

When the Trust terminates, the Company shall acquire all shares in the residual assets of the Trust free of charge. The board of directors shall then vote to cancel these shares.

Furthermore, the Company intends to donate a portion of the cash in the Trust’s residual assets to a specified public-service promotion corporation with no conflict of interests with the Company’s directors, per stipulations included in advance in the rules for issuing shares and the trust agreement.

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Sumitomo Mitsui Trust Bank, Limited, the trustee for the System, shall assign the administration of the Trust's assets (i.e., assign the role of secondary trustee) to the Custody Bank of Japan.

## (2) Establishing the Trust

Conditional upon the Ordinary General Meeting for Shareholders approving the System's implementation, the Company shall establish the Trust by contributing the funds necessary for the Trust to acquire in advance for a given period the number of Company shares reasonably expected to be required for issuing to directors per (6) below. The Trust shall acquire the Company's shares using the funds it contributed as described in (5) below.

Sumitomo Mitsui Trust Bank, Limited, the trustee for the System, shall assign the administration of the Trust's assets (i.e., assign the role of secondary trustee) to Custody Bank of Japan, Ltd.

## (3) Trust period

The trust period shall be approximately seven years, from August 2022 (provisional) to August 2029 (provisional). However, the Company may extend the trust period as described in (4) below.

## (4) Maximum funds contributed to the Trust for acquiring shares

The Company shall contribute up to JPY 1.8 billion as compensation to directors in office during the Target Period to fund the acquisition of the Company shares necessary for issuing to directors under the System. The Company shall establish the Trust with directors who meet specific requirements as beneficiaries (see notes 1 and 2). The Trust shall use the cash the Company entrusted to it to acquire Company shares from the stock exchange (including off-floor trading) or the Company's disposal of treasury stock.

Note 1: The Company shall also entrust cash to pay trust fees, trust administrator compensation, and other necessary expenses alongside the above funds for acquiring Company shares.

Note 2: This maximum amount includes the funds for acquiring shares equivalent to the Transitional Points in (6)-① below.

The board of directors may decide to extend the Target Period by up to another five fiscal years on a case-by-case basis, thereby extending the Trust period and maintaining the System. (Transferring assets to the Trust for the same purpose as when the Company established the Trust shall also effectively extend the Trust period; The same applies below.) In this case, the Company shall contribute to the Trust up to JPY 450 million times the number of fiscal years the trust period has been extended to fund acquiring the additional Company shares necessary for issuing to directors under the System during the extended Target Period. Furthermore, the Company shall continue granting points and issuing Company shares as described in (6) below.

Even in the event that the Company does not maintain the system by extending the Target

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Period as described above, it may extend the Trust period until the Trust issues the relevant Company shares to the directors, assuming that the directors have received points but not the associated shares at the Trust period's expiration.

(5) How the Trust acquires Company shares

The plan is for the Trust to initially acquire the Company's shares using up to the maximum amount of funds for acquiring shares as described in (4) above, either from the stock exchange or the Company's disposal of treasury stock. However, the Company shall decide and disclose the details of this acquisition after the Ordinary General Meeting for Shareholders.

In the event of a potential lack of shares to meet the points granted to directors during the trust period due to the Company appointing more directors, the Company may entrust additional cash to the Trust to acquire additional shares within the maximum stipulated in (4) above.

(6) Calculating the Company shares to be issued to directors and that maximum

① How the Company grants points to directors

The Company grants points to each director per the rules for issuing shares the board of directors has established. These points are proportional to each director's position and success in achieving performance targets on the point-granting dates stipulated in the rules for issuing shares during the trust period.

However, the Company shall only grant directors up to 200,000 points per fiscal year.

During the fiscal year it establishes the Trust, the Company shall issue points ("Transitional Points") equal to the number of shares proportional to the value of the medium- to long-term performance bonuses it had planned to pay as compensation for duties performed during the period from FY2019 to FY2021. However, the above maximum points per fiscal year shall include these Transitional Points.

② Issuing Company shares proportional to the granted points

Directors shall receive Company shares per the procedure outlined in ③ below, proportional to the points granted per ① above. However, in the event that directors resign for personal reasons, in general, they shall forfeit all or some of their granted points and shall not receive Company shares proportional to their forfeited points.

One point shall equal five Company shares. However, in the event of a stock split, reverse stock split, or another event in which adjusting the number of shares to be issued seems reasonable, the Company shall rationally modify the number of Company shares per point in proportion to the stock split or reverse stock split ratio. Per the release "Notification of a Reverse Stock Split and Amending the Articles of Incorporation" dated today, the Company plans to implement a reverse stock split, consolidating five shares of common stock into one share. If the Ordinary General Meeting for Shareholders approves the Reverse Stock Split Proposal as

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is, one point will become one share of the Company's stock as of October 1, 2022, the effective date of the Reverse Stock Split.

③ Issuing Company shares to directors

As a general rule, each director shall acquire beneficiary rights to the Trust through the prescribed procedures after three years from receiving points (or at the time of resigning before the three years have elapsed). As a beneficiary to the Trust, each director shall receive from it the Company shares described in ② above. However, each director shall receive Company shares proportional to the Transitional Points stipulated in ① above at one-, two-, and three-year intervals after the Company grants points, after acquiring beneficial rights to the Trust each time. Moreover, the Trust may sell some of the Company shares described in ② above to withhold funds for the Company's income tax withholdings and issue the cash from these sales instead of Company shares. In the event that the Trust converts Company shares into cash in response to a public placement offer or through other means, it may issue cash to directors instead of Company shares.

(7) Exercising voting rights

The Trust must not exercise voting rights related to the Company shares within, per the instructions from the trust administrator, who is independent of the Company and its executives. This approach ensures that the Trust remains neutral to the Company's operations by not exercising voting rights for the Company shares within the Trust.

(8) Handling dividends

The dividends from the Company shares within the Trust shall go to the Trust to buy more Company shares and cover its trust fees to the trustee.

(9) Handling Company shares and cash when the Trust terminates

When the Trust terminates, the Company shall acquire all shares in the residual assets of the Trust free of charge. The board of directors shall then vote to cancel these shares.

Furthermore, the Company intends to donate a portion of the cash in the Trust's residual assets to a specified public-service promotion corporation with no conflict of interests with the Company's directors, per stipulations included in advance in the rules for issuing shares and the trust agreement.

Reference: Outline of the Trust Agreement for the Trust

Trustor                   The Company

Trustee                   Sumitomo Mitsui Trust Bank, Limited  
(Secondary trustee: Custody Bank of Japan, Ltd.)

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Beneficiaries	Company directors
Trust administrator	Plan to elect a third party independent from the Company and its directors
Exercising voting rights	The Trust shall not exercise the voting rights for the shares in the Trust during the trust period.
Type of trust	Non-monetary trust for cash and other assets (a third-party-benefit trust)
Trust agreement date	August 2022 (provisional)
Trust period	August 2022–August 2029 (provisional)
Purpose of the Trust	To issue Company shares to the beneficiaries per the rules for issuing shares

- For inquiries related to this release, contact:

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No further entry