

Notification Regarding the Earnings Deviation for First Half of Fiscal Year Ending March 31, 2010 and the Yearly Business Performance Forecast Revisions

Item 1 below shows the differences between the Group's consolidated business performance for the first half of fiscal year ending March 31, 2010 (April 1, 2009 through September 30, 2009) and the forecasts announced on May 14, 2009. Item 3 shows the revisions to the consolidated yearly earnings forecasts for fiscal year ending March 31, 2010 (April 1, 2009 through March 31, 2010). These earnings surprises and forecast revisions are the result of recent earnings trends.

1. Consolidated earnings surprises for the first half of fiscal year ending March 31, 2010 (April 1, 2009 through September 30, 2009)

	(¥ million)			
	Net Sales	Operating Income (loss)	Ordinary Income (loss)	Net Income (loss)
Previous Forecast (A)	7,100	(160)	(350)	(350)
Revised Forecast (B)	3,219	(4,185)	(4,376)	(4,336)
Increase / Decrease (B-A)	-3,881	-4,025	-4,026	-3,986
Increase / Decrease ratio	-54.7%	— %	— %	— %
(Reference) 1st half of FY ended March 31, 2009	14,688	(1,400)	(1,875)	(523)

2. Reasons for deviation

In the real estate market where the Sun Frontier Fudousan Group is developing its businesses, transactions that gave the impression of a market recovery were noted in some segments, and indications of change began to appear against the backdrop of hopes the economy had stabilized. For the market as a whole, however, a difficult business climate continued. Moves toward a recovery of liquidity were slow in the office properties market in particular, a segment where Sun Frontier Fudousan is focusing its efforts, and rent prices in the leasing market followed a downward trend. Given such an environment, the Sun Frontier Fudousan Group zealously pursued measures aimed at improving operating performance, ranging from strengthening income such as fee proceeds in the real estate service business and thorough spending cuts at every level of the Group, to the sale of replanning properties.

However, this reflected several factors, including the weak market recovery and the delay of replanning properties sales planned for the second quarter until the second half of the fiscal year. Sales for the first half of the consolidated fiscal year ending March 31, 2010 were ¥3,219 million.

In addition, in our replanning business given the present market conditions, for six of nine properties, including real estate held for sale, we reported a total of ¥1,340 million as a valuation loss on inventories. We also recorded a ¥2,282 million loss on investment in a silent partnership related to a new commercial property construction project being completed through a development SPC (special purpose company) established two years ago as part of our real estate securitization business. We similarly posted a ¥691 million of valuation loss on investment securities related to investments in a real estate privately offered fund and another vehicle (two projects). Because of the effect of these valuation losses in the replanning business and real estate

securitization business, which totaled ¥4,314 million, there was a deviation in our earnings projection of the operating losses as described above.

For details of the valuation loss by business segment, please refer to the “Financial Results for First Half of Fiscal Year Ending March 31, 2010” released today.

3. Revisions to yearly consolidated earnings forecasts for fiscal year ending March 31, 2010 (April 1, 2009 through March 31, 2010)

(¥ million)

	Net Sales	Operating Income (loss)	Ordinary Income (loss)	Net Income
Previous Forecast (A)	14,600	450	110	110
Revised Forecast (B)	14,200	(3,700)	(4,050)	(4,000)
Increase / Decrease (B-A)	-400	-4,150	-4,160	-4,110
Increase / Decrease ratio	-2.7%	— %	— %	— %
(Reference) FY ended March 31, 2009	26,870	(17,090)	(17,794)	(17,666)

4. Reasons for revisions

Based on our operating results for the interim period of the consolidated fiscal year ending March 2010 and the future market outlook, we have revised our consolidated earnings forecast for the consolidated fiscal year ending March 31, 2010 as described above. Sales of the three properties we are planning to sell during the fiscal year, including the property carried over from the first half, are nearly finalized and we are currently completing the final arrangements.

5. Policies for future

The Sun Frontier Fudousan Group has been affected by the rapid deterioration of the real estate market since 2008, and reported a quarterly (current period) net loss in each quarter of the interim period of the consolidated fiscal year ending March 2010, following similar losses in the previous consolidated fiscal year (fiscal year ended March 2009). The main cause of these losses was the recording of valuation loss on inventories, loss on sales of inventories, and valuation loss on investment securities. All of these valuation losses were incurred on investments in replanning properties (real estate renovated for sale) or the development SPC, which were acquired before the financial crisis that began in September 2008.

Together with reporting valuation losses to appropriately reflect prevailing market conditions for each project during this period, the Sun Frontier Fudousan Group worked to quickly sell properties for which conversion for commercial use was completed and projects on which we had halted development, even if the sale was accompanied by a loss, and strove to reduce interest-bearing debts. We also took steps to stabilize the cash flow on properties for which long-term holding was judged to be appropriate. These efforts included transitioning from short-term borrowings to long-term borrowings with the cooperation of financial institutions. Furthermore, at the end of the second quarter, we appropriated impairment loss on investment securities (investment in a real estate privately offered fund and another vehicle) as mentioned above.

Through a series of measures that included the reporting of these valuation losses, property sales and a shift to long-term borrowings, the Sun Frontier Fudousan Group has improved the structure of its balance sheet to ensure it is sufficiently resilient even under such unstable market conditions.

The Group is steadily making progress on various measures to improve operating results. This includes improving profitability by strengthening its real estate service business, and lowering the break-even point by implementing substantial cost reductions. As a result, on a basis that excludes the total valuation losses described above (¥4,314 million), operating income for the interim period of the consolidated accounting fiscal year was ¥128 million.

As specific measures to improve earning capacity, the Sun Frontier Fudousan Group has fully implemented actions to (1) strengthen its specialized leasing brokerage business capabilities for the central Tokyo area, (2) enhance sales brokerage to take maximum advantage of the Group's comprehensive capabilities based on cooperation among the leasing brokerage, property management and other divisions and (3) reduce costs. In addition, to (4) achieve growth in earnings from small and medium-sized scale replanning projects the Group will (5) newly increase capital through a capital injection. We believe the effectiveness of various measures to strengthen earning capacity will be increased due to stabilization of our financial base by capital reinforcement. For details concerning our capital increase, please refer to "Notification Regarding Offering of Shares to be Issued by Third-Party Allotment" released today.

As indicated above, at present our financial arrangements for existing projects purchased before the financial crisis that began last year have been fully completed. Therefore in the future, we will firmly establish a base for stable earnings in our real estate service business, while also seeking out new proposals in our replanning business, where we must lay the foundations for new growth. Finally, we will quickly restore our operating results and respond to the trust placed in us by all of our stakeholders including our shareholders.