

ANNUAL REPORT 2007

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**MBH**  
Monex Beans Holdings, Inc.

# Our Business Principles

## ● PURSUING THE SPIRIT OF INNOVATION

We will constantly strive to pioneer new fields in finance and propose new approaches to managing money.

## ● STAYING CUSTOMER FOCUSED

We believe that the best guide to our corporate activities is the voice of our customers.

With this guide, we will continue to create financial services truly needed by individuals.

## ● CHALLENGING FOR THE BEST

We will continue to provide the best products and services for our customers always thinking outside the box.



Online securities firm providing various types of financial products and services

## ● Monex University, Inc.

Specialized in investment education for individual investors

## trade-science

### Trade Science Corporation

Investment advisory services utilizing KabuRobo (automated stock trading program)

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## Business Highlights

Trade Science held the "Super KabuRobo Contest" in which KabuRobos, automated stock trading programs, compete in investment results from August to December 2006. Since February 2007, 10 KabuRobos selected from the contest are managing ¥500 million in which MBI is investing.



Monex, Inc. has started a serial article Monex Money Seminar on a nationwide newspaper for a year since the autumn of 2006. In order to raise financial literacy of retail investors in Japan, this seminar provides educational and intelligible contents such as explanation and features of stocks, bonds, asset allocation and so forth. The contents are produced by Monex University.



2006

4

- Launched Monex Auction for the purchase of World Bank Notes

5

6

- Started account opening introduction service alliance with BIC CAMERA

7

- Started the distribution of zero coupon bonds issued by the World Bank

8

- "1st Super KabuRobo Contest" held by Trade Science Corporation
- Simultaneously launched two new alternative investment funds
- Started future and option transactions called Nikkei 225 mini

9

- Started Monex Campus
- Started placing Monex Money Seminar on nationwide newspaper

# MBH

## Monex Beans Holdings, Inc.

Holding company / Listed company

# MAI

## Monex Alternative Investments, Inc.

Investment advisory firm specialized in alternative investment

Monex Beans Holdings intends to support asset planning for retail investors and holds Monex, Inc. and other group companies under its holding company structure in order to originate and provide better financial products and services.

# NetLife

Net Life Planning Co., Ltd.

Planning and preparation of life insurance business

# MBI

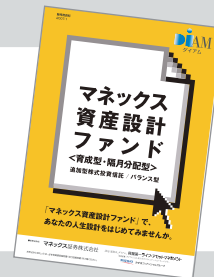
Monex Business Incubation, Inc.

Discovery and incubation of new businesses, and investment using automated stock trading program

# WR HAMBRECHT & CO JAPAN

Introduction of new IPO method and advisory services for M&A

Monex, Inc. launched "Monex Asset Planning Fund" in which investment beginners can realize asset allocation easily. This is a balanced fund diversifying its investments in 6 global asset classes (domestic and overseas equities, bonds, and REITs) and is available in 2 types; "re-investment type" emphasizing the growth in trust assets and "bi-monthly dividend payment type" emphasizing receipt of regular payment of dividends. Both subscription and redemption commission are free of charge.



2007

10

- Opened Monex Point Mall
- Monex, Inc. ranked No. 2 in online securities firm ranking of Gomez
- Established Net Life Planning Co., Ltd.

11

- Started offering structured bonds

12

- Started a securities intermediary service with So-net M3, Inc.
- Video game software, Stock Trading Trainer Kabutore!, which was co-developed with Konami Digital Entertainment Co., Ltd.
- Started an account opening introduction service alliance with Best Denki Co., Ltd.
- Started offering an option to automatically reinvest redemption and coupon income on foreign currency-denominated bonds in foreign currency-denominated MMFs
- Held 2nd School of Stocks
- Marumae Co., Ltd., underwritten by Monex, listed on Mothers market of Tokyo Stock Exchange

1

- Monex FXpro, started recruiting initial respondents
- Established new transaction fees for internet trading by mobile phone (minimum fee of ¥105)
- WR Hambrecht & Co. Japan, Inc. decided to start M&A advisory services
- Started sales of "Monex Asset Planning Fund"

2

- Started distribution of Market Mail — Mobile —, the e-mail newsletter series with video content
- Published an investor education book, "Find the Best Investment Strategy for Happiness — What will happen 10 years from now? —"
- Started an account opening introduction service alliance with Suruga Bank, Ltd.

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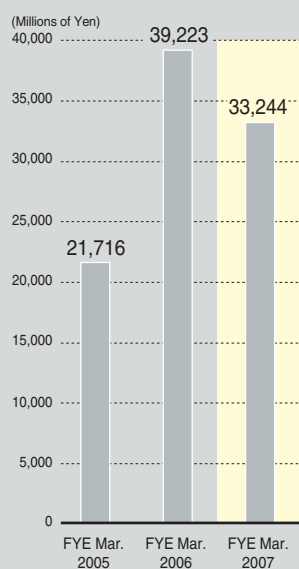
- Monex University, Inc. supported Money Certification Test

# Consolidated Financial Highlights

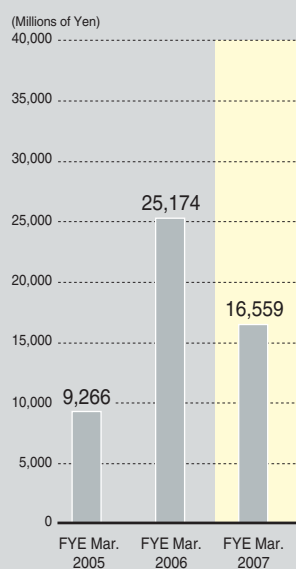
(Millions of Yen)

	FYE March 2005	FYE March 2006	FYE March 2007
<b>Operating revenue</b>	21,716	39,223	33,244
<b>Operating income</b>	9,266	25,174	16,559
<b>Net income</b>	7,079	13,617	9,534
<b>Total assets</b>	232,091	430,299	379,988
<b>Net assets</b>	29,811	41,588	47,562

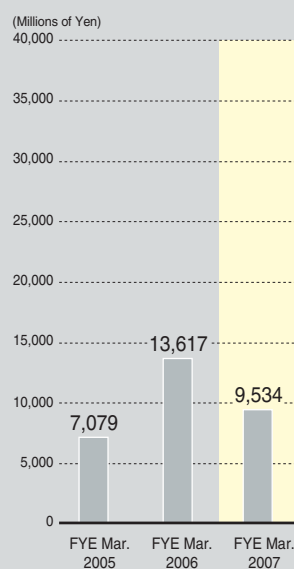
### Operating revenue



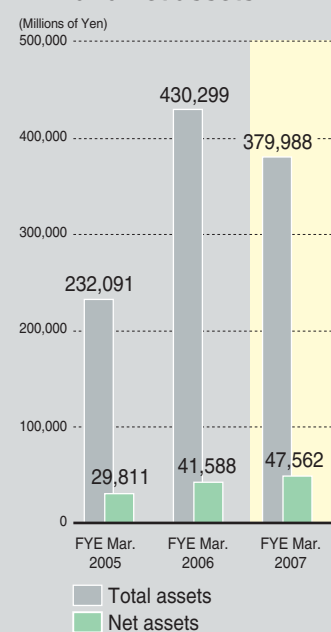
### Operating income



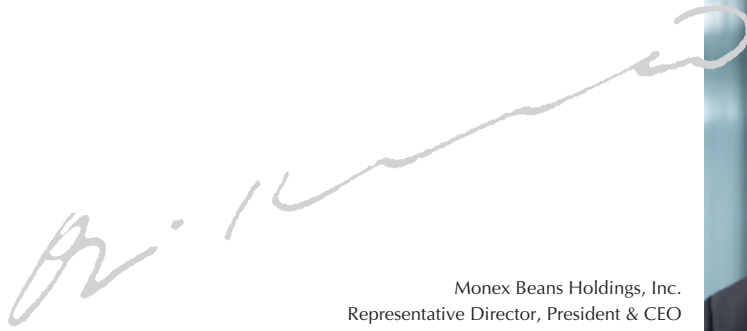
### Net income



### Total assets and net assets



# Building a unique business model combining sophisticated investment banking functions with online brokerage for individual investors



Monex Beans Holdings, Inc.  
Representative Director, President & CEO

Monex, Inc.  
Representative Director, President & CEO

**Oki Matsumoto**



Japan's financial industry is undergoing a transition to a new era. As Japan's population has started to decline and steady economic growth has started to slow down, individuals are facing the need to become more involved in asset management. To respond to this changing era, Monex has started on a path toward becoming a leading-edge, comprehensive online financial institution providing a broad array of financial products and services to individuals. We are building a business model to become a distinctive online investment bank combining investment bank functions with comprehensive online financial institution functions for individual investors. Monex is committed to the challenges of the future as it seeks to achieve these objectives.

### **Biography**

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April 1987  
Joined Salomon Brothers Asia, Ltd.

April 1990  
Joined Goldman Sachs (Japan) Ltd.

November 1994  
General Partner  
The Goldman Sachs Group, L.P.

April 1999 to present  
President & CEO, Monex, Inc.

August 2004 to present  
President & CEO,  
Monex Beans Holdings, Inc.

## Market Conditions in Fiscal 2006

In the fiscal year ended March 2007, the Nikkei average began trading at the ¥17,000 level and then fell below ¥15,000 in June 2006. In subsequent months, the Nikkei average rose gradually, corrected in February 2007 as world share prices weakened, and then ended the year by returning to the ¥17,000 level. Although the world economy expanded firmly and Japan's economy grew at a moderate pace, share prices stalled momentarily on account of a downward reaction to the rapid increase in the trading of shares by individual investors in the previous fiscal year, corporate scandals giving rise to heightened mistrust in equity markets, and future uncertainties associated with the transition from the Koizumi to Abe administration. Investor psychology tends to have a stronger effect on the stock market than such fundamentals as business results and the business cycle. We believe that the correction of share prices in fiscal 2006 is largely explained by investor psychology.

## Business Performance in Fiscal 2006 and Major Results

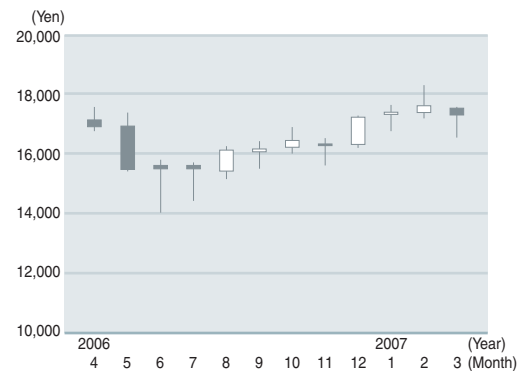
Brokerage commissions fell 24.5% against the previous fiscal year. As a result, operating revenues decreased 15.2% to ¥33,244 million and net income decreased 30.0% to ¥9,534 million, the first time for our group to record lower revenues and profits. We, however, view this lull in business performance as a necessary leveling-off phase for us to develop a sustained basis in the future.

Our current revenue structure is largely reliant on brokerage commissions and financial income. This being the case, the diversification of products and services will be indispensable to minimize the adverse effect of worsening market conditions on business performance and to be able to provide diversified asset investment and stable returns to customers. In fiscal 2006, we continued to focus on the brokerage business and, at the same time, launched new products such as "Monex Asset Planning Fund" and "Premium Hybrid 2006" mutual funds as well as structured bonds, focusing on enhancing mutual fund and bond products. As a result, the share in revenues of mutual funds, alternative investment products, fixed income and margin FX trading increased, bringing us one step closer to our desired revenue structure. We believe fiscal 2006 was a year that we achieved notable progress toward a structure that will promise dramatic future growth.

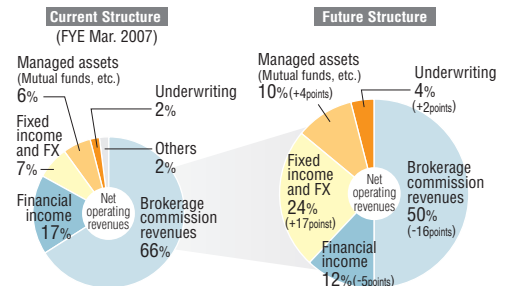
## Future Revenue Structure

The investment activities of individuals are undergoing a dramatic change in Japan. Now that they can no longer depend on retirement payments and pensions in the same way as before, people are reviewing asset structures centered on deposits and savings and are

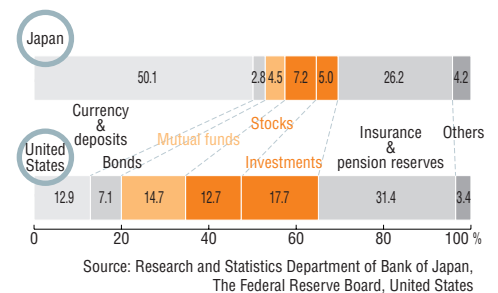
## Nikkei Stock Average



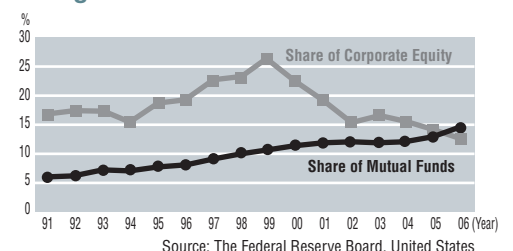
## Changes in Structure of Revenues



## Financial Assets Held by Households



## Shares of Corporate Equity and Mutual Funds among Financial Assets Held by Households and Nonprofit Organization in the United States



beginning to move toward asset structures as seen in the United States where investments are balanced between stocks, mutual funds, and bonds. As the share of stocks in household investments has decreased and the share of mutual trusts has risen in the United States, a similar trend can be envisioned for Japan.

Anticipating such a change in investment activity, we have expanded products and services in mutual funds and bonds in the last few years to be in a position to respond to the diversification of customer needs. In fiscal 2006, 83% of our revenues came from brokerage commissions and financial income, 7% from bonds and FX, and 6% from mutual funds and alternative investments. In three to five years, we aim to have a revenue structure where 62% of revenues derive from brokerage commissions and financial income, 24% from bonds and FX, and 10% from mutual funds and alternative investments.

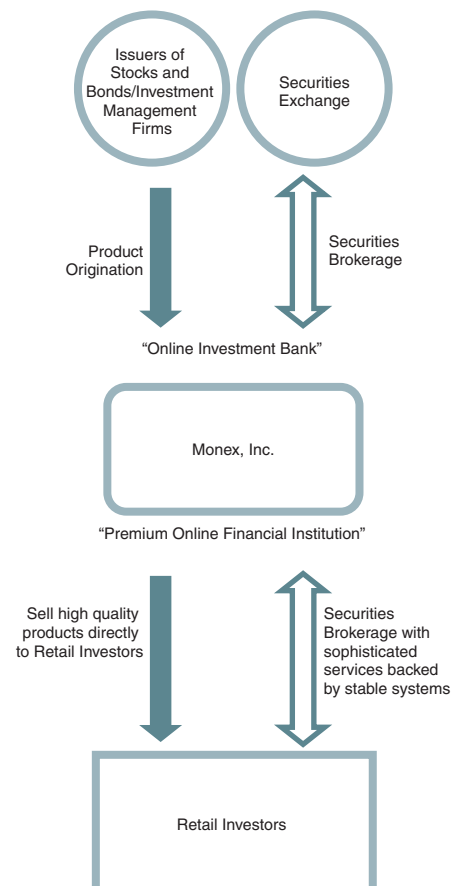
**Building a Distinctive Business Model**

Monex is building an innovative business model with the view of providing high-quality and diversified services and of securing talented human resources. This business model consists of an “investment bank” that originates financial products in cooperation with domestic and foreign issuers and asset managers of stocks and bonds, and a “comprehensive online financial institution for individual investors” offering brokerage services and financial products that we originate. To realize this business model, we are pursuing three business strategies: (1) a product strategy of originating products such as IPOs, bonds, FX, etc. (2) a customer relationship management strategy of introducing the right products to customers in a timely manner, and (3) a channel strategy of increasing marketing channels through business alliances to become a closer presence to customers. Furthermore, to help individual investors acquire a deeper understanding of finance in general and financial products in particular, we are focusing efforts on investment education. Through the expansion and enrichment of investment education, we are convinced that we can further augment the effectiveness of our three strategies.

**Medium Term Management Objectives**

Geographic borders as well as intra-industry borders are lowering for financial activities in Japan. The walls between banking, securities, and insurance are crumbling, and a growing number of foreign companies are entering the Japanese market. Customer awareness is also changing. They are selecting companies that provide the products and services they desire regardless of industry segment or financial group.

**● Monex’s Key Goal  
Online Investment Banking  
Business Model**



To respond accurately to these changing needs and to survive the fierce competition in the financial industry, we believe there is a pressing need to design the future shape of finance and to propose this to society. Guided by such an understanding, we have begun a number of medium-term projects to realize the mission that Monex has pursued since its founding. We will provide comprehensive online financial services to individual investors, increase the range of products and services to extend our customer base to investors who do not purchase individual stocks, and establish an organization that can independently originate financial products as an online investment bank. In the next three to five years, we intend to triple assets in custody, reduce the cost per assets in custody, and complete a high-profit and low-cost asset management business model. Moreover, we will actively work to secure and foster human resources, the foundation of business development.

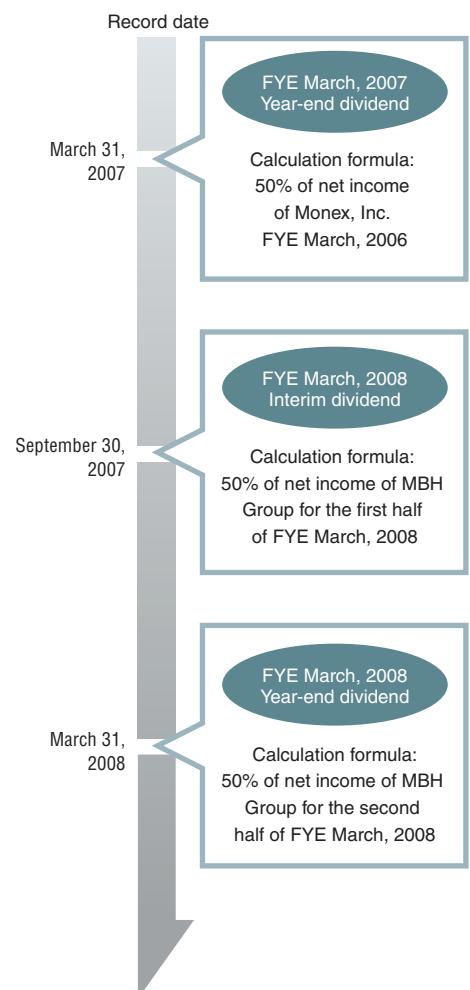
### Major Measures for Fiscal 2007

To achieve these medium-term objectives, we have adopted a separate budget in fiscal 2007 in addition to our usual computer systems budget for the purpose of developing next-generation services. Using this budget, we will develop high value-added products and services to further increase our competitiveness. With respect to securing and developing human resources, we will make strategic increases in staffing in such areas as the origination of investment fund and bond products, asset management at Monex Alternative Investments, Inc. and internal control in response to the enactment of the Financial Instruments and Exchange Law (J-SOX).

Regarding our policy on returning profits to shareholders, starting in fiscal 2007 we will change the basis for determining dividends to be linked to consolidated net income of the same fiscal year. Dividends were formerly based on the net income that Monex, Inc. recorded in the previous fiscal year. Our dividend payout target will now be 50% of consolidated net income of the Monex Group for the current fiscal year. We will also begin paying an interim dividend in fiscal 2007. As a result of these changes, we believe we can provide a more suitable and adequate payout of profits to our shareholders.

By creating a novel and unprecedented business model, Monex is committed to opening a new frontier for asset formation for individual investors and to becoming a leading presence in Japan's financial sector. We seek to the ongoing patronage of our shareholders in these endeavors.

### ● Dividend Policy





## Group Companies

Monex Beans Holdings intends to support asset planning for retail investors and holds Monex, Inc. and other group companies under its holding company structure in order to produce and provide better financial products and services. Monex University, Inc. is an investment education company which develops and provides methods of asset planning. Monex Alternative Investments, Inc. develops and manages alternative investment products.

### Monex University, Inc.



President **Shinobu Naito**

Monex University, Inc. ("MU") is an investment education company for individual investors. MU develops contents such as life planning and methods of asset management systematically and distributes them via seminars and the Internet.

We will continue to endeavor to develop tools to realize individual investors' asset planning based on self-responsibility and investment returns.

### Monex University, Inc.

#### Corporate Data

<b>Founded</b>	November 2005
<b>Representative</b>	Shinobu Naito
<b>Capital</b>	40 million yen
<b>Description of Business</b>	Creating investment educational contents Planning and management of investment education related events Planning of investment education related books/DVDs and others
<b>Head Office</b>	1-11-1 Marunouchi Chiyoda-ku, Tokyo, Japan 100-6219
<b>URL</b>	<a href="http://www.monexuniv.co.jp/">http://www.monexuniv.co.jp/</a>

#### Major Activities for Fiscal 2007

- "Monex Money Seminar"** From Autumn of 2006, MU produced contents for full-page serial advertisement, on a nationwide newspaper. The advertisement explains various themes on "Money" with easy-to-understand explanations.
- "Monex Campus"** E-learning contents on investments provided on demand.
- "School of Stocks"** In addition to School of Stocks for elementary and junior high school students, MU held "School of Stocks" for the retired baby boomer generation.
- "Money Certification Test"** MU supported the Money Certification Test held by famous Japanese money magazine, "Nikkei Money."

### Monex Alternative Investments, Inc.

President **Shigeo Mizuta**

Monex Alternative Investments, Inc. ("MAI") is an asset management company that develops and manages alternative investment products. MAI provides a wide variety of alternative investment opportunities that were inaccessible for individual investors. We will strengthen our origination and asset management capabilities and contribute to the differentiation of the Monex group.



### MAI

Monex Alternative Investments, Inc.

#### Corporate Data

<b>Founded</b>	October 2004
<b>Representative</b>	Shigeo Mizuta
<b>Capital</b>	95 million yen
<b>Description of Business</b>	Asset Management including fund selection advisory
<b>Head Office</b>	1-11-1 Marunouchi Chiyoda-ku, Tokyo, Japan 100-6219
<b>URL</b>	<a href="http://www.monexai.com/">http://www.monexai.com/</a>

#### Major Activities for Fiscal 2007

MAI gives investment advice on the 2 alternative investment products that Monex, Inc. released in August 2006.

- "Premium Hybrid 2006"** "Premium Hybrid 2006" provides individual investors with the opportunity to invest in private equities from just 500,000 yen. It is managed by a combination of private equities and hedge funds.
- "China Focus"** "China Focus" diversifies its investments in Hong Kong, Taiwan, and mainland China and enables access to Shanghai Stock Exchange's A shares that are limited to foreign investors.

## Our Businesses

Influenced by sluggish market conditions, income from our brokerage business decreased in the fiscal year ended March 31, 2007. However, the convenience of distinctive services such as Monex Night-time Trading and stock lending service penetrated the awareness of individual investors, and the number of customers of these services increased sharply. In the mutual fund and alternative investment business, a full lineup of mutual funds made extensive investment opportunities available to customers. We also launched two alternative investment products for individual investors which had been exclusive to institutional investors. In the fixed income and FX business, we continued to offer Japanese government bonds for individual investors with a proven track record, launched a number of attractive new products such as zero-coupon bonds issued by the World Bank, and sought to expand FX services.

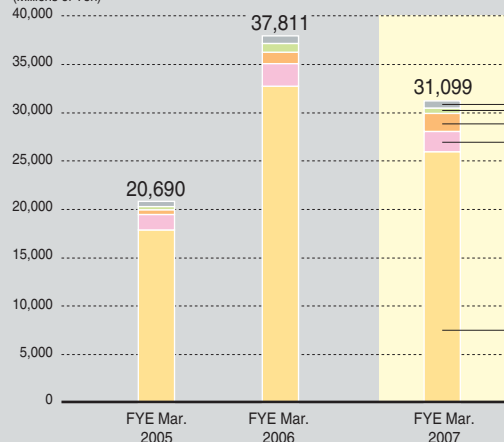
(Millions of Yen)

● Breakdown of Net Operating Revenues	FYE March 2005	FYE March 2006	FYE March 2007
Stock Brokerage	17,794	32,638	25,905
Underwriting	321	877	533
Mutual Funds & Alternative Investments Business	499	1,172	1,875
Fixed Income & FX Business	1,579	2,322	2,107
Others	495	800	677
Total of Net Operating Revenues	20,690	37,811	31,099

(Rounded down to the nearest million yen)

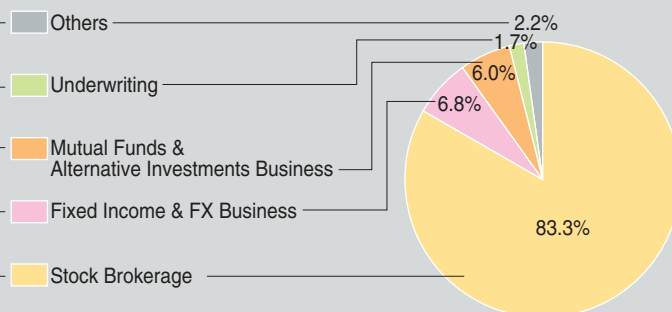
### ● Net Operating Revenues

(Millions of Yen)



### ● Share of Operating Revenues

FYE March 2007

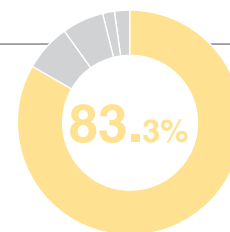


## ■ Brokerage Business

● Percentage share of net operating revenues

### Main points

- Monex Night-time Trading attracts customers
- Outstanding balance of stock lending service totals ¥114.1 billion



### <Fiscal year activities and results>

Our brokerage business was influenced by sluggish market conditions, and the total trading value decreased 29% from the previous year to ¥19 trillion. As a result, brokerage commissions fell 25% to ¥20.6 billion. On the other hand, our efforts to expand mobile phone trading by setting lower transaction fees were rewarded with the number of such customers increasing 66% to 32,000 as of the end of fiscal 2006. Monex Night-time Trading, our original night-time trading service, has undergone sustained growth, and the total trading value reached ¥170.8 billion in fiscal 2006. Moreover, our stock lending service grew substantially. Stock lending accounts totaled 22,000 at the end of fiscal 2006, and the outstanding balance came to ¥114.1 billion.

Based on the above, net operating revenues of the brokerage business decreased 21% from the previous year to ¥25.9 billion in fiscal 2006.

### <Major measures for fiscal 2007>

In our brokerage business, we launched a leading-edge, real-time trading tool, the Monex Trader series, in April 2007. The

most advanced tool in the series, the Monex Trader Pro  $\alpha$ , is the first tool in Japan with fully automated trading capabilities. Its full-scale launch offers a new level of convenience for customers trading stocks. In February 2007, Monex Business Incubation, Inc. began investment in stocks using KabuRobos (automated stock trading programs) offered by Trade Science Corp. as its “fund managers” to manage a total of ¥500 million. In fiscal 2007, the Monex group is planning to provide services such as trading signal delivery with KabuRobos. We also intend to expand mobile phone services, such as enabling Monex Night-time Trading on mobile phones. We will continue to endeavor to increase assets in custody and total trading value.

### Products & Services

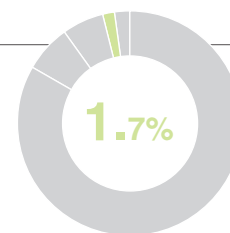
- Domestic stocks (cash and margin trading)
- Chinese stocks
- Small-unit stock trading
- Monex Night-time Trading
- Off-floor distributions
- Stock lending service
- Monex Trader series

## ■ Underwriting Business

● Percentage share of net operating revenues

### Main point

- Underwriter of 87 IPOs (including the lead underwriter of one IPO)



### <Fiscal year activities and results>

Number of underwritten IPO deals totaled 87 (including the lead underwriter of one IPO) in our underwriting business, a decrease of two from the previous year, and net operating revenues fell 39% to ¥500 million in fiscal 2006.

### <Major measures for fiscal 2007>

In relation to our underwriting business, we will work to capture

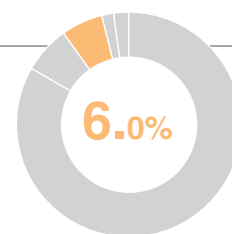
market conditions and investor demand, and give proper feedback to our clients. We will further strengthen examination functions with the view of closing successive lead underwriting deals. Through such measures, we intend to become one of the top three IPO underwriters in terms of the number of IPO deals and one of the top 10 in terms of the value of IPO deals. In addition, we will work to generate synergy between our underwriting business and the M&A advisory business of WR Hambrecht & Co Japan, Inc.

## Mutual Fund and Alternative Investment Business

● Percentage share of net operating revenues

### Main points

- Mutual Fund balance of ¥164 billion (as of March 31, 2007; excluding MRF)
- Launches of “Premium Hybrid 2006” and “Monex Asset Planning Fund”
- Net operating revenues increase 60% over the previous year



### <Fiscal year activities and results>

Our full lineup of products in the mutual fund business has supported customers in making globally diversified investments. Especially, the “Monex Asset Planning Fund” that we launched in January 2007 achieved net assets in custody of ¥7.5 billion in two months. The total balance of mutual funds excluding MRF increased 50% over the prior year to ¥164 billion as of the end of fiscal 2006, and the number of customer accounts increased 37% to 83,000.

In the alternative investment business, we launched two new products in fiscal 2006. “Premium Hybrid 2006” is an innovative alternative investment product for individual investors that combine private equity funds and hedge funds. Its net assets in custody totaled ¥4.2 billion as of the end of fiscal 2006. “China Focus” makes diversified investments in mainland China, Hong Kong, and Taiwan where strong growth is foreseen. This fund has attracted individual investors with its low minimum investment unit of ¥100,000.

As a result of the above, net operating revenues of the mutual fund and alternative investment business rose 60% over the previous year to ¥1.8 billion.

### <Major measures for fiscal 2007>

The Monex Group is focusing its efforts on expanding the mutual fund and alternative investment business as a source of stable and sustained revenues that are relatively unaffected by changing market conditions.

In the mutual fund business, Monex has exploited its strengths

as a pioneer in the online distribution of mutual funds to become an industry leader in the distribution of such products. Going forward, we will apply our own assessment standards to regularly revise our list of selected funds, and provide outstanding products in both quality and quantity. In addition, we have made major revisions to the mutual fund page on our website to achieve greater usability.

In the alternative investment business, we will continue to originate distinctive products such as “Premium Hybrid 2007.” In fiscal 2007, we will strengthen human resources at Monex Alternative Investments, Inc. to establish a strong asset management team, and we will work to further develop this business by expanding the number of original products.

### Products & Services

#### Mutual Funds

- “Monex Asset Planning Fund” and other Monex-exclusive funds
- No-load funds
- Monex-selected Funds
- Specially-themed funds
- Monthly purchase program

#### Monex specialized alternative investment products

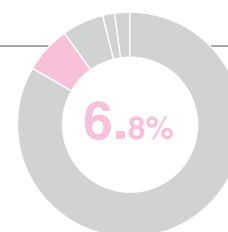
- “China Focus”
- “Premium Hybrid 2006”
- “Asia Focus”

## ■ Fixed Income and FX Business

● Percentage share of net operating revenues

### Main points

- Started Monex World Bank Notes Market
- Launch of structured bonds
- Launch of Monex FXpro



### <Fiscal year activities and results>

As a means of diversifying our sources of revenues, the Monex Group has sought to expand its fixed income business over the years. In fiscal 2006, we started the Monex World Bank Notes Market, our original purchase order system in which the issue of World Bank notes is determined in accordance with the orders customers select. We also began the distribution of zero-coupon bonds, "Time Capsule," issued by the World Bank, and structured bonds utilizing derivative methods to respond to the growing need of diversified investments. As a result, the number of customers who have purchased foreign bonds rose by 8,000 over the prior year to 12,000 as of the end of fiscal 2006.

In the FX business, the Monex FXpro was launched in January 2007, offering a variety of order functions and currency pairs to increase the number of FX users. As a result, FX accounts totaled 50,000, an increase of 12,000 from the previous year as of March 31, 2007. However, intense competition in the industry caused net operating revenues of the fixed income and FX business to decline 9% from the prior year to ¥2.1 billion.

### <Major measures for fiscal 2007>

Investments in fixed income products have become even more attractive with the increase of market interest rates. Viewing such changes in the market environment as an opportunity, the Monex Group intends to respond to the diverse needs of customers by providing an array of new products and services. In April 2007, we began the distribution of notes with monthly interest payments, a strongly requested product by our customers. In July 2007, we distributed Monex Notes for Individuals which also proved to be high in demand. We are

committed to the ongoing investment of management resources to expand the fixed income business.

In the FX business, we will respond to customers' varied trading styles with two products of Monex FX and Monex FXpro. We will also implement measures such as the expansion of investment information and investment tools and the increase of transaction channels as we pursue a marketing strategy that maximizes the characteristics of these two platforms.

### Products & Services

#### Fixed income products

- Japanese government bonds for individuals
- Monex Notes for Individuals
- Zero-coupon bonds ("Time Capsule")
- Monex World Bank Notes Market
- Foreign currency bonds (denominated in U.S. dollars, Australian dollars, New Zealand dollars, South African rand, and other currencies)
- Structured bonds

#### FX products

- Monex FX
- Monex FXpro

# Corporate Governance



Representative Director, Deputy President and CFO  
Monex Beans Holdings, Inc.

Director and COO, Monex, Inc.

## Kyoko Kudo

### The “Monex Character” and Corporate Governance Policies

Since its foundation in 1999 as an online brokerage firm, Monex has worked steadily to strengthen corporate governance. In this process we have been guided by a simple question: What can Monex do as a company to benefit customers? Pursuing this objective is our basic corporate stance, as we also state in our management principles. Offering products and services from the customer’s perspective is just the start. The essence of the “Monex Character” is maintaining an open existence toward customers and society, which is also the most prominent and distinguishing feature of the corporate governance of the Monex Group.

### Thorough Information Disclosure

As a significant management issue for the Monex Group, we are working on strengthening the internal control system. Even with internal control, the “Monex Character” fulfills a major role. The first that can be mentioned is thorough information disclosure. Grounded on the awareness that providing timely information to customers and investors is the foundation of corporate governance, we release an array of financial and corporate information and thoughts of senior management on an ongoing basis through our web site, including information that may be inconvenient to us. In such a manner, Monex opens itself to external surveillance as it endeavors to strengthen checks on internal operations. In addition, we have established an advisory board of prominent individuals to receive varied and neutral advice on the management of the Monex Group.

### Smooth Internal Communication

A second function of the “Monex Character” in internal control is the achievement of smooth internal communication. An important element of Monex’s DNA is a free and vigorous corporate culture that encourages open debate regardless of job position or career length. This tradition has penetrated to all corners of our organization. At regular meetings held for all group employees, management presents its message directly to employees, which contributes to enrich internal communication. At these same meetings, legal compliance coordinators hold mini-seminars on compliance. In such a way we are promoting thorough and companywide awareness of the importance of legal compliance.

### Passing on the “Monex Character”

Our employees now exceed 200 in number. Since we can no longer expect the “Monex Character” to emerge automatically from our organization, we are endeavoring to share our management principles within the company through a range of educational seminars and meetings. By maintaining our “Monex Character,” we intend to strengthen corporate governance and to establish a Monex brand that inspires the confidence of all our stakeholders.

# Corporate Governance

The corporate governance system in decision-making, execution, and oversight in the management of the Group

## 1. Basic Concept on Corporate Governance

The Monex Group has put in place a corporate governance system in each Group company; based on that system, each company will implement a full program of corporate governance as a fundamental frame work; further, promotion of disclosure and mechanisms for taking in a wide variety of opinions will function as checks on Group management and lead to balanced decision-making; they are thus regarded as important in making corporate governance function effectively.

## 2. Basic Policy on Internal Control Systems

Monex Beans Holdings, Inc. (the Company) and Monex, Inc. regards building and implementing appropriate internal control systems as a critical management issue. Thus, acting in advance of enforcement of the Corporation Law in May 2006, both have set their fundamental policies for building a system of internal controls at the regular meetings of their board of directors held in March, 2006. Furthermore, as a system for verifying the status of those internal controls, in addition to checking by the board of directors and board of statutory auditors, both have systems for receiving the advice of outside counsel on internal controls and risk management, as appropriate.

The Company's basic policy on its internal control system is disclosed on its website (<http://www.monexbeans.net/>).

## 3. Board of Directors and Board of Statutory Auditors

The Company has adopted the board of statutory auditors system. As of June 23, 2007, its board of directors comprises nine directors including three external directors. The board of directors meets at least once a month for effective monitoring of operations. The four members of its board of statutory auditors include two external auditors.

## 4. Proactive Disclosure

The Company regards disclosure as of great importance and works to ensure ongoing disclosure in an easy-to-understand manner. It discloses operating revenues, net operating revenues, and operating income monthly.

Monex, Inc., also implements proactive disclosure such as weekly and monthly disclosures including its customers' account numbers, etc.

Disclosure is based on the Group disclosure policy, which has been set up to eliminate any arbitrariness, and the disclosure policy itself is disclosed on the Company website.

## 5. Establishing a Corporate Culture of Thorough Compliance

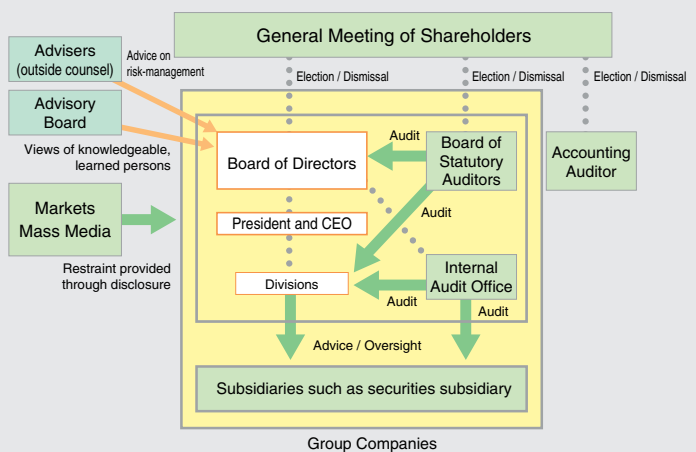
The Company regards awareness and implementation of ethical compliance as important not only for the management team but also for every employee of every company in the Group. It thus discloses the Monex Beans Ethical Compliance Policy on the Company website. Furthermore, through company-wide meetings and in-house networks works to establish a corporate culture in which compliance underlies the thinking of every officer and employee in the Group.

## 6. Ongoing Disclosure and Declarations of Management's Perceptions and Thoughts on Current Status

The Company confirms the importance, from the point of view of corporate governance, of the ongoing disclosure and declaration of its management's perceptions and thoughts on current status; that disclosure functions as, in effect, a restraint on management from outside the company and from within. The CEO of Monex, Inc. expresses his perceptions and opinions in each issue of Monex Mail, an e-mail magazine that Monex, Inc., publishes every business day without fail since its first issue.

## 7. Advisory Board

This board consisting of intellectuals to secure balanced, neutral, multifaceted views and advice from a broad perspective. The board meets quarterly and provides valuable, broad-ranging advice on the management of the group as a whole.



# Financial Review

## Results of Operations

(April 1, 2006-March 31, 2007)

Japanese stock markets started the fiscal year with the Nikkei 225 Stock Average at around the levels of ¥17,000 before falling below ¥15,000 in June 2006. After that, it raised gradually reflecting strong corporate earnings, entered adjustment phases in February 2007, and recovered the ¥17,000 levels at the end of the fiscal year. The average daily turnover by retail investors at the three markets and JASDAQ marked over ¥1,600 billion in April, then trended around ¥1,000 billion from June to December, and rose to well exceed ¥1,000 billion in January and February 2007.

Under these circumstances, stock brokerage commissions, the Company's core revenue source, and sales of investment trusts and the number of IPOs the Company managed maintained high levels. Customer accounts at the end of the fiscal year totaled 750,364, increasing 118,816 from the end of the previous fiscal year and customers' assets in custody were ¥2,127.6 billion, decreasing ¥121.2 billion.

### (Commission Revenues)

Commission revenues totaled ¥25,376 million (a decrease of 21.1% year-on-year) in the fiscal year under review.

#### 1. Brokerage Commissions

Brokerage commissions were ¥20,611 million (a decrease of 24.5% year-on-year), due to the decrease in trading value in the stock markets.

#### 2. Underwriting and Distribution Commissions

The Group was involved in the underwriting of 87 initial public offerings, of which 1 deal was lead manager status. Distribution commissions totaled ¥439 million (a decrease of 45.6% year-on-year).

#### 3. Subscription and Distribution Commissions

Commissions from distribution of BRICs funds held steady and investment trust which consists of private equity funds was launched. Subscription and distribution commissions totaled ¥913 million (an increase of 19.9% year-on-year).

#### 4. Other Commission Revenues

Agency commissions related to investment trusts ¥889 million (an increase of 144.9% year-on-year), owing to the significant increase in assets' in custody, while commissions from margin forex trades was ¥1,834 million (a decrease of 17.9% year-on-year). Total other commission revenues came to ¥3,413 million (an increase of 3.7% year-on-year).

### (Trading Profit and Loss)

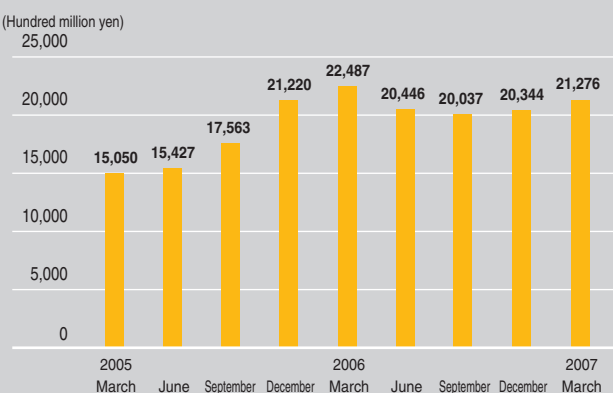
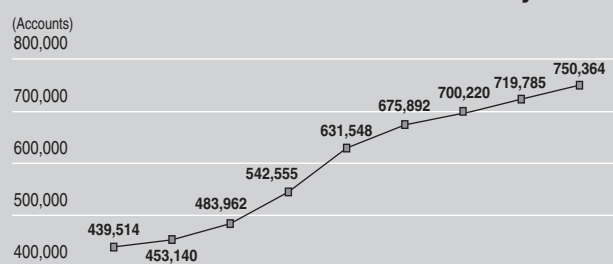
Net gain on trading came to ¥122 million (an increase of 44.9% year-on-year); primarily foreign exchange gains stemming from sales of foreign investment trusts and foreign currency-denominated bonds.

### (Financial Income)

Margin trading balance, including both shares bought and sold on margin, at the end of this fiscal year was ¥183.4 billion. Financial income totaled ¥7,440 million (an increase of 10.3% year-on-year), of which ¥6,034 million (an increase of 1.7% year-on-year) was generated from margin accounts. After financial expenses are deducted, net financial income came to ¥5,294 million (a decrease of 0.7% year-on-year).

As a result, operating revenue totaled ¥33,245 million (a decrease of 15.2% year-on-year), and net operating revenue, excluding financial expenses, came to ¥31,099 million (a decrease of 17.8% year-on-year).

### Accounts/Customer's Asset in Custody



(\*Rounded down to the nearest hundred million yen.)

### Commission Revenues

	FYE March 2006				Total
	Equity securities	Bonds	Investment trusts	Others	
Brokerage	27,173	-	93	40	27,306
Underwriting and distribution	806	-	-	-	806
Subscription and distribution	25	15	721	-	762
Other commissions	403	-	386	2,502	3,292
<b>Total</b>	<b>28,408</b>	<b>15</b>	<b>1,201</b>	<b>2,542</b>	<b>32,168</b>

	FYE March 2007				Total
	Equity securities	Bonds	Investment trusts	Others	
Brokerage	20,404	0	135	70	20,610
Underwriting and distribution	438	-	-	-	438
Subscription and distribution	23	18	871	-	913
Other commissions	387	0	916	2,108	3,412
<b>Total</b>	<b>21,254</b>	<b>18</b>	<b>1,923</b>	<b>2,178</b>	<b>25,376</b>

(\*Rounded down to the nearest million yen.)



### (Selling, General and Administrative Expenses)

As trading value decreased, commission paid and exchange and association dues decreased 13.5% to ¥1,723 million, while advertising expenses increased 71.0% to ¥2,082 million as a result of aggressive marketing activities. Total amount of selling, general and administrative expenses increased 15.1% to ¥14,540 million.

Taken together, operating income amounted to ¥16,559 million (a decrease of 34.2% year-on-year) for the fiscal year under review.

### (Other)

Other expenses, net, worth a total of ¥208 million include ¥372 million (a decrease of 49.9% year-on-year) in provision for securities transactions.

All told, income before income taxes and minority interests totaled ¥16,351 million (a decrease of 31.0% year-on-year) and net income ¥9,535 (a decrease of 30.0% year-on-year) million for the fiscal year under review.

## Outlook for This Year

### (April 1, 2006-March 31, 2007)

The Group offers a wide range of products for a variety of customers ranging from beginners to intermediate and experienced investors. Even if stock transactions by retail investors rapidly increase, we have ample capacity and will strive to establish systems and environments enabling customers to trade smoothly. At the same time, in order to maintain earnings structure capable of withstanding future changes in stock markets, we will strive to secure long-term stable revenues by diversifying revenues through launches of bonds, margin foreign trades and alternative investment products.

### Financial Conditions

The Company generated ¥25,532 million in operating activities, while spending ¥1,253 million in investing activities and ¥34,207 million in financing activities for the fiscal year ended March 31, 2007. As a result, cash and cash equivalents at the end of the fiscal year was ¥37,132 million, a decrease of ¥9,928 million compared to ¥47,060 million at the beginning of the year.

### Following is a breakdown of cash flow for the fiscal year under review:

#### (Net Cash Provided by Operating Activities)

Net cash provided by operating activities for the fiscal year ended March 31, 2007 was ¥25,532 million, compared to ¥51,758 million used in operating activities for the fiscal year ended March 31, 2006. This was due to the decrease in margin transaction assets.

#### (Net Cash Used in Investing Activities)

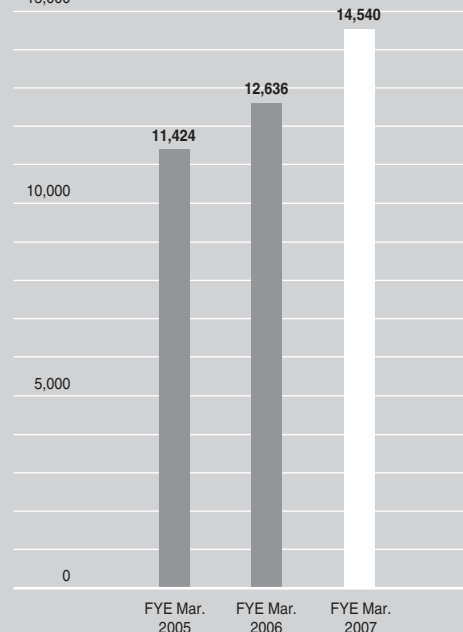
Net cash used in investing activities for the fiscal year ended March 31, 2007 decreased to ¥1,253 million from ¥3,022 million for the fiscal year ended March 31, 2006, due to the decrease of purchases of investment securities.

#### (Net Cash Used in Financing Activities)

Net cash used in financing activities was ¥34,207 million, compared to ¥75,835 million provided by financing activities for the fiscal year ended March 31, 2006, due to the decrease in short-term borrowings.

### ■ Selling, General and Administrative Expenses

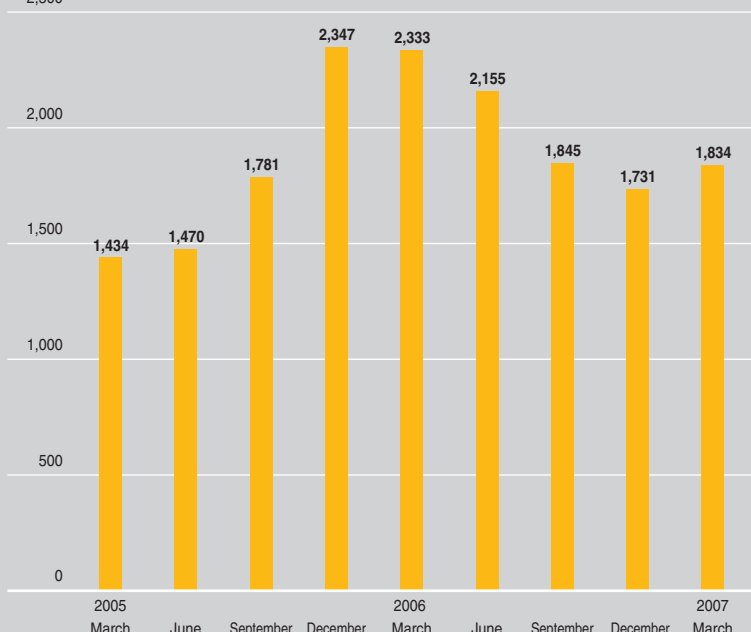
(Millions of Yen)



(\*Rounded down to the nearest million yen.)

### ■ Margin Balance

(Hundred million yen)



(\*Rounded down to the nearest hundred million yen.)

# Financial Statements

## Consolidated Balance Sheets

As of March 31, 2007 and 2006

Assets	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current assets:			
Cash and deposits	¥ 61,663	¥ 69,081	\$ 522,346
Cash segregated for customers and others	94,061	109,766	796,789
Trading assets (Notes 6 and 8)	4,377	520	37,078
Margin transaction assets (Note 3)	170,085	219,091	1,440,788
Payments on securities subscribed	1,022	1,192	8,657
Short-term guarantee money deposited	6,169	5,843	52,258
Accrued revenues	2,289	2,147	19,390
Deferred tax assets (Note 10)	636	1,151	5,388
Short-term loans receivable	30,030	11,037	254,384
Other	3,852	5,825	32,630
Allowance for doubtful receivables	(97)	(4)	(822)
	374,087	425,649	3,168,886
Property and equipment, at cost:			
Buildings	164	157	1,389
Furniture and fixtures	48	37	407
Accumulated depreciation	(56)	(29)	(474)
	156	165	1,322
Intangible assets, net of amortization:			
Goodwill	42	61	356
Software	789	99	6,684
Other	10	10	84
	841	170	7,124
Investment and others:			
Investment securities (Notes 5 and 7)	4,467	3,788	37,840
Long-term guarantee deposits	382	419	3,236
Deferred tax assets (Note 10)	—	5	—
Other	143	498	1,211
Allowance for doubtful receivables	(87)	(395)	(737)
	4,905	4,315	41,550
<b>Total assets</b>	<b>¥ 379,989</b>	<b>¥ 430,299</b>	<b>\$ 3,218,882</b>

The accompanying notes are an integral part of the financial statements.

Liabilities	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Current liabilities:</b>			
Trading liabilities (Notes 6 and 8)	¥ 4,155	¥ 182	\$ 35,197
Margin transaction liabilities (Note 3)	69,761	83,312	590,945
Loans payable secured by securities	52,949	45,563	448,530
Deposits received	48,740	63,188	412,876
Guarantee money received	76,188	78,000	645,387
Short-term borrowings (Note 12)	29,750	61,000	252,012
Income taxes payable (Note 10)	3,204	9,405	27,141
Accrued employees' bonuses	104	206	881
Accrued directors' bonuses	189	—	1,601
Allowance for point services	707	591	5,989
Other	1,843	3,402	15,612
	287,590	344,849	2,436,171
<b>Non-current liabilities:</b>			
Long-term debt (Note 12)	42,500	42,000	360,017
Deferred tax liabilities (Note 10)	128	—	1,084
	42,628	42,000	361,101
<b>Statutory reserves (Note 13):</b>			
Reserve for securities transactions	2,182	1,810	18,484
Reserve for commodities transactions	27	22	229
	2,209	1,832	18,713
<b>Total liabilities</b>	<b>332,427</b>	<b>388,681</b>	<b>2,815,985</b>
<b>Commitments (Note 14):</b>			
<b>Net Assets and Shareholders' Equity</b>			
<b>Net assets (Note 15):</b>			
<b>Owners' equity</b>			
Common stock:	8,800	—	74,545
Authorized — 8,800,000 shares			
Issued — 2,344,687 shares			
Capital surplus	15,155	—	128,377
Retained earnings	23,310	—	197,459
	47,265	—	400,381
<b>Valuation and translation adjustments</b>			
Net unrealized holding gains on securities, net of taxes	223	—	1,889
	223	—	1,889
Minority interests	74	—	627
<b>Total net assets</b>	<b>47,562</b>	<b>—</b>	<b>402,897</b>
<b>Total liabilities and net assets</b>	<b>¥ 379,989</b>	<b>—</b>	<b>\$ 3,218,882</b>
Minority interests	—	30	—
<b>Shareholders' equity:</b>			
Common stock:	—	8,800	—
Authorized — 8,800,000 shares			
Issued — 2,344,687 shares			
Capital surplus	—	15,155	—
Retained earnings	—	17,598	—
Net unrealized holding gains on securities, net of taxes	—	35	—
<b>Total shareholders' equity</b>	<b>—</b>	<b>41,588</b>	<b>—</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>—</b>	<b>¥ 430,299</b>	<b>—</b>

## Consolidated Statements of Income

For the fiscal years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Operating revenues:			
Commission revenues (Note 19)	¥ 25,376	¥ 32,168	\$ 214,960
Net gain on trading account	122	84	1,033
Financial income (Note 20)	7,440	6,743	63,024
Other operating revenues	307	228	2,601
	33,245	39,223	281,618
Financial expenses (Note 20)	2,146	1,412	18,179
Net operating revenues	31,099	37,811	263,439
Selling, general and administrative expenses (Note 21)	14,540	12,637	123,168
Operating income	16,559	25,174	140,271
Other incomes (expenses):			
Gain on sales of investment securities	40	99	339
Gain on sales of intangible assets	—	50	—
Merger costs of subsidiaries	—	(467)	—
Cost of listing	—	(248)	—
Loss on outsourcing contract cancellation	—	(69)	—
Loss on disposal of fixed assets	—	(96)	—
Provision for securities transactions (Note 13)	(372)	(744)	(3,151)
Provision for commodities transactions (Note 13)	(5)	(15)	(43)
Dividend income	164	13	1,389
Other, net	(35)	(1)	(296)
	(208)	(1,478)	(1,762)
Income before income taxes and minority interests	16,351	23,696	138,509
Income taxes (Note 10):			
Current	6,301	10,269	53,376
Deferred	520	(191)	4,405
	6,821	10,078	57,781
Minority interests	(5)	—	(43)
Net income	¥ 9,535	¥ 13,618	\$ 80,771
Per share amounts	Yen		U.S. Dollars
	2007	2006	2007
Net income	¥ 4,066.46	¥ 5,677.31	\$ 34.45
Cash dividends per share applicable to the year	2,900.00	1,500.00	24.57

The accompanying notes are an integral part of the financial statements.

## Consolidated Statement of Changes in Net Assets

For the fiscal year ended March 31, 2007

	Millions of Yen							
	Owner's Equity				Valuation and Translation Adjustments		Minority Interests	Total Net Assets
	Common Stock	Capital Surplus	Retained Earnings	Total Owners' Equity	Net Unrealized Holding Gains on Securities, Net of Taxes	Total Valuation and Translation Adjustments		
Balance at March 31, 2006	¥ 8,800	¥ 15,155	¥ 17,598	¥ 41,553	¥ 35	¥ 35	¥ 30	¥ 41,618
Net income	—	—	9,535	9,535	—	—	—	9,535
Cash dividends paid	—	—	(3,517)	(3,517)	—	—	—	(3,517)
Bonuses paid to directors	—	—	(306)	(306)	—	—	—	(306)
Increase in net unrealized holding gains on securities	—	—	—	—	188	188	—	188
Increase in minority interests	—	—	—	—	—	—	44	44
Balance at March 31, 2007	¥ 8,800	¥ 15,155	¥ 23,310	¥ 47,265	¥ 223	¥ 223	¥ 74	¥ 47,562

	Thousands of U.S. Dollars							
	Owner's Equity				Valuation and Translation Adjustments		Minority Interests	Total Net Assets
	Common Stock	Capital Surplus	Retained Earnings	Total Owners' Equity	Net Unrealized Holding Gains on Securities, Net of Taxes	Total Valuation and Translation Adjustments		
Balance at March 31, 2006	\$ 74,545	\$128,377	\$149,073	\$351,995	\$ 297	\$ 297	\$ 254	\$352,546
Net income	—	—	80,771	80,771	—	—	—	80,771
Cash dividends paid	—	—	(29,793)	(29,793)	—	—	—	(29,793)
Bonuses paid to directors	—	—	(2,592)	(2,592)	—	—	—	(2,592)
Increase in net unrealized holding gains on securities	—	—	—	—	1,592	1,592	—	1,592
Increase in minority interests	—	—	—	—	—	—	373	373
Balance at March 31, 2007	\$ 74,545	\$128,377	\$197,459	\$400,381	\$ 1,889	\$ 1,889	\$ 627	\$402,897

The accompanying notes are an integral part of the financial statements.

## Consolidated Statement of Shareholders' Equity

For the fiscal year ended March 31, 2006

	Millions of Yen			
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Holding Gains on Securities, Net of Taxes
Balance at March 31, 2005	¥ 8,800	¥ 15,155	¥ 5,804	¥ 53
Net income	—	—	13,618	—
Cash dividends paid	—	—	(1,173)	—
Bonuses paid to directors	—	—	(47)	—
Decrease due to the merger of subsidiaries	—	—	(604)	—
Decrease in net unrealized holding gains on securities	—	—	—	(18)
Balance at March 31, 2006	¥ 8,800	¥ 15,155	¥ 17,598	¥ 35

The accompanying notes are an integral part of the financial statements.

## Consolidated Statements of Cash Flows

For the fiscal years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 16,351	¥ 23,696	\$ 138,509
Depreciation	99	77	839
Allowance for doubtful receivables	(215)	185	(1,821)
Allowance for point services	116	202	983
Gain on sales of investment securities	(40)	(99)	(339)
Increase (decrease) in accrued employees' bonuses	(102)	46	(864)
Increase in accrued directors' bonuses	189	—	1,601
Decrease in severance and retirement benefits for employees	—	(79)	—
Interest income and dividend income	(7,608)	(6,756)	(64,447)
Interest expense	2,145	1,412	18,170
(Increase) decrease in cash segregated for customers and others	15,705	(47,947)	133,037
Increase in segregated cash included in cash and deposits	(2,510)	(22,021)	(21,262)
(Increase) decrease in trading assets	133	(152)	1,127
(Increase) decrease in margin transaction assets, net of increase in margin transaction liabilities	35,455	(91,183)	300,339
Increase in loans payable secured by securities and in loans receivable secured by securities	7,373	38,980	62,457
Increase in short-term loans	(18,993)	(11,021)	(160,890)
(Increase) decrease in short-term guarantee money deposits	(326)	2,151	(2,762)
Increase (decrease) in deposits received	(14,449)	35,663	(122,397)
Increase (decrease) in guarantee money received	(1,812)	28,035	(15,350)
Increase (decrease) in consumption taxes payable	(553)	395	(4,685)
Payment for directors' bonuses	(306)	(47)	(2,592)
Other, net	3,698	(4,638)	31,325
Sub total	34,350	(53,101)	290,978
Interest and dividend received	7,186	6,241	60,873
Interest paid	(1,995)	(1,407)	(16,900)
Income taxes paid	(14,009)	(3,491)	(118,670)
Net cash provided by (used in) operating activities	25,532	(51,758)	216,281
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(154)	(19)	(1,305)
Purchases of intangible assets	(746)	(81)	(6,319)
Proceeds from sales of intangible assets	—	50	—
Purchases of investment securities	(936)	(2,513)	(7,929)
Proceeds from sales and redemption of investment securities	548	149	4,642
Payment for purchase of investments in affiliates	(50)	(590)	(424)
Proceeds from sales of investments in affiliates	—	12	—
Payments for long-term guarantee deposits	(60)	(124)	(508)
Proceeds from long-term guarantee deposits	97	100	822
Other, net	48	(6)	407
Net cash used in investing activities	(1,253)	(3,022)	(10,614)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings	(28,750)	32,500	(243,541)
Increase (decrease) in commercial paper	(2,500)	2,500	(21,177)
Increase in long-term debt	500	42,000	4,235
Proceeds from minority shareholders due to issuance of shares	48	—	407
Dividends paid	(3,505)	(1,165)	(29,691)
Net cash provided by (used in) financing activities	(34,207)	75,835	(289,767)
Net increase (decrease) in cash and cash equivalents	(9,928)	21,055	(84,100)
Cash and cash equivalents at beginning of year	47,060	26,005	398,645
Cash and cash equivalents at end of year (Note 22)	¥ 37,132	¥ 47,060	\$ 314,545

The accompanying notes are an integral part of the financial statements.

# Notes to Consolidated Financial Statements

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Monex Beans Holdings, Inc. (the "Company") have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different from International Financial Reporting Standards with respect to certain application and disclosure requirements.

On August 2, 2004, Monex, Inc. ("Monex") and Nikko Beans, Inc. ("Nikko Beans") established the Company as a holding company by means of a statutory share exchange and became wholly owned subsidiaries of the Company. This transaction was accounted for using the pooling-of-interests method. The combination of both companies (Monex and Nikko Beans) into one entity is deemed to correspond to a combination of interests, considering the nature of the businesses, financial conditions and earnings records of both companies and because both companies jointly bear the parent company's risks and provide the parent company benefit.

Monex and Nikko Beans merged as of May 1, 2005 and adopted the name "Monex Beans, Inc." for the merged entity. Monex Beans, Inc. changed its name to Monex, Inc. on December 3, 2005.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statement of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law of Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (13), is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (14), the consolidated statement of changes in net assets for the year ended

March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

The consolidated financial statements are required to include the accounts of the Company and significant companies that are controlled by the Company through substantial ownership of more than 50% of the voting rights or through ownership of a high percentage of the voting rights, even if it is equal to or less than 50%, and existence of certain conditions evidencing control by the Company of decision-making bodies of such companies.

The accompanying consolidated financial statements include the accounts of the Company and four of its subsidiaries for the year ended March 31, 2006 and 2007. The Company's consolidated subsidiaries as of March 31 2007 are Monex, Inc., Monex Alternative Investments, Inc., Monex University, Inc. and Monex Business Incubation, Inc. Monex Capital Partners I, Inc. ("MCPI") was not consolidated.

### (2) Application of Equity Method

Investments in significant affiliates, of which the Company has ownership of 20% or more but less than or equal to 50%, and of 15% or more and less than 20% and can exercise significant influences over operating financial policies of investees, have been accounted for by the equity method.

Investments in all of significant affiliates, which were two companies for the year ended March 31, 2007, were accounted for by using the equity method.

Investment in an unconsolidated subsidiary, Monex Capital Partners I, Inc. ("MCPI") is stated at cost. If the MCPI had been consolidated or the equity method of accounting had

been applied to MCPI, the effect on the accompanying consolidated financial statements would not be material.

### **(3) Trading Account**

The Company prescribes "trading" to be the conduct of transactions for the purpose of earning profit by taking advantage of fluctuations in market prices and differentials between markets as well as reducing losses from them, using securities exercised in one's own account, products which are treated as securities, derivatives trading, money claims, currency trading and other transactions.

#### **a) Securities in the Trading Account**

Securities classified as the trading account (trading assets) are accounted for based on a trade date basis at market value or fair value.

#### **b) Derivative Contracts in the Trading Account**

Derivative contracts in the trading account are accounted for based on a trade date basis at market value or fair value. Accordingly, realized gains and losses on foreign-currency transactions are included in "net gain on trading account." Deemed settlement gains and losses on these transactions are recorded in the trading account and "net gain on trading account."

### **(4) Accounting for Financial Instruments not Classified in the Trading Account**

#### **a) Securities**

Based on the intent of the Company and its consolidated subsidiaries, these securities are classified as 1. Equity securities issued by unconsolidated subsidiaries and affiliated companies and 2. All other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

#### **1. Equity Securities Issued by Unconsolidated Subsidiaries and Affiliated Companies**

Equity securities issued by unconsolidated subsidiaries and affiliated companies that are not accounted for by equity method are stated at cost.

#### **2. Available-for-sale Securities**

(Securities with a Readily Ascertainable Market Value)  
Available-for-sale securities with a readily ascertainable market value are stated at fair market value as of balance sheet dates. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using the moving-average

method.

(Securities without a Readily Ascertainable Market Value)

Available-for-sale securities without a readily ascertainable market value are stated at cost, using the moving average method.

Investment in limited partnership is recorded at net asset values based on most recent financial statements of partnership corresponding to the Company's share.

#### **b) Derivatives**

Derivative contracts are stated at fair value.

### **(5) Depreciation and Amortization of Non-current Assets**

#### **a) Property and Equipment**

Depreciation of property and equipment is computed using the declining-balance method over the estimated useful lives.

#### **b) Intangible Assets**

Goodwill related to the acquisition of the Company's memberships on the Tokyo Stock Exchange and Osaka Securities Exchange is recorded at cost and amortized using the straight-line method over a five-year period. Software for internal use is capitalized and amortized using the straight-line method over the estimated useful life (five years).

### **(6) Basis of Computation of Allowance**

#### **a) Allowance for Doubtful Receivables**

An allowance for doubtful receivables is provided in an amount considered to be sufficient to cover estimated losses. Uncollectible amounts are calculated by estimating amounts for certain identified doubtful accounts and applying a percentage based on the rate of actual losses in the past for other accounts.

#### **b) Accrued Employees' Bonuses**

Accrued employees' bonuses are provided for estimated amounts to be paid in the subsequent period.

#### **c) Accrued Directors' Bonuses**

Effective May 1, 2006, the Company and its consolidated subsidiary adopt the new accounting standard for directors' bonuses (the Financial Accounting Standard No.4 issued by the Accounting Standards Board of Japan on November 29, 2005).

Under the new standard, the directors' bonuses shall be accounted for as an expense of the accounting period



in which such bonuses are accrued, instead of being accounted for as deduction from the amount of surplus. As a result of adopting the new standard, operating income, income before income taxes and minority interests and net income decreased by ¥189 million.

**d) Severance and Retirement Benefits for Employees**

The Company and some of its consolidated subsidiaries have defined contribution pension plans.

**e) Allowance for Point Services**

An allowance for point services is provided for the future reduction of commission revenues for granted and outstanding incentive points to be used after the end of the current fiscal year, using an estimated usage rate based on records of usage.

**(7) Lease Transactions**

Finance lease transactions, other than those wherein ownership of the lease property is regarded as being transferred to the lessee, are accounted for in the same manner as operating leases.

**(8) Hedge Accounting**

The Company applies hedge accounting to forward foreign exchange contracts for the purpose of reducing risk of foreign exchange fluctuations of foreign currency denominated securities that is classified as available-for-sale securities.

The effectiveness of the hedge is assessed by comparing the cumulative amount of valuations in the forward foreign exchange contracts and the cumulative amount of valuations in the hedged securities.

**(9) Income Taxes**

Deferred income taxes are recorded to reflect the effect of temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences. A valuation allowance is provided if it is anticipated that some or all of deferred tax assets may not be realized.

**(10) Consumption Taxes**

Consumption taxes are accounted for based on the tax exclusion method.

**(11) Per Share Amounts**

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income is not presented since securities with dilutive effect have not been issued.

**(12) Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statement of cash flows consist of cash on hand, demand deposits, and readily marketable short-term investments bearing low risk of price fluctuation with maturities not exceeding three months.

**(13) Accounting Standard for Presentation of Net Assets in the Balance Sheet**

Effective from the fiscal year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently as of March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains on hedging derivatives, net of taxes. Minority interests are included in the net assets section as of March 31, 2007. Under the previous presentation rules, companies were required to present minority interests above the shareholders' equity sections.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted as of March 31, 2007, the shareholders' equity amounting to ¥47,488 million (\$402,270 thousand) would have been presented.

**(14) Accounting Standard for Statement of Changes in Net Assets**

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6

issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

### 3. Margin Transactions

Margin transactions as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Assets:</b>			
Loans receivable from customers	¥ 168,634	¥ 216,263	\$ 1,428,496
Cash deposits as collateral for securities borrowed from securities finance companies:	1,451	2,828	12,292
	¥ 170,085	¥ 219,091	\$ 1,440,788

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Liabilities:</b>			
Loans from securities finance companies	¥ 54,994	¥ 66,187	\$ 465,854
Proceeds of securities sold for customers' accounts	14,767	17,125	125,091
	¥ 69,761	¥ 83,312	\$ 590,945

### 4. Pledged Assets

Collateral for loan transactions with securities finance companies as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Securities deposited by customers as collateral for margin transactions	¥ 35,745	¥ 50,634	\$ 302,795

Total fair value of the securities deposited as collateral as of March 31, 2007 and 2006 consisted of the following (excluding securities mentioned above):

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Securities lending for margin transactions	¥ 15,687	¥ 18,671	\$ 132,884
Securities pledged for borrowings from securities financial companies or securities exchange brokers	54,668	68,483	463,092
Securities loaned	53,415	47,104	452,478
Other securities pledged	2,330	—	19,737
	¥ 126,100	¥ 134,258	\$ 1,068,191

Total fair value of the securities received as collateral as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Securities in custody for loans receivable from customers	¥ 154,200	¥ 213,815	\$ 1,306,226
Securities borrowed from securities finance companies	1,449	2,872	12,274
Securities borrowed	114,594	44,689	970,724
Securities received as guarantee for margin transactions	181,095	234,456	1,534,053
	¥ 451,338	¥ 495,832	\$ 3,823,277

### 5. Investments in Non-consolidated Subsidiary and Affiliates

Investments in non-consolidated subsidiary and affiliates included in investment securities as of March 31, 2007 and 2006 had carrying amounts of ¥724 million (\$6,133 thousand) and ¥602 million, respectively.

### 6. Trading Assets and Liabilities

Trading assets as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Equity securities	¥ 474	¥ 263	\$ 4,015
Investment trusts	—	—	—
Bonds	725	255	6,142
Forward foreign exchange contracts	3,178	2	26,921
	¥ 4,377	¥ 520	\$ 37,078

Trading liabilities as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Equity securities	¥ 18	¥ —	\$ 152
Investment trusts	172	180	1,457
Forward foreign exchange contracts	3,965	2	33,588
Total	¥ 4,155	¥ 182	\$ 35,197

## 7. Investment Securities

The acquisition cost and book value of available-for-sale securities with a readily ascertainable market value as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		
	2007		
	Acquisition Cost	Book Value	Difference
Investment trusts	¥ 1,221	¥ 1,308	¥ 87
Total	1,221	1,308	87

	Millions of Yen		
	2006		
	Acquisition Cost	Book Value	Difference
Investment trusts	¥ 1,221	¥ 1,270	¥ 49
Total	1,221	1,270	49

	Thousands of U.S. Dollars		
	2007		
	Acquisition Cost	Book Value	Difference
Investment trusts	\$ 10,343	\$ 11,080	\$ 737
Total	10,343	11,080	737

Available-for-sale securities sold for the fiscal year ended March 31, 2007 and 2006:

	Millions of Yen		
	2007		
	Sales Amount	Gains on Sales	Losses on Sales
Available-for-sale securities	¥ 496	¥ 40	¥ —
Total	496	40	—

	Millions of Yen		
	2006		
	Sales Amount	Gains on Sales	Losses on Sales
Available-for-sale securities	¥ 149	¥ 99	¥ —
Total	149	99	—

	Thousands of U.S. Dollars		
	2007		
	Sales Amount	Gains on Sales	Losses on Sales
Available-for-sale securities	\$ 4,202	\$ 339	\$ —
Total	4,202	339	—

The book value of available-for-sale securities without a readily ascertainable market value as of March 31, 2007 and 2006 was as follows:

	Millions of Yen
	2007
Unlisted company stocks	¥ 1,791
Investment in limited partnership	644
Total	¥ 2,435

	Millions of Yen
	2006
Unlisted company stocks	¥ 1,694
Investment in limited partnership	223
Total	¥ 1,917

	Thousands of U.S. Dollars
	2007
Unlisted company stocks	\$ 15,172
Investment in limited partnership	5,455
Total	\$ 20,627

## 8. Derivatives

### (1) Type of Derivative Transactions Used

The Company and its consolidated subsidiary use forward foreign exchange contracts.

### (2) Basic Policy for Derivative Transactions

The Company and its consolidated subsidiary use derivative transactions in order to hedge currency fluctuation or interest rate risk. In foreign exchange margin trading business, the company's consolidated subsidiary receives guarantee money from customers and does not take a high degree of risk.

### (3) Purpose of Derivative Transactions

The Company and its consolidated subsidiary use forward foreign exchange contracts to minimize currency fluctuation risks of the foreign currency denominated securities.

### (4) Risks Involved in Derivative Transactions

Forward foreign exchange contracts have risk of foreign

exchange fluctuations.

Foreign exchange margin trading business involves currency fluctuation risks, but the company's consolidated subsidiary is sure to receive guarantee money from customers. In addition, the company's consolidated subsidiary can terminate trading based on specific "Loss-cut rules" when unrealized loss of customers are large.

The Company and its consolidated subsidiary have forward foreign exchange contracts only with the financial institutions that are considered of good credit standing.

### (5) Internal Control for Derivative Transactions

Execution and management of derivatives transactions are managed as per internal regulations. The responsible departments calculate the necessary amount of forward foreign exchange contracts, and confirm whether such transactions are based on actual demands.

In accordance with internal rules on risk management, coefficients for arithmetic risk management are calculated on the basis of the Cabinet Office ordinance regarding the capital adequacy rule for securities companies. The responsible department verifies the coefficients and makes reports to the board of directors.

Derivative contracts for trading purposes of March 31, 2007 and 2006 were as follows:

Millions of Yen				
2007				
Assets		Liabilities		
Contract Amount	Fair Value	Contract Amount	Fair Value	
Forward Currency Contracts	¥ 285,503	¥ 3,178	¥ 180,014	¥ 3,965

Millions of Yen				
2006				
Assets		Liabilities		
Contract Amount	Fair Value	Contract Amount	Fair Value	
Forward Currency Contracts	¥ 75	¥ 2	¥ 64	¥ 2

Thousands of U.S. Dollars				
2007				
Assets		Liabilities		
Contract Amount	Fair Value	Contract Amount	Fair Value	
Forward Currency Contracts	\$ 2,418,492	\$ 26,921	\$ 1,524,896	\$ 33,588

Market value information of derivative transactions for non-trading purposes as of March 31, 2007 and 2006 is not disclosed because hedge accounting has been applied to all transactions.

## 9. Leases

Information as to leases and leased property such as pro-forma acquisition costs, accumulated depreciation, obligations under finance leases, depreciation expense and imputed interest expense of finance leases that do not transfer ownership of leased property and were accounted for as operating leases for the fiscal years ended March 31, 2007 and 2006 is as follows:

Acquisition costs and accumulated depreciation:

Millions of Yen			
2007			
	Acquisition Costs	Accumulated Depreciation	Net Balance at Year End
Furniture and fixtures	¥ 648	¥ 135	¥ 513
Software	340	68	272
Total	¥ 988	¥ 203	¥ 785

Millions of Yen			
2006			
	Acquisition Costs	Accumulated Depreciation	Net Balance at Year End
Furniture and fixtures	¥ 471	¥ 144	¥ 327
Software	200	60	140
Total	¥ 671	¥ 204	¥ 467

Thousands of U.S. Dollars			
2007			
	Acquisition Costs	Accumulated Depreciation	Net Balance at Year End
Furniture and fixtures	\$ 5,489	\$ 1,143	\$ 4,346
Software	2,880	576	2,304
Total	\$ 8,369	\$ 1,719	\$ 6,650

Future lease payments under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Within one year	¥ 131	¥ 112	\$ 1,110
Over one year	662	360	5,608
Total	¥ 793	¥ 472	\$ 6,718

Lease payments, depreciation and interest expense:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Lease payments	¥ 173	¥ 208	\$ 1,465
Depreciation	158	180	1,338
Interest expense	15	11	127

Depreciation of leased properties is calculated using the straight-line method over the estimated useful lives of the respective leased properties with zero residual value. The difference between total lease payments and acquisition cost of leased assets is calculated as interest expense, which is allocated to relevant accounting periods based on the interest method.

## 10. Income Taxes

The normal statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes was approximately 40.7% for 2007 and 2006.

The tax effects of significant temporary differences that result in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
<b>Deferred tax assets (Current)</b>			
Enterprise tax payable	¥ 255	¥ 739	\$ 2,160
Allowance for point services	288	240	2,440
Accrued employees' bonuses	42	84	356
Other	63	94	534
Sub total	648	1,157	5,490
Valuation allowance	(12)	(6)	(102)
Total	636	1,151	5,388
<b>Deferred tax assets (Non-current)</b>			
Reserve for securities transactions	888	736	7,522
Reserve for commodities transactions	11	9	93
Allowance for doubtful receivables	36	161	305
Other	25	29	212
Sub total	960	935	8,132
Valuation allowance	(935)	(906)	(7,920)
Total	25	29	212
<b>Deferred tax liabilities (Non-current)</b>			
Net unrealized holding gains on securities	(153)	(24)	(1,296)
Total	(153)	(24)	(1,296)
Net deferred tax assets (liabilities) (Non-current)	(128)	5	(1,084)
Net deferred tax assets	¥ 508	¥ 1,156	\$ 4,304

The differences between the statutory tax rate and the effective tax rate for financial statement purposes for the fiscal year ended March 31, 2007 and 2006 are not disclosed because the differences are less than 5%.

## 11. Severance and Retirement Benefits

The Company and its consolidated subsidiary have defined contribution pension plans. Nikko Beans also had lump-sum severance and retirement plans. However, Nikko Beans abolished the lump-sum severance and retirement plans upon merger with Monex on May 1, 2005.

Severance and retirement benefit expenses included in the consolidated statement of income for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service costs	¥ 14	¥ 11	\$ 119
Others	—	6	—
Severance and retirement benefit expenses	¥ 14	¥ 17	\$ 119

## 12. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Short-term borrowings: average interest rate 0.96%	¥ 29,750	¥ 58,500	\$ 252,012
Commercial paper	—	2,500	—
	¥ 29,750	¥ 61,000	\$ 252,012

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Borrowings from banks: average interest rate 1.02%	¥ 42,500	¥ 42,000	\$ 360,017

The repayment schedule for the next five years and thereafter for long-term debts as of March 31, 2007 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
2008	¥ —	\$ —
2009	¥ 42,000	\$ 355,781
2010	¥ 500	\$ 4,236
2011	¥ —	\$ —
2012 and thereafter	¥ —	\$ —

## 13. Statutory Reserves

Statutory reserves at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Reserve for securities transactions	¥ 2,182	¥ 1,810	\$ 18,484
Reserve for commodities transactions	27	22	229

The reserve for securities transactions is recorded in accordance with Article 51 of the Securities and Exchange Law of Japan, which requires a securities company to set aside a reserve in proportion to the volume of its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.

Reserve for commodities transactions is recorded in accordance with Article 221 of the Commodity Exchange Law, which requires a company to set aside a reserve in proportion to the volume of its commodities transactions and other related trading to cover possible customer losses incurred by default of the company on commodities transactions.

## 14. Commitments

Commitment lines for lending by the Company and its consolidated subsidiary as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Commitment lines for lending	¥ 2,500	¥ —	\$ 21,177
Less amount executed	(—)	(—)	(—)
Unused amount	¥ 2,500	¥ —	\$ 21,177

Commitment lines of credit and overdraft for borrowings by the Company and its consolidated subsidiary as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Commitment lines of credit and overdraft	¥ 113,500	¥ 134,000	\$ 961,457
Less amount executed	(29,750)	(53,000)	(252,012)
Unused amount	¥ 83,750	¥ 81,000	\$ 709,445

## 15. Net Assets

The Japanese Corporate Law (“the Law”) became effective on May 1, 2006, replacing the Japanese Commercial Code (“the Code”). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders’ meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders’ meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

## 16. Share Issued

	As of March 31, 2006	Increase	Decrease	As of March 31, 2007
Common stock	2,344,687	—	—	2,344,687

## 17. Capital Adequacy Requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency ("FSA"). Monex, Inc. reports its capital adequacy ratio as defined pursuant to these rules.

The capital adequacy rules require a securities company to report to the FSA if the ratio falls to 140% or below, and the securities company must report its capital adequacy ratio to the FSA on a daily basis while its ratio is 120% or below. As of March 31, 2007, capital adequacy ratio of Monex was 402.5% (unaudited).

## 18. Segment Information

### (1) Industry Segment

Industry segment information for the years ended March 31, 2007 and 2006 is not disclosed because operating revenues, operating income and assets related to securities brokerage and securities-related services all account for more than 90% of the Company's consolidated operating revenues, operating income and consolidated assets, respectively.

### (2) Geographic Segment

Geographic segment information for the years ended March 31, 2007 and 2006 is not disclosed because there is no consolidated overseas subsidiary or overseas branch office.

### (3) Overseas Sales

Information for overseas sales is not disclosed because overseas sales for the years ended March 31, 2007 and 2006 are less than 10% of the Company's consolidated operating revenues.

## 19. Commission Revenues

Details of commission revenues for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Brokerage:			
Equity securities	¥ 20,405	¥ 27,173	\$ 172,851
Investment trusts	136	93	1,152
Other	70	41	593
Underwriting and distribution:			
Equity securities	439	807	3,719
Subscription and distribution:			
Equity securities	24	25	203
Bonds	19	15	161
Investment trusts	871	722	7,378
Other commissions:			
Equity securities	387	403	3,278
Investment trusts	917	387	7,768
Other	2,108	2,502	17,857
	¥ 25,376	¥ 32,168	\$ 214,960

## 20. Financial Income and Financial Expenses

Details of financial income for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Income from margin transactions	¥ 6,034	¥ 5,933	\$ 51,114
Income from securities lending	819	540	6,938
Dividends received	399	246	3,380
Interest on bonds	19	6	161
Other interest income	169	18	1,431
	¥ 7,440	¥ 6,743	\$ 63,024

Details of financial expenses for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Expenses for margin transactions	¥ 545	¥ 861	\$ 4,617
Expenses for securities lending	1,108	189	9,386
Interest expenses	493	362	4,176
	¥ 2,146	¥ 1,412	\$ 18,179

## 21. Selling, General and Administrative Expenses

The major components of selling, general and administrative expenses for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Commissions paid	¥ 889	¥ 837	\$ 7,531
Exchange and association dues	834	1,157	7,065
Communication, freight and information expenses	2,348	1,989	19,890
Advertising expenses	2,082	1,217	17,637
Directors' compensation	228	186	1,931
Employees salaries	1,933	1,654	16,374
Provision for accrued directors' bonuses	189	—	1,601
Provision for accrued employees' bonuses	103	206	872
Severance and retirement benefit expenses	14	17	119
Equipment rental and maintenance	517	451	4,380
Outsourcing expenses	3,697	3,304	31,317
Provision for allowance for doubtful receivables	139	185	1,177
Amortization and depreciation	99	77	839
Other operating expenses	1,468	1,357	12,435
	¥ 14,540	¥ 12,637	\$ 123,168

## 22. Cash and Cash Equivalents

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Cash and deposits	¥ 61,663	¥ 69,081	\$ 522,346
Segregated cash included in cash and deposits	(24,531)	(22,021)	(207,801)
Cash and cash equivalents	¥ 37,132	¥ 47,060	\$ 314,545

## 23. Subsequent Events

The following appropriation of retained earnings at March 31, 2007 was approved at the annual meeting of shareholders held on June 23, 2007.

	Millions of Yen	Thousands of U.S. Dollars
Unappropriated retained earnings	¥ 11,386	\$ 96,451
Appropriations:		
Year-end cash dividends	6,800	57,603
Retained earnings carried forward	¥ 4,586	\$ 38,848





## Independent Auditors' Report

### To the Board of Directors of Monex Beans Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Monex Beans Holdings, Inc. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income for the years then ended, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006 and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Monex Beans Holdings, Inc. and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
June 23, 2007

KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law, is the Japan member firm of KPMG International, a Swiss cooperative.

# MONEX History

	Monex, Inc.	Nikko Beans, Inc.
1999	April: Monex, Inc. ("Kabushiki Kaisha Monex") jointly established by Oki Matsumoto and Sony	May: Nikko Online Securities, Inc. is founded
	June: Japanese business name was changed to "Monex Shoken Kabushiki Kaisha" (English name was unchanged)	June: Name was changed to Nikko Beans, Inc.
	August: Became a member of the Japan Securities Dealers Association and started operations as a securities company	August: Became a registered securities company
	October: Entered an online brokerage and agency business, offering securities transactions via the Internet and telephone	October: Entered the brokerage and intermediary business, offering securities transactions via the Internet and by telephone
	November: Held the first Orientation Committee	
2000	April: Became a member of the Tokyo Stock Exchange	March: Began brokerage services in sale of IPO's shares and agency trading Began accepting applications for corporate accounts and began engaging in the advertising business
	August: Shares were listed on the Tokyo Stock Exchange "Mothers" Market	
2001	January: Launched "Monex Nighter," Japan's first proprietary trading system for individual investors	March: Merged with Internet Securities Trading, Inc., issuing 2,400 new shares (¥432 million) and increasing capital to ¥12,286 million
	April: Saison Securities Co., Ltd. became a wholly owned subsidiary by share exchange	
	June: Absorbed and merged Saison Securities Co., Ltd.	August: Began offering margin trading on the Internet (Net Margin)
	August: Began issuing the Monex <<Saison>> Card	
2002	November: Became a member of the Osaka Securities Exchange	
	December: Launched margin trading service	
2003	January: Began Stock Lending Service	February: Launched forex exchange service (Beans FX)
	February: Began selling of JGBs for individuals	
	April: Launched foreign exchange margin trading service	
2004		February: Launched commodity futures trading service (Beans CX)
	March: Reached agreement to merge with Nikko Beans, Inc.	
		April: Became a trading participant on the Tokyo, Osaka, and Nagoya stock exchanges
	August: Established Monex Beans Holdings, Inc.	
	October: Established Monex Alternative Investments, Inc. Established Monex Capital Partners, Inc.	
December: Became a trading participant on the Jasdac Securities Exchange.	December: Became a trading participant on the Jasdac Securities Exchange.	
2005	May: Monex Beans, Inc. is established through merger	
	June: Became first online brokerage to win sole lead manager mandate in an IPO	
	July: Opened Monex Lounge@Ginza, a communication space in the Sony Building, at Ginza, Tokyo Launched first Alternative Investment Product, "Asia Focus"	
	September: Changed listing of stocks to Tokyo Stock Exchange Section One Established WR Hambrecht & Co Japan, Inc.	
	November: Established Monex University, Inc. Established Monex Business Incubation, Inc.	
	December: The name Monex Beans, Inc. was changed to Monex, Inc.	
		April: Established Trade Science Corporation
2006	June: Became a trading participant on the Sapporo and Fukuoka stock exchanges.	
	October: Established Net Life Planning Co., Ltd.	
	April: Formed capital and business alliances with eBANK Corporation.	

## Stock Information As of March 31, 2007

<b>Stock listing</b>	First section of Tokyo Stock Exchange	<b>Major shareholders</b>		
<b>Security code</b>	8698	<b>Name</b>	<b>No. of shares held (shares)</b>	<b>Percentage of shares held (%)</b>
<b>Name of Company</b>	Monex Beans Holdings, Inc.	Nikko Cordial Corporation	616,419	26.29
<b>No. of issued stocks</b>	2,344,687	Oki Matsumoto	260,480	11.10
<b>Trading unit</b>	1 Stock	UBS A.G. London Account IPB Segregated Client Account	200,723	8.56
<b>No. of shareholders</b>	49,582	Sony Corporation	117,235	5.00
<b>Administrator for shareholders' register</b>	Mitsubishi UFJ Trust and Banking Corporation	Japan Trustee Services Bank, Ltd. (Trust Account)	72,669	3.09
<b>Fiscal year</b>	From April 1 of each year to March 31 of the following year	Mizuho Securities Co., Ltd.	71,110	3.03
<b>Record date for year-end dividends</b>	March 31	DBJ Value Up Fund	68,415	2.91
<b>Record date for interim dividends</b>	September 30	Recruit Co., Ltd.	57,200	2.43
<b>Ordinary shareholders' meeting</b>	June each year	Morgan Stanley & Co., Inc.	56,913	2.42
		The Master Trust Bank of Japan, Ltd. (Trust Account)	47,791	2.03

## Monex Beans Holdings, Inc.

**Founded:** August 2004  
**Capital:** 8,800 million yen  
**Description of Business:** Holding Company

**Head Office:** 1-11-1 Marunouchi, Chiyoda-ku,  
 Tokyo, Japan 100-6219  
 TEL : 03-6212-3750  
**URL:** <http://www.monexbeans.net/>

Directors & Auditors	Representative Director, President & CEO	Oki Matsumoto	Director (External & Non-executive)	Yuko Kawamoto
	Representative Director, Deputy President & CFO	Kyoko Kudo	Director (External & Non-executive)	Jun Makihara
	Representative Director, Managing Director	Tomoshige Nakamura	Director (External & Non-executive)	Mamoru Taniya
	Director	Tsutomu Nakajima	Standing Statutory Auditor	Tadasu Kawai
	Director	Hisashi Tanaami	Statutory Auditor	Takehiko Moriyama
	Director (Non-executive)	Masakazu Sasaki	Statutory Auditor (External)	Tetsuo Ozawa
			Statutory Auditor (External)	Takeshi Tamaki

## Group Company Profile

As of August 31, 2007

### Monex, Inc.

**Founded:** May 1999  
**Representative:** Oki Matsumoto  
**Capital:** 7,425 million yen  
**Description of Business:**  
 Securities Business, Accompanying Business, Other Services  
**Head Office:**  
 1-11-1 Marunouchi Chiyoda-ku, Tokyo, Japan 100-6219  
**URL:** <http://www.monex.co.jp/>

### Monex Alternative Investments, Inc.

**Founded:** October 2004  
**Representative:** Shigeo Mizuta  
**Capital:** 95 million yen  
**Description of Business:**  
 Asset Management including fund selection advisory  
**Head Office:**  
 1-11-1 Marunouchi, Chiyoda-ku, Tokyo, Japan 100-6219  
 Certificate: Chief of Kanto Regional Financial Bureau No. 1370  
**URL:** <http://www.monexai.com/>

### Monex University, Inc.

**Founded:** November, 2005  
**Representative:** Shinobu Naito  
**Capital:** 40 million yen  
**Description of Business:**  
 Creating investment educational contents  
 Planning and management of investment education related events  
 Planning of investment education related books/DVDs and others  
**Head Office:**  
 1-11-1 Marunouchi, Chiyoda-ku, Tokyo, Japan 100-6219  
**URL:** <http://www.monexuniv.co.jp/>

### WR Hambrecht & Co Japan, Inc.

**Founded:** September, 2005  
**Representative:** Oki Matsumoto  
**Capital:** 22 million yen  
**Description of Business:**  
 Research and Investigation of OpenIPO® Business  
**Head Office:**  
 1-11-1 Marunouchi, Chiyoda-ku, Tokyo, Japan 100-6219

### Monex Business Incubation, Inc.

**Founded:** November, 2005  
**Representative:** Toshihiko Katsuya  
**Capital:** 350 million yen  
**Description of Business:**  
 Discovery and incubation of new businesses which would contribute to Monex Beans Holdings groups' growth  
**Head Office:**  
 1-11-1 Marunouchi, Chiyoda-ku, Tokyo, Japan 100-6219

### Trade Science Corporation

**Founded:** April, 2006  
**Representative:** Koichi Kato  
**Capital:** 91 million yen  
**Description of Business:**  
 Research and Investment Advisory Company utilizing system trading  
**Head Office:**  
 513 Waseda Tsurumaki-cho, Shinjuku-ku, Tokyo, Japan 162-0041  
**URL:** <http://www.trade-sc.jp/>

### Net Life Planning Co., Ltd.

**Founded:** November, 2006  
**Representative:** Haruaki Deguchi  
**Capital:** 1,010 million yen  
**Description of Business:**  
 Research and Planning on Life Insurance Business  
**Head Office:**  
 2-14-2 Koujimachi, Chiyoda-ku, Tokyo, Japan 102-0083  
**URL:** <http://www.netseiho.com/>

## **MBH | Monex Beans Holdings, Inc.**

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