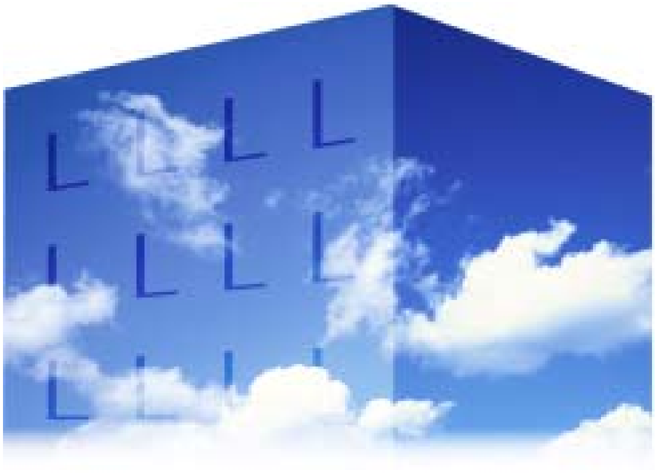


Annual Report 2006

Year Ended March 31, 2006

Sun Frontier Fudousan Co., Ltd.

Profile

Sun Frontier Fudousan Co., Ltd., was established in April 1999. Our business focuses on renovating aging commercial buildings with declining tenancy rates and replanning, which entails converting buildings to generate high usage rates and returns. We strategically concentrate on Tokyo's Chiyoda, Chuo, and Minato wards, harnessing our leasing capabilities to broaden our business. The Company listed on the JASDAQ Securities Exchange in November 2004. We aim to conserve resources and minimize the environmental impact of cities by reusing buildings. We provide total property solutions that extend from our core replanning operations to rentals and sales, building leases, property management, and real estate securitization.

Management Philosophy

Safeguard all employees, ensure discretion, and contribute to mankind and society.

Corporate Vision

Create a city that harmonizes with the environment, is attractive, and dynamic.

Our Three Corporate Principles

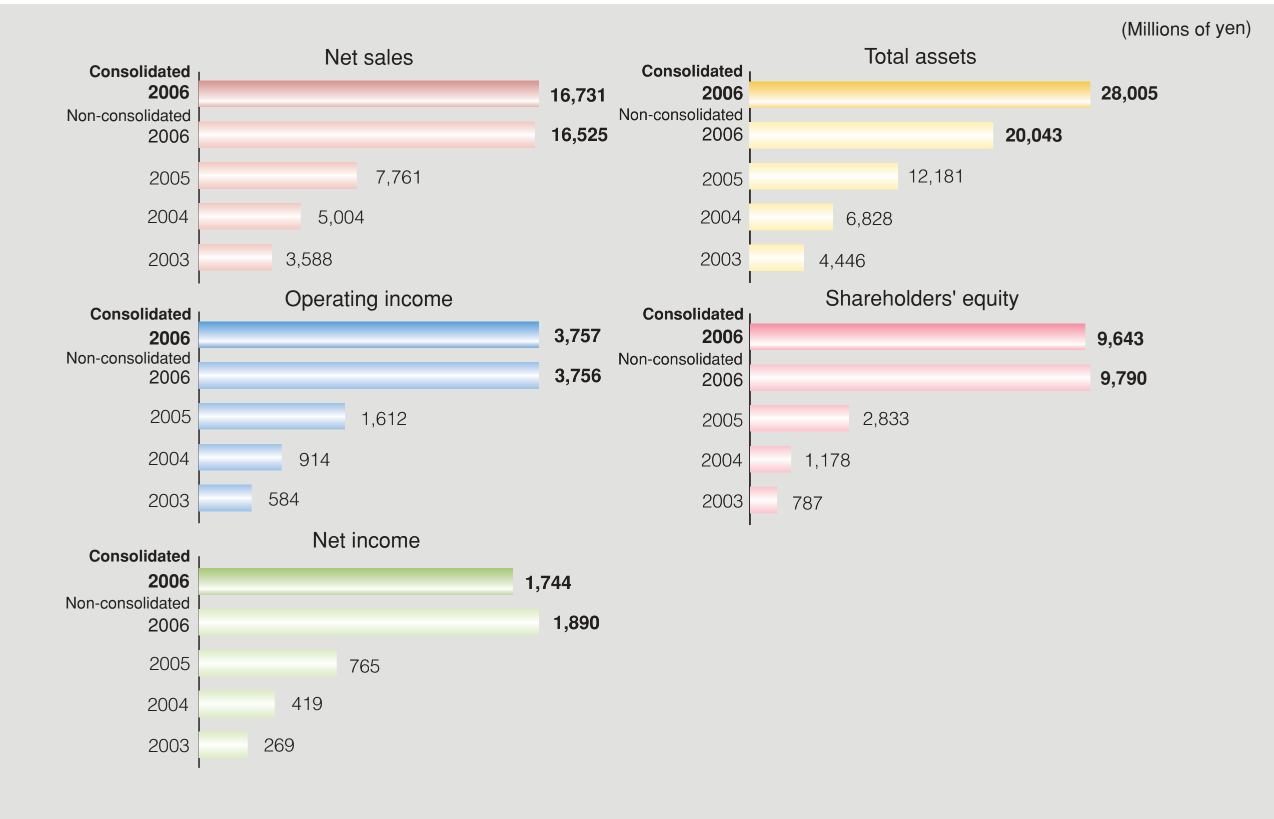
"Altruism over selfishness"
"Effort second to none"
"Absolute proactivity"

Contents

Financial Highlights

Sun Frontier Fudousan Co.,Ltd. and Subsidiaries

	Non-consolidated			Consolidated	
	Thousands of Yen		Thousands of U.S Dollars	Thousands of Yen	Thousands of U.S Dollars
For the Year:	2005	**2006**	**2006**	**2006**	**2006**
Net sales	7,760,982	**16,525,269**	**140,677**	**16,730,890**	**142,427**
Operating income	1,612,313	**3,756,105**	**31,975**	**3,756,693**	**31,980**
Net income	764,835	**1,890,018**	**16,089**	**1,744,100**	**14,847**
Net income per share (yen/dollar)	38,141.45	**20,520.41**	**174.69**	**18,914.91**	**161.02**
Diluted income per share (yen/dollar)	38,006.66	**20,339.14**	**173.14**	**18,747.82**	**159.60**
Cash dividends (yen/dollar)	2,000	**1,000**	**8.51**	**1,000**	**8.51**
At year-end:					
Total assets	12,181,378	**20,042,641**	**170,619**	**28,005,030**	**238,402**
Shareholders' equity	2,833,416	**9,789,555**	**83,337**	**9,643,327**	**82,092**
Number of outstanding shares	21,004	**96,966**		**96,966**	
Shareholders' equity per share (yen/dollar)	134,327.57	**100,700.82**	**857.25**	**99,192.78**	**844.41**



Message from the President

Sun Frontier Fudousan continued to grow steadily in fiscal 2006, ended March 31, 2006, our seventh year of operations. On behalf of our executives and employees, I would like to thank our shareholders and other stakeholders for their support since we listed on JASDAQ in November 2004.

In the year and a half since our initial public offering, we have raised awareness of our pioneering position in property revitalization in the domestic real estate and financial services industry, among foreign investors, and in the general public. This has enabled us to diversify our fund sourcing and exit strategies in our core replanning business while increasing scale. We complemented our traditional focus on near-term turnarounds with the revitalization of small buildings by additionally focusing on projects of around a year that create value for medium-sized buildings. Replanning the use of medium-sized buildings has generated high earnings.

As a result of these factors, consolidated net sales in fiscal 2006 were ¥16,730 million, operating income was ¥3,756 million, and net income was ¥1,744 million. No comparisons are available, as the year under review was our first for consolidated reporting, covering five wholly owned subsidiaries. Non-consolidated net sales increased 112.9%, to ¥16,525 million, operating income was up 133.0%, to ¥3,756 million, and net income rose 147.1%, to ¥1,890 million.

High funds turnover is essential given the nature of our business and insufficient capital, and we have been able to swiftly generate high utilization from replanned buildings. We obtained more than ¥5.1 billion in funding by raising capitalization in September 2005 through a public offering and in October that year through an over-allotment portion (third-party allocation). These funds have positioned us to cultivate large operations and enter fields that have been beyond our reach.

We have three medium-term strategies. The first is to expand our product line-up while increasing sales volume and employing mergers and acquisitions in real estate. In our brokerage business, we are expanding our agency network, and our property management and construction planning operations are increasing revenues per building. We are stepping up our total solutions approach by drawing on cooperation between our operations.

Our second strategy is to diversify. At the end of July 2005, we established three wholly owned subsidiaries as part of our drive to deliver comprehensive real estate services. They were SF Building Support Inc., SF Investments Inc., and Sun Frontier Real Estate Investment Advisors Inc. Their mission is to reflect the needs of customers and maximize their satisfaction. Their clear goals have derived from our core business.

Our third strategy is to cultivate an environmental business. It is important for us to operate such that our operations protect the environment to ensure a long-term progress. As a basic approach, we follow our corporate philosophy of suppressing resources waste to help sustainable progress of mankind and society. We are committed to building a business model that conserves valuable resources and minimizes environmental impact as part of efforts in order to create an operational structure that offers high investment efficiency and profitability.

We aim to build solid long-term ties with our shareholders. We will accordingly continue to properly disclose corporate information while delivering ample returns to shareholders. We will work companywide to beef up our management and businesses to earn the trust of shareholders and satisfy their requirements. We will take advantage of our core real estate revitalization business to meet higher goals in becoming a creative comprehensive property company.

I value your continued support for our endeavors.

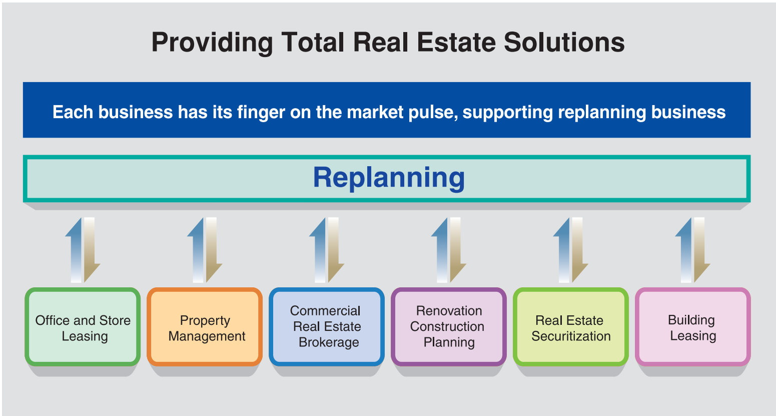
June 2006

Tomoaki Horiguchi

Tomoaki Horiguchi
President

Business Models

Sun Frontier Fudousan and its five consolidated subsidiaries focus on the replanning business, which covers revitalizing aged buildings whose utilization rates have declined. Our employees devote their talents to their projects and take advantage of the Group's strength in swiftly identifying market needs. Close collaboration among our seven real estate businesses enable us to deliver new types of comprehensive real estate services.

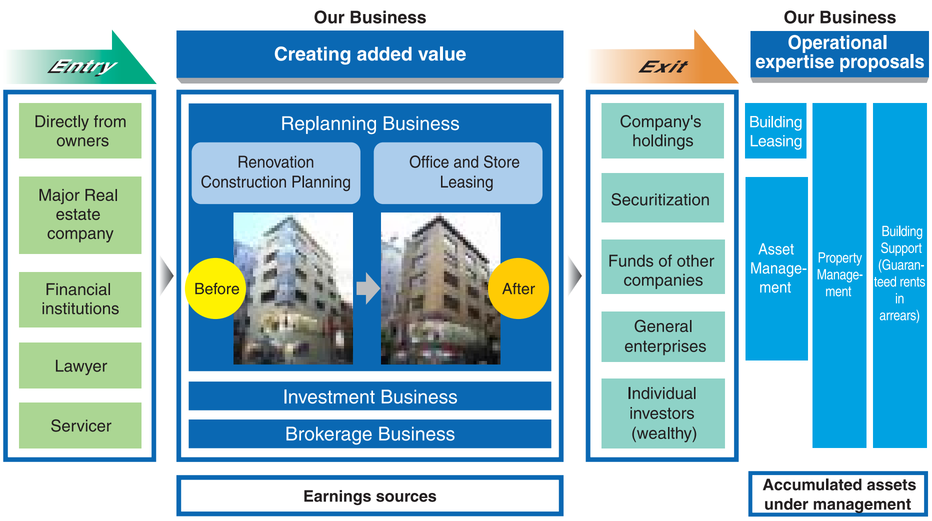


Replanning Business

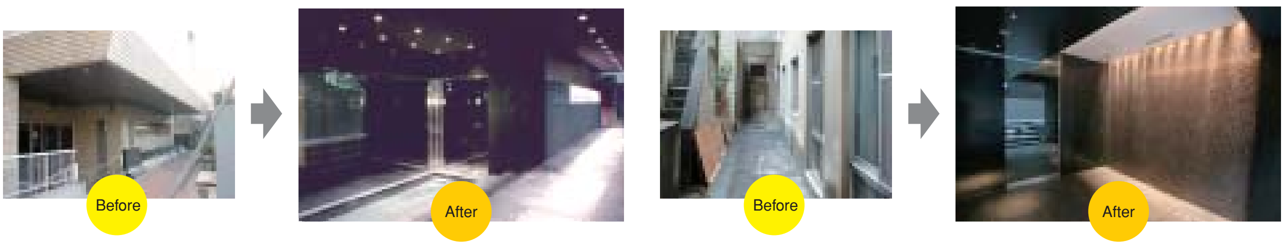
We buy commercial buildings that suffer low returns or are unused owing to aging. We formulate replanning proposals for renovations that encompass redesigning interiors and exteriors and im-proving and repairing fixtures. We then secure tenants to achieve high occupancy rates and generate high returns, enhancing market value. We can create new value by converting buildings to meet new market needs and generate high returns, selling these properties to investors or building funds at fair prices or leasing them out ourselves.

By using the assets of existing buildings, we can focus on urban revitalization that minimizes environmental impact by suppressing industrial wastes and carbon dioxide emissions from demolition.

Business Structure from Property Flows Perspective



■ **Key Examples of Replanning Business Conversions**



Rigorous Dominant Strategy and Market Realities

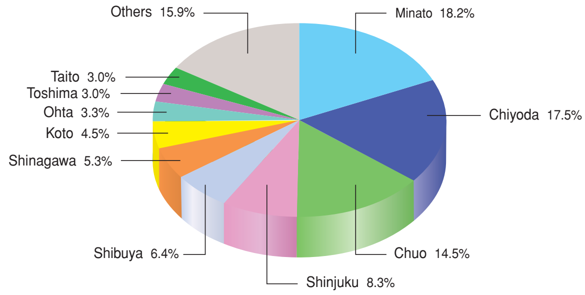
We pursue a dominant strategy in which we concentrate our management resources in Tokyo, particularly in the city's Chiyoda, Chuo, and Minato wards. These three areas constitute more than half of the office stock of Tokyo's 23 wards. Each of our employees efficiently supplies locally oriented services. Branch employees are thoroughly familiar with market needs in central Tokyo. We harness their knowledge and high-quality services for other areas, notably real estate brokerage, leasing, and property management, as well as replanning.

Office Stock Shares in Tokyo's 23 Wards

50.2% (42,920,000 m²) of office stock concentrated in three of Tokyo's 23 wards

As of the end of January 2004, overall office stock in Tokyo's 23 wards was 85,439,000 m²

Our core areas of Minato, Chiyoda, and Chuo wards constituted 50.2% of offices in Tokyo's 23 wards, or 42,920,000 m²



Source: Sun Frontier Fudousan, based on Tokyo Metropolitan Government's Tokyo Land 2005

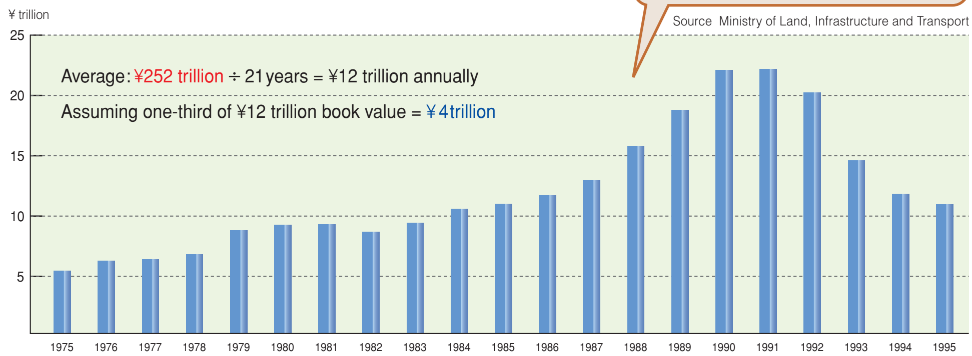
We estimate that every year around ¥4 trillion worth of private sector office buildings older than 20 years will need replanning every year in Tokyo's 23 wards. The owners of these buildings are highly aware of the issues associated with aging structures. The market looks set to take off.

Construction Investments (Non-Housing, Private Sector) for 1975 to 1995

We have calculated that ¥4 trillion worth of properties annually became targets for the replanning business

¥252 trillion in construction investment over 21 years between 1975 and 1995

Source Ministry of Land, Infrastructure and Transport



① The Kanto plain accounted for 70% of the total, of which come from metropolitan Tokyo, with 70% of that in the city's 23 wards
70% x 70% x 70% = 34.3% is company's business target
② According to our data, an estimated 33.3% of property values was for buildings, with land accounting for 66.7%
③ ¥4 trillion x 34.3% ÷ 33.3% = Around ¥4 trillion

In this massive untapped market, we can employ our dominance strategy to identify office and store rental trends and determine optimal uses for tenants through our direct links to owners and tenants. We can draw on our knowhow and feed back such information to uncover the potential of buildings subject to replanning.

Overview

Japan’s real estate sector remained buoyant in fiscal 2006, ended March 31, 2006. But concerns that interest rates would rise in response to quantitative financial deregulation and other factors led to signs that demand would change for J-REITs (Japanese real estate investment trusts) and private equity funds, whose assets under management have continued to rise. At the same time, vacancy rates improved for rental office buildings in central Tokyo, indicating that this market had bottomed out.

Against this backdrop, we benefited from corporate asset restructuring and from strong demand among retail investors, corporations, and funds. Our replanning business increased the quality and scale of buildings acquired for inventory and sale and increased the number of properties sold. We concentrated our groupwide knowhow and creativity to achieve an average project completion period of just 5.1 months, selling 16 properties. Also contributing to a steadily improved performance were our heavy involvements in projects with turnaround times of one year and in larger projects requiring complex renovation planning. We also obtained properties through mergers and acquisitions to support our business strategies in fiscal 2007 and beyond, efficiently allocating funds we procured to large properties. In the building lease business, subsidiary SF Investments Inc., which we established in July 2005, reached its building procurement targets, and is

Ginza, Chuo-ku
B1/7F, 25 years old

Before

After

Ginza, Chuo-ku
B1/7F, 35 years old

Before

After

making solid progress toward improving its earnings from fiscal 2007. As a result of these factors, sales of the real estate revitalization business totaled ¥15,037,064 thousand, generating ¥4,074,840 thousand in operating income.

We achieved balanced growth in all areas of real estate services. The commercial real estate brokerage business benefited from favorable market conditions and increased work for new customers. In office and store leasing business, rental office demand increased on the strength of a positive operating climate, making renting more affordable for companies, and we were able to conclude contracts on larger properties, boosting both revenues and earnings. We increased revenues and profits from property management, on the strength of buildings for other funds and sales of large replanned properties. We boosted sales in the construction planning business, mainly for renovations of small commercial buildings. In guarantor services for tenants of leased properties, we provided diverse alternatives to further increase customer satisfaction, and the aggregate value of contracts was as planned. Sales of the real estate services business were thus ¥1,669,040 thousand, with operating income reaching ¥206,982 thousand.

In the real estate securitization and asset management businesses, we generated asset management fees and obtained dividends. Sales of other real estate businesses were ¥24,784 thousand, while operating income was ¥7,174 thousand.

Kanda, Chiyoda-ku
B1/7F, 18 years old

Before

After

Misakicho, Chiyida-ku
8F, 16 years old

Before

After

Topics

ISO 9001 and 14001 Certifications Obtained

We obtained ISO 9001 and 14001 certifications from the Japan Quality Assurance Organization on March 10, 2006, for real estate revitalization and sale of real estate, property management services, real estate brokerage services, and real estate leasing services.

We will continue to improve our quality management systems and enhance customer satisfaction by providing highly reliable services and products. At the same time, we will help safeguard the environment through out operations and efficiently deploy environmental management systems.

JQA-QMA-12686 JQA-EM-5225

Certified sites: Headquarters and the Ginza, Kanda, Shinjuku, and Yokohama branches

Leasing Guarantee Services

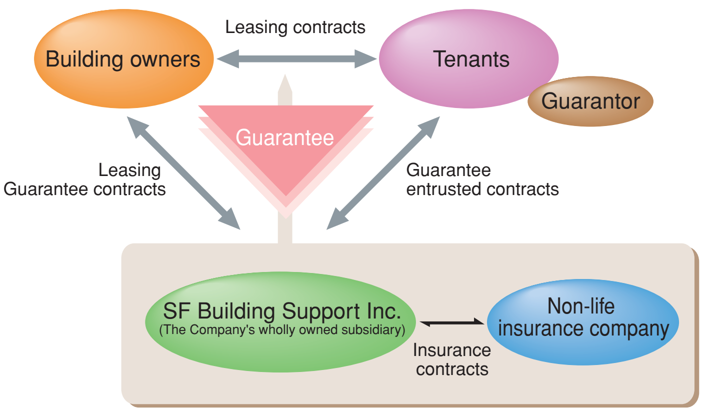
In July 2005, we established the wholly owned SF Building Support Inc. to commercialize our AS ONE lease guarantor system. This business is the fruit of our screening expertise in rental brokerage for more than 700 offices and shops every year. The main goal is to broaden tenant selections for building owners and eliminate the risks of lease payment delinquencies.

We apply our lease guarantor system mainly to buildings that we have revitalized through our replanning business, an approach that we are confident will contribute to even higher utilization rates with such properties.

AS ONE Lease Guarantor System

Our leasing guarantee business is a new service that supports office and shop owners and building tenants providing guarantors for lease contracts and providing third-party guarantees so owners can receive rents if tenants fall behind on their payments. By providing such guarantees, we can eliminate a source of concern for owners and for potential tenants undergoing screenings, thereby ensuring peace of mind.

We enable healthy building management and ease tenant influxes by acting as guarantor and providing guarantees from third-party organizations to cover the risk of tenants falling behind on rental payments. The key benefits are 1) broader tenant selections, 2) shorter tenant screenings, 3) zero risks of tenant failure to pay rents, and 4) less rent-related work.



Challenges

We estimate that ¥4 trillion worth of buildings each year need replanning. We concentrate our operations in Chiyoda, Chuo, and Minato wards, where 50.2% (42,920,000 square meters) of the office stock of Tokyo's 23 wards is located. Companies are expanding as the economy recovers, with demand rising for relocations to accommodate more employees. We thus have numerous more business opportunities and untapped market needs. We are using our locally focused dominance strategy and marketing based on close relationships with customers to expand our scale and diversity.

Property Scale

We will step up operations in small and medium-sized properties, where our replanning business continues to enjoy stable growth. At the same time, we will generate investments by increasing the quality and volume of target properties, using our capital and information resources to meet the challenges of larger buildings.

Business Fields

As in the leasing guarantee and asset management businesses, we will reflect customer opinions in our operations and cultivate new operations derived from existing activities. To maintain our expansion pace in the replanning business while further increasing profitability, we will need to enhance our capabilities in non-asset businesses, such as brokerage and real estate securitization, where we can fully deploy total solutions to resolve the specific issues of building owners. We aim to cultivate asset businesses providing stable cash flows while expanding our presence in non-asset businesses that use the funds of others and increase our capital efficiency. By optimizing our business portfolio, we will improve enterprise value and offer a diverse range of comprehensive real estate services in our drive for progress.

Assets under Management

We will take full advantage of our leasing strengths, which have produced high tenancy rates, to strengthen fee income from property and asset management.

Cultivating Human Resources to Reinforce Business Foundations

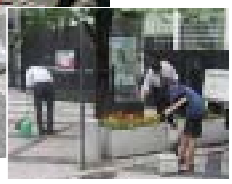
It is essential to secure outstanding people with broad skills in real estate to provide comprehensive real estate services. We thus heavily hire new graduates and people in mid-career, providing access to a solid training system, highlighting our philosophy, and enhancing a sense for figures, and are strengthening our programs to give our people specialized knowledge. We enhance employee motivation by offering ownership of our shares and stock options and will continue to attract and foster talented people.

Community Contributions

As an inhabitant of the earth, the Company aims to coexist with the environment and contribute to society.

■Cleaning Drives

Employees at headquarters (in Hibiya, Tokyo) and all our branches (Ginza, Yaesu, Kanda, Shinjuku, and Yokohama) participate in local beautification efforts. Every morning, all our approximately 130 employees spend 30 minutes in the morning cleaning up near their premises. The idea is for them to understand the value of doing one's little bit and enhance their environmental awareness.



■Afforestation at Mount Takao

July 2005 saw the launch of a voluntary afforestation project at Mt. Takao in Hachioji. The sponsors are the Tokyo Agriculture, Forestry and Fisheries Department and the Afforestation Forum, a nonprofit organization. Academic and corporate volunteer groups participate in the project, the goals being to ensure society's coexistence with forests and for people to acquire knowledge and skills.

■Office Activities

Recycling Waste

We rigorously separate office waste to increase recycling rates. Our headquarters participates in the Chiyoda Eco Office Association and endeavors to recycle paper waste that was previously discarded, lowering waste volumes. We send used disposable chopsticks to paper makers and otherwise provide resources for making paper.

Green Products

In using and buying consumables for our offices, we not only assess quality and price but also the need and the environmental impact, choosing items that have minimal loads. For internal documentation, we use 100% recycled stock and 70% white stock, as such paper can be endlessly recycled in environmentally friendly production processes.

Environmental Business

The scrapping and building also cause the distraction of the global environment. They are the industrial waste that results from demolishing buildings, the need for more construction materials that come from harming the environment, and exhausting emissions from transporting vehicles, etc. Sun Frontier Fudousan is committed to halting a growing environmental impact by revitalizing buildings while contributing to a vibrant urban infrastructure that coexists with nature.

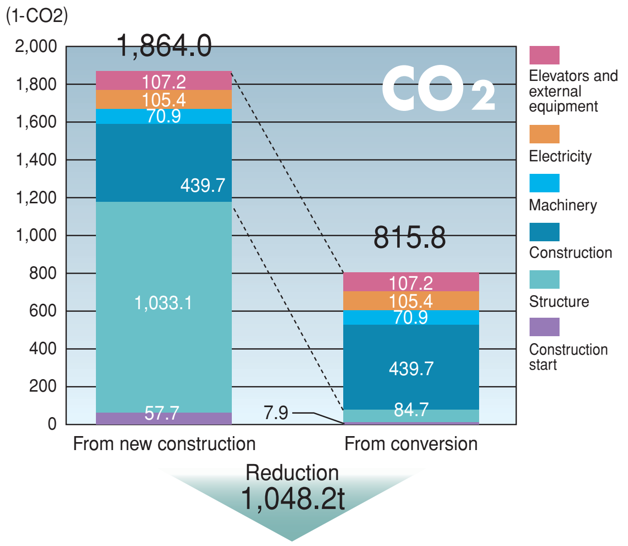
Our real estate revitalization business reuses buildings effectively, thus reducing building demolishment and construction. Our policy is that the real estate business should build new value by focusing on revitalize instead of development, thus curbing industrial waste and carbon dioxide emissions and suppressing the unnecessary consumption of fossil fuels around the globe. We thereby aim to contribute to the progress of humanity and society. Egotism has destroyed much of nature and depleted resources. We think that the real estate business of the 21st century should make people happy while respecting nature.

The Jingumae 5-Chome Project was completed in 2004. In this project, our Replanning Business converted the Tokyo dormitory of Kagoshima Prefecture into a shopping and rental housing complex.

Simply demolishing and replacing the premises would have generated 1,864 metric tons of carbon dioxide. But the Replanning Business was able to limit carbon dioxide production to 816 metric tons, a reduction of 1,048 metric tons or 56.2% less.

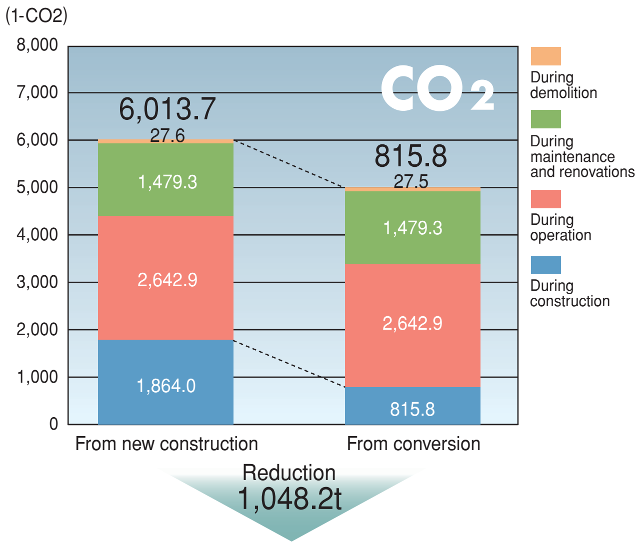
■**Assessment of Carbon Dioxide Reduction of Jingumae 5-Chome Project**

Carbon dioxide production from conversion



Reduction of 56.2% less

Carbon dioxide production over 30-year life cycle



Reduction of 17.4% less

Risk Information

The risk information below outlines accounting risk factors and risk factors related to the business areas described in our annual report. It focuses on the factors that could have the greatest effect on investor decisions. Note that forward-looking statements reflect the opinions of the Group at the end of the current consolidated accounting year.

1. Business Environment, Sun Frontier Fudousan's Business Characteristics

(1) Business Environment

The Group's business area—the real estate industry—is currently in a continued growth phase, both in terms of the number and amount of real estate transactions. However, a major shift in the real estate market, long-term business conditions, interest rates or other macroeconomic conditions in future could reduce the Group's transaction volume and force more unfavorable transactions conditions, affecting the Group's earnings.

(2) Replanning

1. Today's low interest rate environment makes the properties sold by our Replanning Business unit consistently attractive to both domestic and foreign investors using them as investment vehicles. While we expect sales to continue being solid, a sudden rise in interest rates or real estate prices in future could stall sales and affect the Group's earnings.
2. For both replanning and real estate investment, the Group primarily procured loans from financial institutions equivalent to the purchase cost of properties. Rather than relying on a particular financial institution for financing, the Group spreads financing evenly among several institutions for maximum benefit, and works to reduce the result that interest-bearing liabilities as assets are excluded from the balance sheet for the equity finance and securitization. A change in monetary conditions could cause changes in the lending policies of financial institutions, impeding the Group's ability to obtain the financing it has planned, and affecting the Replanning Business unit's activities and the Group's earnings.
3. For both replanning and real estate investment, properties are purchased and then sold after replanning work is completed. Both business areas record sales and cost of sales at the time of sale of a property. Since replanning and real estate investment transactions have higher values than transactions in our other business units where the Group only acts as a broker, changes in the timing or value of these transactions could affect the Group's earnings.

(3) New Business Areas

Seeking strategic growth areas, the Group is using its subsidiaries to move into the areas of real estate investment for Replanning Business, real estate securitization, asset management and leasing guarantee services. We plan to grow these areas by drawing on our unique know-how and wealth of experience, and are already starting to see results. However, a shift in business conditions away from our forecasts could prevent us from working on these areas as planned, and affect the Group's earnings or balance sheet.

(4) Competition

The Group works in the areas of planning, building leasing, commercial real estate trading and rental brokerage services, property management, construction planning, real estate securitization, asset management and leasing guarantee services. Our unique identity comes from our ability to organically link each of these areas to provide comprehensive commercial real estate services. However, acquiring the types of properties our Replanning Business unit targets for replanning and real estate investment could become more competitive moving forward. To deal with this risk, we are working on maintaining and improving our competitiveness, and looking for ways to keep an edge over our competitors. However, if we can't keep our competitive advantage, the Group's earnings could be affected.

(5) Real Estate Securitization and Asset Management

For our real estate securitization and asset management business areas, we, as an asset manager, receive an asset management fee proportional to the balance of assets, and an incentive fee proportional to their fund's performance. Real estate funds do not guarantee investors' principal or returns. Investors must always invest at their own risk, but if fund performance declines, the Group's asset manager performance evaluations will drop, which could affect the Group's earnings or the balance sheet.

2. Legislation Affecting the Group

The Group's business is regulated by statutes such as the Law Regulating Housing Sites Development, Architects Law, Construction Industry Law, Law on Appraisal of Real Estate, and the Real Estate Investment Advisory Business Registration Regulations. The Group has obtained all relevant permits and licenses mandated by these statutes.

The table below lists the permits and licenses needed for the Group's major business areas, including their validity periods and whether they can be revoked for cause. To date, the Group has never had cause for revocation of a permit or license, but if such cause arose in future, it could have a major impact on the Group's business activities. In the future, the Group's business could also be affected if any of the relevant statutes is repealed or if new legislation is established.

(1) Permits and licenses with legally or contractually imposed validity periods or other restrictions

License, permit or registration	Company issued to	Validity period	Areas covered	Relevant statute	Issued by:	Revocable for cause
License to Trade in Housing Sites	Sun Frontier Fudousan	Dec. 29, 2004 to Dec. 28, 200	—	Law Regulating Housing Sites Development	Minister of Land, Infrastructure and Transport	Yes
	SF Investments	Dec. 22, 2005 to Dec. 21, 2010				
General Construction Industry Permit	Sun Frontier Fudousan	Dec. 26, 2005 to Dec. 25, 2010	Construction, roofing, steel structure work, carpentry, tiling, brickwork, cement block work, interior finishing	Construction Industry Law	Prefectural Governor	Yes
First-Class Architect Office Registration	Sun Frontier Fudousan	Through Jan. 10, 2007	—	Architects Law	Prefectural Governor	Yes
Real Estate Appraiser Registration	Sun Frontier Fudousan	Feb. 7, 2003 to Feb. 6, 2008	—	Law on Appraisal of Real Estate	Prefectural Governor	Yes
General Real Estate Investment Advisor Registration	Sun Frontier Fudousan	Nov. 3, 2004 to Nov. 2, 2009	—	Real Estate Investment Advisory Business Registration Regulations	Minister of Land, Infrastructure and Transport	Yes
	Sun Frontier Real Estate Investment Advisors	Nov. 3, 2004 to Nov. 2, 2009				
Trust Beneficiary Rights Sales License	Sun Frontier Fudousan	Aug. 26, 2005 to Aug. 25, 2008	—	Trust Business Law	Kanto Finance Bureau Director	Yes

(2)The operations of the Group's real estate securitization and asset management business areas are regulated by statutes such as the Trust Business Law, the Investment Trust and Investment Corporation Act, laws on asset liquidity, the Nonprofit Mutual Benefit Corporation Law, the Securities and Exchange Law, and laws regulating securities-related investment advisory business. In the future, the Group's business could be affected if any of the relevant statutes is repealed or if new legislation is established.

3. Reliance on President Tomoaki Horiguchi

Tomoaki Horiguchi, our company's president, started up our company's core business of replanning based on a wealth of experience in the real estate trading and rental brokerage business, and as the CEO of the company's management, he plays an important role in determining and promoting corporate strategies and business strategies.

As a consequence, our company is working to put in place a management framework by bolstering our management team to avoid excessive reliance on Mr. Horiguchi, but there is still a high degree of reliance on Mr. Horiguchi, so if for some reason Mr. Horiguchi was hindered from performing his duties as a manager, our company's performance and the promotion of our business may be affected.

4. Asset Impairment Accounting

The Group has switched to asset impairment accounting starting with the current consolidated accounting year. While we currently do not feel that any of our fixed assets will generate a loss affecting our earnings or balance sheet, we may need to post a loss on asset impairment if future economic conditions lower rents or raise vacancies. The Group's earnings or balance sheet could be affected in this case.

5. Protection of Personal Information

Since the Group's business activities involve storing personal information on building owners, tenants and other individuals, the Group is a "Personal Information Handler" as defined in the relevant statutes. Moving forward, we expect to handle an increasing amount of related personal information as our business grows, and to deal with it, have upgraded our information management system and spare no pains in internal information management measures. However, unforeseeable accidents could cause leaks of personal information belonging to clients or other individuals, damaging the Group's reputation and affecting earnings.

6. Falsification of Structural Data

The public confidence in construction projects in Japan has been dwindling since a scandal over falsified structural data came to light in November 2005. Immediately after the story broke, we checked the construction history of each of the properties we have sold to confirm that none of the companies involved in the scandal had worked on any of them. While the Group had no involvement with the scandal, similar problems have not been completely resolved. There is an atmosphere of growing public distrust of Japan's real estate projects and real estate industry, and if the public's desire for real estate investment declines, the Group's earnings could be affected.

Corporate Governance

(1) Basic Approach

All the Group's directors and employees are instilled with a highly ethical outlook, and use "Fairness as a human being" as the primary criterion in all their business decisions. Implementing this is the foundation of our corporate management. The core mission of our management is to earn the solid trust of our shareholders, clients, employees and other stakeholders by contributing to the public good through our business activities, pursuing profits in an honest and transparent manner, and increasing our corporate value on a long-term and ongoing basis. We are therefore working to improve our corporate governance using the following basic policy points:

1. Improving transparency and ensuring fairness
2. Rapid decision-making and execution of business operations
3. Upholding our responsibility to provide explanations
4. Disclosing information in a timely and appropriate manner
5. Raising compliance awareness

To continue to respond to social and legislative changes moving forward, we will research corporate governance methods appropriate to the Group whenever needed, making any revisions needed.

(2) Measures

1. Management organizations for corporate decisions regarding managerial intention, execution and supervision, and other corporate governance systems

i. Organizations

Sun Frontier Fudousan uses an auditor system with one full-time and one outside auditor. Sun Frontier Fudousan has no outside directors at present. Sun Frontier Fudousan has no fulltime employee retained as its outside auditor, but as needed, the General Affairs Department and Internal Audit Office are dealing with cases appropriately.

• Board of Directors: Comprised of four directors. Holds regular Board meetings every month to vote on items set forth in statutes or the Articles of Association, and to report, discuss and vote on important business matters. The Board also oversees execution of the work of the directors. Whenever needed, the Board holds extraordinary meetings to provide greater mobility.

• Auditors: There are two auditors—one full-time auditor and one outside auditor. They audit the execution of the directors' work by attending Board meetings and important conferences, and by examining management conditions and how operations are executed. They are governed by the Auditing Policy, Auditing Plan, and the job descriptions for auditing work.

ii. Installation of an internal regulatory system and a risk management system

Sun Frontier Fudousan has created a comprehensive set of regulations pertaining to all aspects of its operations. Each directors and employees carries out their job duties with authority and responsibility, in line with the relevant regulations. Internal audits are executed by the Internal Auditing Office. Attorneys are retained under advisor agreements to provide legal advice on compliance and similar issues as needed. Sun Frontier Fudousan's internal management system is outlined below.

• Sun Frontier Fudousan is working on creating better corporate governance to improve our internal management system while creating a mobile and flexible organizational system.

• Internal regulatory organization: The Internal Audit Office carries out internal audits whenever needed to ensure that Sun Frontier Fudousan's business operations comply with all relevant statutes and our internal regulations, and that they are carried out legally and properly. The Internal Audit Office promptly reports its findings to the President. These reports are used to suggest improvements or provide advice to Company departments, to improve the quality and efficiency of all business operations.

• Positioning of management departments: The Management Division oversees the Company as a whole. It contains the General Affairs Department, made up of the General Affairs Section (in charge of general affairs and human resources) and Information System Section (in charge of information system). The Management Division also contains the Accounting Department (in charge of accounting and financing), the Business Planning Office (in charge of Companywide budget and earnings management), the IR Office (in charge of investor relations), and the Management Promotion Office (in charge of management accounting work). Internal management and regulation are carried out throughout all departments.

• For the company regulations, we immediately reflect revisions to relevant statutes or changes in the state of internal control and are wrestling with the installation and revision.

• Improvements to internal management system over past year: In response to the personal information protection laws that went into full force in April 2005, we have created a protection system that includes a management-level employee education and training program. We also continued our internal education program aimed at preventing problems such as insider trading.

iii. Internal auditing, auditor auditing, accounting auditing

• Internal auditing: The Internal Auditing Office (staffed by two auditors) answers directly to the President. Its mission is to verify the appropriateness and effectiveness of the internal management system for all Sun Frontier Fudousan's operations. It carries out periodic audits in line with the Internal Auditing Plan—a document that sets forth the risk management conditions in each department. The Internal Auditing Office calls for improvements and revisions to areas covered by its audits, and creates the Internal Auditing Report to report its findings to the President. It works with auditors and auditing companies to ensure the internal system of checks and balances functions properly.

• Auditor auditing: Carried out by two auditors). In line with the auditor-created Auditing Policy and Auditing Plan, the auditors attend meetings of the Board and other important conferences, and work closely with organizations such as the Internal Auditing Office, internal management departments and auditing companies to audit the execution of the work done by the directors.

• Accounting auditing: Accounting auditing is outsourced to BDO Sanyu & Co. Audits are carried out at regular intervals throughout the year to prevent audit work accumulating at year-end. In addition to standard auditing, Sanyu also provides advice on accounting issues and internal regulatory issues whenever needed.

• We also receive advice from consultant tax accountants to ensure tax compliance.

iv. Director and auditing remuneration breakdowns

The tables below show the breakdown of remuneration paid to directors and auditors, and the breakdown of auditing remuneration.

Director remuneration breakdown

		Total number of recipients (numbers of outsiders in parentheses)	Total amount received (thousands of yen; amounts received by outsiders in parentheses)
Directors	Remuneration	5 (0)	82,816 (0)
	Directors' bonuses paid from profit distributions	4 (0)	12,000 (0)
Auditors	Remuneration	3 (2)	11,814 (5,394)
	Severance bonuses voted in at general meeting of shareholders	1 (1)	300 (300)

Auditing remuneration breakdown

	For current fiscal year (July 1, 2005 to June 30, 2006; thousands of yen)
Remuneration for work set forth in Article 2, Paragraph 1 of Certified Public Accounting Law	14,700
Remuneration for other work	3,000

2. Personal Relationships, Capital/Trading Relationships and Other Interests Between Company and Company's Outside Auditors

• Sun Frontier Fudousan has no outside directors.

• Outside auditor Kazuaki Fukiage has been appointed auditor of the Sun Frontier Fudousan's subsidiaries SF Building Support and Sun Frontier Real Estate Investment Advisors, but has no capital or trading relationship to these companies nor any other interest in them.

• Mizue Akita was appointed as a new outside auditor at the regular general meeting of shareholders held on June 22, 2006. Akita has no personal, capital or trading relationship with Sun Frontier Fudousan, nor any other interest in the Company.

3. Improvements in Corporate Governance Over Past Year

i. Management meetings

Monthly meetings are held for all executive directors, Section Heads and higher-ranking management-level employees. They are held to provide a venue for timely information exchanges and communication on a variety of areas. They are used to disseminate and enforce policies, verify work results, and pinpoint problems.

ii. Weekly report meetings

Weekly Leadership Meetings are held for all full-time directors and all management-level employees, and Weekly Report Meetings are held for each business unit. They provide a venue for timely information exchanges and communication in a variety of areas. They are used to report on the current business situation, disseminate and enforce policies, and pinpoint problems.

iii. Information disclosure

We disclose our financial and earnings statements every quarter, to respond to the public's heightened concern over corporate information disclosure, and to ensure management transparency and faster implementation. We will continue to make efforts to disclose active and fair information by posting investor relations information on our Web site, providing news releases whenever new Company-related developments occur, and holding explanatory meetings about the Company for investors.

Analysis of Financial Position and Performance

The Sun Frontier Fudousan Group began producing consolidated financial statements in fiscal 2006, ended March 31, 2006, this report therefore does not provide comparisons with previous years.

1. Financial Position

At the end of fiscal 2006, current assets, mainly covering real estate held for sale in the replanning business, were ¥16,100,951 thousand, reflecting increases in inventory for expansion in fiscal 2007. Cash and cash equivalents were ¥6,678,054thousand.

Property and equipment was ¥3,253,799 thousand, owing to investments in software to strengthen the Company's infrastructure.

At the close of the term, total liabilities were ¥18,361,703 thousand. This growth stemmed from a rise in short-term loans to acquire inventory and bond issues to fund purchases of buildings for leasing. Total shareholders' equity was ¥9,643,327 thousand, mainly because of higher net income, additions to common stock through a public offering, and a rise in additional paid-in capital.

Shareholders' equity per share was thus ¥99,192.78.

The solid performance of our replanning business, our listing on JASDAQ in November 2004, and other factors made it easier for us to raise funds. As a result of inventory acquisitions, total assets at year-end were ¥28,005,030 thousand.

2. Performance

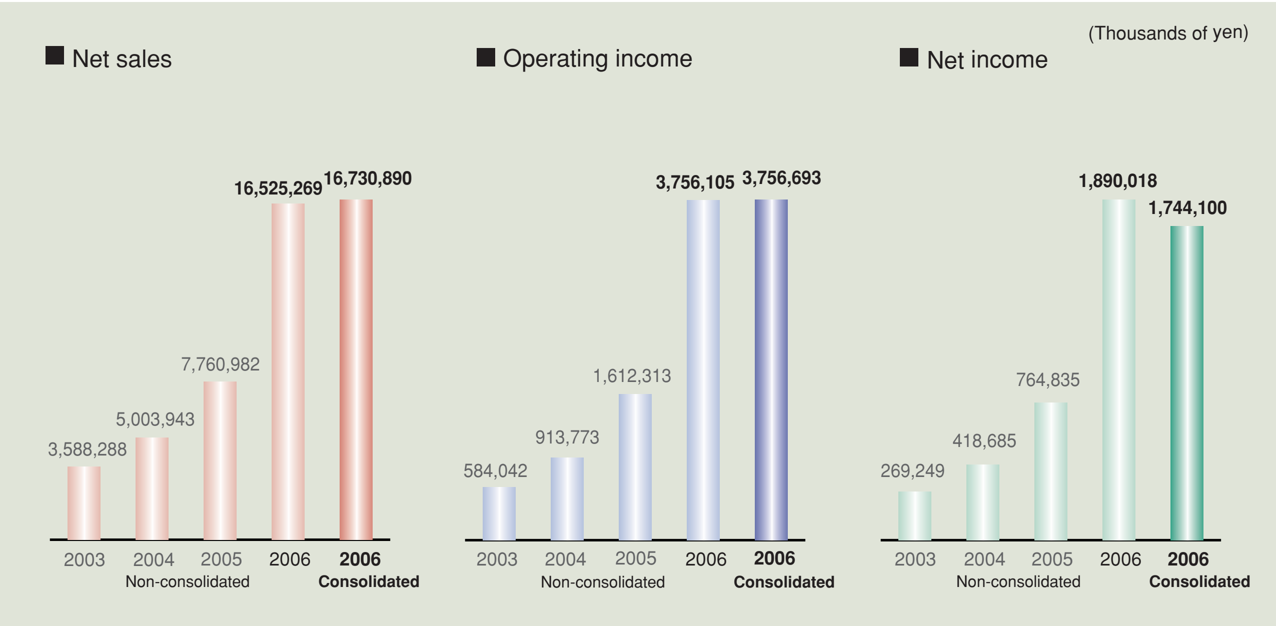
Consolidated net sales were ¥16,730,890 thousand. Sales in the real estate revitalization field were ¥15,037,064 thousand, while real estate services sales were ¥1,669,040 thousand. Sales of other real estate businesses were ¥24,784 million. Within the real estate revitalization category, replanning business sales were ¥13,924,693 thousand, while building lease business sales were ¥1,112,370 thousand.

Replanning accounted for 83.2% of net sales, reflecting the integration of in-house operations, which allowed us to handle medium-sized and large projects.

The cost of sales increased in line with the expanded scale of our replanning business. Including building lease operations, the real estate revitalization business accounted for 68.8% of costs. Real estate services represented 24.2% of costs, owing to growth in brokerage operations.

Gross profit was therefore ¥5,964,692 thousand, and the gross margin was 35.7%.

Selling, general and administrative expenses were ¥2,207,999 thousand, reflecting higher staffing levels that boosted personnel expenses. Operating income was ¥3,756,693 thousand. The operating income ratio was 22.5%. After factoring in the costs of issuing bonds,



new shares, and listing preparations and extraordinary earnings and expenses, net income before income taxes was ¥3,448,371 thousand.

Net income was ¥1,744,100 thousand. The return on sales was 10.4%. Net income per share was ¥18,914.91. The return on equity was 18.1%.

3. Cash Flow Analysis

At year-end, cash and cash equivalents were ¥6,005,324 thousand, up ¥4,541,411 from the start of the term. This stemmed from the contribution of ¥3,448,371 thousand in net income before income taxes and rises in proceeds from borrowing and from the issue of new shares, which offset an increase in inventories owing to replanning property acquisitions in the real estate revitalization business.

Net cash used in operating activities was ¥6,905,260 thousand. This was due largely to a rise of ¥8,707,322 thousand in inventories and a ¥991,572 decline in accounts payables, which outweighed income before income taxes of ¥3,448,371 thousand.

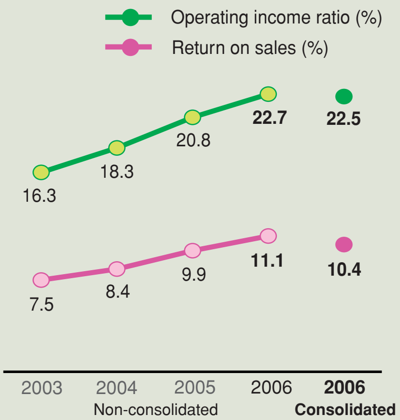
Net cash used in investing activities was ¥557,366 thousand. This was due primarily to ¥450,586 thousand in outlays for time deposits and ¥1,305,973 thousand for purchases of subsidiaries accompanying in scope of consolidation, which offset ¥1,342,159 thousand in proceeds from time deposit reimbursements.

Net cash provided by financing activities was ¥12,004,037 thousand. The main factors were ¥2,500,000 thousand in proceeds from long-term borrowings, a net increase of ¥5,667,000 thousand in short-term borrowings, and ¥5,081,380 thousand in proceeds from the issuance of common stock, which outweighed ¥1,661,800 thousand in the repayment of long-term borrowings.

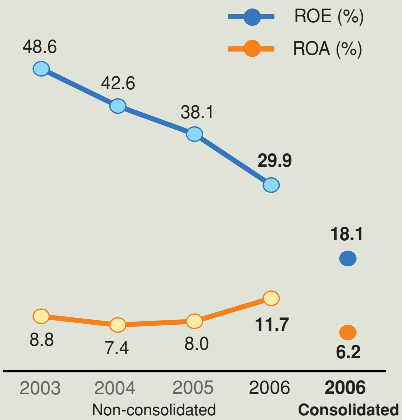
The Company primarily requires funding to acquire inventory for its real estate revitalization business, and covers this demand through short-term borrowings from banks.

During the year under review, the Company acquired more replanning properties and expanded the scope of operations, for ¥6,905,260 in cash used in operating activities. The Company primarily engages in revitalizing commercial real estate in central Tokyo, obtaining short-term loans from banks equivalent to the purchase costs of properties. The replanning business entails renovating commercial buildings and attracting tenants, quickly selling attractive properties to building owners and investors. The envisaged turnaround periods are about six months, with all loans repaid after swift sales. We thus have a structure in which cash used in operating activities thus expands while operating results improve, which means that acquisitions are rising toward next fiscal year. Another factor to consider is that in the real estate industry property sales are heaviest in March.

■ Operating income ratio & Return on sales



■ Return on Assets & Return on Equity



Financial Statements

Sun Frontier Fudousan Co., Ltd. and subsidiaries

Consolidated Balance Sheet

As of March 31, 2006

	Thousands of yen	*Thousands of U.S. dollars (Note 1)*
	2006	**2006**
ASSETS		
Current assets:		
Cash and bank deposits	**¥6,678,054**	**$56,849**
Accounts receivable - trade	**208,660**	**1,776**
Inventories	**16,100,951**	**137,064**
Deferred tax assets (Note 9)	**258,143**	**2,198**
Other current assets	**1,507,495**	**12,833**
Allowance for doubtful accounts	**(2,074)**	**(18)**
Total current assets	**24,751,231**	**210,703**
Property and equipment, net (Note 3)	**2,295,375**	**19,540**
Intangible assets	**528,983**	**4,503**
Investments and other assets:		
Investment securities (Note 5)	**6,540**	**56**
Other assets	**383,607**	**3,266**
Deferred tax assets (Note 9)	**40,605**	**346**
Allowance for doubtful accounts	**(1,313)**	**(11)**
Total investments and other assets	**429,439**	**3,656**
Total assets	**¥28,005,030**	**$238,402**

See accompanying summary of significant accounting policies and other notes to financial statements.

	Thousands of yen	Thousands of U.S. dollars (Note 1)
	2006	**2006**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	**¥ 138,584**	**$ 1,180**
Short-term borrowings (Notes 4 and 6)	**9,723,000**	**82,770**
Current portion of long-term debts (Notes 4 and 6)	**631,300**	**5,374**
Income taxes payable	**1,565,157**	**13,324**
Deferred tax liabilities	**520,791**	**4,433**
Accrued bonuses for employees	**56,460**	**481**
Construction warranty reserve	**73,200**	**623**
Other current liabilities	**653,366**	**5,562**
Total current liabilities	**13,361,860**	**113,747**
Long-term liabilities:		
Long-term debts (Notes 4 and 6)	**4,396,460**	**37,426**
Reserve for directors' retirement benefits	**74,584**	**635**
Other long-term liabilities	**528,797**	**4,502**
Total long-term liabilities	**4,999,842**	**42,563**
Total liabilities	**18,361,703**	**156,310**
Shareholders' equity		
Common stock, 304,000 shares authorized, 96,966 shares issued and outstanding	**3,050,911**	**25,972**
Additional paid-in capital	**3,112,248**	**26,494**
Retained earnings	**3,478,512**	**29,612**
Net unrealized holding gain on securities	**1,654**	**14**
Total shareholders' equity	**9,643,327**	**82,092**
Total shareholders' equity and liabilities	**¥28,005,030**	**$238,402**

See accompanying summary of significant accounting policies and other notes to financial statements.

Sun Frontier Fudousan Co., Ltd. and subsidiaries

Consolidated Statement of Income

For the year ended March 31, 2006

	Thousands of yen	*Thousands of U.S. dollars (Note 1)*
	2006	**2006**
Net sales	**¥16,730,890**	**$142,427**
Costs of sales	**10,766,197**	**91,651**
Gross profit	**5,964,692**	**50,776**
Selling, general and administrative expenses (Note 8)	**2,207,999**	**18,796**
Operating income	**3,756,693**	**31,980**
Other Income (Expenses):		
Interest and dividend income	**1,562**	**13**
Interest expenses	**(168,198)**	**(1,432)**
Fees from lectures	**538**	**5**
Stock issuance cost	**(38,119)**	**(324)**
Fees for finance	**(42,474)**	**(362)**
Reversal of allowance for doubtful accounts	**183**	**2**
Cancellation fee of interest rate swap agreements	**(24,764)**	**(211)**
Other, net	**(37,050)**	**(315)**
Other expenses, net	**(308,322)**	**(2,625)**
Income before income taxes	**3,448,371**	**29,355**
Income taxes (Note 9):		
Current	**1,874,693**	**15,959**
Deferred	**(170,423)**	**(1,451)**
	1,704,270	**14,508**
Net income	**¥1,744,100**	**$ 14,847**

	Yen	*U.S. dollars (Note 1)*
Net income per share:		
Basic	**¥18,914.91**	**$ 161.02**
Diluted	**18,747.82**	**159.60**
Cash dividends per share	**1,000.00**	**8.51**

	Shares
Weighted average shares outstanding:	
Basic	**90,886**
Diluted	**91,696**

See accompanying summary of significant accounting policies and other notes to financial statements.

Sun Frontier Fudousan Co., Ltd. and subsidiaries

Consolidated Statement of Shareholders' Equity

For the year ended March 31, 2006

	Thousands of yen					
	Number of Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding (Loss) Gain on Securities	Total Shareholders' Equity
Balance as of March 31, 2005	21,004	¥491,150	¥552,500	¥1,788,419	¥ 1,035	¥2,833,104
Common stock issued under the spread-method	63,012	–	–	–	–	–
Common stock issued under the public offering	11,000	2,174,315	2,174,304	–	–	4,348,619
Common stock issued under the third party allotment	1,950	385,445	385,444	–	–	770,889
Net income	–	–	–	1,744,100	–	1,744,100
Cash dividends paid	–	–	–	(42,008)	–	(42,008)
Bonuses to directors and statutory auditors	–	–	–	(12,000)	–	(12,000)
Change in net unrealized holding gain on securities	–	–	–	–	619	619
Balance as of March 31, 2006	**96,966**	**¥3,050,911**	**¥3,112,248**	**¥3,478,512**	**¥1,654**	**¥9,643,327**

	Thousands of U.S. dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding (Loss) Gain on Securities	Total Shareholders' Equity
Balance as of March 31, 2005	$4,181	$4,703	$15,224	$ 9	$24,118
Common stock issued under the spread-method	–	–	–	–	–
Common stock issued under the public offering	18,510	18,509	–	–	37,019
Common stock issued under the third party allotment	3,281	3,281	–	–	6,562
Net income	–	–	14,847	–	14,847
Cash dividends paid	–	–	(358)	–	(358)
Bonuses to directors and statutory auditors	–	–	(102)	–	(102)
Change in net unrealized holding gain on securities	–	–	–	5	5
Balance as of March 31, 2006	**$25,972**	**$26,494**	**$29,612**	**$14**	**$82,092**

See accompanying summary of significant accounting policies and other notes to financial statements.

Sun Frontier Fudousan Co., Ltd. and subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2006

	Thousands of yen	*Thousands of U.S. dollars (Note 1)*
	2006	**2006**
Cash Flows from Operating Activities:		
Income before income taxes	**¥ 3,448,371**	**$ 29,355**
Adjustments to reconcile income before income taxes to net cash used in operating activities:		
Depreciation and amortization	**191,111**	**1,627**
Amortization of consolidation adjustment accounts	**78,846**	**671**
Allowance for doubtful accounts	**(183)**	**(2)**
Accrued bonuses for employees	**20,914**	**178**
Reserve for directors' retirement benefits	**12,398**	**106**
Construction warranty reserve	**60,100**	**512**
Interest and dividend income	**(1,563)**	**(13)**
Interest expenses	**168,198**	**1,432**
Stock issuance cost	**38,119**	**324**
Bonds issuance cost	**22,716**	**193**
Disposal of property and equipments	**347**	**3**
Accounts receivable - trade	**(148,569)**	**(1,265)**
Inventories	**(8,707,322)**	**(74,124)**
Advances paid	**(120,000)**	**(1,022)**
Accounts payable - trade	**(991,572)**	**(8,441)**
Consumption tax payable	**108,362**	**922**
Consumption tax receivable	**(239,706)**	**(2,041)**
Security deposits received	**(4,570)**	**(39)**
Payment for directors' and statutory auditors' bonuses	**(12,000)**	**(102)**
Other, net	**180,928**	**1,540**
Subtotal	**(5,895,074)**	**(50,184)**
Interest and dividends received	**1,563**	**13**
Interest paid	**(176,809)**	**(1,505)**
Income taxes paid	**(834,940)**	**(7,108)**
Net cash used in operating activities	**(6,905,260)**	**(58,783)**
Cash Flows from Investing Activities:		
Payments for time deposits	**(450,586)**	**(3,836)**
Proceeds from time deposits	**1,342,159**	**11,426**
Purchases of property and equipment	**(102,017)**	**(868)**
Purchases of subsidiary accompanying in scope of consolidation	**(1,305,973)**	**(11,118)**
Payments for security deposits	**(94,530)**	**(805)**
Proceed from security deposits	**78,330**	**667**
Other, net	**(24,748)**	**(211)**
Net cash used in investing activities	**(557,366)**	**(4,745)**
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	**5,667,000**	**48,242**
Proceeds from long-term borrowings	**2,500,000**	**21,282**
Repayments of long-term borrowings	**(1,661,800)**	**(14,147)**
Proceeds from issuance of bonds	**733,284**	**6,242**
Payments for redemption of bonds	**(274,000)**	**(2,333)**
Proceeds from issuance of common stock	**5,081,390**	**45,257**
Dividends paid	**(41,836)**	**(356)**
Net cash provided by financing activities	**12,004,037**	**102,188**
Net increase in cash and cash equivalents	**4,541,411**	**38,660**
Cash and cash equivalents at beginning of year	**1,463,913**	**12,462**
Cash and cash equivalents at end of year	**¥ 6,005,324**	**$ 51,122**

See accompanying summary of significant accounting policies and other notes to financial statements.

Additional Cash Flow Information

Cash and cash equivalents reported in the statements of cash flows are reconciled to cash and bank deposits reported in the balance sheets as follows:

	Thousands of yen	*Thousands of U.S. dollars (Note 1)*
	2006	**2006**
Cash and bank deposits	**¥6,678,054**	**$56,849**
Bank deposits with an original maturity over three months	**(672,729)**	**(5,727)**
Cash and cash equivalents	**¥6,005,324**	**$51,122**

See accompanying summary of significant accounting policies and other notes to financial statements.

Significant components of the assets and liabilities of Taisei Building Co., Ltd., which become a consolidated subsidiary through acquisition of its capital during the year ended March 31, 2006, are as follows:

	Thousands of yen	*Thousands of U.S. dollars (Note 1)*
	2006	**2006**
Current assets	**¥1,417,709**	**$12,069**
Fixed assets	**6,930**	**59**
Consolidation adjustment accounts	**551,924**	**4,698**
Current liabilities	**(563,780)**	**(4,799)**
Long-term liabilities	**(41,454)**	**(353)**
Acquisition cost	**1,371,328**	**11,674**
Cash and cash equivalents	**65,355**	**556**
Cash used for acquisition	**¥1,305,973**	**$11,118**

Notes to the Consolidated Financial Statements

For the year ended March 31, 2006

1. Basis of Presenting the Financial Statements

Sun Frontier Fudousan Co., Ltd. and its consolidated subsidiaries (collectively, the "Company") maintain their accounts and records in accordance with the provision set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Financial Reporting Standards or accounting standards generally accepted in the United States of America. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The accompanying consolidated financial statements are the translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and were filed with the Kanto Financial Bureau in Japan as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made in the financial statements issued domestically in order to present them in a form which is more familiar to the readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate of ¥117.47 to U.S. $1 at March 31, 2006. Such 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 that or any other rate.

The Japanese yen amounts in thousands in financial statements are cut off at the thousand.

The fiscal year ended March 31, 2006 is the first year that the Company prepares consolidated financial statements. Therefore, the Company provides no comparisons with the previous corresponding term for the consolidated balance sheet, statement of income, statement of shareholders' equity, and statement of cash flows.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The consolidated financial statements include the accounts of the Company and its 5 significant subsidiaries. Consolidated subsidiaries are SF Capital Co., Ltd., SF Investments Inc., Sun Frontier Real Estate Investment Advisors Inc., SF Building Support, and Taisei Building Co., Ltd.

The Company established SF Investments, Sun Frontier Real Estate Investment Advisors, and SF Building Support during the term, complementing subsidiary SF Capital. The Company consolidated Taisei Building following our February 2006 acquisition of that company. The fiscal years of all these subsidiaries end on the same date.

The Company uses mark-to-market accounting for the assets and liabilities of all consolidated subsidiaries. The Company applied the straight-line method for the consolidated adjustments account for subsidiaries over seven months.
The Company does not have any equity-method affiliates.

(2) Cash and Cash Equivalents

Cash and cash equivalents on the statements of cash flows consist of cash on hand and deposits with banks withdrawable on demand.

(3) Investment Securities

The Company has only non-marketable security classified as other securities. Non-marketable other securities are stated at cost determined by the moving-average method.

The Company recognizes impairment losses for investment securities for which the fair value declined by more than 50% or considers impairment losses for those for which the average market price at the end of the fiscal year declined by more than 30% but less than 50%.

(4) Inventories

Real estate held for sale and real estate under construction are stated at cost, determined by the specific identification method.

Leased assets are depreciated with the same method as property and equipment

Supplies are stated at cost, determined by the last purchase method.

(5) Property and Equipment
Property and equipment are stated at cost. Depreciation is calculated by the declining balance method while the straight line method is applied to buildings. The estimated useful lives are as follows:

Buildings and structures	3 to 43 years
Vehicles	3 to 6 years
Machinery, equipment and furniture	2 to 10 years

Property and equipment between ¥100 thousand and ¥200 thousand are depreciated on a straight line basis over three years.

(6) Intangible Assets
Intangible assets primarily consist of internal-use software, which is amortized straight-line over five years.

(7) Long-term Prepaid Expenses
Long-term prepaid expenses are stated at cost, determined by the straight-line method.

(8) Stock and Bonds Issuance Costs
Stock and bonds issuance costs are expensed as incurred.

(9) Allowance for Doubtful Accounts
Allowance for doubtful accounts is provided based on past experiences for normal receivables and on an estimate of the collectibility of receivables from companies in financial difficulties.

(10) Accrued Bonuses for Employees
Accrued bonuses for employees are provided for using the estimated amount which the Company is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(11) Reserve for Directors' Retirement Benefits
To provide for retirement benefits to directors and statutory auditors, reserve is provided for the aggregate amount payable as of balance sheet date pursuant to the Company's internal rules.

(12) Construction Warranty Reserve
To prepare for repair costs related to real estate sold, construction warranty reserve is provided based on the past experiences

(13) Derivatives and Hedge Accounting
In order to reduce its exposure to fluctuations in interest rates on variable rate borrowings, the Company utilizes derivative financial instruments such as interest rate swap contracts. Since the Company meets the requirement for exceptions to apply the hedge accounting, under Japanese accounting standards for financial instruments, the Company does not require to record derivative financial instruments on balance sheet at fair value. The Company does not hold derivative contracts for speculative purposes.

(14) Income Taxes
The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period the change is enacted. A valuation allowance is established to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(15) Appropriation of Retained Earnings
Under the Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments and bonuses paid to directors and statutory auditors) proposed by the Board of Directors should be approved by the shareholders at the shareholders' meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriations which relate to the immediately preceding fiscal year but were approved by the shareholders at the shareholders' meeting and disposed of during that year.

(16) Earnings per Share ("EPS")
Basic EPS is computed based on the average number of shares of common stock outstanding during each period and diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(17) Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in Japan requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Property and Equipment

Property and equipment as of March 31, 2006 is as follows:

	Thousands of yen	*Thousands of U.S. dollars*
	2006	**2006**
Buildings and structures	**¥1,193,666**	**$10,161**
Vehicles	**10,095**	**86**
Land	**1,186,585**	**10,101**
Other	**77,670**	**661**
Accumulated depreciation	**(172,641)**	**(1,470)**
Total	**¥2,295,375**	**$19,540**

During the year ended March 31, 2006, building of ¥507,073 thousand ($4,316 thousand) and land of ¥777,250 thousand ($6,616 thousand) were reclassified to real estate under construction.

4. Assets Pledged as Collateral

Assets pledged as collateral as of March 31, 2006 is as follows:

	Thousands of yen	*Thousands of U.S. dollars*
	2006	**2006**
Real estate held for sale	**¥3,311,561**	**$28,191**
Real estate under construction	**5,172,112**	**44,029**
Beneficiary interest in trust from real estate held for sale	**6,188,302**	**52,680**
Buildings	**993,796**	**8,460**
Land	**1,186,585**	**10,101**
Total	**¥16,852,358**	**$143,461**

Liabilities secured by the above collateral are as follows:

	Thousands of yen	*Thousands of U.S. dollars*
	2006	**2006**
Short-term borrowings	**¥9,723,000**	**$82,770**
Current portion of bonds, unsecured bonds guaranteed by bank	**328,000**	**2,792**
Current portion of long-term borrowings	**264,000**	**2,247**
Bonds unsecured bonds guaranteed by bank	**1,254,000**	**10,675**
Long-term borrowings	**3,110,260**	**26,477**
Total	**¥14,679,260**	**$124,962**

5. Investment Securities

The following table summarizes acquisition costs, book values and fair values of available-for-sale securities with available fair values at March 31, 2006:

	Thousands of yen			*Thousands of U.S. dollars*		
	2006			**2006**		
	Acquisition cost	Carrying value	Unrealized gain/(loss)	Acquisition cost	Carrying value	Unrealized gain/(loss)
Equity	**¥3,750**	**¥6,540**	**¥2,790**	**$32**	**$56**	**$24**

6. Short-term Borrowings and Long-term debts

Short-term borrowings represent mainly bank loans with weighted average interest rates on the period end balance of 1.44% as of March 31, 2006.

Long-term debts and current portion of long-term debts as of March 31, 2006 are as follows:

	Thousands of yen 2006	*Thousands of U.S. dollars* 2006
0.79% secured bonds, due on November 13, 2009	**¥ 880,000**	**$ 7,491**
0.33% secured bonds, due on September 25, 2012	**702,000**	**5,976**
Total Bonds	**1,582,000**	**13,467**
Secured long-term borrowings with interest rate of 2.30% as of March 31, 2004, due on December 2, 2004	**-**	**-**
Secured long-term borrowings with interest rate of 2.05% as of March 31, 2004, due on May 11, 2005	**-**	**-**
Secured long-term borrowings with interest rate of 4.89% as of March 31, 2005, due on September 26, 2005	**785,000**	**7,310**
Secured long-term borrowings with interest rate of 1.75% as of March 31, 2005, due on March 31, 2006	**620,000**	**5,773**
Unsecured long-term borrowings with interest rate of 2.20% as of March 31, 2005, due on August 31, 2006	**8,500**	**79**
Secured long-term borrowings with interest rate of 2.30% as of March 31, 2004, due on September 25, 2006	**-**	**-**
Secured long-term borrowings with interest rate of 2.08% as of March 31, 2005, due on May 31, 2007	**145,000**	**1,350**
Unsecured long-term borrowings with interest rate of 1.59% as of March 31, 2005, due on December 4, 2007	**45,800**	**426**
Unsecured long-term borrowings with interest rate of 2.95% as of March 31, 2005, due on January 31, 2008	**60,000**	**559**
Secured long-term borrowings with interest rate of 2.40% as of March 31, 2005, due on September 20, 2015	**470,960**	**4,386**
Secured long-term borrowings with interest rate of 1.90% as of March 31, 2005, due on May 20, 2019	**472,300**	**4,398**
Total long-term borrowings	**3,445,760**	**29,333**
Total long-term debts	**¥5,027,760**	**$42,800**

The aggregate annual future maturities of long-term debt as of March 31, 2006 are as follow:

Year ending March, 31	*Thousands of yen*	*Thousands of U.S. dollars*
2007	**¥328,000**	**$2,792**
2008	**2,761,200**	**23,506**
2009	**406,000**	**3,456**
2010	**406,000**	**3,456**
2011 and thereafter	**186,000**	**1,583**

7. Derivatives

The Company terminated derivatives contracts during the year ended March 31, 2006.

8. Retirement Benefit Plan

The Company has a defined contribution pension plan covering substantially all employees who meet certain eligibility requirements. During the year ended March 31, 2006, the Company made contributions to employees for ¥7,720 thousand ($66 thousand).

9. Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2006 are as follows:

	Thousands of yen	*Thousands of U.S. dollars*
	2006	**2006**
Deferred tax assets – current		
Accrued bonuses for employees	**¥ 22,979**	**$196**
Accrued enterprise taxes	**113,447**	**966**
Inventories	**38,998**	**332**
Security deposits received	**1,282**	**11**
Sundry taxes	**21,357**	**182**
Construction warranty reserve	**29,792**	**254**
Other	**30,291**	**258**
Sub-total	**258,143**	**2,198**
Deferred tax assets – non-current		
Reserve for directors' retirement benefits	**30,356**	**258**
Losses carried forward on subsidiaries	**3,611**	**31**
Other	**11,385**	**97**
Sub-total	**45,353**	**386**
Valuation allowance	**(3,611)**	**(31)**
Total deferred tax assets	**299,885**	**2,553**
Deferred tax liabilities – current		
Inventory gains	**520,791**	**4,433**
Sub-total	**520,791**	**4,433**
Deferred tax liabilities – non-current		
Unrealized holding gain on securities	**1,135**	**10**
Sub-total	**1,135**	**10**
Total deferred tax liabilities	**521,927**	**4,443**
Deferred tax assets, net	**¥222,041**	**$1,890**

Reconciliations of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2006 are as follows:

	2006
Statutory tax rate	**40.7%**
Expenses not deductible for income tax purposes	**0.2**
Per capita inhabitant tax	**0.2**
Taxation on retained earnings imposed on a family corporation	**6.3**
Amortization of consolidation difference	**0.9**
Other	**1.1**
Effective income tax rate	**49.4%**

10. Segment Information

(1) Sales and operating income by business segment

	Thousands of yen					
	2006					
	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
Sales to external customers	**¥15,037,064**	**¥1,669,040**	**¥24,784**	**¥16,730,890**	**¥ –**	**¥16,730,890**
Intersegment sales	**–**	**96,145**	**–**	**96,145**	**(96,145)**	**–**
Total sales	**15,037,064**	**1,765,186**	**24,784**	**16,827,035**	**(96,145)**	**16,730,890**
Operating expenses	**10,962,223**	**1,558,203**	**17,609**	**12,538,037**	**436,159**	**12,974,196**
Operating income	**¥ 4,074,840**	**¥ 206,982**	**¥ 7,174**	**¥ 4,288,997**	**¥(532,304)**	**¥ 3,756,693**

	Thousands of U.S. dollars					
	2006					
	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
Sales to external customers	**$128,008**	**$14,208**	**$211**	**$142,427**	**$ –**	**$142,427**
Intersegment sales	**–**	**818**	**–**	**818**	**(818)**	**–**
Total sales	**128,008**	**15,027**	**211**	**143,245**	**(818)**	**142,427**
Operating expenses	**93,319**	**13,265**	**150**	**106,734**	**3,713**	**110,447**
Operating income	**$ 34,688**	**$ 1,762**	**$ 61**	**$ 36,511**	**$(4,531)**	**$ 31,980**

(2) Assets, depreciation and capital expenditures by business segment

	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
	Thousands of yen					
	2006					
Assets	**¥19,975,594**	**¥615,061**	**¥269,280**	**¥20,859,937**	**¥7,145,093**	**¥28,005,030**
Depreciation	**50,127**	**26,251**	**641**	**77,019**	**5,664**	**82,684**
Capital expenditures	**49,186**	**63,145**	**2,612**	**114,944**	**45,497**	**160,441**

	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
	Thousands of U.S. dollars					
	2006					
Assets	**$170,048**	**$5,236**	**$2,292**	**$177,577**	**$60,825**	**$238,402**
Depreciation	**427**	**223**	**5**	**656**	**48**	**704**
Capital expenditures	**419**	**538**	**22**	**978**	**387**	**1,366**

(Notes) 1. The following are the primary business segments of the Group and the description of the Company's primary businesses.

Real-estate revitalization	Purchase, renovation, rent, sales of real-estate for business
Real-estate services	Brokerage services, property management, construction planning and rent guarantee
Other real-estate business	Asset management, private fund planning, creation, and management

2. Among operating expenses, the amount of undistributable operating expenses included in the "Elimination/Corporate" column was ¥444,431 thousand ($3,783 thousand), mainly expenses for the Company's management departments.

3. Among assets, the amount of corporate assets included in the "Elimination/Corporate" column was ¥5,772,612 thousands ($49,141 thousand). These assets are primarily comprised of surplus funds of the Company (cash), long-term investment funds (investment securities) and assets related to the administration divisions.

11. Per Share Information

(1) Per share information for the year ended March 31, 2006 was as follows:

	Yen	*U.S. dollars*
	2006	**2006**
Shareholders' equity per share	**¥99,192.78**	**$844.41**
Net income per share	**18,914.91**	**161.02**
Fully diluted net income per share	**18,747.82**	**159.60**

(2) The following are the basis for calculating the net income per share, and diluted income per share:

	Thousands of yen	*housands of U.S. dollars*
	2006	**2006**
Net income	**¥1,744,100**	**$14,847**

	2006
Weighted average number of shares outstanding (shares)	**90,886**
Increase in common stock (shares)	**810**

Note: Fully diluted net income per share is computed assuming full dilution of the following common stock equivalents with dilutive effect

12. Subsequent Events

(1) On March 1, 2006, the Board of Directors approved a 3-for-1 stock split to be effective on April 1, 2006 to shareholders of record on March 31, 2006. This stock split has not been reflected in these financial statements.

If the stock split is deemed to have occurred on April 1, 2005, per share data are adjusted retroactively as follows:

	Yen	*U.S. dollars*
	2006	**2006**
Shareholders' equity per share	**¥33,064.26**	**$281.47**
Net income per share:		
Basic	**6,304.97**	**53.67**
Diluted	**6,249.27**	**53.20**

(2) At a meeting on April 18, 2006, the board of directors of SF Investments decided to take out a large loan.

Purpose of borrowings	Purchase of real estate held for sale
Lender	Mizuho Bank, Ltd.
Borrowing amount	¥4,000,000 thousand
Interest rate	1.30% per year
Repayment terms	Monthly payment of ¥20,000 thousand starting at May 31, 2006 with full repayment of the remaining balance on the final repayment date
Loan execution date	May 1, 2006
Repayment date	April 30, 2008
Assets pledged as collateral	Real estate held for sale

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
SUN FRONTIER FUDOUSAN CO., LTD.

We have audited the accompanying consolidated balance sheets of SUN FRONTIER FUDOUSAN CO., LTD. and its consolidated subsidiaries as of March 31, 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 SUN FRONTIER FUDOUSAN CO., LTD. and its consolidated subsidiaries as of March 31, 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 as described in Note 1 to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respects to the year ended March 31, 2006 are presented solely for convenience. Such translation of amounts into U.S. dollar amounts, in our opinion, has been made on the basis set forth in Note 1 to the consolidated financial statements.

BDO Sanyu & Co.

BDO Sanyu & Co.
Tokyo, Japan

June 22, 2006

Financial Statements

Sun Frontier Fudousan Co., Ltd.

Non-consolidated Balance Sheets

As of March 31, 2005 and 2006

	Thousands of yen		*Thousands of U.S. dollars (Note 1)*
	2005	**2006**	**2006**
ASSETS			
Current assets:			
Cash and bank deposits	¥ 3,029,376	**¥ 5,347,283**	**$ 45,520**
Accounts receivable - trade	120,580	**171,013**	**1,456**
Real estate held for sale (Note 4)	1,936,893	**562,533**	**4,789**
Real estate under construction (Note 4)	2,937,569	**5,260,850**	**44,785**
Supplies	3,270	**497**	**4**
Advances paid	656	**479,378**	**4,081**
Prepaid expenses	41,490	**47,124**	**401**
Deferred tax assets (Note 9)	80,603	**209,482**	**1,783**
Other current assets	18,923	**92,536**	**788**
Allowance for doubtful accounts	(2,470)	**(2,074)**	**(18)**
Total current assets	8,166,894	**12,168,625**	**103,589**
Property and equipment, net (Note 3)	3,527,683	**2,295,375**	**19,540**
Intangible assets	30,053	**55,827**	**475**
Investments and other assets:			
Investment securities (Note 6)	5,496	**6,540**	**56**
Investment in affiliates	–	**70,000**	**596**
Capital contributions	6,010	**9,510**	**81**
Contributions to affiliates	80,000	**1,451,328**	**12,355**
Long-term loans to employees	937	**562**	**5**
Long-term loans to affiliates	–	**3,590,000**	**30,561**
Bankruptcy and delinquent receivables	1,870	**1,372**	**12**
Long-term prepaid expenses	14,368	**21,911**	**187**
Deferred tax assets (Note 9)	29,597	**33,753**	**287**
Security deposits	265,579	**271,779**	**2,314**
Other assets	53,990	**67,368**	**573**
Allowance for doubtful accounts	(1,101)	**(1,313)**	**(11)**
Total investments and other assets	456,748	**5,522,813**	**47,015**
Total assets	¥12,181,378	**¥20,042,641**	**$170,619**

See accompanying summary of significant accounting policies and other notes to financial statements.

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2005	**2006**	**2006**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable - trade	¥ 122,189	**¥ 123,800**	**$ 1,054**
Short-term borrowings (Note 4)	4,019,000	**4,723,000**	**40,206**
Current portion of long-term debts (Note 4)	1,811,800	**511,300**	**4,353**
Accounts payable - other	85,568	**132,656**	**1,129**
Accrued expenses	41,970	**55,061**	**469**
Income taxes payable	488,344	**1,495,474**	**12,731**
Consumption taxes payable	23,263	**130,316**	**1,109**
Advances received	96,958	**92,387**	**786**
Deposits received	76,712	**210,879**	**1,795**
Accrued bonuses for employees	35,545	**56,460**	**481**
Construction warranty reserve	13,100	**73,000**	**621**
Other current liabilities	1,066	**171**	**1**
Total current liabilities	6,815,519	**7,604,697**	**64,737**
Long-term liabilities:			
Long-term debts (Note 4)	1,895,760	**2,086,460**	**17,762**
Reserve for directors' retirement benefits	62,186	**74,584**	**635**
Security deposits received	574,496	**487,343**	**4,149**
Total long-term liabilities	2,532,443	**2,648,388**	**22,545**
Total liabilities	9,347,962	**10,253,085**	**87,283**
Shareholders' equity			
Common stock, 76,000 and 304,000 shares authorized, 21,004 and 96,966 shares issued and outstanding in 2005 and 2006, respectively	491,150	**3,050,911**	**25,972**
Additional paid-in capital	552,500	**3,112,248**	**26,494**
Retained earnings	1,788,730	**3,624,740**	**30,857**
Net unrealized holding gain on securities	1,035	**1,654**	**14**
Total shareholders' equity	2,833,416	**9,789,555**	**83,337**
Total shareholders' equity and liabilities	¥12,181,378	**¥20,042,641**	**$ 170,619**

See accompanying summary of significant accounting policies and other notes to financial statements.

Sun Frontier Fudousan Co., Ltd.

Non-consolidated Statements of Income

For the years ended March 31, 2005 and 2006

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2005	**2006**	**2006**
Net sales	¥7,760,982	**¥16,525,269**	**$ 140,677**
Costs of sales	4,788,870	**10,658,184**	**90,731**
Gross profit	2,972,112	**5,867,084**	**49,945**
Selling, general and administrative expenses	1,359,799	**2,110,978**	**17,970**
Operating income	1,612,313	**3,756,105**	**31,975**
Other Income (Expenses):			
Interest and dividend income	642	**35,906**	**306**
Interest expenses	(127,635)	**(133,844)**	**(1,139)**
Revaluation loss from interest rate cap	(412)	**–**	**–**
Bond issuance costs	(14,000)	**(22,716)**	**(193)**
Stock issuance costs	(13,774)	**(38,119)**	**(324)**
Initial public offering expenses	(19,960)	**–**	**–**
Reversal of allowance for doubtful accounts	–	**183**	**2**
Loss on sale and disposal of property and equipment, net	(911)	**(347)**	**(3)**
Cancellation fee of interest rate swap agreements	–	**(24,764)**	**(211)**
Provision to construction warranty reserve for previous year	(3,878)	**–**	**–**
Expenses for relocation of offices	(16,964)	**–**	**–**
Other, net	816	**(10,845)**	**(92)**
Other expenses, net	(196,078)	**(194,547)**	**(1,656)**
Income before income taxes	1,416,235	**3,561,558**	**30,319**
Income taxes (Note 9):			
Current	680,139	**1,805,000**	**15,366**
Deferred	(28,740)	**(133,459)**	**(1,136)**
	651,399	**1,671,540**	**14,230**
Net income	¥ 764,835	**¥ 1,890,018**	**$ 16,089**

	Yen		U.S. dollars (Note 1)
Net income per share:			
Basic	¥38,141.45	**¥20,520.41**	**$174.69**
Diluted	38,006.66	**20,339.14**	**173.14**
Cash dividends per share	2,000.00	**1,000.00**	**8.51**

	Shares	
Weighted average shares outstanding:		
Basic	19,738	**90,886**
Diluted	19,808	**91,696**

See accompanying summary of significant accounting policies and other notes to financial statements.

Sun Frontier Fudousan Co., Ltd.

Non-consolidated Statements of Shareholders' Equity

For the years ended March 31, 2005 and 2006

	Thousands of yen					
	Number of Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding (Loss) Gain on Securities	Total Shareholders' Equity
Balance as of March 31, 2004	19,004	¥ 108,650	¥ –	¥1,068,902	¥ 569	¥1,178,122
Common stock issued under the spread-method	2,000	382,500	552,500	–	–	935,000
Net income	–	–	–	764,835	–	764,835
Cash dividends paid	–	–	–	(38,008)	–	(38,008)
Bonuses to directors and statutory auditors	–	–	–	(7,000)	–	(7,000)
Change in net unrealized holding gain on securities	–	–	–	–	466	466
Balance as of March 31, 2005	21,004	¥ 491,150	¥ 552,500	¥1,788,730	¥1,035	¥2,833,416
Common stock issued under the spread-method	63,012	–	–	–	–	–
Common stock issued under the public offering	11,000	2,174,315	2,174,304	–	–	4,348,619
Common stock issued under the third party allotment	1,950	385,445	385,444	–	–	770,889
Net income	–	–	–	1,890,018	–	1,890,018
Cash dividends paid	–	–	–	(42,008)	–	(42,008)
Bonuses to directors and statutory auditors	–	–	–	(12,000)	–	(12,000)
Change in net unrealized holding gain on securities	–	–	–	–	619	619
Balance as of March 31, 2006	**96,966**	**¥3,050,911**	**¥3,112,248**	**¥3,624,740**	**¥1,654**	**¥9,789,555**

	Thousands of U.S. dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding (Loss) Gain on Securities	Total Shareholders' Equity
Balance as of March 31, 2005	$ 4,181	$ 4,703	$15,227	$ 9	$24,120
Common stock issued under the spread-method	–	–	–	–	–
Common stock issued under the public offering	18,510	18,509	–	–	37,019
Common stock issued under the third party allotment	3,281	3,281	–	–	6,562
Net income	–	–	16,089	–	16,089
Cash dividends paid	–	–	(358)	–	(358)
Bonuses to directors and statutory auditors	–	–	(102)	–	(102)
Change in net unrealized holding gain on securities	–	–	–	5	5
Balance as of March 31, 2006	**$25,972**	**$26,494**	**$30,857**	**$14**	**$83,337**

See accompanying summary of significant accounting policies and other notes to financial statements.

Sun Frontier Fudousan Co., Ltd.

Non-consolidated Statement of Cash Flows

For the year ended March 31, 2005

	Thousands of yen
	2005
Cash Flows from Operating Activities:	
Income before income taxes	¥ 1,416,235
Adjustments to reconcile income before income taxes to net cash used in operating activities:	
Depreciation and amortization	83,932
Allowance for doubtful accounts	1,844
Accrued bonuses for employees	1,600
Reserve for directors' retirement benefits	16,928
Construction warranty reserve	13,100
Interest and dividend income	(642)
Interest expenses	127,635
Gain (loss) on sale and disposal of property and equipment, net	911
Revaluation gain from interest rate cap	412
Expenses for relocation of offices	16,964
Accounts receivable - trade	(52,097)
Inventories	(1,866,091)
Advances paid	(656)
Prepaid expenses	(9,459)
Accounts payable - trade	(4,426)
Accrued expenses	6,165
Consumption tax payable	23,263
Advances received	48,945
Security deposits received	210,509
Payment for directors' and statutory auditors' bonuses	(7,000)
Other, net	62,723
Subtotal	90,796
Interest and dividends received	642
Interest paid	(118,379)
Income taxes paid	(492,327)
Net cash used in operating activities	(519,267)
Cash Flows from Investing Activities:	
Payments for time deposits	(1,261,723)
Proceeds from time deposits	536,000
Purchases of property and equipment	(1,288,433)
Sales of property and equipment	–
Purchases of intangible assets	(5,950)
Increase in investments in an affiliate	(80,000)
Payments for security deposits	(180,905)
Other, net	(9,035)
Net cash used in investing activities	(2,290,048)
Cash Flows from Financing Activities:	
Proceeds from short-term borrowings	1,836,000
Proceeds from long-term borrowings	1,735,000
Repayments of long-term borrowings	(1,434,840)
Proceeds from issuance of bonds	1,086,000
Payments for redemption of bonds	(100,000)
Proceeds from issuance of common stock	921,226
Dividends paid	(38,008)
Net cash provided by financing activities	4,005,378
Net increase in cash and cash equivalents	1,196,062
Cash and cash equivalents at beginning of year	257,011
Cash and cash equivalents at end of year	¥ 1,453,073

See accompanying summary of significant accounting policies and other notes to financial statements.

Additional Cash Flow Information

Cash and cash equivalents reported in the statements of cash flows are reconciled to cash and bank deposits reported in the balance sheets as follows:

	Thousands of yen
	2005
Cash and bank deposits	¥3,029,376
Bank deposits with an original maturity over three months	(1,576,302)
Cash and cash equivalents	¥1,453,073

Since the consolidated statement of cash flows is prepared, non-consolidated statement of cash flows is omitted.

See accompanying summary of significant accounting policies and other notes to financial statements.

Sun Frontier Fudousan Co., Ltd.

Notes to the Non-consolidated Financial Statements

For the years ended March 31, 2005 and 2006

1. Basis of Presenting the Financial Statements

Sun Frontier Fudousan Co., Ltd. (the "Company") maintains its accounts and records in accordance with the provision set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Financial Reporting Standards or accounting standards generally accepted in the United States of America. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The accompanying financial statements are the translation of the audited financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and were filed with the Kanto Financial Bureau in Japan as required by the Securities and Exchange Law.

In preparing the accompanying financial statements, certain reclassifications and rearrangements have been made in the financial statements issued domestically in order to present them in a form which is more familiar to the readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate of ¥117.47 to U.S. $1 at March 31, 2006. Such 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 that or any other rate.

The Japanese yen amounts in thousands in financial statements are cut off at the thousand.

2. Summary of Significant Accounting Policies

(1) Cash and Cash Equivalents

Cash and cash equivalents on the statements of cash flows consist of cash on hand and deposits with banks withdrawable on demand.

(2) Investment Securities

The Company has only non-marketable security classified as other securities. Non-marketable other securities are stated at cost determined by the moving-average method.

The Company recognizes impairment losses for investment securities for which the fair value declined by more than 50% or considers impairment losses for those for which the average market price at the end of the fiscal year declined by more than 30% but less than 50%.

(3) Inventories

Real estate held for sale, real estate under construction and under construction are stated at cost, determined by the specific identification method.

Leased assets are depreciated with the same method as property and equipment.

Supplies are stated at cost, determined by the last purchase method.

(4) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated by the declining balance method while the straight line method is applied to buildings. The estimated useful lives are as follows:

Buildings and structures	3 to 43 years
Vehicles	3 to 6 years
Machinery, equipment and furniture	2 to 10 years

Property and equipment between ¥100 thousand and ¥200 thousand are depreciated on a straight line basis over three years.

(5) Intangible Assets

Intangible assets primarily consist of internal-use software, which is amortized straight-line over five years.

(6) Long-term Prepaid Expenses

Long-term prepaid expenses are stated at cost, determined by the straight line method.

(7) Stock and Bonds Issuance Costs

Stock and bonds issuance costs are expensed as incurred.

(8) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on past experiences for normal receivables and on an estimate of the collectibility of receivables from companies in financial difficulties.

(9) Accrued Bonuses for Employees

Accrued bonuses for employees are provided for using the estimated amount which the Company is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(10) Reserve for Directors' Retirement Benefits

To provide for retirement benefits to directors and statutory auditors, reserve is provided for the aggregate amount payable as of balance sheet date pursuant to the Company's internal rules.

(11) Construction Warranty Reserve

To prepare for repair costs related to real estate sold, construction warranty reserve is provided based on the past experiences.

Repair costs related to real estate sold were previously expensed as incurred, but starting from the fiscal year ended March 31, 2005, the Company has changed the method of providing a construction warranty reserve for estimated repair costs based on the past experiences because repair costs related to real estate sold became significant due to expansion of "Replanning Business" and can be accurately estimated due to the four-year experiences of "Replanning Business".

As a result of this change, the Company reserved construction warranty reserve of ¥13,100 thousand as of March 31, 2005, which was recorded in balance sheets, and recorded costs of sales at the same amount for the year ended March 31, 2005. The Company also recorded costs related to previous fiscal years of ¥13,100 thousand for the year ended March 31, 2005 as other expenses in the statement of income.

Compared to the previous method, gross profit and operating income decreased by ¥9,221 thousand and income before income taxes decreased by ¥13,100 thousand.

(12) Derivatives and Hedge Accounting

In order to reduce its exposure to fluctuations in interest rates on variable rate borrowings, the Company utilizes derivative financial instruments such as interest rate swap contracts. Since the Company meets the requirement for exceptions to apply the hedge accounting, under Japanese accounting standards for financial instruments, the Company does not require to record derivative financial instruments on balance sheet at fair value. The Company does not hold derivative contracts for speculative purposes.

(13) Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period the change is enacted. A valuation allowance is established to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(14) Appropriation of Retained Earnings

Under the Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments and bonuses paid to directors and statutory auditors) proposed by the Board of Directors should be approved by the shareholders at the shareholders' meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriations which relate to the immediately preceding fiscal year but were approved by the shareholders at the shareholders' meeting and disposed of during that year.

(15) Earnings per Share ("EPS")

Basic EPS is computed based on the average number of shares of common stock outstanding during each period and diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(16) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Japan requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(17) Accounting for impairment of fixed assets

On August 9, 2002, the Business Accounting Council issued a new accounting standard, "Accounting Standard for Impairment of Fixed Assets", and on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005. The Company applied the new accounting standard for impairment of fixed assets for the fiscal year beginning on April 1, 2005. As a result of adopting the new accounting standard for impairment of fixed assets, it was no effective for income statements of the Company.

(18) Additional Information

In conjunction with the promulgation of the "Law Concerning an Amendment of the Local Tax Laws etc., (Law No. 9, 2003)", the pro forma standard taxation system was adopted for corporate income taxes from the fiscal year beginning on April 1, 2004. Effective April 1, 2004, the Company adopted ASB Practical Issues No. 12, "Practical Treatment Concerning Presentation of Income Statement Regarding Pro Forma Standard Taxation of Corporate Income Tax", which was issued by the Accounting Standards Board of Japan (ASBJ) on February 13, 2004. As a result, value-added tax and capital ratio tax amounting to ¥ 12,464 thousand were charged as a part of corporate enterprise tax, and were included in "Selling, general and administrative expenses" in the statements of income.

3. Property and Equipment

Property and equipment as of March 31, 2005 and 2006 are as follows:

	Thousands of yen		*Thousands of U.S. dollars*
	2005	**2006**	**2006**
Buildings and structures	¥1,629,858	**¥1,193,666**	**$10,161**
Vehicles	7,120	**10,095**	**86**
Machinery, equipment and furniture	64,675	**77,670**	**661**
Land	1,963,835	**1,186,585**	**10,101**
Accumulated depreciation	(137,806)	**(172,641)**	**(1,470)**
Total	¥3,527,683	**¥2,295,375**	**$19,540**

During the year ended March 31, 2006, building of ¥507,073 thousand ($4,316 thousand) and land of ¥777,250 thousand ($6,616 thousand) were reclassified to real estate under construction.

4. Assets Pledged As Collateral

Assets pledged as collateral as of March 31, 2005 and 2006 are as follows:

	Thousands of yen		*Thousands of U.S. dollars*
	2005	**2006**	**2006**
Real estate held for sale	¥1,936,893	**¥562,533**	**$4,789**
Real estate under construction	2,713,060	**5,111,958**	**43,517**
Buildings	1,510,191	**993,796**	**8,460**
Land	1,963,835	**1,186,585**	**10,101**
Total	¥8,123,980	**¥7,854,873**	**$66,867**

Liabilities secured by the above collateral are as follows:

	Thousands of yen		*Thousands of U.S. dollars*
	2005	**2006**	**2006**
Short-term borrowings	¥3,819,000	**¥3,460,000**	**$29,454**
Current portion of bonds, unsecured bonds guaranteed by bank	220,000	**328,000**	**2,792**
Current portion of long-term borrowings	1,549,000	**144,000**	**1,226**
Bonds unsecured bonds guaranteed by bank	880,000	**1,254,000**	**10,675**
Long-term borrowings	944,260	**800,160**	**6,812**
Total	¥7,412,260	**¥5,986,260**	**$50,960**

5. Contingent Liabilities

The Company was contingently liable for guarantees on loans of affiliates from financial institutions as of March 31, 2005 and 2006 as follows:

	Thousands of yen		*Thousands of U.S. dollars*
	2005	**2006**	**2006**
SF Investments Inc.	¥–	**¥7,430,000**	**$63,250**

6. Investment Securities

The following table summarizes acquisition costs, book values and fair values of available-for-sale securities with available fair values at March 31, 2005:

	Thousands of yen		
	2005		
	Acquisition cost	Carrying value	Unrealized gain/(loss)
Equity	¥3,750	¥5,496	¥1,476

The consolidated financial statements for the year ended March 31, 2006 include footnote on investment securities (except for the market value of shares in subsidiaries).

7. Derivatives

In order to effectively manage and reduce its exposure to fluctuations in interest rate on variable rate borrowings, the Company utilizes derivative instruments such as interest rate and interest rate cap. The counter parties to these instruments are major financial institutions with favorable credit ratings, thereby, reducing credit risk exposure for non-performance. The Company does not enter into derivative contracts for trading or speculative purposes.

In addition, the Company's internal rules on derivative transactions consist of criteria and policies with respect to derivative transactions to be implemented, appropriate risk management and management and supervision of derivative transactions.

Derivative financial instruments outstanding as of March 31, 2005 are summarized as follows:

Interest rate related transactions

		Thousands of yen			
		2005			
		Notional amount			
		Total	Over one year	Fair value	Unrealized gain/(loss)
Transactions outside of market	Interest rate caps	**¥400,000**	**¥400,000**	**¥910**	**¥(7,827)**

Notes 1) Market value calculation is based on prices provided by financial institutions.
2) Derivative transactions to which hedge accounting is applied are excluded from the table above.

The Company prepared the consolidated financial statements since the fiscal year ended March 31, 2006, therefore the Company disclosed derivative transactions as of March 31, 2006 in consolidated financial statements.

8. Retirement Benefit Plan

The Company has a defined contribution pension plan covering substantially all employees who meet certain eligibility requirements. During the years ended March 31, 2005, the Company made contributions to employees for ¥5,852 thousand.

The Company prepared the consolidated financial statements since the fiscal year ended March 31, 2006, therefore the Company disclosed information of retirement benefit plan for the year ended March 31, 2006 in consolidated financial statements.

9. Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2006 are as follows:

	Thousands of yen		*Thousands of U.S. dollars*
	2005	**2006**	**2006**
Deferred tax assets – current			
Accrued bonuses for employees	¥ 14,467	**¥22,979**	**$196**
Accrued enterprise taxes	31,146	**107,418**	**914**
Inventories	4,828	**15,058**	**128**
Security deposits received	2,530	**1,282**	**11**
Sundry taxes	11,436	**12,170**	**104**
Construction warranty reserve	5,331	**29,792**	**254**
Expenses for relocation of offices	6,904	**–**	**–**
Other	3,957	**20,781**	**177**
Sub-total	80,603	**209,482**	**1,783**
Deferred tax assets – non-current			
Reserve for directors' retirement benefits	25,309	**30,356**	**258**
Other	4,998	**4,533**	**39**
Sub-total	30,308	**34,889**	**297**
Total deferred tax assets	110,911	**244,371**	**2,080**
Deferred tax liabilities – non-current			
Unrealized holding gain on securities	710	**1,135**	**10**
Sub-total	710	**1,135**	**10**
Total deferred tax liabilities	710	**1,135**	**10**
Deferred tax assets, net	¥110,201	**¥243,236**	**$2,071**

Reconciliations of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2005 and 2006 are as follows:

	2005	**2006**
Statutory tax rate	40.7%	**40.7%**
Expenses not deductible for income tax purposes	0.0	**0.2**
Per capita inhabitant tax	0.1	**0.2**
Taxation on retained earnings imposed on a family corporation	4.4	**4.9**
Other	0.8	**0.9**
Effective income tax rate	46.0%	**46.9%**

10. Per Share Information

(1) Per share information for the years ended March 31, 2005 and 2006 were as follows:

	Yen		*U.S. dollars*
	2005	**2006**	**2006**
Shareholders' equity per share	¥134,327.57	**¥100,700.82**	**$857.25**
Net income per share	38,141.45	**20,520.41**	**174.69**
Fully diluted net income per share	38,006.66	**20,339.14**	**173.14**

Note 1: The Company executed 4-for-1 stock split on May 20, 2005. If the stock split is deemed to have occurred on April 1, 2004, per share information for year ended March 31, 2005 are adjusted retroactively as follows:

	Yen
	2005
Shareholders' equity per share	¥33,581.89
Net income per share:	
Basic	9,535.36
Diluted	9,501.67

(2) The following are the basis for calculating the net income per share, and diluted income per share:

	Thousands of yen		*housands of U.S. dollars*
	2005	**2006**	**2006**
Net income	¥764,835	**¥1,890,018**	**$16,089**

	2005	**2006**
Weighted average number of shares outstanding (shares)	19,738	**90,886**
Increase in common stock (shares)	701	**810**

Note: Fully diluted net income per share is computed assuming full dilution of the following common stock equivalents with dilutive effect

11. Subsequent Events

(1) On March 1, 2006, the Board of Directors approved a 3-for-1 stock split to be effective on April 1, 2006 to shareholders of record on March 31, 2006. This stock split has not been reflected in these financial statements.

If the stock split is deemed to have occurred on April 1, 2004, per share data are adjusted retroactively as follows:

	Yen		*U.S. dollars*
	2005	**2006**	**2006**
Shareholders' equity per share	¥11,193.96	**¥33,566.94**	**$285.75**
Net income per share:			
Basic	3,178.45	**6,840.13**	**58.23**
Diluted	3,167.22	**6,779.71**	**57.71**

(2) At a meeting on April 18, 2006, the board of directors resolved to guarantee bank loan for ¥4,000,000 thousand ($34,051 thousand).

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
SUN FRONTIER FUDOUSAN CO., LTD.

We have audited the accompanying balance sheets of SUN FRONTIER FUDOUSAN CO., LTD. as of March 31, 2005 and 2006, and the related statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 financial statements referred to above present fairly, in all material respects, the financial position of SUN FRONTIER FUDOUSAN CO., LTD. as of March 31, 2005 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan as described in Note1 to the financial statements.

The U.S. dollar amounts in the accompanying financial statements with respects to the year ended March 31, 2006 are presented solely for convenience. Such translation of amounts into U.S. dollar amounts, in our opinion, has been made on the basis set forth in Note 1 to the financial statements.

BDO Sanyu & Co.

BDO Sanyu & Co.
Tokyo, Japan

June 22, 2006

Corporate Information

Share Information (as of March 31, 2006)

Number of authorized shares: 304,000 shares
Number of shares issued: 96,966 shares
Shares per trading unit: 1 share
Number of shareholders: 2,615

Notes: 1. Total number of shares issued and outstanding as of March 31, 2005 was 21,004 shares.
2. Increases in common stock from April 1, 2005 to March 31, 2006 were as follows:

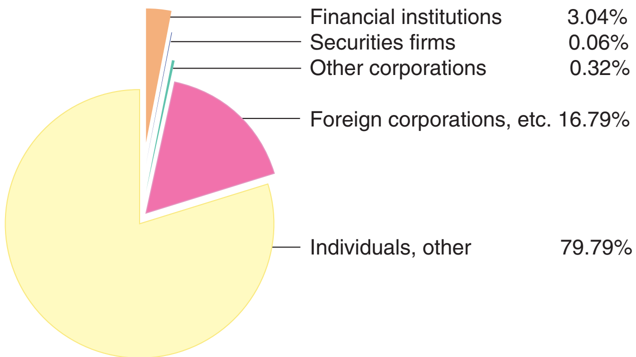
Issue date	Issue condition	Number of share issued
May 20, 2005	Stock split (1:4)	63,012
September 15, 2005	Public offering	11,000
October 14, 2005	Increase in capital through third party allotment	1,950

3. From August 1, 2005, the Company's stock was included in the J-Stock Index. From that date, newspapers relocated information on the Company's shares from the real estate section to the J-Stock section.

Principal Shareholders

Trade name	Number of the Company's shares held (shares)	Voting Rights (%)
Tomoaki Horiguchi	63,030	65.00
Goldman Sachs international	3,300	3.40
The Chase Manhattan Bank NK London SL Omnibus Account	2,699	2.78
Morgan Stanley & Co. Incorporated	2,574	2.65
Keiko Horiguchi	2,280	2.35
Shinichi Hasegawa	1,871	1.93
Tsuyoshi Kobayashi	1,847	1.90
BNP Paribas Securities Service London Jasdaq UK Residents	1,200	1.24
Japan Trustee Services Bank, Ltd. (trust units)	1,163	1.20
Morgan Stanley & Co. International Limited	1,145	1.18

Breakdown of Shareholders



Corporate Data (as of March 31, 2006)

Name
Sun Frontier Fudousan Co., Ltd.

Date established:
April 8, 1999

Number of employees:
129 (Non-consolidated), 134 (Consolidated)

Paid-in capital:
¥3,050 million (as of November 30, 2005)

Stock listing:
JASDAQ

Code number:
8934

Financial year:
April 1 to March 31

Annual shareholders' meeting:
Within three months after the day following the end of the fiscal year

Head office:
13F, Toho Hibiya Building, 2-2, Yurakucho 1-chome,
Chiyoda-ku, Tokyo 100-0006
Tel: 81-3-5521-1301
Fax: 81-3-5521-1421

Business offices (Leasing business division)**:**
Ginza, Shinjuku, Yaesu, Kanda, Yokohama, Yotsuya

Group Companies

SF Capital Co., Ltd.
(Business: Investing in special purpose companies and other businesses)

SF Investments Inc.
(Business: Buying and selling, exchanging, leasing, owning, and other real estate brokerage, and property management)

Sun Frontier Real Estate Investment Advisors Inc.
(Business: Providing investment management services for domestic and overseas real estate)

SF Building Support Inc.
(Business: Providing guarantor services for tenants of leased properties)

Taisei Building Co., Ltd.
(Business: Building leasing)

Board of Directors and Corporate Auditors (as of June 30, 2006)

President
Tomoaki Horiguchi

Managing Directors
Shinichi Hasegawa
Masahiro Mochizuki

Directors
Seiichi Saito
Makoto Miyauchi

Full-time Statutory Auditors
Yoshiomi Murakami
Kazuaki Fukiage

Statutory Auditor
Mizue Akita

Sun Frontier
Fudousan