

# Annual Report 2005

For the Year Ended March 31, 2005

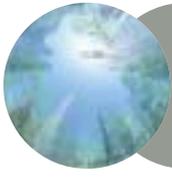


## **Profile**

Sun Frontier Fudousan Co., Ltd., was established in April 1999 to engage in real estate revitalization and provide real estate services. We focus on providing total solutions for office buildings in Tokyo's Chiyoda, Chuo, and Minato wards. The Company listed on the JASDAQ Securities Exchange, Inc., in November 2004. Our revitalization-oriented real estate business goes beyond tradition in creation of new value for effectively using existing buildings. We aim to develop a new type of real estate business for the 21st century by properly harnessing resources and conserving the environment by constraining industrial waste and carbon dioxide emissions.

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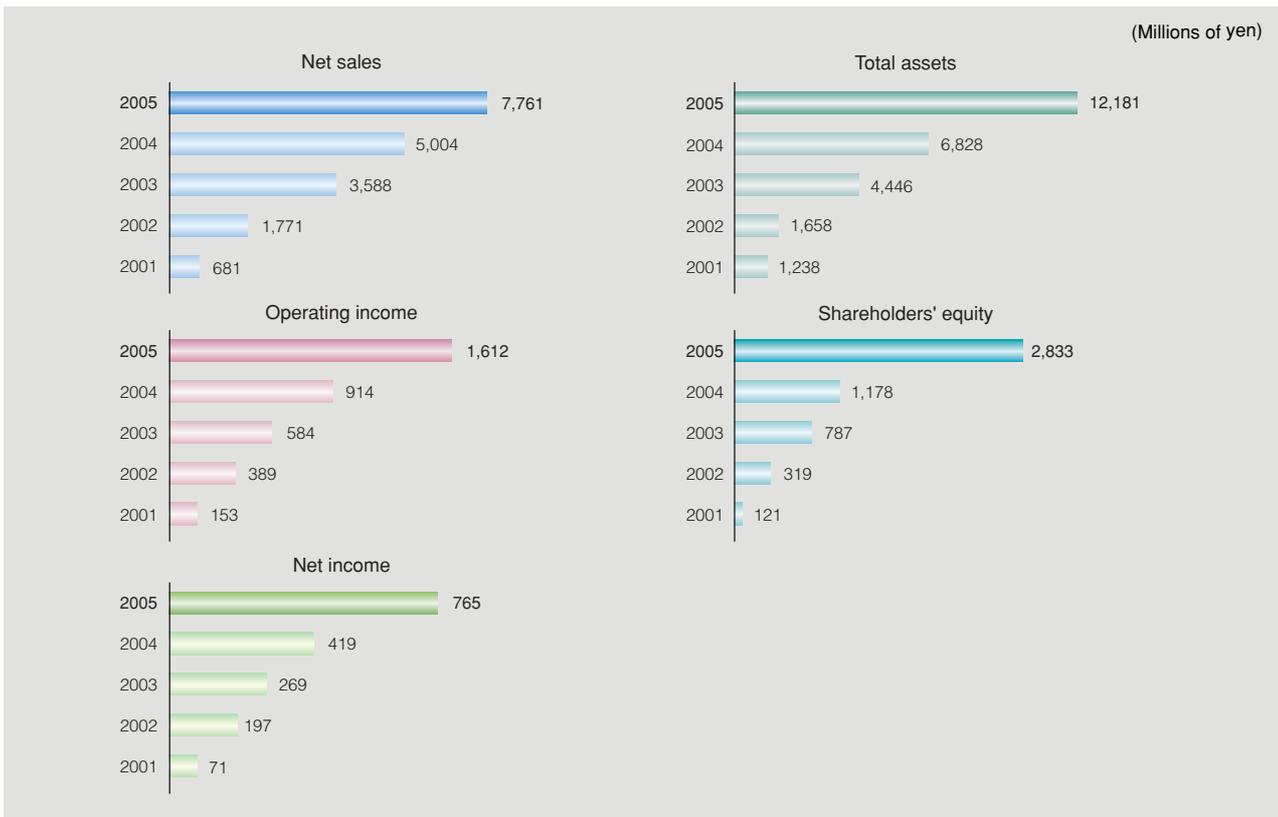
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# Non-consolidated Financial Highlights

## Sun Frontier Fudousan Co., Ltd.

	Thousands of Yen		Thousands of U.S Dollars
	2004	2005	2005
<b>For the Year:</b>			
Net sales	5,003,943	<b>7,760,982</b>	<b>72,269</b>
Operating income	913,773	<b>1,612,313</b>	<b>15,014</b>
Net income	418,685	<b>764,835</b>	<b>7,122</b>
Net income per share (yen/dollar)	21,663.08	<b>38,141.45</b>	<b>355.17</b>
diluted income per share (yen/dollar)	–	<b>38,006.66</b>	<b>353.91</b>
Cash dividends (yen/dollar)	2,000	<b>2,000</b>	<b>18.62</b>
<b>At year-end:</b>			
Total assets	6,828,485	<b>12,181,378</b>	<b>113,431</b>
Shareholders' equity	1,178,122	<b>2,833,416</b>	<b>26,384</b>
Number of outstanding shares	19,004	<b>21,004</b>	
Shareholders' equity per share (yen/dollar)	61,625.04	<b>134,327.57</b>	<b>1250.84</b>





## Message from the President



I would like to thank our shareholders and other stakeholders for making it possible for us to steadily improve our performance in fiscal 2005, ended March 31, 2005.

Net sales jumped 55.1%, to ¥7,760 million. Operating income jumped 76.4%, to ¥1,612 million, with ordinary income gaining 81.8%, to ¥1,437 million. Net income thus increased 82.7%, to ¥764 million. Sales rose 81% in our core building revitalization business. Sales improved 50% in the high-margin sales and lease brokerage business. These increases contributed greatly to our higher net sales and margins.

We realized our goal of listing on JASDAQ, in November 2004. We also made a solid start in our real estate securitization business. We thus seek further progress on the strength of our diversification of funding sources and exit strategies for the replanning business.

We have three strategies. The first is to expand our current businesses. In the replanning business, we aim to increase sales volume by expanding product line-up ranging from securitization for larger buildings to various real estate products for retail investors. In our brokerage business, we have secured higher prices and handled more properties on the strength of the greater presence that our initial public offering generated, and

this will be central to building a multi-agency network. In the property management and construction planning business, we will strengthen management and lease brokerage capabilities to secure stable income sources while increasing the floor space that we handle to boost revenues from management and construction operations. And we will step up our total solutions approach by drawing on cooperation between our operations.



Our second strategy is to diversify. Our customer base centers on wealthy individuals, and we specialize in office buildings and commercial facilities. We will concentrate even more on our core competence. For example, in the replanning business we will extend our concepts beyond conversion planning, drawing on a bottom-up corporate culture to offer real estate securitization and development, planning, and management services for everything from our building business to luxury residential and commercial facilities. We will maintain our can-do approach in other business areas to pursue new businesses and mergers and acquisitions, sewing the seeds of success through diversification that complements our core competencies.



Our third strategy is to cultivate an environmental business. The environment seems a key focus for

people today, and I consider it important for us to operate accordingly to ensure our longterm progress. Our basic approach is to draw on our corporate philosophy of suppressing resources waste to help sustainable progress for mankind and society. I am determined to build on our environmental commitments to pioneer new horizons in our industry.



We will strive to improve and expand management to maintain the trust of our shareholders. We will take advantage of our core operation, real estate revitalization, to open new business model as frontiers in real estate, meeting higher goals in becoming a creative and comprehensive property company.

I ask for your ongoing support for our endeavors.

June 2005

Tomoaki Horiguchi  
President

**Sun Frontier Fudousan’s business broadly covers the categories of real estate revitalization and real estate services. We primarily handle office buildings, solely in Tokyo’s central Chiyoda, Chuo, and Minato wards. One key strength is that our sales teams include people from diverse professional backgrounds, allowing us to provide locally focused, total real estate solutions.**

■ **Real Estate Revitalization Business**

We increase the market value of buildings by rehabilitating them and increasing occupancy rates, with the replanning business selling the properties at fair prices or the building lease business managing them after revitalization.

■ **Real Estate Services Business**

We specialize in commercial buildings in Tokyo, offering brokerage and leasing, property management, construction planning, real estate securitization, and asset management services.

### Replanning Business

We buy commercial buildings that suffer low returns or are unused, formulating replanning proposals for renovations that encompass redesigning exteriors and interiors and improving and repairing fixtures. We then secure tenants to achieve high occupancy rates and enhance market value. We can create new value by converting buildings to eliminate high vacancy rates and generate high returns, selling these properties to investors or building funds at fair prices.

### Property Management

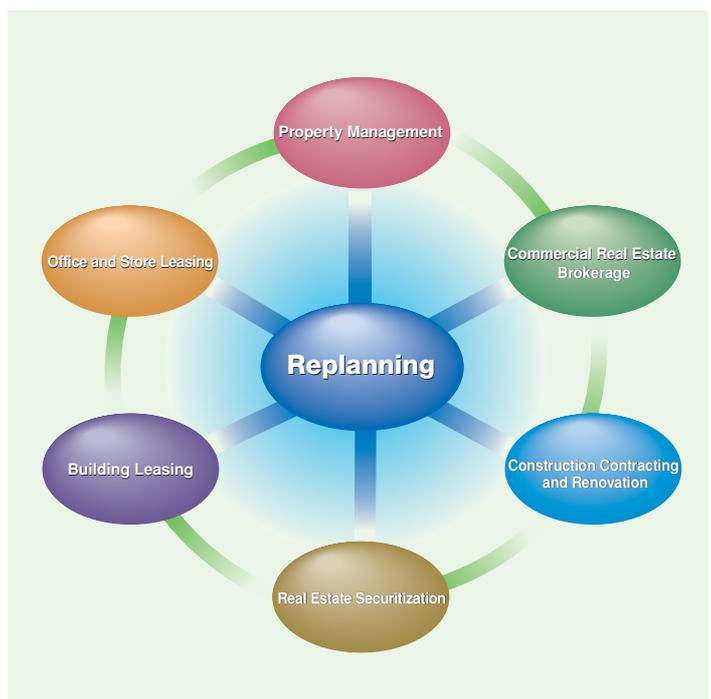
We work as a partner of building owners to balance quality and costs in ensuring tenant satisfaction that translates into satisfaction for owners in everything from building to tenant management. We draw on our support system to deliver highly transparent, high-quality building management.

### Commercial Real Estate Brokerage

We swiftly appraise rental office buildings and condominiums offered for sale and provide consulting for parties wishing to buy these properties. We harness our links with trust banks and realtors and other areas of our network to provide an array of information to individual investors and others wishing to buy commercial real estate.

### Office and Store Leasing

We have a local focus in this business, specializing in office and store leasing in central Tokyo. We employ our capabilities to offer medium- and large-sized buildings that can help local companies’ growth. We gather information on many properties to identify and match the requirements of building owners with those of prospective tenants.



## Construction Contracting and Renovation

We upgrade and repair commercial properties, office buildings, and condominiums in line with renovation plans. We handle internal construction for tenants moving into or leaving buildings and restore premises to original condition, and fill construction and renovation orders from owners. In the real estate revitalization business, we handle design and property supervision, reflecting the owner opinions that related departments obtain in construction work to transform buildings into attractive, high-return assets.

## Real Estate Securitization

We plan and set up private funds. We overhaul properties through our replanning operations, formulate diverse exit strategies, and offer properties to regular investors as high-value-added, high-return financial instruments. We draw on the renovation expertise accumulated in our replanning business to innovate schemes that reflect our care for the environment, differentiating ourselves by endeavoring to provide investors with stable long-term earnings and dividends.

## Building Leasing

We own and lease some of the buildings that we have revitalized to generate high added value. We retain long-term ownership of buildings in favorable locations that offer high prospective income. When vacancies arise, we harness our leasing, property management, and construction planning operations to ensure stable returns. We generate rental income on properties on many buildings that we have replanned for later sale.



## Overview

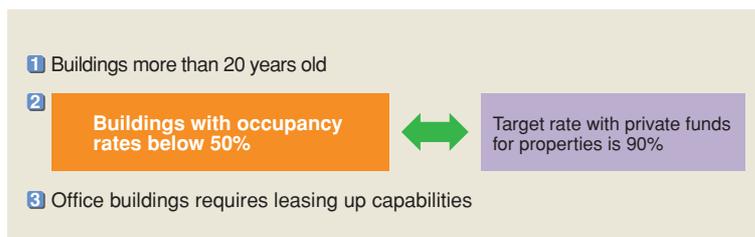
Fiscal 2005 saw an end to a downward spiral in land prices that lasted for more than 10 years and hampered Japan's real estate industry. The improvement reflected a population influx in central Tokyo, a recovery in demand for office buildings, largely from information technology companies, and a liquidity that prompted investment in the property market. Land prices generally bottomed out in large cities and actually rose in parts of central Tokyo. Real estate securitizations from listed real estate investment trusts and private equity funds totaled more than ¥7 trillion in 2004, owing to inflows of low-interest investment capital. The number and value of property transactions continues to rise.

Under this circumstance, our replanning business capitalized on the growing need among property owners to restructure assets by increasing the quality and scale of

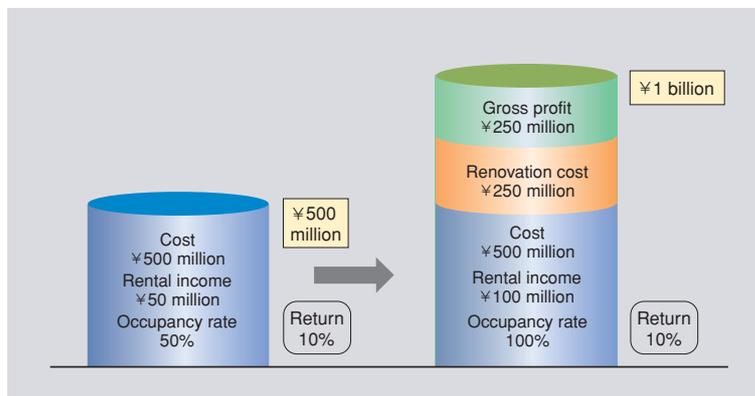
properties acquired and sold, and handled projects for eight buildings. The most prominent was with a project in Jingumae 5-chome, Shibuya Ward. We collaborated with tenants to plan and convert the building from a dormitory into a commercial and residential complex. After starting with the planning and creative stage, we renovated the building in line with tenant needs and projected income to transform it into a stable source of earnings. We established special purpose company (SPC) as investment vehicles and began securitizing properties.

In the building lease business, revenues increased from buildings we acquired in fiscal 2004, while leasing revenues from replanning properties were also up. We bought one new building for leasing during the year under review.

### ■ Target Properties for Replanning Business



### ■ Overview of Replanning Business



■ Jingumae 5-chome project



Cost: ¥1 billion  
Occupancy rate: 0%



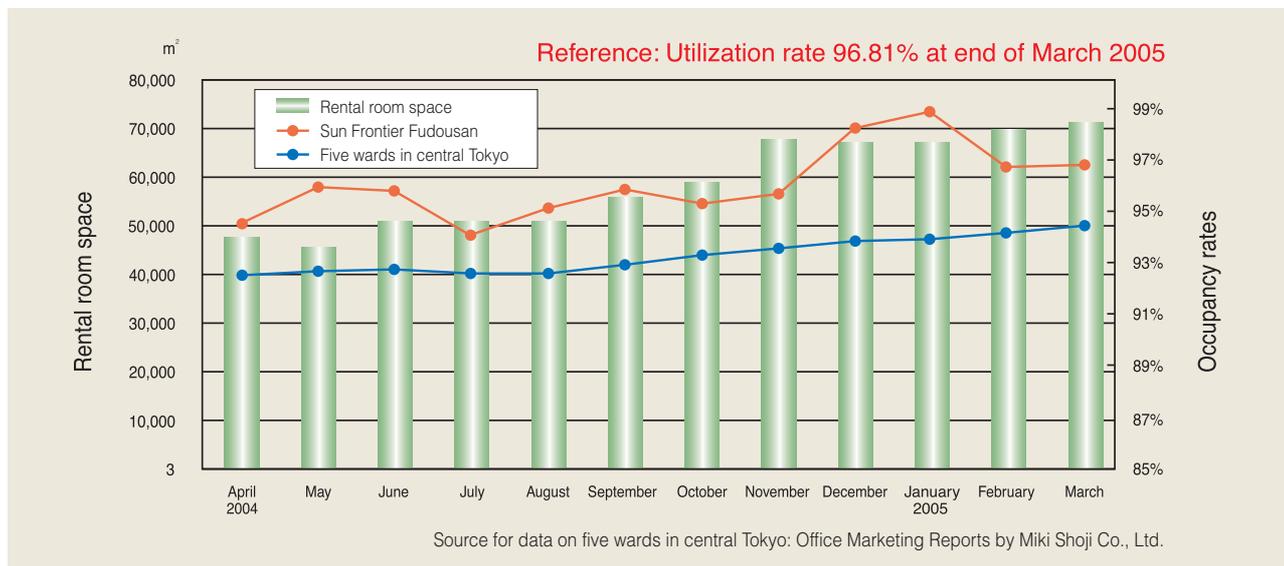
Profit: ¥0.4 billion  
Sales value: ¥2 billion  
Construction cost: ¥0.6 billion  
Cost: ¥1 billion  
Occupancy rate: 100%

We expanded property numbers in our brokerage business, while in our office and store leasing business we increased revenues and earnings on the back of a local dominance strategy that stems from a proprietary information network that we started creating in Tokyo's Ginza, where the land prices are highest in Japan. Our

property management, construction planning, and asset management businesses all performed solidly.

As a result of these factors, net sales climbed 55.1%, to ¥7,760,982 thousand, ordinary income gained 81.8%, to ¥1,437,989 thousand, and net income was up 82.7%, to ¥764,835 thousand.

■ Rental Room Space and Occupancy Rates of Properties under Management



## JASDAQ Listing

The Company listed on the JASDAQ Securities Exchange on November 19, 2004. This was just five years after our establishment, reflecting steady performance improvements. The listing has allowed us to diversify our funding sources and reduce funding costs by enhancing

our credit standing. We will take advantage of the listing to further expand our business scale. As a quoted company, we will also step our efforts to fulfill our social responsibilities.

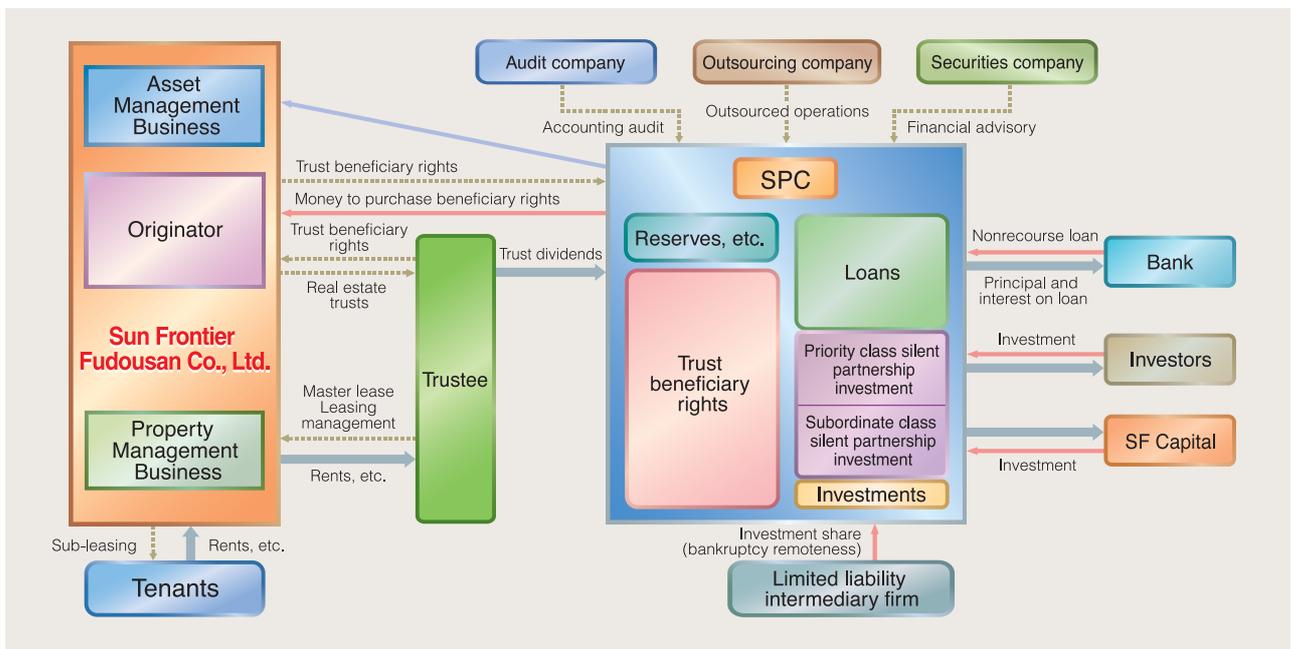
## Real Estate Securitization Business Launched

On December 7, 2004, we securitized a rehabilitated commercial building in Jingumae 5-chome and created our first private equity fund. To therefore diversify exit strategies for the replanning business, we launched a full-fledged real estate securitization business, and on January 20, 2005, we set up the securitization office within the asset management business.

We established SPC as investment vehicles for

real estate securitization. We invest in SPC through subsidiary, and sold the Jingumae property to SPC. We provide asset and property management services to this SPC and also offer non-asset services. We are extending our business model by providing property management services after selling replanning properties while shifting toward non-asset businesses.

### ■ Scheme Overview





# Environmental Business

Scrapping and building is worsening the global environment because of the industrial waste that results from demolishing buildings, the need for more construction materials that come from harming the environment, and exhaust emissions from transportation vehicles. Sun Frontier Fudousan is committed to halting a growing environmental impact by reusing buildings while contributing to a vibrant urban infrastructure that coexists with nature.

Our real estate revitalization business reuses buildings effectively, thus reducing building demolition and construction. Our policy is that the real estate business should build new value by focusing on reuse instead of development, thus curbing industrial waste and carbon dioxide emissions and suppressing the unnecessary

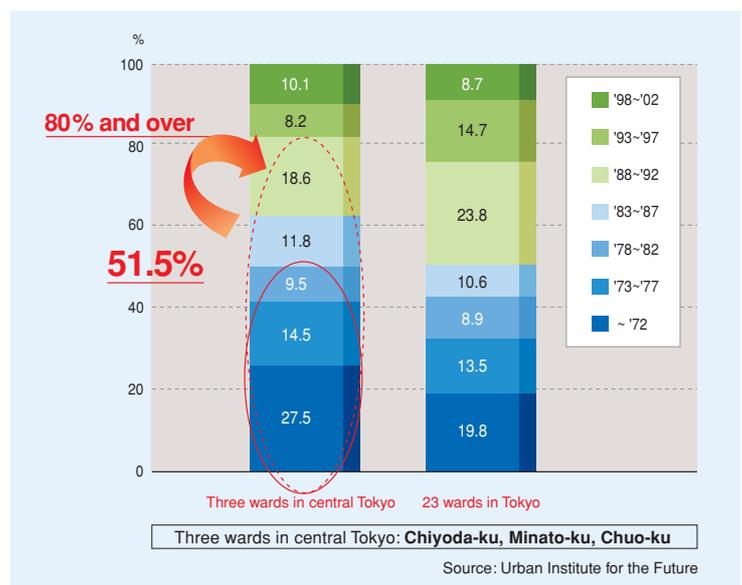
consumption of fossil fuels around the globe. We thereby aim to contribute to the progress of humanity and society. Egotism has destroyed much of nature and depleted resources. We think that the real estate business of the 21st century should make people happy while respecting nature.

We are focusing on the steps that we can take as a business for the environment. They include placing vegetation on rooftops and using photocatalyst coating technologies on upgraded walls to help clean the air by reducing dirt adhesion. We also have our employees clean up areas around our branches and commute by bicycle.



Some claim that the real estate industry has neared its limits in terms of delivering a property inventory. But the reality is that within the next seven years buildings constructed during the bubble economy period will be more than 20 years old. Buildings of that age represent more than 80% of the total number in our prime target areas of Tokyo's Chiyoda, Chuo, and Minato wards. Bubble-era buildings now need upgrades, and this situation should create growth opportunities for the Company while creating many market needs that we have yet to cultivate. We will expand and diversify our business by drawing on our local dominance strategy and marketing based on the strong trust of our customers.

■ Office Floor Space Allocations by Building Age



## 1. Entering Non-Asset Businesses

In the real estate revitalization business, we think that it is important to meet customer needs by making market sense, including in large projects that feature usage proposals for buyers. To handle larger properties, it will be critical for us to create a new business model that encompasses non-asset fields, notably, the fund business, providing specific solutions and consulting



for building owners, and deliver higher returns. We will strive to increase enterprise value by optimizing our business portfolio to include both asset operations that offer stable cash flows and non-asset businesses that harness funds from others to increase our capital efficiency.

## 2. Cultivating Human Resources to Reinforce Business Foundations

We are convinced that highly talented and motivated employees are essential to building our foundations for growth, which is why we heavily hire new graduates and people in mid-career. That is also why we maintain and are reinforcing our solid training system and programs to highlight our philosophy, enhance a sense for figures, and provide specialized knowledge. We will offer stock options to the employees and will continue to attract and foster talented people.

## Specific Replanning Business Examples



### 1. Business Environment

If changes occur in Japan's economic situation, the real estate situation or interest rates, it is possible that our company's performance would be affected by a contraction in the size of transactions in our company's business, or deterioration in business conditions.

### 2. Replanning Business

- (1) In a financial situation in which interest rates rise in the future, or circumstances in which a rise in real estate prices causes a drop in the return on investment, our company's performance may be affected by the investment preferences of investors.
- (2) If fluctuations in the financial situation cause changes in the lending stance of financial institutions, hindering financing planned by our company, the development of the replanning business and our company's performance may be affected.
- (3) In the replanning business, sales and the cost of sales sold are recorded at the time of sale of a property. Moreover, the value of each transaction is higher than revenues from other brokerage commissions. Therefore, fluctuations in the timing and amount of purchases and sales may impact on our company's performance.

### 3. The State of Competition

Our company's business comprises the replanning business, building leasing business, commercial real estate trading and rental brokerage business, property management business, construction planning business, real estate securitization business and asset management business. Our business is characterized by providing an integrated service relating to commercial real estate which organically links each of these businesses. However, it is possible that competition may intensify in the acquisition of properties for the replanning business in the future. We are working to differentiate ourselves from our competitors in a bid to address this risk, but if we are unable to maintain our competitive advantage, our company's performance may be affected.

### 4. 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.

### 5. Statutory Regulations

Our company's business is subjected to statutory regulations according to the Law Regulating Housing Sites Development, Architects Law, Construction Industry Law, Law on Appraisal of Real Estate, and Real Estate Investment Advisory Business Registration Regulations, and has obtained the relevant approval.

The terms of validity for the permits and licenses relating to our company's core operations, and the existence of grounds for their cancellation, are shown below. Although currently there are no grounds for cancellation of these permits or licenses, in the unlikely event that such grounds were to occur in the future, it may cause a great impact on our company's business activities.

Our company's business may also be affected should any of these articles of related legislation be abolished in the future, or should new statutory regulations be put in place.

Type of License, Permit, Registration, etc.	Term of Validity	Type	Related Legislation	Issuer of Registration, etc.	Existence of Grounds for Cancellation
License to trade in housing sites	December 29, 2004 to December 28, 2009	—	Law Regulating Housing Sites Development	Minister of Land, Infrastructure and Transport	Yes
General construction industry permit	January 10, 2002 to January 9, 2007	Interior finishing work business	Construction Industry Law	Prefectural Governor	Yes
General construction industry permit	September 5, 2002 to September 4, 2007	Construction work business, Carpentry work business, Roofing workbusiness, Tiles, brick and block work business	Construction Industry Law	Prefectural Governor	Yes
First-class architects office registration	January 10, 2007		Architects Law	Prefectural Governor	Yes
Real Estate Appraiser Registration	February 7, 2003 to February 6, 2008	—	Law on Appraisal of Real Estate	Prefectural Governor	Yes
General Real Estate Investment Advisor Registration	November 3, 2004 to November 2, 2009	—	Real Estate Investment Advisory Business Registration Regulations	Minister of Land, Infrastructure and Transport	Yes

## 1. Basic Approach to Corporate Governance

In a bid to make accurate and rapid management decisions, our company is working to enhance the current board of directors and strengthen the function of auditors to improve transparency and impartiality of management, while emphasizing the profits of stakeholders in the company, and we regard improving shareholder value continuously over the long term as an extremely important issue. Not only top management but all employees of the company have a strong awareness of compliance and we regard its practice as an issue of the greatest importance.

## 2. Enactment of Corporate Governance Policies

### (1) Management Structures Relating to the Company's Management Decision Making, Execution and Surveillance and Other Corporate Governance Frameworks

Our company has adopted an auditor system, and has not established a number of different committees (audit, remuneration, nomination, etc.). Currently the company has five directors, and there are no outside directors. In addition, one of the two auditors is an outside auditor, who is engaged on a part-time basis. As internal control, an internal audit office which answers directly to the president carries out audits regularly. Audits are carried out with the internal audit office cooperating with the full-time auditor. In addition, the company has concluded an advisory agreement with a lawyer, and we receive advice concerning compliance and other issues as necessary.

Accounting audits are commissioned to BDO Sanyu & Co., and rather than relying on end-of-year audits, audits are carried out through the entire year.

We also obtain advice from consultant tax accountants to ensure compliance concerning taxation issues.

Remuneration paid to auditors and directors in the current fiscal year, together with the details of auditors' remuneration, are shown below.

#### (Nature of Directors' Remuneration)

		Number of people	Amount of Remuneration (thousands of yen)
Directors	Remuneration (Outside director)	6 (1)	80,850 (150)
	Directors bonuses by appropriation of earnings	4	7,000
Auditors	Remuneration (Outside director)	2 (1)	7,380 (1,200)

Note: The one outside director resigned effective from the conclusion of the fixed general meeting held on June 25, 2004.

#### (Nature of Auditors Remuneration)

	Relating to closing of accounts this fiscal year (thousands of yen) (July 1, 2004 to June 30, 2005)
Remuneration based on duties stipulated in Article 2, Paragraph 1 of the Certified Public Accounting Law	14,800

Note: there is no remuneration other than that outlined above.

(2) Overview of Personal Relationships, Capital Relationships, Business Connections and Other Interests Between Company and Company's Outside Auditors

Outside auditor Mitsuo Terauchi has 10 shares in our company as at the end of this fiscal year, but there are no personal relationships or business relationships.

At the fixed general meeting held on June 29, 2005, outside auditor Mitsuo Terauchi resigned, and Kazuaki Fukiage was newly appointed, and there are no conflicts of interest in terms of personal relationships, capital relationships, business relationships or any other areas.

(3) Efforts to Enhance Corporate Governance over the Past Year

Management meetings attended by all executive directors and management personnel at section head level or higher are held once each month, in order to promote the timely exchange of information and communication in all aspects such as communicating and improving awareness of policies, verifying operating results, and identifying problem areas. Moreover, Leadership Meetings for all executive directors and all management personnel, and Weekly Report Meetings for each business are held on a weekly basis to promote timely exchange of information and communication in all aspects, including reporting of the business situation, communication and improved awareness of policies, and identification of problem areas.

In response to the heightened interest in disclosure of corporate information, to improve the transparency of management and to achieve speedy management, since the third quarter of the year ended March 2005 we have been disclosing an overview of financial standing and performance on a quarterly basis.

We are also committed to the active and impartial disclosure of information through disclosure of IR information on our website, the distribution of news releases as necessary, and corporate presentations for investors.

### **3. Deployment and Operation of Internal Management Framework**

Our company is committed to strengthening corporate governance by striving to bolster our internal management framework and by deploying a mobile and flexible organizational framework.

With regard to our internal control organization, the Internal Audit Office, which answers directly to the president, carries out internal audits as necessary to ensure that our company's operations comply with legal and internal regulations, and that they are carried out in a legal and appropriate manner. The Internal Audit Office reports audit results promptly to the president, and based on these reports, points where improvements can be made are pointed out to each division in a bid to improve the quality and efficiency of operations.

With regard to the placement of the management division, the Business Planning Office, which carries out company-wide budget and performance management, and the IR Office, which is engaged in IR operations, are divisions which report directly to the president. In addition, the General Affairs Division, which comprises the General Affairs Section which carries out general affairs and personnel affairs, the Accounting Section, which is engaged in accounting and finance operations, and the Information Systems Section, which is responsible for information systems, carries out internal management and control across the entire division.

Internal regulations are revised and put in place in immediate response to amendments in related legislation and changes in the state of internal control.

(Efforts to Enhance Internal Control Framework Over the Past Year)

In response to the Personal Information Protection Law enacted in April 2005, the company has started to put in place a protection framework, by carrying out education and training for directors. We are also engaged in on-going activities to improve awareness in order to prevent insider trading.

# Financial Section

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# Analysis of Financial Position and Performance

## 1. Financial Position

At the end of fiscal 2005, current assets were ¥8,166,894 thousand, up ¥3,883,167 thousand from a year earlier, reflecting increases in inventory. Cash and cash equivalents rose ¥1,962,285 thousand, to ¥3,029,376 thousand.

Property and equipment rose ¥1,469,725 thousand, to ¥4,014,484 thousand, owing to acquisitions of real estate for leasing, the relocation of headquarters, and investments in software to strengthen the Company's infrastructure.

At the close of the term, total liabilities were up ¥3,697,599 thousand, to ¥9,347,962 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 increased ¥1,655,294 thousand, to ¥2,833,416 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 thus expanded ¥72,702.53, to ¥134,327.57.

The solid performance of our replanning business, our registration with the Japan Securities Dealers Association in November 2004, and our listing on JASDAQ in the following month made it easier for us to raise funds. As a result of inventory acquisitions and the completion of a purchase of a building for leasing, total assets at year-end were up ¥5,352,893 thousand, at ¥12,181,378 thousand.

## 2. Performance

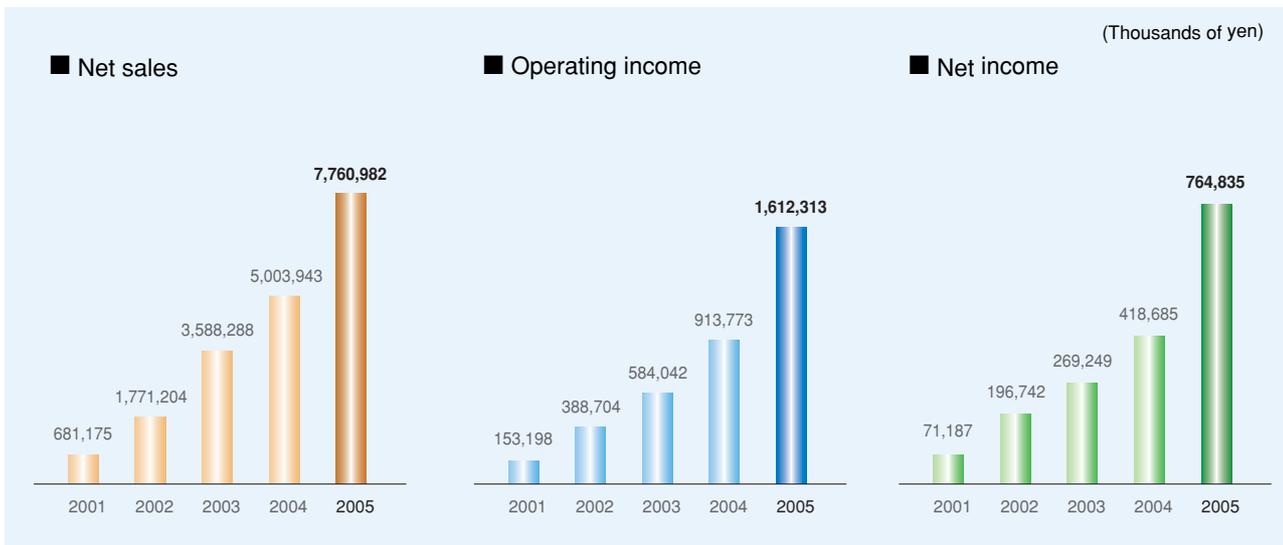
In fiscal 2005, net sales climbed ¥2,757,039 thousand, or 55.1%, to ¥7,760,982 thousand. Sales in the real estate revitalization field gained 59.8%, to ¥6,295,263 thousand, while sales in the real estate services field improved 37.6%, to ¥1,465,719 thousand. The rise for the real estate revitalization business was due to a 63.9% increase in sales for the replanning business, to ¥5,573,655 thousand, and a 26.3% climb in sales for the building leasing business, to ¥541,607 thousand.

Replanning accounted for 74.1% of net sales, up 4.0 percentage points, reflecting the integration of in-house operations, which allowed us to handle larger projects. After boosting staff levels, brokerage business sales gained 50.5%, to ¥1,053,166 thousand.

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 70.5% of costs, up 1.5 percentage point from a year earlier. Real estate services represented 23.9% of costs, down 3.6 percentage points, owing to growth in brokerage operations.

Gross profit therefore increased ¥979,062 thousand, to ¥2,972,112 thousand, although the gross margin declined 1.5 percentage points, to 38.3%.

Selling, general and administrative expenses increased ¥280,523 thousand, to ¥1,359,799 thousand. These expenses accounted for 17.5% of net sales, down 4.0 percentage points, however, reflecting higher revenues. Operating income gained ¥698,539 thousand, or 76.4%, to ¥1,612,313 thousand. The operating income ratio improved 2.5 percentage points, to 20.8%. Other expenses increased ¥624,770 thousand, or



78.9%, to ¥1,416,235 thousand. After factoring in the costs of issuing bonds, new shares, and listing preparations and extraordinary earnings and expenses, net income before income taxes was up ¥624,770 thousand, or 78.9%, at ¥1,416,235 thousand.

Net income therefore improved ¥346,150 thousand, or 82.7%, to ¥764,835 thousand. The return on sales was 9.8%, up 1.4 percentage point. Net income per share was ¥38,141.45. The return on equity was 38.1%, and the ordinary return on assets was 15.1%.

### 3. Cash Flow Analysis

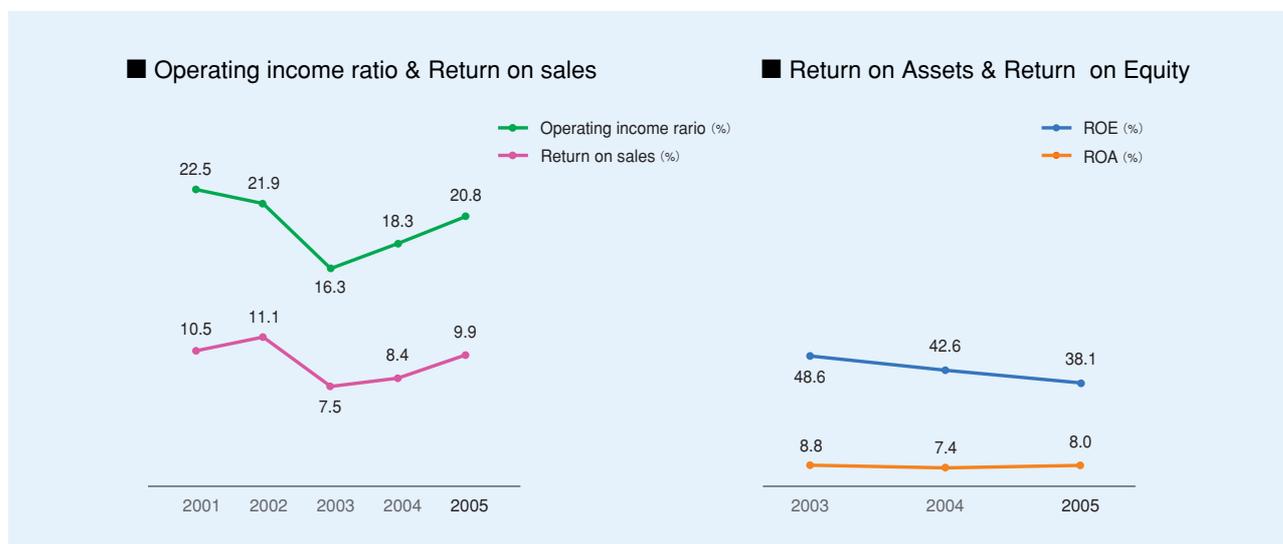
At year-end, cash and cash equivalents were ¥1,196,062 thousand, up 465.4% from the close of the previous term, at ¥1,453,073 thousand. This stemmed from the contribution of ¥1,416,235 thousand in net income and a rise in proceeds from borrowing, which offset an increase in inventories owing to replanning property acquisitions in the real estate revitalization business and a rise in property and equipment as a result of the acquisition of the building for leasing.

Net cash used in operating activities was ¥519,267 thousand, down 25.9%. This was due largely to a rise of ¥1,866,091 thousand in inventories from replanning property acquisitions and ¥492,327 thousand in income taxes, which outweighed income before income taxes of ¥1,416,235 thousand, depreciation of ¥83,932 thousand, and a ¥210,509 thousand increase in security deposits received.

Net cash used in investing activities was ¥2,290,048 thousand, up 70.2%. This was due primarily to ¥1,288,433 thousand in property and equipment purchases, largely to buy the building for leasing, and ¥1,261,723 thousand in outlays for time deposits, which offset ¥536,000 thousand in proceeds from time deposit reimbursements.

Net cash provided by financing activities was ¥4,005,378 thousand, up 151.6%. The main factors here were a net increase of ¥1,836,000 thousand in short-term borrowings, ¥1,735,000 thousand in proceeds from long-term borrowings, ¥1,086,000 thousand in proceeds from issuance of bond, and ¥921,226 thousand in proceeds from the issuance of common stock, which outweighed ¥1,434,840 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. The average period of a replanning project is six months, with the Company repaying loans on these projects upon swiftly selling replanning properties. 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. Also, during the year under review time deposit outlays that are part of cash flows from investing activities were ¥1,261,723 thousand. This had nothing to do with the rise in borrowings, as we have long deposited surplus cash with financial institutions. We use inventories and not deposits to secure short-term borrowings for property acquisitions.



# Financial Statements

Sun Frontier Fudousan Co., Ltd.

## Balance Sheets

As of March 31, 2004 and 2005

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2004	2005	2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits	¥1,067,090	¥3,029,376	\$28,209
Accounts receivable - trade	68,483	120,580	1,123
Real estate held for sale (Note 4)	542,799	1,936,893	18,036
Real estate under construction (Note 4)	2,487,850	2,937,569	27,354
Supplies	-	3,270	30
Advances paid	-	656	6
Prepaid expenses	33,564	41,490	386
Deferred tax assets (Note 9)	59,282	80,603	751
Other current assets	26,025	18,923	176
Allowance for doubtful accounts	(1,370)	(2,470)	(23)
Total current assets	<u>4,283,726</u>	<u>8,166,894</u>	<u>76,049</u>
<b>Property and equipment (Note 3)</b>	2,291,706	3,527,683	32,849
<b>Intangible assets</b>	31,048	30,053	280
<b>Investments and other assets:</b>			
Investment securities (Note 5)	4,710	5,496	51
Capital contributions	6,010	6,010	56
Investments in an affiliate	-	80,000	745
Long-term loans to employees	1,312	937	9
Bankruptcy and delinquent receivables	355	1,870	17
Long-term prepaid expenses	8,908	14,368	134
Deferred tax assets (Note 9)	22,498	29,597	276
Security deposits	84,774	265,579	2,473
Bank deposits over one year	77,500	37,000	345
Other assets	16,292	16,990	158
Allowance for doubtful accounts	(357)	(1,101)	(10)
Total investments and other assets	<u>222,003</u>	<u>456,748</u>	<u>4,253</u>
Total assets	<u>¥6,828,485</u>	<u>¥12,181,378</u>	<u>\$113,431</u>

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

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2004	2005	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable - trade	¥ 126,616	¥ 122,189	\$ 1,138
Short-term borrowings (Notes 4 and 6)	2,183,000	4,019,000	37,424
Current portion of long-term debts (Notes 4 and 6)	325,900	1,811,800	16,871
Accounts payable	56,795	85,568	797
Accrued expenses	30,406	41,970	391
Income taxes payable	288,067	488,344	4,547
Consumption taxes payable	-	23,263	217
Advances received	48,012	96,958	903
Deposits received	66,873	76,712	714
Accrued bonuses for employees	33,945	35,545	331
Construction warranty reserve	-	13,100	122
Other current liabilities	-	1,066	10
Total current liabilities	<u>3,159,617</u>	<u>6,815,519</u>	<u>63,465</u>
<b>Long-term liabilities:</b>			
Long-term debts (Notes 4 and 6)	2,081,500	1,895,760	17,653
Reserve for directors' retirement benefits	45,258	62,186	579
Security deposits received	363,987	574,496	5,350
Total long-term liabilities	<u>2,490,745</u>	<u>2,532,443</u>	<u>23,582</u>
Total liabilities	<u>5,650,363</u>	<u>9,347,962</u>	<u>87,047</u>
<b>Shareholders' equity</b>			
Common stock, 72,712 and 76,000 shares authorized, 19,004 and 21,004 shares issued and outstanding in 2004 and 2005, respectively	108,650	491,150	4,574
Additional paid-in capital	-	552,500	5,145
Retained earnings	1,068,902	1,788,730	16,656
Net unrealized holding gain on securities	569	1,035	10
Total shareholders' equity	<u>1,178,122</u>	<u>2,833,416</u>	<u>26,384</u>
Total shareholders' equity and liabilities	<u>¥6,828,485</u>	<u>¥12,181,378</u>	<u>\$113,431</u>

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

Sun Frontier Fudousan Co., Ltd.

## Statements of Income

For the years ended March 31, 2004 and 2005

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2004	2005	2005
<b>Net sales</b>	¥5,003,943	¥7,760,982	\$472,269
<b>Costs of sales</b>	3,010,892	4,788,870	44,593
Gross profit	1,993,050	2,972,112	27,676
<b>Selling, general and administrative expenses (Note 8)</b>	1,079,276	1,359,799	12,662
Operating income	913,773	1,612,313	15,014
<b>Other Income (Expenses):</b>			
Interest and dividend income	725	642	6
Interest expenses	(120,294)	(127,635)	(1,189)
Revaluation gain (loss) from interest rate cap	5,724	(412)	(4)
Initial public offering expenses	(9,798)	(19,960)	(186)
Gain (loss) on sale and disposal of property and equipment, net	874	(911)	(8)
Provision to construction warranty reserve for previous year	–	(3,878)	(36)
Expenses for relocation of offices	–	(16,964)	(158)
Other, net	462	(26,958)	(251)
Other expenses, net	(122,308)	(196,078)	(1,826)
Income before income taxes	791,465	1,416,235	13,188
<b>Income taxes (Note 9):</b>			
Current	408,486	680,139	6,333
Deferred	(35,705)	(28,740)	(268)
	372,780	651,399	6,066
Net income	¥ 418,685	¥ 764,835	\$ 7,122

	<i>Yen</i>		<i>U.S. dollars (Note 1)</i>
	<hr/>		
<b>Net income per share:</b>			
Basic	¥21,663.08	¥38,141.45	\$355.17
Diluted	–	38,006.66	353.91
Cash dividends per share	2,000.00	2,000.00	18.62
	<hr/> <i>Shares</i>		
<b>Weighted average shares outstanding:</b>			
Basic	19,004	19,738	
Diluted	–	19,808	

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

Sun Frontier Fudousan Co., Ltd.

## Statements of Shareholders' Equity

For the years ended March 31, 2004 and 2005

*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
<b>Balance as of March 31, 2003</b>	¥19,004	¥108,650	¥ –	¥ 678,434	¥ (113)	¥ 786,970
Net income	–	–	–	418,685	–	418,685
Cash dividends paid	–	–	–	(28,216)	–	(28,216)
Change in net unrealized holding gain on securities	–	–	–	–	682	–
<b>Balance as of March 31, 2004</b>	¥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
<b>Balance as of March 31, 2005</b>	<b>¥21,004</b>	<b>¥491,150</b>	<b>¥552,500</b>	<b>¥1,788,730</b>	<b>¥1,035</b>	<b>¥2,833,416</b>

*Thousands of U.S. dollars (Note 1)*

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding (Loss) Gain on Securities	Total Shareholders' Equity
<b>Balance as of March 31, 2004</b>	\$1,012	\$ –	\$ 9,953	\$ 5	\$10,971
Common stock issued under the spread-method	3,562	5,145	–	–	8,707
Net income	–	–	7,122	–	7,122
Cash dividends paid	–	–	(354)	–	(354)
Bonuses to directors and statutory auditors	–	–	(65)	–	(65)
Change in net unrealized holding gain on securities	–	–	–	4	4
<b>Balance as of March 31, 2005</b>	<b>\$4,574</b>	<b>\$5,145</b>	<b>\$16,656</b>	<b>\$10</b>	<b>\$26,384</b>

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

## Sun Frontier Fudousan Co., Ltd.

**Statements of Cash Flows**

For the years ended March 31, 2004 and 2005

Thousands of  
U.S. dollars  
(Note 1)

	Thousands of yen		2005
	2004	2005	
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 791,465	¥ 1,416,235	\$ 13,188
Adjustments to reconcile income before income taxes to net cash used in operating activities:			
Depreciation and amortization	56,584	83,932	782
Allowance for doubtful accounts	462	1,844	17
Accrued bonuses for employees	6,425	1,600	15
Reserve for directors' retirement benefits	10,258	16,928	158
Construction warranty reserve	-	13,100	122
Interest and dividend income	(725)	(642)	(6)
Interest expenses	120,294	127,635	1,189
Gain (loss) on sale and disposal of property and equipment, net	(874)	911	8
Revaluation gain from interest rate cap	(5,724)	412	4
Expenses for relocation of offices	-	16,964	158
Accounts receivable - trade	11,458	(52,097)	(485)
Inventories	(1,556,093)	(1,866,091)	(17,377)
Advances paid	54,086	(656)	(6)
Prepaid expenses	(12,341)	(9,459)	(88)
Accounts payable - trade	71,497	(4,426)	(41)
Accrued expenses	6,559	6,165	57
Consumption tax payable	(6,143)	23,263	217
Advances received	-	48,945	456
Security deposits received	91,695	210,509	1,960
Payment for directors' and statutory auditors' bonuses	-	(7,000)	(65)
Other, net	18,676	62,723	584
Subtotal	(342,435)	90,796	845
Interest and dividend received	725	642	6
Interest paid	(121,680)	(118,379)	(1,102)
Income taxes paid	(237,690)	(492,327)	(4,584)
Net cash used in operating activities	(701,080)	(519,267)	(4,835)
<b>Cash Flows from Investing Activities:</b>			
Payments for time deposits	(763,833)	(1,261,723)	(11,749)
Proceeds from time deposits	345,751	536,000	4,991
Purchases of property and equipment	(859,928)	(1,288,433)	(11,998)
Sales of property and equipment	2,011	-	-
Purchases of intangible assets	(22,240)	(5,950)	(55)
Increase in investments in an affiliate	-	(80,000)	(745)
Payments for security deposits	(54,244)	(180,905)	(1,685)
Other, net	7,039	(9,035)	(84)
Net cash used in investing activities	(1,345,444)	(2,290,048)	(21,325)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from short-term borrowings	1,141,000	1,836,000	17,097
Proceeds from long-term borrowings	914,000	1,735,000	16,156
Repayments of long-term borrowings	(435,080)	(1,434,840)	(13,361)
Proceeds from issuance of bonds	-	1,086,000	10,113
Payments for redemption of bonds	-	(100,000)	(931)
Proceeds from issuance of common stock	-	921,226	8,578
Dividend paid	(28,216)	(38,008)	(354)
Net cash provided by financing activities	1,591,703	4,005,378	37,297
Net (decrease) increase in cash and cash equivalents	(454,821)	1,196,062	11,138
Cash and cash equivalents at beginning of period	711,833	257,011	2,393
Cash and cash equivalents at end of period	¥ 257,011	¥ 1,453,073	\$ 13,531

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:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<u>2004</u>	<u>2005</u>	<u>2005</u>
Cash and bank deposits			
Bank deposits with an original maturity over three months	¥1,067,090	<b>¥3,029,376</b>	<b>\$28,209</b>
Cash and cash equivalents	<u>(810,079)</u>	<u><b>(1,576,302)</b></u>	<u><b>(14,678)</b></u>
	<u>¥ 257,011</u>	<u><b>¥1,453,073</b></u>	<u><b>\$13,531</b></u>

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

Sun Frontier Fudousan Co., Ltd.

## Notes to Financial Statements

For the years ended March 31, 2004 and 2005

### 1. Basis of Presenting the Financial Statements

Sun Frontier Fudousan Co., Ltd. (the "Company") maintains 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 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 ¥107.39 to U.S. \$1 at March 31, 2005. 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) Non-consolidated Subsidiary

The Company does not prepare consolidated financial statements because, in accordance with Article 5-2 of the Regulations Concerning the Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Ordinance 28, 1976), its subsidiary does not have a significant impact on the consolidated financial position, amounts of consolidated sales and consolidated net income as a whole.

An affiliate is defined as a company whose financial and operating decision-making is influenced to a material degree through investment, personnel, financing, technology or other relationships. Accordingly, all 20% to 50% owned companies, except for those that are consolidated, and unconsolidated subsidiaries are, in principle, required to be accounted for using the equity method. An investment of less than 20% of voting rights of an investee may be required to be accounted for using the equity method in cases where the investor has the ability to exercise significant influence over the Company.

#### (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 on investment securities for which the fair value declined by more than 50% or considers impairment losses on 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 Expens**

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.

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 (\$122 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 (\$122 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 (\$86 thousand) and income before income taxes decreased by ¥13,100 thousand (\$122 thousand).

**(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 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. The Company had no dilutive securities outstanding at March 31, 2004. Therefore, there are no differences between basic and diluted EPS for the year ended March 31, 2004.

**(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.

### (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 (\$116 thousand) were charged as a part of corporate enterprise tax, and were included in "Selling, general and administrative expenses" in the statement of income.

### 3. Property and Equipment

Property and equipment as of March 31, 2004 and 2005 are as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2005	2005
Buildings and structures	¥1,126,512	<b>¥1,629,858</b>	<b>\$15,177</b>
Vehicles	7,120	<b>7,120</b>	<b>66</b>
Machinery, equipment and furniture	57,312	<b>64,675</b>	<b>602</b>
Land	1,186,585	<b>1,963,835</b>	<b>18,287</b>
Accumulated depreciation	(85,823)	<b>(137,806)</b>	<b>(1,283)</b>
Total	<u>¥2,291,706</u>	<u><b>¥3,527,683</b></u>	<u><b>\$32,849</b></u>

### 4. Assets Pledged as Collateral

Assets pledged as collateral as of March 31, 2004 and 2005 are as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2005	2005
Real estate held for sale	¥ 542,799	<b>¥1,936,893</b>	<b>\$18,036</b>
Real estate under construction	1,916,298	<b>2,713,060</b>	<b>25,264</b>
Buildings	1,026,086	<b>1,510,191</b>	<b>14,063</b>
Land	1,186,585	<b>1,963,835</b>	<b>18,287</b>
Total	<u>¥4,671,769</u>	<u><b>¥8,123,980</b></u>	<u><b>\$75,649</b></u>

Liabilities secured by the above collateral are as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2005	2005
Short-term borrowings	¥ 2,087,000	<b>¥3,819,000</b>	<b>\$35,562</b>
Current portion of bonds, unsecured bonds guaranteed by bank	—	<b>220,000</b>	<b>2,049</b>
Current portion of long-term borrowings	195,400	<b>1,549,000</b>	<b>14,424</b>
Bonds unsecured bonds guaranteed by bank	—	<b>880,000</b>	<b>8,194</b>
Long-term borrowings	2,013,000	<b>944,260</b>	<b>8,793</b>
Total	<u>¥4,295,400</u>	<u><b>¥7,412,260</b></u>	<u><b>\$69,022</b></u>

### 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, 2004 and 2005:

	<i>Thousands of yen</i>					
	2004			2005		
	Acquisition cost	Carrying value	Unrealized gain/(loss)	Acquisition cost	Carrying value	Unrealized gain/(loss)
Equity	¥3,750	¥4,710	¥960	<b>¥3,750</b>	<b>¥5,496</b>	<b>¥1,746</b>

	<i>Thousands of U.S. dollars</i>		
	2005	2005	2005
	Acquisition cost	Carrying value	Unrealized gain/(loss)
Equity	<b>\$35</b>	<b>\$51</b>	<b>\$16</b>

## 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 2.1% as of March 31, 2004 and 1.50% as of March 31, 2005.

Long-term debts and current portion of long-term debts as of March 31, 2004 and 2005 are as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2005	2005
1.15% secured bonds, due on March 18, 2005	¥ 100,000	¥ -	\$ -
0.79% secured bonds, due on November 13, 2009	-	<b>1,100,000</b>	<b>10,243</b>
Total Bonds	<u>100,000</u>	<u><b>1,100,000</b></u>	<u><b>10,243</b></u>
Secured long-term borrowings with interest rate of 2.30% as of March 31, 2004, due on December 2, 2004	4,500	-	-
Secured long-term borrowings with interest rate of 2.05% as of March 31, 2004, due on May 11, 2005	600,000	-	-
Secured long-term borrowings with interest rate of 4.89% as of March 31, 2005, due on September 26, 2005	831,000	<b>785,000</b>	<b>7,310</b>
Secured long-term borrowings with interest rate of 1.75% as of March 31, 2005, due on March 31, 2006	-	<b>620,000</b>	<b>5,773</b>
Unsecured long-term borrowings with interest rate of 2.20% as of March 31, 2005, due on August 31, 2006	14,500	<b>8,500</b>	<b>79</b>
Secured long-term borrowings with interest rate of 2.30% as of March 31, 2004, due on September 25, 2006	261,680	-	-
Secured long-term borrowings with interest rate of 2.08% as of March 31, 2005, due on May 31, 2007	-	<b>145,000</b>	<b>1,350</b>
Unsecured long-term borrowings with interest rate of 1.59% as of March 31, 2005, due on December 4, 2007	-	<b>45,800</b>	<b>426</b>
Unsecured long-term borrowings with interest rate of 2.95% as of March 31, 2005, due on January 31, 2008	80,000	<b>60,000</b>	<b>559</b>
Secured long-term borrowings with interest rate of 2.40% as of March 31, 2005, due on September 20, 2015	515,720	<b>470,960</b>	<b>4,386</b>
Secured long-term borrowings with interest rate of 1.90% as of March 31, 2005, due on May 20, 2019	-	<b>472,300</b>	<b>4,398</b>
Total long-term borrowings	<u>2,307,400</u>	<u><b>2,607,560</b></u>	<u><b>24,281</b></u>
Total long-term debts	<u><b>¥2,407,400</b></u>	<u><b>¥3,707,560</b></u>	<u><b>\$34,524</b></u>

The aggregate annual future maturities of long-term debt as of March 31, 2005 are as follow:

<i>Year ending March, 31</i>	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
2006	<b>¥1,811,800</b>	<b>\$16,871</b>
2007	<b>403,300</b>	<b>3,755</b>
2008	<b>343,200</b>	<b>3,196</b>
2009	<b>298,000</b>	<b>2,775</b>
2010 and thereafter	<b>851,260</b>	<b>7,927</b>

## 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, 2004 and 2005 are summarized as follows:

### Interest rate related transactions

		<i>Thousands of yen</i>							
		2004				2005			
		Notional amount		Unrealized gain/(loss)	Notional amount		Unrealized gain/(loss)		
		Total	Over one year		Fair value	Total		Over one year	
Transactions outside of market	Interest rate caps	¥400,000	¥400,000	¥4,319	¥(7,414)	¥400,000	¥400,000	¥910	¥(7,827)

		<i>Thousands of U.S. dollars</i>			
		2005			
		Notional amount		Unrealized gain/(loss)	
		Total	Over one year		Fair value
Transactions outside of market	Interest rate caps	\$3,725	\$3,725	\$8	\$(73)

- 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.

## 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, 2004 and 2005, the Company made contributions to employees for ¥2,983 thousand and ¥5,852 thousand (\$54 thousand), respectively.

## 9. Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2005 are as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2005	2005
Deferred tax assets – current			
Accrued bonuses for employees	¥13,815	¥ 14,467	\$135
Accrued enterprise taxes	23,030	31,146	290
Inventories	4,676	4,828	45
Security deposits received	3,314	2,530	24
Sundry taxes	12,106	11,436	106
Construction warranty reserve	-	5,331	50
Expenses for relocation of offices	-	6,904	64
Other	2,338	3,957	37
Sub-total	<u>59,282</u>	<u>80,603</u>	<u>751</u>
Deferred tax assets – non-current			
Reserve for directors' retirement benefits	18,420	25,309	236
Other	4,469	4,998	47
Sub-total	<u>22,889</u>	<u>30,308</u>	<u>282</u>
Total deferred tax assets	<u>82,171</u>	<u>110,911</u>	<u>1,033</u>
Deferred tax liabilities – non-current			
Unrealized holding gain on securities	390	710	7
Sub-total	<u>390</u>	<u>710</u>	<u>7</u>
Total deferred tax liabilities	<u>390</u>	<u>710</u>	<u>7</u>
Deferred tax assets, net	<u>¥81,781</u>	<u>¥110,201</u>	<u>\$1,026</u>

Reconciliations of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2004 and 2005 are as follows:

	2004	2005
Statutory tax rate	42.0%	40.7%
Expenses not deductible for income tax purposes	0.1	0.0
Per capita inhabitant tax	0.1	0.1
Taxation on retained earnings imposed on a family corporation	3.8	4.4
Other	1.1	0.8
Effective income tax rate	<u>47.1%</u>	<u>46.0%</u>

#### 10. Related Party Transactions

Until May 7, 2003, the President of the Company personally guaranteed the Company's borrowings without receiving any guaranteed fees or collateral from the Company.

#### 11. Subsequent Events

(1) On March 1, 2005, the Board of Directors approved a 4-for-1 stock split to be effective on May 20, 2005 to shareholders of record on March 31, 2005. This stock split has not been reflected in these financial statements.

If the stock split is deemed to have occurred on April 1, 2003, per share data are adjusted retroactively as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2004	2005	2005
Shareholders' equity per share	¥15,406.26	¥33,581.89	\$312.71
Net income per share:			
Basic	5,415.77	9,535.36	88.79
Diluted	-	9,501.67	88.48

The Company had no dilutive securities outstanding as of March 31, 2004.

(2) On May 25, 2005, the Board of Directors approved borrowings from the bank in the amount of ¥2,200 million with interest rate of 1.30 % per year. The followings are summary of borrowings:

Purpose of borrowings	Purchase of beneficiary interest in trust from real estate held for sale
Lender	Mizuho Bank, Ltd.
Borrowing amount	¥2,200,000 thousand
Interest rate	1.30% per year
Repayment terms	Monthly payment of ¥10,000 thousand starting at June 30, 2005 with full repayment of the remaining balance on the final repayment date
Loan execution date	May 31, 2005
Repayment date	May 31, 2006
Assets pledged as collateral	Beneficiary interest in trust from real estate held for sale

## 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, 2004 and 2005, 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, 2004 and 2005, 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 Note 1 to the financial statements.

The U.S. dollar amounts in the accompanying financial statements with respects to the year ended March 31, 2005 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.  
Tokyo, Japan

June 29, 2005

## Share Information (as of September 30, 2005)

**Number of authorized shares:** 316,950 shares (as of November 30, 2005)

**Number of shares issued:** 96,966 shares (as of November 30, 2005)

**Shares per trading unit:** 1 share

**Number of shareholders:** 6,039

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 to November 30, 2005 were as follows:

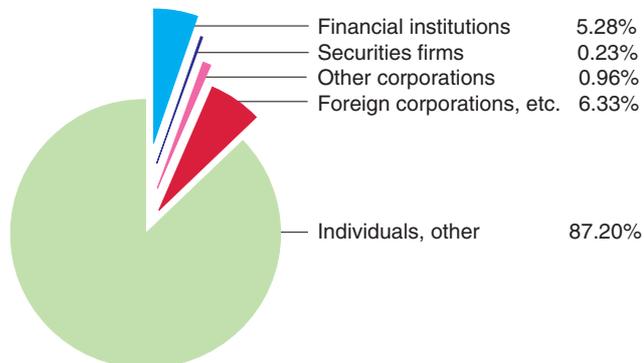
Issue date	Issue condition	Number of share issued
May 20, 2005	Stock split (1:4)	63,012
September 15, 2005	Public offering	11,000
October 14, 2005	Increase in capital through third party allotment	1,950

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	61,074	64.27
Keiko Horiguchi	2,280	2.39
Shinichi Hasegawa	1,868	1.96
Tsuyoshi Kobayashi	1,844	1.94
The Master Trust Bank of Japan, Ltd. (trust units)	1,470	1.54
Mellon Bank Treaty Clients Omnibus	1,278	1.34
Japan Trustee Services Bank, Ltd. (trust units)	1,235	1.29
The Nomura Trust and Banking Co., Ltd. (investment trust units)	950	0.99
Sun Frontier Employee Shareholders Association	859	0.90
Bank of New York, Client Accounts E ISG	766	0.80

## Breakdown of Shareholders



## **Corporate Data** (as of September 30, 2005)

**Name**

Sun Frontier Fudousan Co., Ltd.

**Date established:**

April 8, 1999

**Number of employees:**

127

**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

## **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)

## **Board of Directors and Corporate Auditors** (as of October 31, 2005)

**President**

Tomoaki Horiguchi

**Managing Directors**

Tsuyoshi Kobayashi

Shinichi Hasegawa

**Director**

Masahiro Mochizuki

**Full-time Statutory Auditor**

Yoshiomi Murakami

**Statutory Auditor**

Kazuaki Fukiage





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