Annual Securities Report

(Report Pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act)

Fiscal Year (33rd Fiscal Year)	From April 1, 2021 To March 31, 2022

SPARX Group Co., Ltd.

Shinagawa Season Terrace, 1-2-70 Konan, Minato, Tokyo

(E05242)

Table of Contents

Cover sheet

Document title	Annual Securities Report
Governing law	Article 24, clause 1, of the Financial Instruments and Exchange Act
Submitted to	Kanto Finance Bureau Director
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Fiscal year	33rd Fiscal Year（April 1, 2021 to March 31, 2022）
Company name	SPARX Group Co., Ltd.
Company name (English)	SPARX Group Co., Ltd.
Representative title and name	President and Group CEO, SPARX Group,　Shuhei Abe
Headquarters address	Shinagawa Season Terrace, 1-2-70 Konan, Minato, Tokyo
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Inspection location	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Part 1: Corporate Information
Section 1. Corporate Overview
1. Selected Financial Data
(1) Consolidated Financial Data

Fiscal year		29th	30th	31st	32nd	33rd
Fiscal year-end		March 2018	March 2019	March 2020	March 2021	March 2022
Operating revenue	(Millions of yen)	13,227	11,239	12,476	14,295	14,043
Operating profit	(Millions of yen)	6,668	4,051	4,423	6,189	6,241
Profit attributable to owners of parent	(Millions of yen)	4,681	3,246	2,301	3,468	4,070
Comprehensive income	(Millions of yen)	4,949	3,118	1,606	5,338	3,583
Net assets	(Millions of yen)	21,391	21,020	20,338	23,276	24,324
Total assets	(Millions of yen)	31,336	31,331	33,707	37,986	37,141
Net assets per share	(JPY)	96.89	101.91	98.77	116.47	121.98
Net income per share	(JPY)	23.23	16.12	11.48	17.35	20.37
Diluted net income per share	(JPY)	23.23	16.12	11.48	—	—
Equity ratio	(%)	62.3	65.5	58.6	61.3	65.5
Return on equity	(%)	26.6	16.2	11.4	16.1	17.1
Price earnings ratio	(Times)	12.4	14.5	14.5	17.2	13.5
Cash flow from operations	(Millions of yen)	7,144	678	4,535	6,118	2,661
Cash flow from investments	(Millions of yen)	(2,050)	(709)	(2,581)	(2,900)	(1,180)
Cash flow from financing	(Millions of yen)	(763)	(1,509)	(297)	(1,844)	(2,480)
Year-end cash and cash equivalents	(Millions of yen)	18,649	17,152	18,474	19,935	19,199
Number of employees	(People)	140	158	169	180	173

Notes: 1. SPARX introduced an ESOP trust in FY2017. Its shares held by The Master Trust Bank of Japan (in an ESOP trust account) are a portion of the treasury stock deducted from the total shares issued at fiscal year-end and the average number of shares during the period. These figures are used in calculating net assets per share and net income per share.

2. The 32nd and 33rd fiscal years do not include diluted net income per share because there were no potential shares.

3. SPARX began applying the Accounting Standards for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29; March 31, 2020) in this consolidated fiscal year. The selected financial data for this consolidated fiscal year include data after applying these accounting standards.

(2) Financial Data for the Filing Company

Fiscal year		29th	30th	31st	32nd	33rd
Fiscal year-end		March 2018	March 2019	March 2020	March 2021	March 2022
Operating revenue	(Millions of yen)	1,974	2,489	3,606	3,272	3,386
Operating profit	(Millions of yen)	1,916	3,087	3,451	3,288	3,899
Net income	(Millions of yen)	1,863	1,668	2,846	2,583	3,170
Capitalization	(Millions of yen)	8,582	8,585	8,587	8,587	8,587
Total shares issued	(Shares)	209,564,300	209,571,400	209,577,400	209,577,400	209,577,400
Net assets	(Millions of yen)	14,840	14,987	14,998	17,480	17,650
Total assets	(Millions of yen)	20,909	22,638	25,193	29,440	28,172
Net assets per share	(JPY)	73.67	74.42	75.05	87.47	88.51
Dividends per share (Interim dividends per share)	(JPY)	7.00 (—)	10.00 (—)	9.00 (—)	11.00 (—)	12.00 (—)
Net income per share	(JPY)	9.24	8.28	14.20	12.92	15.86
Diluted net income per share	(JPY)	9.24	8.28	14.20	—	—
Equity ratio	(%)	70.9	66.2	59.5	59.4	62.7
Return on equity	(%)	13.0	11.2	19.0	15.9	18.0
Price earnings ratio	(Times)	31.17	28.26	11.69	23.07	17.28
Dividend payout ratio	(%)	75.76	120.77	63.38	85.14	75.66
Number of employees (Excludes average number of temporary employees)	(People)	23 (6)	29 (5)	35 (5)	24 (7)	26 (7)
Total shareholder return	(%)	139.8	119.0	91.0	158.8	153.1
(Comparative index: TOPIX with Dividends)	(%)	(115.9)	(110.0)	(99.6)	(141.5)	(144.3)
Highest share price	(JPY)	419	328	286	343	328
Lowest share price	(JPY)	178	160	154	157	230

Notes: 1. SPARX introduced an ESOP trust in FY2017. Its shares held by The Master Trust Bank of Japan (in an ESOP trust account) are a portion of the treasury stock deducted from the total shares issued at fiscal year-end and the average number of shares during the period. These figures are used in calculating net assets per share and net income per share.

2. The JPY 10 dividends per share for FY2018 includes a JPY 3 commemorative dividend for the 30th anniversary of SPARX's founding.

3. The highest and lowest share prices are those on the JASDAQ (Standard) section of the Tokyo Stock Exchange until March 21, 2019, and those on the First Section of the Tokyo Stock Exchange after March 22,

2019.

4. The 32nd and 33rd fiscal years do not include diluted net income per share because there were no potential shares.
5. The number of employees excludes those concurrently serving employed at SPARX Group and a subsidiary from the 32nd fiscal year onward.

2. History

June 1988	Established as Toranomon Asset Management Co., Ltd., in Minato, Tokyo.
November 1988	Registered as an investment advisor per the Act on Regulating the Securities Investment Advisory Business (Kanto Local Finance Bureau, No. 364).
July 1989	Changed the Company’s name to SPARX Investment Advisory Co., Ltd., and began offering investment advisory services.
October 1993	Established a Swiss subsidiary, SPARX Finance S.A., to handle European marketing.
July 1994	Established SPARX Investment & Research, USA, Inc., a US Securities and Exchange Commission (SEC) registered investment advisory firm, to provide investment advisory services in the US.
January 1996	Established SPARX Fund Services, Inc., in the US to manage offshore funds.
December 1996	Established SPARX Overseas Ltd. in Bermuda to operate and manage offshore funds for Western investors.
February 1997	SPARX Investment Advisory Co., Ltd., obtained approval to engage in the discretionary investment management business (Minister of Finance, No. 191; at the time of approval).
May 1998	Established SPARX Securities Co., Ltd., to conduct domestic marketing. Acquired Nos. 1, 2, and 4 securities licenses (Minister of Finance, No. 10082; at the time of approval). (In December 1998, registered as a securities business per Article 28 of the Securities Exchange Act.)
March 2000	SPARX Investment Advisory Co., Ltd., obtained approval to engage in the securities investment trust management business (Financial Reconstruction Commission, No. 24; at the time of approval). Changed its name to SPARX Asset Management Co., Ltd., and moved its HQ to Osaki, Shinagawa, Tokyo.
December 2001	SPARX Asset Management Co., Ltd., registered with the Japan Securities Dealers Association for over-the-counter trading.
October 2002	SPARX Investment & Research, USA, Inc., reregistered with the US SEC to provide investment advisory services in the US (after moving its HQ to New York).
February 2004	Established SPARX Asset Management International, Ltd., in the UK to provide services to new and existing clients in Europe. In August 2004, obtained approval and began operations as an investment advisor and group fund arranger.
June 2004	Established SPARX Securities, USA, LLC to market funds in the US.
December 2004	Canceled over-the-counter registration with the Japan Securities Dealers Association and listed on the JASDAQ Securities Exchange.
December 2004	Established SPARX International, Ltd., to manage overseas subsidiaries in the UK.
February 2005	Acquired a majority share of South Korean firm Cosmo Investment Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.).
April 2005	Established SPARX International (Hong Kong) Limited to manage overseas funds in Hong Kong. In August 2005, obtained approval and began operations in advising on securities and asset management.
June 2005	Changed the name of SPARX Fund Services, Inc., to SPARX Global Strategies, Inc., in line with changes in business activities.
July 2005	Established SPARX Capital Partners Co., Ltd., to develop an investment business using equity capital.
August 2005	SPARX Asset Management Co., Ltd., registered with the US SEC as an investment advisor in the US.
September 2005	Issued our first unsecured corporate bond (JPY 5 billion; with an interbond pari-passu clause).
January 2006	Registered South Korean firm Cosmo Investment Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.) with the US SEC as a US investment advisory business.

June 2006	Acquired all shares of PMA Capital Management Limited (now, SPARX Asia Capital Management Limited) through SPARX International Ltd., to establish an Asia-wide investment platform.
October 2006	Transitioned to a holding company structure through a corporate split, changing the company name to SPARX Group Co., Ltd. Its subsidiary SPARX Asset Management Co., Ltd., took over the asset management business and related personnel and assets.
January 2007	A resolution passed to dissolve SPARX Global Strategies, Inc., as we streamlined overseas operations within the Group.
February 2008	A resolution passed to dissolve SPARX Finance S.A., as we streamlined overseas operations within the Group. Completed the company's liquidation in October 2018.
July 2008	A resolution passed to dissolve SPARX Value GP, LLC due to the dissolution of the joint venture with California Public Employee's Retirement System and Relational Investors, LLC. Completed the company's liquidation in December 2008.
October 2008	Decided to implement the first round of management reforms, including early retirement.
October 2008	Acquired an additional 9.7% of issued shares for South Korean firm Cosmo Investment Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.).
November 2008	Ceased operations of UK-based SPARX Asset Management International, Ltd.
February 2009	Transferred 21.0% of issued shares for South Korean firm Cosmo Investment Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.) to an affiliate of the South Korean Lotte Group.
February 2009	Decided to implement the second round of management reforms, including early retirement.
July 2009	Acquired an additional 10.0% of issued shares for South Korean firm Cosmo Investment Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.).
September 2009	A resolution passed to dissolve SPARX Investment & Research, USA, Inc.; SPARX International, Ltd.; and SPARX Asset Management International, Ltd., as we streamlined overseas operations within the Group. Completed the three companies' liquidation by December 2011.
September 2009	Entered into an investment trust business partnership in the US with US-based Hennessy Advisors Inc.
December 2009	Signed an agreement with Japan Wind Development Co., Ltd., to establish a limited investment partnership to jointly invest in Japanese companies with smart-grid-related technologies and business models. Currently, the fund operates as a cleantech investment strategy after we dissolved the original partnership since it completed its role.
February 2010	Transferred 8.9% of issued shares for South Korean firm Cosmo Investment Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.) to an affiliate of the South Korean Lotte Group.
July 2010	SPARX Asset Management Co., Ltd., and SPARX Securities Co., Ltd., merged to create the existing company, SPARX Asset Management Co., Ltd.
August 2010	Acquired an additional 10% of issued shares for South Korean firm Cosmo Investment Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.).
November 2010	Transferred all SPARX International (Hong Kong) Limited shares to MCP Asset Management Co., Ltd.
February 2011	SPARX Group Co., Ltd., and SPARX Capital Partners Co., Ltd., merged to create the existing company, SPARX Group Co., Ltd.
June 2011	Changed the name of PMA Capital Management Limited to SPARX Asia Capital Management Limited.
November 2011	Cosmo Investment Management Co., Ltd., obtained a license to operate an investment trust management business in Korea and changed its name to Cosmo Asset Management Co., Ltd.
May 2012	Moved our HQ to Higashishinagawa, Shinagawa, Tokyo.
June 2012	Entered the real estate investment fund business.
June 2012	Tokyo Metropolis selected SPARX as the manager of its public-private partnership infrastructure fund.

August 2012	Established SPARX Green Energy & Technology Co., Ltd., to operate a renewable energy power generation business and offer associated consulting services.
November 2012	Cosmo Asset Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.) moved its HQ to Yeouido, Yeongdeungpo District in the heart of Seoul.
November 2013	Cosmo Asset Management Co., Ltd. (present SPARX Asset Management Korea Co., Ltd.) acquired a hedge fund license in South Korea.
April 2014	Acquired all Japan Asset Trust Co., Ltd., shares and changed the company name to SPARX Asset Trust & Management Co., Ltd.
October 2014	Tokyo Metropolis selected SPARX as the manager of its public-private renewable energy fund.
February 2015	Cosmo Asset Management Co., Ltd., changed its name to SPARX Asset Management Korea Co., Ltd.
November 2015	Established the Mirai Creation Fund to accelerate innovation for society’s future.
June 2016	Moved our HQ to Konan, Minato, Tokyo.
January 2017	SPARX Asset Management Korea Co., Ltd., moved its HQ to Jongno, Jongno District in Seoul.
November 2017	Established a brownfield fund with stable, long-term cash flow sources, focusing on investing in the power station operational phase.
December 2018	Established SPARX AI & Technologies Investment Co., Ltd., to manage assets for investment limited partnerships.
December 2018	Established SPARX Capital Investments, Inc., to operate an investment advisory business in the US.
December 2018	Made SPARX Asset Management Korea into a wholly owned subsidiary by acquiring additional shares.
March 2019	Changed our listing to the First Section of the Tokyo Stock Exchange.
April 2019	Invested in and partnered with Sigma-i Co., Ltd., provider of an R&D solution for quantum annealing technology.
April 2020	Established SPARX Innovation for the Future Co., Ltd., to manage assets for investment limited partnerships
June 2020	Converted to a corporate structure with an audit and supervisory committee.
November 2020	SPARX Asset Management Korea Co., Ltd., moved its HQ to Saemunan Road, Jongno District in Seoul.
April 2021	Partnered with Nomura Holdings, Inc., to establish Nomura SPARX Investment, Inc., to manage listed investment corporations that invest in unlisted companies.
April 2022	Moved from the Tokyo Stock Exchange’s First Section to its Prime Market due to its market classification revision.

3. Business Details

(1) Business Details

i. Group Operations Overview

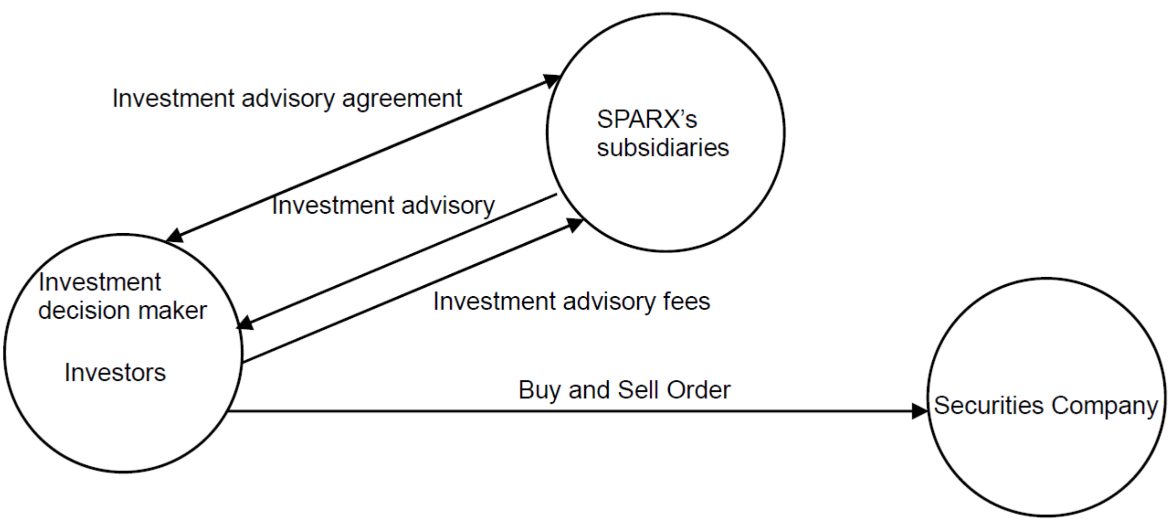
The Group's core business is in asset management (investment advisory and investment trust management), with SPARX Group Co., Ltd., as its holding company and subsidiaries in Japan and abroad.

The Group's subsidiaries provide asset management services, including research and management, as follows: SPARX Asset Management Co., Ltd., targets Japanese equities, renewable energy power stations (specifically, investment in the development-to-operations phase of power station businesses), and private equity. SPARX Asset Trust & Management Co., Ltd., handles real estate and renewable energy power stations (specifically, the stable operation phase after power station businesses have started operations). SPARX Asset Management Korea Co., Ltd., handles South Korean equities. Hong Kong-based SPARX Asia Investment Advisors Limited—a wholly owned subsidiary of Cayman Island-based SPARX Asia Capital Management Limited—manages Asian equities.

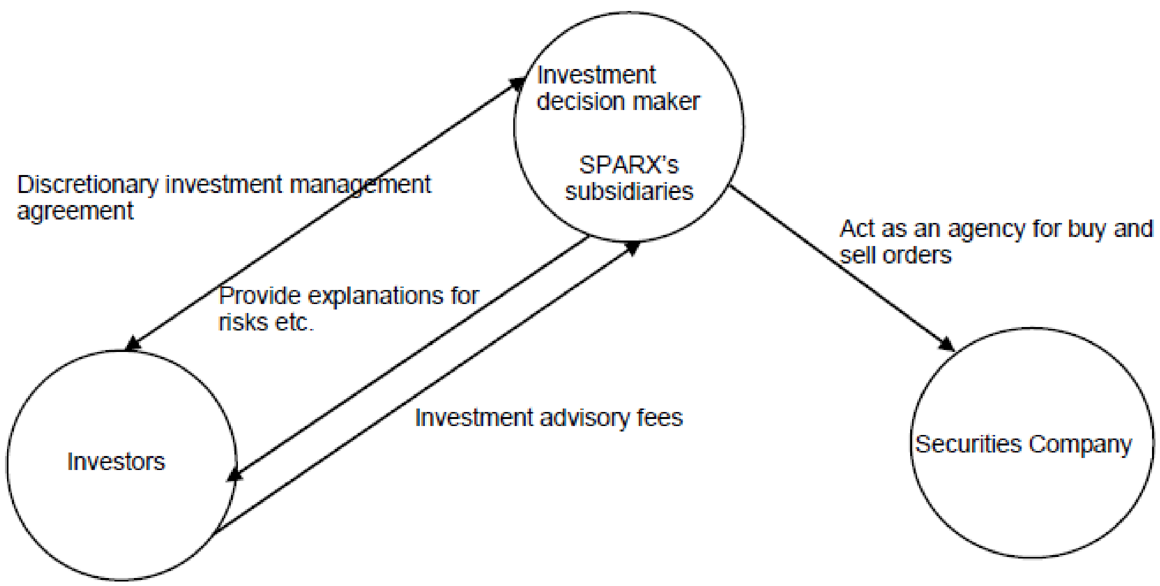
ii. Asset Management Business Structure

The investment advisory business provides expert, fee-based advice to investors on investing in stocks, bonds, and other securities (including decisions on securities types, specific securities, purchase numbers, prices, and timing). The business is further divided into the investment advice and discretionary investment management segments. Through investment advice services, we enter into an investment advisory agreement with an investor and provide only investment advice per the contract's stipulations. In such cases, investors are responsible for their investment decisions and securities transactions. On the other hand, through discretionary investment management services, we enter into an agreement with an investor who delegates to us some or all investment decision-making and the authority necessary to execute transactions. With a discretionary investment management agreement, the investment advisory firm decides how to manage investor assets through investments in securities and executes transactions.

Investment Advisory Business Structure

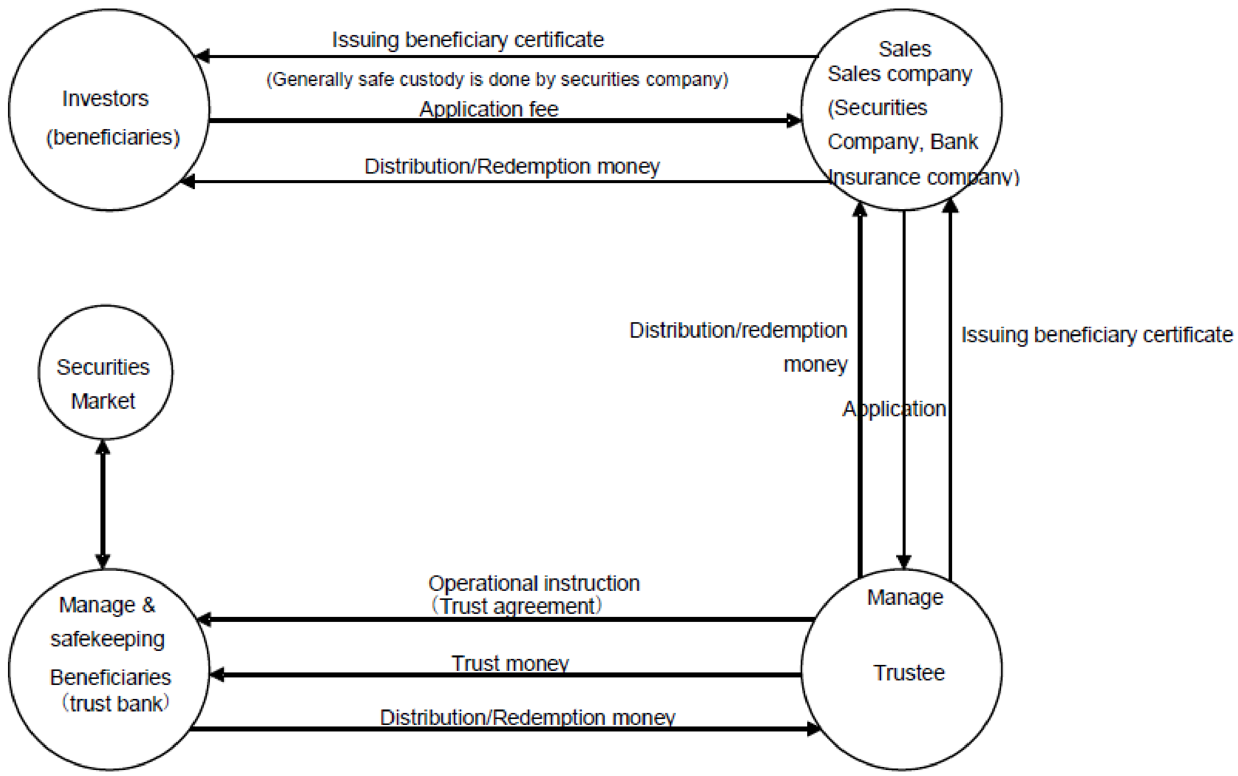


Discretionary Investment Management Business Structure



However, through the investment trust management business, we act as a trustee of a trustee-directed investment trust. As an expert investment trust manager (the trustee), we pool capital collected from investors (the beneficiaries) into investment trusts, invest them in diversified securities, and distribute the returns (investment gains/losses) to investors.

Contract-Based Investment Trust Business Structure



Note: Investment trust businesses may be contract- or corporation-typed. We primarily operate using a contract-based structure, so the above diagram illustrates that.

iii. Changes in Group Investment Strategy Offerings

Since commencing operations on July 1, 1989, the Company has operated as an independent investment advisory firm specializing in small- and mid-cap equity investments, mainly through OTC-registered companies, based on a bottom-up approach grounded in individual visits to primarily Japanese companies. Since our founding, we have pursued creative asset management.

We have specialized in managing the type of companies that will drive the coming major structural transformation we believe Japan's economy will undergo. The leaders of this transformation will not be large corporations, but emerging growth companies represented by OTC equities, especially owner-operated companies whose managers maintain a management philosophy. As a result of our specialization, we have adopted a bottom-up approach to our asset management research since our founding, focusing on investigating companies through face-to-face visits. It is not enough for us to analyze our research targets by simply sitting in the office and verifying publicly available information. We believe that by going directly to target companies and listening to their managers in their own words, we can confirm management philosophies and the dynamics of growing companies in a way that is only possible in person. Such experience reveals the true corporate image hidden behind public information that is merely lists of letters and numbers.

In our visits to individual companies based on this bottom-up approach, we carefully examine business model, market growth potential, and management strategy. We then forecast future earnings and cash flows, taking into account business risks and other factors, and measure the intrinsic value from the perspective of the company's actual situation. We view the value gap between the daily market price and the intrinsic value as an investment opportunity. We make investment decisions based on our proprietary research, investment hypotheses, and catalysts (specific triggers and factors) that would close the value gap.

In the 1990s, the Japanese stock market's evaluation of winners and losers became clear. Even among large companies, the business restructuring progress made led to a polarization of market valuations. As a result, valuation disparities between industries and polarization of stock prices within the same industry began to develop rapidly. In June 1997, we began a long-short investment strategy to accurately respond to such market changes. The same year, we also began managing funds of funds, investing in hedge funds from around the world.

In 1999, we began managing a pension fund with TOPIX as its benchmark. We also became a trustee of a leading Japanese securities firm for its wrap accounts. In the same year, we began managing an intensive fund with a limited number of portfolio companies. In addition, after obtaining a license to operate an investment trust management business in March 2000, we began managing domestic privately placed investment trusts. A month later, we launched funds investing in private Japanese companies.

In January 2003, we began managing an investment fund that promotes corporate value growth among Japanese companies through corporate governance. In this investment strategy, we significantly increased the shareholding ratio per company by narrowing down our target companies and sought various measures to increase corporate value for the benefit of shareholders, employees, and other stakeholders. In addition, we managed such results by engaging in constructive discussions with portfolio company management to gain sufficient understanding from them. In making such investments, our method of selecting portfolio companies has remained unchanged from the bottom-up approach we have developed over the years. This consistency stems from our belief in the possibility of discovering companies capable of making its management more efficient in terms of corporate governance through a process of conducting conventional research that deeply investigates the essence of corporate value.

Since then, we have been actively expanding our business in Asia to capitalize on its economic development as a "Center for Asia Investment Intelligence," building a preeminent brand of investment intelligence in Asia for investors worldwide. Specifically, in February 2005, we acquired a majority stake in the former South Korean asset management company Cosmo Investment Management Co., Ltd. (now, SPARX Korea). This firm now serves as the Group's research and investment core in South Korean equities. Furthermore, in June 2006, we acquired all shares of the former PMA Capital Management Limited (now, SPARX Asia), which holds the largest alternative assets under management in Asia, excluding Japan. We have allocated the company management resources while sharing the management methods and expertise cultivated by the entire SPARX Group.

Since 2012, the world has seen low interest rates and a glut of capital. Against this backdrop, investors inside and outside Japan have been keenly interested in investments that promise stable income gains. Therefore, in September 2012, SPARX Asia Capital Management Limited launched a fund targeting overseas institutional investors for the opportunity to invest in Japanese residential real estate. Moreover, leveraging the real estate investment expertise of SATM—whose total shares we acquired in April 2014—we have begun investing not only in residences, office buildings, warehouses, and commercial facilities but also in healthcare-related facilities.

In June 2012, the Tokyo Metropolitan Government appointed us the manager of its Public-Private Partnership Infrastructure Fund. We formed an investment partnership to invest in renewable energy power generation projects, mainly solar power, and began concrete fund operations. We are currently accumulating a substantial track record of results from multiple funds. We also establish and manage funds with stable, long-term cash flow sources, focusing on brownfield investing in the operational phase of power stations alongside greenfield investing in their development phase.

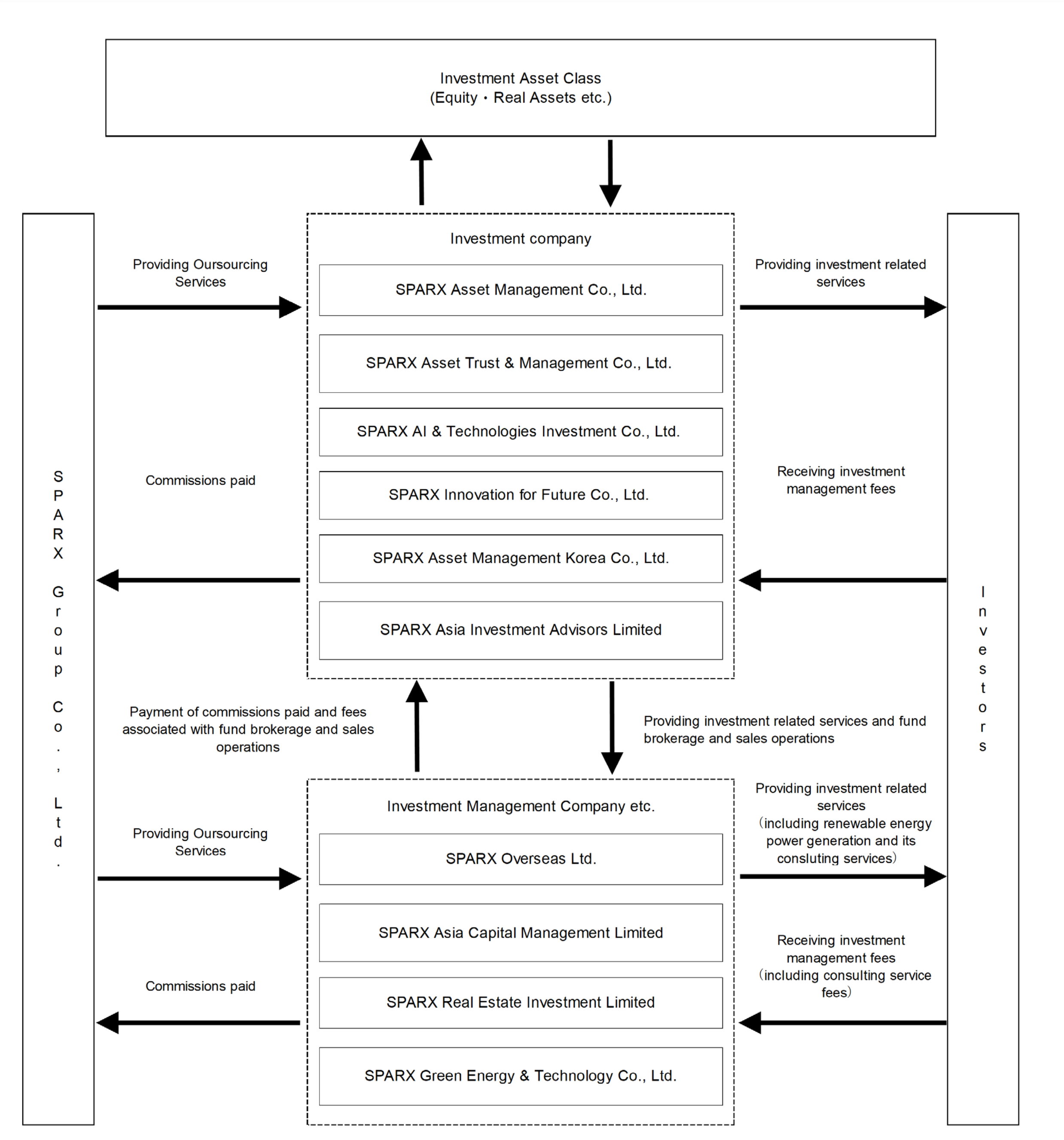
As a new initiative in November 2015, we partnered with Toyota Motor Corporation and Sumitomo Mitsui Banking Corporation to establish the Mirai Creation Fund. This fund pursues long-term investments that contribute to growth in the next generation, develops new areas to create the future as an investment company, and steadily conducts investments in venture companies in Japan and abroad. In 2020, we established the Space Frontier Fund to invest in space companies. The same year, we created the Japan Monozukuri Mirai Fund to support domestic manufacturers with outstanding technology, human resources, and services to maintain Japan's advanced technology and skills and continue developing its manufacturing capabilities.

In addition to the above investment strategies, we believe that the new era's growth areas—premised on the use of artificial intelligence (AI)—will be in energy, medical and healthcare, and quantum computing. These sectors will be the pillars of SPARX's future business. In the quantum computing sector, we joined a capital alliance to invest in and establish a new company, Sigma-i, in April 2019. This project to establish an organization specializing in the field developed through a partnership with Tohoku University professor and world authority on quantum annealing computers Masayuki Ozeki. For medical and healthcare, we acquired employee equity from Goyokai Medical Association, in April 2020. The following year, we began investing in the healthcare field.

We will continue to offer a diverse product lineup that meets market needs and establish a well-balanced business structure.

Business structure diagram

The following diagram outlines the Group’s primary transactions.



4. Information on Subsidiaries and Associates

Name	Location	Capitalization	Principal business	Percentage of voting rights (%)	Relationship
(Consolidated subsidiaries)					
SPARX Overseas Ltd.	Bermuda	USD 1.562 million (JPY 141 million)	Asset management	100.0	Providing business management services
SPARX Asset Management Korea Co., Ltd.	Seoul, South Korea	KRW 4.2 billion (JPY 509 million)	Asset management	100.0	Providing business management services
SPARX Asset Management Co., Ltd. (Notes: 3, 4)	Minato, Tokyo	JPY 2.5 billion	Asset management	100.0	Providing business management services Concurrently serving directors
SPARX Asia Capital Management Limited (Notes: 4)	Cayman Islands	USD 38.001 million (JPY 4.133 billion)	Asset management	100.0	Providing business management services
SPARX Asia Investment Advisors Limited (Notes: 2)	Hong Kong SAR, China	HKD 3.1 million (JPY 45 million)	Asset management	100.0 (100.0)	Providing business management services Concurrently serving directors
SPARX Green Energy & Technology Co., Ltd.	Minato, Tokyo	JPY 25 million	Renewable energy power generation consulting	100.0	Providing business management services Concurrently serving directors
SPARX Asset Trust & Management Co., Ltd. (Notes: 4)	Minato, Tokyo	JPY 100 million	Asset management	100.0	Providing business management services Concurrently serving directors
SPARX AI & Technologies Investment Co., Ltd.	Minato, Tokyo	JPY 50 million	Managing assets for investment partnerships	100.0	Providing business management services Concurrently serving directors Occasional financial assistance
SPARX Innovation for Future Co., Ltd.	Minato, Tokyo	JPY 50 million	Managing assets for investment partnerships	100.0	Providing business management services Concurrently serving directors Occasional financial assistance
SPARX Capital Investments, Inc.	California, US	USD 1.0 million (JPY 111 million)	Investment advisory	100.0	Providing business management services Concurrently serving directors
We have three other consolidated subsidiaries besides those listed above.	—	—	—	—	—

Name	Location	Capitalization	Principal business	Percentage of voting rights (%)	Relationship
(Equity method associates)					
Sigma-i Co., Ltd.	Minato, Tokyo	JPY 100 million	Development, design, and sales of quantum computing systems and software	49.7	Concurrently serving directors
Nomura SPARX Investment, Inc.	Chiyoda, Tokyo	JPY 200 million	Asset management	49.0	Concurrently serving directors

Notes: 1. The capitalization figures in parentheses are the yen equivalents for the foreign subsidiaries. Exchange rates at the end of the month when companies became consolidate subsidiaries apply.

2. The voting rights percentage in parentheses reflect the percentage of indirect holdings.

3. SPARX Asset Management Co., Ltd., accounts for more than 10% of consolidated operating revenue (excluding inter-company operating revenues among consolidated companies). Primary profit and loss data are as follows:

Company name	Primary profit and loss data				
	Operating revenue (Millions of yen)	Operating profit (Millions of yen)	Profit (Millions of yen)	Net assets (Millions of yen)	Total assets (Millions of yen)
SPARX Asset Management Co., Ltd.	12,147	5,574	3,810	9,192	13,010

4. SPARX Asset Management Co., Ltd.; SPARX Asset Trust & Management Co., Ltd.; and SPARX Asia Capital Management Limited are specified subsidiaries.

5. Employees

(1) Consolidated basis

As of March 31, 2022

Segment name	Number of employees
Businesses of Investment trust management, discretionary investment management and investment advisory	173
Total	173

Notes: The number of employees is for full-time employees in all consolidated Group companies.

(2) Filing Company Employees

As of March 31, 2022

Number of employees	Average age	Average years of service	Average annual salary (thousands of yen)
26 (7)	48.8	9 years 7 months	10,195

Notes: 1. The number of employees is for full-time employees excluding temporary employees, fixed-term employees, employees seconded to subsidiaries, and employees of subsidiaries who concurrently work for the Company.

2. The calculation for average annual salary includes the base salary paid by the Filing Company and the base salary paid by any subsidiaries where employees currently work. Since the Filing Company is a holding company, average annual salary does not include short-term performance-linked remuneration (bonuses) and medium- to long-term performance-based compensation (ESOP) because they are paid by any subsidiaries where employees concurrently work.

3. Average years of service is the total of years of service at all Group companies.

4. The average number of temporary employees is shown in parentheses because it exceeds 10/100 of the total employees.

(3) Labor Union Status

No labor union has been formed, but labor-management relations are good.

Section 2. Business Overview

1. Management Policies, Business Environment, and Issues to be Addressed

Forward-looking statements are based on the Group's judgment as of the current consolidated fiscal year-end. We do not guarantee any achievements based on these statements.

(1) Management Policies

The SPARX Group as an independent asset management company aims to realize its mission "to make the world wealthier, healthier, and happier" by becoming the most trusted and respected investment company in the world. We are also Japan's first publicly listed corporate group with asset management services as its core business.

Our basic management policy's top priority is to deliver satisfactory returns by providing, through the products we manage, investment intelligence that all our investors will find truly useful. To that end, we have worked since our inception to continually develop innovative investment methods based on a thorough bottom-up approach that follows the investment philosophy: "The Macro is the Aggregate of the Micro." We also apply our experience and knowledge as specialists in Japanese equities to develop other non-equity investment programs aimed at infrastructural assets, including real estate and power generation businesses. With the combined strength of our subsidiaries in South Korea and Hong Kong, we will continue working to provide investment intelligence and superior returns that can meet the expectations of global investors with an eye on Asia.

The second policy item is to maintain and enhance an appropriate governance and compliance system that acts as a foundation for our firm's sustainability and growth, while generating revenue to satisfy all our shareholders by expanding our business to meet our clients' needs. In addition to efforts to further improve investment performance, we continually review our governance effectiveness to ensure that actively developing our business and pursuing efficiency never leads to lack of compliance, especially when seeking to increase revenues by developing and offering new investment products.

The third policy item is to acquire, retain, and nurture the gifted talent who provide the foundation of our business development so that we can meet the needs of all our clients and shareholders. We can provide our intended asset management services by having our talented team of highly self-disciplined, flexible, creative, and extremely competent individuals.

(2) Objective Indicators for Assessing Management Goal Achievement

Revenue from investment trusts and investment advisory fees, the majority of the Group's earnings, broadly consist of management and performance fees. The former are based on the balance of assets under management and the fee rate, while the latter vary depending on investment performance and other factors. Performance fees do not generated from all of the Group's assets under management.

Therefore, the Group's most important management indicators are the balance of assets under management, our source of revenue, and the management fee rate. We timely monitor the balance of assets under management and analyze whether any fluctuations stem from new subscriptions or client redemption, general market trends, or investment performance to objectively assess the competitiveness of the Group's business. We also strive to achieve higher management fee rates by developing and offering more value-added investment strategies.

The next crucial management indicator is base earnings which represents the total management fees minus ordinary expenses. Base earnings is the foundation for sustainable and stable business operations. Thus, if we encounter a situation that causes the negative base earnings, we would naturally aim to increase management fees. However, we would also need to quickly restore profitability through all possible measures, including cutting costs. On the other hand, if our base earnings remains high enough, we can conclude that we have sufficient capacity for growth investments.

Furthermore, our total performance fees and ROE are naturally vital management indicators. Since the majority of our operating performance depends on our base earnings and performance fees, as do our bonuses and other compensation, the size of performance fees has a significant impact on operating profit from year to year, which in turn significantly influences ROE. We strive to improve ROE using a two-pronged approach. First, we derive the percentage of assets under management that have the potential to earn performance fees and assess the degree of their impact on business performance. Then, we develop and provide higher value-added investment strategies, thereby increasing the balance of assets under management with potential performance fees.

(3) Management Strategies

The Group aims to build a robust foundation that will enable steady profit growth. To achieve this goal, we consider our pillars to be the four investment strategies below.

The first pillar is our Japanese Equity Investment Strategy.

The Japanese stock market's instability in latter half of this consolidated fiscal year impacted our investment strategy that invests in Japanese equities, resulting in a year-over-year decline in the balance of assets under management in Japanese equities. However, we increased the assets under management for our Japanese Equity Long-Short Strategy and Japanese Equity Sustainable Strategy due to capital inflows. The Sustainable Investment Strategy is the result of maintaining a fundamental approach to ESG in our investments since SPARX's inception. Its success has attracted the interest of investors worldwide. We continue to attract considerable interest in our investment philosophy and management style, as we work to make SPARX widely known as the number one choice for Japanese equities.

The second pillar is our One Asia Investment Strategy (targeting Asian equities).

In this investment strategy, fund managers in Tokyo, Hong Kong, and South Korea jointly conduct research on Asian companies and continually share investment ideas, leading to improved performance and increased assets under management. Thanks to these increased assets under management, our South Korean subsidiary achieved standalone profitability. SPARX is a unique investment firm that has fund management and research teams in Asia. Through our research into Asian companies, we are building the SPARX brand to also include Asian equities by passing on the fund management techniques we have accumulated through our track record with Japanese equities.

The third pillar is our Real Asset Investment Strategy.

This strategy invests in infrastructure assets and real estate for renewable energy power stations. It has made 32 investments in power generation facilities across Japan. The renewable energy investment strategy has assets under management of JPY 243.8 billion. With stable operations in solar, biomass, and wind power stations, we manage funds that derive stable, long-term cash flows from investments in these power plants. In the recent past years, large corporations primarily invested in renewable energy power plants using their own balance sheets. However, they continue to review these investments, with selling and liquidating their renewable energy power plants. The Group's funds will seize such opportunities and actively invest while evaluating appropriate prices and returns as an investor, as we also acquire power generation facilities from outside sources. As a pioneer in renewable energy funds, we will continue to offer attractive investment products that meet all our stakeholders' expectations.

The fourth pillar is our Private Equity Investment Strategy.

For this strategy, we established the Mirai Creation Funds to practice long-term investments in next-generation companies and develop new areas for creating the future as an investment company. With steady investment progress in Fund I and II, we established Fund III in this consolidated fiscal year. We have become Japan's most prominent venture capital fund manager in terms of both size and quality. We have already realized solid investment returns for all our investors from several IPOs and investments exits. With their steady track record of high-quality investments and performance, these funds contribute to future society by discovering and cultivating companies that are world leaders in innovative technologies and business models.

Moreover, we are starting to invest in new growth areas to enhance our existing investment strategies. We believe that these growth areas for the next ear are energy, medical and healthcare, and fintech where the use of AI is needed. The key will be to link these areas with new tools, including quantum computing, that will drive the digital era. We are making steady progress in making these areas the next pillars of SPARX's business. In the quantum computing sector, we joined a capital alliance to establish a new company, Sigma-i, in April 2019. This project to establish an organization specializing in the field developed through a partnership with Tohoku University professor and world authority on quantum annealing computers Masayuki Ozeki. We also took our first small steps in medical and healthcare. Specifically, we provide medical consulting services in a joint venture with Goyokai. Furthermore, we have other investments in healthcare. We believe that efficient growth in the medical field is a social mission and an area in which we should participate and contribute as an investment firm. Rather than simply chasing short-term profits, we will accede to the demands of the times and uncover the sound investments that SPARX has always pursued. As financial investors, we will work together with reputable medical institutions and the excellent medical professionals who support them.

Since its inception in 1989, SPARX has wholly devoted itself to empirically sound research activities through which we thoroughly investigate companies, one by one, and make investment decisions after going and seeing their operations in person. After the COVID-19 outbreak, it seems likely that the world will shift to a contactless society across the board, including in education, medical care, and automated driving, utilizing 5G (5th-generation mobile communication systems) and AI technologies. Amid this shift to a contactless society, we have considered how can we maintain and strengthen our values, including the Group's long-held focus on communication and a first-hand perspective, and how can we confront this change. We also believe that the most vital project for us as managers is to nurture professionals—through our Buffet Club, the investment study group we have held continuously since our founding—exceptionally personable managers with a high degree of expertise and discernment who will be responsible for future generations. We will continue passing down our corporate culture and unwavering investment philosophy to the younger generation, while putting all effort into building a robust organization that can continue investing in new growth areas.

(4) Business Environment

Our most recent business environment assessment is included in our Performance Overview in Part I. Corporate Information, Section 2. Business Overview, 3. Management's Analysis of Financial Conditions, Operating Results, and Cash Flows.

(5) Priority Business and Financial Issues to be Addressed

Despite the emergence of a historic pandemic and geopolitical risks, we maintained stable investment performance. As a result, the Group's assets under management (AUM) increased 1.3% year over year to JPY 1.55 trillion (*Note 1).

Operating profit decreased 1.8% YoY to JPY 14.04 billion due to a significant decrease in performance fees, at a 61.8% YoY drop to JPY 1.20 billion. Meanwhile, management fees increased 15.2% YoY to JPY 12.57 billion, and cost controls remained at appropriate levels. As a result, base earnings (*Note 2), an indicator of profitability that provides a sustainable and stable foundation for the business, grew by 38.5% YoY to JPY 6.15 billion (from JPY 4.44 billion the previous year), a record high surpassing the last record from FY2006.

In the next fiscal year, we aim to maintain our performance quality and increase revenue and profit through the Group's robust human resources and investment capabilities. Furthermore, to realize the Group's mission of "making the world wealthier, healthier, and happier," we will also focus on addressing the issues below to keep improving corporate value through ESG (*Note 3) initiatives.

First, to achieve AUM of JPY 3 trillion by end of March 2026, we will continue bolstering and expanding our hybrid business model of stable and profitable investment strategies that are not subject to market fluctuations.

Our four growth pillars (Japanese equities, One Asia equities, real assets, and private equity) have long combined the highly profitable listed equities investment strategies and the highly stable real assets/private equity investment strategies. In addition to continually improving the AUM for these pillars to our goal of JPY 3 trillion by month-end March, 2026, we will continue to build on the Group's unique and innovative investment strategies and further diversify and stabilize our business model to realize sustainable corporate value growth.

We will also clarify our initiatives related to Group materiality and sustainability by incorporating our mission, vision, and purpose into our overall business model, including investment strategies that both do and do not clearly target ESG issues directly, with the former represented by the Japanese Equity Sustainable and Renewable Energy Investment Strategies. At the same time, we will engage in investor relations to ensure that the stock market appropriately evaluates us through adequate communication on the Group's strengths, including synergies from investment diversification.

The primary pressing issues we need to address regarding our four pillars as follows:

The Japanese Equity Investment Strategy, for example, received an award from R&I—a leading external rating organization—in April for the best 10-year track record in the domestic equity core fund category for the second consecutive year. Against the backdrop of stably maintaining high performance for so many years, we plan to further our efforts in profitable alternative products, including long-short and engagement strategies, which recovered JPY 100 billion of AUM in the current fiscal year.

We continue to receive considerable interest in our sustainable investment strategies, especially from overseas institutional investors, as demand for ESG investments accelerates, especially in Europe. We have been aware of the basic ideas behind ESG investment in our investment research since our founding. We have accumulated specific ESG investment research and analysis experience from the earliest stages of our business. Going forward, we will continue to expand AUM while maintaining high-quality management, rather than simply seeking out short-term profit.

In our One Asia Equity Investment Strategy, we are bearing fruit by improving our management capabilities through the concerted efforts of the three bases in Japan, South Korea, and Hong Kong. Our South Korean subsidiary has returned to profitability for the first time in six years. Over the medium to long term, we will take time building a multi-layered, high-quality management system to expand this investment strategy to at least the same scale as the Japanese Equity Investment Strategy, capturing future Asian growth.

For the Real Asset Investment Strategy, we will shift the development focus from solar power to biomass, geothermal, and other power plants that should continue providing high investment returns. We will also maintain active expansion into green hydrogen (*Note 4) and corporate PPA (*Note 5) in anticipation of the end of the feed-in-tariff (FIT) system.

In the Private Equity Investment Strategy, we have begun accepting investments for Mirai Creation Fund III, which includes companies that contribute to carbon neutrality as its new targets. As of March 31, 2022, AUM amounted to JPY 51.5 billion for the strategy. As the portfolio companies for Mirai Creation Funds I and II issue IPOs or otherwise pursue exits, the Group recognizes a portion of these proceeds as performance fees. We intend to continue focusing on sales to maximize this income source. Moreover, through steady, high-quality investments, the Space Frontier Fund and Japan Monozukuri Mirai Fund aim to contribute to future society by discovering and cultivating companies that are world leaders in innovative technologies and business models. As one of the largest venture capital firms in Japan, we will continue to expand these investment strategies by identifying new, unique investment opportunities.

Alongside these four pillars, we will allocate some Company capital and Group resources, based on a conservative financial management policy, to areas where quantum computing and other new tools have links with energy, medical and healthcare, and fintech, presumably AI-driven growth areas in the new era. We will also expand our business portfolio by building new businesses based on our accumulated investment capabilities and further promote unique investments that contribute to an improved ROE. Through investments in growth areas, we will invigorate our corporate culture and entrepreneurial spirit to create new businesses from scratch, further strengthen our existing fund business, and create a robust organization capable of autonomously continuing new initiatives while passing down our corporate culture and unwavering investment philosophy to the next generation.

<u>Our second task is to prepare for future growth by redefining and advocating for the values we must cherish again to build a new way of doing business and working adapted to the post-COVID era.</u>

Since the start of the COVID pandemic in spring 2020, we have accelerated our internal DX so that almost all operations can be handled remotely from our employees' homes. We have also bolstered our operational security during this fiscal year. Besides these infrastructure-oriented measures, we will further improve the working conditions for talented employees who are willing and able to maintain contributions to the Group no matter their circumstances, including childcare, healthcare, dual employment, and handicaps. These systemic improvements include expanding our part-time shift and telecommuting systems to suit the Group's needs.

On the other hand, when employees work physically and temporally apart from each other under various circumstances, we could expect them to naturally drift away from each other. To counter this process, we must be creative in maintaining the ties that bring our people together through the activities that serve as the foundation of the Group's characteristic business. These ties require that we share our values—including the Group's long-held focus on communication and a first-hand perspective—research activities based on a bottom-up approach—including direct engagement with corporate management—and conduct sales that emphasize careful and direct explanations of our investment philosophy and other Group features. To this end, during this fiscal year, we divided all employees, including those at our overseas subsidiaries, into small groups of about 10, and held sessions in which Founder and Group CEO Shuhei Abe spoke directly with each group through a remote connection. In these sessions, Abe spoke to all employees in his own words, encouraging discussion and deepening understanding of the Group's history, values, and uniqueness, once again aligning the Group's vectors.

Soon, we will summarize these sessions and share them with our shareholders, investors, and other stakeholders to help them understand our purpose, vision, mission, and values—the so-called "Constitution" – fundamental principles of the SPARX Group. We will also make concrete efforts to disseminate them within the Group.

It is no exaggeration to say that the Group's business is all about people. Under the Group's Constitution, which we reaffirmed with all employees, we respect all kinds of diversity, including gender, nationality, new graduates and mid-career hires, senior/experienced employees and young employees. We will raise our employee engagement by providing a place for talented these professionals to work hard with like-minded individuals and find opportunities for and experience personal growth.

<u>Third, we will develop and appoint the next generation of management and upgrade our governance structure.</u>

Appointing the Group's next CEO remains a crucial management issue. Therefore, the board of directors is establishing objective, timely, and transparent procedures through which it can give sufficient time and resources to formulating and implementing a CEO succession plan and training successor candidates.

A crucial prerequisite for the next generation of management is that candidates possess considerable expertise and experience as well as a magnanimous personality. Since our founding in 1989, we have thoroughly pursued a bottom-up approach to researching each and every candidate investment, visiting them onsite to get a matter-of-fact perspective and make an informed judgment. It is also essential that our executives and employees share and practice the values that they naturally acquire through repeatedly pursuing this bottom-up approach every day. We give those professionals who meet these requirements challenging tasks to encourage self-learning, while taking the time needed to develop the outstanding human resources hired from outside the Group, including those from different industries, and having them compete with each other. We promote those who have achieved results and received public recognition as the CEO for the next generation.

To further training outstanding management candidates, the Group adopted a governance structure using an Audit and Supervisory Committee during the 31st annual general meetings of shareholders. Delineating the boundary between management audits and executive action, improving the supervisory function of the Board of Directors, and largely transferring authority from the Board to the directors themselves should accelerate executive action, helping us achieve this training goal. We will also create opportunities to learn directly from the CEO about how to create businesses by participating in CEO-led projects, including investing in growth areas for the new era, which we discussed above with the first issue. Moreover, we will apply a process of training investors by passing on investment skills and techniques through the Buffett Club, an internal study group, and on-the-job training to fostering entrepreneurs, which will also serve in training the CEO for the next generation. As mentioned in the second issue, we also promote our corporate philosophy, the Group's new Constitution, to ensure that our founders' ideas, which we have cherished since the beginning, are passed on to the organization that has the next-generation CEO at its core.

On April 4, 2022, the Group moved to the Prime Market, the Tokyo Stock Exchange's new market classification. Companies listed on the Prime Market must have higher standards of governance, focus on constructive dialogue with global investors, and commit to sustainable growth and medium- to long-term corporate value enhancement. As Japan's first independent listed investment company, the SPARX Group has a responsibility to faithfully practice both the Stewardship Code and the Corporate Governance Code. To fulfill this responsibility, we constantly seek and practice advancements in governance systems that are unique to our Group and in line with the demands of the times.

Notes:

1. Assets under management for this consolidated fiscal year are preliminary figure (as of March 31, 2022).
2. Base earnings demonstrate whether a business has the earning capacity needed for a sustainable, stable foundation. We use the following formula to calculate base earnings:
   Base earnings = Management fees (after deducting commissions) - Ordinary expenses
3. ESG stands for Environment, Social, and Governance. These three perspectives are considered vital for a company to achieve medium- to long-term growth.
4. Green hydrogen is produced by electrolyzing water and reducing it to hydrogen and oxygen. Society can use this hydrogen, thereby releasing oxygen into the atmosphere, without harming the environment. Electricity is required for electrolysis, but the green hydrogen production process can be done carbon-free by using renewable energy.
5. Corporate Power Purchase Agreements (PPAs) are agreements whereby corporations, municipalities, and other legal entities (electricity consumers) purchase renewable energy-generated electricity directly from power generators over the long term (usually, 10–25 years). Generally, corporate PPAs are used in contrast to national renewable energy purchase frameworks, such as a feed-in-tariff (FIT) or feed-in-premium (FIP) system. Through a corporate PPA framework, a private company enters into a long-term purchase agreement for renewable energy power on its own without using public renewable energy support programs.

2. Business and Other Risks

The below list indicates the leading risks that management recognizes as having the potential to materially affect the consolidated companies' financial position, operating results, and cash flows from among the business and accounting matters discussed in the Annual Securities Report.

Forward-looking statements are based on the Group's judgment as of this consolidated fiscal year-end.

We do not guarantee any achievements based on these statements.

① Risks Associated with the Nature of Our Business

・ Risks associated with products and services provided to clients

Most of the Group's revenues consist of investment advisory fees related to business of investment trust management, discretionary investment management and investment advisory. Moreover, most of the Group's assets under management are invested in listed equities in Japan and other Asian countries. Therefore, several factors heavily influence the Group's assets under management and investment performance. These factors include global economic trends; climate-change-fueled extreme weather conditions and natural disasters; pandemics, conflicts, wars, and other events affecting Japanese and other Asian stock markets; and client asset allocation policies regarding listed stocks in these regions.

Furthermore, with the emergence of environmental, social, and governance (ESG) issues such as climate change, the Group's stakeholders expect it to act as a responsible investor and make responsible investments that account for ESG issues. If the Group's responsible investment initiatives and disclosures deviate significantly from expectations, it may harm performance, including decreased management fees due to a decline in assets under management.

In response to such risks, the Group has been diversifying its investment strategy in managing listed equities, while simultaneously focusing on developing, offering, and steadily expanding products targeting real estate, renewable energy power generation, and private equities. As a result, even if the poor stock market conditions in Japan and other Asian countries were to persist, they now have a relatively insignificant impact on the Group's overall performance compared to in the past. Thus, we believe we have reinforced the Group's foundation for consistently posting base earnings.

To ensure appropriate ESG-conscious responsible investment, we have also established a Responsible Investment Committee chaired by the Group CIO, which discusses and promotes responsible investment in all the Group's investment strategies to ensure their proper implementation.

・ Risks associated with client base and sales channel instability

While the Group has built up a broad both domestic and international client network, that client base is not necessarily sufficient. Moreover, clients can terminate their contracts with the Group at any time with relatively short advance notice, or without any advance notice, depending on the contract. Except for certain investment advisory agreements and mutual funds, we have no lock-up periods that prohibit clients from terminating their contracts or withdrawing funds. Therefore, some clients may terminate all or part of their contracts, and others may follow suit, resulting in fund size contraction. If funds become smaller due to contract terminations, it may be challenging to collect funds from new or existing clients. This outcome could harm Group performance, including decreased management fees.

Unlike many other asset management companies, the Group is not affiliated with other banks, securities firms, insurance companies, or leading financial institutions. Therefore, as an independent asset management company, we have built our client base and sales channels on our own. Our competitors can leverage powerful sales channels and collect funds with relatively low cancellation risk through their affiliations with larger financial institutions. As a result, we have comparative disadvantage compared to them in terms of stability or durability of assets under management and operating revenue. Therefore, there is a risk that a future decline in management fees coinciding with falling Group assets under management due to client base and

sales channel instability may harm the Group's performance.
In response to such risks, the Group strives to reduce any dependence on specific investors and limit the number of cancellations that may occur. To achieve these goals, we prefer to build a foundation of small investor accounts, including funds from individual investors, rather than receiving massive capital inflows from a single institutional investor.

・ Risks associated with investment performance fluctuations
Deteriorating performance in assets under management entrusted to the Group by its clients could bring about challenges in maintaining contracts with existing clients and acquiring new contracts. These challenges could then fuel a decline in the Group's AUM balance and harm its performance and future business development. The Group also derives a portion of its operating revenue from performance fees based on investment performance. The revenue from performance fees fluctuates significantly each year, reflecting investment performance.
In response to such risks, the Group strives to share its investment philosophy and maintain and improve its investment management capabilities through internal study sessions, which have been held since its founding, to achieve stable and favorable investment performance.
Furthermore, the Group broadly classifies its investment strategies into alternative investment strategies with high performance fees rate and traditional investment strategies with low performance fees rate. One of its operating policies is to maintain high incidental rates of these fees. However, they may fluctuate depending on the Group's investment performance based on such trends, changes in client asset allocation policies, and market trends—including Japanese and Asian stock market fluctuations.
In response to such risks, the Group focuses on marketing activities that bolster the AUM for funds with performance fees in its existing strategies, while also working to create frameworks that allow it to recognize performance fees in new strategies.

・ Risks associated with expanding investment targets
In addition to the business of managing listed equities in Japan and other Asian countries, the Group is also focusing on developing and providing products for managing real estate, renewable energy power station projects, and other infrastructure assets.
Business development in these areas requires securing resources and personnel with experience and knowledge not present among existing staff. There is a risk that business development may take longer than expected or that the burden of the initial investment may temporarily harm profitability. There are also unique risks in these business segments, including the possibility that the Group may be held liable for damages incurred by third parties by promoting individual projects. Furthermore, the unlikely event that we lose the trust of our clients or the market, or are subject to administrative action by regulatory authorities, may harm our business, operating results, and financial position. In addition, the market is not necessarily mature in new segments, so there is a possibility of revisions or changes to interpretations and applications of laws and regulations, which may hinder future business development and performance.
In response to such risks, the Group takes measures to avoid them to the extent possible through insurance or contract clauses for each project. It also strives to fully understand legal regulations, build internal control systems, and enhance its human resources to achieve these aims. We also seek plenty of advice from outside experts who are familiar with any given area. Moreover, we strive to prevent losses from increasing due to delayed decisions through efforts that include clarifying the criteria for withdrawal.

・ Risks associated with funds the group manages and operates
In the event that the Group is involved in a fund as an unlimited liability partner or general partner, there is no risk of losses exceeding our investment and being held liable for such losses, as long as the fund is managed per its investment policy and restrictions. Therefore, we do not foresee a situation in which the Group would be liable for any losses from a fund's investment policies and restrictions. Nevertheless, we cannot completely rule out the possibility of incurring

losses in excess of our investment due to some deviation, which could harm the Group’s business performance.

In response to such risks, the Group has established a system to confirm that contracts with other funds are appropriate and that these funds are appropriately managed per their investment restrictions.

・ Risks associated with the emergence of contingent liabilities related to credit provision

In establishing investment frameworks for real estate, power generation, and other real asset, there are exceptional cases in which the Group needs to provide guarantees or other forms of credit through its subsidiaries or investment frameworks. In the event that the party receiving this credit cannot fulfill its obligations as a party to the transaction due to deterioration in creditworthiness or bankruptcy, a risk of contingent liabilities related to the credit extension may materialize, potentially impeding the Group’s business activities and harming its performance.

In response to such risks, the Group seeks plenty of advice from outside experts in advance and carefully examines the risk of executing guarantees and so forth. We strive to extend credit only to a limited number of companies for which we judge the materialization risk as extremely low.

・ Risks associated with assigning directors to portfolio companies

The Group may assign its officers or employees as directors at portfolio companies to help them improve corporate value. In the event of a claim for damages against an officer or employee, the Group may be liable for all or part of the economic loss incurred by that individual and subject to the employer’s liability.

In response to such risks, the Group requires its portfolio companies to have directors’ and officers’ liability insurance (D&O insurance) or to conclude liability limitation agreements. It also reviews portfolio companies’ locations and business types to ensure that the officers and employees it dispatches are covered by the D&O insurance that the companies have in place.

② Risks Associated with the External Business Environment

・ Risks associated with competing against other companies

The asset management industry, especially the investment advisory business, has relatively low barriers to entry compared to other sectors in the financial industry. Thus we must always be prepared to face competition from new entrants from Japan and abroad. The growing global need for asset management services is a tailwind for the asset management industry as a whole. However, it is also possible that this growth will further encourage new entrants into the industry. Moreover, leading domestic and foreign financial institutions may position asset management services as a keystone of their management strategies and actively invest management resources in this area. The scale and strength of the Group’s competitors may also increase due to consolidation within the industry. Furthermore, competitors may seek to transfer or hire the Group’s fund managers and other employees.

We expect this competition to intensify, making it increasingly challenging to acquire and retain clients and impact our management and performance fee rates, harming the Group’s performance.

In response to such risks, the Group has been diversifying its investment strategy in managing listed equities in Japan and other Asian countries, while simultaneously focusing on developing, offering, and steadily expanding products targeting real estate, renewable energy power generation, and private equities. As a result, we are differentiating ourselves from our competitors by developing unique businesses that the competition does not have.

We believe that the most crucial aspects of the asset management business are taking the time to build an investment management system that can deeply understand, share, and practice the Group’s investment philosophy, and accumulating excellent investment results over the long term through this investment management system. Competing companies cannot easily match the value that such an approach creates. Therefore, we will continue to maintain and strengthen this value and make it a pillar of the Group’s brand.

We also strive to maintain a corporate culture that encourages the outstanding human resources we hire to engage in friendly competition with each other and work with discretion to realize their own growth through all opportunities provided. Furthermore, we are committed to providing a professional nurturing ground that strongly motivates employees through programs that offer appropriate monetary and non-monetary incentives.

・ Risks associated with foreign exchange market fluctuations

Since the Group's financial statements are presented in yen, fluctuations in foreign exchange rates affect the yen-translated amounts of assets and liabilities denominated in foreign currencies. When we consolidate our overseas subsidiaries, the yen equivalent of their foreign currency denominated assets, liabilities, revenues, and expenses also change, resulting in changes in the "foreign currency translation adjustments" on the consolidated balance sheets and statements of comprehensive income.

Furthermore, while most of the operating revenues of Japanese subsidiaries are denominated in yen, foreign exchange rate fluctuations may cause losses when converting specific foreign currency-denominated transactions into yen. If foreign currency-denominated transactions increase due to more contracts with non-Japanese clients, the risk of exchange rate fluctuations may increase.

In response to these risks, the Group uses forward exchange contracts and other policies to hedge against exchange rate risks, minimizing their impact on performance.

③ Risks Associated with Internal Controls

・ Risks associated with M&A transactions in Asia

To provide domestic and foreign investors with growth opportunities in Asia, the Group works to develop a network of investment management companies in the region.

In February 2005, the Group acquired most of the outstanding shares of SPARX Asset Management Korea ("SPARX Korea"). In June 2006, we acquired all shares of Hong Kong-based SPARX Asia Capital Management Limited (formerly PMA Capital Management Limited). Furthermore, in April 2014, the Group acquired shares in SPARX Asset Trust & Management (formerly Japan Asset Trust), which operates a comprehensive real estate investment advisory business (combining a so-called discretionary real estate investment management business with a real estate investment advisory), and made it a wholly owned subsidiary.

However, in the event that business development based on an M&A strategy does not progress as planned, or that an acquired company's performance deteriorates significantly due to unforeseen changes in the business environment, it may harm the Group's operating results and financial position.

In response to such risks, the Group works to improve the management capabilities of each of its investment management bases in Japan, Korea, and Hong Kong by ensuring that they share SPARX's investment philosophy. At the same time, each company strives to improve its performance by working with each other. The Group has also established an adequate internal management system, including regular performance monitoring by the Board of Directors, to confirm the progress of each subsidiaries' business plan.

・ Risks associated with investments from proprietary funds

The Group uses its own capitals to invest in Group-managed funds and growth sectors, including quantum computing, medical and healthcare. As of March 31, 2022, the Group's investment securities balance was JPY 12.15 billion, accounting for 32.7% of total assets. This investment has varied over time and may significantly fluctuate based on the balance of surplus capital, market conditions, and the Group's investment performance. For the investment securities, we recognize the difference between the acquisition cost and market value under "valuation difference on AFS securities" on the balance sheet after accounting for taxes. However, in the event of actually canceling or redeeming securities with a market value below their acquisition cost, or in the event of a significant decline in their market value, the P/L statement would reflect impairment losses as losses on sales or valuation losses, which may harm the Group’s performance. On the other hand, for non-marketable and investment securities, we recognize them on the balance sheet at their acquisition costs. In the event that the asset value of these securities declines due to poor portfolio company performance or other factors, the P/L statement would reflect impairment losses as valuation losses, which may harm the Group’s performance.

In response to such risks, the Group manages to keep the total investments within a specific range of consolidated net assets, monitors marketable and investment securities every month to determine their market value and profit/loss, and monitors non-marketable and investment securities every quarter to assess their business progress, financial conditions, and other factors. These efforts allow the Group to regularly review the progress of all portfolio companies.

・ Risks associated with taxes

The Group conducts domestic and international business and pays appropriate taxes based on each country’s tax laws. However, there is a risk that inadequate responses to changes in tax arrangements between countries or regions or tax system operations or interpretations in a given country or region could harm future business development and the Group’s performance.

In response to such risks, the Group strives to make appropriate tax decisions by receiving advice from tax advisors in each country or Groupwide to ensure that it pays applicable taxes.

・ Risks associated with securing human resources

The Group must secure the right human resources at the right times, across all divisions, to maintain its business and achieve growth. To this end, we will continue to hire and train talented individuals. However, in the event that outstanding personnel leave the company, or personnel recruitment and training does not proceed as planned, it may hinder the Group’s business and harm its performance.

In response to such risks, the Group has established rules for recruitment in line with the vision statement it created, aiming to internally promote its mission of “making the world wealthier, healthier, and happier” by “becoming the world’s most trusted and respected investment company.” We also encourage the outstanding human resources we hire to engage in friendly competition with each other and work with discretion to realize their own growth through all opportunities provided. Furthermore, we are committed to providing a professional nurturing ground that strongly motivates employees through programs that offer appropriate monetary and non-monetary incentives.

・ Risks associated with outside vendors

The Group uses many outside vendors in conducting its business. These include the trustee banks (in the case of discretionary investment contracts with domestic clients and investment trust management contracts) and custodian banks (in the case of discretionary investment contracts with foreign clients) designated to safeguard and manage investment trust assets and client assets, and the securities firms that execute transactions. In the event that the outside vendors the Group uses were to experience difficulties in providing stable services, it could harm the Group’s operations. It could also indirectly harm the Group’s credibility.

In response to such risks, the Group strives to ensure that it does not rely on specific outside vendors to conduct its business and confirms that the vendors can provide stable services by constantly monitoring them, including periodic inspections.

We also monitor fund distributors to ensure that they comply with anti-money laundering and countering financing of terrorism (AML/CFT) regulations, which have recently been tightened.

・ Risks associated with system failures

Computer systems are indispensable for the Group’s operations, and any failure could harm the Group’s business. Moreover, various factors could cause modifications to or loss of crucial Group data. These factors include terrorism; windstorms, floods, earthquakes, and other natural disasters resulting from extreme weather conditions caused by climate change; and increasingly sophisticated cyberattacks and other unauthorized access from external sources. An unexpected system failure could harm the Group’s operations.

In response to such risks, the Group is working to ensure the stable operation and maintenance of its systems and the confidentiality, integrity, and availability of the information assets it holds by establishing information security regulations, improving systems, enhancing servers, and using highly reliable data centers. Furthermore, in light of the increasing sophistication of cyberattacks, we are striving to strengthen cybersecurity by establishing cybersecurity regulations, appropriately addressing system vulnerabilities through multi-layered defense (entrance, internal, and exit measures), and conducting periodic training. We have also formulated a plan for business continuity and taken steps to mitigate any disruption to operations in the event of an accident or disaster.

・ Risks associated with errors, misconduct, and information leaks by officers and employees

In the event of operational errors, misconduct, or information leaks or misuse by our officers and employees, the Group may be liable for damages incurred by third parties and lose the trust of our clients and the market. Moreover, we may be subject to administrative sanctions from the regulatory authorities, which may harm our business, operating results, and financial position.

In response to such risks, the Group has taken measures to prevent errors by officers and employees by establishing internal operational procedures. It has also built security systems that reflect the materiality of the data they hold and that prevent leaks. Additionally, we compile operational near misses (recognized cases that do not directly lead to severe disasters or accidents but are one step short) as incident reports and share these at internal committee meetings to continuously improve operations. Since the possibility of business-related errors has become notably higher due to the advance of telecommuting during the COVID pandemic, we have taken further measures to prevent mistakes by officers and employees by establishing internal operational procedures. We also strive to continuously raise officer and employee awareness through compliance and information security training programs.

④ Other Risks

・ Risks associated with legal regulations

In Japan, the Group is engaged in the asset management business, investment advisory business, Type 1 Financial Instruments Business, and Type 2 Financial Instruments Business as defined in the Financial Instruments and Exchange Act, as well as other related or incidental businesses. Therefore, we must comply with various laws and regulations, including the Financial Instruments and Exchange Act.

The Group currently holds the below licenses, permits, and registrations (“Licenses and Permits”) for its principal operations. At present, there are no circumstances that would lead to the revocation of any of the above licenses or permits. However, in the event that such licenses or permits are revoked for some reason, it may harm the Group’s business promotion.

Acquirer/registrant name	SPARX Asset Management Co., Ltd.	SPARX Asset Trust & Management Co., Ltd.
Date of acquisition	September 30, 2007	September 30, 2007
Permit/license name	Financial instruments business operator (registered)	Financial instruments business operator (registered)
Competent authorities	Financial Services Agency	Financial Services Agency
Permit/license details	Investment management Investment advice & brokerage Type I financial instrument trading Type II financial instrument trading Registration Number: Director of Kanto Local Finance Bureau, No. 346	Investment management Investment advice & brokerage Type II financial instrument trading Registration Number: Director of Kanto Local Finance Bureau, No. 783
Expiration dates	No expiration date specified.	No expiration date specified.

Acquirer/registrant name	SPARX Asset Management Co., Ltd.	SPARX Asset Trust & Management Co., Ltd.
Prerequisites for legal violations and primary reasons for permit/license revocation	Registration revoked in the event of any violation of Article 52 of the Financial Instruments and Exchange Act, including registrations obtained through fraudulent means, directors who fall under any grounds for disqualification, or net assets failing to meet the required and appropriate levels	Registration revoked in the event of any violation of Article 52 of the Financial Instruments and Exchange Act, including registrations obtained through fraudulent means, directors who fall under any grounds for disqualification, or net assets failing to meet the required and appropriate levels

Acquirer/registrant name	SPARX Asset Trust & Management Co., Ltd.	SPARX Asset Trust & Management Co., Ltd.
Date of acquisition	April 28, 2022	July 15, 2021
Permit/license name	General real estate investment advisory (registered)	Housing land and building dealer (license)
Competent authorities	Ministry of Land, Infrastructure, Transport and Tourism	Tokyo Metropolitan Government
Permit/license details	General real estate investment advisory Registration number: Minister of Land, Infrastructure, Transport and Tourism, No. 149	License number: Governor of Tokyo (3), No. 86144
Expiration dates	From April 28, 2022 to April 27, 2027 (5 years) Renews every five years	From July 15, 2021 to July 14, 2026 (5 years) Renews every five years
Prerequisites for legal violations and primary reasons for permit/license revocation	Registration revoked in the event of any violation of Article 30 of the Official Real Estate Investment Advisory Registration Regulations, including registrations obtained through fraudulent means or directors who fall under any grounds for disqualification	License revoked in the event of any circumstances described in Article 66 of the Real Estate Brokerage Act, including registrations obtained through fraudulent means or directors who fall under any grounds for disqualification

As we are also engaged in the asset management business in South Korea, Hong Kong, Bermuda, and the Cayman Islands, we must comply with the laws and regulations of each country or region. In the event that we are subject to administrative guidance or disciplinary action by a supervisory authority with wide-reaching authority, we may have to restrict our normal business activities, or our clients may withdraw their assets, depending on the nature of and reason for the disciplinary action. Revisions or changing interpretations and applications to laws and regulations may also hinder future business development and performance.

The Group is also engaged in the renewable energy business based on existing climate change policies, laws and regulations, and market requirements. However, these regulations becoming stricter than anticipated could impact the Group’s business performance and financial position.

In response to such risks, all Group companies are working to create internal rules and monitoring systems and train all officers and employees to ensure compliance with domestic and foreign laws, regulations, and rules. At the same time, SPARX Group’s Compliance Committee monitors and provides guidance on intragroup transactions with conflicts of interest and other matters and strives to maintain and bolster an adequate compliance structure. Furthermore, the Group closely monitors trends in policies and revisions to laws and regulations related to its business to minimize the impact on operations.

・ Risks associated with potential lawsuits

There are currently no lawsuits or other legal actions that would significantly impact the Group’s business. There are also no disputes that could develop into lawsuits that would significantly impact the Group’s business. Nevertheless, due to the nature of the Group’s business, we may be subject to lawsuits in the event that the Group or its domestic or overseas subsidiaries violate related laws, regulations, or various contracts, resulting in losses to our clients. In the event that such a lawsuit is filed, it could harm the Group's performance, depending on the nature and amount of the lawsuit.

In response to such risks, the Group has established appropriate internal control systems at each group company and launched compliance committees at each company to monitor and provide guidance to ensure that there are no violations of related laws, regulations, or contracts. The Group's Compliance Committee coordinates these efforts to ensure that the Groupwide compliance system is maintained at an appropriate level.

One rule in the code of conduct that Group officers and employees must follow is "the sooner bad news is reported, the better." Per this rule, the Group has established a system to ensure that management promptly receives reports on client complaints and claims, regardless of size. Depending on the nature of the complaint, management will also take additional measures, including seeking plenty of advice from outside experts.

・ Risks associated with the high dependence on Shuhei Abe

Shuhei Abe—SPARX Group's founder and current CEO—plays a crucial role in deciding the direction of the Group's business operations and investment strategies. Thus, in the event that CEO Abe can no longer perform his regular duties for any reason, there is a risk that such a situation could have a somewhat negative impact on the Group's performance.

As of March 31, 2022, Abe is a leading Group shareholder, holding a majority of SPARX Group's shares himself and through a company in which he has invested (the "Abe Group"). The Abe Group can decide on essential corporate matters, including SPARX Group director appointments. In this regard, in the event that Mr. Abe was unable to appropriately exercise his voting rights for some reason and voted in a manner that harms our corporate value, there is a risk of considerable harm to the SPARX Group's interests and, in turn, shareholder interests.

In response to these risks, the Group continually strives to reduce its dependence on CEO Abe by creating a more organized administrative structure and training human resources who can be responsible for management.

・ Risks associated with determining the scope of consolidation

The Group is subject to the "Practical Solution on Applying Control and Influence Criteria to Investment Associations" (Practical Solution Report No. 20, Accounting Standards Board of Japan; last revised on March 25, 2011). Accordingly, the Group determines the scope of consolidation by considering the asset management agreement, silent partnership agreement, and other relevant agreements for each fund and SPC, examining the control and influence in each case, and delegating each project to a subsidiary or affiliate.

In the event that the establishment of new accounting standards or the release of practical guidelines brings about an accounting practice that significantly differs from the policies the Group adopted for determining the scope of consolidation for each fund and SPC, it could trigger significant changes in this scope within the Group, which may impact its financial position and operating results.

In response to such risks, the Group will closely monitor trends in new accounting standards and practical guidelines even before they are established and enacted to minimize their impact. We will also individually confirm the existence of control and influence when entering into agreements with new funds and SPCs.

・ Risks associated with debt financing

To date, the Group has raised funds through issuing additional shares, bank loans, and corporate bonds while utilizing its own funds, primarily for business development in Asia. As of March 31, 2022, external interest-bearing debt amounted to JPY 9 billion, and the issuer rating obtained from Rating and Investment Information, Inc., as of March 31, 2022, was BBB+ (Stable). However, there is a risk that a credit contraction in the financial markets or an increase in interest rates could harm our ability to raise additional funds.

In response to these risks, the Group will continue to adhere to a conservative financial policy and strive to raise funds that contribute to business development through financial planning and financing that pay heed to balance sheet soundness and cash flow stability.

・ Risks associated with climate change

The Group recognizes that climate change is a threat to the environment, society, people's lives, and business activities and that it is one of the most critical global issues that could impact financial market stability. However, as a listed company, inadequate disclosure, or the appearance thereof, of information regarding the impact of climate change-related risks and opportunities on corporate business activities and earnings could damage the Group's corporate value, potentially harming its business, financial position, and operating results.

In response to these risks, the Group has expressed its support for the recommendations on climate-related financial disclosures developed by the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board (FSB). Accordingly, we will collect and analyze the necessary data and work to identify and assess risks and enhance information disclosure in line with the TCFD.

・ Risks associated with sharing information through social media and other outlets

In the event that negative rumors about the Group or its business, in general, arise or spread through media reports, Internet forums, or postings on social media, regardless of whether or not they are based on accurate facts, the Group, its business, or the products or services it provides, may be exposed to risks of damage to their image or social credibility, ultimately impacting the Group's business performance and financial position.

In response to such risks, the Group monitors social media and Internet forums daily for malicious postings. If necessary, we will take action, including asking social media and forum operators to remove such postings.

3. Management's Analysis of Financial Conditions, Operating Results, and Cash Flows

Performance Overview

(1) Performance

This consolidated fiscal year, the Japanese stock market began on a slight uptick due to rising US stocks, fueled by improved employment statistics in the US and US President Joe Biden's USD-50-billion semiconductor production stimulus package. However, the Japanese market then turned down due to rising concerns about US long-term interest rates and the outlook of the US stock market. Subsequent expectations of a global economic recovery, strong earnings from Japanese companies, and the promise of COVID vaccination progress in Japan caused the market to rally at times, but the upward movement was limited. Next, in mid-September, the Nikkei Stock Average recovered to the JPY 30,000 level, reflecting positive reactions to changes in the stagnant political situation, following LDP President Suga's announcement that he would not run in the next LDP presidential election. Nevertheless, the stock market fell due to the credit concerns of a leading Chinese real estate developer. It then rose because the ruling party won more House of Representatives seats than most had expected. After that, the emergence of a highly infectious new strain of COVID (Omicron) caused expectations for a resumption of economic activity to recede. As a result, the Nikkei Stock Average fell sharply, with the market experiencing repeated ups and downs. Entering 2022, the Japanese stock market declined due to heightened geopolitical risks in Ukraine. The Russian military attack on the Ukrainian capital and a nuclear power plant fueled market concerns, and the yen depreciated as the Bank of Japan maintained its monetary easing policy. As a result, the Nikkei Stock Average fell 4.7% YoY to close at JPY 27,821.43.

Under such market conditions, the Group's assets under management at fiscal year-end were JPY 1.55 trillion (Note 1), a YoY increase of 1.3%.

As a result, management fees (Note 2) for this consolidated fiscal year increased 15.2% YoY, to JPY 12.57 billion. However, performance fees (Note 3) fell 61.8% YoY to JPY 1.20 billion, while operating revenue followed suit, dropping 1.8% YoY to JPY 14.04 billion.

Operating and general administrative expenses declined by 4.6% YoY, to JPY 7.57 billion. This decline was due to cost reduction, mainly in office and ESOP expenses.

The overall outcome was 1.8% YoY growth in operating profit, at JPY 6.46 billion, and 0.8% YoY growth in ordinary profit, at JPY 6.24 billion. The Group also posted extraordinary income of JPY 663 million from selling some marketable investment securities and extraordinary losses of JPY 560 million from the depreciation of marketable investment securities. After posting taxes and other outlays, this fiscal year's profit attributable to owners of parent was JPY 4.07 billion, up by 17.4% YoY.

Base earnings (Note 4), an indicator of profitability that provides a sustainable and stable foundation for the business, grew by 38.5% YoY to JPY 6.15 billion (from JPY 4.44 billion the previous year) thanks to increased management fees, demonstrating steady improvement in the Group's effective earnings structure.

Notes

1. Assets under management for this consolidated fiscal year are preliminary figure (as of March 31, 2022).
2. Management fees include administrative fees for the power stations related to our Japanese renewable energy investment strategy.
3. Performance fees include fees generated from equity fund management performance, one-time fees the Group receives from funds for real estate purchases/sales related to our Japanese Real Estate Investment Strategy, one-time fees (acquisition fees) received as compensation for formulating power station plans related to our Japanese renewable energy investment strategy, and fees received when renewable energy funds sell their portfolio power plants and realize gains on the sale.
4. Base earnings are one of the Group's most critical management indicators. They represent recurring management fees (after deducting commissions) minus ordinary expenses.

(2) Cash Flows

Cash and cash equivalents (“cash on hand”) at the consolidated fiscal year-end decreased by JPY 735 million YoY to JPY 19.19 billion (down by 3.7% YoY).

The status of each cash flow and their primary factors during this consolidated fiscal year are as follows:

(Cash flow from operating activities)

The cash flow from operations in this consolidated fiscal year amounted to an income of JPY 2.66 billion (compared to JPY 6.11 billion in the previous year). This figure is primarily derived from pretax adjusted net income of JPY 6.34 billion and income taxes of JPY 3.62 billion.

(Cash flow from investing activities)

The cash flow from investments in this consolidated fiscal year amounted to an outlay of JPY 1.18 billion (compared to an outlay of JPY 2.90 billion in the previous year). This figure is primarily derived from an outlay of JPY 4.07 billion for purchasing marketable investment securities and income of JPY 2.57 billion from selling and redeeming marketable investment securities.

(Cash flow from financing activities)

The cash flow from financing in this consolidated fiscal year amounted to an outlay of JPY 2.48 billion (compared to an outlay of JPY 1.84 billion in the previous year). This figure is primarily derived from a dividend payment of JPY 2.22 billion and a treasury stock acquisition of JPY 252 million.

Operational Performance

(1) Operating revenue results

The Group's consolidated operating revenue breaks down as follows:

Item	Previous consolidated fiscal year (FY2020)		This consolidated fiscal year (FY2021)	
	Amount (Millions of yen)	Component ratio (%)	Amount (Millions of yen)	Component ratio (%)
Management fees	10,922	76.4%	12,577	89.6%
Performance fees (see note)	3,166	22.1%	1,208	8.6%
Other	206	1.5%	258	1.8%
Total operating revenue	14,295	100.0%	14,043	100.0%

Notes: Performance fees include JPY 605 million from listed equity investment strategies (JPY 1.62 billion in the previous year), JPY 356 million in acquisition fees from the Renewable Energy Investment Strategy (JPY 1.06 billion in the previous year), and JPY 246 million in fees renewable energy funds received from selling portfolio power plants and realizing gains on the sale (JPY 470 million in the previous year).

・ Management fees

The following table shows the change in the management fee rate (net basis).

Category	Previous consolidated fiscal year (FY2020)	This consolidated fiscal year (FY2021)
SPARX Group management fee rate (net basis)	0.69%	0.69%

Notes: Management fee rate (net basis) = (Management fees - Commissions paid related to management fees) ÷ Average assets under management during the period.

Performance fees

(Related to equity funds)

In simple cases, we calculate performance fees by multiplying the price increase in the net asset value per share (NAVPS) when the NAVPS for the fund accounting period exceeds the NAVPS for the previous fund accounting period by a fixed rate (using the so-called "high watermark" method).

Additionally, depending on the contract, we may apply a fixed rate to the portion of the fund that exceeds the benchmark by a defined amount.

(Japanese renewable energy funds)

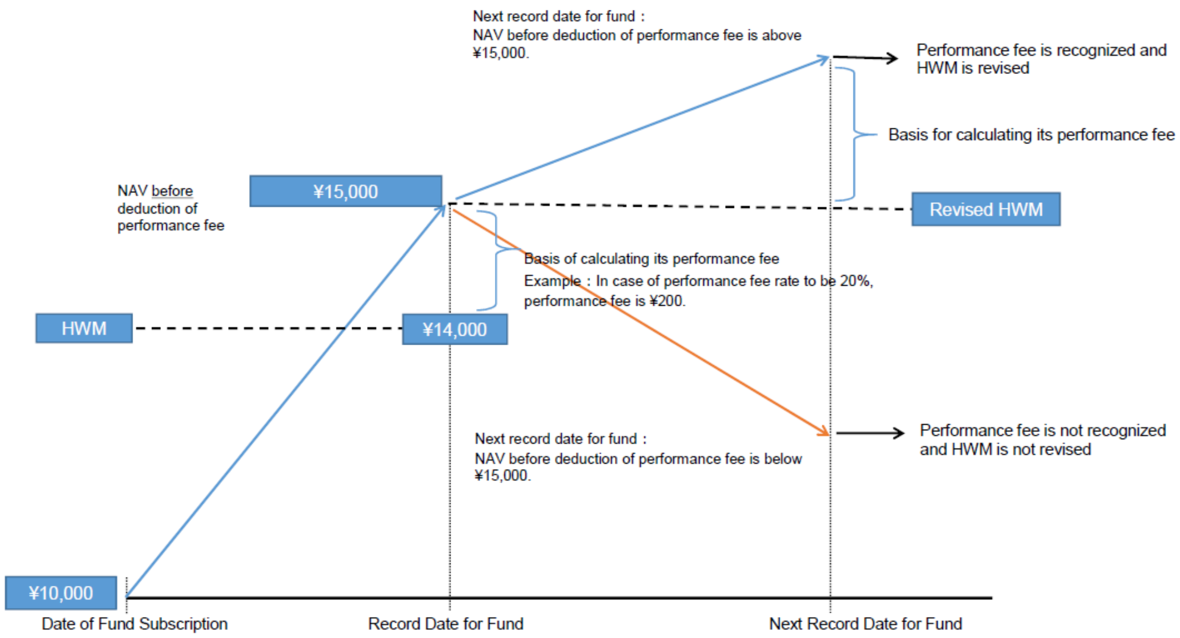
Sometimes, we receive a performance fee (acquisition fee), calculated by multiplying the project cost by a fixed rate. The formula applies when a series of power plant development processes are successful, including the business plan formulation, construction contractor selection and management, feed-in-tariff certification procedures, and financing.

Moreover, when a subsidiary-managed renewable energy fund (the Greenfield Investment Fund (*)) sells a portfolio power plant and realizes gains on the sale, it may receive a performance fee equal to the gains multiplied by a fixed rate.

In such sales, a different subsidiary-managed renewable energy fund (the Brownfield Investment Fund (*)) is also a candidate buyer. However, even in such a case, both subsidiaries managing the two funds make independent decisions under appropriate conflict of interest management and execute the transaction on the best terms and conditions for investors of both funds. When determining the transfer price, we use appraisals by external appraisal agencies.

(*) The Greenfield Investment Fund invests in power plants during the development stage. On the other hand, the Brownfield Investment Fund invests in operational power plants.

The High Water Mark (HWM) Performance Fee Structure, a Common Approach to Absolute Return Management



Notes:

1. The chart above represents a simple summary of our performance fee system, not a detailed description of our actual performance fees structure or how we calculate fund NAV.
2. The calculations for this chart use a placeholder performance fee rate of 20% for convenience of explanation.

(2) Performance of assets under management

The table below shows the Group's fund assets under management for this fiscal year. The non-JPY assets under management are converted into JPY using the month-end exchange rate at the time of conversion.

The Group aims to grow by bolstering and expanding its hybrid business model, which consists of highly profitable and stable investment strategies that are not subject to market fluctuations. Its four existing investment strategy pillars are: Japanese equities, OneAsia, real assets, and private equity.

① Quarterly assets under management by strategy

(Hundred millions of yen)

Investment strategy	June 2021	September 2021	December 2021	March 2022
Japanese Equity	10,460	11,307	11,326	10,210
OneAsia	1,366	1,171	1,180	1,050
Real assets	2,538	2,538	2,543	2,564
Private Equity	1,162	1,174	1,457	1,731
Total	15,528	16,191	16,507	15,557

Notes: 1. Amounts are net assets at market value, rounded down to the indicated unit.
2. The balance of assets under management as of March 31, 2022, is a preliminary figure.

② Average assets under management

(Hundred millions of yen)

	FY2020 consolidated fiscal year	FY2021 consolidated fiscal year
Group totals	13,438	15,719

Notes: 1. This figure is a simple average of the assets under management at the end of each period.
2. Amounts are net assets at market value, rounded down to the indicated unit.
3. The balance of assets under management as of March 31, 2022, is a preliminary figure.

③ Assets under management with performance fees and ratios

Company name		March 2021	March 2022
Group totals	Balance (hundred millions of yen)	4,987	5,710
	Ratio (%)	32.5	36.7

Notes: 1. Amounts are net assets at market value, rounded down to the indicated unit.
2. The balance of assets under management as of March 31, 2022, is a preliminary figure.

Management's Discussion and Analysis of Operating Results

The section below discusses and analyzes the Group's operating results from the management's perspective.

Forward-looking statements are based on our judgment as of the consolidated fiscal year-end.

(1) Important accounting policies and estimates

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"). For more information on this process, see Basic Principles in Creating the Consolidated Financial Statements in Section 5. Accounting Practices below.

(2) Operating results analysis for the consolidated fiscal year

Despite the emergence of a historic pandemic and geopolitical risks, the Group maintained stable investment management performance. As a result of continued cost controls, we increased our base earnings to a record high, demonstrating our stable earnings potential.

In this consolidated fiscal year, operating revenue decreased 1.8% to JPY 14.04 billion, mainly due to a decrease in performance fees. However, the average assets under management (AUM) were JPY 228.1 billion higher than the previous fiscal year, and management fees grew by 15.2% to JPY 12.57 billion. From the cost perspective, ordinary expenses totaled JPY 4.76 billion, mainly due to a decrease in office-related costs, resulting in base earnings of JPY 6.15 billion, a record high since FY2006. We believe that our profitability is steadily growing. Operating profit rose by 1.8% to JPY 6.46 billion, and profit attributable to owners of parent increased 17.4% to JPY 4.07 billion, partly due to extraordinary income.

In this consolidated fiscal year (ending March 31, 2022), the Group's assets under management (AUM) increased by 1.3% year over year, to JPY 1.55 trillion. Our current target is to double our AUM to JPY 3 trillion by March 2026. We aim to achieve JPY 3 trillion in AUM while maintaining our management performance quality through SPARX's outstanding human resources and investment capabilities.

Of our current AUM of JPY 1.55 trillion, JPY 1.02 trillion is invested in Japanese equities. This figure results from building SPARX's investment capabilities and management performance steadily over the 32 years since its establishment. One of our strategies that recognize performance fees through a hybrid income model is the Long-Short Strategy, which achieved its goal of JPY 100 billion in AUM in the previous fiscal year. Maintaining and increasing the AUM of investment strategies with such performance fees is one of SPARX's strengths and forms the basis of its unrivaled uniqueness. SPARX has been at the vanguard of analyzing and studying ESG investing. Global investors are now approaching us with interest in ESG investment in Japan. We believe we have established a foothold to lead the way in ESG investment and communicate it to the world.

We have also launched the One Asia investment strategy focused on Asian equities, investing as Asians for the benefit of Asia. Over the next three to five years, we aim to grow the AUM for this strategy to be the same size or even bigger than our Japanese equities strategy.

Turning to our investments in renewable energy power plants, we believe that taking an investment firm's initiative to address the significant themes of our time, namely renewable energy and climate change, could very well be an essential step in this strategy. Our approach includes creating additional value by leveraging our group of more than 30 renewable energy power plants across Japan, which SPARX has financed and is currently operating.

As for our private equity strategy, the Mirai Creation Fund II is steadily making investments. We also established the third Mirai Creation fund III last fiscal year, and it already has JPY 51.5 billion in AUM as of FY2021. We have become one of the most prominent venture capital firms in Japan in terms of both size and investment performance.

With our desire to become the most trusted and respected investment company in the world—a vision since our founding—we will make every effort to maintain our leading position as a company that earns the support of its shareholders.

An analysis of our operating results is under (1) Performance in Section 2. Business Overview, 3. Management's Analysis of Financial Conditions, Operating Results, and Cash Flows.

Outlook for next fiscal year

We recognize the challenge in forecasting future performance in the Group's primary business of investment trust management, discretionary investment management and investment advisory, as economic and market conditions heavily influence performance. Therefore, we refrain from making specific announcements regarding the outlook for the next fiscal year.

(3) Financial situation analysis for this consolidated fiscal year

(Assets)

Total assets at the consolidated fiscal year-end decreased by JPY 845 million YoY to JPY 37.14 billion. The main components of the change were a JPY 735 million decrease in cash and deposits, a JPY 207 million increase in marketable investment securities, and a JPY 100 million decrease in long-term loans receivable.

(Liabilities and net assets)

Total liabilities at the consolidated fiscal year-end decreased by JPY 1.89 billion YoY to JPY 12.81 billion. The main component of the change was a JPY 1.46 billion decrease in income taxes payable.

Net assets at the consolidated fiscal year-end increased by JPY 1.04 billion YoY to JPY 24.32 billion. The main components of the change were a JPY 1.67 billion increase in retained earnings and a JPY 626 million decrease in valuation difference on AFS securities.

(4) Capital resources and cash liquidity

① Cash flow

An analysis of our cash flows is under (2) Cash Flows in Section 2. Business Overview, 3. Management's Analysis of Financial Conditions, Operating Results, and Cash Flows.

② Capital resources and cash liquidity

The Group's main demand for funds for investment purposes is due to seed money investments.

Short-term working capital is basically funded by cash on hand. Seed money investments are financed by cash on hand and long-term loans from financial institutions.

The balance of interest-bearing debt, including loans, at the consolidated fiscal year-end was JPY 9.13 billion. The balance of cash and cash equivalents at the consolidated fiscal year-end was JPY 19.19 billion.

4. Significant Operational Agreements

This item does not apply.

5. Research and Development

This item does not apply.

Section 3. Equipment and Facilities

1. Capital Investments Overview

This item does not apply.

2. Major Facilities

This item does not apply.

3. Plans for new additions or facilities disposals

This item does not apply.

Section 4. Filing Company

1. Information on the Company's Shares etc.

(1) Total Number of Shares

① Total number of Shares

Types	Total number of authorized shares (shares)
Common stock	644,000,000
Total	644,000,000

② Issued shares

Types	Number of shares issued as of the fiscal year-end (shares) (March 31, 2022)	Number of shares issued as of the filing date (shares) (June 24, 2022)	Name of listed financial instruments exchange or registered and licensed financial instruments business association	Details
Common stock	209,577,400	209,577,400	Tokyo Stock Exchange First Section (as of the fiscal year-end) Prime Market (as of the filing date)	The number of shares constituting one unit of stock is 100 shares.
Total	209,577,400	209,577,400	―	―

(2) Stock Acquisition Rights

① Details of Stock Option Plans

This item does not apply.

② Details of Rights Plans

This item does not apply.

③ Other stock acquisition rights, etc.

This item does not apply.

(3) Exercise status of bonds with stock acquisition rights containing a clause for exercise price adjustment, etc.

This item does not apply.

(4) Changes in Total Number of Shares Issued Shares and Capital, etc.

Date	Change in total number of shares issued (shares)	Total number of shares issued (shares)	Change in share capital (millions of yen)	Balance of share capital (millions of yen)	Change in legal capital surplus (millions of yen)	Balance of legal capital surplus (millions of yen)
December 29, 2017 Note 1	500	209,562,800	0	8,581	―	128
February 28, 2018 Note 2	1,500	209,564,300	1	8,582	―	128
April 30, 2018 Note 3	3,600	209,567,900	2	8,585	0	128
August 31, 2018 Note 4	1,000	209,568,900	0	8,585	0	128
December 31, 2018 Note 5	2,500	209,571,400	0	8,585	0	129
April 30, 2019 Note 6	6,000	209,577,400	1	8,587	1	130

Notes:

1. Exercising the 8th subscription warranty
Issued shares 500
Issuing price (for the 8th subscription warranty) JPY 1
Paid-in capital (for the 8th subscription warranty) JPY 1

2. Exercising the 8th subscription warranty
Issued shares 1,500
Issuing price (for the 8th subscription warranty) JPY 1
Paid-in capital (for the 8th subscription warranty) JPY 1

3. Exercising the 8th and 11th subscription warranties
Issued shares 3,600
Issuing price (for the 8th subscription warranty) JPY 1
(for the 11th subscription warranty) JPY 1
Paid-in capital (for the 8th subscription warranty) JPY 1
(for the 11th subscription warranty) JPY 1

4. Exercising the 11th subscription warranty
Issued shares 1,000
Issuing price (for the 11th subscription warranty) JPY 1
Paid-in capital (for the 11th subscription warranty) JPY 1

5. Exercising the 11th subscription warranty
Issued shares 2,500
Issuing price (for the 11th subscription warranty) JPY 1
Paid-in capital (for the 11th subscription warranty) JPY 1

6. Exercising the 11th subscription warranty
Issued shares 6,000
Issuing price (for the 11th subscription warranty) JPY 1
Paid-in capital (for the 11th subscription warranty) JPY 1

(5) Shareholder Status

As of March 31, 2022

Classification	Status of shares (100 shares per unit)								Shares less than one unit (Shares)
	National and local governments	Financial institutions	Financial instrument operators	Other corporations	Foreign corporations		Individuals and others	Total	
					Non-individual	Individual			
Number of Shareholders (person)	—	12	32	87	123	43	11,901	12,198	—
Number of shares held (units)	—	179,088	26,331	328,198	241,973	1,570	1,318,531	2,095,691	8,300
Ratio of shares held (%)	—	8.54	1.26	15.66	11.55	0.07	62.92	100.00	—

Notes: 1. The 7,699,210 shares of treasury stock include 76,992 units under “Individuals and Others” and 10 shares under “Shares less than one unit”.

2. The Master Trust Bank of Japan (76,095 stock-granting ESOP trust accounts) holds 24,669 units of SPARX stock, which are listed under “Financial Institutions”. The SPARX stock held by The Master Trust Bank of Japan (76,095 stock-granting ESOP trust accounts) is shown as treasury stock in the consolidated financial statements.

3. Two units of stock in the name of the Japan Securities Depository Center are listed under “Other Corporations” above.

(6) Major Shareholders

As of March 31, 2022

Full or official name	Location	Number of shares held (Shares)	Ratio of shares held to the total number of shares issued (excluding treasury stock) (%)
Shuhei Abe	Shinagawa, Tokyo	77,868,600	38.57
Abe Capital Co., Ltd.	4-3-1 Toranomon, Minato, Tokyo	30,370,000	15.04
The Master Trust Bank of Japan, Ltd. (in trust accounts)	2-11-3 Hamamatsu-cho, Minato, Tokyo	11,635,600	5.76
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST.BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS-UNITED KINGDOM (Standing proxy: The HongKong and Shanghai Banking Corporation Limited, Tokyo Branch)	ONE LINCOLN STREET, BOSTON MA USA 02111 (3-11-1 Nihonbashi, Chuo, Tokyo)	6,394,777	3.17
Masaru Shimizu	Suita, Osaka	6,002,000	2.97
CITIBANK UK LIMITED AS DEPOSITARY FOR QUILTER INVESTORS JAPANESE EQUITY FUND A SUB FUND OF QUILTER INVESTORS OEI C (Standing proxy: Citibank, N.A., Tokyo Branch)	CITIGROUP CENTRE, CANADA SQUARE, CANARY WHARF, LONDON E14 5LB UNITED KINGDOM (6-27-30 Shinjuku, Shinjuku, Tokyo)	5,520,200	2.73
Custody Bank of Japan (in trust accounts)	1-8-12 Harumi, Chuo, Tokyo	2,956,800	1.46
The Master Trust Bank of Japan, Ltd. (76,095 stock-granting ESOP trust accounts)	2-11-3 Hamamatsu-cho, Minato, Tokyo	2,466,900	1.22
STATE STREET BANK AND TRUST COMPANY FOR STATE STREET BANK INTERNATIONAL GMBH, LUXEMBOURG BRANCH ON BEHALF OF ITS CLIENTS:CLIENT OMNI OM25 (Standing proxy: The HongKong and Shanghai Banking Corporation Limited, Tokyo Branch)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (3-11-1 Nihonbashi, Chuo, Tokyo)	1,720,700	0.85
Masatoshi Fukami	Setagaya, Tokyo	1,473,900	0.73
Total	—	146,409,477	72.52

Notes
1. As of March 31, 2022, SPARX Group Co., Ltd., holds 7,699,210 shares in treasury stock.
2. The Master Trust Bank of Japan, Ltd. (76,095 stock-granting ESOP trust accounts) is a trust established with the introduction of the Stock-Granting ESOP Trust program. These shares are treated as treasury stock in the consolidated financial statements.
3. In the Change Report Pertaining to Statement of Large-Volume holdings, which is available for public inspection as of February 7, 2022, it is stated that M&G Investment Management Limited owns the following shares as of January 31, 2022. However, the Group has not confirmed the effective ownership as of March 31, 2022. Therefore, the shares are not included in the above list of major shareholders.
The details of the Change Report Pertaining to Statement of Large-Volume holdings are as follows.

Full or official name	Location	Number of shares held (Shares)	Shareholding ratio (%)
M&G Investment Management Limited	10 Fenchurch Avenue, London, UK EC3M 5AG	13,084,477 shares	6.24

(7) Voting Rights
① Issued shares

As of March 31, 2022

Category	Number of shares (shares)		Number of voting rights (units)	Description
Non-voting shares		—	—	—
Restricted voting rights shares (treasury stock)		—	—	—
Restricted voting rights shares (other)		—	—	—
Full voting rights shares (treasury stock)	Common stock	7,699,200	—	—
Full voting rights shares (other)	Common stock	201,869,900	2,018,699	—
Shares less than one unit	Common stock	8,300	—	—
Total number of shares issued		209,577,400	—	—
Total voting rights held by all shareholders		—	2,018,699	—

Note: The column Full Voting Rights Shares (Other) includes 200 shares (two voting rights) in the name of the Japan Securities Depository Center and 2,466,900 shares (24,669 voting rights) held by The Master Trust Bank of Japan (in 76,095 stock-granting ESOP trust accounts).

② Treasury stock

As of March 31, 2022

Shareholder's full or official name	Shareholder's location	Number of shares held under own name (shares)	Number of shares held under the name of others (shares)	Total number of shares held (Shares)	Number of shares held as a percentage of total shares issued (%)
SPARX Group Co., Ltd.	1-2-70 Konan, Minato, Tokyo	7,699,200	-	7,699,200	3.67
Total	—	7,699,200	-	7,699,200	3.67

Notes
1: There are 10 shares of less than one unit not included in the Number of shares held under own name and Total number

of shares held columns. These 10 shares are included under Shares less than one unit in ① Issued Shares above.

2: The 2,466,900 shares (11.8%) held by The Master Trust Bank of Japan (in 76,095 stock-granting ESOP trust accounts) are not included in the treasury stock above.

2. Treasury Stock Acquisition

Types of Shares Acquiring Common Stock under Clause 3, Article 155 of the Companies Act

(1) Acquisitions resolved by a general meetings of shareholders

This item does not apply.

(2) Acquisitions resolved by the board of directors meetings

Category	Number of shares (shares)	Total amount (yen)
Board of directors vote (July 30, 2021) (Acquisition period: August 2, 2021–September 30, 2021)	1,000,000	250,000,000
Treasury stock acquired before this fiscal year	—	—
Treasury stock acquired during this fiscal year	962,000	249,994,500
Total residual voting shares and their value	38,000	5,500
Unexercised ratio as of the fiscal year-end (%)	3.8	0.0
Treasury stock acquired during this period	—	—
Unexercised ratio as of the filing date (%)	3.8	0.0

(3) Details Not Based on Resolutions of the General Meetings of Shareholders or the Board of Directors Meetings

This item does not apply.

(4) Acquired Treasury Stock Disposals and Holdings

Category	This fiscal year		This period	
	Number of shares (shares)	Total disposal amount (Millions of yen)	Number of shares (shares)	Total disposal amount (Millions of yen)
Acquired treasury stock offered to subscribers	—	—	—	—
Acquired treasury stock disposed of through cancellation	—	—	—	—
Acquired treasury stock transferred through merger, share exchange, share delivery, or corporate divestiture	—	—	—	—
Others (shares delivered to Group employees through ESOP trusts)	533,100	114	267,800	57
Number of treasury stock held	10,166,110	—	9,898,310	—

Note: Treasury Stock Held includes the following shares of SPARX stock held by The Master Trust Bank of Japan (in 76,095 stock-granting ESOP trust accounts), as well as the treasury stock held by SPARX.

This fiscal year 2,466,900 shares This period 2,199,100 shares

3. Dividend Policy

The Group considers returning profits to shareholders as one of its critical management issues, while striving for sustainable growth and improved corporate value over the medium to long term. We will return profits to shareholders with a focus on stability and continuity from a medium- to long-term perspective, while comprehensively accounting for performance trends, financial conditions, return ratios, and other factors, as well as implementation timing and methods.

Based on our stable financial situation and steadily increasing base earnings, we have set our common dividend at JPY 12 per share (with a consolidated payout ratio of 58.9%), increasing last year's common dividend of JPY 11 by JPY 1 per share.

The Group pays dividends from surplus once a year as a year-end dividend by resolution of the general meetings of shareholders. Its Articles of Incorporation stipulate, "the Company may, by resolution of the Board of Directors, pay dividends from surplus, as provided in Article 454, Clause 5 of the Companies Act, to shareholders or registered share pledgees whose names appear or are recorded in the final shareholders' register as of September 30 of each year." These dividends are generally paid twice annually (record dates: September 30 and March 31), but the Group currently pays dividends only once annually at the fiscal year-end. In the future, we intend to pay an interim dividend while comprehensively accounting for the business environment and other factors. Moreover, we will effectively invest internal reserves in highly profitable business sectors with growth potential, including developing systems and other infrastructure, to increase shareholder value.

Note: Dividends from surplus whose record date belongs to this fiscal year are as follows:

Date of resolution	Total dividends amount (millions of yen)	Dividends per share (yen)
June 10, 2022 Resolution by the Ordinary General Meeting of Shareholders	2,422	JPY 12

4 The State of Corporate Governance

(1) Corporate Governance Overview

① Basic Philosophy of Corporate Governance

Since its founding in 1989, SPARX Group has managed investments using a thorough bottom-up approach grounded in the philosophy that "the Macro is the Aggregate of the Micro." Thus, the Company has offered asset management services that have earned the trust of numerous clients. By achieving sustainable growth and improved corporate value over the medium to long term, SPARX Group keeps striving to realize its mission "to make the world wealthier, healthier, and happier," as it becomes "the most trusted and respected investment company in the world."

② Corporate Governance Structure Overview and Reason for Adoption

SPARX Group has shifted from having a board of auditors to having an Audit and Supervisory Committee, per the approval of the Company's 31st ordinary general meeting of shareholders held on June 9, 2020. The Company made this decision in an effort to further improve its corporate governance. The Company believes that incorporating Audit and Supervisory Committee directors—who audit the corporate directors' executive actions—into the Board of Directors will delineate the boundary between audits and executive action and improve the supervisory function of the Board, while also accelerating executive action by largely transferring authority from the Board to the executive directors themselves.

Board of Directors & Directors

The Company's Board of Directors consists of the following eight highly experienced directors. It regularly meets once per month and holds emergency sessions as necessary to promptly make decisions on operational issues.

Board Chair President and Group CEO, SPARX Group Co., Ltd. Shuhei Abe
Executive Deputy President and Group COO, SPARX Group Co., Ltd. Masatoshi Fukami
Senior Managing Director and Group CIO, SPARX Group Co., Ltd. Tadahiro Fujimura
Senior Managing Director and Group CFO, SPARX Group Co., Ltd. Hiroshi Minematsu
Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. Kazuyoshi Kimura
Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. Kimikazu Noumi
Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. Toshihiko Nakagawa
Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. Eiko Hakoda

SPARX Group sets its directors' (excluding Audit and Supervisory Committee directors) terms to one year to more clearly delineate their administrative responsibilities, to improve the Company's operational structure, and to dynamically form an operational framework in response to changes in the business environment. The Audit and Supervisory Committee directors' terms are for two years. Moreover, the Company invites three outside directors to improve its governance framework. These outside directors offer the Board of Directors independent, objective expertise and further expand its decision-making and supervisory functions.

Management Meeting

The Company has established a Management Meeting—consisting of representative directors, executive directors, and group executive officers—to deliberate on important business execution decisions delegated by the Board of Directors to the CEO.

Board Chair President and Group CEO, SPARX Group Co., Ltd. Shuhei Abe
Executive Deputy President and Group COO, SPARX Group Co., Ltd. Masatoshi Fukami
Senior Managing Director and Group CIO, SPARX Group Co., Ltd. Tadahiro Fujimura
Senior Managing Director and Group CFO, SPARX Group Co., Ltd. Hiroshi Minematsu
Group Managing Executive Officer and Group CMO, SPARX Group Co., Ltd. Takeshi Suzuki

Audit and Supervisory Committee

The Company's Audit and Supervisory Committee consists of the following four outside directors, of which three are independent outside directors. It monitors the compliance and appropriateness of the Company's operations.

Committee Chair Outside Director Kazuyoshi Kimura
Outside Director Kimikazu Noumi

Outside Director Toshihiko Nakagawa
Outside Director Eiko Hakoda

Other

The Company also has the Nomination and Compensation Committee to bolster the independence, objectivity, and accountability of the Board in their work to nominate directors and executives and set compensation levels, and ensure transparency in our operations; the Special Committee to deliberate important trades and actions where the interests of our majority and minority shareholders might conflict, and examine and supervise the appropriateness of such trades and actions; the Group Risk Management Committee to manage groupwide risk management through analysis and evaluation based on the results of risk surveys; Compliance Committee to ensure thorough compliance with the Financial Instruments and Exchange Act and all related laws, ordinances, and regulations; the Responsible Investment Committee (also “environment, social, and governance committee” or “ESG committee”) to consider and discuss issues pertaining to responsible investment principles, including our responses to climate change risks and opportunities; and other committees that investigate, deliberate, formulate, and report on all inquiries concerning directives from the Board of Directors. Furthermore, compliance managers, including those at subsidiaries abroad, remain in close contact with each other and review, from a global perspective, legal compliance and risk management concerning Company operations.

The Nomination and Compensation Committee is comprised of the following members.
Committee Chair, President & Group CEO
All Outside Directors (four)

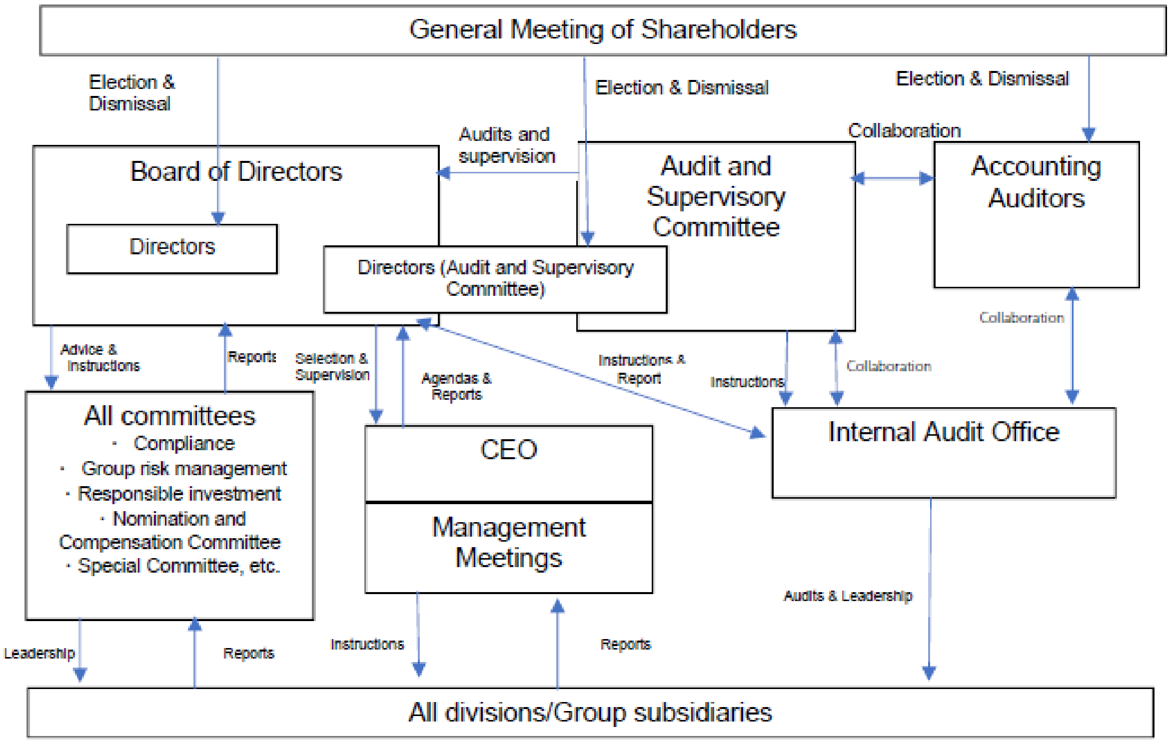
The Special Committee is comprised of the following members.
All Independent Outside Directors (three)

The Group Risk Management Committee is comprised of the following members.
Representative Directors
Non-Audit and Supervisory Committee Directors
Division Managers
Manager for Risk Control Departments
Manager of the Internal Auditing Office
Anyone else deemed necessary by the committee chair

The Compliance Committee is comprised of the following members.
Representative Directors
Non-Audit and Supervisory Committee Directors
Division Managers
Manager of the Internal Auditing Office
Manager of the Legal & Compliance Office
Anyone else deemed necessary by the committee chair

The ESG committee is comprised of the following members.
Representative Directors
Non-Audit and Supervisory Committee Directors
Group Executive Officer
Manager of the Legal & Compliance Office
Anyone else deemed necessary by the committee chair

Corporate governance framework



③ Other matters concerning corporate governance

We strive for a comprehensive internal governance system from the perspectives of ensuring the effectiveness and efficiency of our operations, ensuring the reliability of our financial reporting, and ensuring legal compliance. An overview of our decision on frameworks to ensure the appropriateness of our operations (revised on June 9, 2020) is given below.

1. Framework for ensuring that directors' executive actions comply with the law and the Articles of Incorporation

(1) The board of directors retains independent outside directors to improve and flesh out its ability to monitor the legality and appropriateness of its decision making and administrative operations. The Audit and Supervisory Committee, whose majority of members are independent outside directors, conducts audits to monitor compliance and appropriateness in the Company's operations.

(2) As a general rule, SPARX Group notifies securities exchanges of its outside directors who meet the requirements for independent officers, as defined by the securities exchanges' regulations.

(3) The Company's executive directors strictly adhere to the law, the Articles of Incorporation, and corporate regulations, and they act per the SPARX Vision Statement, the Compliance Manual, and the SPARX Group Code of Ethics, which are in place to help SPARX Group achieve its vision of "becoming the most trusted and respected investment company in the world." Furthermore, the Company requires that its executive directors attend compliance training at least once a year to further their understanding of the law and various regulations.

(4) To ensure compliance with international laws and regulations, the Company established a Compliance Division directly under the Board of Directors' control. This division regularly reports to the Board on the state of legal compliance, based on discussions held by a committee that the division leads.

(5) Regarding unlawful or illegal conduct by Company directors, SPARX Group has an internal reporting system. The Compliance Division head, general counsel, and the Secretariat of the Audit and Supervisory Committee serve as the internal contacts for reports and consultations from directors, managers, and employees. In contrast, the Legal Office serves as the contact for external reports.

2. Systems for storing and managing information related to the directors' executive actions

(1) Based on its Documentation Rules, SPARX Group stores and manages the following documents (including electromagnetic records; this also applies below) and related materials:

① General shareholders' meeting minutes;
② Board of Directors' meeting minutes;
③ Audit and Supervisory Committee meeting minutes;
④ Other documents stipulated in the Documentation Rules and Accounting Rules.

(2) In the event that the directors ask to see documents, the relevant department managers shall provide the requested documents or information for inspection or copying, whenever such requests occur.

3. Rules and other systems for managing the risk of loss

(1) In light of the importance of having a risk management system in place, the executive directors establish various risk management rules and a risk management system.

(2) The risk management department strives to anticipate and manage risk. It also reports the results of its efforts to the Board of Directors as necessary.

(3) As needed, the Board of Directors discusses potential responses and takes appropriate measures to address individual risks.

(4) To address potential harm caused by earthquakes, wind, floods, or other natural disasters, as well as by fires, power outages, and terrorist attacks, the Board of Directors puts an advanced business continuity plan in place and strives to be prepared to effectively respond during emergencies.

4. Framework for ensuring that directors' executive actions remain efficient

(1) Per the Regulations for the Board of Directors, the Board discusses and addresses vital operational matters related to operational policy and strategy. It also establishes organizational rules and rules on the segregation of duties that concern executive directors' authority and responsibilities to ensure a system through which they can work efficiently.

(2) To enable ad hoc responsiveness to business developments, directors (excluding Audit and Supervisory Committee directors) serve a term of one year. The directors monitor each other to confirm that decision making is conducted with the sufficient duty of care of a good manager, as they strive to ensure efficiency and soundness in their actions.

(3) The board of directors meets at least once per month; decides on executive operational policy, legally mandated matters, and other crucial operational issues; and monitors the state of business operations. The Board of Directors receives and reviews reports on monthly performance at its regular meetings.

(4) The board of directors establishes various committees to serve as advisory bodies on technical matters. These committees investigate, deliberate, formulate, and report on such issues.

5. Framework for ensuring that employees' actions comply with the law and the Articles of Incorporation

(1) The Company's employees strictly adhere to the law, the Articles of Incorporation, and corporate regulations, and they act per the SPARX Vision Statement, the Compliance Manual, and the SPARX Group Code of Ethics, which are in place to help SPARX Group achieve its vision of "becoming the most trusted and respected investment company in the world." They also attempt to spread the Company's operational vision through all meetings and other events they attend.

(2) The Company occasionally reviews and revises corporate regulations to comply with updates to and repeals of laws and ordinances, and it thoroughly informs all employees of these revisions. Furthermore, the Company requires that its employees attend compliance training—when they join the Company and at least once per fiscal year—to further their understanding of various laws, regulations, and corporate regulations.

(3) To ensure compliance with international laws and regulations, as well as with corporate regulations, the Compliance Division establishes committees to review the Company's compliance systems and to investigate and verify various legal issues. The Board of Directors then decides how the Company will respond to these issues.

(4) For any compliance-related issues that occur within the Company, the divisions submit incident reports to the Compliance Division and the Internal Auditing division, and the compliance committee discusses the incidents and reports them to the Board of Directors and the Audit and Supervisory Committee. In the event that the Company must investigate the need for disciplinary action, it will have a separate committee discuss and issue an internal penalty per the Employee Handbook.

(5) Regarding unlawful or illegal conduct by employees, SPARX Group has an internal reporting system. The Compliance Division head, general counsel, and the Secretariat of the Audit and Supervisory Committee serve as the internal contacts for reports and consultations from directors, managers, and employees. In contrast, the Legal Office serves as the contact for external reports.

(6) The Internal Auditing division, under the control of the Board of Directors, audits employee actions to find whether they are appropriate and efficient in light of the law, the Articles of Incorporation, corporate regulations, and corporate ethics. It reports its findings to the Board of Directors and the Audit and Supervisory Committee.

(7) To ensure that internal controls involving financial reporting function effectively, the Board of Directors successively monitors all related activities. These activities include those related to the documentation of entity-level controls, IT controls, and operational process controls. The Board's activities also include evaluating internal controls, judging their effectiveness, and addressing any deficiencies.

6. Framework for ensuring appropriate operations in the business group consisting of SPARX Group and its subsidiaries

(1) The division manages its subsidiaries monitors the operations of all Group subsidiaries per the Regulation on Subsidiary Management. The division investigates the state of operations for significant subsidiaries and report their findings to the Board of Directors as necessary.

(2) When required, the Board of Directors receives business reports directly from significant subsidiaries' representatives.

(3) To ensure compliance with the law and various regulations among the significant subsidiaries, the Company reviews, from a global perspective, legal compliance and risk management in their business operations, and depending on the size and form of their businesses, has these subsidiaries formulate their own corporate rules that include the required provisions based on the SPARX Group Code of Ethics Protocol.

7. Ensuring the independence for employees from directors meant to assist the Audit and Supervisory Committee in their duties and the effectiveness of instructions given to these employees

(1) The Internal Auditing division assists the Audit and Supervisory Committee with its duties.

(2) The Company shall obtain the Audit and Supervisory Committee's prior consent for all Internal Audit division personnel matters, including the transfer and evaluation of employees in the division. It shall ensure that these employees are independent from the corporate directors (excluding the Audit and Supervisory Committee directors).

(3) Employees of the Internal Auditing Office who receive instructions from the Audit and Supervisory Committee that are necessary in the conduct of their auditing duties shall not receive instructions or orders from the corporate directors (excluding Audit and Supervisory Committee directors).

8. Framework for directors, auditors, and employees of the business group consisting of SPARX Group and its subsidiaries to report to the Group's Audit and Supervisory Committee

(1) If a Group director (excluding Audit and Supervisory Committee directors), auditor, or employee discovers facts that could cause considerable harm to SPARX Group or its domestic subsidiaries, he or she shall immediately report these facts to the Audit and Supervisory Committee.

(2) If the Audit and Supervisory Committee or the Internal Auditing division asks a Group director (excluding Audit and Supervisory Committee directors), auditor, or employee to report on SPARX Group or its domestic subsidiaries' businesses and assets, he or she shall immediately report these facts.
(3) The Internal Audit division shall periodically report on the findings of its internal audits of the Group and other related activities to the Audit and Supervisory Committee.

9. Framework for ensuring that individuals who report to Audit and Supervisory Committee do not receive unfavorable treatment due to their reports
The Company prohibits the unfavorable treatment of SPARX Group directors and employees who (directly or indirectly) submit reports to the Audit and Supervisory Committee, resulting from the submission of whistleblower reports. The Company also informs the directors and employees about this prohibition.

10. Policies concerning prepaying expenses and handling liabilities resulting from Audit and Supervisory Committee members executing their duties (when limited to those actions related to the Committee's duties)
(1) If the Company receives an invoice for the prepayment of expenses resulting from Audit and Supervisory Committee members executing their duties, per the provisions of the Companies Act, the relevant division shall discuss the matter and promptly handle these expenses or liabilities, except in the event that said expenses or liabilities are proven to be unnecessary for the execution of their duties.
(2) The Company establishes a fixed budget every year to pay for expenses that arise from Audit and Supervisory Committee members executing their duties.

11. Other frameworks for ensuring that audits by the Audit and Supervisory Committee remain efficient
(1) The Audit and Supervisory Committee regularly meets with the CEO to discuss the state of the Committee's capacity for conducting audits, crucial matters concerning audits, and other issues the Company should address.
(2) The Audit and Supervisory Committee works with the Internal Audit division to conduct audits and amend audit-related procedures. The Committee also periodically receives reports on audits from the external auditor. Furthermore, to conduct audits efficiently and effectively, the Audit and Supervisory Committee strives to share information by holding meetings with all relevant parties.
(3) The members chosen for the Audit and Supervisory Committee occasionally browse the minutes of important meetings and ask for explanations, as necessary.
(4) The Audit and Supervisory Committee work to share information and exchange ideas involving all Group companies' auditing operations.

12. The basic approach regarding the elimination of antisocial forces
As a basic policy, the Company shall not have any relationship whatsoever with antisocial forces that threaten public order or sound corporate activities or provide any economic benefits to these forces. It resolutely refuses to respond to illegal or inappropriate requests from these forces. To fulfill this policy, the Company shall provide thorough compliance training through the appropriate division and partner with external expert institutions, including police departments with jurisdiction or attorneys.

13. Framework for ensuring reliability in financial reports
To ensure reliability in its financial reports, SPARX Group has established its Basic Rules for Executive Evaluations of Internal Controls Concerning Financial Reports. The Company develops, operates, and evaluates internal controls concerning effective and efficient financial reporting, per the annual basic policy the Board of Directors has created.

・ Overview of liability limitation agreements
In accordance with the provision of Article 427 paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with each outside directors as provided for in Article 423 paragraph 1 of the Companies Act. The limited liability for damages based on this agreement is the minimum liability amount as stipulated by law. The purpose of this is to establish an environment conductive to outside directors fully exercising their capacities and fulfilling their expected roles in the course of executing their work tasks. However, recognition of this limitation of liability is restricted to cases in which the work causing the liability was carried out in good faith and with no gross negligence.

・ Overview of director liability insurance policy
The company has signed a liability insurance policy covering the company's and subsidiary's

directors, auditors, and officers, in accordance with the director liability insurance policy provisions in Article 430(3) Paragraph 1 of the Companies Act. Should we receive any claim for compensation for damages from a shareholder or other third party, any such compensation, legal expenses, or other pertinent losses otherwise falling to the insured shall be covered by this insurance policy. However, there are certain exceptions, such as any action taken in the knowledge that it would be unlawful, and the insured must act in such a way as to maintain integrity in the execution of their duties. The Company bears all expenses for this insurance.

・ Set number of directors

The Company's Articles of Incorporation stipulate that there shall be no more than five (5) directors (excluding any directors who are also Audit and Supervisory Committee members), and that there shall be no more than five (5) directors who are also Audit and Supervisory Committee members.

・ Requirements for director elections

The Company's Articles of Incorporation stipulate that director elections require a quorum of at least one-third (1/3rd) of all shareholders with voting rights, with the decision made by simple majority vote, with no cumulative voting.

・ Interim dividends

According to Article 454 Paragraph 5 of the Companies Act, the Board of Directors can resolve to pay out interim dividends with a date of record of September 30, to better allow for rapid returns of profit to shareholders.

・ Treasury stock buybacks

Article 165 Paragraph 2 of the Companies Act states that the Board of Directors can resolve to buy back treasury stock, to allow us to carry out a more agile capital policy in response to changes in the business environment.

・ Exemption from liability for directors

Article 426 Paragraph 1 of the Companies Act stipulates that a resolution by the Board of Directors can exempt a director (including former directors) from liability for damages, within the extent allowed by law, for actions conforming to Article 423 Paragraph 1. This is to ensure an environment in which directors have the capability to carry out their expected roles.

・ Requirements for special resolutions by the general meetings of shareholders

Article 309 Paragraph 2 of the Companies Act stipulates that general shareholders' meeting special resolutions require a quorum of at least one-third (1/3rd) of all shareholders with voting rights, with the resolution passing upon approval by at least two-thirds (2/3rds) of those present. This is intended to allow for easier flow of general shareholders' meetings by easing the quorum requirements for special resolutions.

(2) Director status

① List of directors

7 men, 1 woman (female ratio is 12.5% of the directorship)

Title	Full name	Date of birth	Profile		Term of office	Number of shares held (shares)
Representative Director President Group CEO	Shuhei Abe	Born May 10, 1954	April 1981	Joined Nomura Research Institute, Ltd.	Note 2	77,868,600
			April 1982	Transferred to Nomura Securities Co., Ltd.		
			April 1985	Founded Abe Capital Research Inc. representative director		
			June 1989	Representative Director, President of SPARX Group Co., Ltd. (current position)		
			February 2005	Director of Cosmo Asset Management Co., Ltd. (currently SPARX Asset Management Korea Co., Ltd.)		
			October 2006	Representative Director, President of SPARX Asset Management Co., Ltd.		
			December 2008	Representative Director, Chairman of SPARX Asset Management Co., Ltd.		
			June 2009	Group CIO of SPARX Group Co., Ltd.		
			April 2010	CEO of SPARX Asset Management Co., Ltd. (current position)		
			April 2011	Representative Director, President of SPARX Asset Management Co,, Ltd. (current position) Group Co., Ltd.CEO of SPARX Group Co. Ltd. (current position)		
			February 2013	Director of Cosmo Asset Management Co., Ltd. (currently SPARX Asset Management Korea Co., Ltd.)		

Title	Full name	Date of birth	Profile	Term of office	Number of shares held (shares)
Representative Director Executive Deputy President Group COO	Masatoshi Fukami	Born September 27, 1961	April 1984 Joined Nomura Securities Co., Ltd. November 1997 Joined SPARX Asset Management Co., Ltd. (currently SPARX Group Co., Ltd.) May 1998 Transferred to SPARX Securities Co., Ltd. June 2002 Representative Director of SPAR Securities Co., Ltd. Appointed Director (non-executive) of SPARX Asset Trust Management Co., Ltd. (currently SPARX Group Co., Ltd.) October 2006 Executive Officer of SPARX Group Co., Ltd. June 2007 Managing Director of SPARX Group Co., Ltd. April 2008 Director of SPARX Asset Management Co., Ltd. October 2008 Director at SPARX Group Co., Ltd. February 2009 Representative Director, Presider of SPARX Securities Co., Ltd. July 2010 Director of SPARX Asset Management Co., Ltd. August 2012 Representative Director of SPAR Green Energy & Technology Co., Ltd. February 2014 Representative Director at SPAR Asset Management Co., Ltd. April 2014 Representative Director, President of SPARX Asset Trust & Management Co., Ltd. May 2014 Director of SPARX Group Co., Lt December 2015 Representative Director, Managing Executive Officer of SPARX Asset Management Co., Ltd. January 2016 Group Executive Officer of SPARX Group Co., Ltd. Chairman and Director of SPARX Asset Trust & Management Co., Ltd. (current position) May 2016 Director of SPARX Asset Management Korea Co., Ltd. April 2017 Director and Chairman of SPARX Green Energy & Technology Co., Ltd. June 2017 Representative Director of SPAR Group Co., Ltd. April 2019 Representative Director, Executive Deputy President, Group Deputy CEO of SPARX Group Co., Ltd. Representative Director, Executive Deputy President, Group Deputy CEO of SPARX Asset Management Co., Ltd. (current position) Director of SPARX Green Energy & Technology Co., Ltd. (current position) April 2021 Representative Director, Executive Deputy President, Group COO of SPARX Group Co Ltd. (current position)	Note 2	1,473,900

Title	Full name	Date of birth	Profile		Term of office	Number of shares held (shares)
Representative Director Senior ManagingDirector Senior Managing Director Group CIO	Tadahiro Fujimura	Born December 27, 1963	April 1986 July 1999 October 2006 April 2007 April 2010 June 2010 April 2013 December 2015 September 2016 June 2017 December 2018 April 2019 April 2021	Joined Nikko Securities Investment Trust and Manage Co., Ltd. (currently Nikko Asse Management Co., Ltd.) Joined SPARX Asset Manage Co., Ltd. (currently SPARX Gr Co., Ltd.) Senior Fund Manager of Investment & Research Department of SPARX Asset Management Co., Ltd. (curren position).(current position) Head of Investment & Resear Department of SPARX Asset Management Co., Ltd. Head of Investment & Resear SPARX Asset Management C Ltd. and Head of Equity Investment Department of SP Asset Management Co., Ltd.. Director of SPARX Asset Management Co., Ltd. CIO of SPARX Asset Manage Co., Ltd. (current position) Managing Executive Officer of SPARX Asset Management C Ltd. Director of SPARX Asset Management Korea Co., Ltd. Director of SPARX Group Co., Group Executive Officer of SP Group Co., Ltd. Director of SPARX Asia Investment Advisors Limited (current position) Group Senior Managing Exec Officer of SPARX Group Co., Group CIO of SPARX Group Ltd. (current position) Representative Director and, Senior Managing Director of SPARX Group Co., Ltd. (curre position) Representative Director, Seni Managing Director of SPARX Asset Management Co., Ltd. (current position)	Note 2	459,400

Title	Full name	Date of birth	Profile		Term of office	Number of shares held (shares)
Senior Managing Director, Group CFO	Hiroshi Minematsu	Born September 28, 1971	November 1997	Joined Asahi Arthur Andersen K.K. (currently PWC Consulting LLC)	Note 2	168,900
			October 1999	Transferred to Asahi & Co. (currently KPMG Azusa LLC)		
			May 2001	Registered as certified public accountant		
			July 2005	Joined SPARX Asset Management Co., Ltd. (currently SPARX Group Co., Ltd.).		
			April 2010	Head of Corporate Division of SPARX Asset Management Co., Ltd.		
			February 2014	Director of SPARX Asset Management Co., Ltd.		
			April 2014	Director of SPARX Asset Trust & Management Co., Ltd. (current position)		
			February 2015	Director of SPARX Green Energy & Technology Co., Ltd. (current position)		
			December 2015	Executive Officer of SPARX Asset Management Co., Ltd. Head of Corporate Division of SPARX Group Co., Ltd. (current position)		
			January 2016	Group Executive Officer of SPARX Group Co., Ltd.		
			May 2016	Director of SPARX Asia Investment Advisors Limited. (current position)		
			November 2017	Head of Fund Operation Division of SPARX Asset Management Co., Ltd. (current position)		
			March 2018	Director of SPARX Asset Management Co., Ltd.		
			April 2019	Group Managing Executive Officer, Group CFO of SPARX Group Co., Ltd.		
			June 2019	Director of SPARX Asset Management Korea Co., Ltd. (current position)		
			April 2022	Senior Managing Director, CFO of SPARX Asset Management Co., Ltd. (current position) Appointed Senior Managing Executive Officer and Group CFO at SPARX Group Co., Ltd.		
			June 2022	Appointed Senior Managing Director, Group CFO of SPARX Group Co., Ltd. (current position)		

Title	Full name	Date of birth	Profile		Term of office	Number of shares held (shares)
Director (Audit and Supervisory Committee member)	Kazuyoshi Kimura	Born November 12, 1943	April 1967	Joined Nikko Securities Co., Ltd. (currently SMBC Nikko Securities Inc.)	Note 3	200,000
			June 1996	Director of Nikko Securities Co., Ltd.		
			March 2000	Director and Vice President of Nikko Securities Co., Ltd.		
			January 2001	Director and Vice President of Nikko Asset Management Co. Ltd.		
			June 2001	Director and President of Nikk Asset Management Co., Ltd.		
			January 2002	Director and Chairman of Nikk Asset Management Co., Ltd.		
			June 2003	Director and Chairman of Nikk Antfactory Japan KK		
			March 2004	Director and Chairman of Simplex Investment Advisors, Inc.		
			June 2005	Director and Chairman of Nikk Cordial Securities Inc. (currently SMBC Nikko Securities Inc.)		
			February 2007	Representative Executive Officer and Chairman of Nikko Cordial Corporation		
			October 2009	Director and Chairman of Nikk Cordial Securities Inc. (currently SMBC Nikko Securities Inc.)		
			April 2010	Advisor to Nikko Cordial Securities Inc.		
			June 2011	Director of Hitachi Koki Co., Ltd.		
			April 2012	Representative Director, Chairman and President of LA Holdings Co., Ltd. Advisor to Bic Camera, Inc.		
			May 2012	Director of Best Denki Co., Ltd		
			June 2012	Corporate Auditor of SPARX Group Co., Ltd. Corporate Auditor of SPARX Asset Management Co., Ltd. (current position) Outside Director at Daiwa House Industry Co., Ltd. (current position)		
			November 2012	Director of Bic Camera, Inc. Director of Kojima Co., Ltd.		
			February 2013	Representative Director, Chairman of Kojima Co., Ltd.,		
			September 2013	Representative Director, Chairman, President and Representative Executive Officer of Kojima Co., Ltd.		
			June 2020	Outside Director (Audit and Supervisory Committee member) of SPARX Group Co Ltd. (current position)		
			August 2020	Director of Kojima Co., Ltd. (current position)		
			September 2020	Representative Director and President of Bic Camera Inc. (current position)		

Title	Full name	Date of birth	Profile	Term of office	Number of shares held (shares)
Director (Audit and Supervisory Committee member)	Kimikazu Noumi	Born October 24, 1945	April 1969 Joined The Norinchukin Bank June 1999 Managing Director of The Norinchukin Bank June 2002 Senior Managing Director of The Norinchukin Bank June 2004 President & Representative Director of Norinchukin Zenkyoren Asset Management Co., Ltd. June 2006 Representative Director and Deputy President of Aozora Bank, Ltd. February 2007 Representative Director and Chairman CEO of Aozora Bank, Ltd. July 2009 Chairmen and CEO of Innovation Network Corporation of Japan, Ltd. July 2015 Advisor to J-Will Corporation, Ltd. (current position) March 2016 Outside Director (Audit and Supervisory Committee Member) at Wismettac Nishimoto Holdings Co., Ltd. June 2016 Outside Director of Konica Minolta, Inc. June 2017 Outside Director of SPARX Group Co., Ltd. June 2020 Outside Director (Audit and Supervisory Committee member) at SPARX Group Co., Ltd. (current position) Corporate Auditor of SPARX Asset Management Co., Ltd. (current position) June 2021 Outside Director (Audit and Supervisory Committee Member) of IR Japan Holdings, Ltd. (current position)	Note 3	—

Director (Audit and Supervisory Committee member)	Toshihiko Nakagawa	Born September 30, 1951	April 1974 Joined Nomura Securities Co., Ltd. June 1997 Director of Nomura Securities Co., Ltd. May 2001 Managing Director of Nomura Securities Co., Ltd. June 2001 Advisor to Nomura Securities Co., Ltd. July 2001 Director, Managing Executive Officer of Aioi Insurance Co., Ltd. (currently Aioi Nissay Dowa Insurance Co., Ltd.) April 2008 Director, Senior Managing Executive Officer of Aioi Insurance Co., Ltd. October 2010 Director, Senior Managing Executive Officer of Aioi Nissay Dowa Insurance Co., Ltd. April 2014 Representative of Office Nakagawa K.K. November 2014 Advisor to Capital Partners Securities Co., Ltd. April 2015 Representative Director of Office Nakagawa K.K. (current position) June 2015 Outside Director at SPARX Group Co., Ltd. June 2020 Outside Director (Audit and Supervisory Committee member) at SPARX Group Co., Ltd. (current position) Corporate Auditor of SPARX Asset Management Co., Ltd. (current position) Outside Auditor of Asuka SSI (current position)	Note 3	100,000
Director (Audit and Supervisory Committee member)	Eiko Hakoda	Born May 25, 1957	April 1980 Joined Hamada & Matsumoto (currently Mori Hamada & Matsumoto) April 1990 Legal apprentice, The Legal Training and Research Institute of the Supreme Court of Japan April 1992 Registered as an attorney Daini Tokyo Bar Association Joined Hamada & Matsumoto (currently Mori Hamada & Matsumoto) January 2005 Partner of Mori Hamada & Matsumoto (current position) January 2016 LPC Partner of Mori Hamada & Matsumoto (current position) June 2019 Appointed Outside Auditor, Kito Corporation (current position) June 2022 Outside Director (Audit and Supervisory Committee member) at SPARX Group Co., Ltd. (current position) Corporate Auditor at SPARX Asset Management Co., Ltd. (current position)	Note 3	—
Total					80,270,800

Notes:

1. Mr. Kazuyoshi Kimura, Mr. Kimikazu Noumi, Mr. Toshihiko Nakagawa, and Ms.Eiko Hakoda are all outside directors.

2. One year from the close of the Ordinary General Meeting of Shareholders held on June 10, 2022.
3. Two years from the close of the Ordinary General Meeting of Shareholders held on June 10, 2022.
4. The Ordinary General Meeting of Shareholders held on June 9, 2020, resolved to change the company's articles of incorporation, and from this, SPARX Group Co., Ltd. became a corporation with an Audit and Supervisory Committee.

② Outside Director Status

All four of the directors who are also Audit and Supervisory Committee members are outside directors.

The Company appointed Kazuyoshi Kimura as an outside director and member of the Audit and Supervisory Committee to take advantage of his broad-based expertise grounded in his extensive experience as a financial industry manager as well as in management in other sectors, with the aim of leveraging his experience in Company operations from the perspective of promoting continued growth and improving corporate value over the medium to long term. There are no conflicts of interest between the Company and Mr. Kimura, and none of the items to be checked regarding the criteria for independence or director attributes that the Tokyo Stock Exchange stipulates apply. The Company believes that there is no risk that a conflict of interest will arise with general shareholders, so we have designated Mr. Kimura as an independent officer.

The Company appointed Kimikazu Noumi as an outside director and member of the Audit and Supervisory Committee to take advantage of his broad-based expertise grounded in his extensive experience as a financial industry manager and as an outside director in other sectors, with the aim of leveraging his experience in Company operations from the perspective of promoting continued growth and improving corporate value over the medium to long term. There are no conflicts of interest between the Company and Mr. Noumi, and none of the items to be checked regarding the criteria for independence or director attributes that the Tokyo Stock Exchange stipulates apply. The Company believes that there is no risk that a conflict of interest will arise with general shareholders, so it has designated Mr. Noumi as an independent officer.

The Company appointed Toshihiko Nakagawa as an outside director and member of the Audit and Supervisory Committee to take advantage of his broad-based expertise grounded in his extensive experience as a manager in the financial industry, with the aim of leveraging his experience in Company operations from the perspective of promoting continued growth and improving corporate value over the medium to long term. There are no conflicts of interest between the Company and Mr. Nakagawa, and none of the items to be checked regarding the criteria for independence or director attributes that the Tokyo Stock Exchange stipulates apply. The Company believes that there is no risk that a conflict of interest will arise with general shareholders, so it has designated Mr. Nakagawa as an independent officer.

The Company appointed Eiko Hakoda as an outside director and member of the Audit and Supervisory Committee to take advantage of her specialty knowledge and broad-based expertise grounded in her extensive experience as a lawyer, with the aim of leveraging her wide-ranging experience in multiple different industries in Company operations from the perspective of promoting continued growth and improving corporate value over the medium to long term. Although the Tokyo Stock Exchange's handbook on practical issues for securing independent directors/auditors, it is not said that a legal counsel is always a person who has obtained a large amount of money or other assets. However, Ms. Hakoda is not registered as an independent director from conservative point of view because she is a partner attorney at our corporate counsel law firm.

③ How supervision and audits by outside directors interconnect with internal audits, audits by the Audit and Supervisory Committee, and financial audits, and how these relate to the Internal Control Division

All four of our outside directors are members of the Audit and Supervisory Committee, and the Audit and Supervisory Committee is comprised of these four outside directors.

The outside directors are primarily a means for overall supervision and oversight of the company's operations, achieved by attending Board of Directors meetings, meeting separately and sharing opinions with the representative directors, and getting and sharing other information as needed with the audit department and other internal departments.

The internal audit division serves as the office for the Audit and Supervisory Committee, and provides the organizational infrastructure for the Committee to carry out audits effectively.

(3) Audit status

① Status of the Audit by the Audit and Supervisory Committee

The Ordinary General Meeting of Shareholders held on June 9, 2020 resolved to change our articles of incorporation to change our corporate structure to be a corporation with an Audit and Supervisory Committee, and since that date, we transitioned from a company with a board of auditors, to a company with an Audit and Supervisory Committee.
An audit by the Audit and Supervisory Committee is carried out by the four outside directors, who have extensive experience and are solidly independent. This examines daily audit operations, as well as attendance and suggestions made at important meetings such as by the Board of Directors, as part of oversight to ensure the legality and appropriateness of our business operations. The directors who are members of the Audit and Supervisory Committee regularly meet with the representative directors and other senior management to discuss the state of the Committee's capacity for conducting audits, crucial matters concerning audits, and other issues the Company should address.

Our Audit and Supervisory Committee is meeting once a month in the current fiscal year, with attendance for each member as shown below.

Full name	Number of Meeting Held	Number of Attended
Kazuyoshi Kimura	17 times	17 times
Kimikazu Noumi	17 times	17 times
Toshihiko Nakagawa	17 times	17 times

The main items of discussion by the Audit and Supervisory Committee are group risk management for the business group, internal control system operations, the state of group company business operations, subjects pertaining to KAM, and the reappointment of external auditors, with additional communications with auditing firms as needed depending on Audit and Supervisory Committee discussions.

② Internal audit status

The Company has established an internal auditing system led by the Internal Audit division's general manager. Under the direct supervision of the Board of Directors and independent from business execution, the Internal Auditing Office consists of the general manager and one other staff member, and it may use outside vendors as necessary to perform its internal audits. Following the annual auditing plan approved by the Board of Directors, the Internal Audit division audits all divisions' business execution to find whether they are appropriate and efficient in light of the law, the Articles of Incorporation, corporate regulations, and corporate ethics. It reports its findings to the Board of Directors.
The Audit and Supervisory Committee works closely with the Internal Auditing Office and the external auditor. This collaboration allows the former to promptly receive reports on occasional internal audits from the Internal Audit division and on periodic audits from the external auditor. The Internal Audit division also regularly receives reports from the external auditor regarding the results of the external auditor's own audit work, as part of their close collaboration.
The Audit and Supervisory Committee and the Internal Audit division meet regularly with the Legal & Compliance Office to share ideas about how to further improve internal controls.

③ External audit status

a. Auditing firm name
Ernest & Young ShinNihon LLC

b. Term of continuous auditing
11 years

c. Certified public accountants who carried out the work
Toshio Iwabu
Katsuya Ichikawa

d. Team of assistants involved in the audits
16 CPAs and 16 other staff members.

e. Policies and reasons for selecting auditing firms
Policies for deciding to fire or not re-hire an external auditor
When the Audit and Supervisory Committee has judged there to be a need, such as when there is a problem in the external auditor's performance of their work, the Committee may submit a proposal to the General Meetings of Shareholders to decide on whether to fire or not re-hire the external auditor.
In addition, if the external auditor is found to meet the stipulations of each of the paragraphs in Article 340 Section 1 of the Companies Act, the external auditor may be fired upon the agreement of the Audit and Supervisory Committee. In such a case, a member of the Audit and Supervisory Committee selected by the Committee shall, at the first convening of the General Meetings of Shareholders, inform the Meeting of the firing of the external auditor and the reasons therefor.
When the Board of Directors has judged that there is a need, such as when there is a problem in the external auditor's performance of their work, the Board may request that the Audit and Supervisory Committee submit a proposal to fire or not re-hire the external auditor at the next General Meetings of Shareholders, and upon the Committee's discretion, they may accept this request and decide on the content of the proposal to submit to the General Meetings of Shareholders.

2) Audit and Supervisory Committee’s evaluation of the auditing firms and reasons for selection

When evaluating auditing firms, the Audit and Supervisory Committee deliberated specifics about evaluating auditing firms after referring to the evaluation and selection criteria for external auditors, as based on the policy for deciding whether to fire or not re-hire an external auditor. The particular evaluation criteria included the auditing firm's quality control, auditing team setup, auditing fees, communication with auditors, relations with the management team, group audits, and fraud risk.

The outcome of deliberations based on the above evaluations was that Ernest & Young ShinNihon LLC presented no issues in the performance of their work, their independence, and their expertise, and thus we decided to rehire them as external auditor.

④ Auditing fees breakdown

a. Fees for Certified Public Accountants engaged in audit

Category	Previous consolidated fiscal year		This consolidated fiscal year	
	Fees based on audit attestation work (¥ millions)	Fees based on non-auditing services (¥ millions)	Fees based on audit attestation work (¥ millions)	Fees based on non-auditing services (¥ millions)
Filing company	25	—	25	—
Consolidated subsidiary	5	6	5	10
Total	31	6	31	10

Non-auditing services at consolidated subsidiaries involves verifying internal controls on segregation, verifying the global investment performance standards, and verifying the internal controls on contracted business.

b. Fees paid to other audit CPAs in the same Ernest & Young network (excluding a. above)

Category	Previous consolidated fiscal year		This consolidated fiscal year	
	Fees based on audit attestation work (¥ millions)	Fees based on non-auditing services (¥ millions)	Fees based on audit attestation work (¥ millions)	Fees based on non-auditing services (¥ millions)
Filing company	—	—	—	—
Consolidated subsidiary	19	0	19	0
Total	19	0	19	0

Non-auditing service at consolidated subsidiaries includes reviewing corporate tax returns and other paperwork and consulting services.

c. Fees based on other important audit attestation work

This item does not apply.

d. Policy for determining auditing fees

This item does not apply, but this is set in consideration of our size as a company, the reasonability of our audit plan, and the characteristics of our industry.

e. Reasons the Audit and Supervisory Committee agreed to the external auditor’s fees

The Audit and Supervisory Committee agreed to the external auditor's fee amounts as a result of getting the required materials and receiving reports from the directors and the external auditor, as well as confirming the details of the audit plan, such as the number of hours auditing and the staffing structure; the audit implementation; processing of auditing fees; and the estimate for fees for the current fiscal year.

(4) Director Compensation, etc.

① Items pertaining to the policy for determining director compensation amounts and calculation methods

A. Compensation for directors who are not Audit and Supervisory Committee members

a. Policy details and method for determining director compensation

・ Policy details overview

The Company regards its director compensation system as an essential part of corporate governance. The Company has established this system to determine compensation so that those who resonate with the Group's mission and vision, share the values of empirical research and the importance of communication, and have above-average knowledge, insight, and human qualities will be motivated—both monetarily and non-monetarily—to achieve sustainable growth and increase corporate value over the medium to long term.

Specifically, this compensation system consists of three components: a base salary, short-term performance bonuses, and medium- to long-term performance bonuses. Economic and market conditions greatly influence performance in the Group's primary business of investment trust management, discretionary investment management and investment advisory, so the Company ensures that short-term and medium- to long-term performance-based compensation is weighted more heavily than base salary to align with its stakeholders' interests. Specifically, the compensation system is designed to have a target ratio of 3:7 for base salary to performance bonuses. The Company also takes care to ensure that the total compensation is attractive compared to other investment firms and competitive enough to draw talented people. These decisions are based on data on executive remuneration at companies listed on the Tokyo Stock Exchange's Prime Market, data on executive remuneration at asset management companies located in Japan, and other data provided by remuneration consultants and other third parties.

At the 31st ordinary general meeting of shareholders held on June 9, 2020, the Company voted to set the maximum amount of compensation for directors (excluding the Audit and Supervisory Committee directors) at JPY 1.5 billion per year. Separately, at the 33rd ordinary general meeting of shareholders held on June 10, 2022, the Company passed its resolution to set the limiting compensation under the performance-based stock compensation plan to JPY1.8 billion for four fiscal years or 200,000 points per fiscal year (1 point = 5 shares; 1 point = 1 share after the reverse stock split, which will take effect on October 1, 2022.)

In the case that certain events are identified, such as material fraud or violation by the persons eligible for executive compensation or material accounting errors, by a resolution of the board of Directors after the Nomination and Compensation committee's questioning and advisory, a clawback clause may be stipulated whereby all or part of the compensation has paid for directors may be reimbursed. Directors subjects to this includes those who have already retired from the company. In addition, applicable directors" compensation includes those already paid in the fiscal year in which material fraud, violation, and material accounting errors occurred

(i) Base salary

Because SPARX Group is a holding company, its directors' primary duty is to focus on maintaining and improving Group governance. As a result, as a general rule, only the base salary portion of the compensation paid by the Company should be determined by position and whether directors are full-time or not.

When the SPARX Group directors who concurrently hold director positions at its Group companies and assume responsibility for their operations, the Company determines the total compensation for each director in light of his or her overall duties to the Group. These decisions are based on data on executive compensation at companies listed on the Tokyo Stock Exchange's Prime Market, data on executive compensation at asset management companies located in Japan, and other data provided by remuneration consultants and other third parties. These Group companies subtract the base salary given above and pay the remainder as the base salary for each director's concurrent role at a Group subsidiary. Said base salary is paid in cash each month in 12 equal portions

(ii) How short-term performance-based compensation (i.e. Performance-based bonuses) is determined

The Company analyzes the Group's business performance figures and comprehensively considers returns to shareholders, retained earnings, and the outlook for the next fiscal year and beyond with regard to the operating environment, operating plans, capital plans, and expected performance. After comparing these figures to the previous fiscal year's bonus payments, the Company determines what percentage of the Group's total profit for a fiscal year will be allocated

as reserves for paying bonuses to all Group directors, managers, and employees.
In the process, the Company also determines what percentage of these reserves will be allocated for bonuses to directors.
Next, the Company conducts qualitative and quantitative evaluations for each director, judging factors that include comparisons with important Group operating indicator targets and actual results (see below), directors' contributions to the Group's business execution, and their achievement of personal goals. Evaluation factors are weighted differently according to each director's position and responsibilities.
- Efficiency: ROE
- Stability: core earning power
- Profitability: operating profit
- Most fundamental operating indicator: AUM net inflow

Finally, using these evaluations' results with data on executive compensation at companies listed on the Tokyo Stock Exchange's Prime Market, data on executive compensation at asset management companies located in Japan, and other data provided by remuneration consultants and other third parties, the Company will determine the total performance bonus for each director and pay these bonuses through the Group subsidiaries at which each director also serves.
Said bonuses are paid in cash at the beginning of the subsequent fiscal year.

（iii） (Medium- to long-term) Performance-based compensation is determined
To further encourage a commitment to the medium- to long-term growth of SPARX Group, the Company provides performance-based stock compensation. Specifically, each director's stock compensation for the current fiscal year is determined based on the degree of achievement of the medium- to long-term goals related to both the Company's performance and the individual's goals, and by changing the allocation of those goals by position. In addition, after three years, the number of shares to grant as compensation which Company decided at the end of a consolidated fiscal year is finally paid. Moreover, in order for the Company to withhold funds for the payment of withholding income tax and other taxes, a certain percentage of the total number of share granted may be sold and paid in cash.
The Company believes that this remuneration is consistent and in-line with the medium- to long-term interests of its shareholders and other stakeholders. It is subject to a three-year holding period, from when the Company decides the number of shares to grant as compensation at the end of a consolidated fiscal year until the compensation is finally paid. The final payment depends on the share price after these three years have passed, and the payment assumes that the receiving director will acquire the shares at that time. Furthermore, during the holding period, if it is found that the director has violated any compliance requirements or other obligations stipulated in the Group's various regulations, or if the director resigns or is dismissed from the Board of Directors, the Company will not pay all or part of this compensation (so-called malus clause). Because the current CEO Abe has already acquired more than a sufficient number of shares, he shall not be eligible for this form of compensation.

b. Names of those with authority to determine director compensation, and scope of that authority
With the guidance of the Nomination and Compensation Committee that serves as an advisory body for the Board of Directors, the Board sets the compensation amounts for each director.
The Nomination and Compensation Committee acts as an advisory body for the Board of Directors, and is composed of at least three directors (below, "committee members") appointed by Board resolution. A majority of the committee members must be independent outside directors, where "independent outside directors" here refers to those outside directors of the Company who have registered with the Tokyo Stock Exchange, Inc. as independent officers. Specifically, the CEO serves as committee Chair, and all of the outside directors serve as committee members.
The Nomination and Compensation Committee also deliberates on the following items on the guidance of the Board of Directors, and accordingly provides the Board with suggestions and proposals.

(1) Proposals for a general meeting of shareholders concerning the election and dismissal of candidates for directors (excluding directors who are Audit and Supervisory Committee members; the same shall apply hereinafter), and a proposal for a board of directors meeting concerning the election and dismissal of candidates for group executive officers

(2) Establishment, change, or abolishment of basic policies, rules, procedures, etc. required to resolve the previously mentioned (1)
(3) Other matters deemed necessary by the Nomination and Compensation Committee with respect to the election and the dismissal of both director candidates and group executive officer candidates
(4) Policy on Determination of Details of Individual Compensation for Directors and Group Executive Officers
(5) Details of Individual Compensation for Directors and Group Executive Officers
・Remunerations in a fixed amount: The amount for each individual person
・Remunerations the amount of which is not fixed: The specific method for calculating that amount for each individual person
(6) Establishment, change, or abolishment of basic policies, rules, procedures, etc. necessary for resolving the previously mentioned (2)
(7) Other matters deemed necessary by the Nomination and Compensation Committee with respect to the compensation of directors and Group executive officers, and so forth.
The extensive experience our outside directors bring from their time working in corporate management and working as outside directors for other listed companies gives them a deep awareness of the expectations from the capital market sector with regard to director compensation, and they engage in constructive discussions.

c. Board of Directors meetings on setting director compensation for the current fiscal year, and related committee activities

The Nomination and Compensation Committee acts as an advisory body for the Board of Directors, with the CEO as committee Chair and all of the outside directors as committee members. The extensive experience our outside directors bring from their time working in corporate management and working as outside directors for other listed companies gives them a deep awareness of the expectations from the capital market sector with regard to director compensation, and they engage in constructive discussions.

The details for section “a. Policy details and method for determining director compensation” are fully discussed by the Nomination and Compensation Committee on the guidance of the Board of Directors, and the conclusions are then decided upon by the Board of Directors.

The Nomination and Compensation Committee meetings and agendas for this fiscal year are as follows:

Meeting held	Attendees	Main agenda items
May 2021	All 4 members	・ Ideas on ranking and indicators for short-term performance-based compensation (bonuses) and medium- to long-term stock compensation (ESOP) ・ Setting targets and evaluation criteria for each individual and the relative weightings of these ・ The matrix for granting points for medium- to long-term stock compensation (ESOP) ・ Topics for future consideration (ESOP trust for directors)
July 2021	All 4 members	・ Quantitative evaluation of single-year performance-based compensation (bonus) ・ Ideas on the relative weighting for company and individual performance in distributing medium- to long-term stock compensation (ESOP) to each director, and the matrix for company performance and the number of points to grant ・ Other compensation schemes for directors, similar to ESOP
January 2022	All 4 members	・ Ideas on bonus reserves ・ Ideas on director progress toward goals and how to evaluate ・ Nomination and compensation committee involvement in individual evaluations for ESOP ・ ESOP trust for internal directors
February 2022	All 4 members	・ The process for determining short-term performance-based compensation (bonuses) for directors, executive officers, and employees ・ Report on director compensation survey of TSE-listed companies, compensation survey of industry peers ・ Ideas about funds for bonus for FY2021 ・ Reporting on FY2021 objectives of each member of management ・ FY2021 performance and bonus amounts for each member of management ・ Adjusting the number of shares to grant in the employee stock ownership plan (ESOP) ・ New business execution systems for the new fiscal year ・ Allowances and base compensation for directors and executive officers ・ ESOP trust for internal directors

April 2022	3 members (1 absent)	・ Candidates for new appointment to directorship (Audit and Supervisory Committee membership) ・ Proposals for the 33rd Regular General Shareholders' Meeting (ESOP trust for internal directors) ・ Director skill matrices ・ 2022 version of the matrix for granting ESOP points

B. Compensation for directors who are Audit and Supervisory Committee members

Compensation for directors who are members of the Audit and Supervisory Committee is determined in consultation with the member directors based on the budget for total compensation approved by the General Meeting of Shareholders.

Because SPARX Group is a holding company, the primary duty for its directors who are members of the Audit and Supervisory Committee is to focus on maintaining and improving Group governance. As a result, the Company's compensation amounts are, as a general rule, only the base salary amounts. Compensation for directors who are serving as auditors at Group subsidiaries and who are also members of the Audit and Supervisory Committee, in addition to the base salary paid by SPARX Group as a holding company, is determined in consultation with the auditors at the subsidiaries where they are also serving.

② The total amount of compensation for each director category, total amount by compensation type, and number of eligible directors

Director category	Total compensation (¥ millions)	Total compensation by type (¥ millions)				No. of applicable directors
		Base salary	Performance-based compensation	Severance pay	Non-monetary comp. portion of amts at left	
Non-Audit and Supervisory Committee internal directors	30	30	—	—	—	3
Audit and Supervisory Committee members excluding outside directors	—	—	—	—	—	—
Outside directors	24	24	—	—	—	3

Notes: 1. Other than the above, in this fiscal year, internal directors received compensation as directors from Group subsidiaries at which they also served as directors totaling ¥236 million yen, of which ¥92 million yen was base salary and ¥144 million yen was performance-based compensation.

2. Other than the above, in this fiscal year, outside directors received compensation as directors from Group subsidiaries at which they also served as directors totaling ¥4 million yen, of which the entire amount was base salary.

③ Details for those with total consolidated compensation over ¥100 million

Full name	Total consolidated compensation (¥ millions)	Director category	Company category	Consolidated compensation by type (¥ millions)			
				Base salary	Performance-based compensation	Severance pay	Non-monetary comp. portion of amts at left
Masatoshi Fukami	100	Director	Filing company	10	—	—	—
		Director	SPARX Asset Management Co., Ltd.	30	59	—	—

④ Important portions of employee salaries for employees also serving as directors

This item does not apply.

(5) Status of shareholdings

① Standards and approach for the classification of shares for investment

The Company classifies investment shares based on our objectives. Investment stock held for purposes of making profit on share price changes or on dividends received are treated as investment stocks for pure investment, while any stock held for other reasons is treated as investment stock held for purposes outside of pure investment (cross-shareholdings).

② Shares for investment held for purposes other than pure investment

This item does not apply.

③ Shares for investment held for purposes of pure investment

Classification	Current fiscal year		Previous fiscal year	
	Number of shares	Total amount on consolidated balance sheet (¥ millions)	Number of shares	Total amount on consolidated balance sheet (¥ millions)
Unlisted shares	9	722	7	428
Other shares	1	38	1	41

Classification	Current fiscal year		
	Total dividends received (¥ millions)	Total profits and losses (¥ millions)	Total appraisal profit or loss (¥ millions)
Unlisted shares	—	—	— (560)
Other shares	2	—	-12

Notes: Any superscript parenthesized figures in “Total appraisal profit or loss” indicate impairment losses for the current fiscal year.

④ Change this fiscal year from purposes of pure investment in the aim of holding investment shares, to purposes outside of pure investment.

This item does not apply.

⑤ Change this fiscal year from purposes outside of pure investment in the aim of holding investment shares, to purposes of pure investment.

This item does not apply.

Section 5. Accounting Information

1. Preparation of consolidated and other financial statements

(1) Our consolidated financial statements were prepared in accordance with the "Regulations for Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Ordinance No. 28, 1976, (hereinafter "consolidated financial statement regulations")), and, as stipulated by Articles 46 and 68 therein, the "Cabinet Office Ordinance on Financial Instruments Business" (No.52, 2007), applied to consolidated financial statements of investment trust and investment advisory businesses, pertaining to the main activity of our group of companies.

(2) Our financial statements were prepared in accordance with the "Regulations for Terminology, Forms, and Preparation Methods of Financial Statements" (Ministry of Finance Ordinance No. 59, 1963, (hereinafter "financial statement regulations")).

2. Audit certification

Pursuant to the provisions set forth in Article 193-2 paragraph 1 of the Financial Instruments and Exchange Act, the Company's consolidated financial statements and financial statements for FY2021 (April 1, 2021 – March 31, 2022) have been audited by Ernst & Young ShinNihon LLC.

3. Special efforts to ensure suitability of consolidated financial statements

We have implemented special measures to ensure the suitability of consolidated and other financial statements. Specifically, we have taken measures such as taking up membership of the Financial Accounting Standards Foundation and participating in training at setters of accounting standards, along with the creation of internal regulations and manuals, to guide the preparation of suitable consolidated financial statements, to implement a system enabling proper understanding of the content of accounting standards and accurate responses to changes therein.

1【Consolidated Financial Statements and Other Financial Statements】

（1）【Consolidated Financial Statements】

①【Consolidated Balance Sheets】

(Units: million yen)

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Asset		
Current assets:		
Cash and deposits	19,935	19,199
Prepaid expenses	220	245
Account receivable	1,209	971
Income taxes refund receivable	1	22
Accrued investment trust management fees	1,048	1,048
Accrued investment advisory fees	903	965
Deposits paid	202	203
Other	20	67
Total current assets	23,541	22,723
Non-current assets:		
Property, plant and equipment		
Buildings and structures, net	*1 105	*1 61
Tools, furniture and fixture, net	*1 145	*1 90
Machinery and equipment, net	*1 456	*1 421
Vehicles, net	*1 0	*1 0
Land	72	74
Lease assets. Net	*1 97	*1 140
Total property, plant and equipment	878	789
Intangible assets		
Software	15	9
Total intangible assets	15	9
Investments and other assets		
Investment securities	*2,*3 11,948	*2 12,155
Long-term loans receivable	1,010	910
Guarantee deposits	91	74
Long-term prepaid expenses	64	86
Retirement benefit asset	6	18
Deferred tax assets	432	373
Total investments and other assets	13,552	13,619
Total non-current assets	14,445	14,418
Total assets	37,986	37,141

(Units: million yen)

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Liabilities		
Current liabilities:		
Short-term borrowings	2,000	2,000
Current portion of long-term borrowings	*3 5,000	—
Unpaid commission	307	184
Accounts payable – other	1,436	1,526
Income taxes payable	1,905	438
Deposits received	159	82
Provision for share awards	114	57
Provision for long-term incentive	75	13
Other	366	268
Total current liabilities	11,363	4,571
Non-current liabilities:		
Long-term borrowings	2,000	7,000
Provision for share awards	364	434
Provision for long-term incentive	145	123
Deferred tax liabilities	669	454
Other	168	232
Total non-current liabilities	3,347	8,245
Reserve under special laws:		
Reserve for financial instruments transaction liabilities	*4 0	*4 0
Total reserves under special laws	0	0
Total liabilities	14,710	12,816
Net assets		
Shareholders' equity:		
Capital stock	8,587	8,587
Capital surplus	2,555	2,555
Retained earnings	13,116	14,787
Treasury shares	(3,549)	(3,685)
Total shareholders' equity	20,709	22,244
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,516	889
Foreign currency translation adjustment	1,048	1,188
Remeasurement of defined benefit plans	1	0
Total accumulated other comprehensive income	2,566	2,079
Non-controlling interests	0	0
Total net assets	23,276	24,324
Total liabilities and net assets	37,986	37,141

② 【Consolidated Statements of Income and Consolidated Statements of Comprehensive Income】

【Consolidated Statements of Income】

(Units: million yen)

	FY2020 (April 1, 2020 - March 31, 2021)	FY2021 (April 1, 2021 - March 31, 2022)
Operating revenue		
Investment trust management fee	5,903	5,922
Investment advisory fee	6,823	7,188
Other operating revenue	1,568	932
Total operating revenue	14,295	14,043
Operating expenses, and general and administration expenses	＊7,946	＊7,578
Operating profit	6,349	6,464
Non-operating income		
Interest income	17	23
Dividend income	4	4
Foreign exchange gains	26	55
Gain on investments in investment partnership	142	―
Subsidy income	―	18
Miscellaneous income	35	15
Total non-operating income	227	118
Non-operating expenses		
Interest expenses	64	65
Commissions paid	21	2
Loss on investments in investment partnerships	―	160
Share of loss of entities accounted for using equity method	278	101
Miscellaneous losses	21	11
Total non-operating expenses	386	341
Ordinary profit	6,189	6,241
Extraordinary income		
Gain on sale of investment securities	―	663
Total extraordinary income	―	663
Extraordinary losses		
Loss on valuation of investment securities	46	560
Impairment losses	97	―
Total extraordinary losses	144	560
Profit before income taxes	6,044	6,345
Income taxes - current	2,668	2,211
Income taxes - deferred	(92)	62
Total income taxes	2,576	2,274
Profit	3,468	4,070
Profit attributable to non-controlling interests	0	―
Profit attributable to owners of parent	3,468	4,070

【Consolidated Statements of Comprehensive Income】

(Units: million yen)

	FY2020 (April 1, 2020 - March 31, 2021)	FY2021 (April 1, 2021 - March 31, 2022)
Profit	3,468	4,070
Other comprehensive income:		
Valuation difference on available-for-sale securities	1,723	(626)
Foreign currency translation adjustment	147	140
Remeasurements of defined benefit plans, before tax	(1)	(1)
Total other comprehensive income	∗ 1,869	∗ (487)
Comprehensive income	5,338	3,583
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	5,338	3,583
Comprehensive income attributable to non-controlling interests	0	―

③【Consolidated Statements of Changes in Equity】
FY2020 (April 1, 2020 – March 31, 2021)

(Units: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,587	2,555	11,448	(3,549)	19,041
Changes during period					
Dividends of surplus			(1,825)		(1,825)
Profit attributable to owners of parent			3,468		3,468
Change in scope of consolidation			25		25
Net changes in items other than shareholder's equity					
Total changes during period			1,668		1,668
Balance at end of period	8,587	2,555	13,116	(3,549)	20,709

	Accumulated other comprehensive income				Non-controlling interests	Total net asset
	Valuation difference on AFS securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulate other comprehensive income		
Balance at beginning of current period	(207)	900	3	696	600	20,338
Changes of items during period						
Dividends of surplus						(1,825)
Profit attributable to owners of parent						3,468
Change in scope of consolidation						25
Net changes in items other than shareholder's equity	1,723	147	(1)	1,869	(600)	1,269
Total changes during period	1,723	147	(1)	1,869	(600)	2,937
Balance at end of period	1,516	1,048	(1)	2,566	0	23,276

FY2021 (April 1, 2021 – March 31, 2022)

(Units: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,587	2,555	13,116	(3,549)	20,709
Cumulative effects of changes in accounting policies	—	—	(168)	—	(168)
Restated balance	8,587	2,555	12,948	(3,549)	20,541
Changes during period					
Dividends of surplus			(2,231)		(2,231)
Profit attributable to owners of parent			4,070		4,070
Purchase of treasury shares				(249)	(249)
Disposal of treasury shares by ESOP Trust				114	114
Net changes in items other than shareholder's equity					
Total changes during period			1,839	(135)	1,703
Balance at end of period	8,587	2,555	14,787	(3,685)	22,244

	Accumulated other comprehensive income				Non-controlling interests	Total net asset
	Valuation difference on AFS securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,516	1,048	1	2,566	0	23,276
Cumulative effects of changes in accounting policies	—	—	—	—	—	(168)
Restated balance	1,516	1,048	1	2,566	0	23,108
Changes of items during period						
Dividends of surplus						(2,231)
Profit attributable to owners of parent						4,070
Purchase of treasury shares						(249)
Disposal of treasury shares by ESOP Trust						114
Net changes in items other than shareholder's equity	(626)	140	(1)	(487)		(487)
Total changes of items during period	(626)	140	(1)	(487)	—	1,216
Balance at end of current period	889	1,188	0	2,079	0	24,324

④【Consolidated statement of cash flows】

(Units: million yen)

	FY2020 (April 1, 2020 - March 31, 2021)	FY2021 (April 1, 2021 - March 31, 2022)
Cash flows from operating activities		
Profit before income taxes	6,044	6,345
Depreciation	282	195
Impairment losses	97	—
Increase (decrease) in provision for share-awards	223	128
Interest and dividend income	(22)	(28)
Interest expenses	64	65
Commission expensed	21	2
Foreign exchange losses (gains)	(12)	(128)
Share of loss (profit) of entities accounted for using equity method	278	101
Loss (gain) on sales of short-term and long-term investment securities	—	(663)
Loss (gain) on valuation of short-term and long-term investment securities	46	560
Loss (gain) on investments in investment partnerships	(142)	160
Decrease (increase) in account receivable – other	243	235
Decrease (increase) in accrued investment trust management fees and investment advisory fees	(284)	(60)
Increase (decrease) in accounts payable – other, and accrued expenses	366	(54)
Increase (decrease) in deposits received	60	(76)
Others, net	297	(457)
Subtotal	7,564	6,325
Interest and dividends received	20	28
Interest paid	(64)	(65)
Income taxes refund (paid)	(1,402)	(3,627)
Net cash provided by (used in) operating activities	6,118	2,661
Cash flows from investing activities		
Decrease (increase) in short-term loans receivable	—	100
Decrease (increase) in fixed assets	(249)	(9)
Long-term loan advances	(1,010)	—
Purchase of securities	(250)	—
Proceeds from sale of securities	250	—
Purchase of investment securities	(2,154)	(4,074)
Proceeds from sale and redemption of investment securities	1	2,571
Proceeds from withdrawal of investment in partnership	0	75
Proceeds from distributions from investment partnerships	487	214
Others, net	23	(57)
Net cash provided by (used in) investing activities	(2,900)	(1,180)
Cash flows from financing activities		
Dividends paid	(1,822)	(2,228)
Purchase of treasury shares	—	(252)
Others, net	(21)	(0)
Net cash provided by (used in) financing activities	(1,844)	(2,480)

Effect of exchange rate change on cash and cash equivalents	177	264
Net increase (decrease) in cash and cash equivalents	1,550	(735)
Cash and cash equivalents at beginning of period	18,474	19,935
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(88)	—
Cash and cash equivalents at end of period	∗ 19,935	∗ 19,199

Notes to Consolidated Financial Statements

(Significant Matters that Form the Basis for Preparation of Consolidated Financial Statements)

1. Matters regarding scope of consolidation

(1) Number of consolidated subsidiaries 13

Consolidated subsidiaries list

SPARX Overseas, Ltd.
SPARX Asset Management Korea Co., Ltd.
SPARX Asset Management Co., Ltd.
SPARX Asia Capital Management Limited
SPARX Asia Investment Advisors Limited
SPARX Green Energy & Technology Co., Ltd.
SPARX Asset Trust & Management Co., Ltd.
SPARX AI & Technologies Investment Co., Ltd.
SPARX Capital Investments, Inc.
SPARX Innovation for Future Co., Ltd.
+ 3 others

Due to limited significance, SPARX Global Investments (Myanmar) Co., Ltd. was excluded from the scope of consolidation from FY2021.

(2) Non-consolidated subsidiaries

SPARX Global Investments (Myanmar) Co., Ltd.
SPARX Biofuels Co., Ltd.

The above two companies are excluded from the scope of consolidation as they are both small-scale, and each of their total assets, operating revenue, net profit (an amount prorated to ownership), and retained earnings (an amount prorated to ownership) have no significant impact on the consolidated financial statements.

2. Matters regarding equity method application

(1) Number and list of consolidated companies accounted for by the equity method

number of consolidated companies 2

list of consolidated companies

Sigma-i Co., Ltd.
Nomura SPARX Investment Inc.

As stock in Nomura SPARX Investment Inc. was newly acquired in FY2021, it became an affiliate company and is included as an affiliate company accounted for by the equity method.

(2) List of non-consolidated subsidiaries not accounted for by equity method

SPARX Global Investments (Myanmar) Co., Ltd.
SPARX Biofuels Co., Ltd.

The above two companies are excluded from the scope of application of the equity method as they are both small-scale, and, judging from their net profit (an amount prorated to ownership) and retained earnings (an amount prorated to ownership), etc. (calculated by the equity method), they would, if excluded as equity method targets, have minimal impact on the consolidated financial statements and are of limited significance.

3. Matters regarding the fiscal year of consolidated subsidiaries

The closing date for 5 subsidiaries, including SPARX Asia Capital Management Limited, is December 31, and for one other company November 30.

The financial statements used for the company closing on November 30 are based on a provisional reporting conducted at the end of February. However, adjustments necessary for consolidation are made for important transactions generated up to the consolidated closing date.

The financial statements used for the companies closing on December 31 are based on a provisional reporting conducted at the end of the consolidated financial year.

The last day of the fiscal year for the remaining subsidiaries is the same as the consolidated closing date.

4. Matters regarding accounting policy

(1) Basis and method for valuation of important assets

A. Securities

Other marketable securities

Items other than non-marketable stock, etc.

The fair value method is applied (unrealized gains and losses are reported as a separate component of net assets, and the cost of securities sold is determined by the weighted average method).

Non-marketable stock, etc.

Cost accounting is performed mainly by the weighted average method.

(investment in investment partnerships, etc.)

For investment in investment limited partnerships and similar partnerships(considered as marketable securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), the net amount of the Company's equity interest in the partnership is incorporated based on the most recent financial statements available, according to the financial reporting date stipulated in the partnership agreement.

B. Derivatives

The fair value method is used.

(2) Method of depreciation and amortization of significant assets

A. Tangible fixed assets (excluding leased assets)

The Company and our domestic subsidiaries use the declining-balance method, while overseas subsidiaries use the straight-line method.

However, the straight-line method is used for fixed assets acquired after April 1, 2016.

The service life for main categories is as follows

buildings	3–20 years
tools and equipment	3–10 years
machinery and equipment	17-22 years
vehicles	6 years

B. Intangible fixed assets (excluding leased assets)

For (in-house use) software, the straight-line method is used, based on the possible in-house usage time (normally 5 years).

C. Leased assets

Leased assets are those covered by a financial lease that does not transfer ownership.

The straight-line method is used, with the service life taken to be the same as the lease term and the residual value defined as zero.

(3) Basis for recognition of significant allowance and provisions

A. Allowance for share awards

The Company provides allowance for an estimated amount of share award obligations as of the end of the fiscal year in preparation for payment of share awards to employees, based on stock delivery regulations.

B. Allowance for long-term incentives

The Company provides allowance for an estimated amount as of the end of the fiscal year in preparation for payment of incentive awards to executives, etc. of domestic subsidiaries.

(4) Accounting for retirement benefits

The Company provides allowance for an estimated amount of retirement benefits, after deduction of pension assets, as of the end of the fiscal year, as liabilities for retirement benefits for employees

at some overseas subsidiaries,

As pension assets exceed retirement benefit liabilities they are presented as assets related to retirement benefits in the consolidated balance sheets.

Unrecognized gains and losses that have not been expensed are included in accumulated other comprehensive income in net assets under accumulated adjustments for retirement benefits.

(5) Basis for recognition of significant revenues and expenses

A. Management fees

Management fees are received as compensation for contractually obligated fund management and are based either on the total amount of assets under management, or the value of the commitment multiplied by a certain rate. Revenue is recognized across the investment period. The consideration for the transactions is received primarily within one year of the fulfillment of the performance obligation and does not include a significant financial component.

B. Performance fees (equity management)

Performance fees are received based on contractual obligations to manage and operate, as a percentage of the portion of the contract that exceeds the highest historical performance. Revenue is recognized at that point in time. The consideration for the transactions is received primarily within one year of the fulfillment of the performance obligation and does not include a significant financial component.

C. Performance fees (acquisition fees)

Acquisition fees are received for our support to execute partnership investments or loans based on contracts with limited liability companies engaged in renewable energy projects. Revenue is recognized each time a silent partnership investment or loan is made by multiplying the amount of funds raised by a certain fee rate. The consideration for the transactions is received primarily within one year of the fulfillment of the performance obligation and does not include a significant financial component.

D. Performance fees (for sales of equity in an anonymous association with a limited liability company in which a renewable energy fund invests)

Performance fees are received as compensation for a certain percentage of profit on the transfer of equity in partnerships that exceed performance targets for renewable energy funds we manage. Revenue is recognized at that point in time. The consideration for the transactions is received primarily within one year of the fulfillment of the performance obligation and does not include a significant financial component.

(6) Basis for translation of significant assets and liabilities in foreign currencies into Japanese yen

Foreign currency liabilities are differences (registered as profits or losses) that accrue on translation to yen at spot exchange rates at the time of consolidated closing. Assets and liabilities of overseas affiliates, etc. are converted to yen at the spot exchange rate at the time of consolidated closing, and revenue and expenses converted to yen at the average exchange rate over the term, and differences are included in foreign currency translation adjustments for net assets.

(7) Significant hedging accounting methods

A. Hedging accounting method

Interest rate swapping is subject to special treatment as it meets the conditions thereof.

B. Hedging instruments and hedged items

Instruments and items subject to hedging accounting in the current fiscal year are as follows

hedging instruments < --- > interest rate swapping

hedged items < --- > interest on borrowed funds

C. Hedging policy

Hedging against interest rate fluctuation risks is carried out, based mainly on our internal “Derivative Management Regulations”.

D. Method for evaluation of hedging effectiveness

Effectiveness is not evaluated for interest rate swapping subject to special treatment.

(8) Scope of funds in consolidated cash flow statements

Cash or cash equivalents are cash in hand, readily withdrawable deposits, or readily convertible fixed term deposits with no risk of fluctuations in value.

(9) Other important items for preparation of consolidated financial statements

A. Consolidated tax payment system

Consolidated tax payment system is applied.

B. Tax effect accounting for transfer of consolidated tax payment system to group totalization system.

The company and some domestic subsidiaries will transfer from the consolidated tax payment system to a group totalization system from the next fiscal year. However, in accordance with paragraph 3 of “Treatment of Application of Tax Effect Accounting for Transition From Consolidated Tax Payment System to Group Totalization System” (Practical Response Report No. 39, March 31, 2020), the provisions of Paragraph 44 of the “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) - regarding transition to the group totalization system established by the “Act for Partial Revision of the Income Tax Act” (Act No. 8 of 2020) and the conjoining items for which the stand-alone tax system was revised - will not be applied and the amount of deferred tax assets and deferred tax liabilities will be based on the provisions of the tax law before the revision. From the start of FY2022, when applying the group totalization system, we plan to apply the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in Japan.

(significant accounting estimates)

No relevant matters.

(Changes to accounting policy)

(Application of accounting standards for revenue recognition)

From the start of FY2021, we applied a "Revenue Recognition Accounting Standard" (Corporate Accounting Standard No. 29, March 31, 2020, hereinafter referred to as "revenue recognition accounting standard") which recognizes revenue as the prospective sum of money received in exchange for goods and services at the point of transfer of those goods and services to customers. As for one-time acquisition fees (performance fees received as compensation for the establishment or renewable energy power plants), the Company previously recognized the amount calculated by multiplying the total project cost of the power plant by a certain rate as revenue at "the time of investment in silent partnerships" and "the time of final financing", respectively. The Company now recognizes "support required for investment in silent partnerships" and "support required for loan execution" based on contracts with limited liability companies and judges the time of investment in silent partnerships and execution of loan as the fulfillment of the performance obligation and recognizes the revenue as the amount calculated by multiplying the amount of financing by a certain rate each time said financing is made.

The Company follows the transitional treatment prescribed in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. When retrospectively applying a new accounting policy prior to the start of the current fiscal year, the cumulative impact sum should be added to the retained earnings at the start of the current fiscal year, and the new accounting policy applied from such starting point balance.

However, as specified in paragraph 86 of the revenue recognition accounting standard, for contracts where almost all revenue was recognized by the previous handling method by the start of the current fiscal year, the new accounting policy is not retrospectively applied. Then as specified in paragraph 86 (1) of the revenue recognition accounting standard, regarding contracts that were changed by the start of the current fiscal year, accounting was carried out based on the revised contract conditions and add or subtract the cumulative impact sum to/from the retained earnings for the current fiscal year.

As a result, operating revenue, operating profit, ordinary income, tax, etc., and pre-adjusted current net profit in FY2021 all increased by 58 million yen. Furthermore, retained earnings at the start of FY2021 were reduced by 168 million yen.

The Company follows the transitional treatment prescribed in the Revenue Recognition Accounting Standard 89-3 and an explanatory note on "Revenue Recognition Relationship" for FY2020 is not included.

(Application of accounting standard for fair value calculation)

We applied "Accounting Standard for Fair Value Calculation"(Corporate Accounting Standard No. 30, July 4, 2019, hereinafter "fair value calculation accounting standard") from the start of FY2021, and, in accordance with transitional treatment as defined in the fair value calculation accounting standard, paragraph 19 and "Financial Instruments Accounting Standard" Corporate Accounting Standard No. 10, July 4, 2019, paragraph 44-2, adopted a new accounting policy based on fair value calculation accounting standard for the future. This change has no impact on the consolidated financial statement.

Furthermore, we included an explanatory note "About Financial Instruments" which explains each input level for the calculation of fair value of financial instruments. However, in accordance with procedures for transitional treatment defined by "Adoption Policy for Displaying Fair Value of Financial Instruments (Corporate Accounting Standard Adoption Policy, No. 19, July 4, 2019) Section 7-4, matters related to FY2020 are not included in that explanatory note.

(accounting standard issued but not yet applied, etc.)

"Policy for Application of Accounting Standards for Fair Value Evaluation" (Corporate Accounting Standard Adoption Policy, No. 31, June 17, 2021, Corporate Accounting Standards Committee)

(1) Summary

The reasons for the June 17, 2021 revision to the「Policy for Application of Accounting Standards for Market Value Evaluation」(Corporate Accounting Standards Committee Corporate Accounting Standard Adoption Policy, No. 31,) are as follows. Firstly, it was thought a fixed period of cooperation with related persons would be necessary to consider the "evaluation of investment trust fair value". Furthermore, it was necessary to wait until after publication of the fair value calculation accounting standard before considering the explanatory note on fair value regarding "investments in partnerships, etc. in which the net equity amount is recorded on the balance sheet" The revised and published version of the plan, which should have taken about one year to study, is now available for public review.

(2) Planned application date

From the start of FY2022.

(3) Impact of applying this accounting standard

The impact that the application of this standard will have on the consolidated financial statement is now under evaluation.

"Handling of Accounting Treatment and Disclosure Upon Application of the Group Totalization System" (Practical Support Report No. 42, August 12, 2021, Corporate Accounting Standards Committee)

(1) Summary

Following the decision to review the consolidated tax payment system and shift to a group totalization system as established on March 27. 2020 by the "Act for Partial Revision of the Income Tax Act" (Act No.8, 2020), the Accounting Standards Board of Japan issued a statement clarifying the treatment of accounting and indication of income taxes and local taxes and tax effect accounting upon application of the group totalization system.

(2) Planned application date

From the start of FY2022.

(3) Impact of applying this accounting standard

The impact that the application of this standard will have on the consolidated financial statement is now under evaluation.

(Changes in presentation)
No relevant matters.

(Additional information)
(Stock option ESOP trust)
With the objective of advancing our mid-long term corporate value, we will introduce stock option ESOP trust (hereinafter “this system”) for group employees(employees of our main company and 5 subsidiaries (SPARX Asset Management Co. Ltd., SPARX Green Energy & Technology Co., Ltd., SPARX Asset Trust & Management Co., Ltd., SPARX AI & Technologies Investment Co., Ltd., and SPARX Innovation for Future Co., Ltd.), (hereinafter referred to as “group subsidiary companies”) to increase their motivation towards business performance advancement and stock value gain.

① Transaction summary
This system is an arrangement for issuing our stock to group employees meeting certain conditions, based on stock delivery regulations decided in advance by group subsidiary companies. Group subsidiaries will grant points to employees based on our group performance and individual contributions and award stock corresponding to the granted points to employees that are qualified to receive benefits under certain conditions.
The stock to be granted, including that in the future, will be acquired from money in a previously established trust fund, separately managed as a trust asset.
As group employees can receive an economic benefit from an increase in stock price, we expect that the introduction of this system will encourage our employees to take stock-price conscious business activities and raise work motivation.
Furthermore, exercise of voting rights regarding our shares in the ESOP trust is a mechanism that reflects the will of our group employees as potential beneficiaries and is effective as a corporate value improvement plan that promotes their participation in management.

② Company shares remaining in the trust
Company shares remaining in the trust are recorded as treasury stock under net assets, based on the book value in the trust (excluding associated expenses).
Treasury stock book value and share number is 642 million yen and 3,000,000 in FY2020 and 527,000 million yen and 2,466,900 in FY2021, respectively.

(Accounting estimate for the impact of the spread of COVID-19)
Accounting estimates for recoverability of deferred tax assets and fixed asset impairment accounting, etc. are based on information available when the consolidated financial statements were prepared.
Although the prospects for the future spread and timing for resolution of the pandemic are unclear, we believe that the spread of COVID-19 will not significantly impact our current accounting estimates.

Notes for consolidated balance sheets

*1 Accumulated depreciation of tangible fixed assets unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Buildings and structures	306	320
Tools, furniture and fixture	332	371
Machinery and equipment	154	189
Vehicles	6	6
Leased assets	99	129

*2 Investment securities related to non-consolidated subsidiaries and associates. unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Investment securities (shares, etc.)	178	283

*3 Mortgaged assets and mortgaged liabilities

pledged assets unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Investment securities (shares)	41	—

secured debt unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Current portion of long-term borrowings	5,000	—

*4 Provisions of regulations governing appropriation of reserves under special laws

Reserve for financial instruments transaction liabilities< --- > Financial Instruments and Exchange Act, Article 46-5

Notes for consolidated statements of income

* Operating and general expenses (main items) unit: million yen

	FY2020 (April 1, 2020 - March 31, 2021)	FY2021 (April 1, 2021 - March 31, 2022
Commissions paid	1,690	1,672
Salaries and bonuses	3,016	3,084
Provision for share awards	223	128
Provision for long-term incentives	151	(8)

Notes for consolidated statements of comprehensive income

* Reclassification adjustment and tax effects related to other comprehensive income

unit: million yen

	FY2020 (April 1, 2020 - March 31, 2021)	FY2021 (April 1, 2021 - March 31, 2022
Valuation difference on available-for-sale securities:		
Amount incurred for the year	2,327	(53)
Reclassification adjustments	—	(791)
before tax effect adjustment	2,327	(845)
tax effect	(603)	218
Valuation difference on available-for-sale securities:	1,723	(626)
Foreign currency translation adjustments:		
Amount incurred for the year	147	140
Remeasurements of defined benefit plans:		
Amount incurred for the year	(1)	(1)
Reclassification adjustment	—	—
before tax effect adjustment	(1)	(1)
tax effect	—	—
Remeasurements of defined benefit plans	(1)	(1)
Total other comprehensive income	1,869	(487)

Consolidated statement of changes in shareholder equity

FY2020 (April 1, 2020 – March 31, 2021)

1. Type and number of issued shares and treasury stock

	Number of shares at start of the year	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at end of the year
Issued shares				
Common stock	209,577,400	—	—	209,577,400
Total	209,577,400	—	—	209,577,400
Treasury stock				
Common stock (see Note)	9,737,210	—	—	9,737,210
Total	9,737,210	—	—	9,737,210

(Note) The number of shares at the year start and end includes 3,000,000 company shares belonging to the ESOP trust stock option

2. Share subscription rights, etc.

No relevant matters.

3. Dividends

(1) Dividends paid

Resolution	Share type	Total dividend paid (million yen)	Dividend per share (yen)	Record date	Effective date
Shareholder OGM, June 9, 2020	Common stock	1,825	9.00	March 31, 2020	June 10, 2020

Notes: the above total dividend paid includes 27 million yen of company stock remaining in the stock benefit trust.

(2) Dividends with a record date during the fiscal year but with an effective date subsequent to the fiscal year are as follows

Resolution	Share type	Dividend source	Total dividend paid (million yen)	Dividend per share (yen)	Record date	Effective date
Shareholder OGM, June 8, 2021	Common stock	retained earnings	2,231	11.00	March 31, 2021	June 9, 2021

Notes: The above total dividend paid includes 33 million yen of company stock remaining in the stock benefit trust.

FY2021 (April 1, 2021 – March 31, 2022)

1. Type and number of issued shares and treasury stock

	Number of shares at start of the year	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at end of the year
Issued shares				
Common stock	209,577,400	–	–	209,577,400
Total	209,577,400	–	–	209,577,400
Treasury stock				
Common stock (see Note)	9,737,210	962,000	533,100	10,166,110
Total	9,737,210	962,000	533,100	10,166,110

Notes 1. The increase of 962,000 shares of common stock in treasury stock is due to the acquisition of treasury stock by resolution of the Board of Directors.

2. The decrease of 553,100 shares of common stock from treasury stock is due to the disposal of common stock by the ESOP trust.

3. The number of shares at the year start includes 3,000,000 company shares, and at FY end 2,466,900 company shares belonging to the ESOP trust stock option.

2. Share subscription rights, etc.

No relevant matters.

3. Dividends

(1) Dividends paid

Resolution	Share type	Total dividend paid (million yen)	Dividend per share (yen)	Record date	Effective date
shareholder OGM, June 8, 2021	Common stock	2,231	11.00	March 31, 2021	June 9, 2021

Notes: The above total dividend paid includes 33 million yen of company stock remaining in the ESOP trust.

(2) Dividends with a record date during the fiscal year but with an effective date subsequent to the fiscal year are as follows

resolution	share type	dividend source	total dividend paid (million yen)	dividend per share (yen)	Record date	effective date
Shareholder OGM, June 10, 2022	Common stock	retained earnings	2,422	12.00	2022年３月31日	2022年６月13日

Notes: The above total dividend paid includes 29 million yen of company stock remaining in the stock benefit trust.

Notes for consolidated statement of cash flow

* Reconciliation of cash and cash equivalents at FY end in relation to the accounts reported in the consolidated balance sheets

unit: million yen

	FY2020 (April 1, 2020 - March 31, 2021)	FY2021 (April 1, 2021 - March 31, 2022)
Cash and deposit accounts	19,935	19,199
Cash and cash equivalents	19,935	19,199

Financial instruments

1. Status of financial instruments

(1) Policy for dealing with financial instruments

Fund management is limited to highly secure bonds and deposits as well as seed money for fund creation, etc. Fund procurement is mainly via bank borrowing. We use derivatives only to avoid risks associated with interest rates, etc. and do not engage in speculative transactions.

(2) Financial instruments' content, risks, and risk management system

Credit risks with accrued investment trust management fees and investment advisory fees are deemed limited as the funds and discretionary assets we manage or administer are portfolio investments with only a limited number of high-risk transactions.

Furthermore, we monitor the net position each month of our trade receivables and payables, part of which are in foreign currencies and exposed to exchange rate fluctuation risks, and plan to hedge the risk by utilizing forward exchange contracts, etc., when necessary.

Investment securities are primarily seed money to funds and investments in limited partnerships.

The funds are securities with a market value and are exposed to market price fluctuation risks. We therefore monitor the fair value each month based on "Proprietary Fund Management Rules" and report to the Board.

Some loans payable have floating interest rates and are exposed to interest rate fluctuation risks. We use derivative transactions (interest rate swapping) to hedge such risks.

Explanation of hedging instruments, hedged items, hedging policy, and evaluation of hedging effectiveness, etc. can be found in the above "Preparation of consolidated financial statements and financial statements, 4 Accounting policy, (7) Significant hedging accounting".

(3) Supplementary explanation about fair value of financial instruments

Evaluation of fair value of financial instruments depends on variable factors. Corresponding fair value may therefore vary when different assumptions are used.

2. Matters regarding the fair value of financial instruments.

Carrying value, fair value, and the difference between them are summarized below.

FY2020 (March 31, 2021) unit: million yen

	consolidated balance sheet amount	fair value	difference
assets			
(1) investment securities			
other marketable securities	7,915	7,915	—
(2) accounts receivable	1,209	1,209	—
(3) accrued investment trust management fees	1,048	1,048	—
(4) accrued investment advisory fees	903	903	—
(5) long-term loans receivable	1,010	1,010	—
Total assets	12,087	12,087	—
Liabilities			
(1) short-term borrowings	2,000	2,000	—
(2) unpaid commission	307	307	—
(3) accounts payable	1,436	1,436	—
(4) income taxes payable	1,905	1,905	—
(5) long-term borrowings (*3)	7,000	6,998	(1)
Total liabilities	12,648	12,647	(1)
Derivatives transactions (*4)	—	—	—

(*1) Description of "cash and deposits" is omitted because cash and deposits are settled in the short-term, so their fair value is close to the book value.

(*2) Balance sheet amounts for financial instruments whose fair value is difficult to ascertain are shown below.

Classification	FY2020 (March 31, 2021)
Unlisted stocks	478
Investment in investment partnerships	3,553

These, (including investment in unconsolidated subsidiaries and associates), are not included under "assets (1) investment securities" as they have no market price and their fair value is difficult to ascertain.

(*3) Includes current portion of long-term borrowings

(*4) Net receivables and payables arising from derivative transactions are shown in net amounts, and items that are net liabilities in total are indicated in parentheses.

FY2021 (March 31, 2022) unit: million yen

	consolidated balance sheet amount	fair value	difference
assets			
(1) investment securities			
other marketable securities	7,566	7,566	—
(2) accounts receivable	971	971	—
(3) accrued investment trust management fees	1,048	1,048	—
(4) accrued investment advisory fees	965	965	—
(5) long-term loans receivable	910	910	—
Total assets	11,462	11,462	—
Liabilities			
(1) short-term borrowings	2,000	2,000	—
(2) unpaid commission	184	184	—
(3) accounts payable	1,526	1,526	—
(4) income taxes payable	438	438	—
(5) long-term borrowings (*3)	7,000	6,977	(22)
Total liabilities	11,149	11,127	(22)
Derivative transactions (*5)	—	—	—

(*1) Description of “cash and deposits” is omitted because cash and deposits are settled in the short-term, so their fair value is close to the book value.

(*2) Stocks with no market price are not included under “assets (1) investment securities”. Balance sheet amounts for these financial instruments are shown below.

Classification	FY2021 (March 31, 2022)
Unlisted stocks	730

(*3) Investment in partnerships and similar entities in which the company’s equity interest is recognized on a net basis on the consolidated balance sheet is omitted. The amount of this investment on the consolidated balance sheet is 3,858million yen.

(*4) The book value of long-term loans receivable is deemed to approximate their fair value because the interest rate assumed for similar new loans approximately equals the interest rate at the time of loan and the loans are expected to be collected within approximately two years.

(*5) Net receivables and payables arising from derivative transactions are shown in net amounts, and items that are net liabilities in total are indicated in parentheses.

Notes: 3. Repayment schedule for receivables and securities with maturity dates after the consolidated balance sheet date

FY2020 (March 31, 2021) unit: million yen

	Shorter than 1 year	1 – 5 years	5 – 10 years	Longer than 10 years
Cash and deposits	19,935	—	—	—
Accounts receivable	1,209	—	—	—
accrued investment trust management fees	1,048	—	—	—
accrued investment advisory fees	903	—	—	—
Long-term loans	—	1,010	—	—
total	23,096	1,010	—	—

FY2021 (March 31, 2022) unit: million yen

	Shorter than 1 year	1 – 5 years	5 – 10 years	Longer than 10 years
Cash, deposits	19,199	—	—	—
Accounts receivable	971	—	—	—
accrued investment trust management fees	1,048	—	—	—
accrued investment advisory fees	965	—	—	—
Long-term loans	—	910	—	—
total	22,185	910	—	—

Notes: 4. Repayment schedule for borrowing and lease obligations after the consolidated balance sheet date

FY2020 (March 31, 2021) unit: million yen

	shorter than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	longer than 5 years
Short-term borrowings	2,000	—	—	—	—	—
Long-term borrowings	5,000	—	2,000	—	—	—
Lease obligations	31	16	16	17	13	—
Total	7,031	16	2,016	17	13	—

FY2021 (March 31, 2022) unit: million yen

	Shorter than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Longer than 5 years
Short-term borrowings	2,000	—	—	—	—	—
Long-term borrowings	—	2,000	—	—	5,000	—
Lease obligations	42	44	32	16	—	—
Total	2,042	2,044	32	16	5,000	—

3. Breakdown of financial instrument fair value by level, etc.

Inputs used to evaluate the fair level of financial instruments are classified into the below 3 levels based on the observability and significance of the input.

level 1: observable inputs from quoted prices for the assets or liabilities that are formed in an active market

level 2: observable inputs other than those corresponding to level 1

level 3: unobservable inputs

When multiple inputs with a significant impact on the calculation of fair value are used, the lowest applicable level of input is selected.

(1) Financial instruments on the consolidated balance sheet at fair value

FY2021 (March 31, 2022) unit: million yen

Classification	Fair value			
	level 1	level 2	level 3	total
Investment securities				
Other marketable securities				
Equity	38	—	—	38
Total assets	38	—	—	38

Notes: Fair value of investment trusts is not included above. 7,528million yen is recorded for investment trusts on the consolidated balance sheet.

(2) Financial products other than those on the consolidated balance sheet at fair value

FY2021 (March 31, 2022) unit: million yen

classification	fair value			
	level 1	level 2	level 3	total
Accounts receivable	—	971	—	971
accrued investment trust management fees	—	1,048	—	1,048
accrued investment advisory fees	—	965	—	965
Long-term loans	—	910	—	910
Total assets	—	3,895	—	3,895
Short-term borrowings	—	2,000	—	2,000
Unpaid commission	—	184	—	184
Accounts payable	—	1,526	—	1,526
Income tax payable	—	438	—	438
Long-term borrowings	—	6,977	—	6,977
Total liabilities	—	11,127	—	11,127

Notes: Explanation of valuation techniques and inputs related to the calculation of fair value

Investment securities

Listed equities are valued using market prices formed in an active market and inputs are classified as level 1.

Accounts receivable, accrued investment trust management fees and accrued investment advisory fees

The fair value of these items is calculated using the discounted present value method based on an interest rate considering the amount of the claim, the period to maturity, and credit risk for each claim classified by a certain period and inputs are classified as level 2.

Long term loans

The fair value of long-term loans is calculated using the discounted present value method based on the interest rate obtained by adding a credit spread to the future cash flows and an appropriate index such as the yield of government bonds, etc., for each credit risk category for credit management purposes, classified by a certain period, and inputs are classified as level 2.

Short-term borrowings, unpaid commission, accounts payable, and income taxes payable, etc.

The fair value of these items is calculated using the discounted present value method based on the future cash flow for each debt classified by a certain period and an interest rate considering the period until the due date and credit risk, and inputs are classified as level 2.

Long-term borrowings

The fair value of long-term borrowing is calculated using the discounted present value method based on the total amount of principal and interest and an interest rate considering the remaining period of the debt and credit risk, and inputs are classified as level 2.

Available-for-sale securities

1. Other marketable securities

FY2020 (March 31, 2021) unit: million yen

	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Items for which the amount on the consolidated balance sheet exceeds the acquisition cost	(1) equity	—	—	—
	(2) bonds			
	① government, municipal bonds, etc.	—	—	—
	② corporate bonds	—	—	—
	③ others	—	—	—
	(3) others	7,231	5,075	2,155
	sub-total	7,231	5,075	2,155
Items for which the amount on the consolidated balance sheet does not exceed the acquisition cost	(1) equity	41	50	(9)
	(2) bonds			
	① government, municipal bonds, etc.	—	—	—
	② corporate bonds	—	—	—
	③ others	—	—	—
	(3) others	643	677	(34)
	sub-total	684	728	(43)
Total		7,915	5,803	2,112

FY2021 (March 31, 2022) unit: million yen

	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Items for which the amount on the consolidated balance sheet exceeds the acquisition cost	(1) equity	—	—	—
	(2) bonds			
	① government, municipal bonds, etc.	—	—	—
	② corporate bonds	—	—	—
	③ others	—	—	—
	(3) others	5,489	4,150	1,338
	sub-total	5,489	4,150	1,338
Items for which the amount on the consolidated balance sheet does not exceed the acquisition cost	(1) equity	38	50	(12)
	(2) bonds			
	① government, municipal bonds, etc.	—	—	—
	② corporate bonds	—	—	—
	③ others	—	—	—
	(3) others	2,038	2,180	(141)

	Type	Consolidated balance sheet amount	Acquisition cost	Difference
	sub-total	2,076	2,231	(154)
total		7,566	6,381	1,184

2. Other securities sold

FY2020 (April 1, 2020 – March 31, 2021) unit: million yen

Type	Sales value	Total gain on sales	Total loss on sales
(1) Equity	—	—	—
(2) bonds			
① government, municipal bonds, etc.	—	—	—
②corporate bonds	250	—	—
③ others	—	—	—
(3) others	1	0	—
total	251	0	—

FY2021 (April 1, 2021 – March 31, 2022) unit: million yen

Type	Sales value	Total gain on sales	Total loss on sales
(1) equity	—	—	—
(2) bonds			
① government, municipal bonds, etc.	—	—	—
② corporate bonds	—	—	—
③ others	—	—	—
(3) others	2,571	663	—
total	2,571	663	—

3. Impairment of securities

The write down value of equity without a market price was as follows - FY2020 46million yen, FY2021 560 million yen.

When the fair value of securities declined by 50% or more compared to its acquisition cost, the Company recognizes an impairment loss. Securities with a 30% to 50% decline was recognized an impairment loss after comprehensively evaluating the recoverability.

Furthermore, securities without a market price, etc. for which the actual value was 50% or more lower than the booked value was impaired for the amount needed to consider the possibility of recovery.

Derivative transactions

1. Derivative transactions for which hedge accounting was not applied

(1) Currency related

FY2020 (March 31, 2021)

No relevant matters

FY2021 (March 31, 2022)

No relevant matters

(2) Interest rate related

FY2020 (March 31, 2021)

No relevant matters

FY2021 (March 31, 2022)

No relevant matters

(3) Equity related

FY2020 (March 31, 2021)

No relevant matters

FY2021 (March 31, 2022)

No relevant matters

2. Derivative transactions for which hedge accounting was applied

(1) Currency related

FY2020 (March 31, 2021)

No relevant matters

FY2021 (March 31, 2022)

No relevant matters

(2) Interest rate related

FY2020 (March 31, 2021) unit: million yen

Hedge accounting method	Transaction type	Main hedged items	Contract amount	Contract amount exceeding 1 year	Fair value
Interest rate swap, special treatment	Interest rate swap Variable receipts, fixed payment	Long-term borrowings	2,000	2,000	(Note)

Notes: The fair value of items under “special treatment interest rate swap” is included in the fair value for long-term borrowing because special treatment interest rate swap is treated together with the hedged long-term borrowing

FY2021 (March 31, 2022) unit: million yen

Hedge accounting method	Transaction type	Main hedged items	Contract amount	Contract amount exceeding 1 year	Fair value
Interest rate swap, special treatment	Interest rate swap Variable receipts, fixed payment	Long-term borrowing	2,000	2,000	(Note)

Notes: Fair value is included in the fair value for long-term borrowing because special treatment interest rate swap is treated together with the hedged long-term borrowing.

(3) Equity related

FY2020 (March 31, 2021)

No relevant matters

FY2021 (March 31, 2022)

No relevant matters

Stock option related

No relevant matters.

Retirement benefits

1. Overview of retirement benefit system used

Some overseas subsidiaries use a funded defined-benefit plan to set aside retirement benefits for staff and executives, under which a pension or lump sum is paid based on the retiree's salary and service length.

2. Defined-benefit plan

(1) Changes in retirement benefit obligations

unit: million yen

	FY2020 (April 1, 2020 – March 31, 2021)	FY2021 (April 1, 2021 – March 31, 2022)
Balance at the beginning of the year	63	75
service costs	12	11
interest costs	1	2
difference from actuarial calculation	1	0
retirement benefits paid	(10)	(35)
Others	6	1
Balance at the end of the year	75	54

(2) Changes in plan assets

unit: million yen

	FY2020 (April 1, 2020 – March 31, 2021)	FY2021 (April 1, 2021 – March 31, 2022)
Balance at the beginning of the year	65	81
expected return on plan assets	1	2
difference from actuarial calculation	(0)	(1)
employer's contributions	10	17
retirement benefits paid	(2)	(28)
Others	6	2
Balance at the end of the year	81	73

(3) Adjustments between the ending balances of retirement benefit obligations and plan assets and the retirement benefit liability and retirement benefit asset reported on the consolidated balance sheet

unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Retirement benefit obligations for funded type plans	75	54
Pension Plan assets	(81)	(73)
	(6)	(18)
Retirement benefit obligations for unfunded type plans	—	—
Net asset and liabilities reported on the consolidated balance sheet	(6)	(18)
Retirement benefit liabilities	—	—
Retirement benefit assets	(6)	(18)
Net asset and liabilities reported on the consolidated balance sheet	(6)	(18)

(4) Breakdown of retirement benefit expenses

unit: million yen

	FY2020 (April 1, 2020 – March 31, 2021)	FY2021 (April 1, 2021 – March 31, 2022)
Service costs	12	11
Interest costs	1	2
Expected return on plan assets	(1)	(2)
Recognized actuarial gain or loss	—	—
Recognized previous service costs	—	—

Retirement benefit expenses for defined-benefit plan	11	11

(5) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans, net of tax (before tax effect) consists of the following.

unit: million yen

	FY2020 (April 1, 2020 – March 31, 2021)	FY2021 (April 1, 2021 – March 31, 2022)
Actuarial gain or loss	(2)	(1)
Others	0	0
Total	(1)	(1)

(6) Remeasurements of accumulated defined benefit plans

Remeasurements of accumulated defined benefit plans, net of tax (before tax effect) consists of the following.

unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Unrecognized previous service costs	—	—
Unrecognized actuarial gain or loss	5	3
Total	5	3

(7) Plan assets

① Components of plan assets

Plan asset consist of the following:

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Bonds	33.3%	45.6%
Stock	—	—
Cash and deposits	2.0	2.0
Others	64.7	52.4
Total	100.0	100.0

② Methods for determining the long-term expected rates of returns on plan assets

The expected long-term rate of return on plan assets is decided by considering the AA rated corporate bond yield over the forecast remaining service period of staff and directors.

(8) Assumptions used in actuarial calculations

The major assumptions (on the weighted average basis) used in actuarial calculations are as follows:

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Discount rate	3.3%	4.2%
Expected long-term rate of return on plan assets	2.9%	3.3%
Expected rates of salary increase	3.0%	3.0%

Deferred Tax Accounting

1. Major component of deferred tax assets and deferred tax liabilities are as follows:

unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Deferred tax assets		
Net operating loss carried forward (Note)	479	353
temporary differences connected with investments in consolidated subsidiaries	224	224
accrued expenses	276	279
business tax payable	115	53
provision for share awards	149	154
provision for long-term incentives	67	41
loss on valuation of investment securities	268	481
Valuation difference on AFS securities	14	54
Others	175	226
Deferred tax assets: subtotal	1,771	1,869
valuation allowance pertaining to retained tax loss for tax purposes (Note)	(479)	(353)
valuation allowance pertaining to total deductible temporary differences	(805)	(1,098)
Valuation allowances: subtotal	(1,285)	(1,452)
Total deferred tax assets	486	417
Deferred tax liabilities		
Valuation difference on AFS securities	690	471
Others	32	26
Total deferred tax liabilities	723	497
Balance of net deferred tax assets and liabilities	(236)	(80)

Notes: Amounts classified by the deadline for carried forward net operating loss and related deferred tax assets by their carry forward dates

FY2020 (March 31, 2021)

unit: million yen

	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total
Carried forward net operating loss (*2)	39	46	40	36	38	278	479
Valuation allowance	(39)	(46)	(40)	(36)	(38)	(278)	(479)
Deferred tax assets	—	—	—	—	—	—	—

(*2) carried forward net operating losses for tax purposes is shown as an amount multiplied by the effective tax rate.

FY2021 (March 31, 2022) unit: million yen

	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total
Carried forward net operating loss (*2)	32	40	36	38	66	139	353
Valuation allowance	(32)	(40)	(36)	(38)	(66)	(139)	(353)
Deferred tax assets	—	—	—	—	—	—	—

(*2) carried forward net operating losses for tax purposes is shown as an amount multiplied by the effective tax rate.

2. Breakdown of items which caused the difference between the normal statutory tax rate and the effective tax rate after adoption of tax effect accounting

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Normal effective statutory tax rate	30.6%	30.6%
(adjustments)		
Taxation of accumulated earnings of family companies	0.1	—
Differences in tax rates of foreign subsidiaries	4.6	1.9
Changes in valuation allowance	(0.4)	2.5
permanent differences such as entertainment expenses, etc.	1.2	0.9
Investment gain and loss by method used	1.4	0.5
Expiration of local tax loss carryforwards	4.2	0.5
Differences due to variation in tax rate	0.0	0.0
Withholding income tax relating to dividends from overseas subsidiaries	0.6	—
Tax credits	(0.1)	—
Others	0.4	(1.1)
Actual effective tax rate	42.6	35.8

Business combinations

No relevant items.

Revenue recognition related

1. Breakdown of revenue generated by contracts with clients

Our group is a single segment businesses of investment trust management, discretionary investment management and investment advisory, with the revenue generated by contracts with major clients shown below.

unit: million yen

	FY2021 (April 1, 2021 – March 31, 2022)
Management fees (Note 1)	12,577
Performance fees (stock investment) (Note 2)	605
Performance fees (acquisition fees) (Note 3)	356
Performance fees (fees received when a renewable energy fund realizes a gain from selling a power station in which it is investing) (Note 4)	246
Others	258
total	14,043

Notes:

1. Management fees include 5,500million yen of investment trust management fee, 6,759million yen investment advisory fees, and 317million yen other operating revenue.
2. Performance fees (stock investment) include 422million yen of investment trust management fees and 183million yen investment advisory fees.
3. Performance fees (acquisition fees) recorded as other operating revenue on the consolidated statement of income.
4. Performance fees (fees received when a renewable energy fund realizes a gain from selling a power station in which it is investing) recorded as investment advisory fees on the consolidated statement of income.

2. Information useful in understanding revenue from contracts with clients

As described above in (fundamental and important items for consolidated financial statement preparation) 4. Accounting policy (5) Recording of significant revenues and expenses

3. Relationship between satisfactory performance obligations and cash flow generated by client contracts, and the prospect of recognizing the following fiscal year's revenue and term from existing client contracts at the end of the present fiscal year.

Omitted as it is not a significant issue.

Segment information etc.

Segment information

i) FY2020 (April 1, 2020 – March 31, 2021)

Omitted, as our group is a single segment business of investment trust management, discretionary investment management and investment advisory.

ii) FY2021 (April 1, 2021 – March 31, 2022)

Omitted, as our group is a single segment business of investment trust management, discretionary investment management and investment advisory.

Related information

FY2020 (April 1, 2020 – March 31, 2021)

1. By service

Omitted, since our business of advising external clients about investment in investment trusts (including related services) generates more than 90% of the operating revenue on the consolidated income statement.

2. By region

(1) Operating revenue

unit: million yen

Japan	Cayman Islands	Europe	South Korea	others	total
10,924	99	2,485	84	700	14,295

Notes: Classification by region is based on contract partner’s location (headquarters in the case of funds)

(2) Tangible fixed assets unit: million yen

Japan	South Korea	Hong Kong	others	total
746	103	27	0	878

3. By major client

unit: million yen

Client name	Operating revenue	Related segment
SPARX New International Blue Chip Japan Equity Fund	1,519	Business of investment trust management, discretionary investment management and investment advisory

Notes: As investments are made via sales companies and other funds, etc. the ultimate beneficiary is difficult to ascertain.

FY2021 (April 1, 2021 – March 31, 2022)

1. By service

Omitted, since our business of advising external clients about investment in investment trusts (including related services) generates more than 90% of the operating revenue on the consolidated income statement.

2. By region

(1)Operating revenue unit: million yen

Japan	Cayman Islands	Europe	South Korea	others	total
10,339	218	2,583	91	810	14,043

Notes: Classification by region is based on contract partner's location (headquarters in the case of funds)

(2) Tangible fixed assets unit: million yen

Japan	South Korea	Hong Kong	total
630	84	74	789

3. By major client unit: million yen

Client name	operating revenue	Related segment
SPARX New International Blue Chip Japan Equity Fund	2,086	Business of investment trust management, discretionary investment management and investment advisory

Notes: As investments are made via sales companies and other funds, etc. the ultimate beneficiary is difficult to ascertain.

Impairment loss on Fixed assets by reportable segment

FY2020 (April 1, 2020 – March 31, 2021)

Omitted, as our group is a single segment business of investment trust management, discretionary investment management and investment advisory.

FY2021 (April 1, 2021 – March 31, 2022)

No relevant items.

Amortization of Goodwill and unamortized balance by reportable segment

FY2020 (April 1, 2020 – March 31, 2021)

No relevant items.

FY2021 (April 1, 2021 – March 31, 2022)

No relevant items.

Gain on Negative goodwill by reportable segment

FY2020 (April 1, 2020 – March 31, 2021)

No relevant items.

FY2021 (April 1, 2021 – March 31, 2022)

No relevant items.

Information about related parties

1. Transactions of related parties

(1) Transactions between the company submitting the consolidated financial statements and related parties

FY2020 (April 1, 2020 – March 31, 2021)
No relevant items.

FY2021 (April 1, 2021 – March 31, 2022)
No relevant items.

(2) Transactions between consolidated subsidiaries of the company submitting the consolidated financial statements and related parties

FY2020 (April 1, 2020 – March 31, 2021)
No relevant items.

FY2021 (April 1, 2021 – March 31, 2022)
No relevant items.

2. Notes about parent company or significant related companies

FY2020 (April 1, 2020 – March 31, 2021)
No relevant items.

FY2021 (April 1, 2021 – March 31, 2022)
No relevant items.

(per-share information)

	FY2020 (April 1, 2020 – March 31, 2021)	FY2021 (April 1, 2021 – March 31, 2022)
Net assets per share	116.47yen	121.98yen
Net Income per share	17.35yen	20.3yen

Notes:

1. Upon calculating the net income per share, the company's shares remaining in the ESOP trust (recorded as treasury stock in shareholder equity) are deducted from the calculated average number of common stock across the period. The average number of treasury stock so deducted was 3,000,000 for FY2020 and 2,487,348 for FY2021.
2. Upon calculating the net assets per share, the company's shares remaining in the ESOP trust (recorded as treasury stock in shareholder equity) are deducted from the number of shares issued and outstanding at the end of the period. The average number of treasury stock so deducted was 3,000,000 for FY2020 and 2,466,900 for FY2021.
3. Diluted net income per share is not stated as there are no diluted shares.
4. Basis for calculating net income per share is as follows.

	FY2020 (April 1, 2020 – March 31, 2021)	FY2021 (April 1, 2021 – March 31, 2022)
Net income per share		
Profit attributable to owners of parent (million yen)	3,468	4,070
Amount not attributable to common shareholders (million yen)	―	―
Net income attributable to owners of parent related to common stocks (Million yen)	3,468	4,070
Average number of common stocks (shares)	199,840,190	199,762,606

5. Basis for calculating net assets per share is as follows.

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Total net assets (million yen)	23,276	24,324
Deductions from total net assets (million yen)	0	0
(of which subscription warranties (million yen))	(―)	(―)
(of which non-controlling interests (million yen))	(0)	(0)
Net assets related to common stock at the end of the fiscal year (million yen)	23,276	24,324
Number of common stock shares used for calculating net assets per share at the end of the fiscal year (shares)	199,840,190	199,411,290

Significant subsequent events

Reverse stock split

The Board of Directors' meeting held on May 6, 2022, decided to refer the reverse stock split to the 33rd Ordinary General Meeting of Shareholders to be held on June 10, 2022.

The content is as follows.

(1) Purpose

The Reverse Stock Split will merge five shares of the Company's common stock into one share.

The Company's share price and investment unit are JPY 252 and JPY 25,200 (as of May 2, 2022), respectively. These figures are far below the range of "between JPY 50,000 and JPY 500,000," the ideal investment unit under the Securities Listing Regulations of the Tokyo Stock Exchange. The Reverse Stock Split aims to address this situation.

By incorporating 5 company common stocks into 1 share, we aim to improve the situation whereby our investment unit (25,200yen, based on a share price of 252yen as of May 2, 2022) is considerably lower than the target investment level of "50,000 – 500,000yen" contained in the Securities Listing Regulations of the Tokyo Stock Exchange.

(2) Details

① Type of stock

common stock

② Ratio

The Reverse Stock Split ratio will be one share for every five shares. (The number of shares held by shareholders listed or recorded in the shareholders' register as of September 30, 2022, will be the basis for the Reverse Stock Split.)

③ Effective date

October 1, 2022

③ Total number of shares authorized for issue on the effective date

128,800,000 shares

The provisions of the Articles of Incorporation regarding the total number of authorized shares will be modified on the effective date of the Reverse Stock Split, per Article 182, Paragraph 2 of the Companies Act.

④ Share count reduction due to the Reverse Stock Split (actual number of shares reduced may vary)

Total number of shares issued before the reverse stock split (as of March 31, 2022)	209,577,400 shares
Share count reduction due to reverse stock split	167,661,920 shares
Total number of shares issued after the reverse stock split	41,915,480 shares

Notes: The "share count reduction due to the Reverse Stock Split" and the "total number of shares issued after the Reverse Stock Split" are theoretical values obtained based on the total number of shares issued before the Reverse Stock Split by the Reverse Stock Split ratio.

(3) Impact on per-share information

Per-share data assuming the reverse stock split took place at the start of the current fiscal year.

	FY2021 (April 1, 2021 – March 31, 2022)
Net assets per share	609.90yen
Net income per share	101.89yen

Diluted net income per share is not stated as there are no diluted shares.

5. **Consolidated Supplementary Schedules**

Bond schedules

No relevant matters.

Schedule of borrowings, etc.

Classification	Balance at begging of period (million yen)	Balance at end of period (million yen)	Average interest rate (%)	Maturity date
Short-term borrowings	2,000	2,000	0.23	—
Long-term borrowing scheduled for repayment within 1 year	5,000	—	—	
Lease obligations scheduled for repayment within 1 year	31	42	3.27	—
Long-term borrowings (excluding that scheduled for repayment within 1 year)	2,000	7,000	0.80	2023 - 2026
Lease obligations (excluding that scheduled for repayment within 1 year)	64	93	3.79	2024 - 2025
Total	9,096	9,136	—	—

Notes:

1. “average interest rate” is the weighted average interest rate applicable to the year-end balance of borrowings, etc.
2. Except for some consolidated subsidiaries, average interest rate on lease obligations is not calculated because lease obligations on the consolidated balance sheets are shown prior to the deduction of interest.
3. Scheduled repayments of long-term borrowing and lease obligations (excluding that scheduled for repayment within 1 year) for 5 years after the consolidated balance sheet date

unit: million yen

	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years
Long-term borrowings	2,000	—	—	5,000
Lease obligations	44	32	16	—

Schedule of asset retirement obligations

In accordance with Article 92-2 of the Regulations for Consolidated Financial Statements, asset retirement obligations at the beginning and closing of FY2022 are not reported as they are calculated as being less than 1% of total liabilities and net assets.

(2) **Others**

FY2022 quarterly information etc.

(Cumulative period)	Through Q1	Through Q2	Through Q3	Full year
Operating revenue (million yen)	3,311	6,783	10,602	14,043
Profit before income taxes (million yen)	1,514	3,205	5,387	6,345
Profit attributable to owners of parent (million yen)	1,063	2,241	3,684	4,070
Net income per share (yen)	5.31	11.20	18.43	20.37

(Accounting period)	Q1	Q2	Q3	Q4
Net income per share (yen)	5.31	5.88	7.23	1.93

2 【Financial Statements and Other Financial Statements】

（1） 【Financial Statements】

① 【Balance Sheets】

（Units: million yen）

	FY2020 (March 31, 2021)	FY2021 (March 31, 2021)
Asset		
Current assets:		
Cash and deposits	5,846	5,434
Account receivable	*2 2,714	*2 2,395
Prepaid expenses	80	101
Short-term loans receivable	80	120
Other	10	0
Total current assets	8,731	8,051
Non-current assets		
Property, plant and equipment		
Vehicles	0	0
Land	68	68
Total property, plant and equipment	68	68
Intangible assets		
Software	0	0
Total for intangible assets	0	0
Investments and other assets		
Investment securities	*1 11,583	11,572
Stocks of subsidiaries and associates	7,615	7,142
Investments in other securities of subsidiaries and associates	351	320
Long-term loans receivable	1,010	910
Guarantee deposits	22	21
Other	56	84
Total investment and other assets	20,640	20,052
Total non-current assets	20,709	20,120
Total assets	29,440	28,172

(Units: million yen)

	FY2020 (March 31, 2021)	FY2021 (March 31, 2021)
Liabilities		
Current liabilities:		
Short-term borrowings	2,000	2,000
Current portion of long-term borrowings	*1 5,000	—
Accounts payable	*2 789	*2 738
Income taxes payable	1,387	200
Other	46	34
Total current liabilities	9,224	2,973
Non-current liabilities:		
Long-term borrowings	2,000	7,000
Deferred tax liabilities	669	452
Other	66	95
Total non-current liabilities	2,735	7,548
Total liabilities	11,960	10,521
Net assets		
Shareholders' equity:		
Capital stock	8,587	8,587
Capital surplus		
Legal capital surplus	130	130
Other capital surplus	3,157	3,157
Total capital surplus	3,288	3,288
Retained earnings		
Legal retained earnings	743	966
Other retained earnings		
Retained earnings brought forward	6,893	7,609
Total retained earnings	7,637	8,575
Treasury shares	(3,549)	(3,685)
Total shareholders' equity	15,962	16,765
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,517	885
Total valuation and translation adjustments	1,517	885
Total net assets	17,480	17,650
Total liabilities and net assets	29,440	28,172

② 【Statement of Income】

(Units: million yen)

	FY2020 (April 1, 2020 - March 31, 2021)	FY2021 (April 1, 2021 - March 31, 2022)
Operating revenue		
Outsourcing service revenue from associates	*1 486	*1 576
Income from investment partnership management	2,728	*6 2,728
Other outsourcing service revenue	*1 57	*1 82
Total operating revenue	3,272	3,386
Operating expenses, and general and administration expenses	*1, *2 3,396	*1, *2 3,424
Operating (loss)	(123)	(37)
Non-operating income		
Interest income	6	8
Dividend income	*1 3,298	*1 4,162
Foreign exchange gains	29	—
Gain on investments in investment partnerships	141	—
Miscellaneous income	32	9
Total non-operating income	3,508	4,180
Non-operating expenses		
Interest expenses	62	61
Foreign exchange losses	—	13
Commission expenses	21	2
Loss on investments in investment partnerships	—	156
Miscellaneous loss	12	9
Total non-operating expenses	96	243
Ordinary profit	3,288	3,899
Extraordinary income		
Gain on sale of investment securities	—	663
Total extraordinary income	—	663
Extraordinary losses		
Loss on valuation of investment securities	*3 46	*3 560
Loss on valuation of shares of subsidiaries and associates	*4 323	*4 663
Bad debts written off	*5 157	—
Total extraordinary losses	527	1,223
Profit before income taxes	2,761	3,339
Income taxes – current	167	165
Income taxes - deferred	10	4
Total income taxes	177	169
Profit	2,583	3,170

③【Statements of Changes in Equity】

FY2020 (April 1, 2020 – March 31, 2021)

(Units: million yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings: Retained earnings brought forward	Total retained earnings		
Balance at beginning of period	8,587	130	3,157	3,288	561	6,317	6,878	(3,549)	15,204
Changes during period									
Dividends of surplus					182	(2,008)	(1,825)		(1,825)
Profit						2,583	2,583		2,583
Net changes in items other than shareholder's equity									
Total changes during period	—	—	—	—	182	575	758	—	758
Balance at end of period	8,587	130	3,157	3,288	743	6,893	7,637	(3,549)	15,962

	Valuation and translation adjustments		Total net asset
	Valuation difference on AFS securities	Total valuation and translation adjustments	
Balance at beginning of period	(205)	(205)	14,998
Changes during period			
Dividends of surplus			(1,825)
Profit			2,583
Net changes in items other than shareholder's equity	1,723	1,723	1,723
Total changes during period	1,723	1,723	2,481
Balance at end of period	1,517	1,517	17,480

FY2021 (April 1, 2021 – March 31, 2022)

(Units: million yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at beginning of period	8,587	130	3,157	3,288	743	6,893	7,637	(3,549)	15,962
Changes during period									
Dividends of surplus					223	(2,454)	(2,231)		(2,231)
Profit						3,170	3,170		3,170
Purchase of treasury shares								(249)	(249)
Disposal of treasury shares by ESOP Trust								114	114
Net changes in items other than shareholder's equity									
Total changes during period	—	—	—	—	223	715	938	(135)	802
Balance at end of period	8,587	130	3,157	3,288	966	7,609	8,575	(3,685)	16,765

	Valuation and translation adjustments		Total net asset
	Valuation difference on AFS securities	Total valuation and translation adjustments	
Balance at beginning of period	1,517	1,517	17,480
Changes during period			
Dividends of surplus			(2,231)
Profit			3,170
Purchase of treasury shares			(249)
Disposal of treasury shares by ESOP Trust			114
Net changes in items other than shareholder's equity	(632)	(632)	(632)
Total changes during period	(632)	(632)	170
Balance at end of period	885	885	17,650

Notes to Non-Consolidated Financial Statements

Significant accounting policies

1.Basis and method for valuation of marketable securities

Shares of subsidiaries and associates

Stated at cost by the weighted average method.

Other marketable securities of related companies

For investments in investment limited liability partnerships or similar entities (managed as securities according to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), incorporate the amount equivalent to equity on a net basis, based on the most recent available financial statements according to the financial reporting date stipulated in the partnership agreement.

Other marketable securities

Securities other than shares, etc. that do not have a market price

Stated at fair value(unrealized gains and losses are reported as a component of net assets, and the cost of securities sold is computed using the weighted average method.)

NonSecurities, etc. that do not have a market prices-marketable stock

Stated at cost by the weighted average method.

(investment in limited investment partnerships)

For investment in investment limited partnerships and similar partnerships (considered as marketable securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), the net amount of the Company's equity interest in the partnership is incorporated based on the most recent financial statements available, according to the financial reporting date stipulated in the partnership agreement.

2. Method of depreciation and amortization of fixed assets

Tangible fixed assets

Use declining-balance method. However, the straight-line method is used for fixed assets acquired after April 1, 2016.

The service life is as follows

vehicles　6 years

Intangible fixed assets

For (in-house use) software, the straight-line method is used, based on the possible in-house usage time (5 years).

3. Basis for translation of assets and liabilities in foreign currencies into Japanese yen

Foreign currency assets and liabilities are differences that accrue on translation to yen at spot exchange rates at the time of the balance sheet date.

4. Accounting standards for revenue and expenses

(1) Revenue from outsourcing service revenue from associates

The company is contracted to undertake some operations for some subsidiaries for a certain time and is compensated based on expenses generated (with some exceptions) marked up with a certain fee ratio. This revenue is recognized at the time of completing the performance obligation. This revenue is measured at the transaction price related to the customer contract. The consideration for a transaction is received primarily within one year after the satisfaction of the performance and no significant financial elements are included.

(2) Income from investment partnership management

Fees are received as compensation for contractually obligated investment partnerships fund management and are based on the total amount of assets under management, or the value of the commitment multiplied by a certain rate. Revenue is recognized across the investment period. Furthermore, fees are received from limited liability company silent partners for a certain percentage of profit on the transfer of equity in partnerships that exceed performance targets for renewable energy funds we manage. Revenue is recognized at that point in time. The consideration for a transaction is received primarily within one year after the satisfaction of the performance and no significant financial elements are included.

5. Hedging accounting methods
  (1) Hedging accounting method
    Interest rate swapping is subject to special treatment as it meets the conditions thereof.
  (2) Hedging instruments and hedged items
    Instruments and items subject to hedging accounting in the current fiscal year are as follows:
    hedging instrument < --- > interest rate swapping
    hedged items < --- > interest on borrowed funds
  (3) Hedging policy
    Hedging against interest rate fluctuation risks is carried out, based mainly on our internal "Derivative Management Regulations".
  (4) Method for evaluation of hedging effectiveness
    Effectiveness is not evaluated for interest rate swapping subject to special treatment.

6. Other fundamentally important items for preparation of financial statements
  (1) Consolidated tax payment system
    Consolidated tax payment system is applied.
  (2) Tax effect accounting for transfer of consolidated tax payment system to group totalization system.
    The Company will transfer from the consolidated tax payment system to a group totalization system from the next fiscal year, However, in accordance with paragraph 3 of "Treatment of Application of Tax Effect Accounting for Transition From Consolidated Tax Payment System to Group Totalization System" (Practical Response Report No. 39, March 31, 2020), the provisions of Paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) – regarding transition to the group totalization system established by the "Act for Partial Revision of the Income Tax Act" (Act No. 8 of 2020) and the conjoining items for which the stand-alone tax system was revised - will not be applied and the amount of deferred tax assets and deferred tax liabilities will be based on the provisions of the tax law before the revision. From the start of the next business year, when applying the group totalization system, we plan to apply the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in Japan.

Significant accounting estimates

No relevant matters.

Changes to accounting policy

Application of accounting standards for revenue recognition

From the start of this business year, we applied a "Revenue Recognition Accounting Standard" (Corporate Accounting Standard No. 29, March 31, 2020, hereinafter "revenue recognition accounting standard") which recognizes revenue as the prospective sum of money received in exchange for goods and services at the point of transfer of those goods and services to customers. This change has no impact on the financial statements.

Furthermore, we applied revenue recognition accounting criteria following the transitional treatment prescribed in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard but there was no impact on retained earnings at the opening of the period.

The Company follows the transitional treatment prescribed in the Revenue Recognition Accounting Standard 89-3 and an explanatory note on "Revenue Recognition Relationship" for FY2020 is not included.

(Application of accounting standard for fair value calculation)
We applied “Accounting Standard for Fair Value Calculation”(Corporate Accounting Standard No. 30, July 4, 2019, hereinafter “fair value calculation accounting standard”) from the start of this business year, and, in accordance with transition handling as defined in the fair value calculation accounting standard, paragraph 19 and “Financial Instruments Accounting Standard” Corporate Accounting Standard No. 10, July 4, 2019, paragraph 44-2, adopted a new accounting policy based on fair value calculation accounting standard for the future. This change has no impact on the financial statements.

Changes in indication method

No relevant matters.

Additional information

Stock option ESOP trust

An explanatory note about stock option ESOP trust is included in the consolidated financial statements “Notes” (Additional Information) so the same content is omitted here.

Accounting estimate for the impact of the spread of COVID-19

Accounting estimates for recoverability of deferred tax assets and fixed asset impairment accounting, etc. are based on information available when the consolidated financial statements were prepared.

Although the prospects for the future spread and timing for resolution of the pandemic are unclear, we believe that the spread of COVID-19 will not significantly impact our current accounting estimates.

Notes for balance sheets

*1 Mortgaged assets and liabilities

Mortgaged assets unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Investment securities (stocks)	41	—

Mortgaged liabilities unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Current portion of long-term borrowings	5,000	—

*2 Related companies’ items

Related companies’ assets and liabilities unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Accounts receivable	2,094	1,759
Accounts payable	655	634

Notes for statements of income

*1 Transactions with related companies

unit: million yen

	FY2020 (April 1, 2020 – March 31, 2021)	FY2021 (April 1, 2021 – March 31, 2022)
Outsourcing service revenue from associates	486	576
Other outsourcing service revenue	4	9
Commission	2,729	2,728
Dividend income	3,296	4,160

*2 The percentage of costs included as general management expenses was 18% for FY2020 and 19% for FY2021.

Operating and general expenses

unit: million yen

	FY2020 (April 1, 2020 – March 31, 2012)	FY2021 (April 1, 2021 – March 31, 2022)
Commission expenses	2,770	2,760
salaries and bonuses	311	327
Operations consignment expenses	167	109

*3 Losses on valuation of investment securities

Losses were recognized for certain issues of investment securities by impairment whose real value has declined significantly and for which recovery is deemed unlikely.

*4 Losses on valuation of shares of subsidiaries and associates

FY2020 (April 1, 2020 – March 31, 2021)

Losses on valuation of shares of related companies relate to consolidated subsidiary SPARX Global Investments (Myanmar) Co., Ltd. and Sigma-i Co., Ltd.

FY2021 (April 1, 2021 – March 31, 2022)

Losses on valuation of shares of related companies relate to consolidated subsidiary SPARX Overseas, Ltd. and SPARX Asia Capital Management Limited Sigma-i Co., Ltd.

*5 Bad debt written off

FY2020 (April 1, 2020 – March 31, 2021)

Bad debt write off are due to the waiver of claims against consolidated subsidiary SPARX Global Investments (Myanmar) Co. Ltd.

FY2021 (April 1, 2021 – March 31, 2022)

No relevant matters.

*6 Income from investment partnership management

"Revenue from investment partnership management" on the income statement includes gains on the sale of power plants in which the renewable energy fund invests that result in gains on the transfer of the investment. This revenue includes a performance fee of 245million yen, which is calculated by multiplying the gain on the sale by a certain rate.

Securities

Shares of subsidiaries and other related companies

FY2020 (March 31, 2021)

Securities of subsidiaries and other related companies on the balance sheet whose fair value is very difficult to determine

unit: million yen

classification	FY2020
Share of subsidiaries	7,436
Share of associates	178
other securities' share of associates	351

FY2021 (March 31, 2022)

Non-marketable stocks and other securities on the balance sheet

unit: million yen

classification	FY2021
Share of subsidiaries	6,773
Share of associates	369
other securities' share of associates	320

Deferred Tax Accounting

1. Major component of deferred tax assets and deferred tax liabilities are as follows: unit: million yen

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Deferred tax assets		
loss on valuation of stocks of related companies	5,722	5,926
loss on investment securities valuation	267	480
unsettled liabilities	20	18
bad debt loss	44	48
operating loss carried forward	358	257
unrealized gains and losses on AFS securities	14	54
other tax adjustments	253	251
Deferred tax assets: subtotal	6,680	7,036
valuation allowance for carried forward net operating losses for tax purposes	(358)	(257)
valuation allowance for total future deductible temporary differences, etc.	(6,301)	(6,762)
Valuation allowances: subtotal	(6,659)	(7,020)
Deferred tax assets: total	21	16
Deferred tax liabilities		
unrealized gains and losses on AFS securities	690	468
Deferred tax liabilities: total	690	468
Net deferred tax liabilities	(669)	(452)

2. Breakdown of items which caused the difference between the normal statutory tax rate and the effective tax rate after adoption of tax effect accounting

	FY2020 (March 31, 2021)	FY2021 (March 31, 2022)
Statutory tax rate	30.6%	30.6%
Adjustments A		
non-permanently tax-deductible entertainment expenses	5.3	4.9
expiration of local tax loss carryforwards	9.2	0.8
equalization of residential taxes	0.0	0.0
change in valuation allowances	(3.6)	9.6
dividend income not permanently includable in income	(36.3)	(38.1)
tax deduction	(0.1)	—
difference due to application of consolidated taxation	0.1	0.1
difference due to change in tax rate	0.0	0.0
withholding tax on dividends from foreign subsidiaries	1.2	—
Others	0.0	(2.9)
Corporate tax contribution rate after application of tax effect accounting	6.4	5.0

Business combinations

No relevant matters.

Revenue recognition

Basis for comprehending revenue generated by contracts with clients

As described above in (Significant accounting policy) 4. Criteria for accounting revenue and expenses.

Significant subsequent events

Reverse stock split

The Board of Directors' meeting held on May 6, 2022, decided to refer the reverse stock split to the 33rd Ordinary General Meeting of Shareholders to be held on June 10, 2022.

The content is as follows.

(1) Purpose

The Reverse Stock Split will merge five shares of the Company's common stock into one share.

The Company's share price and investment unit are JPY 252 and JPY 25,200 (as of May 2, 2022), respectively. These figures are far below the range of "between JPY 50,000 and JPY 500,000," the ideal investment unit under the Securities Listing Regulations of the Tokyo Stock Exchange. The Reverse Stock Split aims to address this situation.

By incorporating 5 company common stocks into 1 share, we aim to improve the situation whereby our investment unit (25,200yen, based on a share price of 252yen as of May 2, 2022) is considerably lower than the target investment level of "50,000 – 500,000yen" contained in the Securities Listing Regulations of the Tokyo Stock Exchange.

(2) Details

① Type of stock

common stock

② Ratio

The Reverse Stock Split ratio will be one share for every five shares. (The number of shares held by shareholders listed or recorded in the shareholders' register as of September 30, 2022, will be the basis for the Reverse Stock Split.)

③ Effective date

October 1, 2022

④ Total number of shares authorized for issue on the effective date

128,800,000 shares

The provisions of the Articles of Incorporation regarding the total number of authorized shares will be modified on the effective date of the Reverse Stock Split, per Article 182, Paragraph 2 of the Companies Act.

⑤ Share count reduction due to the Reverse Stock Split (actual number of shares reduced may vary)

Total number of shares issued before the reverse stock split (as of March 31, 2022)	209,577,400 shares
Share count reduction due to reverse stock split	167,661,920 shares
Total number of shares issued after the reverse stock split	41,915,480 shares

Notes: The "share count reduction due to the Reverse Stock Split" and the "total number of shares issued after the Reverse Stock Split" are theoretical values obtained based on the total number of shares issued before the Reverse Stock Split by the Reverse Stock Split ratio.

(3) Impact on per-share information

Per-share data assuming the reverse stock split took place at the start of the current fiscal year.

	FY2021 (April 1, 2021 – March 31, 2022)
Net assets per share	609.90yen
Net income per share	101.89yen

Diluted net income per share is not stated as there are no diluted shares.

④ Supplementary schedules

Tangible fixed assets

unit: million yen

Asset type	Balance at beginning of period	Increase in the current period	Decrease in the current period	Balance at period closing	Accumulated depreciation or amortization at the end of the current period	Amortization in the current period	Balance at the end of the current period
Tangible fixed assets							
vehicles	6	—	—	6	6	0	0
Land	68	—	—	68	—	—	68
total tangible fixed assets	74	—	—	74	6	0	68
Intangible fixed assets							
software	0	—	—	0	0	0	0
total intangible fixed assets	0	—	—	0	0	0	0

Allowances

No relevant matters.

(2) Major assets and liabilities

Omitted here as this appears on the consolidated financial statements.

(3) Others

No relevant matters.

Section 6. Stock-related administration for the Filing Company

Fiscal year	April 1 – March 31
Ordinary General Meeting of Shareholders	within 3 months after the day after the end of the fiscal year
Record date	March 31
Record date for dividends from surplus	September 30, March 31
Number of shares constituting one unit	100 shares
Purchase of shares of less than one unit	
Handling location	(Special account) 1-4-1 Marunouchi, Chiyoda City, Tokyo Sumitomo Mitsui Trust Bank, Limited Transfer Agent Department
Shareholders' register administrator	(Special account) 1-4-1 Marunouchi, Chiyoda City, Tokyo Sumitomo Mitsui Trust Bank, Limited
Agency	—
Purchase fee	no charge
Public notice method	Public notices are issued in electronic form on our website (http://www.sparx.jp), or if electronic form is not possible, the Nihon Keizai Shimbun (Nikkei).
Shareholder benefits	no relevant matters.

Notes

Pursuant to the Company's Articles of Incorporation, shareholders holding less than one unit of shares have no rights other than those listed below.

(1) The rights stipulated in each item of Article 189, Paragraph 2 of the Companies Act

(2) The right to demand what is stipulated under Article 166, Paragraph 1 of the Companies Act

(3) The right to receive an allotment of offered shares and offered stock acquisition rights in proportion to the number of shares held by shareholders

Section 7. Reference Information on the Filing Company

1. Information on a Parent Company, etc. of the Filing Company

The Company does not have a parent company or other entity that is provided in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

The Company submitted the following documents during the period from the starting date of the current fiscal year to the date on which the Annual Securities Report was submitted.

(1) Amended Reports for the Annual Securities Report, and Confirmation Letters thereof

Fiscal year (32nd term) (April 1, 2020 – March 31, 2021)

June 21, 2021, submitted to Director-General of Kanto Finance Bureau

(2) Internal Control Report and attachments

June 21, 2021, submitted to Director-General of Kanto Finance Bureau

(3) Quarterly Securities reports and confirmation letter thereof

(33rd term, 1st quarter) (April 1, 2021 – June 30, 2021)

August 12, 2021, submitted to Director-General of Kanto Finance Bureau

(33rd term, 2nd quarter) (July 1, 2021 – September 30, 2021)

November 11, 2021, submitted to Director-General of Kanto Finance Bureau

(33rd term, 3rd quarter) (October 1, 2021 – December 31, 2021)

February 10, 2022, submitted to Director-General of Kanto Finance Bureau

(4) Amendment report for Annual Securities Report and its attachments and confirmation letter thereof

Fiscal year (32nd term) (April 1, 2020 – March 31, 2021)

May 31, 2022, submitted to Director-General of Kanto Finance Bureau

Fiscal year (31st term) (April 1, 2019 – March 31, 2020)

May 31, 2022, submitted to Director-General of Kanto Finance Bureau

Fiscal year (30th term) (April 1, 2018 – March 31, 2019)

May 31, 2022, submitted to Director-General of Kanto Finance Bureau

Fiscal year (29th term) (April 1, 2017 – March 31, 2018)

May 31, 2022, submitted to Director-General of Kanto Finance Bureau

(5) Extraordinary reports

Article 19, Paragraph 2, Item 14 of the Cabinet Office Ordinance on Disclosure of Corporate Information

December 21, 2021, submitted to Director-General of Kanto Finance Bureau

Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information. (results of exercise of voting rights at the General Meeting of Shareholders)

June 13, 2022, submitted to Director-

General of Kanto Finance Bureau

(6) Report on status of purchase of treasury stocks
reporting period (August 1, 2021 - August 31, 2021)
September 3, 2021, submitted to Director-General of Kanto Finance Bureau
reporting period (September 1, 2021 - September 30, 2021)
October 5, 2021, submitted to Director-General of Kanto Finance Bureau

(7) Shelf Registration Statement
September 1, 2021, submitted to Director-General of Kanto Finance Bureau

(8) Amended Shelf Registration Statement (bonds)
June 13, 2022, submitted to Director-General of Kanto Finance Bureau

(9) Supplement to the Shelf Registration Statement (straight bonds) and attachments
June 14, 2022, submitted to Director-General of Kanto Finance Bureau

Part 2 Information on Guarantors for the Filing Company

No relevant matters.