c 5?? 35

Japaninvest

Japaninvest Group plc

Report and accounts for the year ended

31 December 2006

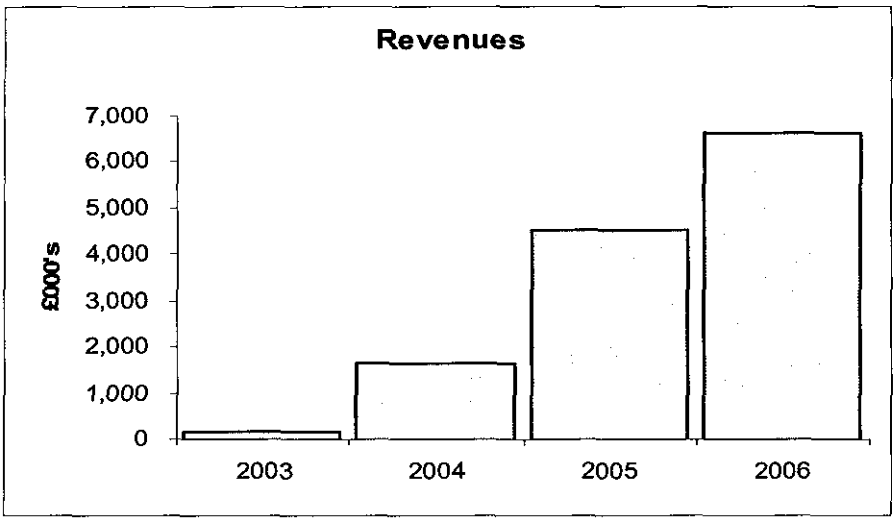
Japaninvest Group plc

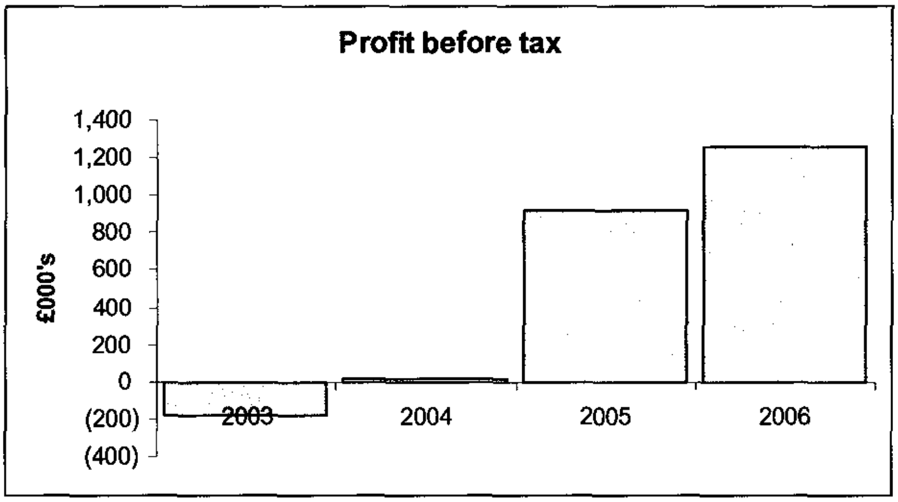
Report and accounts for the year ended 31 December 2006

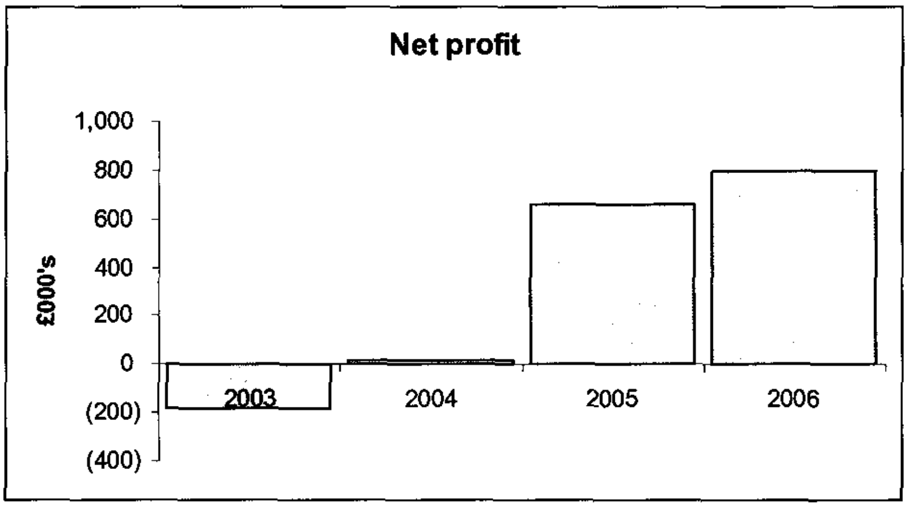
Page:	Contents

Japaninvest Group plc

Financial highlights for the year ended 31 December 2006







Japaninvest Group plc

Directors and advisers

Directors	Sir John S Whitehead*	Chairman
	Rupert J A Eastwood	Chief Executive Officer, CEO
	Mark E Burges Watson	Chief Operating Officer, COO
	Alastair J Ramsay	Chief Financial Officer, CFO
	Ryohei Shimazaki	Chief Administrative Officer, CAO
	Alan D Brierley*	
	Julie A Craddock*	
	* - *denotes non-executive*	
Secretary	Rupert J A Eastwood	
Registered Office	48 Curzon Street, London W1J 7UL	
Company number	4547135	
Auditors	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL, UK	
Principal Bankers	HSBC Bank plc 1 Sydney Place Onslow Square London SW7 3NW, UK	Mizuho Bank, ltd. 5-1-5 Toranomon Minato-ku Tokyo 105-0001, Japan
Lawyers	Simmons & Simmons CityPoint One Ropemaker Street London EC2Y 9SS, UK	Mori Hamada & Matsumoto Marunouchi Kitaguchi Building 1-6-5 Marunouchi Chiyoda-ku, Tokyo 100-8222, Japan
Broker	Mizuho Investors Securities Co., Ltd. Shibusawa City Place 1-13-16 Nihonbashi Kayaba-cho Chuo-ku, Tokyo 103-8658, Japan	

Japaninvest Group plc

Chairman's Statement for the year ended 31 December 2006

This has been an eventful and exciting year for the company. On 7 December 2006 Japaninvest Group plc became the first UK company to have a primary listing of its shares on the Tokyo Stock Exchange. I would therefore like to welcome the new shareholders to the company.

I have been involved with Japaninvest since 2004 and accepted an invitation to join the board as Non-Executive Chairman in February of last year. Two further non-executive and two executive directors were appointed to the board at the same time, joining the company founders, Rupert Eastwood and Mark Burges Watson. We are all firmly committed to strengthening the company's corporate governance to ensure improving value for shareholders. Audit, Remuneration and Nomination Committees have been established and an internal audit officer has been appointed.

The year has seen the group continue to grow both revenues and profits despite difficult market conditions. Revenues have increased markedly at our US subsidiary and there has been continued strong growth from the more established operations in London and Tokyo. By the end of 2006 the sales and research teams had each grown to 12 (total number of employees in the group is now 32) and new systems were developed to ensure that our clients received a markedly improving service as the core of our business.

The achievements of the past year have been due to the exceptional hard work of all my colleagues and the continued loyalty and goodwill of our clients. Your company remains committed to producing continued growth and performance in the years ahead.

Sir John S Whitehead
13 February 2007

The directors present their report together with the audited financial statements on pages 16 to 33 for the year ended 31 December 2006 as prepared under UK Generally Accepted Accounting Practice.

Results and dividends

The profit and loss account of the group is set out on page 16 and shows a profit for the year ended 31 December 2006 of £802,339 (year ended 31 December 2005 – £663,425, as restated). The directors do not recommend the payment of a dividend.

Principal activities

The principal activity of the group is the earning of commissions from institutional investors arising from the provision of research, analysis and sales advice regarding Japanese listed stocks.

Review of the business

The profit and loss account of the group is set out on page 16 and shows turnover for the year of £6,635k, an increase of 45% on the year ended 31 December 2005. This result is especially encouraging as it was achieved during a year in which market conditions were difficult, with the main TOPIX index of shares traded on the Tokyo Stock Exchange showing little growth whilst there was strong performance in the London, New York and Asian (excluding Japan) stock markets. In addition, there was underperformance in the small and mid-cap stocks on which Japaninvest focuses its research. The directors were pleased with the growth of revenues out of the US subsidiary, which saw 375% growth to £987k.

The group continued to expand and improve the quality of its Japanese equity product over the year. In particular it developed a cutting edge quantitative product which is now included in all fundamental research reports and aids stock selection for analysts. In addition, the group started a bespoke quantitative service. On sales, the group commenced selling to European investors by adding two salespersons to cover German and French speaking clients. Both areas are now revenue generating. The group also strengthened sales desks in Tokyo and New York.

Profit on ordinary activities for the year of £802k represented annual growth of 21%, lower than growth in revenues mainly as a result of the cost of listing the company and associated restructuring. On 22 May 2006, following the passing of special resolutions at an Extraordinary General Meeting, the share capital of the company was reorganised with a bonus issue of 19 ordinary shares of 10p for each ordinary share of 10p held followed by a consolidation of 1 ordinary share of £1 for every 10 ordinary shares of 10p held. Therefore, the authorised share capital of the company increased to 1,000,000 ordinary shares of £1 each (from 100,000 ordinary shares of 10p each). At the same meeting, the name of the company was changed from Japaninvest (Holdings) Limited to Japaninvest Group plc.

In addition to the above equity re-organisation, the group strengthened its corporate governance to provide a reliable framework for the future funding and development of its business. During 2006 the group appointed three non-executive directors (including the chairman) and a chief internal audit officer, as well as two new executive directors.

On 7 December 2006, Japaninvest Group plc became the first UK company to have its primary listing of shares on the Tokyo Stock Exchange (Mothers market). The company issued 9,000 new ordinary shares of £1 and raised £5,510k. Costs relating to the listing were £700k, of which £144k has been applied to the share premium account as allowed by section 130 of the Companies Act 1985. The remaining £556k of listing costs were charged to the profit and loss account. In addition to the impact of listing costs on profit before taxation, not all these costs are allowable for taxation purposes. This resulted in the group's effective tax rate increasing from 28% to 36%.

The proceeds of the listing will be used to expand the business. Approximately half of the funds has been earmarked to improve the current Japanese equities product and to further develop quantitive and IT systems. It is intended that the other half of the listing proceeds be utilised in expanding our product into other Asian markets.

Excluding costs related to the listing, administrative expenses increased by 34%. The largest expense of the group, staff costs (including directors' remuneration), rose by 17%. Other costs (primarily rent, professional fees and data costs) increased as a result of higher staff numbers, and the resulting requirement for more office space, and the higher regulatory burden associated with being a listed company.

At 31 December 2006, group cash balances had increased to £7,529k from £1,381k the previous year. The major contributors to this increase were the listing proceeds of £5,510k and £826k net cash inflow from operating activities. The largest negative cash flow item was the placing of funds received on deposit for one month. Cash at bank and in hand now constitutes 95% of net assets (2005: 118%).

The directors are satisfied with the result for the period and believe that the business continues to demonstrate excellent growth prospects.

Key Performance Indicators (KPIs)

The main KPIs used by management are revenues growth, staff remuneration as a percentage of revenues and non-revenue costs as a percentage of revenues.

In 2006, despite difficult market conditions, revenues grew by 45% as detailed in our review of the business above.

Total staff remuneration (including benefits) for the year represented 52% of revenues versus 64% in 2005. This remuneration is made up of fixed salary, variable bonus payments and housing for expatriates. The size of the bonus payments for the majority of staff is determined every quarter as a percentage of the difference between operating revenue and operating costs excluding remuneration. As a result, bonus payments, and therefore staff remuneration, are directly linked to the operating performance of the group. Other staff receive a discretionary semi-annual bonus.

Non-staff costs as a percentage of total revenues in 2006 was 30% (2005: 16%). When adjusted for listing costs, this percentage is 22%. Apart from listing costs, key reasons for the increase included data costs for the quantitative product, office moves in both London and Tokyo to better located and larger premises to cater for future growth, and increased travel as analyst visits to clients were increased. Management is focused on decreasing costs as a percentage of revenues and this KPI as the company expands, thereby adding to the operating margin over time.

Principal business risks

Market volatility
The group is dependent on clients trading in Japanese equities for its revenues. The performance of the group is therefore linked to the attractiveness of Japanese stocks to foreign investors. Should foreign investors no longer be willing or able to invest in this market, either through poor market performance or through regulatory changes, there could be a significant adverse effect on the group's revenues. By expanding the group's product to cover other Asian stock markets, this risk should be diluted.

Loss of staff
Recruiting and retaining staff, particularly key revenue generators, is vital for current and future growth of the business. Management aims to provide an attractive working environment and remuneration package to reduce the risk of unacceptably high staff turnover.

Reputational
Japaninvest's good reputation with clients is dependent on providing quality research reports and sales advice from which they can obtain value. Poor performance could therefore impact Japaninvest's reputation over the longer term. To minimise this risk, there are stringent compliance procedures for research and all sales staff are registered with the appropriate regulator for each country.

Execution quality
The group's revenues are mainly derived from commission on trades passed through our execution counterparties. Management monitors the quality of the execution and works with clients to ensure they receive the execution service they expect.

Financial risk management

As Japaninvest Group plc is a UK company with operations in Japan and the US, its main financial risk is exposure to foreign currencies. Foreign currency denominated cash balances are held to fund overseas operations and as a result of trading activities. This risk is monitored with the aim that foreign currency cash balances offset foreign currency liabilities.

The group is also exposed to interest rate risk through its use of short term money market deposits. These deposits are placed with the group's approved banks with the aim of maximising the return on any funds not being utilised in the day to day business operations.

Liquidity is not currently a problem for the group following its issuance of new shares. Day to day cash requirements are calculated and sufficient funds retained on hand to fulfil these obligations. The remainder is placed on deposit with one of the group's approved banks.

Further information on the policies and use of financial instruments can be found in Note 19.

Directors interests

The directors of the company during the period and their beneficial interests (unless otherwise stated) in the ordinary share capital of the company were as follows:

	Ordinary shares of £1 each at 31 Dec 06	**Options over ordinary shares of £1 each at 31 Dec 06**	**Ordinary shares of £1 each at 1 Jan 2006**	**Options over ordinary shares of £1 each at 1 Jan 2006**
		Adjusted for bonus issue and share consolidation		
Sir J S Whitehead	**160**	-	-	160
M E Burges Watson	**10,354**	-	12,654	-
R J A Eastwood	**13,200**	-	15,290	-
A J Ramsay	-	**400**	-	400
R Shimazaki	-	**1,000**	-	1,000
A D Brierley	-	-	-	-
J A Craddock	**30**	-	-	-

A J Ramsay and R Shimazaki were appointed executive directors of the company on 8 February 2006. A D Brierley, J A Craddock and Sir J S Whitehead were appointed as non-executive directors on 8 February 2006. Sir J S Whitehead acts as chairman of the board.

Charitable and political donations

During the year the group made no political or charitable donations (2005: £ nil).

Creditor payment policy

It is the group's policy to pay all of its trade creditors within the agreed period, normally 30 days. On average, creditors were paid within 22 days (2005: 23 days).

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Accounts made available on the company website

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

On behalf of the board

A J Ramsay
Director
13 February 2007

Statement of Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board of Japaninvest Group plc, chaired by Sir J S Whitehead, now meets at least six times a year to discuss major strategic and operational issues of the group and review trading performance, business strategy and any other matters of significance to the group. The board intends that, so far as is practicable and to the extent appropriate having regard to the size of Japaninvest, it will consider and where appropriate comply with the Combined Code on Corporate Governance issued in the United Kingdon.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Remuneration Committee

The Remuneration Committee, chaired by J A Craddock, comprises all of the non-executive directors of the company. The Remuneration Committee determines salary levels, discretionary bonuses and the terms and conditions of service of the executive directors. The committee also reviews the group's remuneration policy. The report of the Remuneration Committee for the year ended 31 December 2006 can be found on page 12.

Audit Committee

In 2006 Japaninvest's Audit Committee was comprised solely of Non Executive Directors. Chaired by Alan Brierley, the other members were Sir John Whitehead and Julie Craddock all of whom were appointed to the board on 8th February 2006. The board is satisfied that at least one member of the Committee has past and relevant financial experience.

Normally the Finance Director is invited to attend at least a part of Audit Committee meetings, as do representatives of the external auditors and the internal auditor. The Audit Committee's terms of reference are available on request from the Company Secretary.

In summary, the Committee assists the board in reviewing the effectiveness of internal control. The Committee also reviews financial statements to be published externally before their submission to the board, to ensure that they present a fair assessment of the group's position and prospects. The Committee met with the external auditors twice in 2006 without management being present. Likewise the Committee or Chairman met regularly with the internal auditor throughout the year without management being present.

The Committee also keeps under review the independence and objectivity of the external auditors, and their effectiveness. In particular, the Committee oversees the nature and amount of non-audit work undertaken by BDO Stoy Hayward each year to ensure that true independence is safeguarded. Details of this year's fees are given in note 4 of the financial statements for the group. The Committee met formally six times during 2006.

Nomination Committee

The Nomination committee is chaired by J A Craddock and comprises all of the non-executive directors together with the CEO and the COO. The committee is responsible for leading the process for board appointments (including appointment to the Remuneration and Audit committees) and making recommendations to the board accordingly. As appropriate, the committee may review the composition of the board as well as the capability of each individual director to maintain and develop the board's effectiveness.

Executive Committee

The Executive Committee, chaired by the CEO, comprises the executive directors, with research and sales managers appointed by the board as appropriate, and meets on a monthly basis. The committee is responsible for day-to-day operational matters, reviewing and monitoring financial and operational performance, and the development of business strategies and policies for recommendation to the board.

Budget Committee

The Budget Committee, chaired by the CEO, comprises the CFO and the COO as well as other relevant executive officers as appointed by the CEO. The committee is responsible for building and monitoring the group's budgets and setting remuneration levels for employees. The committee meets on a monthly basis.

Internal Control

The board of directors is responsible for maintaining the group's system of internal control and for reviewing its effectiveness. As part of these responsibilities, an Internal Audit Officer is nominated and appointed by the CEO. The Internal Audit Officer is responsible for reviewing and assessing any issues related to the group's internal integrity, governance and control, and reports directly to the CEO, who is responsible for ultimately implementing necessary improvement measures, and to the Audit Committee. The Internal Audit Officer makes at least two formal "Internal Audit Reports" per year.

Japaninvest Group plc

Directors' remuneration report for the year ended 31 December 2006

The responsibility for the remuneration policy for executive directors and the setting of individual directors' remuneration packages is delegated to the board's Remuneration Committee. The Remuneration Committee also oversees the group remuneration policies. The members of the Remuneration Committee are J A Craddock (Chairman), Sir J S Whitehead and A D Brierley, who are all non-executive directors.

Remuneration policy

Remuneration of executive directors is structured as a function of the profitability of the group. Each executive director receives a basic salary and performance bonus payments in the year.

R J A Eastwood and M E Burges Watson are rewarded through the group's 'partner' profit share scheme on a quarterly basis. By these means the size of the total bonus payment is determined every quarter as a percentage of the difference between operating revenue and operating costs excluding remuneration. As a result, bonus payments are directed linked to the operating performance of the group. Allocation of the total bonus payment to individual 'partners' (senior sales and research staff) is based on an individual's performance in the quarter, either through improved revenue generation or performance and quality of research output.

A J Ramsay and R Shimazaki receive discretionary bonuses based on performance and the group's profitability on a semi-annual basis.

In all cases, total remuneration is reviewed in relation to work undertaken and to comparable salaries.

Service Contracts

No director has a specific service contract. All employment contracts are subject to a notice period of not less than 30 days.

Directors' remuneration

	Salary and fees £	Bonus payments £	Benefits in kind £ (note)	2006 Total £	2005 Total £
Executives					
R J A Eastwood	**100,341**	**70,387**	**2,891**	**173,619**	195,086
M E Burges Watson	**51,000**	**110,616**	**32,807**	**194,423**	176,921
A J Ramsay	**45,000**	**30,000**	**994**	**75,994**	-
R Shimazaki	**67,745**	**49,313**	**-**	**117,058**	-
Non-executives					
Sir J S Whitehead	**11,000**	**-**	**-**	**11,000**	-
A D Brierley	**11,000**	**-**	**-**	**11,000**	-
J A Craddock	**11,000**	**-**	**-**	**11,000**	-
Total	**297,086**	**260,316**	**36,692**	**594,094**	372,007
	185,740	182,948	3,319	372,007	

Note Benefits comprise medical and life insurance. M E Burges Watson also received benefits totalling £29,626 related to relocation costs.

Japaninvest Group plc

Directors' remuneration report for the year ended 31 December 2006

Share options

The following options were held by directors at 31 December 2006 and throughout the year.

Director	Date of grant	Number of options	Exercise price	Earliest exercise date	Latest exercise date
A J Ramsay	31 Dec 05	100	338.50	31 Dec 06	31 Dec 11
	31 Dec 05	100	338.50	31 Dec 07	31 Dec 11
	31 Dec 05	100	338.50	31 Dec 08	31 Dec 11
	31 Dec 05	100	338.50	31 Dec 09	31 Dec 11
R Shimazaki	4 Nov 05	400	200.00	7 Dec 06	31 Dec 11
	4 Nov 05	200	200.00	7 Dec 07	31 Dec 11
	4 Nov 05	200	200.00	7 Dec 08	31 Dec 11
	4 Nov 05	200	200.00	7 Dec 09	31 Dec 11

The following options were held by Sir J S Whitehead at the beginning of the year but exercised on 22 March 2006.

Date of grant	Number of options	Exercise price	Earliest exercise date	Latest exercise date
17 Feb 04	40	50.00	1 Jan 05	1 Jan 10
17 Feb 04	40	75.00	1 Jan 06	1 Jan 10
17 Feb 04	40	100.00	1 Jan 07	1 Jan 10
17 Feb 04	40	125.00	1 Jan 08	1 Jan 10

Early exercise of the above options was discussed and approved by the board on 8 March to ensure that Sir J S Whitehead had no conflict of interests in his role as non-executive chairman. The notional gain at the time of exercise of these options was £3,460.

Pensions

No pension contributions were made on behalf of any director in the year under review.

J A Craddock
Chairman of the Remuneration Committee
13 Feb 2007

Independent Auditors' Report

To the shareholders of Japaninvest Group plc

We have audited the group and parent company financial statements (the "financial statements") of Japaninvest Group plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
London

13 February 2007

Japaninvest Group plc

Consolidated profit and loss account for the year ended 31 December 2006

	Note	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £ (as restated)
Turnover	1	**6,635,393**	4,564,346
Gross profit		**6,635,393**	4,564,346
Administrative expenses	3	**5,431,326**	3,648,311
Operating profit	4	**1,204,067**	916,035
Interest receivable		**56,998**	10,592
Profit on ordinary activities before taxation		**1,261,065**	926,627
Taxation on profit from ordinary activities	6	**458,726**	263,202
Profit for the financial year		**802,339**	663,425
		£	£
Basic earnings per share	12	**13.60**	13.81
Diluted earnings per share	12	**12.31**	11.76

The notes on pages 21 to 33 form part of these Financial Statements.

Consolidated statement of total recognised gains and losses for the year ended 31 December 2006

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £ (as restated)
Profit for the financial year	**802,339**	663,425
Exchange difference on retranslation of net assets of subsidiary undertakings	**(24,773)**	6,855
Total recognised gains and losses for the financial year	**777,566**	670,280
Prior year adjustment (see note 13)	**(11,317)**	
Total gains and losses recognised since last annual report	**766,249**	

The notes on pages 21 to 33 form part of these Financial Statements.

Japaninvest Group plc

Consolidated balance sheet at 31 December 2006

	Note	31 Dec 2006 £	31 Dec 2006 £	31 Dec 2005 £	31 Dec 2005 £
Fixed assets					
Tangible assets	8		156,936		34,613
Current assets					
Debtors	10	1,126,545		934,496	
Cash at bank and in hand		7,528,701		1,380,664	
		8,655,246		2,315,160	
Creditors: amounts falling due within one year	11	903,028		1,183,889	
Net current assets			7,752,218		1,131,271
Net assets			7,909,154		1,165,884
Capital and reserves					
Called up share capital	15		70,560		2,422
Share premium account	16		6,536,939		644,482
Profit and loss account	16		1,301,655		518,980
Shareholders' funds – equity	17		7,909,154		1,165,884

The Financial Statements were approved by the board on 13 February 2007

A J Ramsay
Director

The notes on pages 21 to 33 form part of these financial statements.

Japaninvest Group plc

Company balance sheet at 31 December 2006

	Note	31 Dec 2006 £	31 Dec 2006 £	31 Dec 2005 £	31 Dec 2005 £
Fixed assets					
Investments	9		**513,162**		513,162
Current assets					
Debtors	10	**118,049**		956	
Cash at bank and in hand		**5,963,392**		157,507	
		6,081,441		158,463	
Creditors: amounts falling due within one year	11	**551,347**		14,488	
Net current assets			**5,530,094**		143,975
Net assets			**6,043,256**		657,137
Capital and reserves					
Called up share capital	15		**70,560**		2,422
Share premium account	16		**6,536,939**		644,482
Profit and loss account	16		**(564,243)**		10,233
Shareholders' funds – equity	17		**6,043,256**		657,137

The Financial Statements were approved by the board on 13 February 2007

A J Ramsay
Director

The notes on pages 21 to 33 form part of these financial statements.

Japaninvest Group plc

Consolidated cash flow statement for the year ended 31 December 2006

	Note	Year ended 31 Dec 2006 £	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £ (as restated)	Year ended 31 Dec 2005 £ (as restated)
Net cash inflow from operating activities	20		**825,927**		983,930
Returns on investments and servicing of finance					
Interest received		**56,998**		10,592	
Net cash inflow from returns on investments and servicing of finance			**56,998**		10,592
Taxation					
Taxation paid			**(482,544)**		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**188,166**		14,456	
Net cash outflow from capital expenditure and financial investment			**(188,166)**		(14,456)
Cash inflow before management of liquid resources and financing			**212,215**		980,066
Management of liquid resources					
Funds placed on one month deposit		**(5,509,596)**		-	
Cash (outflow)/inflow before financing			**(5,297,381)**		980,066
Financing					
Share capital subscribed	17	**5,960,595**		35	
Cash inflow from financing			***5,960,595***		35
Increase in cash in the period	21		**663,214**		980,101

The notes on pages 21 to 33 form part of these Financial Statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except for the policy on share based payments. The group has adopted Financial Reporting Standard 20 – "Share based payments" for the first time in these financial statements. This has resulted in a prior period adjustment being made to the comparatives in the financial statements (see note 13).

The principal accounting policies are:

Basis of consolidation

The consolidated Financial Statements incorporate the results of Japaninvest Group plc and all of its subsidiaries as at 31 December 2006 using the acquisition method of accounting.

Turnover

Turnover represents commissions due under commission share agreements plus research fees receivable from third parties. It is recognised on an accruals basis having regard to notifications from clients and other information available to directors and accounted for in the period to which it relates. In the event that commissions or fees are received in advance, these amounts are included in deferred income.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets. It is calculated at the following rates:

IT equipment	-	25% per annum
Fixtures and fittings	-	25% per annum
Leasehold improvements	-	amortised over the life of the lease.

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

The results of overseas operations and their balance sheets are translated into sterling at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the profit and loss account at the rates of exchange ruling on the balance sheet date are taken to reserves.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

1 Accounting policies *(Continued)*

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term even if payments are not made on such a basis.

Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where the equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

2 Segmental information

Group turnover represents commissions earned on trades in, and research on Japanese equities. Many of the group's clients are based in more than one geographic location so the segmental information disclosed below is by reporting location.

	UK	USA	Japan	Consolidated
Year ended 31 December 2006	**£**	**£**	**£**	**£**
Turnover	**5,362,596**	**987,012**	**285,785**	**6,635,393**
Profit before tax	**999,113**	**135,219**	**126,733**	**1,261,065**
Net assets	**7,554,626**	**236,941**	**117,587**	**7,909,154**
Year ended 31 December 2005				
Turnover	4,253,605	207,700	103,041	4,564,346
Profit before tax	809,551	8,920	108,156	926,627
Net assets	969,420	118,993	77,471	1,165,884

3 Administrative expenses

Administrative expenses include costs incurred in the listing of the company's shares. On 7 December 2006, Japaninvest Group plc listed its shares on the Mothers market of the Tokyo Stock Exchange, raising £5,509,596 (gross proceeds less underwriting costs). Fees and related expenses of £700,234 were incurred in this process, of which £144,371 has been taken to the share premium account in accordance with section 130 of the Companies Act 1985. The remainder was charged as administrative expenses.

4 Operating profit

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
This is arrived at after charging:		
Depreciation	**65,623**	18,946
Hire of other assets – operating leases	**383,390**	337,269
Auditors' remuneration (see below)	**155,978**	43,510
Exchange differences	**142,123**	(15,104)

Auditors' remuneration		
Fees payable to the company's auditors:		
for the audit of the company's annual accounts	**64,708**	6,020
for non-audit services	**43,075**	-
Fees payable to the company's auditors and their associates		
for the audit of the group's annual accounts	**35,265**	37,490
for non-audit services	**12,930**	-
	155,978	43,510

5 Employees

	Year ended 31 Dec 2006 Number	Year ended 31 Dec 2005 Number
Average number of employees	**29**	20

Staff costs for all employees, including executive directors, consist of:	**£**	£
Wages and salaries	**3,055,042**	2,497,959
Social security costs	**169,261**	178,592
	3,224,303	2,676,551

The disclosures in respect of directors' emoluments and share options are given in the report of the Remuneration Committee on page 12 to 13. There were no staff costs recorded by the company.

6 Taxation on profit from ordinary activities

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
UK corporation tax		
Current tax on profit of the period	**417,974**	227,070
Foreign tax		
Current tax on foreign income for the period	**40,752**	36,132
Taxation on profit on ordinary activities	**458,726**	263,202

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £ (as restated)
Profit on ordinary activities before tax	**1,261,065**	926,627
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 – 30%)	**378,320**	277,988
Effects of:		
Expenses not deductible for tax purposes	**137,538**	5,948
Depreciation in excess of capital allowances	**(1,476)**	2,738
Higher rates on overseas earnings	**20,728**	1,839
Tax losses	**-**	(24,235)
Rate difference	**70**	(1,076)
Tax credit on options exercised by employees based overseas	**(76,454)**	-
Current tax charge for period	**458,726**	263,202

7 Company loss for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The company's loss for the year is £579,585 (2005 – profit £3,710).

8 Tangible assets

Group	**Leasehold improvements £**	**IT equipment £**	**Fixtures and fittings £**	**Total £**
Cost				
At 1 January 2006	-	70,609	5,475	76,084
Additions	69,011	71,274	47,881	188,166
Disposals	-	(500)	(380)	(880)
At 31 December 2006	69,011	141,383	52,976	263,370
Depreciation				
As 1 January 2006	-	38,400	3,071	41,471
Charge in period	17,878	34,600	13,145	65,623
Disposals	-	(375)	(285)	(660)
At 31 December 2006	17,878	72,625	15,931	106,434
Net book value				
At 31December 2006	**51,133**	**68,758**	**37,045**	**156,936**
At 31 December 2005	-	32,209	2,404	34,613

9 Fixed asset investments

Company	**Investments in Subsidiaries £**
Cost	
At 1 January 2006	513,162
Additions	-
At 31 December 2006	513,162

Subsidiary undertakings	**Country of incorporation**	**Proportion of voting rights and share capital held**	**Nature of business**
Japaninvest Limited	England	100%	Provision of research and analysis of Japanese companies
Japaninvest KK	Japan	100%	Provision of research and analysis of Japanese companies
IND-X Securities Limited	England	100%	Dormant
Japaninvest Inc	USA	100%	Provision of research and analysis of Japanese companies

10 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade debtors	**619,756**	667,310	**16,734**	-
Amounts due from subsidiary undertakings	-	-	-	956
Other debtors	**340,756**	172,707	**101,315**	-
Prepayments	**127,671**	94,479	-	-
Deferred tax assets	**38,362**	-	-	-
	1,126,545	934,496	**118,049**	956

All amounts fall due for payment within one year with the exception of £21,440 (31 December 2005: £24,676) in other debtors relating to a regulatory deposit repayable in the event that Japaninvest KK no longer requires its regulatory permission. In addition, £92,394 (31 December 2005: £63,157) in other debtors relates to rental deposits for company provided accommodation for certain employees and directors based in Japan which are cancellable at two months notice. Other debtors also include a deferred tax asset in respect of recoverable trading losses of £38,362 (31 December 2005: £nil).

As at 31 December 2005 there was also an employee loan of £33,250 outstanding that was repayable no later than 30 June 2010. This was repaid on 30 April 2006.

11 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Other amounts:				
Trade creditors	**171,761**	79,904	**38,426**	-
Accruals	**353,922**	788,638	**122,077**	-
Other creditors	**99,599**	52,145	-	13,250
Corporation tax payable	**277,746**	263,202	-	1,238
Amounts due to subsidiary undertakings	-	-	**390,844**	-
	903,028	1,183,889	**551,347**	14,488

12 Earnings per share

The calculation of basic earnings per ordinary share is calculated on profit on ordinary activities after taxation as follows:

	Year ended 31 Dec 2006 Number	Year ended 31 Dec 2005 Number
Weighted average number of ordinary shares outstanding (restated for bonus issue and share consolidation)	**58,990**	48,024
Effect of options over ordinary shares	**6,193**	8,404
Diluted number of ordinary shares	**65,183**	56,428
	£	**£** (as restated)
Profit for the period	**802,339**	663,425
Basic earnings per share	**13.60**	13.81
Diluted earnings per share	**12.31**	11.76

13 Change to accounting policy

The group has applied FRS 20 – Share-based payments for the first time in this accounting period. This accounting standard requires the fair value of the options at the date of grant to be charged to the profit and loss account over the vesting period. The effect of this change in accounting policy on the comparatives is to reduce the operating profit for that period by £11,317. There is no effect on the balance sheet from this change in accounting policy. In the current year this adoption resulted in an adjustment of £5,109 being made in respect of share options.

14 Share-based payment

The company operates a share option scheme to incentivise employees. This scheme is registered as an Enterprise Management Incentive ("EMI") scheme for UK based employees. Options have been issued since the formation of the company in 2003 and have exercise prices based on a multiple of revenues in the previous quarter. Note that, as a result of the bonus issue and share consolidation of 22 May 2006, options that were previously over 1 ordinary share of 10p were converted into options over 2 shares of £1 each. The tables below detail the movements in the options outstanding and all figures (including comparatives) have been adjusted for the bonus issue and consolidation.

As at 31 December 2006

Exercise Price £	Options outstanding b/fwd	Granted in the period	Lapsed in the period	Exercised during the period	Options outstanding c/fwd	Weighted average remaining life (years)
1.00	7,200	-	(400)	(6,400)	400	3.0
40.00	1,720	-	-	(120)	1,600	5.0
50.00	40	-	-	(40)	-	-
75.00	9,560	-	-	(5,540)	4,020	4.0
100.00	40	-	-	(40)	-	-
125.00	860	-	(50)	(390)	420	5.0
200.00	2,420	-	-	(600)	1,820	4.9
338.50	2,150	-	(100)	-	2,050	5.0
436.50	-	2,450	(800)	-	1,650	5.0
497.50	-	1,600	-	-	1,600	5.0
	23,990	4,050	(1,350)	(13,130)	13,560	4.6

As at 31 December 2005

Exercise Price £	Options outstanding b/fwd	Granted in the period	Lapsed in the period	Exercised during the period	Options outstanding c/fwd	Weighted average remaining life (years)
1.00	8,100	-	(200)	(700)	7,200	4.0
40.00	1,720	-	-	-	1,720	6.0
50.00	40	-	-	-	40	4.0
75.00	9,760	-	(200)	-	9,560	5.0
100.00	40	-	-	-	40	4.0
125.00	160	700	-	-	860	5.8
200.00	120	3,000	(700)	-	2,420	5.8
338.50	-	2,150	-	-	2,150	6.0
	19,940	5,850	(1,100)	(700)	23,990	5.0

14 Share-based payment *(continued)*

Of the total number of options outstanding at the end of the period, 2,332 (2005: 6,560) had vested and were exercisable at the end of the period. The weighted average share price at the date options were exercised in the year was £127.30 (2005: £74.54).

The estimated weighted average fair value of each option granted during the period was £0.01 (31 December 2005: £0.54). This was calculated by applying a binomial option pricing model. The model inputs were an assumed share price for each quarter based on 2.5 times the previous half year's revenues per share subject to a 50% illiquidity discount. This share price was then compared to the highest equity issue price prior to the option grant and, if lower, was adjusted up to an average of such share price and the relevant equity issue price. The expected volatility of 13% was based on an historical average of a group of comparable listed companies for the last three years, whilst the risk-free interest rate was based on the yield from UK government 5-year nominal zero-coupon bonds. It was assumed that employees would exercise after vesting if the share price was twice the exercise price.

Options granted vest over a period of four years on condition that employment is continuous. Options granted to Ryohei Shimazaki (see pages 12-13) carried an additional vesting condition in that the company must list its shares on the Tokyo Stock Exchange.

This period saw a charge of £5,109 (31 December 2005: £11,317) relating to the issuance of share options. The total amount charged to date following the issuance of share options is £17,854 (31 December 2005: £12,745).

On 7 December 2006, the company issued 9,000 £1 ordinary shares on listing on the Mothers market of the Tokyo Stock Exchange. Cash consideration of £5,509,596 was received resulting in a share premium of £5,356,225 after allowable issue costs of £144,371.

15 Share capital

	31 Dec 2006 £	**31 Dec 2005 £**
Authorised		
100,000 ordinary shares of 10p each	-	10,000
1,000,000 ordinary shares of £1 each	**1,000,000**	-
Allotted, called up and fully paid		
24,215 ordinary shares of 10p each	-	2,422
70,560 ordinary shares of £1 each	**70,560**	-

15 Share capital *(continued)*

Movement in share capital in the year ended 31 December 2006

	Number	£
Ordinary shares of 10p each		
At 1 January 2006	24,215	2,422
Issued during the period (excluding bonus issue)	6,315	631
22 May 2006 - Bonus issue (19 ordinary shares of 10p for every 1 held)	580,070	58,007
Total prior to share consolidation	610,600	61,060
22 May 2006 - Consolidation of 10 ordinary shares of 10p each into 1 ordinary share of £1 each	(549,540)	-
Ordinary shares of £1 each		
Issued in the period	9,500	9,500
In issue at 31 December 2006	**70,560**	70,560

16 Reserves

Group	**Share premium account £**	**Profit and loss account £**
At 1 January 2006	644,482	518,980
Premium on issue of shares	6,094,835	-
Bonus issue	(58,007)	-
Apportionment of listing expenses	(144,371)	
Adjustment in respect of share options	-	5,109
Exchange movement	-	(24,773)
Profit for the period	-	802,339
At 31 December 2006	**6,536,939**	**1,301,655**

Company

At 1 January 2006	644,482	10,233
Premium on issue of shares	6,094,835	-
Bonus issue	(58,007)	-
Apportionment of listing expenses	(144,371)	
Adjustment in respect of share options	-	5,109
Loss for the period	-	(579,585)
At 31 December 2006	**6,536,939**	**(564,243)**

17 Reconciliation of movements in shareholders' funds

	Group 2006 £	Group 2005 £ (as restated)	Company 2006 £	Company 2005 £
Total recognised gains and losses	**777,566**	670,280	**(579,585)**	(7,607)
Adjustment in respect of share options	**5,109**	11,317	**5,109**	11,317
New share capital subscribed	**6,104,966**	35	**6,104,966**	35
Apportionment of listing expenses	**(144,371)**	-	**(144,371)**	-
Net addition to shareholders' funds	**6,743,270**	681,632	**5,386,119**	3,745
Opening shareholders' funds	**1,165,884**	484,252	**657,137**	653,392
Closing shareholders' funds	**7,909,154**	1,165,884	**6,043,256**	657,137

18 Commitments under operating leases

As at 31 December 2006, the group had annual commitments under operating leases as set out below:

	2006 Land and buildings £	2005 Land and buildings £
Operating leases which expire:		
Within one year	**112,948**	108,782
In one to two years	**321,793**	174,738
In two to five years	**38,258**	-
More than five years	**11,423**	14,557
	484,422	298,077

Included above are certain operating leases that are cancellable with 2 to 6 months notice.

19 Financial Instruments

The group's financial instruments comprise cash balances and items such as trade debtors and trade creditors that arise from the normal course of business. Sterling and foreign currency cash balances are invested with the group's approved banks. Foreign currency cash balances arise from trading operations as well as through the general course of business in foreign subsidiaries. The group's policy is not to enter into any derivative transactions such as interest rate swaps or foreign currency contracts.

Currency Risk
The group faces foreign exchange risk in that it holds cash denominated in foreign currencies to fund overseas operations and as a result of trading activities. This risk is monitored by the executive directors with the aim that foreign currency cash balances are offset by foreign currency liabilities. The group has operations in Japan and the USA, in addition to the UK, and as such it has exposure to US Dollars (USD) and Japanese Yen (JPY).

The table below outlines the group's currency exposure with reference to the British Pound (GBP), the group's functional currency of operation:

	Net foreign currency exposure in £					
Functional Currency	**As at 31 December 2006**			As at 31 December 2005		
	USD	**JPY**	**Total**	USD	JPY	Total
GBP	**320,355**	**188,922**	**509,277**	168,853	(219,712)	(50,859)

Liquidity Risk
The group's approach to liquidity risk is to ensure that sufficient liquidity is available to meet foreseeable requirements, investing cash resources in short term (usually one month or less) money market deposits with reputable banks. These deposits are for one month or less (typically overnight) and are redeemable without penalty and are therefore treated as cash.

Interest rate risk
The group is exposed to interest rate risk through its use of short term money market deposits. As at 31 December 2006 the group had one deposit outstanding as detailed below:

Currency	**Amount**	**Remaining life (days)**	**Interest rate**
GBP	5,963,392	9	4.78%

Financial Assets
The group has no financial assets other than £7,528,701 (31 December 2005: £1,380,664) of cash and short term deposits. Of this, £184,313 is denominated in USD and £179,109 is denominated in JPY (31 December 2005: £130,371 in USD and £63,262 in JPY).

There were no financial liabilities.

The fair value of the group's financial assets is not considered to be materially different from the book value.

20 Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £ (as restated)
Operating profit	**1,204,067**	916,035
Depreciation	**65,623**	18,946
(Increase) in debtors	**(153,687)**	(576,448)
Increase/(decrease) in creditors	**(295,405)**	614,080
(Profit)/loss on disposal of fixed assets	**220**	-
Adjustment in respect of share options	**5,109**	11,317
Net cash inflow from operating activities	**825,927**	983,930

21 Reconciliation of net cash inflow to movement in net funds

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
Increase in cash in the period	**663,214**	980,101
Management of liquid resources	**5,509,596**	-
Change in net funds resulting from cash flows	**6,172,810**	980,101
Exchange movement	**(24,773)**	6,855
Movement in net funds in the period	**6,148,037**	986,956
Net funds at start of period	**1,380,664**	393,708
Net funds at end of period (note 22)	**7,528,701**	1,380,664

22 Analysis of net funds

	At 31 December 2005 £	Cash flow £	Other non-cash changes £	At 31 December 2006 £
Cash at bank and in hand	1,380,664	**6,172,810**	**(24,773)**	**7,528,701**