August 8, 2012

To Our Valued Shareholders and Investors

I would like to highlight some of the key developments that occurred during the first three quarters of fiscal 2012, our 18th business year.

Our progress on the performance front is certainly disappointing, but generally, from a fundamental perspective, our business situation is “not bad” and mirrors the situation that prevailed in the first half.

There are two main reasons why our performance is not improving at a faster pace.

First off, each business segment is involved in several large deals, and we haven’t been able to book these deals as numerical values yet. For example, the sale of stock in existing investments is definitely on our "to do" list, but since some of these investments could present considerable improvement in results next term, we have to consider the option of holding the investments until corporate value has improved further. With such investments, we can’t obsess about the fiscal year-end and we can’t rush the process; rather, we have to play the course and make our move based on how the investment will contribute to our own corporate value.

Second, the asset management business and the public finance-related business are not particularly fertile ground for producing operating income. In the asset management realm, the scandal surrounding AIJ Investment Advisors—a Tokyo-based money manager that lost clients’ pension assets through bad equity and bond derivatives trading and falsified reports to investors to hide the situation—tainted independent fund managers, including some FGI subsidiaries, as well and forced pension funds to take a more cautious stance on new investments. The situation is unlikely to change dramatically any time soon. For the present, steps were taken to lower the break-even point and allow diminishing equilibrium by cancelling discretionary investment contracts for a global macro fund plagued by deteriorating investment and performance fees running deep into the red, mainly because of the turmoil in financial markets caused by the European sovereign debt crisis.

Meanwhile, in the public finance-related business realm, public accounting consultation services—the portal or contact point to connect with local governments—is an exclusive market where we enjoy a dominant position. This segment plays an extremely useful role as an inquiry route for investments and loans, especially for renewable energy projects, as well as opportunities for associated arrangements. Unfortunately, the business itself remains in the red. Looking toward the next term, we are in the process of making operations more efficient, including steps to outsource some operations, such as systems engineering, to a service provider.

Overall, I feel that business development capabilities in all areas of the Group's activities are much better than they were last term. We are now able to take on large deals, such as our once-mainstay arrangement product—real estate development securitization—and financial arrangements to support renewable energy projects, which carry the potential for repeat requests or a series of requests from the same client. This trend provides considerable peace of mind in that we can draw on wider opportunities for revenue.

I believe our structural transitioning is beginning to deliver results in that the principal investment division, which has become a core business and key source of revenue in recent years, now has the capacity to offset unfavorable conditions in peripheral businesses. When business conditions are uncertain, we will be able to book full-year ordinary corporate profit on mainstay financial arrangements and add revenue from several investment exits a year like icing on a cake.

Right now, we are right in the middle of the fourth quarter—the last stretch. Management and employees will strive earnestly to fulfill respective duties. The warm support of you, our valued shareholders, will be integral to our success.

Nobumitsu Tamai
President, FinTech Global Incorporated