

Please note that the following is an unofficial English translation of the Japanese original text of Annual Securities Report submitted to Kanto Finance Bureau. SPARX Group provides this translation for reference and convenience purposes only and without any warranty as to its accuracy. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.

Annual Securities Report

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

| | |
|-----------------------|--------------------|
| Fiscal Year | From April 1, 2022 |
| (34th Fiscal Year) | To March 31, 2023 |

SPARX Group Co., Ltd.

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

(E05242)

| | |
|---|---------|
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| Document title | Annual Securities Report |
| Governing law | Article 24, Paragraph 1, of the Financial Instruments and Exchange Act |
| Submitted to | Kanto Finance Bureau Director |
| Submission date | June 20, 2023 |
| Fiscal year | 34th Fiscal Year (April 1, 2022 to March 31, 2023) |
| Company name | SPARX Group Co., Ltd. |
| Company name (English) | SPARX Group Co., Ltd. |
| Representative title and name | President & Representative Director and Group CEO, Group CIO, SPARX Group, Shuhei Abe |
| Headquarters address | Shinagawa Season Terrace, 1-2-70 Konan, Minato, Tokyo |
| Telephone | (03) 6711—9100 (main number) |
| Contact | Group Executive Officer and Group CFO, SPARX Group Co., Ltd. Hiroshi Minematsu |
| Nearest contact location | Shinagawa Season Terrace, 1-2-70 Konan, Minato, Tokyo |
| Telephone | (03) 6711—9100 (main number) |
| Contact | Group Executive Officer and Group CFO, SPARX Group Co., Ltd. Hiroshi Minematsu |
| 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 | | 30th | 31st | 32nd | 33rd | 34th |
|---|-------------------|------------|------------|------------|------------|------------|
| Fiscal year-end | | March 2019 | March 2020 | March 2021 | March 2022 | March 2023 |
| Operating revenue | (Millions of yen) | 11,239 | 12,476 | 14,295 | 14,043 | 13,360 |
| Operating profit | (Millions of yen) | 4,051 | 4,423 | 6,189 | 6,241 | 6,289 |
| Profit attributable to owners of parent | (Millions of yen) | 3,246 | 2,301 | 3,468 | 4,070 | 4,521 |
| Comprehensive income | (Millions of yen) | 3,118 | 1,606 | 5,338 | 3,583 | 4,396 |
| Net assets | (Millions of yen) | 21,020 | 20,338 | 23,276 | 24,324 | 26,047 |
| Total assets | (Millions of yen) | 31,331 | 33,707 | 37,986 | 37,141 | 39,382 |
| Net assets per share | (JPY) | 101.91 | 98.77 | 116.47 | 121.98 | 655.21 |
| Net income per share | (JPY) | 16.12 | 11.48 | 17.35 | 20.37 | 113.37 |
| Diluted net income per share | (JPY) | 16.12 | 11.48 | – | – | – |
| Equity ratio | (%) | 65.5 | 58.6 | 61.3 | 65.5 | 66.1 |
| Return on equity | (%) | 16.2 | 11.4 | 16.1 | 17.1 | 18.0 |
| Price earnings ratio | (Times) | 14.5 | 14.5 | 17.2 | 13.5 | 12.8 |
| Cash flow from operations | (Millions of yen) | 678 | 4,535 | 6,118 | 2,661 | 3,105 |
| Cash flow from investments | (Millions of yen) | (709) | (2,581) | (2,900) | (1,180) | 2,001 |
| Cash flow from financing | (Millions of yen) | (1,509) | (297) | (1,844) | (2,480) | (2,408) |
| Year-end cash and cash equivalents | (Millions of yen) | 17,152 | 18,474 | 19,935 | 19,199 | 22,028 |
| Number of employees | (People) | 158 | 169 | 180 | 173 | 173 |

Notes: 1. The shares held by The Master Trust Bank of Japan (in ESOP trust accounts) as trust assets of stock-granting ESOP trust and the shares held by Custody Bank of Japan (in trust accounts) as trust assets of ESOP trust for directors are a portion of the treasury shares 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.

- The 32nd, 33rd and 34th fiscal years do not include diluted net income per share because there were no potential shares.
- SPARX began applying the Accounting Standards for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29; March 31, 2020) from the beginning of the 33rd fiscal year. The selected financial data for the 33rd fiscal year and subsequent fiscal years include data after applying these accounting standards.
- SPARX conducted a reverse stock split merging five common shares into one share on October 1, 2022. Net income per share has been calculated on the assumption that this reverse stock split had been conducted at the beginning of FY2021.

(2) Financial Data for the Filing Company

| Fiscal year | | 30th | 31st | 32nd | 33rd | 34th |
|---|-------------------|----------------|----------------|------------------|------------------|------------------|
| Fiscal year-end | | March 2019 | March 2020 | March 2021 | March 2022 | March 2023 |
| Operating revenue | (Millions of yen) | 2,489 | 3,606 | 3,272 | 3,386 | 3,094 |
| Operating profit | (Millions of yen) | 3,087 | 3,451 | 3,288 | 3,899 | 4,826 |
| Net income | (Millions of yen) | 1,668 | 2,846 | 2,583 | 3,170 | 5,191 |
| Capitalization | (Millions of yen) | 8,585 | 8,587 | 8,587 | 8,587 | 8,587 |
| Total shares issued | (Shares) | 209,571,400 | 209,577,400 | 209,577,400 | 209,577,400 | 41,915,480 |
| Net assets | (Millions of yen) | 14,987 | 14,998 | 17,480 | 17,650 | 19,965 |
| Total assets | (Millions of yen) | 22,638 | 25,193 | 29,440 | 28,172 | 30,362 |
| Net assets per share | (JPY) | 74.42 | 75.05 | 87.47 | 88.51 | 502.23 |
| Dividends per share (Interim dividends per share) | (JPY) | 10.00 (-) | 9.00 (-) | 11.00 (-) | 12.00 (-) | 60.00 (-) |
| Net income per share | (JPY) | 8.28 | 14.20 | 12.92 | 15.86 | 130.19 |
| Diluted net income per share | (JPY) | 8.28 | 14.20 | - | - | - |
| Equity ratio | (%) | 66.2 | 59.5 | 59.4 | 62.7 | 65.8 |
| Return on equity | (%) | 11.2 | 19.0 | 15.9 | 18.0 | 27.6 |
| Price earnings ratio | (Times) | 28.26 | 11.69 | 23.07 | 17.28 | 11.12 |
| Dividend payout ratio | (%) | 120.77 | 63.38 | 85.14 | 75.66 | 46.09 |
| Number of employees (Excludes average number of temporary employees) | (People) | 29 (5) | 35 (5) | 24 (7) | 26 (7) | 31 (-) |
| Total shareholder return (Comparative index: TOPIX with Dividends) | (%) | 84.7 (95.0) | 64.2 (85.9) | 113.9 (122.2) | 109.7 (124.6) | 119.3 (131.8) |
| Highest share price | (JPY) | 328 | 286 | 343 | 328 | 1,818 (363) |
| Lowest share price | (JPY) | 160 | 154 | 157 | 230 | 1,170 (234) |

Notes: 1. The shares held by The Master Trust Bank of Japan (in ESOP trust accounts) as trust assets of stock-granting ESOP trust and the shares held by Custody Bank of Japan (in trust accounts) as trust assets of ESOP trust for directors are a portion of the treasury shares 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. SPARX began applying the Accounting Standards for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29; March 31, 2020) from the beginning of the 33rd fiscal year. The selected financial data for the 33rd fiscal year and subsequent fiscal years include data after applying these accounting standards.

3. The JPY 10 dividends per share for FY2018 includes a JPY 3 commemorative dividend for the 30th anniversary of SPARX's founding.
4. The highest and lowest share prices are those on the JASDAQ (Standard) section of the Tokyo Stock Exchange until March 21, 2019, those on the First Section of the Tokyo Stock Exchange after March 22, 2019, and those on the Prime Market of the Tokyo Stock Exchange after April 4, 2022.
5. SPARX conducted a reverse stock split merging five common shares into one share on October 1, 2022. Net income per share has been calculated on the assumption that this reverse stock split had been conducted at the beginning of FY2021. The figures for highest share price and lowest share price in the 34th fiscal year are those after the reverse stock split, and the figures in parentheses are the highest share price and lowest share price prior to the reverse stock split.
6. The 32nd, 33rd and 34th fiscal years do not include diluted net income per share because there were no potential shares.
7. The number of employees excludes those concurrently serving as employees at SPARX Group and a subsidiary from the 32nd fiscal year onward.

2. History

| | |
|----------------|---|
| June 1988 | Established as Toranomom 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 Asset Management 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 Asset Management 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 Asset Management Co., Ltd., obtained approval to engage in the securities investment trust management business (Financial Reconstruction Commission, No. 24; at the time of approval). Changed the Japanese name of 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. Completed the company's liquidation in 2022. |
| 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 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

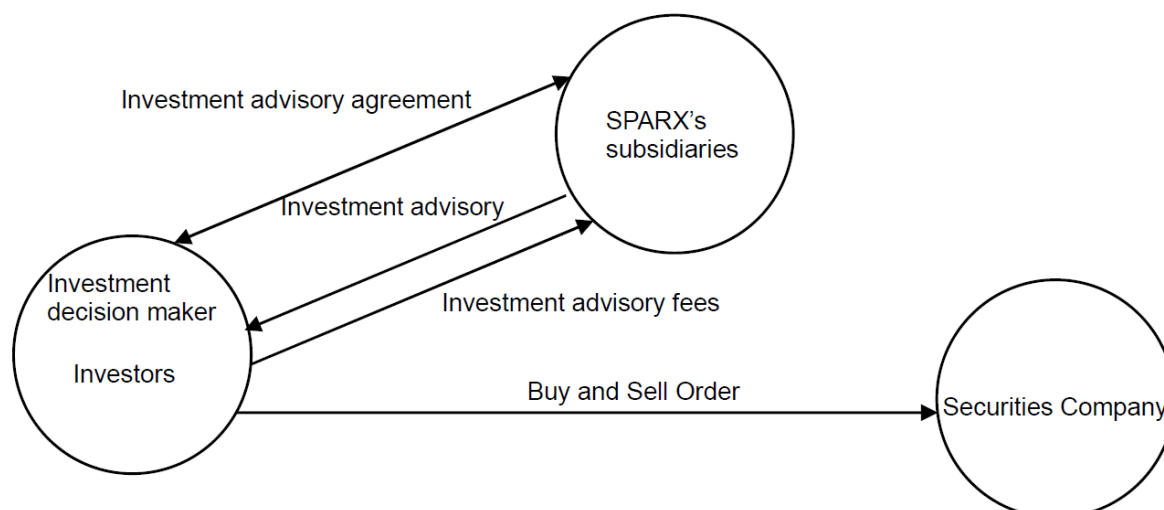
The Group's core business is in asset management (investment advisory and investment trust management), with SPARX Group Co., Ltd., as its holding company and subsidiaries in Japan and abroad.

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 generation business (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 generation business (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.

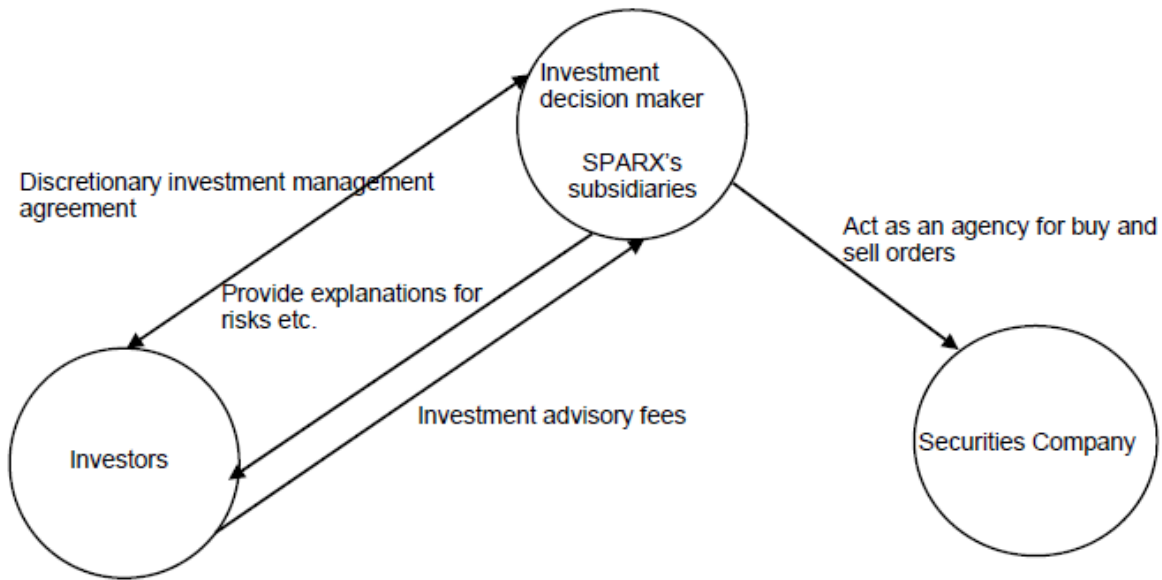
ii. Asset Management Business Structure

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

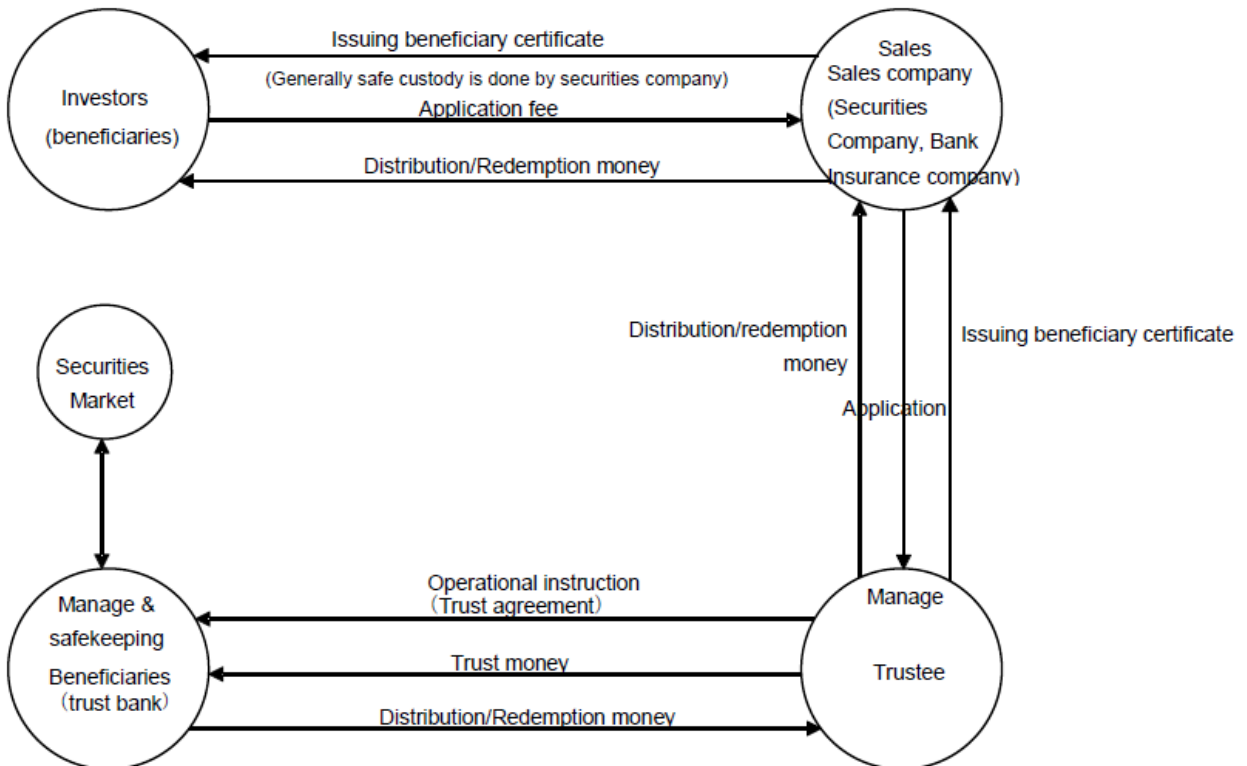


Discretionary Investment Management Business Structure



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 began 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 established and started managing 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.

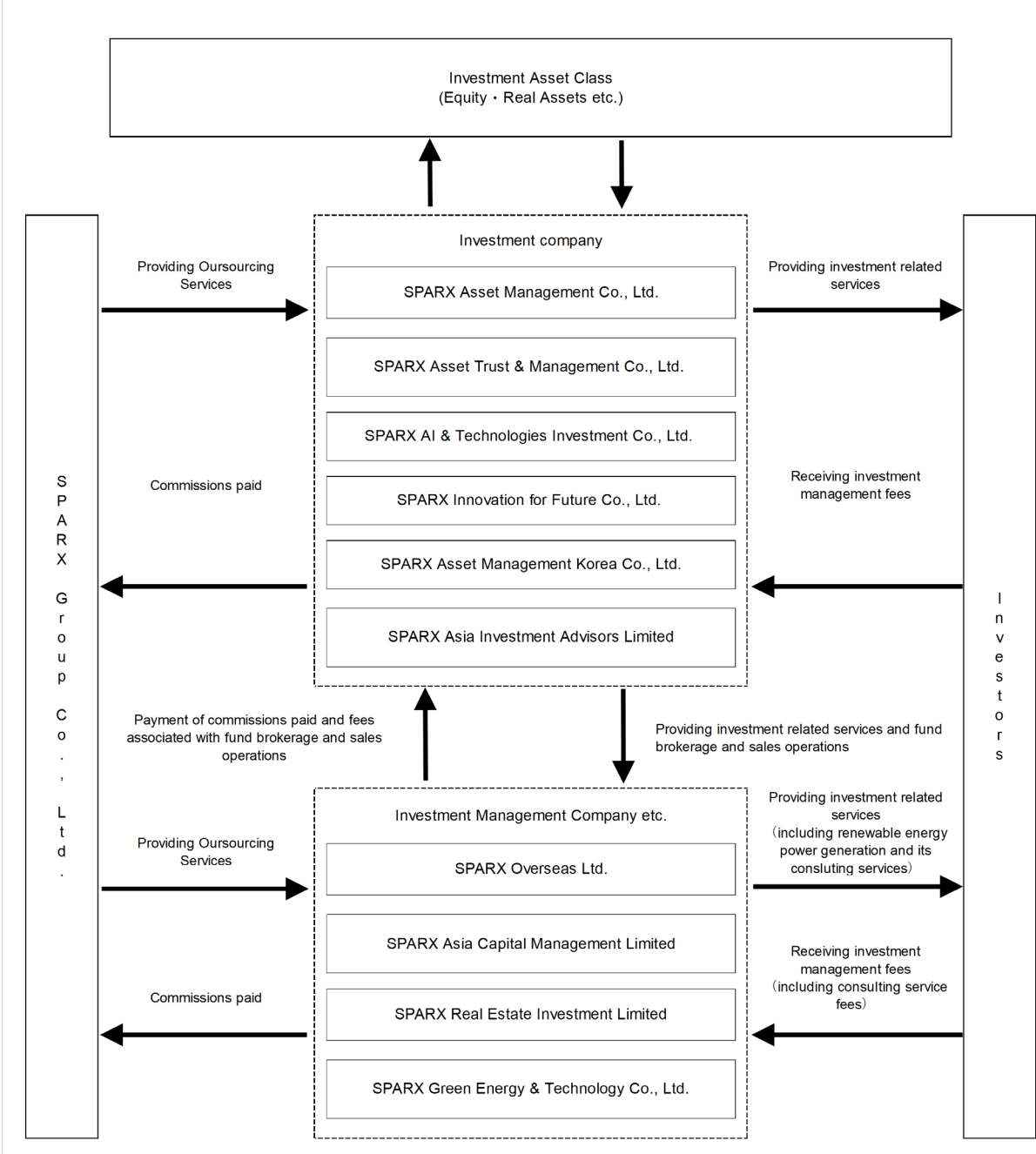
As a new initiative in November 2015, we partnered with Toyota Motor Corporation and Sumitomo Mitsui Banking Corporation to establish the Mirai Creation Fund. This fund pursues long-term investments that contribute to growth in the next generation, develops new areas to create the future as an investment 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 is 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 Concurrently serving directors |
| SPARX Asset Management Korea Co., Ltd. | Seoul, South Korea | KRW 4.2 billion (JPY 509 million) | Asset management | 100.0 | Providing business management services Concurrently serving directors |
| 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 Concurrently serving directors |
| 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 |
| We have three other consolidated subsidiaries besides those listed above. | — | — | — | — | — |
| (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. | 11,705 | 5,216 | 3,560 | 8,952 | 11,931 |

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, 2023

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

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

(2) Filing Company Employees

As of March 31, 2023

| Number of employees | Average age | Average years of service | Average annual salary (thousands of yen) |
|---------------------|-------------|--------------------------|--|
| 31 | 49.7 | 10 years 1 month | 13,560 |

- Notes: 1. The number of employees is for full-time employees, including directors concurrently serving as employees and contract workers, and excludes temporary 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, short-term performance-linked remuneration (bonuses), and medium- to long-term performance-based compensation paid by any subsidiaries where employees concurrently work. It does not include director compensation of directors who concurrently serve as employees.
3. Average years of service is the total of years of service at all Group companies.

(3) Labor Union Status

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

(4) Ratio of Female Workers in Management Positions, Rate of Acquisition of Childcare Leave by Male Workers, and Gender Wage Gap among Workers

Consolidated Group Companies

| Fiscal year under review | | | | |
|---|--|-----------------------------------|--|--|
| Ratio of female workers in management positions (%) | Rate of acquisition of childcare leave by male workers (%) | Gender wage gap among workers (%) | | |
| | | All workers | Of which, permanent, full-time workers | Of which, part-time and fixed-term workers |
| 23.7 | 50.0 | 53.1 | 54.7 | — |

- Notes: 1. The Company and its Group companies do not fall into the category of companies that are required to disclose information under the Act on the Promotion of Women's Active Engagement in Professional Life.
2. The period covered is FY2022 (April 1, 2022 – March 31, 2023).
3. The rate of acquisition of childcare leave by male workers is for the Company and Group companies in Japan.
4. The rate of acquisition of childcare leave by male workers is calculated by dividing the number of males workers who took childcare leave in FY2022 by the number of male workers whose spouses gave birth in FY2022.
5. The number of workers used in the calculation of the gender wage gap among worker is the average number of workers on the payday of each month in FY2022. It does not include workers seconded from outside the Company or Group companies.
6. Wages exclude commuter allowances and are calculated based on amounts paid in FY2022.
7. For employees working shortened hours, the average annual wages are calculated based on the equivalent number of workers converted by the required working hours of a permanent, full-time worker (8 hours per day).

[Supplementary explanation regarding the rate of acquisition of childcare leave by male workers]

In FY2022, there were two (2) male workers whose spouses gave birth, one (1) of whom took childcare leave. Given the small number of eligible workers, the rate of acquisition fluctuates greatly between fiscal years.

[Supplementary explanation regarding the gender wage gap]

The main reason for the gender wage gap in consolidated Group companies (53.1% for all workers; 54.7% for permanent, full-time employees) is the small ratio of female executive officers in management positions, female senior managers, and female specialists. Although the Group does not currently set formal quantitative targets for

management position ratios, etc., by providing flexible support and revised HR programs suited to different life stages of employees while further clarifying the roles expected of management-level employees and making them realize the responsibilities, it will facilitate the Group's aim to cultivate candidates for management positions and increase the number of employees who autonomously seek leadership roles. The expected outcome is an organic rise in the number of female employees involved in operational decision-making, thanks to focused initiatives to help instill the requisite experience and foster career awareness.

The gender wage gaps in qualification grades occupied by women are as follows, showing that there is not a significant gender wage gap in the same qualification grade.

| Position | Qualification Grade | Gender Wage Gap |
|----------------------|---------------------|-----------------|
| Management Positions | Management Grade 3 | 90.1% |
| General Employees | Leader Position 1 | 88.6% |
| | Leader Position 2 | 94.3% |
| | Staff Position 1 | 94.7% |
| | Staff Position 2 | 98.3% |

*The nomenclature stated in the Qualification Grade column is that used within the Company.

Section 2. Business Overview

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

The Group's management policies, business environment, and issues to be addressed are as follows. Forward-looking statements are based on the Group's judgment as of the current fiscal year-end.

(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 are 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 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 occurrence of performance fees and 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 the current 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. Although there were moves to cancel favorably performing funds amid this unstable environment, which resulted in a net outflow of funds in the latter half of the fiscal year, we increased the assets under management for our Japanese Mid and Small Cap Strategy due to capital inflows, maintaining our favorable performance. 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 OneAsia 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 continue to share investment ideas. The performance of the South Korean subsidiary improved, leading to increased assets under management. The improved performance of our South Korean subsidiary is starting to lead to an influx of funds from institutional investors in South Korea. 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 generation business. It has made investments in power generation facilities across Japan. This investment strategy has assets under management of JPY 264.5 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 past several years, large corporations primarily invested in renewable energy power plants using their own balance sheets. However, they continue to review these investments, selling and liquidating their renewable energy power plants. The Group's funds are seizing such opportunities to acquire power generation facilities from outside sources, actively investing while evaluating appropriate prices and returns as an investor. 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. After steady investment progress in Funds I and II, subscriptions for Fund III closed in the current fiscal year, and we are proceeding to make investments. Assets under management of this strategy have grown to JPY193.3 billion, and 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, alongside these four pillars, viewing new domains such as energy, medical and healthcare, fintech, and quantum computing, as growth areas in the new era premised on digital and artificial intelligence (AI) platforms, we have been allocating company capital and Group resources based on a conservative financial management policy, to these domains. Going forward, we will create concrete businesses especially in the energy domain, such as creating green hydrogen, by leveraging our knowledge of renewable energy.

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

(5) Priority Business and Financial Issues to be Addressed

The Group's assets under management (AUM) in the current fiscal year fell by 3.6% year over year to JPY 1,501.2 billion (Note 1). However, with the increase in AUM from investment strategies with high management fee rates, management fees increased by JPY 157 million to JPY 12,735 million. With this increase in management fees, the foundations underpinning SPARX have become steadily stronger. Although operating profit decreased due to a decrease in performance fees, cost controls remained at appropriate levels, and as a result, base earnings (Note 2), which is the ability to earn in a stable manner, stayed at a record high level. Investment securities that had completed their role as seed investments for new investment strategies, etc. were scrutinized, and the cancellation and redemption of some of those securities contributed to the increase in final profits.

In the next fiscal year, we aim to maintain and improve our performance quality and increase revenue and profit through the Group's robust human resources and investment capabilities. Furthermore, to realize the Group's purpose of "making the world wealthier, healthier, and happier (through investment)," we will also focus on addressing the issues below for the sustainable improvement of corporate value.

First, to achieve AUM of JPY 3 trillion by FY2025, we will continue bolstering and expanding our four growth pillars (Japanese equities, OneAsia equities, real assets, and private equity) in a well-balanced manner to maintain profitability, with the aim of building a business portfolio of superior stability and growth potential that will not be easily impacted by short-term market fluctuations.

→ Related to the Group's materiality "Practicing broad-based responsible investing" (Note 3)

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

The Japanese Equity Investment Strategy has maintained a consistently high performance over the long term, receiving an award for its 10-year track record in the Japanese Core Equity category and an award in the Japanese Mid and Small Cap Equity category from leading external rating organization, R&I, in April. Against the background of these excellent investment capabilities, we are furthering our efforts to expand AUM in the highly profitable alternative investment strategy, including long-short investment strategies, particularly in the Japanese Equity Value Creation Investment Strategy. Prompted by the Tokyo Stock Exchange's "Council of Experts Concerning the Follow-up of Market Restructuring," attention is focusing on companies with PBR under 1.0. We have been aware of the same kind of idea in our investment research since our founding. Investment in which concrete dialogue is held with the investee company and a management track record is built up is the very investment policy of this investment strategy, which we believe makes it a highly opportune strategy. Going forward, we will continue to expand and grow AUM while maintaining high-quality management, rather than simply seeking out short-term profit.

We view our OneAsia Investment Strategy as one of our most important strategies on which the Group must continue to focus its efforts. We are bearing fruit by improving our management capabilities through the concerted efforts of the three bases in Japan, South Korea, and Hong Kong, and for the sake of the Group's new growth, we will first put all our efforts into the development of even higher quality management systems.

For the Real Asset Investment Strategy, we have actively acquired solar power stations with stable operations, increasing AUM by approximately JPY 13.4 billion in the current fiscal year. In addition to shifting the development focus from solar power to biomass, geothermal, and other power plants that should continue providing high investment returns, we will maintain active expansion into green hydrogen (Note 4), storage batteries, 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 closed the acceptance of investments for Mirai Creation Fund III, and AUM, including Mirai Creation Funds I and II and other funds under the strategy, amounted to JPY 193.3 billion at the end of March 2023. The Group recognizes a portion of the proceeds from sales associated with IPOs and other moves by the portfolio companies invested in by funds under this strategy, as performance fees. We therefore intend to continue focusing on sales to maximize this income source. As one of the largest venture capital firms in Japan, in

addition to promoting the expansion of this investment strategy by identifying new, unique investment opportunities, we aim to contribute to future society by discovering and cultivating companies that are world leaders in innovative technologies and business models through high quality investments.

Alongside these four pillars, we have allocated Company capital and Group resources, based on a conservative, sound financial management policy, to areas such as energy, medical and healthcare, fintech, and quantum computing, which are growth areas in the new era premised on digital and artificial intelligence (AI) platforms. Going forward, we will leverage our insights into renewable energy to create specific businesses, particularly in the energy area, such as production of green hydrogen. 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 continuing taking on the challenge of new initiatives while passing down our corporate culture and unwavering investment philosophy to the next generation.

Our second task is to pursue a generational change at executive management level by flattening out the organization and developing and appointing the next generation of management

→ Related to the Group materiality “Governance that leverages our strengths as an independent Company” (Note 3)

To realize further business expansion and improvement of corporate value, we will select and develop people who will become the successors to lead the Group and establish a new management system by further speeding up the execution of operations through the flattening of the organization. To this end, we have begun the change of generation at executive management level by reducing the number of internal directors and making the President the sole representative director at the 34th ordinary general meeting of shareholders. In particular, appointing the Group’s next CEO remains a crucial management issue, and for this reason, the board of directors is giving sufficient time and resources to working on this issue.

The qualities and attributes required of the next generation of management include not only that they possess considerable expertise and a wealth of experience, but also an excellence of character and interpersonal skills. More specifically, we also believe that it is crucial that they are able to embody the “ARTS Spirit” (Note 6) that is the Group’s values (Code of Conduct). We will create opportunities for those professionals who meet these requirements to learn directly from the CEO more closely in such a flattened organization, and promote those who have achieved results and received public recognition as the CEO for the next generation.

We will also undertake a variety of measures to ensure that the Group’s corporate philosophy, including its Purpose, Vision, Mission and Values (Note 7), that the founder has cherished since the beginning, are passed on to the organization that has the next-generation CEO at its core.

Our third task will be to strengthen the source of our competitiveness and put the necessary measures in place to bring greater sophistication to human capital to contribute to medium- to long-term improvement of corporate value.

→ Related to the Group materiality “High, sustainable profitability and the professionals to support it” (Note 3)

The proportion of corporate value of Japanese companies accounted for by intangible assets is, in general, seen as significantly smaller than that of Western companies. Looked at from a different angle, it would be said that Japanese companies have room to make great leaps in their corporate value by increasing the value of their intangible assets. The most typical intangible asset is human capital, and particularly for companies like the Group, which has virtually no tangible assets, the importance of human capital in the improvement of corporate value is immense. For this reason, by pursuing the uniqueness of the Group further and adapting to changes in the external environment, we will bring even greater sophistication to the way in which we take advantage of our human capital.

Specifically, we will provide a workplace in which the outstanding people who join us in support of the Group’s purpose and vision (i.e., its ideology) will respect each other’s diversity, engage autonomously in improving their skills and abilities to become the ultimate professionals, and also build excellence of character by valuing the code of behavior (conduct) for the realization of the Group’s ideology and profession. This workplace will also give them opportunities to grow by engaging in friendly competition with each other and feel a sense of reward in their work of contributing to the growth of the organization by all of them uniting as one to practice and provide “better investment (i.e., our technique).

Moreover, we believe that the source of the Group's competitiveness is its combination of innovativeness and communication skills. In other words, it is our ability to bring the individual expertise of our people together to compete as an organization. Therefore, (1) to strengthen our capabilities in accountable and reproducible investment and our ability to come up with unique investment ideas, we will (2) clarify and instill desirable styles of conduct within the company. In addition, to strengthen our ability to unite as a company to package together specific investment ideas, and (3) to establish a comfortable working environment that will provide the base for these efforts, we will put in place the various measures that we believe they each require.

Notes:

1. Assets under management at the end of the current fiscal year are preliminary figures (as of March 31, 2023).
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. Please refer to the following website for details of the Group's materialities (important key issues).
<https://www.sparxgroup.com/sustainability/materiality.html>
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.
6. ARTS Spirit
This is the Group's Code of Conduct, coined from the first letters of the words "Arigato, Responsiveness, Thoroughness, and Sympathy."
 - A: Always act with respect and sincere gratitude to colleagues and other persons
 - R: Always act with speed, reflecting our belief that alertness and agility are the best ways to deal with change
 - T: Investigate continuously, reflecting our belief that conscientious and meticulous effort will generate new knowledge
 - S: Treat our clients and colleagues with empathy, sincerity, and respect, which leads to harmony and mutual growth; embrace diversity with an open mind and create opportunities for free discussion
7. Please refer to the following website for the Group's Corporate Philosophy.
<https://www.sparxgroup.com/philosophy/>

2. Approaches and Initiatives Regarding Sustainability

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

Since its founding in 1989, the Group has aimed to become “the most trusted and respected investment company in the world.” It places the highest value on making its clients and other stakeholders wealthier, healthier, and happier.

To continue generating value in finance, SPARX respects “creating value through investment and providing returns to our clients. Investments remain positive only as long as our clients and other stakeholders are satisfied.” With this in mind, we strive to realize our corporate purpose, “to make the world wealthier, healthier, and happier (through investment).”

In light of this perspective, we believe that the Group “sustainability” means that as an investment company operating in capital markets, we must make investments that suit our corporate philosophy. Doing so allows us to continuously generate economic value to make people wealthier and social value to make people healthier and happier. At the same time, such investments make the Group's medium- to long-term growth sustainable. As Japan's first independent investment company listed on the Tokyo Stock Exchange Prime Market, the Group is responsible for realizing sound capital markets and a sustainable society.

In step with the market economy's development, many frameworks have emerged in society, the economy, and corporations. While humankind is achieving dizzying progress, these frameworks are becoming even more complex, with the occasional case of the market economy failing to function correctly. Under these circumstances, one of the Group's top priorities is to address ESG and other sustainability issues to help realize our purpose. We also strive to strengthen governance, the most critical element of the Group's management. Moreover, each and every SPARXSON shares, inherits, and protects these values as the foundation of everything we do.

Governance

The Group has formulated a Basic Sustainability Policy based on its recognition that addressing climate change and other sustainability-related issues is one of the most crucial aspects of management. Thus we have built a governance structure based on the Board of Directors and a Management Meeting. The Board of Directors debates and decides on the climate change issues related to this basic policy and supervises the Management Meeting, the central decision-making body for day-to-day corporate operations. The Management Meeting discusses and decides on specific sustainability policies and promotion strategies at least annually and when otherwise necessary and reports its activities to the Board.

The Board of Directors, consisting mostly of outside directors, also verifies and discusses the progress of these specific policies and promotion strategies to ensure appropriate management and continuous improvement through the PDCA cycle. The Management Meeting, which includes all full-time directors and executive officers at the core of corporate operations, meets at least once a month and promptly reports its activities to the Board of Directors. We have also established a Sustainability Planning department to facilitate specific discussions on sustainability management at the Management Meeting.

The Group upholds its purpose of “to make the world wealthier, healthier, and happier (through investment).” We identify and manage apparent and latent risks and opportunities related to all client assets to realize this purpose. Furthermore, we have established a separate Responsible Investment Committee, chaired by the Group CIO, as an advisory body to our Board of Directors in order to fulfill our responsibility for oversight and accountability for responsible investment. The Responsible Investment Committee, which includes all full-time directors and Group executive officers, meets at least once a quarter and promptly reports its findings to the Board of Directors. In addition, we have established Responsible Investment Promotion department to promote concrete discussions on the implementation of PRI (Principles for Responsible Investment) in the Responsible Investment Committee.

The Committee hears reports from the Group companies' investment policy committees (and equivalent organizations) on their responsible investment practices, approves changes to the Responsible Investment Policy and other policies, and endorses annual reports on responsible investing. Responsible Investment Committee meetings are attended by external advisors who provide independent advice on the reports and deliberations while sharing their thoughts on the latest trends in responsible investing.

Risk Management

The Group has instituted its Basic Group Risk Management Rules to establish an essential risk management framework, identifying in advance expected individual risks and managing them appropriately. As a result, we address the Group's risks and ensure its soundness and integrity.

Moreover, the Board of Directors has established a Group Risk Management Committee to review and deliberate on corporate and Group risk management matters. The Group Risk Management Committee includes all full-time directors and

executive officers at the core of corporate operations and meets once a quarter as a general rule. The Group Risk Management Committee follows the risk management process stipulated in the Basic Group Risk Management Rules to identify potential expected risks and emergent material phenomena, recognize and assess risks, develop and implement countermeasures, and monitor how these countermeasures work.

The Group Risk Management Committee also reports its minutes to the Board of Directors in a timely manner. The Board of Directors, consisting mostly of outside directors, monitors risk locations, types, countermeasures, and their implementation and supervises the risk management process. In this role, the Board establishes and continuously improves an appropriate risk management approach for the Group's management circumstances and strategies.

Currently, the Group manages climate-related risks not as a risk category set and governed under the Basic Rules on Group Risk Management but as a factor with a potential general impact on all risk categories. We will continue improving and strengthening our risk management approach to climate change issues.

Strategy

The Group recognizes the following sustainability-related issues, especially concerning the environment, society, and governance, it must address to realize its purpose.

Sustainability issues

(Environment)

The Group recognizes that maintaining a sustainable global ecosystem and environment is essential for the medium- to long-term management of client assets. In particular, the Group sees that as vital in addressing the problem of climate change.

(Society)

The Group recognizes the increasing difficulty in understanding and resolving social issues due to the complexities involved in global human activity. We also acknowledge that maintaining good relations with employees, clients, business partners, the local community, and other stakeholders is vital in conducting Group operations. We also understand that as supply chains expand, labor conditions which is direct related issues, but child labor, bribery, human rights, and other social matters are also becoming increasingly important worldwide.

Furthermore, to ensure sustainable medium- and long-term Group growth, we must secure our independence by developing professionals who share our investment philosophy. We must also maintain and improve our frameworks for nurturing these talented professionals.

(Governance)

In evaluating portfolio company's governance, the Group believes it is keen to identify the personalities, qualifications, and ability of managers and confirm whether management decision-making standards and its business execution structures are rational. We also recognize that it is vital that the Group itself establishes a better governance system.

Sustainability Initiatives

The Group will continue to contribute to the realization of a sustainable society by helping to solve the aforementioned environmental and social issues through its investment activities. To this end, the Group uses an ESG perspective to invest in businesses that address such issues and engage with existing portfolio companies. Furthermore, as shareholders, we support portfolio companies in improving their ESG responses when necessary. We will also conduct our investments with a greater focus on portfolio company businesses' environmental and social impact.

(Environment)

The Group is actively committed, through its investments, to activities that mitigate the negative aspects and enhance the positive aspects of humanity's impact on the environment, including corporate and consumer behavior.

In particular, we have contributed to realizing carbon neutrality, an important issue, by building and operating renewable energy power generation plants using the framework of investment funds. We will continue to address global environmental issues through our investment activities.

(Society)

Since its inception, the Group has focused on qualitatively evaluating companies before investing in them. Our analytics hinge on the three axes of corporate profit quality, management quality, and market growth potential. Through these metrics,

the Group has always focused on factors vital to corporate viability, including management vision, employee motivation, and long-term relationships with suppliers. Many of these measures are consistent with the topical concepts of SDGs and ESG. In that sense, we can claim a continued pursuit of responsible investing since our founding. As society increasingly demands our tradition of responsible investing, we believe that advancing, growing, and spreading value-generating responsible investing is our natural responsibility as a long-established investment company aiming to realize sound capital markets and a sustainable society. To achieve this ideal, through our bottom-up approach, which has been a consistent basic stance since our founding, we will address and work to resolve social issues while confirming the circumstances with our own eyes (*genchi genbutsu* meaning “go and see”). We also engage in dialogue with government and local communities as necessary.

We also believe that we need to maintain specific conditions to solidify the foundations of our independence and realize our purpose. Namely, we must maintain high profitability to remain the first choice of our clients and other stakeholders and develop and retain the professionals needed to support these efforts. Specifically, we can create unique investment ideas by sharing investment philosophies through the Buffett Club and other study sessions. In addition to conducting client-oriented operations as we unify across front- and back-division and clarifying and disseminating desirable behaviors within the company. All divisions and levels come together to package investment ideas in concrete form as we aim to establish a management structure to realize higher profitability than other companies with each strategy we pursue.

Furthermore, we focus on professional development to support these efforts. Our human resource development includes cultivating and conveying investment capabilities based on values the Group cherishes: diversity, equality, inclusion, and well-being among our employees and executives.

(Governance)

As part of our responsible investment efforts, the Group focuses on not only environmental and social issues but also portfolio company governance. Specifically, since the early 2000s, we have looked to governance more than other factors in deciding on investments.

We are also building an effective and efficient governance structure by leveraging our strengths as an independent company. Specifically, we are building and maintaining sophisticated governance to gain support from our clients and set an example for capital markets. We are also establishing a highly transparent process that ensures appropriate financial reporting and disclosure, tax payment, and compliance with Japan’s Financial Instruments and Exchange Act and similar laws and regulations in other countries. Furthermore, while developing various investment strategies, we conduct appropriate risk management, particularly in managing conflicts of interest among intercompany, investment strategies and funds.

The Group recognizes that it is also vital to gain the understanding of its stakeholders and many other interested parties regarding the importance of ESG and the influence that investments can have on solving environmental and social issues. Communicating our thinking on these issues and engaging in dialogue with stakeholders allows us to minimize risks related to ESG and other sustainability issues and identify opportunities as quickly as possible. In turn, we can continue achieving the goals of this basic policy. Specifically, the Group disseminates information through various channels, including our general meetings of shareholders, IR briefings, website, and YouTube channel. We will also continue our efforts to educate the next generation through the Children’s Energy Summit and other events to promote understanding of renewable energy.

To fulfill our social responsibility as a good corporate citizen, the Group supports and participates in the below initiatives. We will continue to consider participating in specific initiatives that genuinely serve to address sustainability-related issues and participate as needed.

- Principles for Responsible Investment (PRI)
- Task Force on Climate-related Financial Disclosures (TCFD)

Metrics and Targets

Metrics and targets are described in the policies and initiatives regarding (1) Climate change and (2) Policies and initiatives regarding human capital and diversity below.

The policies and initiatives regarding (1) climate change and (2) policies and initiatives regarding human capital and diversity are as follows. Given the nature of the Group’s business, our climate change initiatives have two aspects, namely our initiatives as a listed company and our initiatives toward investees as an investment company that manages the assets entrusted to it by our clients.

(1) Climate change

Climate change initiatives (as a listed company)

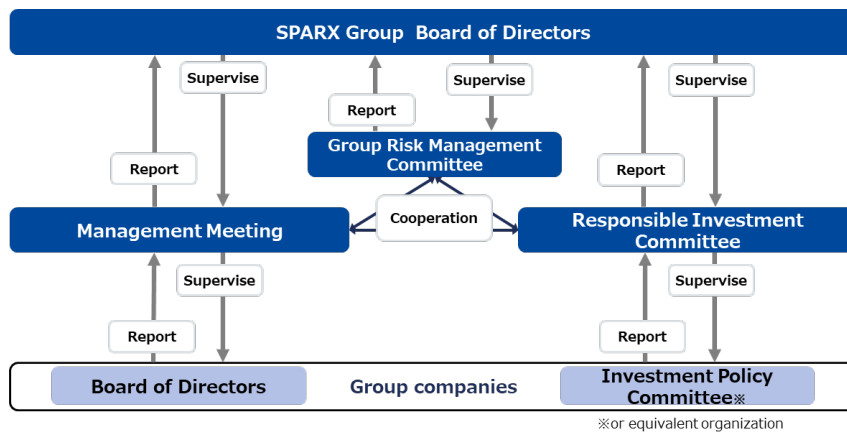
In January 2020, SPARX Group (“the Group”) announced its agreement with the recommendations published by the Task Force on Climate-Related Financial Disclosures (TCFD) as part of its active involvement in realizing, through investment, a society in which human beings can coexist with the global environment.

i) Governance

The Group has formulated a Basic Sustainability Policy based on its recognition that addressing climate change and other sustainability-related issues is one of the most crucial aspects of management. Thus we have built a governance structure based on the Board of Directors and a Management Meeting. The Board of Directors debates and decides on the climate change issues related to this basic policy and supervises the Management Meeting, the central decision-making body for day-to-day corporate operations. The Management Meeting discusses and decides on specific sustainability policies and promotion strategies at least annually and when otherwise necessary and reports its activities to the Board.

The Board of Directors, consisting mostly of outside directors, also verifies and discusses the progress of these specific policies and promotion strategies to ensure appropriate management and continuous improvement through the PDCA cycle. The Management Meeting, which includes all full-time directors and executive officers at the core of corporate operations, meets at least once a month and promptly reports its activities to the Board of Directors. We have also established a Sustainability Planning department to facilitate specific discussions on sustainability management at the Management Meeting.

Corporate Governance Framework (figure1)



ii) Risk management

Risk management related to climate change is included in sustainability risk management described above. For details, please refer to (1) Sustainability, i) Risk management.

iii) Strategy

The Group recognizes that maintaining a sustainable global ecosystem and environment is essential for the medium- to long-term management of client assets. In particular, the Group sees climate change issues as vital in achieving this objective.

Climate change presents associated risks and opportunities due to the severe natural disasters caused by rising average temperatures and the socioeconomic changes brought about by the shift to a carbon-free society.

There are two types of risks: physical risks can be acute—caused by increases in natural disasters and extreme weather events—or chronic—stemming from rising average temperatures; and transition risks result from stricter regulations meant to eliminate society’s carbon dependence and responses to adopting decarbonization technology.

The opportunities include potential corporate revenue from technological innovations and market changes addressing climate change problems. The Group supports and promotes solutions addressing climate change and the transition to a carbon-free society by providing new investment products, leading to more business opportunities and helping achieve a sustainable environment and society.

Based on the TCFD’s recommendations, the Group is working, as shown below, to understand the opportunities, physical

risks, and transition risks from short-, medium-, and long-term perspectives. The direct impact of climate change on the Group as an investment company should be less significant than in other industries. However, we will examine these assumptions by analyzing multiple scenarios to understand more specific financial and other effects. To prepare for physical risks from large-scale natural disasters, the Group regularly reviews its BCP and bolsters its management systems to maintain business continuity.

<Climate-Related Risks>

| Types of risks | | Specific risks | Expected significant impact | Expected period |
|------------------|------------------|---|--|----------------------|
| Transition Risks | Policy and Legal | <ul style="list-style-type: none"> • Rising GHG emission prices (carbon taxes) • Tighter emissions reporting requirements | <ul style="list-style-type: none"> • Negative impact on earnings due to increased costs associated with system changes and tighter regulations | Medium to long term |
| | Technology | <ul style="list-style-type: none"> • Delayed response to changes in industrial structure due to rapid technological innovation | <ul style="list-style-type: none"> • Negative impact on earnings due to missed opportunities to offer new investment products that capture changes in industrial structure | Medium to long term |
| | Markets | <ul style="list-style-type: none"> • Changing investor preferences | <ul style="list-style-type: none"> • Negative impact on earnings due to missed opportunities to offer investment products apropos of changing investor preferences | Medium to long term |
| | Reputation | <ul style="list-style-type: none"> • Increased reputational risk due to a lack of effort in addressing climate change | <ul style="list-style-type: none"> • Negative impact on earnings due to reduced business opportunities stemming from a damaged reputation • Increased financing costs due to a damaged reputation | Short to medium term |
| Physical Risks | Acute/chronic | <ul style="list-style-type: none"> • More disasters, including torrential rains and massive typhoons • Increased disaster severity due to higher average temperatures and rising sea levels | <ul style="list-style-type: none"> • Negative impact on earnings due to restricted business activities caused by damage to the Group offices or employees • Negative impact on earnings due to increased costs, including disaster countermeasures, repairs, or restorations | Medium to long term |

[Expected periods] Short term: 0–3 years, medium term: 3–10 years, long term: 10–30 years

<Opportunities from Climate Change>

When considering measures to address the above climate-related risks, we can redefine them as business opportunities and tie them to ideas for investment strategies. For instance, the risk of a “delayed response to changes in industrial structure due to rapid technological innovation” would become “finding investment opportunities in companies that possess technologies that will bring about rapid changes in the industrial structure and incorporating them into investment strategies.”

iv) Metrics and targets

The Group aims to achieve carbon neutrality by 2050, promotes decarbonization initiatives, and monitors its established indicators and targets to reduce climate-related risks and realize opportunities. All Group companies report their progress in these indicators to the Management Meeting and the Board of Directors annually or as otherwise required.

Of the greenhouse gas (“GHG”) emissions generated by the Group’s business activities in FY2022, the total of Scope 1 and Scope 2^{*1} was approximately 109.67 tCO₂e, a 22.7% decrease from FY2020. In September 2022, as part of our efforts to reduce GHG emissions, we switched to contracts for electricity derived from renewable energy sources using non-fossil certificates for use in buildings for six Japanese Group companies. We will strive to further reduce GHG emissions to achieve our interim target of a 33% reduction by FY2030 (compared to FY2020) ahead of schedule.

The actual figures for GHG emissions established as indicators are shown below. In addition to managing progress toward our GHG emissions reduction targets (Scope 1 and Scope 2), we have begun calculating and monitoring CO₂ emissions in our supply chain (Scope 3) using the Ministry of the Environment’s Green Value Chain Platform and other tools. We also recognize that our calculation in Category 15: Investments and Loans to boost our Scope 3 disclosure is the first step as a

financial institution toward helping realize a carbon-free society. We will continue to measure GHG emissions through investments and loans (Financed Emissions) based on the PCAF² methodology.

Scope 1・2

| | tCO2e | | |
|---|--------|--------|--------|
| | FY2020 | FY2021 | FY2022 |
| Scope 1 (direct emission) | 6.05 | 6.13 | 6.13 |
| Scope 2 (indirect emission) ^{*3} | 135.93 | 126.64 | 103.67 |
| Scope 1 ・ Scope 2 Total | 141.98 | 132.77 | 109.80 |
| Reduction Results (Compared to FY2020) | – | 6.5% | 22.7% |
| Reduction Results (Compared to previous year) | – | 6.5% | 17.3% |

Scope 3

| | | tCO2e | |
|---------|--|--------|--------|
| | Category | FY2021 | FY2022 |
| Scope 3 | Category 1 (Purchased Goods and Services) | 3.09 | 2.81 |
| Scope 3 | Category 2 (Capital Goods) | 9.81 | 249.23 |
| Scope 3 | Category 5 (Waste Generated in Operations) | 0.28 | 0.39 |
| Scope 3 | Category 6 (Business Travel) | 136.52 | 576.47 |
| Scope 3 | Category 7 (Employee Commuting) | 62.93 | 51.70 |

[Calculation period]

Each period: from April 1st to March 31 in the following year

[Calculation scope]

Scope 1 ・ Scope 2: 6 Tokyo-based Group companies^{*4}, SPARX Asset Management Korea Co., Ltd.^{*5}, SPARX Asia Investment Advisors Limited^{*5}

Scope 3: 6 Tokyo-based group companies^{*4}

[Calculation Methods]

Our Scope 3 calculation method and emission figures are based on the “Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain Ver. 2.5” and “Emission Unit Value Database for Accounting of Greenhouse Gas Emissions by Organizations Throughout the Supply Chain Ver 3.3” from the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

Category 1: Calculated by multiplying the cost of copy paper purchased by the six Tokyo-based Group companies by the emission unit values

Category 2: Calculated by multiplying the value of fixed assets acquired by the six Tokyo-based Group companies in the relevant fiscal year by the emission unit values

Category 5: Calculated by multiplying the waste generated by the six Tokyo-based Group companies by the emission unit values by waste type and disposal method

Category 6: Calculated based on the amount of domestic and international business travel by the six Tokyo-based Group companies (multiplied the cost for using airlines, rail, buses, and taxis by the emission unit values)

Category 7: Calculated from the yearly total of the monthly commuting expenses of employees of the six Tokyo-based Group companies at the end of the current fiscal year (multiplied the cost of using rail and buses by the emission unit values)

*1 GHG emissions calculation criteria are Scope 1 (direct emissions) + Scope 2 (indirect emissions) based on the GHG Protocol.

*2 Partnership for Carbon Accounting Financials

*3 Scope 2 is the results of the market-based method.

*4 Six Tokyo-based Group companies are as below:

SPARX Group Co., Ltd.

SPARX Asset Management Co., Ltd.

SPARX Green Energy & Technology Co., Ltd.

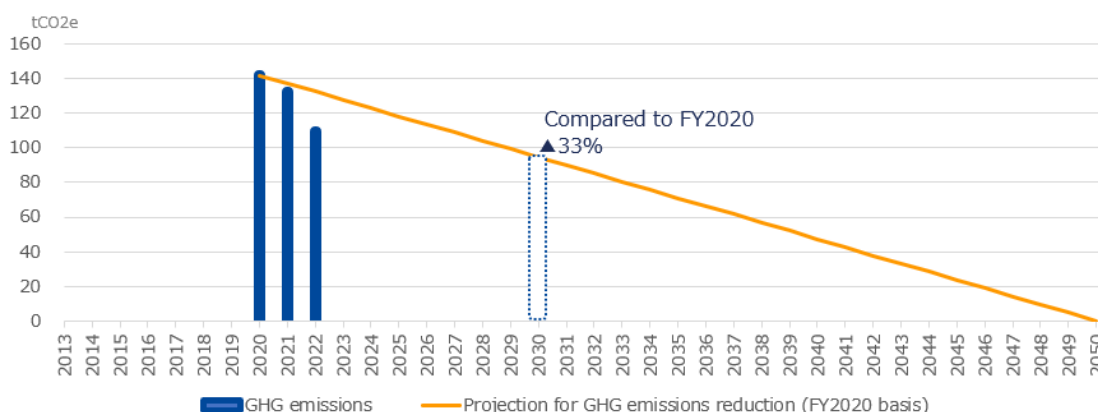
SPARX Asset Trust & Management Co., Ltd.

SPARX AI & Technologies Investment Co., Ltd.

SPARX Innovation for Future Co., Ltd.

*5 We use the emissions coefficients for each country where the offices are located.

Reduction of CO2 emissions from SPARX's business activities



Responsible investment initiatives (as an investment company)

Asset management companies within SPARX Group analyze its responses to climate change and assess its impact through the management of portfolio companies are described as follows.

i) Governance

The Group upholds its purpose of “to make the world wealthier, healthier, and happier (through investment).” We identify and manage apparent and latent risks and opportunities related to all client assets to realize this purpose. Furthermore, we have established a separate Responsible Investment Committee, chaired by the Group CIO, as an advisory body to our Board of Directors in order to fulfill our responsibility for oversight and accountability for responsible investment.

The Responsible Investment Committee, which includes all full-time directors and Group executive officers, meets at least once a quarter and promptly reports its findings to the Board of Directors. In addition, we have established Responsible Investment Promotion department to promote concrete discussions on the implementation of PRI (Principles for Responsible Investment) in the Responsible Investment Committee.

The Committee hears reports from the Group companies’ investment policy committees (and equivalent organizations) on their responsible investment practices, approves changes to the Responsible Investment Policy and other policies, and endorses annual reports on responsible investing. Responsible Investment Committee meetings are attended by external advisors who provide independent advice on the reports and deliberations while sharing their thoughts on the latest trends in responsible investing.

*Please refer to figure 1 for Corporate Governance Framework

ii) Risk Management

In researching and analyzing portfolio companies and making investment decisions, the Group emphasizes the qualitative evaluation of companies through bottom-up research. This bottom-up approach means we qualitatively evaluate ESG-related opportunities and risks along with our expected investment return estimates.

Moreover, the Group is working to develop a framework that enables it to encourage portfolio companies to promote climate change-related initiatives, while utilizing climate change-related data from outside vendors in selecting and speaking with engagement partners.

We reference climate change-related data from external vendors for the Listed Equity and Alternative Equity Investment Strategy portfolios. For each portfolio and benchmark (or reference index), we measure the carbon footprint (the CO2 equivalent of greenhouse gas emissions resulting from business activities) and weighted average carbon intensity (WACI). We then report these figures and our engagement numbers to the Responsible Investment Committee every quarter*.

* We began reporting our engagement numbers to the Responsible Investment Committee in January 2023.

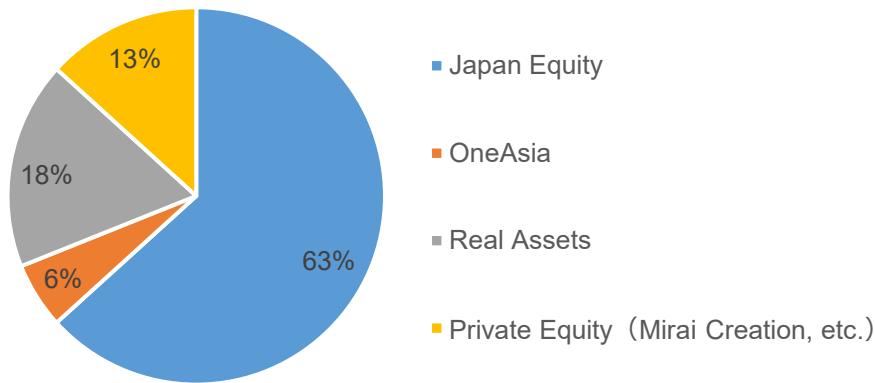
iii) Strategy

To resolve climate change, we must encourage portfolio companies to incorporate and address climate change-related risks and opportunities in their medium- to long-term business strategies. As an asset manager, we have asked S&P Global to conduct scenario analysis of the portfolios of listed equity investment strategy as well as listed alternative equities investment strategy*, which account for most of our assets under management as of December 31, 2022. The analysis aims to uncover the impact of climate change-related risks and opportunities on our clients' asset portfolios.

The Group's AUM by Investment Strategy as of December-end 2022 are as follows:

(Unit : 100 million JPY)

| | |
|---|--------|
| Japanese Equity | 9,334 |
| OneAsia | 834 |
| Real Assets | 2,629 |
| Private Equity* (Mirai Creation Funds, other) | 1,955 |
| Total | 14,754 |



- * "Listed Equity Investment Strategy" and "Listed Alternative Equity Investment Strategy" are the sum of "Japanese Equity" and "OneAsia" shown above.
- * Our Private Equity Investment Strategy (Mirai Creation Funds) represents JPY 153.1B of the Private Equity shown in the table.

Compliance with well below 2°C target: Evaluating transitions away from greenhouse gases

We evaluated the portfolios and benchmarks of our Listed Equity and Alternative Equity Investment Strategies* for their compliance with international targets for combating global warming based on a transitional approach. We used S&P Global's assessment on pathways to net-zero emissions to determine how well our portfolios aligned with the Paris Agreement target of well below 2°C.

- * The Listed Equity and Alternative Equity Investment Strategy benchmarks are a composite of TOPIX, KOSPI, and MSCI Asia ex Japan indices, weighted by the assets under management in the corresponding markets.

In this evaluation, we look at past performance and future (medium-term) forecasted emissions to verify whether our portfolio companies' emission reductions over time are at an appropriate level in line with the global warming prevention targets. We concluded that the portfolios of our Listed Equity and Alternative Equity Investment Strategies fell between 2°C and 3°C*, while their benchmarks were above 3°C. Going forward, we will internally examine how we can align our portfolios to a level under 2°C.

- * In last year's analysis, our portfolios were under 1.75°C, but the data we had covered only about 25% of the portfolios and 56% of the benchmarks, meaning we could not evaluate all of our holdings. However, this year, our data improved to show approximately 95% of our portfolios and 100% of our benchmarks, providing a clearer picture of our entire portfolios.

| Coverage | 2021 | | 2022 | |
|------------------------------------|-----------|-----------|-----------|-----------|
| | Portfolio | Benchmark | Portfolio | Benchmark |
| Carbon Performance | 97% | 100% | 98% | 100% |
| Paris Agreement Compliance | 25% | 56% | 95% | 100% |
| Scenario Analysis - Carbon Pricing | 87% | 99% | 54% | 35% |
| Scenario Analysis - Physical Risk | 80% | 97% | 91% | 100% |

Transition risks

The TCFD classifies climate-related risks into two categories: transition risks and physical risks. Transition risks are related to the move toward a carbon-free economy, while physical risks are related to the physical impact of climate change.

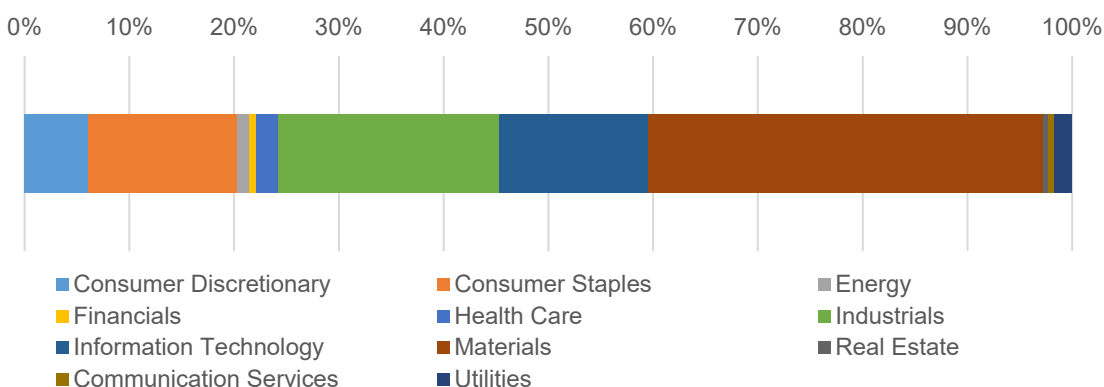
We assessed the financial impact of climate-related risks (e.g., the economic impact of future carbon prices) on our Listed Equity and Alternative Equity Investment Strategy portfolios.

The majority of the estimated future unpriced cost of carbon (UCC) in the portfolios of the Listed Equity and Alternative Equity Investment Strategies is in the materials sector, and the majority of this UCC by region is in South Korea. Therefore, these strategies' portfolios will likely see the most significant impact from the risk of climate-related policy changes that result in higher carbon costs in South Korea. The EBITDA-at-risk, representing the current ability of portfolio companies to pay for their future UCC, was approximately 19.85% of the portfolio weighted average in 2030 based on the high-risk scenario*, while the benchmark was about 7.72%.

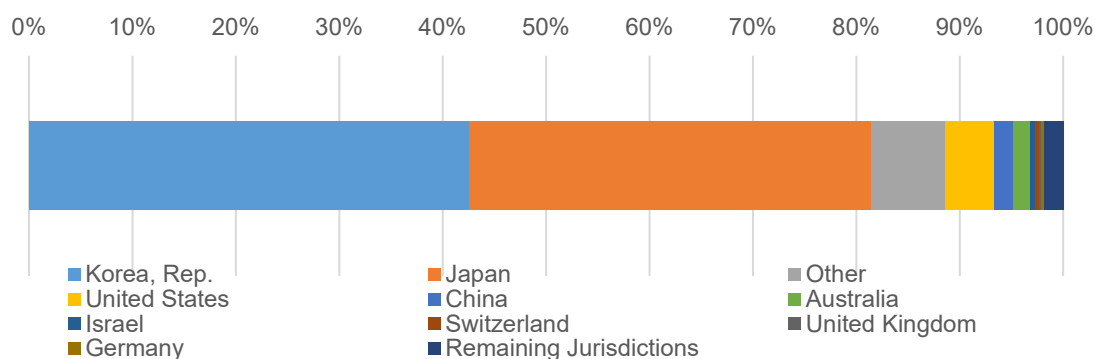
| | 2021 | | 2022 | |
|----------------|-----------|-----------|-----------|-----------|
| | Portfolio | Benchmark | Portfolio | Benchmark |
| EBITDA at Risk | 8.99% | 8.48% | 19.85% | 7.72% |

* The scenario with the temperature rise limited to well below 2°C by 2100 is consistent with the Paris Agreement and is based on OECD and IEA studies.

Total Apportioned UCC by Sector

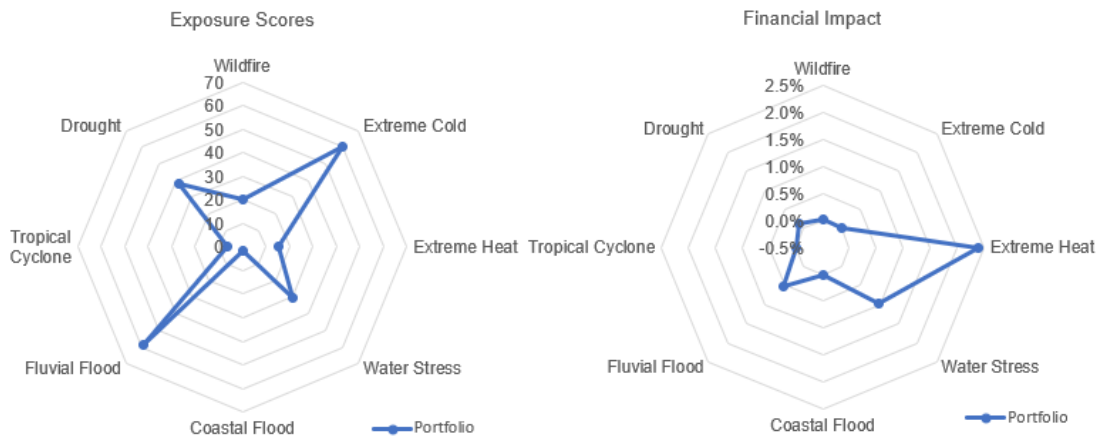


Total Apportioned UCC by Country



Physical risks

We assessed the physical risks for our Listed Equity and Alternative Equity Investment Strategy portfolios based on moderate-to-high-risk scenarios for 2050*. Of the eight hazard types (wildfires, cold waves, heat waves, water stress, coastal floods, fluvial floods, tropical cyclones, and droughts), cold waves and fluvial floods had the highest exposure scores, while heat waves had the highest financial impact.



Source: Prepared by SPARX based on the S&P Global Data

* The scenario with a temperature increase of 2.8–4.6°C by 2100 corresponds to a Shared Socioeconomic Pathway (SSP) score of 3 and a Representative Concentration Pathway (RCP) score of 7.0. Exposure scores are expressed on a scale of 1 to 100, where 100 represents the maximum possible risk, and 1 is the minimum possible risk. The financial impact is expressed as a percentage (%) of the asset value of possible losses (e.g., capital expenditures, operating expenses, business interruption) that may occur due to climate change.

iv) Metrics and targets

As an investment company and a corporation, SPARX Group supports the long-term goals of the Paris Agreement and is committed to taking proactive steps to limit the rise in average global temperatures. We aim for all our portfolio companies and projects to become net neutral in greenhouse gas emissions by 2050.

Below are our calculations for the TCFD’s recommended disclosure requirements of carbon footprint (the equivalent CO₂ resulting from business activities) and weighted average carbon intensity (WACI) for our Listed Equity and Alternative Equity Investment Strategy portfolios as of December 31, 2022.

| | 2021 | 2022 |
|------------------|------------------------------------|------------------------------------|
| Carbon Footprint | 1,201,434 tCO ₂ e | 830,940 tCO ₂ e |
| WACI | 167 tCO ₂ e/million USD | 104 tCO ₂ e/million USD |

For both the carbon footprint and WACI calculations above, we used S&P Global’s data to calculate GHG emissions based on portfolio company disclosures or a proprietary approach using modeling in the absence of available information. We calculate Scope 1 and Scope 2 emissions with this approach. Our policy for the Group’s assets under management is to actively utilize GHG emission ratings and external evaluation organization assessments to supplement our analytics. However, due to differences in data reliability and evaluation methods, we do not compare figures, instead preferring to continuously monitor data and consider their future use options.

Targets by individual strategy among managed client assets

(The Listed Equity Investment Strategy and Listed Alternative Equities Investment Strategy)

These investment strategies reflect our support for the long-term goals of the Paris Agreement and our commitment to taking proactive steps to limit the rise in average global temperatures. Therefore, we aim to have all our portfolio companies become net neutral in greenhouse gas emissions by 2050.

To achieve this goal, we believe it ideal for our portfolio companies to formulate and implement greenhouse gas reduction plans that comply with the Paris Agreement.

However, as part of this process, we must support companies likely to implement future reductions rather than investing only in companies with low emissions or reducing their carbon output per the Paris Agreement.

Thus, our immediate goal is that by 2025, at least 50% of our portfolios in all Japanese Equity funds* should be companies that have expressed support for the TCFD and are implementing emission reduction plans. We intend to encourage as many companies as possible to support us in these efforts.

* The strategy of investing in Japanese equities within the Listed Equity and Alternative Equity Investment Strategies

Future targets and results are as follows.

| | Goal | Performance |
|--------------------------|---|---|
| 2022 (Interim target) | TCFD supporter rate of 30% or more for all funds in the Japanese Equity Investment Strategy | 97% of funds (based on the number of funds) with a TCFD endorsement rate of 30% or higher |
| 2025 | TCFD supporter rate of 50% or more for all funds in the Japanese Equity Investment Strategy | – |

(Private Equity Investment Strategy (Mirai Creation Funds))

These investment strategies reflect our support for the long-term goals of the Paris Agreement and our commitment to taking proactive steps to limit the rise in average global temperatures. We aim for all our portfolio companies and projects to become net neutral in greenhouse gas emissions by 2050. In the process, the managers of these investment strategies will guide our portfolio companies toward endorsing the TCFD. As guides, our managers participate in discussions on assessing climate-related risks and opportunities and their financial implications. These discussions maximize portfolio company commitment to financial disclosure on climate change before issuing their IPOs.

The Group will further pursue initiatives to solve the problem of climate change and disclose information

(2) Policies and initiatives regarding human capital and diversity

We will provide a workplace in which the outstanding people who join us in support of the Group's purpose and vision (i.e., its ideology) will respect each other's diversity, engage autonomously in improving their skills and abilities to become the ultimate professionals, and also build excellence of character by valuing the code of behavior (conduct) for the realization of the Group's ideology and profession. This workplace will also give them opportunities to grow by engaging in friendly competition with each other and feel a sense of reward in their work of contributing to the growth of the organization by all of them uniting as one to practice and provide "better investment (i.e., our technique). Moreover, we believe that the source of the Group's competitiveness is its combination of innovativeness and communication skills. In other words, it is our ability to bring the individual expertise of our people together to compete as an organization. Therefore, (1) to strengthen our capabilities in accountable and reproducible investment and our ability to come up with unique investment ideas, we will (2) clarify and instill desirable styles of conduct within the company. In addition, to strengthen our ability to unite as a company to package together specific investment ideas, and (3) to establish a comfortable working environment that will provide the base for these efforts, we will put in place the various measures that we believe they each require.

i) Human resources development policies

As a professional firm, our officers and employees possess a high degree of specialist expertise. However, in the expansion of our operations by entering new investment fields and other means in a VUCA environment, the knowledge and skills required have become increasingly diverse and must be constantly updated. We believe, therefore, that it is important for our executives and employees to learn and practice autonomously within their specialist areas. For this purpose, the Group will expand our programs for the provision of financial assistance to cover the costs of self-improvement in such specialist areas and monetary incentives for obtaining qualifications, and strengthen OJT programs, in which employees teach each other. In addition, we will work to provide learning opportunities for our employees to satisfy wide-ranging intellectual curiosity, to allow employees to elevate their intelligence as professionals even outside their specialist areas. Furthermore, while emphasizing autonomous learning by individuals, we will also work to strengthen training by department for the systematic development of officers and employees who have the knowledge and skills required by individual departments.

ii) Diversity-focused internal work environment policies

SPARX Group respects diverse experiences, knowledge, and attributes and believes that possessing perspectives and values reflecting this diversity is indispensable for creating new value, improving sustainable growth and corporate value, and achieving the Group purpose "to make the world wealthier, healthier, and happier." Consequently, the Group has

conducted hiring and promotions without considering a person's gender, nationality, or other similar attributes, preferring to focus on experience, talent, and an ability to understand and support the values embodied in the Group's purpose and vision. The Group's workforce primarily comprises mid-career professionals. We hire employees for their character, ambition, and talent, irrespective of gender, nationality, or other similar attributes, and even actively hire inexperienced personnel if they are gifted. Since mid-career professionals have diverse careers and backgrounds, the Group believes they bring extraordinary diversity beyond its established corporate values. Furthermore, the Group is directing hiring activities toward personnel with experience outside the financial industry to bring in new hires and seconded employees from diverse industries. To build an even more diverse organization, we aim to incorporate human resources with values and knowledge beyond the financial sector.

Recognizing that it is a professional firm, SPARX Group follows the above policies and hires employees based on character, including experience and talent, regardless of gender, nationality, or other similar attributes. Since its founding, SPARX Group has grown its business with a workforce of mainly mid-career professionals while promoting existing employees to management positions. SPARX Group believes that no disparity in promotions has emerged from factors such as gender, nationality, date of hire, age, or the like. Consequently, the Group has not presently stipulated any particular criteria or formal, quantitative targets for a ratio of employees promoted to management positions based on specific attributes such as being female, non-Japanese, or a mid-career professional.

At the same time, the Group remains cognizant of the Japanese government's target to "promote initiatives aiming toward an approximately 30% ratio—achieved quickly and, to the extent possible, within the 2020s—of women in management positions." Rather than aiming to formally achieve this 30% ratio, the Group is moving forward with efforts to build a work environment that fully assumes as normal the active involvement of women.

Specifically, this endeavor includes providing flexible support and revised HR programs suited to different life stages for employees (see the supplemental note below) while further clarifying the roles and responsibilities expected of management-level employees. This focus on responsibilities facilitates the Group's aim to cultivate candidates for management positions and increase the number of employees who autonomously seek leadership roles. The expected outcome is an organic rise in the number of female employees involved in operational decision-making, thanks to focused initiatives to help instill the requisite experience and foster career awareness.

Because the Group's business foundation is centered in Japan, ratios for non-Japanese employees and managers have not risen above the figures given below (see the supplemental note); however, the Group believes that these ratios will naturally increase as we expand our business outside Japan.

(Supplemental note)

Primary support programs suited to different life stages

- * Multitrack work schedules: Employees may choose their working hours within a certain range.
- * Reduced-schedule full-time employment system: Employees may work reduced-schedule to provide childcare (no age limit for children) or nursing care (no time limit).
- * Fertility treatment leave: Employees may take up to ten days of paid leave.
- * Nursing care leave: Employees may take up to five days a year of paid leave per person requiring care.
- * Backup leave: Employees may accumulate up to 30 days of unused annual leave.
- * Childbirth and childcare benefits: We pay benefits to employees who take prenatal and postnatal leave and men who take childcare leave.

(Using these programs may require Company approval.)

Figures as of March 31, 2023 (SPARX Group employees: 173, including officers concurrently serving as employees)

- * Female employees: 71 (41.0% of all Group employees)
- * Female managers: 9 (23.7% of all Group managers)
- * Non-Japanese employees: 44 (25.4% of all Group employees)
- * Non-Japanese managers: 8 (21.1% of all Group managers)
- * Mid-career hires: 163 (94.2% of all Group employees)
- * Mid-career hires in management positions: 35 (92.1% of all Group managers)
- * No. of employees using the childcare leave system (domestic Group company totals) FY3/2021 to FY3/2023: 13 (2 men, 11 women)

Diversity-Focused Human Resources Development Policies, Internal Work Environment Policies, and Their Implementation

- * Going forward, the Group will maintain character-focused hiring practices centered on highly diverse mid-career professionals and ignore personal attributes, including gender, nationality, or work history.
- * The Group will continue offering support suited to employees' life stages (including childbirth, childrearing, and family nursing care) while introducing systems to foment a culture that encourages men to take childcare leave and enhancing policies that contribute to work-life balance regardless of gender. At the same time, the Group will investigate options for diverse work styles, such as working staggered shifts, working from home, or working part-time.
- * By considering options such as delayed retirement, the Group will investigate organizational systems for better utilizing the experience of senior and veteran employees while also helping them pass on their knowledge, experience, and skills to the next generation, including providing growth opportunities for young employees.
- * Through harassment awareness and unconscious biases training, we will strive as an organization to improve receptivity toward diverse human resources and create a corporate culture that is open and candid and ensures psychological stability.
- * Through such initiatives as training, information provision, and the introduction of a mentorship scheme for female employees who are a step away from promotion to management positions, we are working to raise their motivation to seek such promotions.
- * The Group will utilize the in-house recruitment system already in place and strive to provide workplaces conducive to all employees exercising their talents while simultaneously making workplaces that allow employees to accumulate experience for moves into management positions.
- * By enhancing measures that contribute to employees maintaining and enhancing their health, and by implementing what is called "health and productivity management," the Group will build an environment that allows diverse employees to work with enthusiasm and in good health.
- * Besides the above human resources development and internal work environment policies, the Group will further disseminate its purpose, vision, and mission to unite diverse employees and increase employee engagement by sharing this ethos and corporate culture.

3. 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 the current fiscal year-end.

We do not guarantee any achievements based on these statements.

i) 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 business, 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 network of both domestic and international clients, 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.

ii) 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 business, 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.

iii) 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 capital to invest in Group-managed funds and growth sectors, including quantum computing, medical and healthcare. As of March 31, 2023, the Group's investment securities balance was JPY 10,437 million, accounting for 26.5% 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 developing, maintaining, and 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 corporate philosophy 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. As a result of the shift away from telecommuting back to working primarily in the office, the establishment of internal operational procedures, and the implementation of recurrence prevention measures developed after past errors, there was a declining trend in the number of a temporary increase in mistakes caused by the advancement of telecommuting during the COVID pandemic, and we continue to take measures to prevent mistakes by officers and employees. We also strive to continuously raise officer and employee awareness through compliance and information security training programs.

iv) 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. |
| 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) | Real estate broker (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, 2023, 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. The Group has also begun the shift to a new generation of management by reducing the number of internal directors to one representative director at the 34th ordinary general meeting of shareholders. This change aims to establish a new management structure by selecting and training successors to lead our group by streamlining execution with a flatter organization.

- 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, 2023, external interest-bearing debt amounted to JPY 9.3 billion, and the issuer rating obtained from Rating and Investment Information, Inc., as of March 31, 2023, 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.

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

Performance Overview

(1) Performance

During the current fiscal year, the Japanese stock market began with a rise against the background of strong employment statistics in the US. However, although the Japanese market rallied at times due to the easing of COVID-19 border measures in Japan, and overseas expectations of improvements in parts supplies and logistics following the lifting of the citywide lockdown in Shanghai, China, there was a view that the United States Federal Reserve Board (FRB) would continue with its tight monetary policy due to a higher-than-expected rise in the consumer price index in that country, which led to heightened concerns that a worldwide credit crunch would cause an economic slowdown, and the stock market remained lackluster. The Bank of Japan adjusted the upper limit of its tolerance band for long-term interest rates at its Monetary Policy Meeting in December, fueling concerns about a reversal in monetary policy as well as concerns about the deterioration in American economic conditions, which caused the market to fall, and it remained at a low ebb until the end of the year. Moreover, with the sudden increase in financial instability in Europe and the United States prompted by the collapse of Silicon Valley Bank in the United States, strengthened risk-avoidance positions caused a further plunge in the market. However, toward the end of the fiscal year, with protection of savings by the United States financial authorities, and the acquisition by financial giant, UBS, of Credit Suisse Group in Switzerland in response to its credit crisis, in addition to a rescue package from the Swiss authorities, uncertainty about the financial system abated, and the Nikkei Stock Average ended the fiscal year at JPY 28,041.48, up 0.8% YoY.

Under such market conditions, the Group's assets under management at fiscal year-end were JPY 1,501.2 billion (Note 1), a YoY decrease of 3.6%. However, due to the additional subscriptions of the Mirai Creation Fund III and other factors, management fees (Note 2) for the current fiscal year increased 1.3% YoY to JPY 12,735 million. Moreover, performance fees (Note 3) fell 69.8% YoY to JPY 364 million, and operating revenue dropped 4.9% YoY to JPY 13,360 million.

Operating and general administrative expenses were at a similar level to the previous fiscal year, rising by 1.0% YoY to JPY 7,656 million. This was due to increases in specialist remuneration and travel expenses, despite decreases in bonuses and ESOP expenses. As a result, operating profit declined 11.8% to JPY 5,704 million, and ordinary profit increased 0.8% YoY to JPY 6,289 million, due mainly to the recording of gain on investments in investment partnerships. Gains on sale of marketable investment securities were down from the previous fiscal year, as were losses on valuation of marketable investment securities, and after posting taxes and other outlays, this fiscal year's profit attributable to owners of parent was JPY 4,521 million, up by 11.1% YoY.

Base earnings (Note 4), an indicator of profitability that provides a sustainable and stable foundation for the business, fell by 2.5% YoY to JPY 6,005 million (from JPY 6,157 million the previous year) due mainly to increased ordinary expenses. Although unable to exceed the record high in the previous fiscal year, the Group's effective earnings structure maintained a favorable level.

Notes

1. Assets under management for this consolidated fiscal year are preliminary figures (as of March 31, 2023).
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 and one-time fees (acquisition fees) received as compensation for formulating power station plans related to our Japanese renewable energy investment strategy.
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 increased by JPY 2,828 million YoY to JPY 22,028 million (up by 14.7% 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 3,105 million (compared to JPY 2,661 million in the previous year). This figure is primarily derived from pretax adjusted net income of JPY 6,627 million and income taxes of JPY 2,495 million.

(Cash flow from investing activities)

The cash flow from investments in this consolidated fiscal year amounted to an income of JPY 2,001 million

(compared to an outlay of JPY 1,180 million in the previous year). This figure is primarily derived from an outlay of JPY 1,183 million for purchasing marketable investment securities, income of JPY 2,254 million from selling and redeeming marketable investment securities, and income of 1,184 million from allocations of investment partnerships.

(Cash flow from financing activities)

The cash flow from financing in this consolidated fiscal year amounted to an outlay of JPY 2,408 million (compared to an outlay of JPY 2,480 million in the previous year). This figure is primarily derived from a dividend payment of JPY 2,419 million, an outlay from a treasury share acquisition of JPY 1,158 million, and income from a disposal of treasury shares of JPY 845 million.

Operational Performance

(1) Operating revenue results

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

| Item | Previous consolidated fiscal year (FY2021) | | This consolidated fiscal year (FY2022) | |
|--------------------------------|--|---------------------|--|---------------------|
| | Amount (Millions of yen) | Component ratio (%) | Amount (Millions of yen) | Component ratio (%) |
| Management fees | 12,577 | 89.6% | 12,735 | 95.3% |
| Performance fees (see note) | 1,208 | 8.6% | 364 | 2.7% |
| Other | 258 | 1.8% | 260 | 2.0% |
| Total operating revenue | 14,043 | 100.0% | 13,360 | 100.0% |

Note: Performance fees include JPY 211 million from listed equity investment strategies (JPY 605 million in the previous fiscal year), JPY 114 million in acquisition fees from the Renewable Energy Investment Strategy (JPY 356 million in the previous fiscal year), and fees renewable energy funds received from selling portfolio power plants and realizing gains on the sale (JPY 246 million in the previous fiscal year) and JPY 38 million in other fees.

• Management fees

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

| Category | Previous consolidated fiscal year (FY2021) | This consolidated fiscal year (FY2022) |
|--|--|--|
| SPARX Group management fee rate (net basis) | 0.69% | 0.73% |

Note: 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.

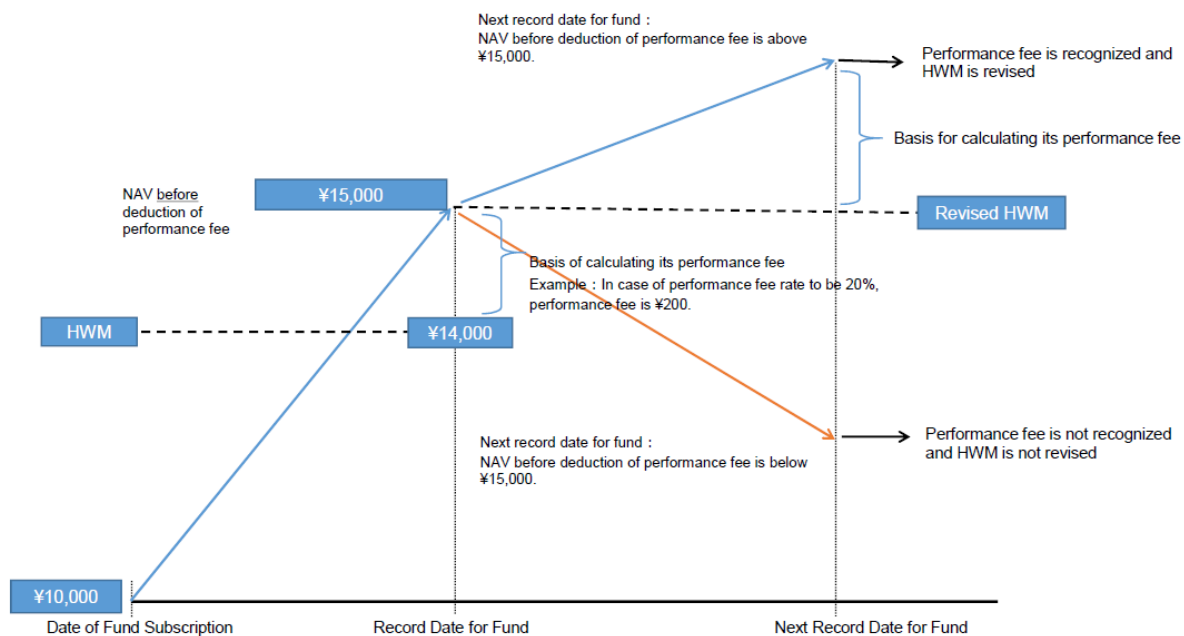
Moreover, when a subsidiary-managed renewable energy fund (the Greenfield Investment Fund (*)) sells a portfolio power plant and realizes gains on the sale, it may receive a performance fee equal to the gains multiplied by a fixed rate.

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) Actual results 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.

i) Quarterly assets under management by strategy

(Hundred millions of yen)

| Investment strategy | June 2022 | September 2022 | December 2022 | March 2023 |
|---------------------|-----------|----------------|---------------|------------|
| Japanese Equity | 9,416 | 9,542 | 9,334 | 9,532 |
| OneAsia | 895 | 781 | 834 | 900 |
| Real assets | 2,511 | 2,629 | 2,627 | 2,645 |
| Private Equity | 1,937 | 1,946 | 1,955 | 1,933 |
| Total | 14,759 | 14,900 | 14,752 | 15,012 |

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, 2023, is a preliminary figure.

ii) Average assets under management

(Hundred millions of yen)

| | FY2021 consolidated fiscal year | FY2022 consolidated fiscal year |
|--------------|------------------------------------|------------------------------------|
| Group totals | 15,719 | 15,126 |

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, 2023, is a preliminary figure.

iii) Assets under management with performance fees and ratios

| Company name | | March 2022 | March 2023 |
|--------------|---|------------|------------|
| Group totals | Balance (hundred millions of yen) | 5,710 | 5,691 |
| | Ratio (%) | 36.7 | 37.9 |

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, 2023, 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 current 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

In the current fiscal year (ended March 31, 2023), although the Group's assets under management (AUM) decreased by 3.6% year on year to JPY 1,501.2 billion, due to an increase in AUM in investment strategies with high management fee rates, management fees increased by JPY157 million year on year to JPY 12,735 million. With this increase in management fees, the foundations underpinning SPARX have become steadily stronger. Although operating profit decreased due to a decrease in performance fees, cost controls remained at appropriate levels, and as a result, base earnings (Note 2), which is the ability to earn in a stable manner, stayed at record high level. Investment securities that had completed their role as seed investments for new investment strategies, etc. were scrutinized, and the cancellation and redemption of some of them contributed to the increase in final profits.

Instability in the stock market throughout the current fiscal year impacted our investment strategy that invests in Japanese equities and our OneAsia investment strategy focused on Asian equities, resulting in a year-over-year decline in the balance of assets under management in both investment strategies. Although there were moves to redeem favorably performing funds amid this unstable environment, resulting in a net outflow of funds in the latter half of the fiscal year, we increased the assets under management for our Japanese Equity Mid and Small Cap Strategy due to capital inflows, maintaining our favorable performance. Furthermore, fund managers in Tokyo, Hong Kong, and South Korea jointly conduct research on Asian companies and continue to share investment ideas. The improved performance of our South Korean subsidiary is starting to lead to an influx of funds from institutional investors in South Korea. 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 and Asian equities.

Our Real Asset Investment Strategy, which invests in infrastructure assets and real estate for renewable energy power stations, has made investments in power generation facilities across Japan and has assets under management of JPY 264.5 billion in the renewable energy investment strategy. 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 past several years, large corporations primarily invested in renewable energy power plants using their own balance sheets. However, they continue to review these investments, selling and liquidating their renewable energy power plants. The Group's funds are seizing such opportunities to acquire power generation facilities from outside sources, and continue to make an active investment while evaluating appropriate prices and returns as an investor. As a pioneer in renewable energy funds, we will continue to offer attractive investment products that meet all our stakeholders' expectations.

In our Private Equity Investment 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. After steady investment progress in Fund I followed by Fund II, subscriptions for Fund III were closed during the current fiscal year, and we are proceeding to make investments. Assets under management with this strategy have grown to JPY193.3 billion, and 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 investment 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.

An analysis of our operating results is under (1) Performance in Section 2. Business Overview, 4. 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 increased by JPY 2,241 million YoY to JPY 39,382 million. The main components of the change were a JPY 2,828 million increase in cash and deposits and a JPY 1,718 million decrease in marketable investment securities.

(Liabilities and net assets)

Total liabilities at the consolidated fiscal year-end increased by JPY 519 million YoY to JPY 13,335 million. The main component of the change was a JPY 517 million increase in income taxes payable.

Net assets at the consolidated fiscal year-end increased by JPY 1,722 million YoY to JPY 26,047 million. The main components of the change were a JPY 2,098 million increase in retained earnings, a JPY 302 million decrease in capital surplus, and a JPY 181 million decrease in valuation difference on AFS securities.

(4) Capital resources and cash liquidity

i) Cash flow

An analysis of our cash flows is under (2) Cash Flows in Section 2. Business Overview, 4. Management's Analysis of Financial Conditions, Operating Results, and Cash Flows.

ii) 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 9,440 million. The balance of cash and cash equivalents at the consolidated fiscal year-end was JPY 22,028 million.

5. Significant Operational Agreements

There are no relevant matters.

6. Research and Development

There are no relevant matters.

Section 3. Equipment and Facilities

1. Capital Investments Overview

There are no relevant matters.

2. Major Facilities

There are no relevant matters.

3. Plans for new additions or facilities disposals

There are no relevant matters.

Section 4. Filing Company

1. Information on the Company's Shares etc.

(1) Total Number of Shares

(i) Total number of Shares

| Types | Total number of authorized shares (shares) |
|---------------|--|
| Common shares | 128,800,000 |
| Total | 128,800,000 |

(Note) The Company conducted a reverse stock split in which five shares of common shares were consolidated into one share effective October 1, 2022. The above table shows the numbers of shares after the reverse stock split.

(ii) Issued shares

| Types | Number of shares issued as of the fiscal year-end (shares) (March 31, 2023) | Number of shares issued as of the filing date (shares) (June 20, 2023) | Name of listed financial instruments exchange or registered and licensed financial instruments business association | Details |
|---------------|--|---|---|---|
| Common shares | 41,915,480 | 41,915,480 | Tokyo Stock Exchange Prime Market | The number of shares constituting one unit of stock is 100 shares |
| Total | 41,915,480 | 41,915,480 | – | – |

(Note) The Company conducted a reverse stock split in which five common shares were consolidated into one share effective October 1, 2022. The above table shows the numbers of shares after the reverse stock split.

(2) Stock Acquisition Rights

(i) Details of Stock Option Plans

There are no relevant matters.

(ii) Details of Rights Plans

There are no relevant matters.

(iii) Other stock acquisition rights, etc.

There are no relevant matters.

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

There are no relevant matters.

(4) Changes in Total Number of Shares Issued 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) |
|-----------------------------|--|--|---|--|---|--|
| April 30, 2018 Note 1 | 3,600 | 209,567,900 | 2 | 8,585 | 0 | 128 |
| August 31, 2018 Note 2 | 1,000 | 209,568,900 | 0 | 8,585 | 0 | 128 |
| December 31, 2018 Note 3 | 2,500 | 209,571,400 | 0 | 8,585 | 0 | 129 |
| April 30, 2019 Note 4 | 6,000 | 209,577,400 | 1 | 8,587 | 1 | 130 |
| October 1, 2022 Note 5 | (167,661,920) | 41,915,480 | – | 8,587 | – | 130 |

Notes:

1. Exercising the 8th and 11th subscription warranties

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

2. 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 |

3. 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 |

4. 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. Due to the reverse stock split that merged five common shares into one share, conducted on October 1, 2022 by resolution of the 33rd Annual General Meeting of Shareholders held on June 10, 2022, the total number of shares issued decreased by 167,661,920 to 41,915,480.

(5) Shareholder Status

As of March 31, 2023

| 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) | – | 11 | 26 | 57 | 132 | 26 | 5,394 | 5,646 | – |
| Number of shares held (units) | – | 51,385 | 2,730 | 64,955 | 58,456 | 518 | 237,963 | 416,007 | 314,780 |
| Ratio of shares held (%) | – | 12.35 | 0.66 | 15.61 | 14.05 | 0.13 | 57.20 | 100.00 | – |

Notes

1. The 1,162,708 treasury shares include 11,627 units under “Individuals and Others” and 8 shares under “Shares less than one unit”.
2. The Master Trust Bank of Japan (Stock-granting ESOP trust account 76095) holds 4,398 units of SPARX stock, and Custody Bank of Japan (trust account) holds 5,600 units of SPARX stock. They are listed under “Financial Institutions.” The SPARX stock held by The Master Trust Bank of Japan (Stock-granting ESOP trust account 76095) and that held by Custody Bank of Japan (trust account) are shown as treasury shares in the consolidated financial statements.
3. 40 shares held in the name of the Japan Securities Depository Center are listed under “Shares less than one unit” above.

(6) Major Shareholders

As of March 31, 2023

| Full or official name | Location | Number of shares held (Shares) | Ratio of shares held to the total number of shares issued (excluding treasury shares) (%) |
|--|---|--------------------------------|---|
| Shuheii Abe | Shinagawa, Tokyo | 15,573,720 | 38.51 |
| Abe Capital Co., Ltd. | 4-3-1 Toranomon, Minato, Tokyo | 6,074,000 | 15.02 |
| The Master Trust Bank of Japan, Ltd. (trust accounts) | 2-11-3 Hamamatsu-cho, Minato, Tokyo | 3,315,200 | 8.20 |
| 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) | 1,634,655 | 4.04 |
| Custody Bank of Japan (trust account) | 1-8-12 Harumi, Chuo, Tokyo | 1,250,500 | 3.09 |
| CITIBANK UK LIMITED AS DEPOSITARY FOR QUILTER INVESTORS JAPANESE EQUITY FUND A SUB FUND OF QUILTER INVESTORS OEIC (Standing proxy: Citibank, N.A., Tokyo Branch) | CITIGROUP CENTRE, CANADA SQUARE, CANARY WHARF, LONDON E14 5LB UNITED KINGDOM (6-27-30 Shinjuku, Shinjuku, Tokyo) | 751,952 | 1.86 |
| HSBC BANK PLC A/C M AND G (ACS) (Standing proxy: The HongKong and Shanghai Banking Corporation Limited, Tokyo Branch) | 8 CANADA SQUARE, LONDON E14 5HQ UNITED KINGDOM (3-11-1 Nihonbashi, Chuo, Tokyo) | 616,600 | 1.52 |
| Masaru Shimizu | Suita, Osaka | 500,400 | 1.24 |
| The Master Trust Bank of Japan, Ltd. (Stock-granting ESOP trust account 76095) | 2-11-3 Hamamatsu-cho, Minato, Tokyo | 439,820 | 1.09 |
| Interactive Brokers LLC (Standing proxy: Interactive Brokers Securities Japan Inc.) | ONE PICKWICK PLAZA GREENWICH, CONNECTICUT 06830 USA (3-2-5 Kasumigaseki, Chiyoda, Tokyo) | 392,940 | 0.97 |
| Total | – | 30,549,787 | 75.54 |

Notes

- As of March 31, 2023, SPARX Group Co., Ltd., holds 1,162,708 treasury shares.
- The Master Trust Bank of Japan, Ltd. (Stock-granting ESOP trust account 76095) is a trust established with the introduction of the Stock-Granting ESOP Trust program. Additionally, 560,000 of the shares held by Custody Bank of Japan (trust account) are held in trust as an ESOP trust for directors. These shares are treated as treasury shares in the consolidated financial statements.
- The Company conducted a reverse stock split that merged five common shares into one share on October 1, 2022. The above states the number of shares after the reverse stock split.

(7) Voting Rights

i) Issued shares

As of March 31, 2023

| Category | Number of shares (shares) | Number of voting rights (units) | Description |
|---|---------------------------|---------------------------------|-------------|
| Non-voting shares | – | – | – |
| Restricted voting rights shares (treasury shares) | – | – | – |
| Restricted voting rights shares (other) | – | – | – |
| Full voting rights shares (treasury shares) | Common shares 1,162,700 | – | – |
| Full voting rights shares (other) | Common shares 40,438,000 | 404,380 | – |
| Shares less than one unit | Common shares 314,780 | – | – |
| Total number of shares issued | 41,915,480 | – | – |
| Total voting rights held by all shareholders | – | 404,380 | – |

Notes

1. The column Full Voting Rights Shares (Other) includes 40 shares (0 voting rights) in the name of the Japan Securities Depository Center, 439,820 shares (4,398 voting rights) held by The Master Trust Bank of Japan (Stock-granting ESOP trust account 76095) as trust assets for stock-granting ESOP trust accounts, and 560,000 shares (5,600 voting rights) held by the Custody Bank of Japan (trust accounts) as trust assets for the ESOP trust for directors.
2. The Company conducted a reverse stock split in which five common shares were consolidated into one share on October 1, 2022. As a result, the total number of shares issued decreased by 167,661,920 shares to 41,915,480 shares.

ii) Treasury shares

As of March 31, 2023

| 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 | 1,162,700 | – | 1,162,700 | 2.77 |
| Total | – | 1,162,700 | – | 1,162,700 | 2.77 |

Notes

1. There are 8 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 8 shares are included under Shares less than one unit in i) Issued Shares above.
2. The 439,820 shares (1.05%) held by The Master Trust Bank of Japan (Stock-granting ESOP trust account 76095) as trust assets for stock-granting ESOP trust accounts and 560,000 shares (1.34%) held by the Custody Bank of Japan (trust accounts) as trust assets for the ESOP trust for directors are not included in the treasury shares above.
3. The Company conducted a reverse stock split in which five common shares were consolidated into one share on October 1, 2022.

2. Treasury Share Acquisition

Types of Shares: Acquiring Common Shares under Article 155, Item 3 of the Companies Act, Acquiring Common Shares under Article 155, Item 7 of the Companies Act and Acquiring Common Shares under Article 155, Item 9 of the Companies Act

(1) Acquisitions resolved by general meetings of shareholders

There are no relevant matters.

(2) Acquisitions resolved by the board of directors meetings

| Category | Number of shares (shares) | Total amount (yen) |
|---|---------------------------|--------------------|
| Board of directors vote (October 31, 2022) (Acquisition period: November 1, 2022–January 31, 2023) | 200,000 | 300,000,000 |
| Treasury shares acquired before this fiscal year | – | – |
| Treasury shares acquired during this fiscal year | 177,100 | 299,925,100 |
| Total residual voting shares and their value | 22,900 | 74,900 |
| Unexercised ratio as of the fiscal year-end (%) | 11.5 | 0.0 |
| Treasury shares acquired during this period | – | – |
| Unexercised ratio as of the filing date (%) | 11.5 | 0.0 |

Note. The treatment of fractions of shares less than 1 share resulting from the reverse stock split conducted on October 1, 2022 includes the repurchase of treasury shares (178 shares) under Article 235, Paragraph 2 and Articles 234, Paragraphs 4 and 5 of the Companies Act. The repurchase price is the closing price of the Company's shares on the Tokyo Stock Exchange on the date of the repurchase.

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

| Category | Number of shares (shares) | Total amount (yen) |
|--|---------------------------|--------------------|
| Treasury shares acquired during this fiscal year | 5,766 | 9,097,756 |
| Treasury shares acquired during this period | 260 | 373,660 |

Notes

- The Company conducted a reverse stock split merging five shares of common shares into one share on October 1, 2022 pursuant to a resolution of the 33rd ordinary general meeting of shareholders held on June 10, 2022. The 5,766 treasury shares acquired during this fiscal year above are the number of shares after the reverse stock split.
- The treasury shares acquired during this period does not include shares of less than one share unit repurchased between June 1, 2023 and the Annual Securities Report filing date.

(4) Acquired Treasury Shares 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 shares offered to subscribers | – | – | – | – |
| Acquired treasury shares disposed of through cancellation | – | – | – | – |
| Acquired treasury shares transferred through merger, share exchange, share delivery, or corporate divestiture | – | – | – | – |
| Others (shares delivered to Group employees through ESOP trusts) | 267,800 | 57 | 84,940 | 90 |
| Others (decrease due to a reverse stock split) | 7,735,522 | – | – | – |
| Number of treasury shares held | 2,162,528 | – | 2,077,848 | – |

Notes:

- The Company conducted a reverse stock split in which 5 common shares were consolidated into 1 share on October 1, 2022 pursuant to a resolution of the 33rd ordinary general meeting of shareholders held on June 10, 2022. The amount for the 267,800 shares in “Others (shares delivered to Group employees through ESOP trusts)” is the amount prior to the reverse stock split.
- Number of treasury shares held during this period does not include shares of less than one share unit repurchased between June 1, 2023 and the Annual Securities Report filing date.
- Treasury Shares Held includes the following shares of SPARX stock held by The Master Trust Bank of Japan (Stock-granting ESOP trust account 76095) and by the Custody Bank of Japan (trust account), as well as the treasury shares held by SPARX.

This fiscal year 999,820 shares This period 914,880 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 increasing base earnings, we have set our common dividend at JPY 60 per share (with a consolidated payout ratio of 52.9%), the same amount as last year's common dividend (after the reverse stock split).

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, Paragraph 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 9, 2023 Resolution by the Ordinary General Meeting of Shareholders | 2,445 | JPY 60 |

4. The State of Corporate Governance

(1) Corporate Governance Overview

i) 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.”

ii) 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 Directors who are Audit and Supervisory Committee members—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 seven highly experienced directors. It regularly meets once per month and holds emergency sessions as necessary to formulate basic policies on management and important management decisions.

| Chair | Position | Name | Gender |
|-------|--|--------------------|--------|
| | President & Representative Director, Group CEO, Group CIO, SPARX Group Co., Ltd. | Shuhei Abe | Male |
| | Director, SPARX Group Co., Ltd. | Masatoshi Fukami | Male |
| X | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kazuyoshi Kimura | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kimikazu Noumi | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Toshihiko Nakagawa | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Eiko Hakoda | Female |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kimie Morishita | Female |

SPARX Group sets its directors’ (excluding Directors who are Audit and Supervisory Committee members) 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 Directors who are Audit and Supervisory Committee members’ terms are for two years. Moreover, the Company invites five 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.

Audit and Supervisory Committee

The Company’s Audit and Supervisory Committee consists of the following five outside directors, of whom four are independent outside directors. It monitors the compliance and appropriateness of the Company’s operations.

| Chair | Position | Name | Gender |
|-------|---|--------------------|--------|
| X | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kazuyoshi Kimura | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kimikazu Noumi | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Toshihiko Nakagawa | Male |

| | | | |
|--|---|-----------------|--------|
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Eiko Hakoda | Female |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kimie Morishita | Female |

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.

| Chair | Position | Name | Gender |
|-------|--|-------------------|--------|
| X | President & Representative Director, Group CEO, Group CIO, SPARX Group Co., Ltd. | Shuhei Abe | Male |
| | Director, SPARX Group Co., Ltd. | Masatoshi Fukami | Male |
| | Group Executive Officer, Group CFO, SPARX Group Co., Ltd. | Hiroshi Minematsu | Male |
| | Group Executive Officer, SPARX Group Co., Ltd. | Takeshi Suzuki | Male |
| | Group Executive Officer, SPARX Group Co., Ltd. | Takaki Demichi | Male |
| | Group Executive Officer, SPARX Group Co., Ltd. | Takahide Taniwaki | Male |

Nomination and Compensation Committee

The Company has established a Nomination and Compensation Committee to bolster the independence, objectivity, and accountability of the Board's functions with regard to the nomination and compensation of directors and Group executive officers, while also helping ensure the transparency of SPARX Group management.

| Chair | Position | Name | Gender |
|-------|--|--------------------|--------|
| X | President & Representative Director, Group CEO, Group CIO, SPARX Group Co., Ltd. | Shuhei Abe | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kazuyoshi Kimura | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Kimikazu Noumi | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Toshihiko Nakagawa | Male |
| | Outside Director, Audit and Supervisory Committee Member, SPARX Group Co., Ltd. | Eiko Hakoda | Female |

* At the next meeting of the Nomination and Compensation Committee, Mr. Kazuyoshi Kimura, outside director and a member of the Audit and Supervisory Committee, will become chair of the Nomination and Compensation Committee, and Ms. Kimie Morishita, outside director and a member of the Audit and Supervisory Committee, will become a member of the Nomination and Compensation Committee.

Other

The Company also has 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 group-wide 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 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 Special Committee is comprised of the following members.

At least two of the Company's Independent Outside Directors nominated by the Board of Directors for each matter. The committee chair is decided by internal vote by the committee members.

The Group Risk Management Committee is comprised of the following members.

- President & Representative Director
- Officer responsible for internal management
- Directors (excluding Directors who are Audit and Supervisory Committee Members)
- Group Executive Officers
- Division Managers
- Manager of Risk Control Departments
- Manager of the Internal Auditing Office
- Anyone else deemed necessary by the committee chair

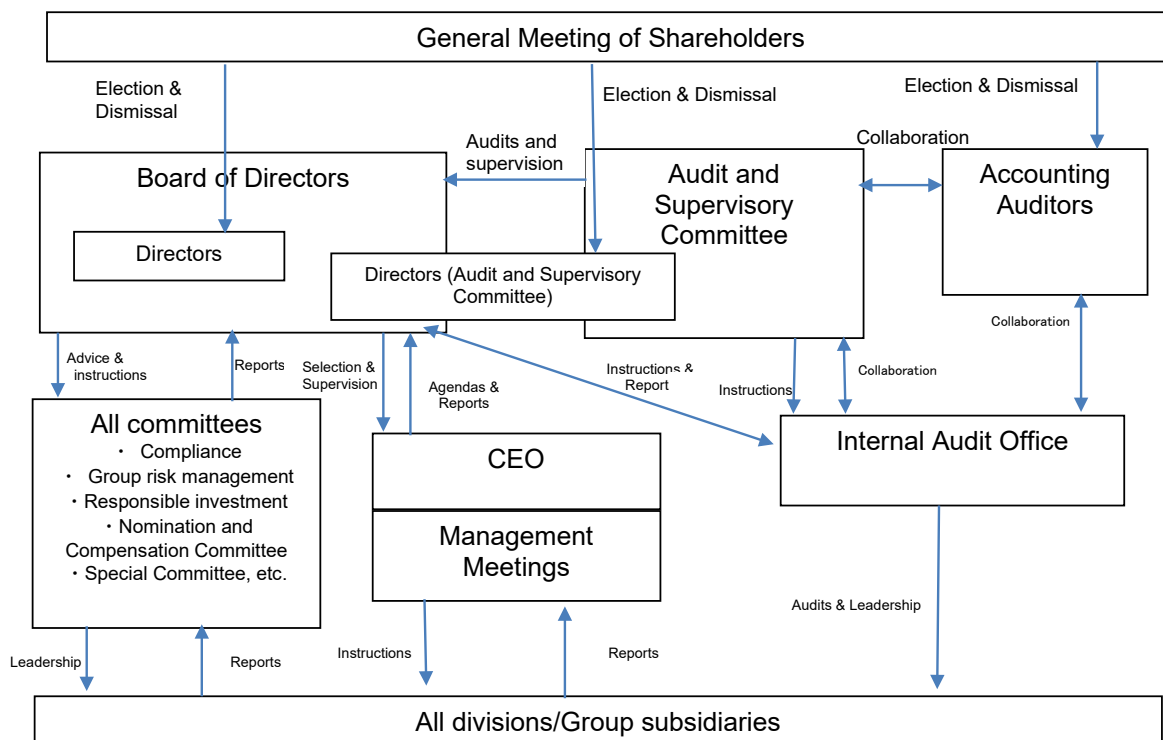
The Compliance Committee is comprised of the following members.

- President & Representative Director
- Officer responsible for internal management
- Directors (excluding Directors who are Audit and Supervisory Committee Members)
- Group Executive Officers
- Division Managers
- Manager of the Internal Auditing Office
- Manager of the Legal & Compliance Office
- Anyone else deemed necessary by the committee chair

The Responsible Investment Committee is comprised of the following members.

- President & Representative Director
- Directors (excluding Directors who are Audit and Supervisory Committee Members)
- Group Executive Officers
- Manager of the Legal & Compliance Office
- Anyone else deemed necessary by the committee chair

The Company's bodies and internal control systems are summarized in the diagram below.



(iii) 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 April 20, 2023) 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 domestic and foreign 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) SPARX Group protects Information assets by measures including storage methods established according to the confidentiality level based on the Information Securities Rules, etc. SPARX Group also complies with the Rules Governing Cybersecurity, which it established separately, to maintain a system to protect against cyberattacks, a threat that has emerged in recent years.
 - (2) Based on its Documentation Rules, SPARX Group stores and manages the following documents (including electromagnetic records; this also applies below) and related materials:
 - (i) Minutes of general meetings of shareholders;
 - (ii) Board of Directors' meeting minutes;
 - (iii) Audit and Supervisory Committee meeting minutes;
 - (iv) Other documents stipulated in the Documentation Rules and Accounting Rules.
 - (3) 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, system management failures during operations and disruptions, etc. and security incidents such as cyberattacks, the Board of Directors puts an advanced business continuity plan in place and strives to be prepared for the minimization of the damage of such emergencies and prompt restoration.

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 the Regulations on 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 Directors who are Audit and Supervisory Committee members) 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 domestic and foreign 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 and 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 Directors who are Audit and Supervisory Committee members).
 - (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 Directors who are Audit and Supervisory Committee members).
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 Directors who are Audit and Supervisory Committee members), 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 Directors who are Audit and Supervisory Committee members), 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 accounting 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 conducive 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 share buybacks

Article 165, Paragraph 2 of the Companies Act states that the Board of Directors can resolve to buy back treasury shares, 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 general meetings of shareholders

Article 309, Paragraph 2 of the Companies Act stipulates that special resolutions at general meetings of shareholders 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 meetings of shareholders by easing the quorum requirements for special resolutions.

(iv) Activities of the Board of Directors, etc.

The activities of the Board of Directors in this consolidated fiscal year are as follows.

| Meeting held | Attendees | Major agenda items |
|--------------------------------------|---------------|---|
| April 2022 | All 6 members | <ul style="list-style-type: none"> · Resolution on the establishment of Special Committee, establishment of Special Committee Rules, and amendment of related rules · Resolution on the formulation of the FY2022 compliance program and report on the program implemented in FY2021 · Resolution on the FY2022 internal audit plan · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| May 2022 (extraordinary meeting) | All 6 members | <ul style="list-style-type: none"> · Resolution on the 33rd Business Report, non-consolidated financial statements and their accompanying statements, and consolidated financial statements · Resolution on the Consolidated Financial Summary for the period ended March 31, 2022 · Resolution on the convocation of the 33rd ordinary general meeting of shareholders · Audit report by the Audit and Supervisory Committee and notification of the results of deliberations on the dismissal/re-appointment of the accounting auditors |
| May 2022 | All 6 members | <ul style="list-style-type: none"> · Resolution on the issuance of unsecured security token bonds and various contracts related to the issue of such bonds · Resolution on the correction of the Annual Securities Report · Resolution on the basic policy regarding the effectiveness of internal control related to financial reporting · Discussion of the effectiveness evaluation of the Board of Directors · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| June 2022 (extraordinary meeting) | All 8 members | <ul style="list-style-type: none"> · Resolution on the selection of the Representative Director and directors with titles · Resolution on the person entitled to convene the general meeting of shareholders and meeting of the Board of Directors and the order of substitutes · Resolution on the areas of responsibility of the directors · Resolution on compensation of directors (excluding directors who are Audit and Supervisory Committee Members) · Report on the election of the chair of the Audit and Supervisory Committee |
| June 2022 | All 8 members | <ul style="list-style-type: none"> · Resolution on the Annual Securities Report and others · Resolution on updates on the Corporate Governance Report and TCFD Report · Resolution on the partial amendment of the policy regarding decisions on the content of individual directors' compensation, etc. · Resolution on the establishment of the Sustainability Basic Policy · Resolution of the establishment of materialities · Report on the FY2022 audit plan by the Audit and Supervisory Committee · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| July 2022 | All 8 members | <ul style="list-style-type: none"> · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |

| | | |
|---|---------------|--|
| July 2022 (extraordinary meeting) | All 8 members | <ul style="list-style-type: none"> · Resolution on the establishment of new share distribution regulations to directors and setting of fiscal year targets and on the amendment of the share distribution regulations · Resolution on conclusion of trust agreements · Resolution on the disposal of treasury share through third-party allocation associated with introduction of stock-based compensation scheme · Approval of consolidated financial results for Q1 of FY2022 |
| August 2022 | All 8 members | <ul style="list-style-type: none"> · Resolution on the basic policy regarding the effectiveness of internal control pertaining to financial reporting · Resolution on the renewal of D&O/E&O/cyber insurance policies · Report on the appropriateness of the establishment and implementation status of AML/CFT position · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| September 2022 | All 8 members | <ul style="list-style-type: none"> · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| October 2022 | All 8 members | <ul style="list-style-type: none"> · Resolution on the repurchase of company shares associated with the treatment of fractions of shares less than one share resulting from the reverse stock split · Resolution on regulations amendments (annual review) · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| October 2022 (extraordinary meeting) | All 8 members | <ul style="list-style-type: none"> · Approval of consolidated financial results for Q2 of FY2022 · Resolution on the acquisition of company shares |
| November 2022 | All 8 members | <ul style="list-style-type: none"> · Resolution on investment of company funds related to new business · Approval of FY2022 auditing fees, etc. · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| December 2022 | All 8 members | <ul style="list-style-type: none"> · Resolution on basic tax policies · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| January 2023 | All 8 members | <ul style="list-style-type: none"> · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| January 2023 (extraordinary meeting) | All 8 members | <ul style="list-style-type: none"> · Approval of consolidated financial results for Q3 of FY2022 · Resolution of year-end dividend for FY2022 |
| February 2023 | All 8 members | <ul style="list-style-type: none"> · Discussion of personnel basic policy and introduction of various schemes · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |
| March 2023 | All 8 members | <ul style="list-style-type: none"> · Resolution on FY2023 budget and funding plan · Resolution on FY2022 bonus payments (officers/employees), FY2023 wage revisions (officers/employees) and recruitment plans · Resolution on proposals for the 34th ordinary general meeting of shareholders · Resolution on basic policy on human rights · Report on progress of Group business plan, Group financial results, litigation matters, and various committees |

The record of attendance of Board of Directors meetings is as follows.

| Chair | Position | Name | Gender | Attendance |
|-------|---|--------------------|--------|--------------------------|
| X | President & Representative Director and Group CEO | Shuhei Abe | Male | 17/17 meetings (100%) |
| | Representative Director, Executive Deputy President and Group COO | Masatoshi Fukami | Male | 17/17 meetings (100%) |
| | Representative Director, Senior Managing Director and Group CIO | Tadahiro Fujimura | Male | 17/17 meetings (100%) |
| | Senior Managing Director and Group CFO | Hiroshi Minematsu | Male | 14/14 meetings (100%) |
| | Outside Director, Audit and Supervisory Committee Member | Kazuyoshi Kimura | Male | 17/17 meetings (100%) |
| | Outside Director, Audit and Supervisory Committee Member | Kimikazu Noumi | Male | 17/17 meetings (100%) |
| | Outside Director, Audit and Supervisory Committee Member | Toshihiko Nakagawa | Male | 17/17 meetings (100%) |
| | Outside Director, Audit and Supervisory Committee Member | Eiko Hakoda | Female | 14/14 meetings (100%) |

Note: The Board of Directors met 17 times between April 2022 and March 2023 and 14 meetings held after the appointment of Mr. Hiroshi Minematsu and Ms. Eiko Hakoda.

Details of activities of the Audit and Supervisory Committee during this fiscal year are described in (i) Status of the Audit and Supervisory Committee under (3) Audits.

Details of activities of the Nomination and Compensation Committee can be found in “(i) Items pertaining to the policy for determining director compensation amounts and calculation methods, c. Board of Directors meetings on setting director compensation for the current fiscal year, and related committee activities” under (4) Director Compensation, etc.

(2) Director status

i) List of directors

5 male directors and 2 female directors (female ratio is 28.6% of the directorship)

| Title | Full name | Date of birth | Profile | Term of office | Number of shares held (shares) |
|--|------------|----------------------|---|----------------|--------------------------------|
| Representative Director President Group CEO Group CIO | Shuhei Abe | Born May 10, 1954 | <p>April 1981 Joined Nomura Research Institute, Ltd.</p> <p>April 1982 Transferred to Nomura Securities Co., Ltd.</p> <p>April 1985 Founded Abe Capital Research Inc. Representative Director</p> <p>June 1989 Representative Director, President of SPARX Group Co., Ltd. (current position)</p> <p>February 2005 Director of Cosmo Asset Management Co., Ltd. (currently SPARX Asset Management Korea Co., Ltd.)</p> <p>October 2006 Representative Director, President of SPARX Asset Management Co., Ltd.</p> <p>December 2008 Representative Director, Chairman of SPARX Asset Management Co., Ltd.</p> <p>June 2009 Group CIO of SPARX Group Co., Ltd.</p> <p>April 2010 CEO of SPARX Asset Management Co., Ltd. (current position)</p> <p>April 2011 Representative Director, President of SPARX Asset Management Co., Ltd. (current position) Group CEO of SPARX Group Co. Ltd. (current position)</p> <p>February 2013 Director of Cosmo Asset Management Co., Ltd. (currently SPARX Asset Management Korea Co., Ltd.)</p> <p>April 2023 Group CIO of SPARX Group Co., Ltd. (current position)</p> | Note 2 | 15,573,720 |

| Title | Full name | Date of birth | Profile | Term of office | Number of shares held (shares) |
|----------|------------------|-------------------------|--|----------------|--------------------------------|
| Director | Masatoshi Fukami | Born September 27, 1961 | <p>April 1984 Joined Nomura Securities Co., Ltd.</p> <p>November 1997 Joined SPARX Asset Management Co., Ltd. (currently SPARX Group Co., Ltd.)</p> <p>May 1998 Transferred to SPARX Securities Co., Ltd.</p> <p>June 2002 Representative Director of SPARX Securities Co., Ltd. Appointed Director (non-executive) of SPARX Asset Trust Management Co., Ltd. (currently SPARX Group Co., Ltd.)</p> <p>October 2006 Executive Officer of SPARX Group Co., Ltd.</p> <p>June 2007 Managing Director of SPARX Group Co., Ltd.</p> <p>April 2008 Director of SPARX Asset Management Co., Ltd.</p> <p>October 2008 Director at SPARX Group Co., Ltd.</p> <p>February 2009 Representative Director, President of SPARX Securities Co., Ltd.</p> <p>July 2010 Director of SPARX Asset Management Co., Ltd.</p> <p>August 2012 Representative Director of SPARX Green Energy & Technology Co., Ltd.</p> <p>February 2014 Representative Director at SPARX Asset Management Co., Ltd.</p> <p>April 2014 Representative Director, President of SPARX Asset Trust & Management Co., Ltd.</p> <p>May 2014 Director of SPARX Group Co., Ltd.</p> <p>December 2015 Representative Director, Managing Executive Officer of SPARX Asset Management Co., Ltd.</p> <p>January 2016 Group Executive Officer of SPARX Group Co., Ltd. Chairman and Director of SPARX Asset Trust & Management Co., Ltd. (current position)</p> <p>May 2016 Director of SPARX Asset Management Korea Co., Ltd.</p> <p>April 2017 Director and Chairman of SPARX Green Energy & Technology Co., Ltd.</p> <p>June 2017 Representative Director of SPARX Group Co., Ltd.</p> <p>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. Director of SPARX Green Energy & Technology Co., Ltd.</p> <p>April 2021 Group COO of SPARX Group Co., Ltd.</p> | Note 2 | 296,400 |

| | | | | | | |
|--|--|--|------------|---|--|--|
| | | | April 2022 | COO of SPARX Asset Management Co., Ltd. | | |
| | | | April 2023 | Director, SPARX Asset Management 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 | 40,000 |
| | | | 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 Nikko Asset Management Co., Ltd. | | |
| | | | January 2002 | Director and Chairman of Nikko Asset Management Co., Ltd. | | |
| | | | June 2003 | Director and Chairman of Nikko Antfactory Japan KK | | |
| | | | March 2004 | Director and Chairman of Simplex Investment Advisors, Inc. | | |
| | | | June 2005 | Director and Chairman of Nikko 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 Nikko 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. | | |
| | | | 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. | | | | | |
| September 2020 | Representative Director and President of Bic Camera Inc. | | | | | |

| | | | | | |
|--|--|--|---|--|--|
| | | | March 2023 Director, WORLD HOLDINGS 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) | Kimikazu Noumi | Born October 24, 1945 | <p>April 1969 Joined The Norinchukin Bank</p> <p>June 1999 Managing Director of The Norinchukin Bank</p> <p>June 2002 Senior Managing Director of The Norinchukin Bank</p> <p>June 2004 President & Representative Director of Norinchukin Zenkyoren Asset Management Co., Ltd.</p> <p>June 2006 Representative Director and Deputy President of Aozora Bank, Ltd.</p> <p>February 2007 Representative Director and Chairman CEO of Aozora Bank, Ltd.</p> <p>July 2009 Chairmen and CEO of Innovation Network Corporation of Japan, Ltd.</p> <p>July 2015 Advisor to J-Will Corporation, Ltd. (current position)</p> <p>March 2016 Outside Director (Audit and Supervisory Committee Member) at Wismettac Nishimoto Holdings Co., Ltd. (current position)</p> <p>June 2016 Outside Director of Konica Minolta, Inc.</p> <p>June 2017 Outside Director of SPARX Group Co., Ltd.</p> <p>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)</p> <p>June 2021 Outside Director (Audit and Supervisory Committee Member) of IR Japan Holdings, Ltd. (current position)</p> | Note 3 | — |

| Title | Full name | Date of birth | Profile | Term of office | Number of shares held (shares) |
|--|--------------------|-------------------------|--|----------------|--------------------------------|
| Director (Audit and Supervisory Committee member) | Toshihiko Nakagawa | Born September 30, 1951 | <p>April 1974 Joined Nomura Securities Co., Ltd.</p> <p>June 1997 Director of Nomura Securities Co., Ltd.</p> <p>May 2001 Managing Director of Nomura Securities Co., Ltd.</p> <p>June 2001 Advisor to Nomura Securities Co., Ltd.</p> <p>July 2001 Director, Managing Executive Officer of Aioi Insurance Co., Ltd. (currently Aioi Nissay Dowa Insurance Co., Ltd.)</p> <p>April 2008 Director, Senior Managing Executive Officer of Aioi Insurance Co., Ltd.</p> <p>October 2010 Director, Senior Managing Executive Officer of Aioi Nissay Dowa Insurance Co., Ltd.</p> <p>April 2014 Representative of Office Nakagawa K.K.</p> <p>November 2014 Advisor to Capital Partners Securities Co., Ltd.</p> <p>April 2015 Representative Director of Office Nakagawa K.K. (current position)</p> <p>June 2015 Outside Director at SPARX Group Co., Ltd.</p> <p>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)</p> | Note 3 | 20,000 |

| Title | Full name | Date of birth | Profile | Term of office | Number of shares held (shares) |
|--|-------------|-------------------|--|----------------|--------------------------------|
| Director (Audit and Supervisory Committee member) | Eiko Hakoda | Born May 25, 1957 | <p>April 1980 Joined Hamada & Matsumoto (currently Mori Hamada & Matsumoto)</p> <p>April 1990 Legal apprentice, The Legal Training and Research Institute of the Supreme Court of Japan</p> <p>April 1992 Registered as an attorney Daini Tokyo Bar Association Joined Hamada & Matsumoto (currently Mori Hamada & Matsumoto)</p> <p>January 2005 Partner of Mori Hamada & Matsumoto</p> <p>January 2016 LPC Partner of Mori Hamada & Matsumoto</p> <p>June 2019 Appointed Outside Auditor, Kito Corporation</p> <p>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)</p> <p>December 2022 Appointed Outside Auditor (Independent Officer), CMIC HOLDINGS Co., Ltd.</p> <p>January 2023 Senior Counsel, Mori, Hamada & Matsumoto (current position)</p> | Note 3 | — |

| Title | Full name | Date of birth | Profile | Term of office | Number of shares held (shares) |
|--|-----------------|----------------------|--|----------------|--------------------------------|
| Director (Audit and Supervisory Committee member) | Kimie Morishita | Born August 18, 1967 | <p>April 1993 Joined Dentsu Inc. September 2001 Joined McKinsey & Company Japan May 2003 Joined Dentsu Inc. October 2016 Director of CEO Office, Dentsu Aegis Network China (Chinese Group) Appointed Director of CEO office</p> <p>July 2018 General Manager, Dentsu Innovation Initiative – innovation intelligence, Dentsu Inc.</p> <p>March 2019 Global Business Center Head of network development and General Manager of Network Solutions Division, Dentsu Inc.</p> <p>April 2019 Director, Dentsu isobar Inc. Director, Carat Japan K.K. Director, iProspect Japan K.K. Director, Vizeum Japan K.K.</p> <p>January 2020 Director, Dentsu X Japan Inc.</p> <p>June 2021 Executive Officer, Ryohin Keikaku Co., Ltd.</p> <p>June 2022 Director, Japan-United States Educational Exchange Promotion Foundation (current position)</p> <p>April 2023 Advisor, Asahi Soft Drinks Co., Ltd. (current position)</p> <p>June 2023 Outside Director (Audit and Supervisory Committee member) at SPARX Group Co., Ltd. (current position) Corporate Auditor of SPARX Asset Management Co., Ltd. (current position)</p> | Note 4 | — |
| Total | | | | | 15,930,120 |

Notes:

1. Mr. Kazuyoshi Kimura, Mr. Kimikazu Noumi, Mr. Toshihiko Nakagawa, Ms. Eiko Hakoda and Ms. Kimie Morishita are all outside directors.
2. One year from the close of the Ordinary General Meeting of Shareholders held on June 9, 2023.
3. Two years from the close of the Ordinary General Meeting of Shareholders held on June 10, 2022.
4. Two years from the close of the Ordinary General Meeting of Shareholders held on June 9, 2023.

(ii) Outside Director Status

All five 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 an attorney at our corporate counsel law firm.

The Company appointed Kimie Morishita as an outside director and member of the Audit and Supervisory Committee to take advantage of her extensive marketing experience and management experience in the advertising industry in Japan and abroad and her broad-based expertise grounded in her experience as management in other industries 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 Ms. Morishita, 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 Ms. Morishita as an independent officer.

(iii) 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 five of our outside directors are members of the Audit and Supervisory Committee, and the Audit and Supervisory Committee is comprised of these five 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

(i) 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 five 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 Audit and Supervisory Committee regularly checks the status of operation of internal control systems and holds discussions with the officers in charge of the internal control systems. Additionally, in its regular discussions with the auditing firm, it receives explanations from the auditing firm about the results of the specialized and objective accounting audit and audits of internal controls and shares those results.

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 |
| Eiko Hakoda | 14 times | 14 times |

Note: The Audit and Supervisory Committee met 17 times between April 2022 and March 2023 and 14 times after the appointment of Ms. Eiko Hakoda.

The schedule and discussions of the Audit and Supervisory Committee meetings held during this fiscal year are as follows.

| Meeting held | Attendees | Major agenda items |
|----------------------------------|---------------|---|
| April 2022 | All 3 members | <ul style="list-style-type: none">· Discussion of the Audit and Supervisory Committee audit report at the ordinary general meeting of shareholders· Discussion of key audit matters (KAM) |
| May 2022 (extraordinary meeting) | All 3 members | <ul style="list-style-type: none">· Discussion of the full-year business results review with the auditing firm· Resolution on the Audit and Supervisory Committee audit report to the ordinary general meeting of shareholders· Resolution on the re-appointment or dismissal/selection of accounting auditors at the general meeting of shareholders· Discussion of proposals to be put to the ordinary general meeting of shareholders and related documents |
| May 2022 | All 3 members | <ul style="list-style-type: none">· Discussion of the report of the Group Risk Management Committee· Discussion of the report of the Compliance Committee· Discussion of the evaluation of effectiveness of internal control (JSOX) pertaining to the FY2021 financial statements· Discussion of the FY2022 internal audit plan· Discussion of the amendment of the Whistleblower Protection Act (enforced on June 1, 2022) |

| | | |
|---|---------------|--|
| June 2022 (extraordinary meeting) | All 4 members | <ul style="list-style-type: none"> · Resolution on the election of Audit and Supervisory Committee Chairman and chair of proceedings · Approval of Audit and Supervisory Committee Members' compensation |
| June 2022 | All 4 members | <ul style="list-style-type: none"> · Resolution on the FY2022 Audit and Supervisory Committee audit plan · Resolution on the allocation of audit duties and audit schedule |
| July 2022 | All 4 members | <ul style="list-style-type: none"> · Discussion of overview of general meetings of shareholders of other companies held in June 2022 · Discussion of system security |
| July 2022 (extraordinary meeting) | All 4 members | <ul style="list-style-type: none"> · Discussion with the auditing firm on the Q1 financial results · Discussion of the Q1 Summary of Financial Results · Discussion with the auditing firm on the auditing firm's FY2022 audit plan · Discussion of the disposal of treasury share through third-party allotment associated with the introduction of a share remuneration scheme |
| August 2022 | All 4 members | <ul style="list-style-type: none"> · Discussion of the basic policy on internal control (JSOX) pertaining to the FY2021 financial report · Discussion of the report of the Group Risk Management Committee · Discussion of the report of the Compliance Committee |
| September 2022 | All 4 members | <ul style="list-style-type: none"> · Exchange of opinions between the Audit and Supervisory Committee Members and the President (about management and personnel succession) |
| October 2022 | All 4 members | <ul style="list-style-type: none"> · Exchange of opinions between the Audit and Supervisory Committee Members and the Deputy President (about business development) |
| October 2022 (extraordinary meeting) | All 4 members | <ul style="list-style-type: none"> · Discussion with the auditing firm on the Q2 financial results · Discussion of the Q2 Summary of Financial Results |
| November 2022 | All 4 members | <ul style="list-style-type: none"> · Consent and approval of FY2022 auditing fee for the auditing firm · Discussion of the report of the Group Risk Management Committee · Discussion of the report of the Compliance Committee |
| December 2022 | All 4 members | <ul style="list-style-type: none"> · Exchange of opinions between the Audit and Supervisory Committee Members and the President (about management and personnel succession) · Discussion of the FY2022 internal audit report · Overview of Group business |
| January 2023 | All 4 members | <ul style="list-style-type: none"> · Exchange of opinions between the Audit and Supervisory Committee Members and the Senior Managing Director (about disclosure of non-financial information, management of subsidiaries, etc.) · Consent and approval on the provision of unguaranteed work by the auditing firm |
| January 2023 (extraordinary meeting) | All 4 members | <ul style="list-style-type: none"> · Discussion with the auditing firm on the Q3 financial results · Discussion of the Q3 Summary of Financial Results |
| February 2023 | All 4 members | <ul style="list-style-type: none"> · Discussion of the report of the Group Risk Management Committee · Discussion of the report of the Compliance Committee · Discussion of the threat of cyber attacks and security measures |

| | | |
|------------|---------------|--|
| March 2023 | All 4 members | <ul style="list-style-type: none"> · Exchange of opinions between the Audit and Supervisory Committee Members and the President (about management and personnel succession) · Discussion of inquiries about matters relating to the execution of duties by the accounting auditors · Discussion of the Audit and Supervisory Committee audit report at the ordinary general meeting of shareholders |
|------------|---------------|--|

* Reports and discussions regarding the overview of Group business and confirmation of the state of development and operation of internal control systems take place at each monthly meeting of the Audit and Supervisory Committee.

(ii) Internal audit status

(Internal audits in the Company)

· Internal audit organization, personnel, and procedures

Internal audits are led by the Internal Audit Office. Directly attached to the Board of Directors and independent from the organization, the Internal Auditing Office is run by the general manager and one other staff member.

Based on the annual auditing plan approved by the Board of Directors, the internal audits include audits of operations and examination of the effectiveness of internal controls. Their findings are reported to management by way of internal audit reports that are prepared without delay and submitted to the Board of Directors.

The Internal Audit Office also conducts follow-up audits of the state of improvements to matters pointed out in the internal audits conducted during the fiscal year and reports its findings to the Board of Directors.

· Collaboration between the internal audits, audits by the Audit and Supervisory Committee, and the accounting audits and their relationship with the internal control division

The Internal Audit Office examines the state of operations and issues concerning the execution of business, reports the findings of internal audits to the Board of Directors and Audit and Supervisory Committee, and discusses and shares information with the internal control division.

The Internal Audit Office, together with the Audit and Supervisory Committee, receives explanations from the auditing firm about specialized and objective accounting audits and the findings of audits of internal controls and shares information with them.

· Initiatives to secure the effectiveness of internal audits

The appointment and dismissal of the general manager of the internal Audit Office are conducted with the approval of the Board of Directors. Further, the findings of audits by the Internal Audit Office are reported directly not only to the Representative Director but also to the Board of Directors and the Audit and Supervisory Committee. Systems are put in place to secure independence from business execution and ensure that objectivity in the conducting of audits will not be violated.

As the Internal Audit Office's audits cover the entire SPARX Group, including the Company, it conducts internal audits of diverse and wide-ranging businesses and operations, including the overseas subsidiaries and real asset management. For this reason, it has occasion to conduct in-depth audits in collaboration with external experts.

(iii) External audit status

a. Auditing firm name

Ernest & Young ShinNihon LLC

b. Term of continuous auditing

12 years

c. Certified public accountants who carried out the work

Yuichiro Sakurai
Katsuya Ichikawa

d. Team of assistants involved in the audits

7 CPAs and 16 other staff members.

e. Policies and reasons for selecting auditing firms

1) Policies for deciding to fire or not re-hire an accounting auditor

When the Audit and Supervisory Committee has judged there to be a need, such as when there is a problem in the accounting 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 accounting auditor.

In addition, if the accounting 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 accounting 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 accounting 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 accounting 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.

(vi) 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 | 10 | 6 | 18 |
| Total | 31 | 10 | 32 | 18 |

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 | 23 | 0 |
| Total | 19 | 0 | 23 | 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

There are no relevant matters.

d. Policy for determining auditing fees

There are no relevant matters, 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 accounting auditor's fees

The Audit and Supervisory Committee agreed to the accounting auditor's fee amounts as a result of getting the required materials and receiving reports from the directors and the accounting 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.

(i) 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: (i) a base salary, (ii) short-term performance bonuses, and (iii) 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 (ii) short-term and (iii) medium- to long-term performance-based compensation is weighted more heavily than (i) 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, taking reference from 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 directors who are also Audit and Supervisory Committee Members and the outside directors; limited to within 5 persons pursuant to Article 18, Paragraph 1 of the Articles of Incorporation) at JPY 1.5 billion per year (excluding employee wages). Separately from this maximum compensation amount, at the 33rd ordinary general meeting of shareholders held on June 10, 2022, the Company passed its resolution to set the maximum amount of compensation under the performance-based stock compensation plan at JPY1.8 billion for four fiscal years from the fiscal year ended March 31, 2023 to the fiscal year ending March 31, 2026.

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

1. 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 SPARX Group directors (excluding Directors who are Audit and Supervisory Committee members) 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 their overall duties to the Group. SPARX Group, as the holding company, pays the base salary mentioned above, then the Group subsidiaries subtract this base salary from the set total compensation and pay the remainder as the base salary for each director's concurrent role at a Group subsidiary. The base salary is paid in monetary form each month in 12 equal portions.

2. Short-term performance-based compensation (performance bonuses)

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 (excluding Directors who are Audit and Supervisory Committee members).

Next, the Company conducts qualitative and quantitative evaluations for each director (excluding Directors who are Audit and Supervisory Committee members), 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, the Company will determine the total performance bonus for each director (excluding Directors who are Audit and Supervisory Committee members) and pay these bonuses through the Group subsidiaries at which each director also serves. These bonuses are paid in a monetary form at the beginning of the subsequent fiscal year.

3. (Medium- to long-term) performance-based stock compensation

To further encourage a commitment to the medium- to long-term growth of SPARX Group and bring to clarify the link between directors' compensation, the performance of the business and the company's share value, we have introduced a stock compensation system for our directors to be rewarded according to the degree of their achievement of the medium- to long-term targets and their personal goals. The Nomination and Compensation Committee, which is a voluntary advisory committee to the Board of Directors, discusses the medium- to long-term targets for remuneration and reviews the stock grant matrix, which differs according to a person's position. The Board of Directors will respectfully review and consider the advice proposed by the committee before deciding the final grant allocations.

The Company believes that stock compensation is consistent and in line with medium- to long-term interests of shareholders and other stakeholders. A point system has been created to determine the number of shares to be granted to each director. Points are calculated at the end of the consolidated fiscal year in accordance with the stock grant matrix. Shares are required to be held for a three-year period once issued. Furthermore, during the holding period, if a director has violated any compliance or other matters stipulated in the Group's various regulations, or if the director is dismissed from the Board of Directors, the Company will not grant shares.

Because the current CEO 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 been registered with the Tokyo Stock Exchange, Inc. as independent officers. Specifically, an outside director serves as committee Chair, and the CEO 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 |
|---------------|-------------------------|---|
| June 2022 | 4 members (1 absent) | <ul style="list-style-type: none"> . Partial amendments to the Nomination and Compensation Committee Rules . Election of Committee Chair . Establishment of Rules for Directors’ Compensation . “Basic Policy for Compensation” . The matrix for granting points for medium- to long-term stock compensation (ESOP) in the new fiscal year |
| July 2022 | 4 members (1 absent) | <ul style="list-style-type: none"> . The matrix for granting points for medium- to long-term stock compensation (ESOP) in the new fiscal year . Disposal of company shares by third-party allocation associated with introduction of stock-based compensation scheme for directors |
| October 2022 | All 5 members | <ul style="list-style-type: none"> . Confirmation of personal goals of directors and executive officers . Board succession . Structure in next fiscal year |
| January 2023 | All 5 members | <ul style="list-style-type: none"> . The process for determining bonuses . Methods of calculation and current proposals for source of funds for bonuses . Officers’ fiscal year goals . Committee’s involvement in evaluation of individuals for ESOP |
| February 2023 | All 5 members | <ul style="list-style-type: none"> . Source of funding of bonuses . Officer evaluation and short-term performance-based compensation (bonuses) . Medium-term performance-based compensation (ESOP) . Management structure in new fiscal year . Fixed compensation for individual directors |

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.

(ii) 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, etc. | Severance pay | Non-monetary comp. portion of amts at left | |
| Non-Audit and Supervisory Committee internal directors | 36 | 36 | 0 | – | – | 4 |
| Audit and Supervisory Committee members excluding outside directors | – | – | – | – | – | – |
| Outside directors | 31 | 31 | – | – | – | 4 |

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 ¥197 million yen, of which ¥92 million yen was base salary and ¥105 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 ¥5 million yen, of which the entire amount was base salary.
3. The above amounts do not include employee portions of compensation for directors who also serve as employees.

(iii) Details for those with total consolidated compensation over ¥100 million

There are no relevant matters.

(iv) Important portions of employee salaries for employees also serving as directors

There are no relevant matters.

(5) Status of shareholdings

(i) 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).

(ii) Shares for investment held for purposes other than pure investment

There are no relevant matters.

(iii) 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 | 728 | 9 | 722 |
| Other shares | 1 | 39 | 1 | 38 |

| Classification | Current fiscal year | | |
|-----------------|---------------------------------------|---------------------------------------|---|
| | Total dividends received (¥ millions) | Total profits and losses (¥ millions) | Total appraisal profit or loss (¥ millions) |
| Unlisted shares | - | - | - (38) |
| Other shares | 2 | - | -10 |

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

(iv) Change this fiscal year from purposes of pure investment in the aim of holding investment shares, to purposes outside of pure investment

There are no relevant matters.

(v) Change this fiscal year from purposes outside of pure investment in the aim of holding investment shares, to purposes of pure investment

There are no relevant matters.

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 FY2022 (April 1, 2022 – March 31, 2023) 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, etc.

(1) Consolidated Financial Statements

1) Consolidated Balance Sheets

(Unit: million yen)

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 19,199 | 22,028 |
| Prepaid expenses | 245 | 262 |
| Accounts receivable – other | 971 | 949 |
| Income taxes refund receivable | 22 | 814 |
| Accrued investment trust management fees | 1,048 | 918 |
| Accrued investment advisory fees | 965 | 1,334 |
| Deposits paid | 203 | 203 |
| Other | 67 | 83 |
| Total current assets | 22,723 | 26,594 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | *1 61 | *1 168 |
| Tools, furniture and fixtures, net | *1 90 | *1 99 |
| Machinery and equipment, net | *1 421 | *1 386 |
| Vehicles, net | *1 0 | *1 0 |
| Land | 74 | 206 |
| Leased assets, net | *1 140 | *1 98 |
| Construction in progress | – | 20 |
| Total property, plant and equipment | 789 | 981 |
| Intangible assets | | |
| Software | 9 | 15 |
| Leasehold interests in land | – | 4 |
| Total intangible assets | 9 | 19 |
| Investments and other assets | | |
| Investment securities | *2 12,155 | *2 10,437 |
| Long-term loans receivable | 910 | 810 |
| Guarantee deposits | 74 | 75 |
| Long-term prepaid expenses | 86 | 117 |
| Retirement benefit asset | 18 | 20 |
| Deferred tax assets | 373 | 327 |
| Total investments and other assets | 13,619 | 11,788 |
| Total non-current assets | 14,418 | 12,788 |
| Total assets | 37,141 | 39,382 |

(Unit: million yen)

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|---|----------------------------|----------------------------|
| Liabilities | | |
| Current liabilities | | |
| Short-term borrowings | 2,000 | 2,000 |
| Current portion of long-term borrowings | – | 2,000 |
| Current portion of bonds payable | – | 343 |
| Unpaid commission | 184 | 158 |
| Accounts payable – other | 1,526 | 1,334 |
| Income taxes payable | 438 | 955 |
| Deposits received | 82 | 136 |
| Provision for share awards | 57 | 90 |
| Provision for long-term incentives | 13 | 2 |
| Provision for share awards for directors (and other officers) | – | 18 |
| Other | 268 | 300 |
| Total current liabilities | 4,571 | 7,340 |
| Non-current liabilities | | |
| Long-term borrowings | 7,000 | 5,000 |
| Provision for share awards | 434 | 389 |
| Provision for long-term incentives | 123 | 10 |
| Provision for share awards for directors (and other officers) | – | 95 |
| Deferred tax liabilities | 454 | 212 |
| Other | 232 | 286 |
| Total non-current liabilities | 8,245 | 5,995 |
| Reserve under special laws | | |
| Reserve for financial instruments transaction liabilities | *3 0 | *3 0 |
| Total reserves under special laws | 0 | 0 |
| Total liabilities | 12,816 | 13,335 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 8,587 | 8,587 |
| Capital surplus | 2,555 | 2,252 |
| Retained earnings | 14,787 | 16,886 |
| Treasury shares | (3,685) | (3,634) |
| Total shareholders' equity | 22,244 | 24,091 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 889 | 708 |
| Foreign currency translation adjustment | 1,188 | 1,245 |
| Remeasurements of defined benefit plans | 0 | 0 |
| Total accumulated other comprehensive income | 2,079 | 1,955 |
| Non-controlling interests | 0 | 0 |
| Total net assets | 24,324 | 26,047 |
| Total liabilities and net assets | 37,141 | 39,382 |

2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Unit: million yen)

| | FY2021 (April 1, 2021 - March 31, 2022) | FY2022 (April 1, 2022 - March 31, 2023) |
|---|---|---|
| Operating revenue | | |
| Investment trust management fee | 5,922 | 5,397 |
| Investment advisory fee | 7,188 | 7,263 |
| Other operating revenue | 932 | 699 |
| Total operating revenue | 14,043 | 13,360 |
| Operating and general administrative expenses | * 7,578 | * 7,656 |
| Operating profit | 6,464 | 5,704 |
| Non-operating income | | |
| Interest income | 23 | 57 |
| Dividend income | 4 | 2 |
| Foreign exchange gains | 55 | 62 |
| Gain on investments in investment partnerships | – | 509 |
| Share of profit of entities accounted for using equity method | – | 20 |
| Subsidy income | 18 | – |
| Miscellaneous income | 15 | 33 |
| Total non-operating income | 118 | 685 |
| Non-operating expenses | | |
| Interest expenses | 65 | 73 |
| Bond issuance costs | – | 19 |
| Commissions paid | 2 | 4 |
| Loss on investments in investment partnerships | 160 | – |
| Share of loss of entities accounted for using equity method | 101 | – |
| Miscellaneous losses | 11 | 2 |
| Total non-operating expenses | 341 | 100 |
| Ordinary profit | 6,241 | 6,289 |
| Extraordinary income | | |
| Gain on sale of investment securities | 663 | 388 |
| Total extraordinary income | 663 | 388 |
| Extraordinary losses | | |
| Loss on sale of investment securities | – | 11 |
| Loss on valuation of investment securities | 560 | 38 |
| Total extraordinary losses | 560 | 50 |
| Profit before income taxes | 6,345 | 6,627 |
| Income taxes – current | 2,211 | 2,168 |
| Income taxes – deferred | 62 | (61) |
| Total income taxes | 2,274 | 2,106 |
| Profit | 4,070 | 4,521 |
| Profit attributable to non-controlling interests | – | – |
| Profit attributable to owners of parent | 4,070 | 4,521 |

Consolidated Statements of Comprehensive Income

(Unit: million yen)

| | FY2021 (April 1, 2021 - March 31, 2022) | FY2022 (April 1, 2022 - March 31, 2023) |
|--|---|---|
| Profit | 4,070 | 4,521 |
| Other comprehensive income: | | |
| Valuation difference on available-for-sale securities | (626) | (181) |
| Foreign currency translation adjustment | 140 | 57 |
| Remeasurements of defined benefit plans, net of tax | (1) | (0) |
| Total other comprehensive income | * (487) | * (124) |
| Comprehensive income | 3,583 | 4,396 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of parent | 3,583 | 4,396 |
| Comprehensive income attributable to non-controlling interests | - | - |

3) Consolidated Statements of Changes in Equity

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

(Unit: 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 shareholders' 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 assets |
|--|---|---|---|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of 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 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 shareholders' equity | (626) | 140 | (1) | (487) | | (487) |
| Total changes during period | (626) | 140 | (1) | (487) | – | 1,216 |
| Balance at end of period | 889 | 1,188 | 0 | 2,079 | 0 | 24,324 |

FY2022 (April 1, 2022 – March 31, 2023)

(Unit: million yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 8,587 | 2,555 | 14,787 | (3,685) | 22,244 |
| Changes during period | | | | | |
| Dividends of surplus | | | (2,422) | | (2,422) |
| Profit attributable to owners of parent | | | 4,521 | | 4,521 |
| Purchase of treasury shares | | | | (1,154) | (1,154) |
| Disposal of treasury shares | | (302) | | 1,148 | 845 |
| Disposal of treasury shares by ESOP Trust | | | | 57 | 57 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | – | (302) | 2,098 | 51 | 1,846 |
| Balance at end of period | 8,587 | 2,252 | 16,886 | (3,634) | 24,091 |

| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
|--|---|---|---|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 889 | 1,188 | 0 | 2,079 | 0 | 24,324 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (2,422) |
| Profit attributable to owners of parent | | | | | | 4,521 |
| Purchase of treasury shares | | | | | | (1,154) |
| Disposal of treasury shares | | | | | | 845 |
| Disposal of treasury shares by ESOP Trust | | | | | | 57 |
| Net changes in items other than shareholders' equity | (181) | 57 | (0) | (124) | | (124) |
| Total changes during period | (181) | 57 | (0) | (124) | – | 1,722 |
| Balance at end of period | 708 | 1,245 | 0 | 1,955 | 0 | 26,047 |

4) Consolidated Statements of Cash Flows

(Unit: million yen)

| | FY2021 (April 1, 2021 - March 31, 2022) | FY2022 (April 1, 2022 - March 31, 2023) |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 6,345 | 6,627 |
| Depreciation | 195 | 180 |
| Increase (decrease) in provision for share awards | 128 | 45 |
| Increase (decrease) in provision for long-term incentives | (83) | (123) |
| Increase (decrease) in provision for share awards for directors (and other officers) | - | 114 |
| Interest and dividend income | (28) | (59) |
| Interest expenses | 65 | 73 |
| Commission expensed | 2 | 4 |
| Foreign exchange losses (gains) | (128) | (24) |
| Share of loss (profit) of entities accounted for using equity method | 101 | (20) |
| Loss (gain) on sales of short-term and long-term investment securities | (663) | (376) |
| Loss (gain) on valuation of short-term and long-term investment securities | 560 | 38 |
| Loss (gain) on investments in investment partnerships | 160 | (509) |
| Decrease (increase) in accounts receivable – other | 235 | 11 |
| Decrease (increase) in accrued investment trust management fees and investment advisory fees | (60) | (236) |
| Increase (decrease) in accounts payable – other, and accrued expenses | (54) | (229) |
| Increase (decrease) in deposits received | (76) | 53 |
| Others, net | (373) | 50 |
| Subtotal | 6,325 | 5,620 |
| Interest and dividends received | 28 | 45 |
| Interest paid | (65) | (64) |
| Income taxes refund (paid) | (3,627) | (2,495) |
| Net cash provided by (used in) operating activities | 2,661 | 3,105 |
| Cash flows from investing activities | | |
| Decrease (increase) in short-term loans receivable | 100 | 100 |
| Decrease (increase) in non-current assets | (9) | (304) |
| Purchase of investment securities | (4,074) | (1,183) |
| Proceeds from sale and redemption of investment securities | 2,571 | 2,254 |
| Proceeds from withdrawal of investments in investment partnerships, etc. | 75 | 17 |
| Proceeds from distributions from investment partnerships | 214 | 1,184 |
| Others, net | (57) | (65) |
| Net cash provided by (used in) investing activities | (1,180) | 2,001 |

(Unit: million yen)

| | FY2021 (April 1, 2021 - March 31, 2022) | FY2022 (April 1, 2022 - March 31, 2023) |
|---|---|---|
| Cash flows from financing activities | | |
| Proceeds from issuance of bonds | – | 980 |
| Redemption of bonds | – | (656) |
| Dividends paid | (2,228) | (2,419) |
| Purchase of treasury shares | (252) | (1,158) |
| Proceeds from disposal of treasury shares | – | 845 |
| Others, net | (0) | (0) |
| Net cash provided by (used in) financing activities | (2,480) | (2,408) |
| Effect of exchange rate change on cash and cash equivalents | 264 | 130 |
| Net increase (decrease) in cash and cash equivalents | (735) | 2,828 |
| Cash and cash equivalents at beginning of period | 19,935 | 19,199 |
| Cash and cash equivalents at end of period | * 19,199 | * 22,028 |

Notes to Consolidated Financial Statements

(Significant matters that form the basis for preparation of consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 12

Names of consolidated subsidiaries

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 Innovation for Future Co., Ltd.
+ 3 others

SPARX Capital Investments, Inc. has been excluded from the scope of consolidation due to the completion of its liquidation in FY2022.

(2) Names, etc. of non-consolidated subsidiaries

SPARX Global Investments (Myanmar) Co., Ltd.
SPARX Bio fuel Co., Ltd.

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

2. Application of equity method

(1) Number and names of associates accounted for by the equity method

Number of associates accounted for by the equity method: 2

Names of associates accounted for by the equity method

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

(2) Names of non-consolidated subsidiaries not accounted for by the 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 in scale, and, judging from their profit (amount prorated to ownership) and retained earnings (amount prorated to ownership), etc. in FY2022, even when excluded from the application of the equity method, their impact on the consolidated financial statements is negligible, and they have no significance.

3. Fiscal years, etc. of consolidated subsidiaries

The fiscal year ends on December 31 for four subsidiaries, including SPARX Asia Capital Management Limited, on September 30 for SPARX Overseas, Ltd., and on November 30 for one other company.

The financial statements and other documents used for the company closing on November 30 are based on provisional reporting conducted at the end of February. However, adjustments necessary for consolidation are made for material transactions that occurred between that closing date and the consolidated closing date.

The financial statements and other documents used for the companies closing on December 31 and September 30 are based on 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. Accounting policies

(1) Basis and method for valuation of important assets

A. Marketable securities

Available-for-sale securities

Securities other than shares, etc. without market prices

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).

Shares, etc. without market prices

Cost accounting is performed mainly by the weighted average method.

(Investments in investment partnerships, etc.)

Investments in investment limited partnerships and similar partnerships (considered as marketable securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are stated by recognizing the net amount commensurate with the Company's equity interest in the partnership, based on the most recent financial statements available as of 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. Property, plant and equipment (excluding leased assets)

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

However, the straight-line method is used for property, plant and equipment acquired on or after April 1, 2016.

The useful lives for main categories are as follows:

| | |
|-------------------------------|-------------|
| Buildings | 3–20 years |
| Tools, furniture and fixtures | 3–10 years |
| Machinery and equipment | 17–22 years |
| Vehicles | 6 years |

B. Intangible assets (excluding leased assets)

Software (for internal use) is amortized by the straight-line method over the estimated useful life (normally five years).

C. Leased assets

Leased assets regarding finance lease transactions that do not transfer ownership

The straight-line method is used, assuming the lease period as the useful life, with the residual value equaling zero.

(3) Accounting standards for significant allowances and provisions

A. Provision for share awards

Provided in the estimated amount of share award obligations as of the end of the current fiscal year in preparation for payment of shares of the Company to employees pursuant to its share distribution regulations.

B. Provision for long-term incentives

Provided in the estimated amount of payment obligations as of the end of the current fiscal year in preparation for payment of incentive rewards to directors and other officers of domestic subsidiaries.

C. Provision for share awards for directors (and other officers)

Provided in the estimated amount of share award obligations as of the end of the current fiscal year, in preparation for payment of shares of the Company to its officers pursuant to its officers' share distribution regulations.

(4) Accounting for retirement benefits

Retirement benefit liability is recorded in the estimated amount of retirement benefit payment obligations after deduction of pension assets as of the end of the current fiscal year in preparation for payment of retirement benefits to officers and employees at some overseas subsidiaries. As pension assets exceed retirement benefit payment obligations, they are presented as retirement benefit asset in the consolidated balance sheets.

Unrecognized gains and losses that have not been expensed in actuarial differences are included in remeasurements of defined benefit plans under accumulated other comprehensive income in net assets.

(5) Accounting standards for significant revenues and expenses

A. Management fees

Management fees are received as compensation for contractual obligations to manage and operate funds operated by the Company, 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 over 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)

Similar to management fees, performance fees (equity management) 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)

Performance fees (acquisition fees) are recognized for revenue recording purposes as performance obligations for the Company's support required to execute silent 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 the sale of equity in silent partnerships with a limited liability company in which a renewable energy fund invests)

These performance fees are received as compensation for a certain percentage of gain on the sale of equity in silent partnerships that exceed performance targets for renewable energy funds managed by the Company. 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-denominated monetary receivables and payables are translated into Japanese yen at the spot exchange rate prevailing on the consolidated closing date, and differences arising from the translation are recognized as gains or losses. Assets and liabilities of overseas subsidiaries and associates are translated into Japanese yen at the spot exchange rate prevailing on the consolidated closing date, and their revenue and expenses at the average exchange rate during the period, with the differences arising from the translation included in foreign currency translation adjustment under net assets.

(7) Significant hedge accounting methods

A. Hedge accounting method

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

B. Hedging instruments and hedged items

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

Hedging instrumentsInterest rate swapping
Hedged itemsInterest on borrowings

C. Hedging policy

Hedging against interest rate fluctuation risks is carried out, based mainly on the Company's internal Derivatives Management Regulations.

D. Method for evaluation of hedging effectiveness

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

(8) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, readily withdrawable deposits, and readily convertible fixed term deposits that have no risk of fluctuations in value.

(9) Other important matters for the preparation of the consolidated financial statements

There are no relevant matters.

(Significant accounting estimates)

There are no relevant matters.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter “Fair Value Measurement Guidance”) from the beginning of the current fiscal year and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Guidance. Accordingly, the fair value of investment trusts, etc. will be measured using net asset value, etc. on the date of fair value measurement.

(Unapplied accounting standards, etc.)

- “Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, October 28, 2022)
- “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, October 28, 2022)
- “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022)

(1) Summary

ASBJ Statement No. 28 “Partial Amendments to Accounting Standard for Tax Effect Accounting” and others (hereinafter, “ASBJ Statement No. 28, etc.”) was published in February 2018, and the transfer of practical guidelines concerning tax effect accounting by the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan was completed. However, in the process of those deliberations, it was decided that the following two issues would be further studied after the publication of ASBJ Statement No. 28, etc. These standards, etc. have been deliberated and published.

- Categories for recording of tax expenses (taxation on other comprehensive income)
- Tax effect on the sale of shares of subsidiaries or associates if a group taxation regime is applied

(2) Planned application date

From the start of FY2024.

(3) Impact of applying these accounting standards, etc.

The impact that the application of the “Accounting Standard for Current Income Taxes,” etc. will have on the consolidated financial statements is currently being evaluated.

(Changes in presentation)

There are no relevant matters.

(Additional information)

(Stock-granting ESOP trust)

The Company has introduced a stock-granting ESOP trust program (hereinafter the “Program”) for Group employees (employees of the Company and 5 of its 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 subsidiaries”), with the objective of enhancing the medium- to long-term corporate value by increasing their motivation toward the improvement of business performance and share value gain. The Company accounts for the trust according to the guidance in the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015).

1) Transaction summary

The Program is an arrangement for issuing shares of the Company to Group employees who meet certain conditions, based on share distribution regulations predetermined by the Group subsidiaries. The Group subsidiaries will grant points to employees based on the Group’s performance and employees’ individual contributions and award shares corresponding to the granted points to employees who are eligible to receive benefits under certain conditions. The shares to be awarded, including future awards, will be acquired, using money in a previously established trust fund and separately managed as a trust asset.

As Group employees are able to receive an economic benefit from increases in the Company’s share price, it may be expected that the introduction of the Program will encourage them to perform their duties with an awareness of the share price and raise their motivation toward their work. Furthermore, the exercise of voting rights pertaining to the Company’s shares held in the ESOP trust is a mechanism that reflects the will of Group employees as potential beneficiaries and is effective as a corporate value improvement plan that promotes their participation in management.

2) The Company’s shares remaining in the trust

The Company’s shares remaining in the trust are recorded as treasury shares under net assets, based on the book value in the trust (excluding associated expenses). The book value and number of the relevant treasury shares were 527 million yen and 493,380 shares in FY2021 and 470 million yen and 439,820 shares in FY2022, respectively. The number of shares in FY2021 is stated as the number of shares after the reverse stock split.

(ESOP trust for directors)

The Company has introduced a performance-linked share remuneration scheme using a trust for its Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors; hereinafter “Directors”).

1) Summary of scheme

This scheme is a share remuneration scheme in which a trust established through a monetary contribution by the Company acquires shares of the Company, and the number of shares corresponding to the number of points granted to individual Directors by the Company is delivered to the individual Directors through the trust.

The delivery of the Company’s shares under this scheme will be made to Directors of the Company who are in office during the four fiscal years from the fiscal year ended March 31, 2023 to the fiscal year ending March 31, 2026. In principle, the Directors will take delivery of the Company’s shares three years after the granting of points.

The objective of the introduction of this scheme is to raise awareness of contributing to the medium- to long-term improvement of business performance and increase of corporate value by clarifying the link between Directors’ remuneration and the Company’s business performance and share value and by the Directors’ sharing the benefits and risks of share price fluctuations with shareholders.

2) The Company’s shares remaining in the trust

The Company’s shares remaining in the trust are recorded as treasury shares under net assets, based on the book value in the trust (excluding associated expenses). The book value and number of the relevant treasury shares were 845 million yen and 560,000 shares at the end of FY2022.

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

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

Although the prospects for the future spread and timing for containment of the pandemic are uncertain, the Company believes that the spread of COVID-19 will not significantly impact current accounting estimates.

(Notes to consolidated balance sheets)

*1 Accumulated depreciation of property, plant and equipment

Unit: million yen

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|-------------------------------|----------------------------|----------------------------|
| Buildings and structures | 320 | 351 |
| Tools, furniture and fixtures | 371 | 404 |
| Machinery and equipment | 189 | 225 |
| Vehicles | 6 | 6 |
| Leased assets | 129 | 187 |

*2 Investment securities related to non-consolidated subsidiaries and associates

Unit: million yen

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|--------------------------------------|----------------------------|----------------------------|
| Investment securities (shares, etc.) | 283 | 303 |

*3 Clauses of laws and regulations that prescribe recording of reserves under special laws

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

(Notes to consolidated statements of income)

* Major components of operating and general administrative expenses and their amounts

Unit: million yen

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|--|---|---|
| Commissions paid | 1,672 | 1,671 |
| Salaries and bonuses | 3,084 | 3,034 |
| Provision for share awards | 128 | 41 |
| Provision for long-term incentives | (8) | (8) |
| Provision for share awards for directors (and other officers) | – | 13 |

(Notes to consolidated statements of comprehensive income)

* Reclassification adjustments and tax effects related to other comprehensive income

Unit: million yen

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|--|---|---|
| Valuation difference on available-for- sale securities: | | |
| Amount incurred during period | (53) | 62 |
| Reclassification adjustments | (791) | (376) |
| Before tax effect adjustment | (845) | (314) |
| Tax effect | 218 | 132 |
| Valuation difference on available- for-sale securities | (626) | (181) |
| Foreign currency translation adjustment: | | |
| Amount incurred during period | 140 | 57 |
| Remeasurements of defined benefit plans: | | |
| Amount incurred during period | (1) | (0) |
| Reclassification adjustments | – | – |
| Before tax effect adjustment | (1) | (0) |
| Tax effect | – | – |
| Remeasurements of defined benefit plans | (1) | (0) |
| Total other comprehensive income | (487) | (124) |

(Notes to consolidated statement of changes in shareholder equity)

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

1. Type and number of issued shares and treasury shares

| | Number of shares at beginning of period | Increase in number of shares during period | Decrease in number of shares during period | Number of shares at end of period |
|---------------------------|---|--|--|-----------------------------------|
| Issued shares | | | | |
| Common shares | 209,577,400 | – | – | 209,577,400 |
| Total | 209,577,400 | – | – | 209,577,400 |
| Treasury shares | | | | |
| Common shares (see Notes) | 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 in the number of common shares under treasury shares is due to the acquisition of treasury shares based on a resolution of the Board of Directors.

2. The decrease of 553,100 shares in the number of common shares under treasury shares is due to the disposal of treasury shares by the stock-granting ESOP trust.

3. The numbers of shares at the beginning and end of the period include 3,000,000 shares and 2,466,900 shares, respectively, of the Company held by the stock-granting ESOP trust.

2. Share acquisition rights, etc.

There are no relevant matters.

3. Dividends

(1) Dividends paid

| Resolution | Share type | Total dividends paid (million yen) | Dividends per share (yen) | Record date | Effective date |
|---|---------------|------------------------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders held on June 8, 2021 | Common shares | 2,231 | 11.00 | March 31, 2021 | June 9, 2021 |

Note: The above total dividends paid include 33 million yen in dividends paid on the Company's shares remaining in the stock-granting ESOP trust.

(2) Dividends with a record date falling in the current fiscal year but with an effective date falling in the following fiscal year are as follows

| Resolution | Share type | Dividend source | Total dividends paid (million yen) | Dividends per share (yen) | Record date | Effective date |
|--|---------------|-------------------|------------------------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders held on June 10, 2022 | Common shares | Retained earnings | 2,422 | 12.00 | March 31, 2022 | June 13, 2022 |

Note: The above total dividends paid include 29 million yen in dividends paid on the Company's shares remaining in the stock-granting ESOP trust.

FY2022 (April 1, 2022 – March 31, 2023)

1. Type and number of issued shares and treasury shares

| | Number of shares at beginning of period | Increase in number of shares during period | Decrease in number of shares during period | Number of shares at end of period |
|-----------------------------------|---|--|--|-----------------------------------|
| Issued shares | | | | |
| Common shares (See Note 1) | 209,577,400 | – | 167,661,920 | 41,915,480 |
| Total | 209,577,400 | – | 167,661,920 | 41,915,480 |
| Treasury shares | | | | |
| Common shares (see Notes 2 and 3) | 10,166,110 | 182,866 | 8,186,448 | 2,162,528 |
| Total | 10,166,110 | 182,866 | 8,186,448 | 2,162,528 |

Notes: 1. The decrease in the number of common shares under issued shares is due to the reverse stock split that merged 5 common shares into 1 share, conducted on October 1, 2022 based on the resolution of the 33rd Ordinary General Meeting of Shareholders held on June 10, 2022.

2. Of the increase in the number of common shares under treasury shares, 177,100 shares are due to the acquisition of treasury shares based on a resolution of the Board of Directors, 5,588 shares are due to requests for purchase of shares less than one share unit, and 178 shares are due to the purchase of fractional shares resulting from the reverse stock split. Of the decrease in the number of common shares under treasury shares, 267,800 shares are due to the disposal of treasury shares by the stock-granting ESOP trust in FY2022, and 7,918,648 shares are due to the reverse stock split that merged 5 common shares into 1 share, conducted on October 1, 2022 by the resolution of the 33rd Ordinary General Meeting of Shareholders held on June 10, 2022.

3. The numbers of shares at the beginning and end of the period include 2,466,900 shares and 999,820 shares, respectively, of the Company held by the stock-granting ESOP trust and the ESOP trust for directors.

2. Share acquisition rights, etc.

There are no relevant matters.

3. Dividends

(1) Dividends paid

| Resolution | Share type | Total dividends paid (million yen) | Dividends per share (yen) | Record date | Effective date |
|--|---------------|------------------------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders held on June 10, 2022 | Common shares | 2,422 | 12.00 | March 31, 2022 | June 13, 2022 |

Notes: 1. The above total dividends paid include 29 million yen in dividends paid on the Company's shares remaining in the stock-granting ESOP trust.

2. A reverse stock split merging 5 common shares into 1 share was conducted on October 1, 2022. "Dividends per share" state the amount prior to the reverse stock split.

(2) Dividends with a record date falling in the current fiscal year but with an effective date falling in the following fiscal year are as follows

| Resolution | Share type | Dividend source | Total dividends paid (million yen) | Dividends per share (yen) | Record date | Effective date |
|---|---------------|-------------------|------------------------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders held on June 9, 2023 | Common shares | Retained earnings | 2,445 | 60.00 | March 31, 2023 | June 12, 2023 |

Note: The above total dividends paid include 59 million yen in dividends paid on the Company's shares remaining in the stock-granting ESOP trust and the ESOP trust for directors.

(Notes to consolidated statements of cash flows)

* Reconciliation of the ending balance of cash and cash equivalents with the amounts of the line items presented on the consolidated balance sheets

Unit: million yen

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|---------------------------|---|---|
| Cash and deposits | 19,199 | 22,028 |
| Cash and cash equivalents | 19,199 | 22,028 |

(Notes to financial instruments)

1. Status of financial instruments

(1) Policies applied to financial instruments

Fund management by the Group is limited to highly secure bonds and deposits, as well as seed money for fund formation, etc. Fund procurement is mainly via bank borrowings. The Group's policy is to use derivatives only to avoid risks associated with interest rates, etc. and to not engage in speculative transactions.

(2) Content of and risks involved in financial instruments, and risk management system

Credit risks related to accrued investment trust management fees and investment advisory fees, which are trade receivables, are deemed limited as the funds and discretionary assets managed or administered by the Group are portfolio investments with only a limited number of high-risk transactions.

In addition, the Group monitors the net position each month of its trade receivables and payables, a portion of which are denominated in foreign currencies and are exposed to exchange rate fluctuation risks. Moreover, the Group plans to hedge the risk with the use of forward exchange contracts, etc., when deemed necessary.

Investment securities are primarily seed money for funds and, investments in limited partnerships and investment securities. The funds are securities with a market price and are exposed to market price fluctuation risks. The Group therefore monitors their fair value each month based on "Proprietary Fund Management Rules" and reports to the Board of Directors.

Some borrowings have floating interest rates and are thus exposed to interest rate fluctuation risks. The Group uses derivative transactions (interest rate swapping) to hedge such risks. An explanation of hedging instruments, hedged items, hedging policy, and evaluation of hedging effectiveness, etc. is stated in "(7) Significant hedge accounting" under "Significant matters that form the basis for preparation of consolidated financial statements, 4. Accounting policies" above.

(3) Supplementary explanation regarding fair value, etc. of financial instruments

The fair value of financial instruments includes the value based on market prices and reasonably measured value in the event of financial instruments that have no market price. Variable factors are incorporated into the measurement of the fair value of financial instruments, and therefore, such measured value may vary depending on assumptions, etc. adopted.

2. Fair value, etc. of financial instruments

The book value on the consolidated balance sheets, fair value, and the difference between them are summarized below.

FY2021 (March 31, 2022)

Unit: million yen

| | Consolidated balance sheet amount | Fair value | Difference |
|--|-----------------------------------|---------------|-------------|
| Assets | | | |
| (1) Investment securities | | | |
| Available-for-sale securities | 7,566 | 7,566 | – |
| (2) Accounts receivable – other | 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 – other | 1,526 | 1,526 | – |
| (4) Income taxes payable | 438 | 438 | – |
| (5) Long-term borrowings | 7,000 | 6,977 | (22) |
| Total liabilities | 11,149 | 11,127 | (22) |
| Derivative transactions (*5) | – | – | – |

| | Consolidated balance sheet amount | Fair value | Difference |
|--|-----------------------------------|---------------|-------------|
| Assets | | | |
| (1) Investment securities | 5,877 | 5,877 | – |
| Available-for-sale securities | 5,877 | 5,877 | – |
| (2) Accounts receivable – other | 949 | 949 | – |
| (3) Income taxes refund receivable | 814 | 814 | – |
| (4) Accrued investment trust management fees | 918 | 918 | – |
| (5) Accrued investment advisory fees | 1,334 | 1,334 | – |
| (6) Long-term loans receivable | 810 | 810 | – |
| Total assets | 10,703 | 10,703 | – |
| Liabilities | | | |
| (1) Short-term borrowings | 2,000 | 2,000 | – |
| (2) Current portion of long-term borrowings | 2,000 | 2,000 | – |
| (3) Current portion of bonds payable | 343 | 343 | – |
| (4) Unpaid commission | 158 | 158 | – |
| (5) Accounts payable – other | 1,334 | 1,334 | – |
| (6) Income taxes payable | 955 | 955 | – |
| (7) Long-term borrowings | 5,000 | 4,985 | (14) |
| Total liabilities | 11,792 | 11,777 | (14) |
| Derivative transactions (*5) | – | – | – |

(*1) “Cash and deposits” are not stated as they are cash and because deposits are settled in the short term, and thus their fair values approximate the book values.

(*2) Shares, etc. without market prices are not included under “Assets (1) Investment securities.” The consolidated balance sheet amounts of such financial instruments are shown below.

| Classification | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|-----------------|----------------------------|----------------------------|
| Unlisted shares | 730 | 712 |

(*3) Investments in partnerships and similar entities in which the Company’s equity interest is recognized on a net basis on the consolidated balance sheets are not stated. The amounts of such investments on the consolidated balance sheets for FY2022 and FY2021 are 3,847 million yen and 3,858 million yen, respectively.

(*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 that are calculated for each type of loan is set at approximately the same interest rate at the time of the 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 payables in total are indicated in parentheses.

Note 1. Scheduled redemption amount of monetary receivables and securities with maturity dates after the consolidated balance sheet date

FY2021 (March 31, 2022)

Unit: million yen

| | Due within 1 year | Due after 1 year but within 5 years | Due after 5 years but within 10 years | Due after 10 years |
|---|----------------------|---|---|-----------------------|
| Cash and deposits | 19,199 | – | – | – |
| Accounts receivable – other | 971 | – | – | – |
| Accrued investment trust management fees | 1,048 | – | – | – |
| Accrued investment advisory fees | 965 | – | – | – |
| Long-term loans receivable | – | 910 | – | – |
| Total | 22,185 | 910 | – | – |

FY2022 (March 31, 2023)

Unit: million yen

| | Due within 1 year | Due after 1 year but within 5 years | Due after 5 years but within 10 years | Due after 10 years |
|---|----------------------|---|---|-----------------------|
| Cash and deposits | 22,028 | – | – | – |
| Accounts receivable – other | 949 | – | – | – |
| Accrued investment trust management fees | 918 | – | – | – |
| Accrued investment advisory fees | 1,334 | – | – | – |
| Long-term loans receivable | – | 810 | – | – |
| Total | 25,230 | 810 | – | – |

Note 2. Scheduled repayment amount of borrowings and lease obligations after the consolidated balance sheet date

FY2021 (March 31, 2022)

Unit: million yen

| | Due within 1 year | Due after 1 year but within 2 years | Due after 2 years but within 3 years | Due after 3 years but within 4 years | Due after 4 years but within 5 years | Due after 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 | – |

FY2022 (March 31, 2023)

Unit: million yen

| | Due within 1 year | Due after 1 year but within 2 years | Due after 2 years but within 3 years | Due after 3 years but within 4 years | Due after 4 years but within 5 years | Due after 5 years |
|-----------------------|----------------------|---|--|--|--|----------------------|
| Short-term borrowings | 2,000 | – | – | – | – | – |
| Long-term borrowings | 2,000 | – | – | 5,000 | – | – |
| Lease obligations | 46 | 34 | 16 | 0 | – | – |
| Total | 4,046 | 34 | 16 | 5,000 | – | – |

3. Breakdown of fair value by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

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

FY2021 (March 31, 2022)

Unit: million yen

| Classification | Fair value | | | |
|-------------------------------|------------|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Available-for-sale securities | | | | |
| Shares | 38 | – | – | 38 |
| Total assets | 38 | – | – | 38 |

Note: The fair value of investment trusts is not included in the above. 7,528 million yen is recorded for investment trusts on the consolidated balance sheets.

FY2022 (March 31, 2023)

Unit: million yen

| Classification | Fair value | | | |
|-------------------------------|------------|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Available-for-sale securities | | | | |
| Shares | 39 | – | – | 39 |
| Investment trusts | – | 5,305 | – | 5,305 |
| Investment securities | – | – | 531 | 531 |
| Total assets | 39 | 5,305 | 531 | 5,877 |

(2) Financial instruments other than those measured at fair value on the consolidated balance sheets

FY2021 (March 31, 2022)

Unit: million yen

| Classification | Fair value | | | |
|--|------------|---------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Accounts receivable – other | – | 971 | – | 971 |
| Accrued investment trust management fees | – | 1,048 | – | 1,048 |
| Accrued investment advisory fees | – | 965 | – | 965 |
| Long-term loans receivable | – | 910 | – | 910 |
| Total assets | – | 3,895 | – | 3,895 |
| Short-term borrowings | – | 2,000 | – | 2,000 |
| Unpaid commission | – | 184 | – | 184 |
| Accounts payable – other | – | 1,526 | – | 1,526 |
| Income taxes payable | – | 438 | – | 438 |
| Long-term borrowings | – | 6,977 | – | 6,977 |
| Total liabilities | – | 11,127 | – | 11,127 |

FY2022 (March 31, 2023)

Unit: million yen

| Classification | Fair value | | | |
|--|------------|---------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Accounts receivable – other | – | 949 | – | 949 |
| Income taxes refund receivable | – | 814 | – | 814 |
| Accrued investment trust management fees | – | 918 | – | 918 |
| Accrued investment advisory fees | – | 1,334 | – | 1,334 |
| Long-term loans receivable | – | 810 | – | 810 |
| Total assets | – | 4,826 | – | 4,826 |
| Short-term borrowings | – | 2,000 | – | 2,000 |
| Current portion of long-term borrowings | – | 2,000 | – | 2,000 |
| Current portion of bonds payable | – | 343 | – | 343 |
| Unpaid commission | – | 158 | – | 158 |
| Accounts payable – other | – | 1,334 | – | 1,334 |
| Income taxes payable | – | 955 | – | 955 |
| Long-term borrowings | – | 4,985 | – | 4,985 |
| Total liabilities | – | 11,777 | – | 11,777 |

Note 1. Explanation of valuation techniques and inputs used in the measurement of fair value

Investment securities

Listed shares are valued using quoted prices. As listed shares are traded in active markets, their fair values are classified as Level 1. The fair values of investment trusts are based on publicly announced net asset value, etc. and are classified as Level 2. Investment securities are valued according to the discounted cash flow method, etc. and their fair values are classified as Level 3.

Accounts receivable – other, income taxes refund receivable, accrued investment trust management fees and accrued investment advisory fees

The fair values of these items are measured using the discounted cash flow method, based on the amount of receivables, period to maturity and an interest rate reflecting credit risk, for each receivable categorized by a specified period, and are classified as Level 2.

Long-term loans receivable

The fair values of long-term loans receivable are categorized by a specified period and measured using the discounted cash flow method based on future cash flows and an interest rate obtained by adding the credit spread to government bond yields and other appropriate indicators, for each type of credit risk categorized for credit management purposes, and are classified as Level 2.

Short-term borrowings, current portion of long-term borrowings, current portion of bonds payable, unpaid commission, accounts payable – other, and income taxes payable

The fair values of these items are measured using the discounted cash flow method based on future cash flows, period to repayment and an interest rate reflecting credit risk, for each liability categorized by a specified period, and are classified as Level 2.

Long-term borrowings

The fair values of long-term borrowings are measured using the discounted cash flow method based on the sum of principal and interest, remaining maturities and an interest rate reflecting credit risk, and are classified as Level 2. Long-term borrowings with floating interest rates are subject to exceptional treatment for interest rate swaps (see “Derivative transactions” above), and their fair values are measured using the sum of principal and interest handled together with the interest rate swap.

Note 2. Information regarding financial assets and liabilities that are measured at fair value on the consolidated balance sheets and classified as Level 3

(1) Qualitative information on significant unobservable inputs

Financial instruments whose fair values are classified as Level 3 are not stated, as the prices used are calculated based on prices obtained from third parties.

(2) A reconciliation from the beginning balances to the ending balances and gains or losses on valuation of financial assets and financial liabilities held at the end of the current fiscal year included in profit or loss for the current fiscal year

Unit: million yen

| | Securities and investment securities |
|---|--------------------------------------|
| | Available-for-sale securities |
| | Investment securities |
| Beginning balance | – |
| Profit (loss) or other comprehensive income for the period | |
| Recorded in profit (loss) | – |
| Recorded in other comprehensive income | 32 |
| Purchases and sales | |
| Purchases | – |
| Sales | – |
| Transferred to Level 3 fair value | – |
| Transferred from Level 3 fair value | – |
| Other (Note) | 498 |
| Ending balance | 531 |
| Gains (losses) on valuation of financial instruments held on consolidated balance sheet date included in profit (loss) for the period | – |

Note: As stated in (Changes in accounting policies), the relevant investment securities are included in this adjustment table as their fair values are now measured using the net asset value, etc. on the date of measurement.

(3) Explanation of valuation process used for fair value measurement

The Company employs prices obtained from third parties for the fair values of all Level 3 financial instruments carried at fair value on the consolidated balance sheet. The reasonableness of the prices obtained from third parties is verified by an appropriate method, such as confirmation of the valuation techniques and inputs used or comparison with the fair values of similar financial instruments.

(4) Explanation of impact on fair value in the event of a change in significant unobservable inputs

There are no relevant matters.

(Notes to securities)

1. Available-for-sale securities

FY2021 (March 31, 2022)

Unit: million yen

| | Type | Consolidated balance sheet amount | Acquisition cost | Difference |
|---|--|---|------------------|------------|
| Items whose carrying amount on the consolidated balance sheets exceeds the acquisition cost | (1) Shares | – | – | – |
| | (2) Bonds | | | |
| | 1) Government/ municipal bonds, etc. | – | – | – |
| | 2) Corporate bonds | – | – | – |
| | 3) Other | – | – | – |
| | (3) Other | 5,489 | 4,150 | 1,338 |
| | Subtotal | 5,489 | 4,150 | 1,338 |
| Items whose carrying amount on the consolidated balance sheets does not exceed the acquisition cost | (1) Shares | 38 | 50 | (12) |
| | (2) Bonds | | | |
| | 1) Government/ municipal bonds, etc. | – | – | – |
| | 2) Corporate bonds | – | – | – |
| | 3) Other | – | – | – |
| | (3) Other | 2,038 | 2,180 | (141) |
| | Subtotal | 2,076 | 2,231 | (154) |
| Total | | 7,566 | 6,381 | 1,184 |

FY2022 (March 31, 2023)

Unit: million yen

| | Type | Consolidated balance sheet amount | Acquisition cost | Difference |
|---|--|---|------------------|------------|
| Items whose carrying amount on the consolidated balance sheets exceeds the acquisition cost | (1) Shares | – | – | – |
| | (2) Bonds | | | |
| | 1) Government/ municipal bonds, etc. | – | – | – |
| | 2) Corporate bonds | – | – | – |
| | 3) Other | – | – | – |
| | (3) Other | 4,990 | 4,162 | 828 |
| | Subtotal | 4,990 | 4,162 | 828 |
| Items whose carrying amount on the consolidated balance sheets does not exceed the acquisition cost | (1) Shares | 39 | 50 | (10) |
| | (2) Bonds | | | |
| | 1) Government/ municipal bonds, etc. | – | – | – |
| | 2) Corporate bonds | – | – | – |
| | 3) Other | – | – | – |
| | (3) Other | 846 | 894 | (48) |
| | Subtotal | 886 | 945 | (59) |
| Total | | 5,877 | 5,107 | 769 |

2. Available-for-sale securities that were sold

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

Unit: million yen

| Type | Sales value | Total gain on sale | Total loss on sale |
|---|-------------|--------------------|--------------------|
| (1) Shares | – | – | – |
| (2) Bonds | | | |
| 1) Government/ municipal bonds, etc. | – | – | – |
| 2) Corporate bonds | – | – | – |
| 3) Other | – | – | – |
| (3) Other | 2,571 | 663 | – |
| Total | 2,571 | 663 | – |

FY2022 (April 1, 2022 – March 31, 2023)

Unit: million yen

| Type | Sales value | Total gain on sale | Total loss on sale |
|---|-------------|--------------------|--------------------|
| (1) Shares | – | – | – |
| (2) Bonds | | | |
| 1) Government/ municipal bonds, etc. | – | – | – |
| 2) Corporate bonds | – | – | – |
| 3) Other | – | – | – |
| (3) Other | 2,254 | 388 | (11) |
| Total | 2,254 | 388 | (11) |

3. Impairment of securities

The write-down values of shares, etc. without a market price were as follows: FY2021: 560 million yen, FY2022: 38 million yen.

When the fair value of a security at the end of the fiscal year falls by 50% or more from its acquisition cost, the Company recognizes an impairment loss for the entire value of the security. For securities with a 30% to 50% decline, an impairment loss is recognized for the amount deemed necessary in consideration of recoverability and other factors. Furthermore, shares, etc. without a market price, etc. whose substantive value has fallen by more than 50% from the book value are impaired for the amount deemed necessary in consideration of recoverability and other factors.

(Notes to derivative transactions)

1. Derivative transactions not subject to application of hedge accounting

(1) Currency-related

FY2021 (March 31, 2022)
There are no relevant matters.

FY2022 (March 31, 2023)
There are no relevant matters.

(2) Interest-related

FY2021 (March 31, 2022)
There are no relevant matters.

FY2022 (March 31, 2023)
There are no relevant matters.

(3) Shares-related

FY2021 (March 31, 2022)
There are no relevant matters.

FY2022 (March 31, 2023)
There are no relevant matters.

2. Derivative transactions subject to application of hedge accounting

(1) Currency-related

FY2021 (March 31, 2022)
There are no relevant matters.

FY2022 (March 31, 2023)
There are no relevant matters.

(2) Interest-related

FY2021 (March 31, 2022)

Unit: million yen

| Hedge accounting method | Transaction type | Main hedged items | Contract amount | Contract amount due after 1 year | Fair value |
|---|--|----------------------|-----------------|----------------------------------|------------|
| Exceptional treatment for interest rate swaps | Interest rate swaps Variable receipt, fixed payment | Long-term borrowings | 2,000 | 2,000 | (Note) |

Note: The fair value of items subject to exceptional treatment for interest rate swaps is included in the fair value for long-term borrowings, as the exceptional treatment for interest rate swaps is handled together with the hedged long-term borrowing.

FY2022 (March 31, 2023)

Unit: million yen

| Hedge accounting method | Transaction type | Main hedged items | Contract amount | Contract amount due after 1 year | Fair value |
|---|--|----------------------|-----------------|----------------------------------|------------|
| Exceptional treatment for interest rate swaps | Interest rate swaps Variable receipt, fixed payment | Long-term borrowings | 2,000 | – | (Note) |

Note: The fair value of items subject to exceptional treatment for interest rate swaps is included in the fair value for long-term borrowings, as the exceptional treatment for interest rate swaps is handled together with the hedged long-term borrowing.

(3) Shares-related

FY2021 (March 31, 2022)

There are no relevant matters.

FY2022 (March 31, 2023)

There are no relevant matters.

(Notes to stock options)

There are no relevant matters.

(Notes to retirement benefits)

1. Overview of retirement benefit plans

Some overseas subsidiaries have adopted funded defined benefit plans to set aside retirement benefits for staff and executives. Under these plans, a pension or lump sum is paid based on the retiree's salary and service length.

2. Defined benefit plans

(1) Changes in retirement benefit obligations

| | Unit: million yen | |
|--------------------------------|--|--|
| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
| Balance at beginning of period | 75 | 54 |
| Service costs | 11 | 8 |
| Interest costs | 2 | 2 |
| Actuarial loss (gain) | 0 | (1) |
| Retirement benefits paid | (35) | (6) |
| Other | 1 | 0 |
| Balance at end of period | 54 | 58 |

(2) Changes in plan assets

| | Unit: million yen | |
|--------------------------------|--|--|
| | FY2021 (April 1, 2021 – March 31, 2022) | FY2021 (April 1, 2021 – March 31, 2022) |
| Balance at beginning of period | 81 | 73 |
| Expected return on plan assets | 2 | 3 |
| Actuarial loss (gain) | (1) | (1) |
| Employer contributions | 17 | 26 |
| Retirement benefits paid | (28) | (23) |
| Other | 2 | 1 |
| Balance at end of period | 73 | 79 |

(3) Adjustments between ending balances of retirement benefit obligations and plan assets and retirement benefit liabilities and retirement benefit assets recorded on the consolidated balance sheets

| | Unit: million yen | |
|--|----------------------------|----------------------------|
| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
| Retirement benefit obligations for funded retirement benefit plans | 54 | 58 |
| Pension plan assets | (73) | (79) |
| | (18) | (20) |
| Retirement benefit obligations for unfunded retirement benefit plans | – | – |
| Net assets and liabilities reported on the consolidated balance sheets | (18) | (20) |
| Retirement benefit liabilities | – | – |
| Retirement benefit assets | (18) | (20) |
| Net assets and liabilities reported on the consolidated balance sheets | (18) | (20) |

(4) Breakdown of retirement benefit expenses

Unit: million yen

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|---|--|--|
| Service costs | 11 | 8 |
| Interest costs | 2 | 2 |
| Expected return on plan assets | (2) | (3) |
| Recognized actuarial loss (gain) | – | – |
| Recognized past service costs | – | – |
| Retirement benefit expenses for defined benefit plans | 11 | 8 |

(5) Remeasurements of defined benefit plans

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

Unit: million yen

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|-----------------------|--|--|
| Actuarial loss (gain) | (1) | (0) |
| Other | 0 | 0 |
| Total | (1) | (0) |

(6) Remeasurements of accumulated defined benefit plans

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

Unit: million yen

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|------------------------------------|----------------------------|----------------------------|
| Unrecognized past service costs | – | – |
| Unrecognized actuarial loss (gain) | 3 | 3 |
| Total | 3 | 3 |

(7) Pension plan assets

1) Components of plan assets

Plan assets consist of the following.

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|-------------------|----------------------------|----------------------------|
| Bonds | 45.6% | 47.9% |
| Shares | – | – |
| Cash and deposits | 2.0 | 7.8 |
| Others | 52.4 | 44.3 |
| Total | 100.0 | 100.0 |

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

The expected long-term rates of return on plan assets are determined by considering the yield of AA-rated corporate bonds over the forecast remaining service period of officers and employees.

(8) Assumptions used in actuarial calculations

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

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|--|----------------------------|----------------------------|
| Discount rate | 4.2% | 5.4% |
| Expected long-term rate of return on plan assets | 3.3% | 4.2% |
| Expected rates of salary increase | 3.0% | 3.0% |

(Notes to tax effect accounting)

1. Major causes of deferred tax assets and deferred tax liabilities

Unit: million yen

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|---|----------------------------|----------------------------|
| Deferred tax assets | | |
| Net operating loss carryforwards (Note) | 353 | 322 |
| Temporary differences related to investments in consolidated subsidiaries | 224 | 224 |
| Non-recognition of accrued expenses | 279 | 256 |
| Business tax payable | 53 | 67 |
| Non-recognition of provision for share awards | 154 | 185 |
| Non-recognition of provision for long-term incentives | 41 | 4 |
| Non-recognition of loss on valuation of investment securities | 481 | 502 |
| Valuation difference on available-for-sale securities | 54 | 18 |
| Other | 226 | 243 |
| Subtotal deferred tax assets | 1,869 | 1,824 |
| Valuation allowance for tax loss carryforwards (Note) | (353) | (322) |
| Valuation allowance for total deductible temporary differences | (1,098) | (1,002) |
| Subtotal valuation allowances | (1,452) | (1,324) |
| Total deferred tax assets | 417 | 499 |
| Deferred tax liabilities | | |
| Valuation difference on available-for-sale securities | 471 | 338 |
| Other | 26 | 45 |
| Total deferred tax liabilities | 497 | 384 |
| Net deferred tax assets and liabilities | (80) | 114 |

Note: Amounts of net operating loss carryforwards and corresponding deferred tax assets by due period

FY2021 (March 31, 2022)

Unit: million yen

| | Due within 1 year | Due after 1 year but within 2 years | Due after 2 years but within 3 years | Due after 3 years but within 4 years | Due after 4 years but within 5 years | Due after 5 years | Total |
|---------------------------------------|----------------------|---|--|--|--|----------------------|-------|
| Net operating loss carryforwards (*2) | 32 | 40 | 36 | 38 | 66 | 139 | 353 |
| Valuation allowance | (32) | (40) | (36) | (38) | (66) | (139) | (353) |
| Deferred tax assets | - | - | - | - | - | - | - |

(*2) Net operating loss carryforwards are shown in an amount obtained by multiplying the statutory effective tax rate.

FY2022 (March 31, 2023)

Unit: million yen

| | Due within 1 year | Due after 1 year but within 2 years | Due after 2 years but within 3 years | Due after 3 years but within 4 years | Due after 4 years but within 5 years | Due after 5 years | Total |
|---------------------------------------|-------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|-------------------|-------|
| Net operating loss carryforwards (*2) | 40 | 36 | 38 | 66 | 41 | 99 | 322 |
| Valuation allowance | (40) | (36) | (38) | (66) | (41) | (99) | (322) |
| Deferred tax assets | – | – | – | – | – | – | – |

(*2) Net operating loss carryforwards are shown in an amount obtained by multiplying the statutory effective tax rate.

2. Breakdown of major items that caused a significant difference between the normal statutory effective tax rate and the actual effective tax rate after application of tax effect accounting

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|--|----------------------------|--|
| Normal statutory effective tax rate | 30.6% | Omitted as the difference between the normal statutory effective tax rate and the actual effective tax rate after application of tax effect accounting is less than 5% of the normal statutory effective tax rate. |
| (Adjustments) | | |
| Taxation of accumulated earnings of family companies | – | |
| Differences in tax rates of foreign subsidiaries | 1.9 | |
| Changes in valuation allowance | 2.5 | |
| Entertainment expenses and other expenses not permanently includable in losses | 0.9 | |
| Investment gain and loss by equity method | 0.5 | |
| Expiration of local tax loss carryforwards | 0.5 | |
| Differences due to change in tax rate | 0.0 | |
| Withholding income tax relating to dividends from overseas subsidiaries | – | |
| Tax credits | – | |
| Others | (1.1) | |
| Actual effective tax rate after application of tax effect accounting | 35.8 | |

3. Accounting for national and local business taxes or accounting for tax effect accounting for those taxes

The Company and some of its domestic consolidated subsidiaries have adopted a group tax sharing system from FY2022. Further, accounting of national and local business taxes or their tax effect accounting and the disclosure of same is conducted according to the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ Practical Solution No.42, August 12, 2021).

(Notes on business combinations)

There are no relevant matters.

(Notes on revenue recognition)

1. Information on the breakdown of revenue from contracts with clients

The Group is a single segment business of investment trust management, discretionary investment management and investment advisory. Information on the breakdown of revenue from contracts with major clients is shown below.

| | Unit: million yen | |
|--|----------------------------------|----------------------------------|
| | FY2021 | FY2022 |
| | (April 1, 2021 – March 31, 2022) | (April 1, 2022 – March 31, 2023) |
| Management fees (Note 1) | 12,577 | 12,735 |
| Performance fees (share investment) (Note 2) | 605 | 211 |
| Performance fees (acquisition fees) (Note 3) | 356 | 114 |
| 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 | – |
| Performance fees (other) (Note 5) | – | 38 |
| Other | 258 | 260 |
| Total | 14,043 | 13,360 |

Notes: 1. Management fees in FY2022 include 5,189 million yen in investment trust management fees, 7,221 million yen in investment advisory fees, and 324 million yen in other operating revenue. In FY2021, they include 5,500 million yen in investment trust management fees, 6,759 million yen in investment advisory fees, and 317 million yen in other operating revenue.

2. Performance fees (share investment) in FY2022 include 208 million yen in investment trust management fees and 3 million yen in investment advisory fees. In FY2021, they include 422 million yen in investment trust management fees and 183 million yen in investment advisory fees.

3. Performance fees (acquisition fees) are recorded as other operating revenue in the consolidated statements 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) in FY2021 include 246 million yen in investment advisory fees.

5. Performance fees (other) in FY2022 include 38 million yen in investment advisory fees.

2. Basis for understanding revenue from contracts with clients

As described above in (Significant Matters that Form the Basis for Preparation of Consolidated Financial Statements), 4. Accounting policies, (5) Basis for recognition of significant revenues and expenses.

3. Relationship between fulfillment of performance obligations under contracts with clients and cash flow generated by those contracts, amount of revenue from contracts with clients existing at the end of the current fiscal year expected to be recognized in the following fiscal year and beyond, and the timing of that recognition

This information is omitted as it is immaterial.

(Segment information etc.)

Segment information

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

This information is omitted as the Group is a single segment business of investment trust management, discretionary investment management and investment advisory.

ii) FY2022 (April 1, 2022 – March 31, 2023)

This information is omitted as the Group is a single segment business of investment trust management, discretionary investment management and investment advisory.

Related information

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

1. By service

This information is omitted as revenues from external clients related to business of investment trust management, discretionary investment management and investment advisory as well as its related services account for over 90% of operating revenue in the consolidated statements of income.

2. By region

(1) Operating revenue

Unit: million yen

| Japan | Cayman Islands | Ireland | South Korea | Other | Total |
|--------|----------------|---------|-------------|-------|--------|
| 10,339 | 218 | 1,567 | 91 | 1,826 | 14,043 |

Note: Classification by region is based on contract counterpart's location (place of composition in the case of funds)

(2) Property, plant and equipment

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 Global Blue Chip Japanese Equity Fund | 2,086 | Business of investment trust management, discretionary investment management and investment advisory |

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

FY2022 (April 1, 2022 – March 31, 2023)

1. By service

This information is omitted as revenues from external clients related to business of investment trust management, discretionary investment management and investment advisory as well as its related services account for over 90% of operating revenue in the consolidated statements of income.

2. By region

(1) Operating revenue

Unit: million yen

| Japan | Cayman Islands | Ireland | South Korea | Other | Total |
|--------|----------------|---------|-------------|-------|--------|
| 10,351 | 86 | 1,342 | 51 | 1,528 | 13,360 |

Notes: 1. Classification by region is based on contract counterpart's location (place of composition in the case of funds).

2. In FY2022, from the perspective of more appropriate presentation, "Ireland," which had been included in "Europe," has been listed independently, and the other locations included in "Europe" have been included in "Other." The segment information for FY2021 has been prepared and stated with the classifications after this change.

(2) Property, plant and equipment

Unit: million yen

| Japan | South Korea | Hong Kong | Total |
|-------|-------------|-----------|-------|
| 868 | 62 | 50 | 981 |

3. By major client

Unit: million yen

| Client name | Operating revenue | Related segment |
|---|-------------------|--|
| SPARX New Global Blue Chip Japanese Equity Fund | 2,221 | Business of investment trust management, discretionary investment management and investment advisory |

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

Impairment losses on non-current assets by reportable segment

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

There are no relevant matters.

FY2022 (April 1, 2022 – March 31, 2023)

There are no relevant matters.

Amortization of goodwill and unamortized balance by reportable segment

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

There are no relevant matters.

FY2022 (April 1, 2022 – March 31, 2023)

There are no relevant matters.

Gain on negative goodwill by reportable segment

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

There are no relevant matters.

FY2022 (April 1, 2022 – March 31, 2023)

There are no relevant matters.

Information about related parties

1. Transactions with related parties

(1) Transactions between the filing company and related parties

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

There are no relevant matters.

FY2022 (April 1, 2022 – March 31, 2023)

There are no relevant matters.

(2) Transactions between consolidated subsidiaries of the filing company and related parties

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

There are no relevant matters.

FY2022 (April 1, 2022 – March 31, 2023)

There are no relevant matters.

2. Notes regarding the parent company or significant associates

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

There are no relevant matters.

FY2022 (April 1, 2022 – March 31, 2023)

There are no relevant matters.

(Per-share information)

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|----------------------|--|--|
| Net assets per share | 609.90 yen | 655.21 yen |
| Net income per share | 101.89 yen | 113.37 yen |

Notes: 1. For the calculation of net income per share, the Company's shares remaining in the stock-granting ESOP trust and the ESOP trust for directors (recorded as treasury shares in shareholders' equity) are included in the treasury shares deducted from the calculation of average number of common shares across the period. The average number of common shares in treasury shares so deducted was 497,470 for FY2021 and 790,148 for FY2022.

2. For the calculation of net assets per share, the Company's shares remaining in the stock-granting ESOP trust and the ESOP trust for directors (recorded as treasury shares in shareholders' equity) are included in the treasury shares deducted from the number of shares issued at the end of the period. The number of treasury shares so deducted was 493,380 for FY2021 and 999,820 for FY2022.

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

4. The Company conducted a reverse stock split merging five common shares into one share on October 1, 2022. Net income per share has been calculated on the assumption that this reverse stock split had been conducted at the beginning of FY2021.

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

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|--|--|--|
| Net income per share | | |
| Profit attributable to owners of parent (million yen) | 4,070 | 4,521 |
| Amount not attributable to common shareholders (million yen) | – | – |
| Profit attributable to owners of parent related to common shares (million yen) | 4,070 | 4,521 |
| Average number of common shares (shares) | 39,952,521 | 39,877,028 |

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

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|---|----------------------------|----------------------------|
| Total net assets (million yen) | 24,324 | 26,047 |
| Deductions from total net assets (million yen) | 0 | 0 |
| (of which, share acquisition rights (million yen)) | (–) | (–) |
| (of which, non-controlling interests (million yen)) | (0) | (0) |
| Net assets related to common shares at end of period (million yen) | 24,324 | 26,046 |
| Number of common shares used for calculating net assets per share at end of period (shares) | 39,882,258 | 39,752,952 |

(Significant subsequent events)

Gain on sale of investment securities

The Company recorded extraordinary income in the form of a gain on sale of investment securities as described below due to the sale of a portion of its holdings of investment securities.

1. Timing of generation of gain on sale of investment securities
May 19, 2023

2. Reason for sale of investment securities
To improve asset efficiency and the soundness of financial position by scrutinizing seed investments for new investment strategies, etc. and divesting investment securities that have served their purpose.

3. Details of sale of investment securities
 - (1) Type of assets sold 1 issue of investment securities held by the Company
 - (2) Gain on sale 1,109 million yen

5) Consolidated Supplementary Schedules

Schedule of bonds payable

| Company | Description | Date of issuance | Balance at beginning of period (million yen) | Balance at end of period (million yen) | Interest rate (%) | Collateral | Maturity date |
|-----------------------|---|------------------|--|--|-------------------|------------|---------------|
| SPARX Group Co., Ltd. | 1st unsecured security token bonds (Note 1) | June 23, 2022 | – | 343 (343) | 2.5 | None | June 23, 2023 |
| Total | – | – | – | 343 (343) | – | – | – |

Notes: 1. Figures in parentheses represent the amounts scheduled to be redeemed within one year.

2. The redemption schedule of bonds for five years after the consolidated balance sheet date is as follows.

Unit: million yen

| Due within 1 year | Due after 1 year but within 2 years | Due after 2 years but within 3 years | Due after 3 years but within 4 years | Due after 4 years but within 5 years |
|-------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 343 | – | – | – | – |

Schedule of borrowings, etc.

| Classification | Balance at beginning of period (million yen) | Balance at end of period (million yen) | Average interest rate (%) | Repayment deadline |
|--|--|--|---------------------------|--------------------|
| Short-term borrowings | 2,000 | 2,000 | 0.23 | – |
| Current portion of long-term borrowings | – | 2,000 | 0.77 | – |
| Current portion of lease obligations | 42 | 46 | 3.26 | – |
| Long-term borrowings (excluding current portion) | 7,000 | 5,000 | 0.81 | 2026 |
| Lease obligations (excluding current portion) | 93 | 50 | 4.20 | 2024 – 2025 |
| Total | 9,136 | 9,097 | – | – |

Notes: 1. The average interest rate represents the weighted-average interest rate applicable to the year-end balance of borrowings and lease obligations.

2. Except for some consolidated subsidiaries, the 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. The scheduled repayments of long-term borrowings and lease obligations (excluding current portions) for five years after the consolidated balance sheet date are as follows.

Unit: million yen

| | Due after 1 year but within 2 years | Due after 2 years but within 3 years | Due after 3 years but within 4 years | Due after 4 years but within 5 years |
|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Long-term borrowings | – | – | 5,000 | – |
| Lease obligations | 34 | 16 | 0 | – |

Schedule of asset retirement obligations

In accordance with Article 92-2 of the Consolidated Financial Statement Regulations, asset retirement obligations at the beginning and end of FY2022 are not reported as they were 1% or less of total liabilities and net assets at the beginning and end of FY2022.

(2) Other

FY2022 quarterly information etc.

| (Cumulative period) | Through Q1 | Through Q2 | Through Q3 | Full year |
|--|------------|------------|------------|-----------|
| Operating revenue (million yen) | 3,362 | 6,710 | 9,980 | 13,360 |
| Profit before income taxes (million yen) | 1,569 | 3,450 | 4,678 | 6,627 |
| Profit attributable to owners of parent (million yen) | 1,070 | 2,275 | 3,122 | 4,521 |
| Net income per share (yen) | 26.80 | 56.97 | 78.23 | 113.37 |

| (Accounting period) | Q1 | Q2 | Q3 | Q4 |
|----------------------------|-------|-------|-------|-------|
| Net income per share (yen) | 26.80 | 30.17 | 21.25 | 35.17 |

Note: The Company conducted a reverse stock split merging five common shares into one share on October 1, 2022. Net income per share has been calculated on the assumption that this reverse stock split had been conducted at the beginning of FY2021.

2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated Financial Statements

1) Non-consolidated Balance Sheets

(Unit: million yen)

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,434 | 10,357 |
| Accounts receivable – other | * 2,395 | * 782 |
| Income taxes refund receivable | – | 814 |
| Prepaid expenses | 101 | 62 |
| Short-term loans receivable | 120 | 130 |
| Other | 0 | 6 |
| Total current assets | 8,051 | 12,153 |
| 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 intangible assets | 0 | 0 |
| Investments and other assets | | |
| Investment securities | 11,572 | 9,798 |
| Shares of subsidiaries and associates | 7,142 | 6,976 |
| Investments in other securities of subsidiaries and associates | 320 | 291 |
| Long-term loans receivable | 910 | 940 |
| Guarantee deposits | 21 | 21 |
| Other | 84 | 112 |
| Total investments and other assets | 20,052 | 18,140 |
| Total non-current assets | 20,120 | 18,208 |
| Total assets | 28,172 | 30,362 |

(Unit: million yen)

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|---|----------------------------|----------------------------|
| Liabilities | | |
| Current liabilities | | |
| Short-term borrowings | 2,000 | 2,000 |
| Current portion of long-term borrowings | – | 2,000 |
| Current portion of bonds payable | – | 343 |
| Accounts payable – other | * 738 | * 699 |
| Income taxes payable | 200 | – |
| Other | 34 | 29 |
| Total current liabilities | 2,973 | 5,072 |
| Non-current liabilities | | |
| Long-term borrowings | 7,000 | 5,000 |
| Deferred tax liabilities | 452 | 203 |
| Other | 95 | 120 |
| Total non-current liabilities | 7,548 | 5,324 |
| Total liabilities | 10,521 | 10,397 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 8,587 | 8,587 |
| Capital surplus | | |
| Legal capital surplus | 130 | 130 |
| Other capital surplus | 3,157 | 2,854 |
| Total capital surplus | 3,288 | 2,985 |
| Retained earnings | | |
| Legal retained earnings | 966 | 1,209 |
| Other retained earnings | | |
| Retained earnings brought forward | 7,609 | 10,136 |
| Total retained earnings | 8,575 | 11,345 |
| Treasury shares | (3,685) | (3,634) |
| Total shareholders' equity | 16,765 | 19,283 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 885 | 682 |
| Total valuation and translation adjustments | 885 | 682 |
| Total net assets | 17,650 | 19,965 |
| Total liabilities and net assets | 28,172 | 30,362 |

2) Non-consolidated Statements of Income

(Unit: million yen)

| | FY2021 (April 1, 2021 - March 31, 2022) | FY2022 (April 1, 2022 - March 31, 2023) |
|--|---|---|
| Operating revenue | | |
| Outsourcing service revenue from associates | *1 576 | *1 564 |
| Income from investment partnership management | *6 2,728 | 2,446 |
| Other outsourcing service revenue | *1 82 | *1 84 |
| Total operating revenue | 3,386 | 3,094 |
| Operating and general administrative expenses | *1, *2 3,424 | *1, *2 3,174 |
| Operating profit (loss) | (37) | (79) |
| Non-operating income | | |
| Interest income | 8 | 8 |
| Dividend income | *1 4,162 | *1 4,472 |
| Gain on investments in investment partnerships | – | 510 |
| Miscellaneous income | 9 | 25 |
| Total non-operating income | 4,180 | 5,016 |
| Non-operating expenses | | |
| Interest expenses | 61 | 60 |
| Interest expenses on bonds | – | 9 |
| Bond issuance costs | – | 19 |
| Commissions paid | 2 | 4 |
| Foreign exchange losses | 13 | 17 |
| Loss on investments in investment partnerships | 156 | – |
| Miscellaneous losses | 9 | 0 |
| Total non-operating expenses | 243 | 111 |
| Ordinary profit | 3,899 | 4,826 |
| Extraordinary income | | |
| Gain on sale of investment securities | 663 | 388 |
| Gain on liquidation of subsidiaries | – | *5 193 |
| Total extraordinary income | 663 | 581 |
| Extraordinary losses | | |
| Loss on sale of investment securities | – | 11 |
| Loss on valuation of investment securities | *3 560 | *3 38 |
| Loss on valuation of shares of subsidiaries and associates | *4 663 | *4 55 |
| Total extraordinary losses | 1,223 | 105 |
| Profit before income taxes | 3,339 | 5,302 |
| Income taxes – current | 165 | 216 |
| Income taxes – deferred | 4 | (106) |
| Total income taxes | 169 | 110 |
| Profit | 3,170 | 5,191 |

3) Non-consolidated Statements of Changes in Equity

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

(Unit: 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 shareholders' 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 assets |
|--|---|---|------------------|
| | Valuation difference on available-for-sale 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 shareholders' equity | (632) | (632) | (632) |
| Total changes during period | (632) | (632) | 170 |
| Balance at end of period | 885 | 885 | 17,650 |

FY2022 (April 1, 2022 – March 31, 2023)

(Unit: 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 | 966 | 7,609 | 8,575 | (3,685) | 16,765 |
| Changes during period | | | | | | | | | |
| Dividends of surplus | | | | | 242 | (2,664) | (2,422) | | (2,422) |
| Profit | | | | | | 5,191 | 5,191 | | 5,191 |
| Purchase of treasury shares | | | | | | | | (1,154) | (1,154) |
| Disposal of treasury shares | | | (302) | (302) | | | | 1,148 | 845 |
| Disposal of treasury shares by ESOP Trust | | | | | | | | 57 | 57 |
| Net changes in items other than shareholders' equity | | | | | | | | | |
| Total changes during period | – | – | (302) | (302) | 242 | 2,527 | 2,769 | 51 | 2,517 |
| Balance at end of period | 8,587 | 130 | 2,854 | 2,985 | 1,209 | 10,136 | 11,345 | (3,634) | 19,283 |

| | Valuation and translation adjustments | | Total net assets |
|--|---|---|------------------|
| | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at beginning of period | 885 | 885 | 17,650 |
| Changes during period | | | |
| Dividends of surplus | | | (2,422) |
| Profit | | | 5,191 |
| Purchase of treasury shares | | | (1,154) |
| Disposal of treasury shares | | | 845 |
| Disposal of treasury shares by ESOP Trust | | | 57 |
| Net changes in items other than shareholders' equity | (202) | (202) | (202) |
| Total changes during period | (202) | (202) | 2,314 |
| Balance at end of period | 682 | 682 | 19,965 |

Notes to Non-consolidated Financial Statements

(Significant accounting policies)

1. Basis and method for valuation of marketable securities

Shares of subsidiaries and associates

Cost accounting is performed by the weighted average method.

Investments in other securities of subsidiaries and associates

Investments in investment limited partnerships and similar partnerships (considered as marketable securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are stated by recognizing the net amount commensurate with the Company's equity interest in the partnership, based on the most recent financial statements available as of the financial reporting date stipulated in the partnership agreement.

Available-for-sale securities

Securities other than shares, etc. without market prices

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).

Shares, etc. without market prices

Cost accounting is performed mainly by the weighted average method.

(Investments in investment partnerships, etc.)

Investments in investment limited partnerships and similar partnerships (considered as marketable securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are stated by recognizing the net amount commensurate with the Company's equity interest in the partnership, based on the most recent financial statements available as of the financial reporting date stipulated in the partnership agreement.

2. Method of depreciation and amortization of non-current assets

Property, plant and equipment

Depreciated by the declining-balance method. However, the straight-line method is used for property, plant and equipment acquired on and after April 1, 2016.

The useful life is as follows:

| | |
|----------|---------|
| Vehicles | 6 years |
|----------|---------|

Intangible assets

Software (for internal use) is amortized by the straight-line method over the estimated useful life (five years).

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

Foreign currency-denominated monetary receivables and payables are translated into Japanese yen at the spot exchange rate prevailing on the closing date, and differences arising from the translation are recognized as gains or losses.

4. Accounting standards for revenues and expenses

(1) Outsourcing service revenue from associates

The Company is contracted to undertake some operations for some subsidiaries for a specified period of 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 fulfillment of the performance obligation over a specified period of time, and is measured at the transaction price related to the customer contract. 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.

(2) Income from investment partnership management

Fees are received as compensation for contractually obligated management of investment partnership funds of which the Company is an unlimited liability partner 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, if capital gains are generated from the sale of equity in the silent partnership of a limited liability company in which a renewable energy fund has invested, performance fees

are received for a certain percentage of the capital gains from the silent partnership's equity that exceeds a certain performance target for renewable energy funds managed by the Company. This 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.

5. Hedge accounting method

(1) Hedge accounting method

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

(2) Hedging instruments and hedged items

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

Hedging instrumentsInterest rate swapping

Hedged itemsInterest on borrowings

(3) Hedging policy

Hedging against interest rate fluctuation risks is carried out, based mainly on the Company's internal Derivatives Management Regulations.

(4) Method for evaluation of hedging effectiveness

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

(Significant accounting estimates)

There are no relevant matters.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Guidance") from the beginning of the current fiscal year and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Guidance. Accordingly, the fair value of investment trusts, etc. will be measured using net asset value, etc. on the date of fair value measurement.

(Changes in presentation)

There are no relevant matters.

(Additional information)

(Stock-granting ESOP trust)

An explanatory note about the stock-granting ESOP trust is included in the Notes to Consolidated Financial Statements under (Additional information), so the same content is omitted here.

(ESOP trust for directors)

An explanatory note about the ESOP trust for directors is included in the Notes to Consolidated Financial Statements under (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 impairment accounting for non-current assets, etc. are based on information available when the consolidated financial statements were prepared.

Although the prospects for the future spread and timing for containment of the pandemic are uncertain, the Company believes that the spread of COVID-19 will not significantly impact current accounting estimates.

(Notes to non-consolidated balance sheets)

*Subsidiaries and affiliates

Receivables from and payables to subsidiaries and associates other than those separately disclosed

Unit: million yen

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|-----------------------------|----------------------------|----------------------------|
| Accounts receivable – other | 1,759 | 151 |
| Accounts payable – other | 634 | 629 |

(Notes to non-consolidated statements of income)

*1 Transactions with subsidiaries and associates

Unit: million yen

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|---|--|--|
| Outsourcing service revenue from associates | 576 | 564 |
| Other outsourcing service revenue | 9 | 12 |
| Commissions paid | 2,728 | 2,446 |
| Dividend income | 4,160 | 4,470 |

*2 The percentage of costs included as general management expenses was 19% for FY2021 and 22% for FY2022. Major components of operating and general administrative expenses and their amounts are as follows.

Unit: million yen

| | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|-------------------------------------|--|--|
| Commissions paid | 2,760 | 2,478 |
| Salaries and bonuses | 327 | 357 |
| Administrative outsourcing expenses | 109 | 158 |

*3 Loss on valuation of investment securities

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

*4 Loss on valuation of shares of subsidiaries and associates

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

Loss on valuation of shares of subsidiaries and associates relates to the consolidated subsidiaries SPARX Overseas, Ltd. and SPARX Asia Capital Management Limited.

FY2022 (April 1, 2022 – March 31, 2023)

Loss on valuation of shares of subsidiaries and associates relates to the consolidated subsidiary SPARX Overseas, Ltd.

*5 Gain on liquidation of subsidiaries

FY2022 (April 1, 2022 – March 31, 2023)

Gain on liquidation of subsidiaries relates to the consolidated subsidiary, SPARX Capital Investments, Inc.

*6 Income from investment partnership management

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

Revenue from investment partnership management on the non-consolidated statements of income includes a performance fee of 245 million yen in the event of capital gains generated from the sale of a power station in which the renewable energy fund has invested. This fee is calculated by multiplying the gain on the sale by a certain rate.

(Securities)

Shares of subsidiaries and associates and other securities of subsidiaries and associates

Amount of shares, etc. without market prices on the non-consolidated balance sheets

Unit: million yen

| Classification | FY2021 (April 1, 2021 – March 31, 2022) | FY2022 (April 1, 2022 – March 31, 2023) |
|---|--|--|
| Shares of subsidiaries | 6,773 | 6,607 |
| Shares of associates | 369 | 369 |
| Other securities of subsidiaries and associates | 320 | 291 |

(Notes to tax effect accounting)

1. Major causes of deferred tax assets and deferred tax liabilities

| | FY2021 (March 31, 2022) | Unit: million yen FY2022 (March 31, 2023) |
|---|----------------------------|---|
| Deferred tax assets | | |
| Non-recognition of loss on valuation of shares of subsidiaries and associates | 5,926 | 5,943 |
| Non-recognition of loss on valuation of investment securities | 480 | 495 |
| Non-recognition of unsettled liabilities | 18 | 17 |
| Non-recognition of bad debt losses | 48 | 45 |
| Net operating loss carryforwards | 257 | 238 |
| Valuation difference on available-for-sale securities | 54 | 17 |
| Other tax adjustments | 251 | 251 |
| Subtotal deferred tax assets | 7,036 | 7,008 |
| Valuation allowance for tax loss carryforwards | (257) | (238) |
| Valuation allowance for total deductible temporary differences | (6,762) | (6,647) |
| Subtotal valuation allowances | (7,020) | (6,885) |
| Total deferred tax assets | 16 | 122 |
| Deferred tax liabilities | | |
| Valuation difference on available-for-sale securities | 468 | 326 |
| Total deferred tax liabilities | 468 | 326 |
| Net deferred tax liabilities | (452) | (203) |

2. Breakdown of major items that caused a significant difference between the normal statutory effective tax rate and the actual effective tax rate after application of tax effect accounting

| | FY2021 (March 31, 2022) | FY2022 (March 31, 2023) |
|--|----------------------------|----------------------------|
| Normal statutory effective tax rate | 30.6% | 30.6% |
| (Adjustments) | | |
| Entertainment expenses and other expenses not permanently includable in losses | 4.9 | 0.9 |
| Expiration of local tax loss carryforwards | 0.8 | - |
| Equalization of residential taxes | 0.0 | 0.0 |
| Changes in valuation allowance | 9.6 | (1.8) |
| Dividend income and other expenses not permanently includable in income | (38.1) | (25.8) |
| Tax credits | - | (0.0) |
| Differences due to application of consolidated taxation | 0.1 | 0.0 |
| Differences due to change in tax rate | 0.0 | 0.0 |
| Others | (2.9) | (1.8) |
| Actual effective tax rate after application of tax effect accounting | 5.0 | 2.1 |

3. Accounting for national and local business taxes or accounting for tax effect accounting for those taxes

The Company has adopted a group tax sharing system from FY2022. Further, accounting of national and local business taxes or their tax effect accounting and the disclosure of same is conducted according to the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ Practical Solution No.42, August 12, 2021).

(Notes on business combinations)

There are no relevant matters.

(Notes on revenue recognition)

Basis for understanding revenue from contracts with clients

As described above in (Significant accounting policies), 4. Accounting standards for revenue and expenses.

(Significant subsequent events)

Gain on sale of investment securities

The Company recorded extraordinary income in the form of a gain on sale of investment securities as described below due to the sale of a portion of its holdings of investment securities.

1. Timing of generation of gain on sale of investment securities

May 19, 2023

2. Reason for sale of investment securities

To improve asset efficiency and the soundness of financial position by scrutinizing seed investments for new investment strategies, etc. and divesting investment securities that have served their purpose.

3. Details of sale of investment securities

(1) Type of assets sold 1 issue of investment securities held by the Company

(2) Gain on sale 1,109 million yen

4) Non-consolidated Supplementary Schedules

Property, plant and equipment

Unit: million yen

| Asset type | Balance at beginning of period | Increase during period | Decrease during period | Balance at end of period | Accumulated depreciation or amortization at end of period | Amortization during period | Net balance at end of period |
|-------------------------------------|--------------------------------|------------------------|------------------------|--------------------------|---|----------------------------|------------------------------|
| Property, plant and equipment | | | | | | | |
| Vehicles | 6 | – | – | 6 | 6 | – | 0 |
| Land | 68 | – | – | 68 | – | – | 68 |
| Total property, plant and equipment | 74 | – | – | 74 | 6 | – | 68 |
| Intangible assets | | | | | | | |
| Software | 0 | – | – | 0 | 0 | 0 | 0 |
| Total intangible assets | 0 | – | – | 0 | 0 | 0 | 0 |

Detailed schedule of allowances

There are no relevant matters.

(2) Details of major assets and liabilities

This information is omitted as the Company prepares consolidated financial statements.

(3) Other

There are 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 following the end of the fiscal year |
| Record date | March 31 |
| Record dates 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 office | (Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited |
| Administrator of shareholders' register | (Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited |
| Transfer office | – |
| Purchase fee | No charge |
| Method of public notice | Public notices of the Company are delivered by electronic means on the Company's website (http://www.sparx.jp) or, if electronic public notice is not possible due to unavoidable circumstances, by publication in the Nihon Keizai Shimbun (Nikkei). |
| Shareholder benefits | There are no relevant matters. |

Note: 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 make a demand in accordance with 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 the shareholder

Section 7. Reference Information on the Filing Company

1. Information on the 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) Annual Securities Report and its attachments and Confirmation Letter thereof
Fiscal year (33rd term) (April 1, 2021 – March 31, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on June 24, 2022
- (2) Internal Control Report and attachments thereto

Submitted to the Director-General of Kanto
Finance Bureau on June 24, 2022
- (3) Quarterly Securities Reports and Confirmation Letters thereof
(1st quarter of 34th term) (April 1, 2022 – June 30, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on August 10, 2022

(2nd quarter of 34th term) (July 1, 2022 – September 30, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on November 11, 2022

(3rd quarter of 34th term) (October 1, 2022 – December 31, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on February 10, 2023
- (4) Amendments to Annual Securities Reports and their attachments and Confirmation Letters thereof
Fiscal year (33rd term) (April 1, 2021 – March 31, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on June 9, 2023

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

Submitted to the Director-General of Kanto
Finance Bureau on June 9, 2023

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

Submitted to the Director-General of Kanto
Finance Bureau on June 9, 2023

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

Submitted to the Director-General of Kanto
Finance Bureau on June 9, 2023
- (5) Extraordinary Reports
Article 19, Paragraph 2, Items 12 and 19 of the Cabinet Office Order on Disclosure of Corporate Affairs

Submitted to the Director-General of Kanto
Finance Bureau on May 19, 2023

Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs (Results of exercise of voting rights at the General Meeting of Shareholders)

Submitted to the Director-General of Kanto
Finance Bureau on June 12, 2023

Article 19, Paragraph 2, Item 12 of the Cabinet Office Order on Disclosure of Corporate Affairs

Submitted to the Director-General of Kanto
Finance Bureau on June 20, 2023

(6) Share Buyback Reports

Reporting period (October 1, 2022 - October 31, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on November 11, 2022

Reporting period (November 1, 2022 - November 30, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on December 9, 2022

Reporting period (December 1, 2022 - December 31, 2022)

Submitted to the Director-General of Kanto
Finance Bureau on January 10, 2023

Reporting period (January 1, 2023 - January 31, 2023)

Submitted to the Director-General of Kanto
Finance Bureau on February 10, 2023

(7) Amended Shelf Registration Statement (bonds)

Submitted to the Director-General of Kanto
Finance Bureau on May 19, 2023

Submitted to the Director-General of Kanto
Finance Bureau on June 12, 2023

Submitted to the Director-General of Kanto
Finance Bureau on June 20, 2023

Part 2: Information about Reporting Company's Guarantor, Etc.

There are no relevant matters.