



# Business Report 2012

Fiscal Year Ended March 31, 2012



**Sun Frontier Fudousan Co., Ltd.**

# Dear Shareholders

**Our goal is “to be a real estate company that is loved and chosen by customers.”**

We will work towards providing satisfaction to our customers, and being a true partner who they feel secure in talking to.



## Summary of the Fiscal Year Ended March 31, 2012

### Resumption of dividend payment for the first time in 4 years

The business results of our group for the 13<sup>th</sup> term are as follows: sales of ¥6,923 million, operating income of ¥861 million, ordinary income of ¥799 million, and net income during the current term of ¥928 million. Closely discussing the business performance of the current fiscal term and the future variation in our business performance, we decided that the dividend payment will be resumed for the first time in 4 years the rate of ¥350 per share.

As for the business environment of this fiscal year, in the office building rental market in central Tokyo, vacancy rate remains high and rents are decreasing, which indicate that the situation is severe. In the meantime, the real estate investment market shows a sign of gradual recovery, as wealthy population’s needs for investments in urban real estate are growing and related transactions are increasing.

Under this circumstance, our group worked on the clarification of corporate policy and reconstruction of our

sales strategy from customers’ perspectives based on the lessons learned from the past (For details, please refer to page 5). As a result, the role/mission of each employee became clear, a lively working environment was created, and new ideas were born, all of which have led to the improvement of quality of our products and services. Overall, we believe that it was a year of strengthening our foundation steadily and a year that we could feel our growth.

In the replanning business, we engaged in revitalizing and selling mainly small to medium-sized real estate property. We incorporated various ideas into the process of merchandizing the enticement of tenants and remodeling, etc., and made the buildings occupied soon.

On the other hand, in the real estate service business, we have expanded our services to include new building maintenance business. We also tried to provide various services as an organization through multifaceted actions in order to meet the wide-range of needs of the building owners in relation to real estate.

## Business structure

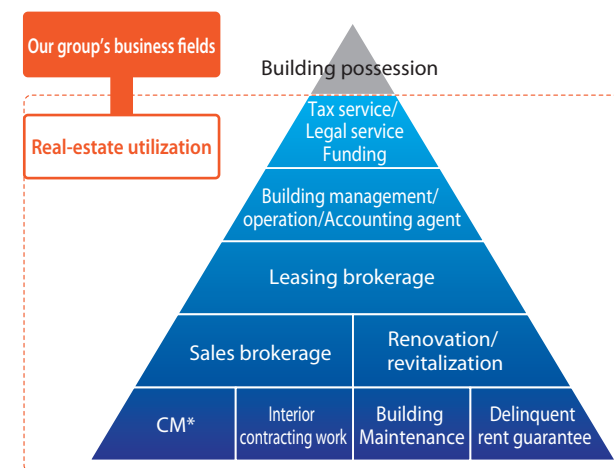
### Specialized in “Real-estate utilization”

Our group’s main target is the middle to downstream business areas in the real estate industry, with a focus on office and commercial buildings in central Tokyo (five cities in Tokyo, including Chiyoda, Chuo, Minato, Sinjuku and Shibuya).

Our business fields are highlighted in blue in Figure 1. We are specialized in the field of “Real estate utilization” that requires manpower to meet with building owners and tenant corporations on site and offer services such as property management (building management/ operation/ accounting agent), leasing brokerage, and sales brokerage.

By deepening and expanding this field, the management capacity of the building is enhanced. This is our business model that allows us to assist every business related to real estate revitalization, ranging from management/ brokerage to inheritance/ business transfer/ asset rearrangement, as a life-long partner of our customers who own buildings.

[Figure 1]



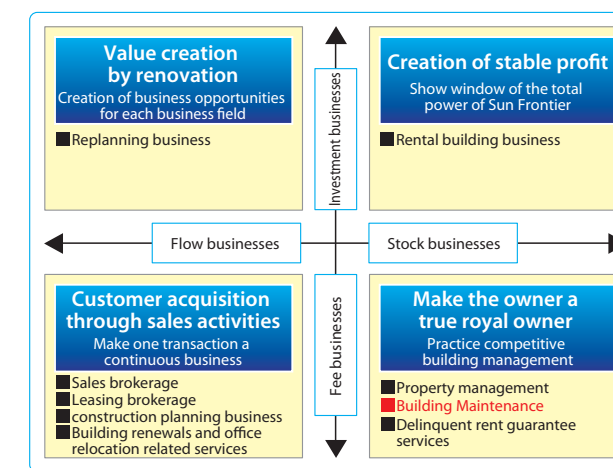
\*CM--Construction Management

## Portfolio management

In order to establish a well-balanced business structure, our group is aiming to become a company that can sustainably and steadily grow over long period of time. Figure 2 shows our portfolio which divides our group’s business by four fields. The horizontal axis represents “Flow business” and “Stock business”, and the vertical axis represents “Fee business” and “Investment business”.

In order to sustainably and stably grow business, we will first strengthen and accumulate the profit of the “Fee business” which is less subject to the market’s influence and build foundation of our company. Based on this foundation, we will work on the real estate revitalization/sales/possession (leasing building) business in the “Investment business” by using the know-how of the “Fee business” as well as effectively using the funds. By combining these two businesses in a well-balanced manner, we will try to minimize the impact caused by economic cycle and establish a corporate culture for sustainable and stable growth.

[Figure 2]



## Replanning Business

### The basic model is to revitalize buildings to be occupied soon.

The replanning business will pursue a model to revitalize buildings to be occupied soon and will focus on the revitalization and sales of middle to small scale real estate property of ¥500 to 1,000 million. Figure 3-1 shows the inventory balance, sales, and inventory turnover rates of replanning property in the last 4 years. The inventory turnover rate of the fiscal year ended March 2009 was around 0.7, while it went up to 2.8 during the current fiscal year. The figures show that our business model has been changed to seek higher funds efficiency and higher profitability by improving the inventory turnover rate.

Figure 3-2 shows the transition of the average business period per business (from purchase settlement to sales settlement). The average business period for the fiscal year ended March 2009 was about 520 days, while it was 180 days during this fiscal year.

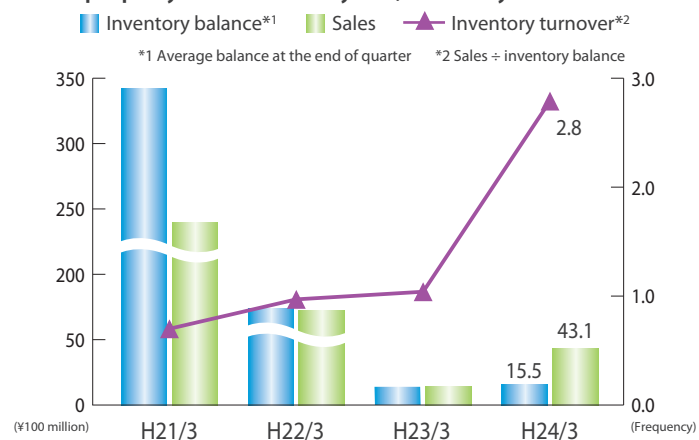
In the past, the replanning business had a high inventory of buildings and took long time to turn inventory. However, this

approach did not allow us to flexibly respond to the rapid changes of the market, and as a result, the replanning business incurred a large loss. From now on, we will not have excessive inventory and develop a “middle to small scale” and “high turnover” business with the “buildings to be occupied soon”. This way, we will run business that minimizes the impact of the risk of changes in the market.

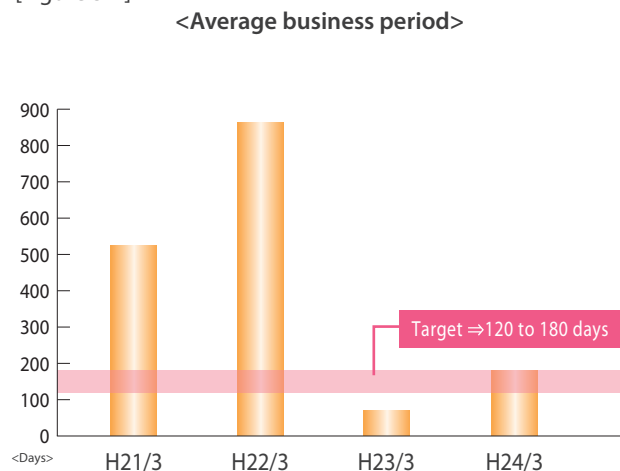
In the following page, we posted specific examples of two replanning property that we sold during this fiscal year. Each building was sold at the price of approximately ¥400 to 500 million. The period from the purchase to the sale of each building was about 4 months. In addition to incorporating various ideas in the process of merchandizing the enticement of tenants and re-modeling, we developed a clear exit strategy, highlighted the advantages and charm that were unique to the location and buildings, and came up with various ideas for sales activities. All of these efforts have resulted in the realization of revitalizing buildings that were occupied soon.

[Figure 3-1]

#### RP property in the recent 4 years, inventory balance/sales



[Figure 3-2]



Example 1



Location : Tokyo, Minato-ku  
 Purpose : Office/ store  
 Business period : 123 days  
 Occupancy rate : At the time of purchase 30% ⇒  
 At the time of sale 92%  
 Total floor area : Approximately 862 m<sup>2</sup>  
 [Overview of renovation]  
 •Owner’s residence on the 4<sup>th</sup> floor ⇒ Converted into office space  
 •Store space on the 1<sup>st</sup> floor ⇒ Renovated to a space which can be used as restaurant  
 •Rooftop waterproofing and external wall repairing work, etc

Location : Tokyo, Meguro-ku  
 Purpose : Office/ store/Residence  
 Business period : 126 days  
 Occupancy rate : At the time of purchase 65% ⇒  
 At the time of sale 100%  
 Total floor area : Approximately 760 m<sup>2</sup>  
 [Overview of renovation]  
 •Waterproofing work for rooftop and balcony  
 •Washing external wall  
 •Taking apart the parts of air conditioning units on the 4<sup>th</sup>, 6<sup>th</sup>, and 9<sup>th</sup> floors, etc.

Example 2



## Introduction of a new subsidiary

### K.K. Yubi

K.K. Yubi deals with building maintenance business, mainly in Tokyo. Its strength is high rises cleaning, and as a company that offers integrated building maintenance services such as equipment management and security, Yubi has a strong business foundation based on over 30 years of business performance since its establishment and maintenance of high quality.

In January, we acquired all stocks in K.K. Yubi and made it a subsidiary of our group. By bringing in a building maintenance business with its close relation to real estate operations, we believe that we can enhance our competitiveness as entire group, because one of our goals is to increase our capabilities and services available for real estate management.

[Corporate overview] (As of end of March, 2012)

Location : 1-5-4, Ishihara, Sumida-ku, Tokyo  
 Business operation : Building maintenance  
 Date Established : February, 1979  
 Capitalization : ¥20 million  
 Net Sales : ¥1,025 million (FY ended May 31, 2011)  
 Representative : President Manabu Kosuda  
 Number of employees : 43 (others such as part time/temporary workers: 186)



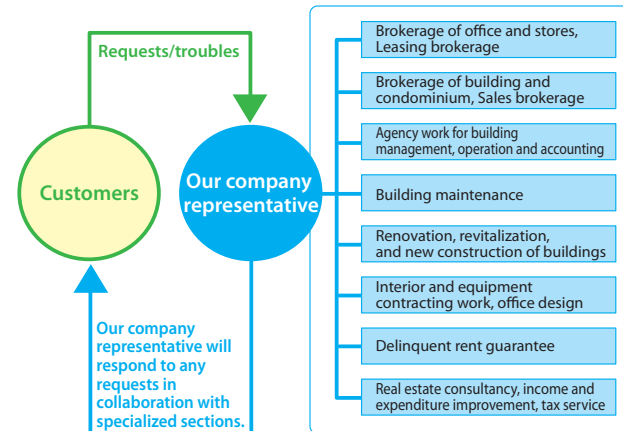
High rises cleaning (Swing stage operation)

## Direction of our business

### To be a company that attends to each customer

The characteristic of our group is “to sincerely work on building management and real estate utilization through one stop services, with an advantage of tenant enticement capabilities for small to middle office buildings in urban area”. Our group aims to become a reliable lifelong partner of our clients, including building owners, by sincerely attending to any types of their troubles related to real estate. To do so, we believe that it is important to brush up our expertise as professional. In addition, we feel the need to establish organizational structure that allows us to attend to each customer. We will offer a variety of one-stop realty services to support customers' real estate utilization by enriching the mid-stream to downstream services menus in the fields of property management (building management/operation, accounting agent), building maintenance, and sale/rental brokerage and bringing out the integrated ability of each related section, and developing businesses in multifaceted manner.

<One-stop service>



## Priority principle during the current term

### 1. Focus on middle to small scale real estate in the real estate revitalization and sales field

As described in page 3, the basic strategy of the real estate revitalization and sales business is “to revitalize buildings to be occupied soon with clear exit strategy”. Based on this strategy, we will implement various ideas and work with a target of 120 to 180 days of business period. By settling such revitalization and sales model, we expect that a stable business development that will not be influenced by market fluctuations can be achieved.

For the commercialization process, we will pursue to maximize the added value by working closely with real estate service sections in our group to fully utilize their expertise and technology. The commercialized and developed property after this process can be differentiated from other corporations' property, and we believe that they can hold supremacy to sell in the market. The ultimate goal may be to develop products for which we can find buyers even without carrying out sales activities. We would like to continuously develop products that the customers feel attractive and see the value in scarcity.

### 2. Deepening and expanding real estate service business

For the real estate service business, we will focus our work on further deepening and expanding the service level that we had been working on. Our customers are building owners, and we are aiming to become an existence that assists them. To do so, we have been expanding our business areas by enhancing our sales capabilities for new tenants, enhancing quality of rental property to meet the tenants' satisfaction with cordial manner and widening the range of our business by responding to the requests from the building owners.

In the future, we will further polish the expertise and quality in this specified field and will establish more solid foundation as a close partner with our customers who own a lot of buildings in central Tokyo and as “a company that is excellent in building management and real estate utilization”.

### 3. Strengthening consulting capabilities for real estate utilization

Currently, our group is asking all our employees to enhance their expertise and skills and acquire problem solving capability in their specialized field. Our main customers are the building owners in central Tokyo. By closely assisting them in solving each and every trouble they may have related to their assets, we aim to become “a real estate company that will be loved and chosen by customers” and “a real estate company that is the highest rate of utilization by customers”. Our business model is to work with each customer for revitalization and sales of real estate property, management and brokerage, and taking care of succession of their property. In order to consolidate this model, in the specialized field of “real estate utilization”, we would like to gain capabilities so that each employee can offer a variety of one-stop realty services.

In our company, there are many employees who are committed to working for the others. We believe that contacting customers with honesty and sincerity will become the basis of consulting. By adding expertise and problem solving capabilities to the basis, we expect that we can offer services that satisfy our customers at a higher level.

## Conclusion

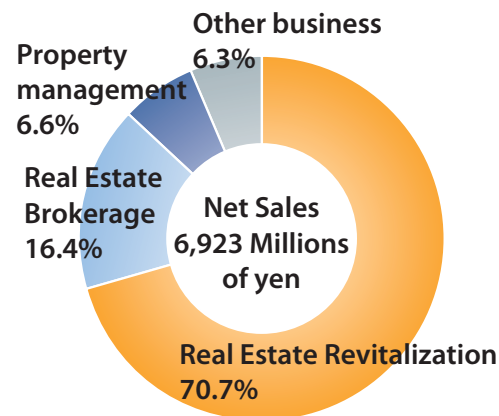
Japan has issues such as low birth rate, an aging population, and hollowing out of industry. It is also anticipated that the real estate market is going to shrink in the middle to long term. However, we believe that it is highly possible to enhance competitiveness of Japanese cities and attract people from the world to those cities by highlighting the unique charm of Japan such as technology and culture, not just economy, in collaboration with the asset holders and building owners. I would like to create attractiveness here in Tokyo, that is different from the other Asian cities, through safe and comfortable building and urban development based on the warmth and beauty of the hearts of Japanese people. As a corporate group that has strength in “Real estate utilization”, we will produce “assets rearrangement and utilization” for the asset holders and corporations so that they can awaken their dormant assets and utilize them effectively. This way, we will enhance the attractiveness of Tokyo as a city and disseminate it to the world.

I would like to ask for your continuous support in the years to come.

President **Tomoaki Horiguchi**



# Overview of Each Business Segments



In the current term (ended March, 2012), although the Japanese economy is gently recovering, the anxiety over the downturn of the overseas economy due to the financial turmoil in Europe and higher crude oil prices, etc. has not been dispelled. Thus, the economic outlook is still uncertain. In the office building rental market in the real estate industry, the severe situation still continues, while in the real estate investment market, there is a sign of gradual recovery, as wealthy people's needs for investments in urban real estate are growing and related transactions are increasing. Under this circumstance, in the real estate revitalization business, our group focused on procuring and selling mainly small to medium-sized property worth several hundred million yen, which is traded frequently in the market. On the other hand, in the real estate service business, we focused on creating multifaceted business opportunities by increasing the assets under management in the property management business. Furthermore, we

carefully discussed the collectability of deferred tax assets, considering the future variation in our business performance, and decided to post deferred tax assets from the end of this fiscal year. As a result, our operating results for the fiscal year ended March 2012 were as follows: sales of ¥6,923 million, operating income of ¥861 million, ordinary income of ¥799 million, and net income of ¥928 million.

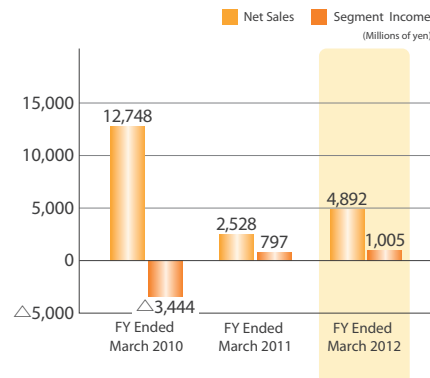
Business performance by segment is as follows.

## Real Estate Revitalization

In the replanning business, we concentrated on the procurement and sale of real estate property while carefully grasping the bottoming out of the market. Especially, we researched the property for short-term projects in the 5 urban cities, in which our company is competitive, and purchased 9 buildings. We also incorporated various ideas into the process of merchandizing the enticement of tenants and re-modeling, etc., made the buildings occupied soon, and sold the 9 buildings.

In the rental building business, we sold 4 rental buildings (and purchased 1 building) in May, in order to increase competitive rental buildings and prepare the funds for buying new replanning property from a medium to long-term viewpoint, and so the income from rents decreased from the previous year.

As a result of the above activities, sales were ¥4,892 million and segment income was ¥1,005 million.



The "segment income" under the Results of Operation by Segment is computed after deducting the cost inherent to each segment such as paid interest generated in each segment from the total sales profit.

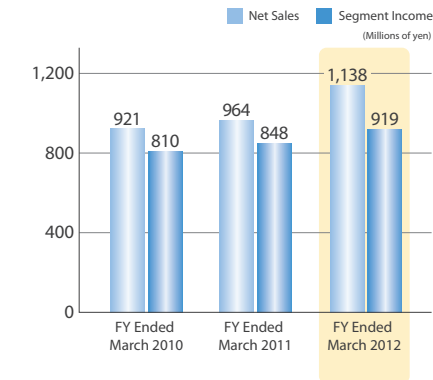
## Real Estate Brokerage

In our sales brokerage business, we continued to strengthen our customer base through efforts such as expanding trade opportunities with foreign investors, with Asia as our main focus.

Because of the recovery of the real estate investment market, etc., the number and amount of transactions increased in the latter half of this fiscal year, and sales and profits increased from the previous year.

In the rental brokerage business, although the office rental market in the urban center of Tokyo is still stringent, we tried to increase fee income from peripheral business such as the "Sonomanma office (as-is office)" and cooperation with related projects such as supporting a comprehensive office relocation.

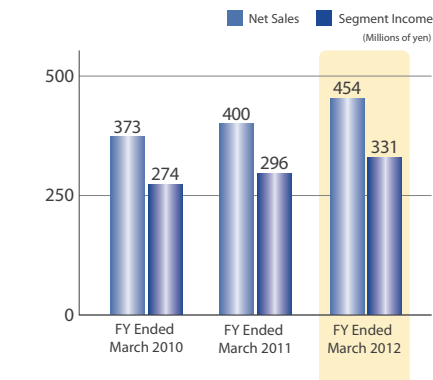
As a result of the above activities, sales were ¥1,138 million and segment income was ¥919 million.



## Property management

In the property management business, we tried to expand assets under contract in an effort to create business opportunities by incorporating the needs including sales, contracting and revitalization. We also focused on creating new earnings opportunities by enhancing customer satisfaction through close tenant support at properties under contract, preventing vacancies, and appropriately proposing property improvements and restoration work with a view to increasing property values.

As a result of the above activities, sales were ¥454 million and segment income was ¥331 million.

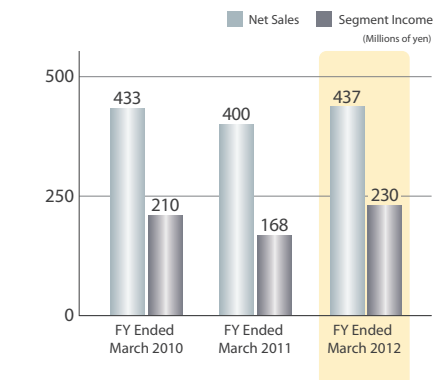


## Other business

In the construction planning business, we created new businesses, such as the proposal for a seismic remodeling, while offering the "comprehensive relocation planning" services for solving various problems regarding office relocation, including layout proposal, interior design creation, and restoration to the original state.

In the delinquent rent guarantee business, we cultivated latent needs of customers by proposing new product plans, etc. which has led to stable increase in the number of new guarantee transactions.

As a result of the above activities, sales were ¥437 million and segment income was ¥230 million.



# Consolidated Financial Statements

## Consolidated Balance Sheets (Summary)

(Millions of yen)

	As of March, 31 2011	As of March, 31 2012
<b>Current Assets</b>	4,251	6,521
Cash and deposits	2,115	3,912
Real estate for sale	1,803	1,696
Other	332	912
<b>Noncurrent Assets</b>	8,536	4,726
Property, Plant and Equipment	7,965	3,849
Intangible Assets	46	451
Investments and Other Assets	524	425
<b>Total Assets</b>	12,787	11,247
<b>Current Liabilities</b>	1,810	1,378
Short-term borrowings※	1,100	288
Income taxes payable	39	22
Other	670	1,066
<b>Noncurrent Liabilities</b>	5,422	3,405
Long-term loans and bonds	4,795	2,957
Other	626	448
<b>Total Liabilities</b>	7,232	4,784
Shareholders' Equity	5,535	6,463
Others	19	0
<b>Total Net Assets</b>	5,554	6,463
<b>Total Liabilities and Net Assets</b>	12,787	11,247

On January 6, 2012, we acquired the stock of K.K. Yubi and made it our subsidiary from this fiscal year. However, because the deemed acquisition date was the end of this fiscal year, only the balance sheet is consolidated during the current fiscal year.

### Noncurrent assets

As a result of replacing rental buildings (sold 4 buildings and purchased 1 building), it has decreased by approximately ¥4.1 billion from the previous fiscal year.

### Intangible assets

As result of adding goodwill as a result of the acquisition of stocks of K.K. Yubi in January 2012, it has increased by approximately ¥400 million from the previous fiscal year.

### Interest-bearing liabilities

As a result of repayment of debt associated with selling noncurrent assets, it has decreased by approximately ¥2.6 billion from the previous fiscal year.

※Short-term borrowings / Total of short-term borrowings, and long-term debts, including bonds and borrowings, due within one year.

## Consolidated Statements of Income (Summary)

(Millions of yen)

	FY Ended March, 2011 (April 1, 2010 - March 31, 2011)	FY Ended March, 2012 (April 1, 2011 - March 31, 2012)
<b>Sales</b>	4,289	6,923
Cost of Sales	2,022	4,304
<b>Gross Profit</b>	2,267	2,618
Selling, General and Administrative Expenses	1,604	1,757
<b>Operating Income</b>	662	861
Non-operating Income	5	11
Non-operating Expenses	126	73
<b>Ordinary Income</b>	541	799
Extraordinary Income	10	21
Extraordinary Losses	157	43
<b>Income before Income Taxes</b>	394	777
Income taxes-current	31	19
Income taxes-deferred	—	△169
<b>Net Income</b>	363	928

### Net Sales/ Ordinary Income

As a result of recovery of replanning business and stable growth of service business, the sales have increased by approximately ¥2.6 billion and operating profit has increased by approximately ¥250 million.

### Income taxes-deferred

Because of the inclusion of deferred tax assets, approximately -¥170 million was posted on the income taxes-deferred.

## Consolidated Statements of Cash Flows (Summary)

(Millions of yen)

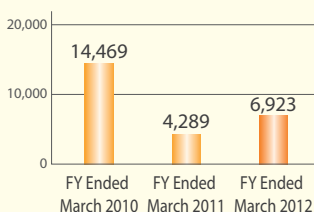
	FY Ended March, 2011 (April 1, 2010 - March 31, 2011)	FY Ended March, 2012 (April 1, 2011 - March 31, 2012)
Cash Flows from Operating Activities	△722	743
Cash Flows from Investing Activities	△934	3,829
Cash Flows from Financing Activities	△203	△2,694
Net increase (decrease) in cash and cash equivalents	△1,861	1,878
Cash and Cash Equivalents at End of Year	1,740	3,619

### Net increase (decrease) in cash and cash equivalents

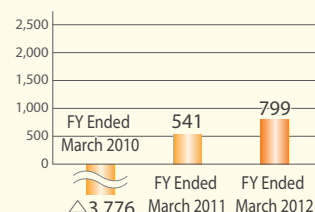
As a result of replacing rental buildings (sold 4 buildings and purchased 1 building) etc., it has increased by approximately ¥1.8 billion.

## Financial Highlight

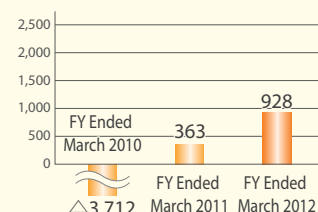
■ Net Sales (Millions of yen)



■ Ordinary Income (Millions of yen)



■ Net Income (Millions of yen)



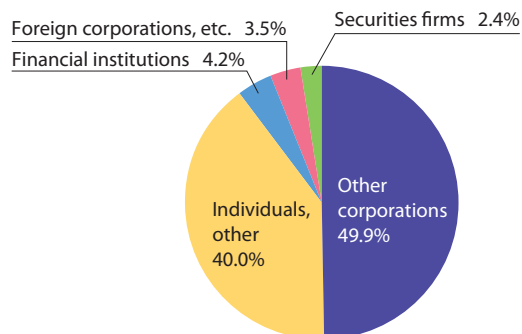
## Share information

Number of authorized shares	912,000 shares
Number of shares issued	371,495 shares
Number of shareholders	7,922

## Principal Shareholders

(Trade name)	(Number of the company's shares held)	(Voting rights)
Houon	179,575 shares	48.34%
Tomoaki Horiguchi	37,426 shares	10.07%
Keieki Sasaki	5,700 shares	1.53%
Goldman Sachs International	4,919 shares	1.32%
Keiko Horiguchi	3,990 shares	1.07%
Employee Stock Ownership Plan	3,826 shares	1.03%
Inter X	2,719 shares	0.73%
Takeshi Kobayashi	2,408 shares	0.65%
Japan Securities Finance Co., Ltd.	2,361 shares	0.64%
Kouji Ohno	2,020 shares	0.54%

## Breakdown of Shareholders



## Information

Financial Year	April 1 to March 31
Annual shareholder's meeting	June
Date of record	March 31
Stock listing	Tokyo stock exchange 1st section
Code number	8934

## Corporate Profile

Name	Sun Frontier Fudousan Co.,Ltd.	
Headquarters	14F, Toho Hibiya Building, 1-2-2, Yurakucho, Chiyoda-ku, Tokyo 100-0006	
Branches	Ginza, Kanda, Shinjuku, Yokohama, Shibuya	
Paid-in capitals	¥5,515 million	
Number of employees	181 (consolidated)	
Board of Directors and Corporate Auditors	President	Tomoaki Horiguchi
	Executive Vice President	Seiichi Saito
	Senior Managing Director	Kunihiro Kotaki
	Managing Director	Izumi Nakamura
	Full-Time Outside Auditor	Shinji Ohsawa
	Outside Auditor	Mizue Akita
	Outside Auditor	Koichi Kase

Group Companies	SF Building Support Inc.
	Sun Frontier Real Estate Investment Advisors Inc.
	K.K. Yubi ※
	Takumi Kobo Ltd. ※
	Meister Ltd. ※

※K.K. Yubi, Takumi Kobo Ltd., and Meister Ltd. became wholly owned subsidiaries of our group as a result of acquisition of entire stock of K.K. Yubi as of January 6, 2012.