Sun Frontier Fudousan Annual Report 2007

Year Ended March 31, 2007

Profile

Sun Frontier Fudousan Co., Ltd., was established in April 1999. Our business focuses on renovating aging commercial buildings with declining occupancy rates and replanning, which entails converting buildings to satisfy new needs and generate high usage rates and returns. The Company listed on the JASDAQ Securities Exchange in November 2004 and on the First Section of the Tokyo Stock Exchange in February 2007.

We aim to conserve resources and minimize the environmental impact of cities by reusing buildings. The Sun Frontier Fudousan Group includes four consolidated subsidiaries and provides total property solutions that extend from real estate replanning and services to real estate securitization and asset management.

Management Philosophy

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

Corporate Vision

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

Our Three Corporate Principles

"Altruism over egoism"
"Effort second to none"
"Absolutely proactive attitude"

Contents

Financial Highlights

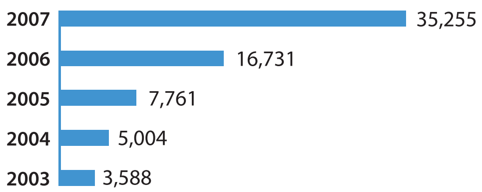
Sun Frontier Fudousan Co., Ltd and Subsidiaries

	Thousands of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
For the year:			
Net sales	¥16,730,890	**¥35,254,545**	**$298,641**
Operating income	3,756,693	**8,708,158**	**73,767**
Net income	1,744,100	**4,853,931**	**41,118**
Net income per share (yen/dollar)	18,914.91	**15,192.55**	**128.70**
Diluted income per share (yen/dollar)	18,747.82	**15,134.76**	**128.21**
Cash dividends per share (yen/dollar)	1,000	**1,000**	**8.47**
At year-end:			
Total assets	28,005,030	**54,502,686**	**461,692**
Total net assets	9,643,327	**22,734,782**	**192,586**
Number of outstanding shares	96,966	**331,303**	
Net assets per share (yen/dollar)	99,192.78	**68,613.51**	**581.22**

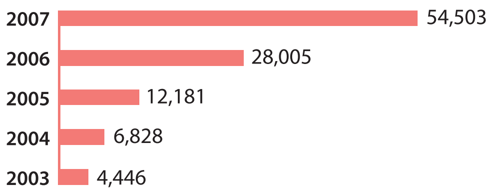
Note : The U.S. dollar amounts represent transaction of yen amounts at the rate of ¥118.05 =U.S.$1.00, the exchange rate as of March 31, 2007.

（Millions of yen）

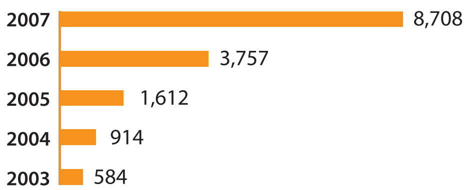
Net sales



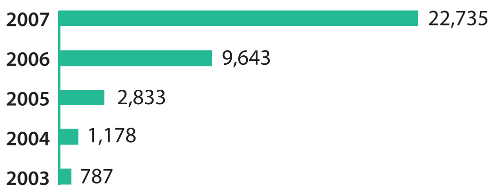
Total assets



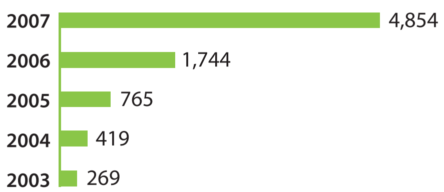
Operating income



Net assets



Net income



Note:
The Company began using consolidated financial reporting starting with year ended March31, 2006, so data for year ended March31, 2005 and before is non-consolidated.

Message from the President

On behalf of the board or directors and employees, I would like to thank our shareholders and other stakeholders for contributing so much to the success of Sun Frontier Fudousan. With your help, we listed on JASDAQ in November 2004 and on the First Section of the Tokyo Stock Exchange on February 26, 2007. And in fiscal 2007, ended March 31, 2007, we generated another solid performance.

During the year under review, we continued to raise social awareness of our operations as a pioneer in property revitalization in Japan. We also benefited from significantly brighter conditions in the real estate market, enabling our replanning business to sell 18 properties. We also completed sales of real estate we acquired in the previous fiscal year as part of the diversification of the replanning business.

As a result of these factors, consolidated net sales in fiscal 2007 increased 110.7%, to ¥35,254,545 thousand. Operating income was up 131.8%, to ¥8,708,157 thousand, and net income gained 178.3%, to ¥4,853,931 thousand.

We made full use of funds raised in July 2006 to invest during the year against a backdrop of rising real estate prices and a tighter supply of office space. We secured more properties than we initially envisaged, thereby building the foundations for our next stage of growth. Our replanning business has traditionally concentrated on small and medium-sized commercial buildings, but we are diversifying to encompass conversions of large facilities over the medium and long terms while tackling the challenging area of real estate mergers and acquisitions.

We wish to keep forging cordial ties with our shareholders. We will accordingly maintain the proper disclosure and generate satisfactory shareholder returns. We will endeavor to meet the expectations of our shareholders, business partners, and other stakeholders while fulfilling our social responsibilities. I look forward to your ongoing support for our efforts.

June 2007

Tomoaki Horiguchi

Tomoaki Horiguchi
President

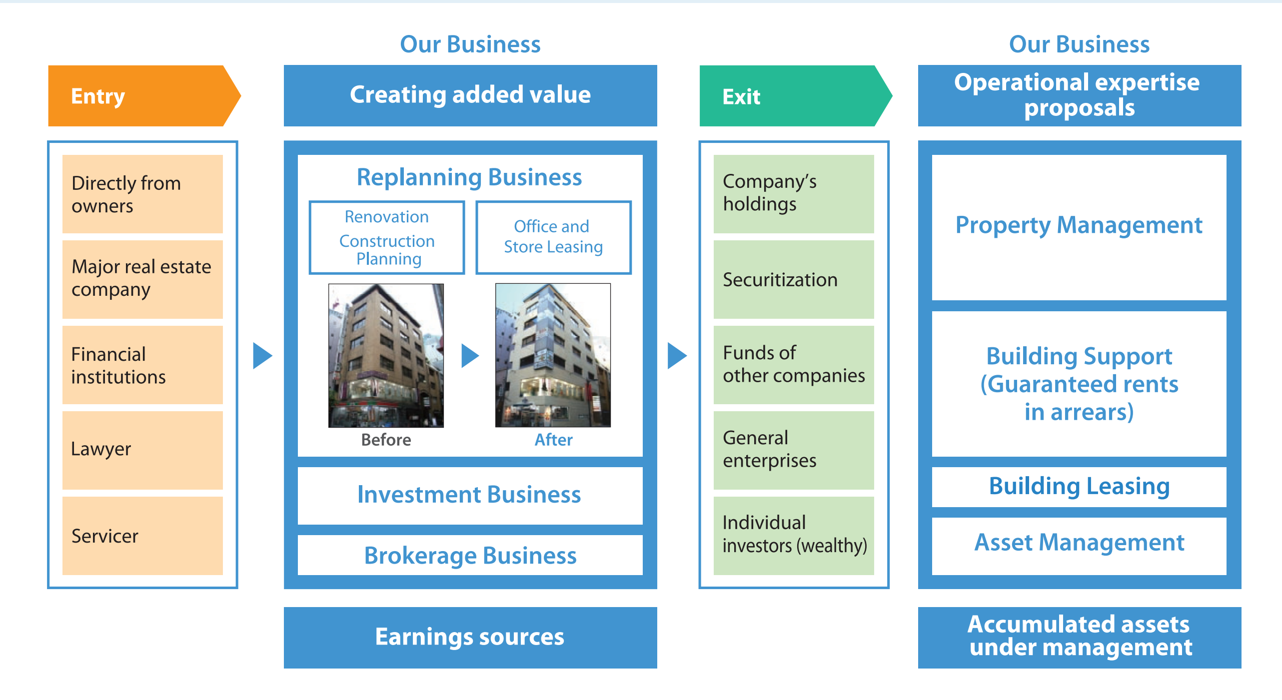
Our Business

Our core replanning business encompasses complex planning, quality improvements, technology and hospitality services. We also maintain diverse other operations, among them real estate revitalization, services, securitization, and asset management.

In replanning, we purchase buildings that have come on the market for various reasons, such as high vacancy rates. We then formulate revitalization plans, based on which we proceed with renovations to alter building specifications, redesigning interiors and exteriors, repairing equipment, installing office automation infrastructure, and improving earthquake resistance. We then seek tenants. We increase the market value of buildings by generating high occupancy rates. After transforming properties into high sources of rental income, we sell then at appropriate prices to investors and building funds.

Conversions through replanning can be diverse. For example, we create new value by transforming offices and dormitory buildings into residential and commercial facilities.

<Business Structure from Property Flows Perspective>

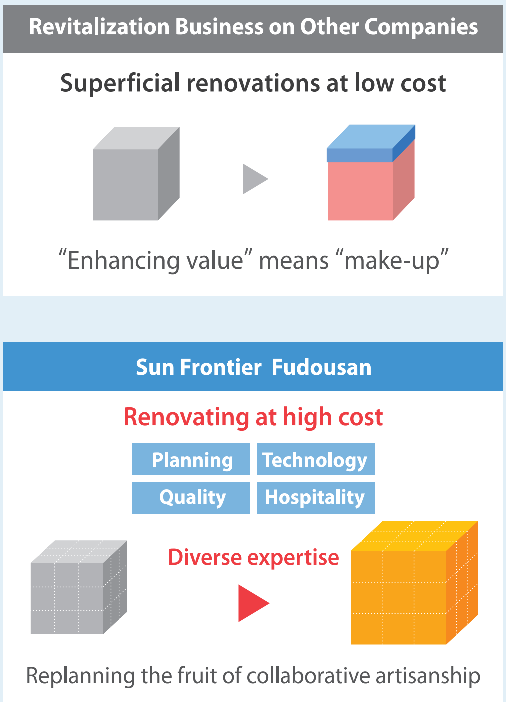


Other companies also engage in real estate revitalization. So, what differentiates Sun Frontier Fudousan?

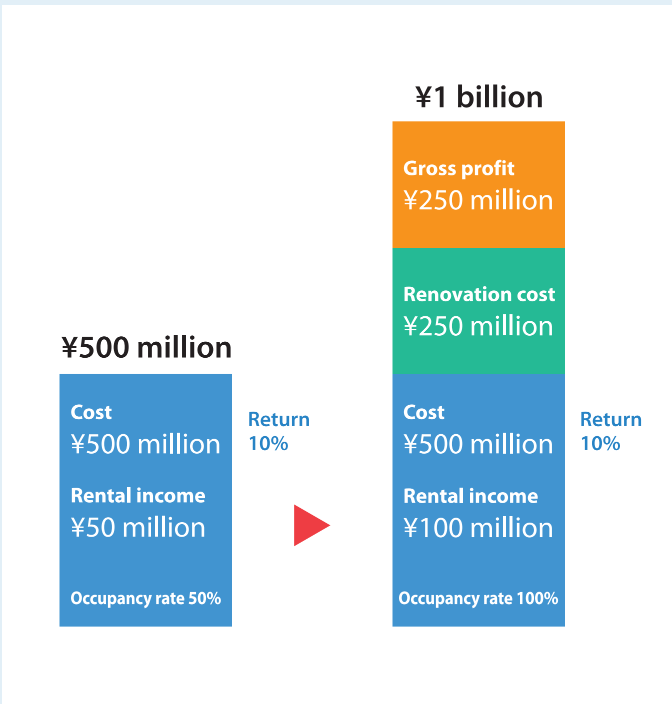
The revitalization businesses of most other companies perform only superficial renovations with small investments. They limit building enhancements to redecoration. But Sun Frontier Fudousan covers everything from planning and quality improvements to technological improvements and hospitality services. As a result, we have an unmatched ability to revitalize and improve the value of buildings through substantial investments.

Our asset management operations also differ. Regular asset management firms purchase properties for the existing investment value. But we revive and add value to buildings and turn them into attractive investments commensurate with local usage needs and locational advantages.

<How our property revitalizations differ>



<Outline of replanning business>



Our unique replanning business has come so far because of our inherent strengths. They include our training capabilities, our office and store leasing skills, and our planning capabilities.

Training:
We share the right ideas with our people, who can pass on their knowledge based on our corporate credo of altruism.

Leasing:
We are experts in the central Tokyo market and secure optimal tenants and maintain high occupancy rates.

Planning:
Our replanning business revitalizes properties to match local tenant needs, it's generates an ordinary margin exceeding 20%.

Our first strength starts when we purchase target properties. We compete with others to buy on the market but are able to secure more advantageous terms as we add much more value in revamping properties. Second, our working capital requirements are relatively light, as we typically complete and exit replanning projects in around five months. These advantages enable us to generate a gross margin of 28–30%, is making future purchases easier. Our earnings model does not rely on capital gains, further assisting corporate growth. We also clarify the profit contributions of each business department, allowing us to more swiftly responding to market trends and shorten entry through exit periods.

<Strengths in replanning flows>

Training is our top strength. As of the end of April 2007, the average age of our employees was 29.9. Those in their 20s and 30s represent 89.5% of our employees.

We offer an attractive working environment for young employees. We still lag major companies in terms of knowledge and experience. We are a colony of young people who all share the Company's mission of being useful to others and contributing to society. The project leader on our ¥11.5 billion USC building project was 27 years old. We train people who can pass their knowledge to others, and many executives with strong training skills have consequently emerged. The number of project leaders in the replanning business has more than doubled in the past year.

The Company requires a broad range of real estate business skills, so it is crucial to maintain high-quality people. We heavily recruit new graduates and mid-career workers while further enhancing our training programs. We offer numerous high-quality courses. As well as seminars that I hold on ideas and philosophy, we offer classes on business manners and basic and specialized knowledge. We also provide access to ARK Toshijuku and the open colleges of universities, as well as opportunities for overseas study trips.

We provide up to ¥100,000 annual per employee in our open training support system. We always generously invests in training and employee welfare. We enhance motivation with our stock option system, employee shareholding association, and other incentives. I firmly believe that our people are indispensable assets and are the essence our corporate future.

<Management philosophy in our pocket diary>

<Staff field trip>

<New employee training by president>

<Voluntary cleaning services by employees>

Looking ahead

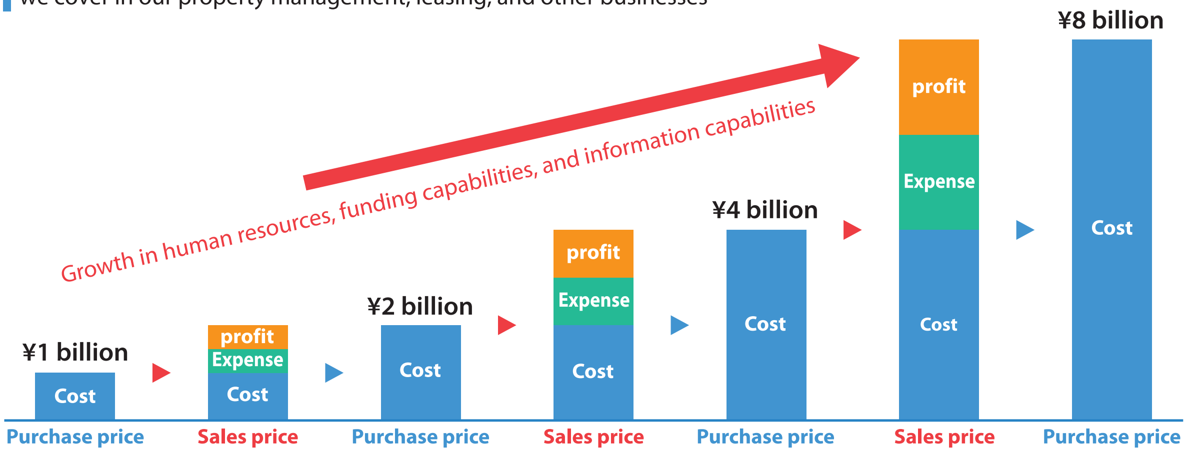
We focus on securing buildings over 20 years that we can revitalize. We estimate this market at ¥4 trillion a year. The market is expanding and remains massive. There are many challenges relating to the small and medium-sized buildings that we buy. But resolving them enables us to create additional value, which is a boon for our replanning business. Challenges include bringing buildings into line with construction law, conforming to safety standards, improving earthquake resistance, and obtaining inspection certificates. We look for even more business opportunities. We expect the real estate liquidation market to polarize because of such factors as earthquake resistance, legal issues, compliance, accounting standard revisions for special purpose companies, and higher interest rates.

We aim to replan 42 buildings a year by fiscal 2008. That is 2.3-fold higher than the number of buildings sold last year. But we are confident that the number is attainable because we now have more people with frontline expertise and skills. We will move beyond revitalizing single commercial or office facilities to planning and upgrading entire areas. At the same time, we plan to tackle large projects in central Tokyo through alliances. We can harness our people to cultivate such new business areas. Our policy remains to grow with our people. Our management will continue to pursue prudent and steady growth in keeping with our scale, never stretching far beyond our underlying capabilities.

<Envisaged Business Expansion>

Selling prices to become benchmarks for future purchase prices

- Once we increase values and sell properties, the information of new properties we acquire will contribute to information on the scales of buildings in the same class as they were sold
- Once we acquire new properties, enhance their value, and sell them, we will repeat the process, doubling the scale of our business
- Because we have handled large properties in our business, we can enlarge the scale of the properties we cover in our property management, leasing, and other businesses



Review of Operations

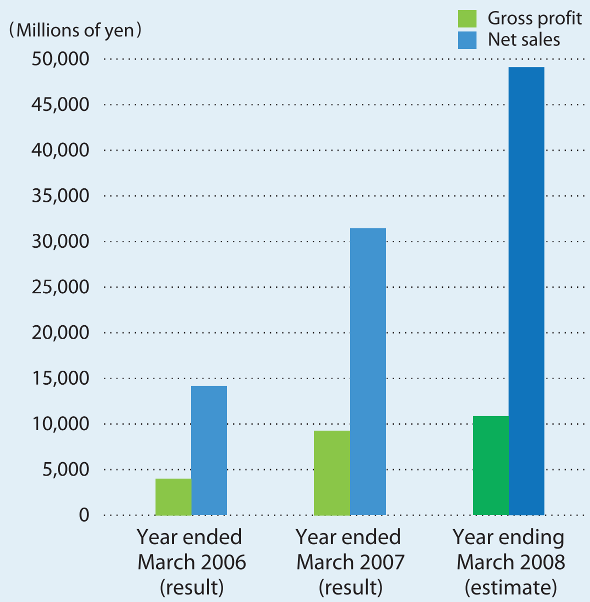
Real Estate Revitalization

Our replanning business improves vacancy rates in commercial properties through renovations, enhances the market values of properties, and sells them to building owners or investors at appropriate prices. Our building leasing business generates earnings from our properties.

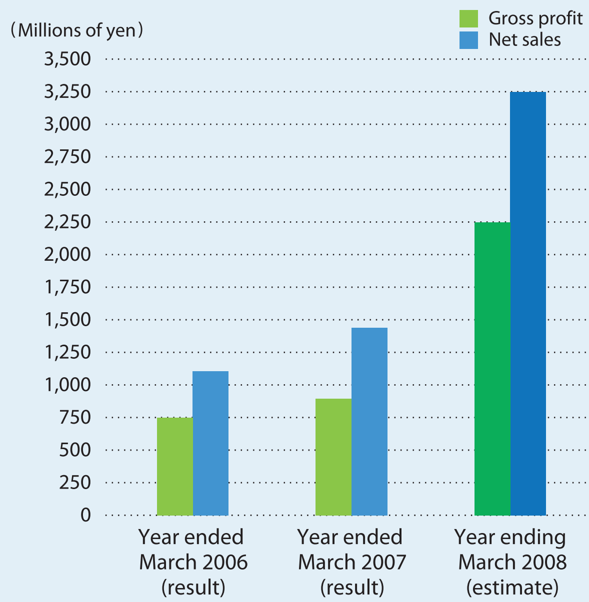
In February 2006, we made Taisei Building Co., Ltd., a wholly owned subsidiary to renovate its buildings as part of our real estate revitalization business. Taisei completed that work and sold its building in September 2006. We accordingly liquidated that company in December 2006.

In replanning, we generally increased proceeds from our sales amid rising real estate prices stemming from solid demand from investment funds. We were also able to improve the quality and size of properties added to our inventory. We sold 18 properties from a balanced basket projects completed in around six months and projects of around one year in which we maximize added value through extensive renovations. We diversified during the year, completing sales of properties obtained through mergers and acquisitions in the previous term. Subsidiary SF Investments completed our first large project, the USC Building Project, on schedule, by efficiently drawing on funding. Segment sales increased 117.2%, to ¥32,662,679 thousand. Operating income increased 108.9%, to ¥8,510,774,000 thousand. These gains reflected the contributions of larger projects, increased rents from optimized properties, and favorable conditions in the real estate market.

<Replanning>



<Building Leasing>

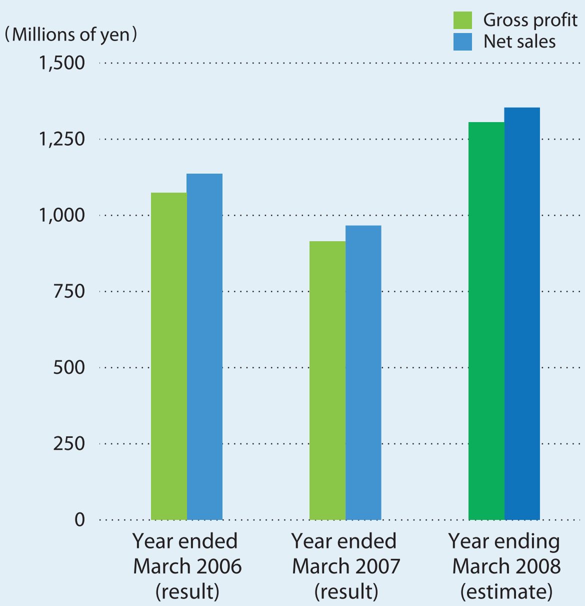


Real Estate Services

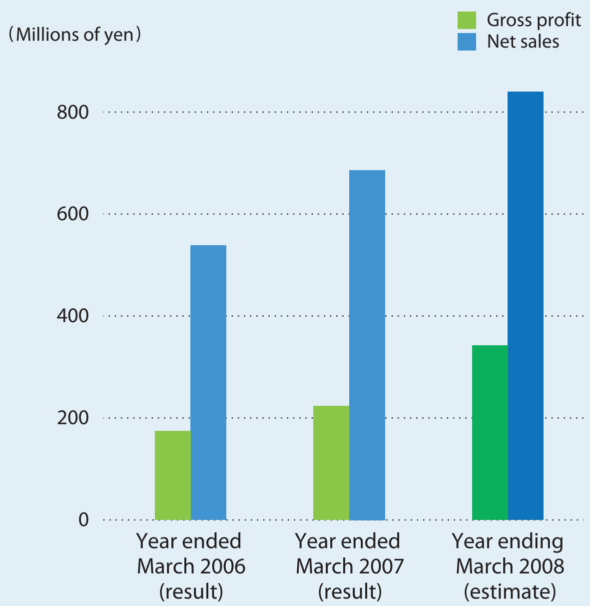
As a comprehensive real estate business, we specialize in commercial real estate business center district and offer leasing brokerage (for buying, selling, and rentals), property management, construction planning, and leasing guarantee business.

Revenues and earnings on orders from outside the Group were down for sales, buying, and leasing brokerage, reflecting our focus on strengthening brokerage to drive acquisitions and sales through the replanning business. As a result, this business area contributed significantly to inventory purchases for fiscal 2008 and beyond. Similarly, in leasing brokerage we focused on making our business more responsive by shortening lead times for the commercialization of buildings and diversifying replanning. As a result, this business contributed significantly to sales and profit gains in replanning. Revenues and earnings from property management increased on steadily higher commissions from private funds and the conclusion of contracts for J-REIT projects. Sales and profits from the construction planning business increased from completions of relatively large renovation work on several buildings, as well as smaller repair projects. Transactions from the leasing guarantee business were up, reflecting efforts to build growth strategy foundations and more active marketing to brokerage companies. This business mainly focused on serving customers involved in our projects. Segment sales declined 1.3%, to ¥1,647,087 thousand. Operating income dropped 82.0%, to ¥37,160 million.

<Brokerage>



<PM, Construction Planning, Leasing Guarantee business>



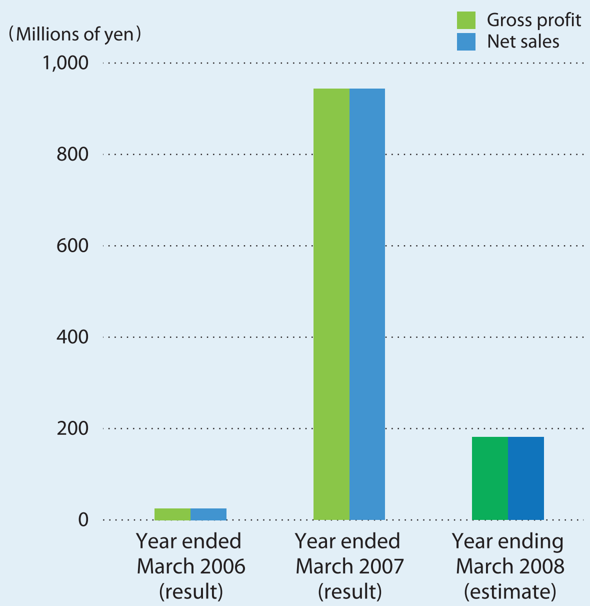
Other Real Estate Businesses

In addition to investing in private funds that we plan and establish, we maintain an asset management business and other services related to real estate securitization. Real estate securitization offers diverse planning and exit strategies for our replanning business. When directly providing properties to funds, we can thus enhances our total solutions capabilities, including accumulating know-how and more specialty properties. We differentiate our capabilities by drawing on the renovation capabilities of our replanning business to provide stable, long-term income and dividends to investors. Our investments enable us to deliver added value to investors through highly profitable financial products. In the asset management business, we oversee commercial properties on behalf of private funds and pursue higher yields.

In the year under review, we revitalized and sold our first project based on mergers and acquisitions. At the same time, we sold trust beneficiary rights in the USC Building, which SF Investments, wholly owned subsidiary, revitalized and managed, to a special purpose company for ¥11.5 billion.

As a result of steady asset management revenues and dividends from private funds, and higher dividend income from higher revenues than anticipated on asset management contracts, segment sales grew 3,712.0%, to ¥944,777 thousand. Operating income increased by 12,257.4%, to ¥886,518 thousand.

<AM・Real Estate Securitization>



Resources Reuse and Recycling Conversion
USC Building Conversion Project

Replanning is all about conserving fossil fuels and recycling to avoid scrap-and-build, thereby contributing to society by adding new value and safeguarding the environment. The USC Building used to be a sports and residential complex that featured an indoor tennis court and swimming pool. When we acquired the property in October 2005, the occupancy rate had declined to just 36.4%. We had noted that the Toyocho area is very convenient, located within, just nine minutes by train from Otemachi — Tokyo's business center district. We then produced various revitalization plans that focused on the existing value of the property and protecting the environment. We converted the tennis court and pool into offices. We demolished the residential area on the top floor. This allowed us to increase permissible floor space for offices in the building. Based on the project concept of harmonizing nature and offices, we installed a biotope on the roof of the new wing and are setting up solar power system on the top of the main building. We transformed the area from the demolished building into a garden for property tenants. This project demonstrated our conviction, which says creativity is endless and that replanning is an infrastructural business that improves social capital. We will harness that approach in cultivating environmentally caring real estate operations in the years ahead.

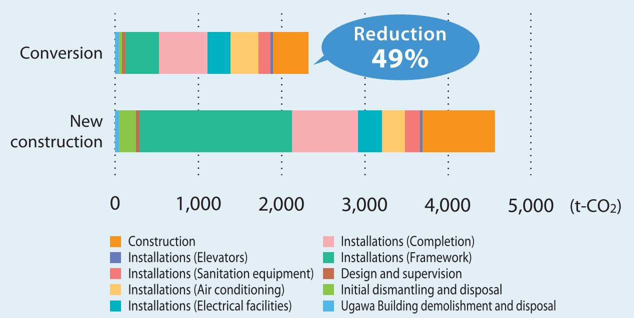
<Before>

<After>

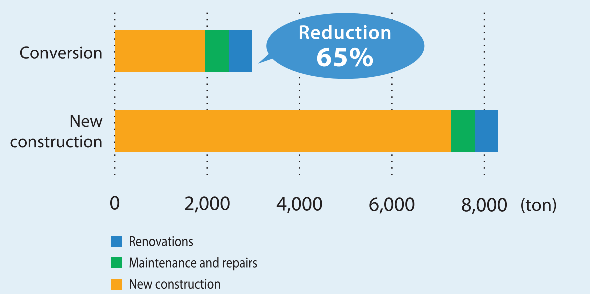
Our conversion projects have a far lower environmental impact than conventional scrap-and-build approaches.

We devised various revitalization plans for the USC Building project to help safeguard the environment. As a result, we were able to slash carbon dioxide emissions about 49% by avoiding the need to use large volumes of materials or transport construction scrap. We heavily recycled on the project, including concrete and steel frames. Our use of life cycle virgin resources was thus 65% lower than that of new construction. As a result, we also reduced scrap volume by around 64%. The final mass of reclaimed waste generated by construction after incineration was 88% less than that of a new building (estimates based on Life Cycle Assessment Policy of the Architectural Institute of Japan).

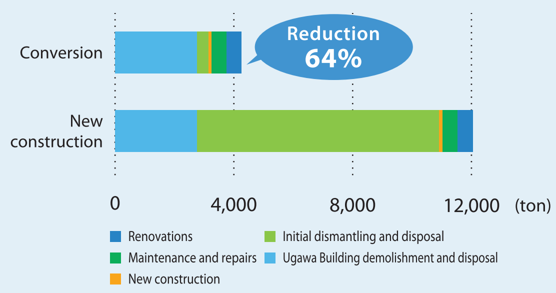
<Carbon dioxide emissions from construction>



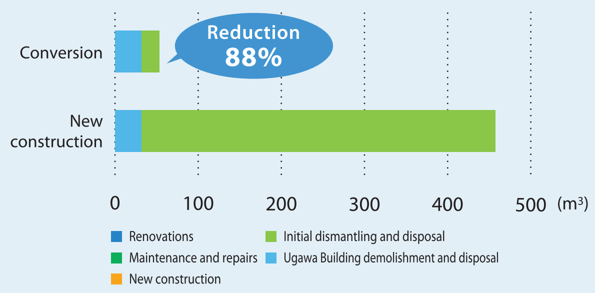
<LC Virgin resource consumption>



<LC disposal volume>



<LC final disposal factors>



Extract from environmental assessment report of Toda Corporation based on Life Cycle Assessment Policy of the Architectural Institute of Japan

Social Contributions

Cleaning Drives

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

Office Activities

Recycling Waste

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

Green Products

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

Volunteer Activities

During the year under review, we engaged in such activities as tree plantings in Mt. Takao, building feed stations on Sadogashima for crested ibises, and installing wells at local support facilities in Cambodia. These and other activities help us to cultivate more caring employees.

Risk Information

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

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

(1) Business Environment

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

(2) Replanning

① Today's low interest rate environment makes the properties sold by our Replanning Business unit consistently attractive to both domestic and foreign investors using them as investment vehicles. While we expect sales to continue being solid, a sudden rise in interest rates or real estate prices in future could stall sales and affect the Group's earnings.

② For both replanning and real estate investment, the Group primarily procured loans from financial institutions equivalent to the purchase cost of properties. Rather than relying on a particular financial institution for financing, the Group spreads financing evenly among several institutions for maximum benefit, and works to reduce the result that interest-bearing liabilities as assets are excluded from the balance sheet for the equity finance and securitization. A change in monetary conditions could cause changes in the lending policies of financial institutions, impeding the Group's ability to obtain the financing it has planned, and affecting the Replanning Business unit's activities and the Group's earnings.

③ For both replanning and real estate investment, properties are purchased and then sold after replanning work is completed. Both business areas record sales and cost of sales at the time of sale of a property. Since replanning and real estate investment transactions have higher values than transactions in our other business units where the Group only acts as a broker, changes in the timing or value of these transactions could affect the Group's earnings.

(3) New Business Areas

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

(4) Competition

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

(5) Real Estate Securitization and Asset Management

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

2. Legislation Affecting the Group

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

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

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

License, permit or registration	Company issued to	Validity period	Areas covered	Relevant statute	Issued by:	License cancellation articles
License to Trade in Housing Sites	Sun Frontier Fudousan	Dec. 29, 2004 to Dec. 28, 2009	—	Law Regulating Housing Sites Development	Minister of Land, Infrastructure and Transport	Article 66 Article 67
	SF Investments	Dec. 22, 2005 to Dec. 21, 2010				
General Construction Industry Permit	Sun Frontier Fudousan	Dec. 26, 2005 to Dec. 25, 2010	Construction, roofing, steel structure work, carpentry, tiling, brickwork, cement block work, interior finishing	Construction Industry Law	Prefectural Governor	Article 29 Article 29, Clause 2
First-Class Architect Office Registration	Sun Frontier Fudousan	Through Jan. 10, 2007	—	Architects Law	Prefectural Governor	Article 26
Real Estate Appraiser Registration	Sun Frontier Fudousan	Feb. 7, 2003 to Feb. 6, 2008	—	Law on Appraisal of Real Estate	Prefectural Governor	Article 41
General Real Estate Investment Advisor Registration	Sun Frontier Fudousan	Nov. 3, 2004 to Nov. 2, 2009	—	Real Estate Investment Advisory Business Registration Regulations	Minister of Land, Infrastructure and Transport	Article 30
	Sun Frontier Real Estate Investment Advisors	Dec. 9, 2005 to Dec. 8, 2010				
Trust Beneficiary Rights Sales License	Sun Frontier Fudousan	Aug. 26, 2005 to Aug. 25, 2008	—	Trust Business Law	Kanto Finance Bureau Director	Article 102

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

3. Reliance on President Tomoaki Horiguchi

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

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

4. Asset Impairment Accounting

The Group currently does not feel that any of our fixed assets will generate a loss affecting our earnings or balance sheet. However, if the Group may need to post a loss on asset impairment due to a decrease in the rent standard or an increase in the vacancy rate in relation to future economic conditions. The Group's earnings or balance sheet could be affected in this case.

5. Protection of Personal Information

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

6. Falsification of Structural Data

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

Corporate Governance

Basic Approach

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

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

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

(1) Details of corporate organization and state of internal control system establishment

① Basic explanation of corporate organization

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

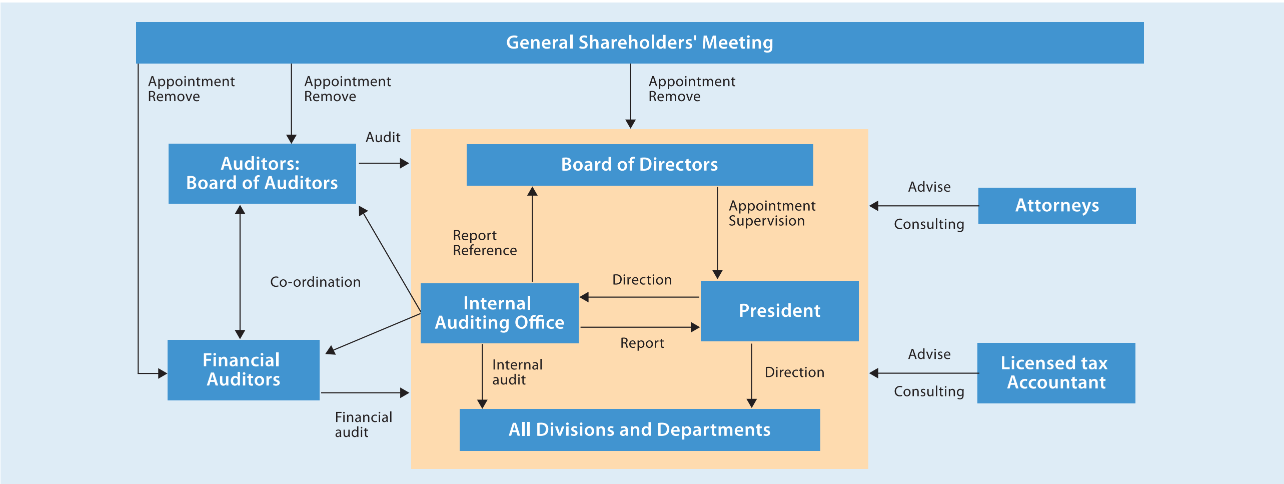
Board of Directors:

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

Auditors:

They audit the execution of the directors' work by attending Board meetings and important conferences, and by examining management conditions and how operations are executed. They are governed by the Auditing Policy, Auditing Plan, and the job descriptions for auditing work.

② Corporate organization and internal control details are as follows



③ Details of corporate organization and state of internal control system establishment

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

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

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

Positioning of management departments: The Management Division oversees the Company as a whole. It contains the General Affairs Department, made up of the General Affairs Section (in charge of general affairs and human resources) and Information System Section (in charge of information system).

The Management Division also contains the Accounting Department (in charge of accounting and financing), the Legal Department (in charge of legal examination), the Business Planning Office (in charge of Companywide budget and earnings management), and the IR Office (in charge of investor relations). Internal management and regulation are carried out throughout all departments.

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

(Improvements to internal management system over past year)
In May 2006, "Basic policy for establishment of internal control system" was decided at the board of directors' meeting, with the aim of enhancing and internal controls, and also the Company have created a protection system that includes a management-level employee education and training program. We also continued our internal education program aimed at preventing problems such as insider trading.

④ Internal auditing, auditor auditing, accounting auditing
Internal auditing:
The Internal Auditing Office (staffed by two auditors) answers directly to the President. Its mission is to verify the appropriateness and effectiveness of the internal management system for all Sun Frontier Fudousan's operations. It carries out periodic audits in line with the Internal Auditing Plan—a document that sets forth the risk management conditions in each department. The Internal Auditing Office calls for improvements and revisions to areas covered by its audits, and creates the Internal Auditing Report to report its findings to the President. It works with auditors and auditing companies to ensure the internal system of checks and balances functions properly.
Auditor auditing:
Carried out by two auditors). In line with the auditor-created Auditing Policy and Auditing Plan, the auditors attend meetings of the Board and other important conferences, and work closely with organizations such as the Internal Auditing Office, internal management departments and auditing companies to audit the execution of the work done by the directors.
Accounting auditing:
Accounting auditing is outsourced to BDO Sanyu & Co. Audits are carried out at regular intervals throughout the year to prevent audit work accumulating at year-end. In addition to standard auditing, Sanyu also provides advice on accounting issues and internal regulatory issues whenever needed.

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

Relationship between outside directors and outside auditors
We do not appoint outside directors.
Mr. Kazuaki Fukiage, the outside auditor (who resigned at the

⑤ ordinary general meeting of shareholders held on June 22, 2007) was appointed auditor of our consolidated subsidiaries, SF Building Support Inc. and Sun Frontier Real Estate Investment Advisors Inc., but there are no personal, capital or trade relationships or other interests between the external auditor and ourselves other than as relevant to his responsibilities.

At the ordinary general meeting of shareholders held on June 22, 2007, Messrs. Koichiro Shimomura and Hiroichi Kase were inaugurated as new outside auditors. Mr. Kase has a capital relationship as a shareholder (shares held: 6) as of the day on which the annual asset securities report was submitted, but has no personal or trading relations, or any other interest.

(2) Risk management system establishment status
Risk management is performed by each of our divisions. The director and general manager of the division or office are required to understand the current state of important operational matters (contracts, quality, and intellectual assets, etc.) in an inter-divisional manner, and wherever necessary, these statuses are reported and discussed at weekly general managers' meetings in which directors and general managers, etc. participate. In the event of an emergency, extraordinary meetings of the board are held immediately to resolve the issue.

In order to reinforce our risk management, internal auditing is also conducted with the aim of improving our training sufficiency with regard to legal issues as provided to executives and regular employees and to undertake educational activities.

Furthermore, a lawyer's office has been contracted to provide advice on handling cases with legal implications, and their advice and instruction, etc. have been received accordingly.

(3) Director remuneration breakdowns
Remuneration paid to directors and auditors

	Total number of recipients	Total amount received (thousands of yen)
Directors (numbers of outsiders in parentheses)	5 (–)	143,955 (–)
Auditors (numbers of outsiders in parentheses)	3 (2)	20,192 (–)

(4) Auditing remuneration breakdowns

	For current fiscal year (July 1, 2006 to June 30, 2007; thousands of yen)
Remuneration for work set forth in Article 2, Paragraph 1 of Certified Public Accounting Law	19,000
Remuneration for other work	—

Analysis of Financial Position and Operating Results

Assets, Liabilities and Net Assets

Cash and cash equivalents stood at ¥10,169,282 thousand at the end of the fiscal year. This resulted from ¥13,299,184 thousand in net cash used in operating activities, ¥1,085,497 thousand in net cash used in investing activities, and ¥18,548,639 thousand in net cash provided by financial activities.

Inventories were mainly real estate held for sale and for-sale real estate under construction in our replanning business unit—an inventory allowance for earnings growth next year. Total investments and other assets were ¥1,093,293 thousand, reflecting purchases of investment securities.

Total liabilities were ¥31,767,904 thousand as a result of a net increase in long-term borrowings for inventory acquisitions. Total net assets were ¥22,734,782 thousand, owing to a rise in net income and an increase in capital and additional paid-in capital generated by public offerings. As a result, net assets per share were ¥68,613.51.

Solid results from our replanning business unit and the November 2004 listing on JASDAQ facilitated fund procurement. As a result, working assets grew in the year under review, leading to total assets of ¥54,502,686 thousand at the end of the term.

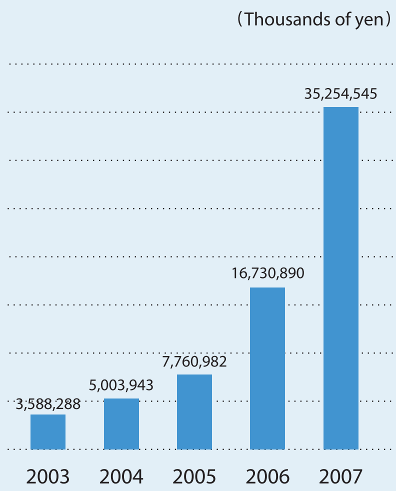
Operating Results

Consolidated net sales increased 110.7%, to ¥35,254,545 thousand. Sales from the real estate revitalization business were up 117.2%, to ¥32,662,679 thousand. Real estate services sales declined 1.3%, to ¥1,647,087 thousand. Sales from other real estate businesses were ¥944,777 thousand, compared with just ¥24,784 thousand a year earlier. Within the real estate revitalization segment, replanning business sales were up 124.4%, to ¥31,250,199 thousand, and leased building business sales advanced 27.0%, to ¥1,412,480 thousand. The replanning business accounted for 88.6% of net sales, and drew on other businesses so we could handle medium-sized and large properties.

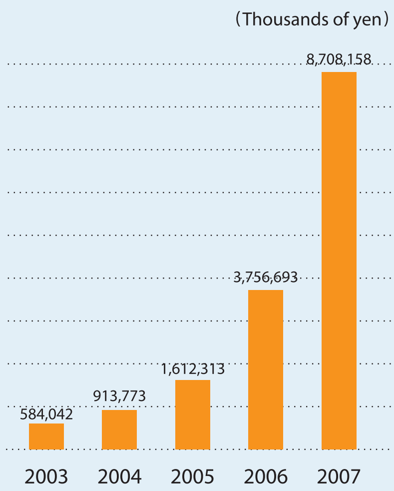
The cost of sales increased in keeping with the growing size of replanning properties. Costs accounted for 69.3% of real estate revitalization business sales, including those from leased building operations. Costs represented 31.4% of real estate services business sales, reflecting growth in brokerage operations. As a result, gross profit was up 102.8%, to ¥12,098,860 thousand. The gross margin was 34.3%.

Selling, general and administrative expenses increased 53.6%, to ¥3,390,702 thousand, owing to a rise in sales commissions from business expansion, higher personnel costs, and a rise in goodwill charges. Nonetheless, selling, general and administrative expenses represented 9.6% of net sales, down 3.6 per-

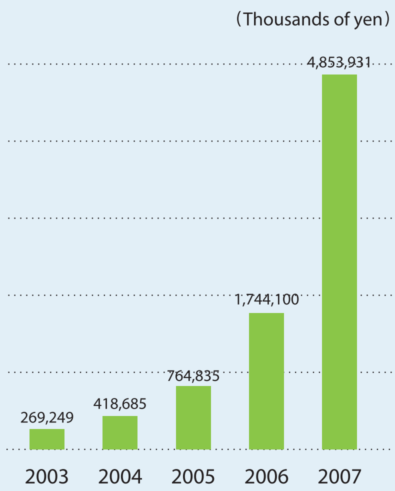
<Net sales>



<Operating income>



<Net income>



centage points. Operating income thus advanced 131.8%, to ¥8,708,157 thousand. The operating income ratio was 24.7%. After factoring in other expenses, in which interest expense increased following additional borrowing for inventory, as well as extraordinary gains and losses, income before income taxes rose 140.3%, to ¥8,287,507 thousand.

Net income thus climbed 178.3%, to ¥4,853,931 thousand. The return on sales was 13.8%. Net income per share was ¥15,192.55. The return on equity was 30.0%.

Cash Flows

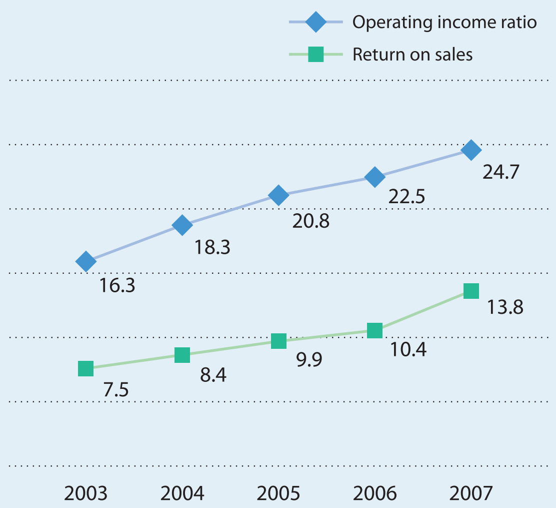
At the close of the year under review, cash and cash equivalents stood at ¥10,169,282 thousand, up ¥4,163,957 thousand from the beginning of the year. This reflected ¥8,287,507 thousand in income before income taxes, which offset the impact of higher inventories from the real estate revitalization business unit's acquisitions of replanning properties. Proceeds from borrowings and the issue of common stock also contributed to the gain.

Net cash used in operating activities was ¥13,299,184 thousand, up 92.6%. This was because inventories rose to ¥21,949,630 thousand, while income tax paid increased to ¥3,368,432 thousand, offsetting an increase in income before income taxes to ¥8,287,507 thousand and a rise in security deposits received to ¥1,764,901 thousand.

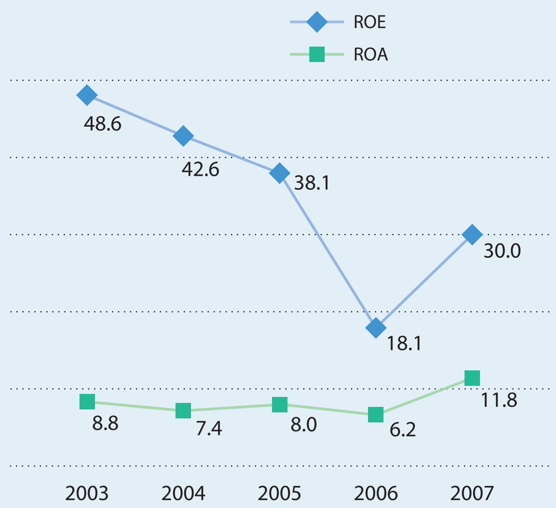
Net cash used in investing activities was ¥1,085,497 thousand, up 94.8%. The main components were ¥395,268 thousand in payments for time deposits and ¥713,804 thousand in purchases of investment securities.

Net cash provided by financial activities was ¥18,548,639 thousand, up 54.5%. This was mainly because of a decline of short-term borrowings to ¥1,804,000 thousand, an increase in repayments of long-term loans to ¥2,833,300 thousand, and a rise in payments for redemption of bonds to ¥988,000 thousand, which offset rises in proceeds from long-term borrowings to ¥15,960,000 and in proceeds from issuance of common stock to ¥8,310,583 thousand.

<Operating income ratio & Return on sales>



<Return on Assets & Return on Equity>



Sun Frontier Fudousan Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of March 31, 2006 and 2007

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
ASSETS			
Current assets:			
Cash and bank deposits	¥6,678,054	**¥11,170,280**	**$94,623**
Accounts receivable - trade	208,660	**242,424**	**2,054**
Inventories	16,100,951	**37,840,343**	**320,545**
Deferred tax assets (Note 12)	258,143	**366,206**	**3,102**
Other current assets	1,507,495	**1,449,510**	**12,279**
Allowance for doubtful accounts	(2,074)	**(1,006)**	**(9)**
Total current assets	24,751,231	**51,067,757**	**432,594**
Property and equipment, net (Note 4)	2,295,375	**2,277,222**	**19,290**
Intangible assets	528,983	**64,413**	**546**
Investments and other assets:			
Investment securities (Note 7)	6,540	**722,756**	**6,122**
Other assets	383,607	**339,089**	**2,872**
Deferred tax assets (Note 12)	40,605	**32,755**	**277**
Allowance for doubtful accounts	(1,313)	**(1,307)**	**(11)**
Total investments and other assets	429,439	**1,093,293**	**9,261**
Total assets	¥28,005,030	**¥54,502,686**	**$461,692**

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

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
LIABILITIES			
Current liabilities:			
Accounts payable - trade	¥ 138,584	**¥ 775,838**	**$ 6,572**
Short-term borrowings (Notes 5 and 8)	9,723,000	**7,919,000**	**67,082**
Current portion of long-term debts (Notes 5 and 8)	631,300	**8,471,200**	**71,759**
Income taxes payable	1,565,157	**2,434,210**	**20,620**
Deferred tax liabilities	520,791	**–**	**–**
Accrued bonuses for employees	56,460	**72,203**	**612**
Accrued bonuses for directors	–	**46,000**	**390**
Construction warranty reserve	73,200	**61,100**	**518**
Reserve for losses on closure of business offices	–	**10,575**	**90**
Other current liabilities	653,366	**910,365**	**7,712**
Total current liabilities	13,361,860	**20,700,493**	**175,354**
Long-term liabilities:			
Long-term debts (Notes 5 and 8)	4,396,460	**8,695,260**	**73,657**
Reserve for directors' retirement benefits	74,584	**78,451**	**665**
Other long-term liabilities	528,797	**2,293,699**	**19,430**
Total long-term liabilities	4,999,842	**11,067,410**	**93,752**
Total liabilities	18,361,703	**31,767,904**	**269,105**
Contingent liabilities (Note 6)			
NET ASSETS			
Shareholders' equity:			
Common stock, 304,000 and 912,000 shares authorized, 96,966 and 331,303 shares issued and outstanding in 2006 and 2007, respectively	3,050,911	**7,227,668**	**61,225**
Additional paid-in capital	3,112,248	**7,289,003**	**61,745**
Retained earnings	3,478,512	**8,210,477**	**69,551**
Total shareholders' equity	9,641,673	**22,727,149**	**192,521**
Valuation and translation adjustments:			
Net unrealized holding gain on securities	1,654	**4,714**	**40**
Total valuation and translation adjustments	1,654	**4,714**	**40**
Stock acquisition rights (Note 9)	–	**2,918**	**25**
Total net assets	9,643,327	**22,734,782**	**192,586**
Total net assets and liabilities	¥28,005,030	**¥54,502,686**	**$461,692**

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

Sun Frontier Fudousan Co., Ltd. and Subsidiaries

Consolidated Statements of Income

For the years ended March 31, 2006 and 2007

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
Net sales	¥16,730,890	**¥35,254,545**	**$298,641**
Costs of sales	10,766,197	**23,155,684**	**196,151**
Gross profit	5,964,692	**12,098,860**	**102,489**
Selling, general and administrative expenses	2,207,999	**3,390,702**	**28,723**
Operating income	3,756,693	**8,708,158**	**73,767**
Other income (expenses):			
Interest and dividend income	1,563	**7,706**	**65**
Interest expenses	(168,198)	**(286,024)**	**(2,423)**
Fees from lectures	538	**–**	**–**
Gain from cancellation of insurance	–	**3,587**	**30**
Stock issuance cost	(38,119)	**–**	**–**
Finance costs	(42,474)	**(70,500)**	**(597)**
Reversal of allowance for doubtful accounts	183	**1,074**	**9**
Reversal of construction warranty reserve	–	**8,540**	**72**
Cancellation fee of interest rate swap agreements	(24,764)	**–**	**–**
Losses on closure of business offices	–	**(10,575)**	**(90)**
loss on disposal of property and equipment	–	**(1,197)**	**(10)**
Other, net	(37,050)	**(73,260)**	**(621)**
Other expenses, net	(308,322)	**(420,650)**	**(3,563)**
Income before income taxes	3,448,371	**8,287,507**	**70,203**
Income taxes (Note 12):			
Current	1,874,693	**4,056,679**	**34,364**
Deferred	(170,423)	**(623,103)**	**(5,278)**
	1,704,270	**3,433,576**	**29,086**
Net income	¥1,744,100	**¥4,853,931**	**$ 41,118**

	Yen		U.S. dollars (Note 1)
Net income per share:			
Basic	¥18,914.91	**¥15,192.55**	**$ 128.70**
Diluted	18,747.82	**15,134.76**	**128.21**
Cash dividends per share	1,000.00	**1,000.00**	**8.47**

	Shares	
Weighted average shares outstanding:		
Basic	90,886	**319,494**
Diluted	91,696	**320,714**

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

Sun Frontier Fudousan Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2006 and 2007

	Number of Shares of Common Stock Issued	Thousands of yen					
		Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding Gain on Securities	Stock Acquisition Rights	Total Net Assets
Balance as of March 31, 2005	21,004	¥491,150	¥552,500	¥1,788,419	¥ 1,035	–	¥2,833,104
4-for-1 stock split	63,012	–	–	–	–	–	–
Common stock issued under the public offering	11,000	2,174,315	2,174,304	–	–	–	4,348,619
Common stock issued under the third party allotment	1,950	385,445	385,444	–	–	–	770,889
Net income	–	–	–	1,744,100	–	–	1,744,100
Cash dividends paid	–	–	–	(42,008)	–	–	(42,008)
Bonuses to directors and statutory auditors	–	–	–	(12,000)	–	–	(12,000)
Changes of items other than shareholders' equity, net	–	–	–	–	619	619	619
Balance as of March 31, 2006	96,966	¥3,050,911	¥3,112,248	¥3,478,512	¥1,654	¥1,654	¥9,643,327
3-for-1 stock split	193,932	–	–	–	–	–	–
Common stock issued under the public offering	35,000	3,799,600	3,799,600	–	–	–	7,599,200
Common stock issued under the third party allotment	3,413	370,515	370,515	–	–	–	741,030
Common stock issued under the execution of stock acquisition rights	1,992	6,641	6,639	–	–	–	13,280
Net income	–	–	–	4,853,931	–	–	4,853,931
Cash dividends paid	–	–	–	(96,966)	–	–	(96,966)
Bonuses to directors and statutory auditors	–	–	–	(25,000)	–	–	(25,000)
Changes of items other than shareholders' equity, net	–	–	–	–	3,059	2,918	5,978
Balance as of March 31, 2007	**331,303**	**¥7,227,668**	**¥7,289,003**	**¥8,210,477**	**¥4,714**	**¥2,918**	**¥22,734,782**

	Thousands of U.S. dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding Gain on Securities	Stock Acquisition Rights	Total Net Assets
Balance as of March 31, 2006	$25,844	$26,364	$29,466	$14	$ –	$81,688
3-for-1 stock split	–	–	–	–	–	–
Common stock issued under the public offering	32,186	32,186	–	–	–	64,373
Common stock issued under the third party allotment	3,139	3,139	–	–	–	6,277
Common stock issued under the execution of stock acquisition rights	56	56	–	–	–	112
Net income	–	–	41,118	–	–	41,118
Cash dividends paid	–	–	(821)	–	–	(821)
Bonuses to directors and statutory auditors	–	–	(212)	–	–	(212)
Changes of items other than shareholders' equity, net	–	–	–	26	25	51
Balance as of March 31, 2007	**$61,225**	**$61,745**	**$69,551**	**$40**	**$25**	**$192,586**

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

Sun Frontier Fudousan Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2007

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
Cash Flows from Operating Activities:			
Income before income taxes	¥ 3,448,371	**¥ 8,287,507**	**$ 70,203**
Adjustments to reconcile income before income taxes to net cash used in operating activities:			
Depreciation and amortization	191,111	**291,314**	**2,468**
Amortization of consolidation adjustment accounts	78,846	**–**	**–**
Amortization of goodwill	–	**473,078**	**4,007**
Stock acquisition rights	–	**2,918**	**25**
Allowance for doubtful accounts	(183)	**(1,074)**	**(9)**
Accrued bonuses for employees	20,914	**15,742**	**133**
Accrued bonuses for directors	–	**46,000**	**390**
Reserve for directors' retirement benefits	12,398	**3,866**	**33**
Construction warranty reserve	60,100	**(12,100)**	**(102)**
Reserve for losses on closure of business offices	–	**10,575**	**90**
Interest and dividend income	(1,563)	**(7,706)**	**(65)**
Interest expenses	168,198	**286,024**	**2,423**
Gain from Cancellation of insurance	–	**(3,587)**	**(30)**
Stock issuance costs	38,119	**–**	**–**
Stock delivery costs	–	**42,928**	**364**
Bonds issuance costs	22,716	**–**	**–**
Loss on disposal of property and equipments	347	**1,197**	**10**
Accounts receivable - trade	(148,569)	**173,973**	**1,474**
Inventories	(8,707,322)	**(21,949,630)**	**(185,935)**
Advances paid	(120,000)	**–**	**–**
Accounts payable - trade	(991,572)	**861,676**	**7,299**
Consumption tax payable	108,362	**(51,115)**	**(433)**
Consumption tax receivable	(239,706)	**7,834**	**66**
Security deposits received	(4,570)	**1,764,901**	**14,950**
Payments for directors' and statutory auditors' bonuses	(12,000)	**(25,000)**	**(212)**
Others, net	180,928	**136,090**	**1,153**
Sub-total	(5,895,074)	**(9,644,583)**	**(81,699)**
Interest and dividends received	1,563	**5,504**	**47**
Interest paid	(176,809)	**(291,673)**	**(2,471)**
Income taxes paid	(834,940)	**(3,368,432)**	**(28,534)**
Net cash used in operating activities	(6,905,260)	**(13,299,184)**	**(112,657)**
Cash Flows from Investing Activities:			
Payments for time deposits	(450,586)	**(395,268)**	**(3,348)**
Proceeds from time deposits	1,342,159	**116,000**	**983**
Purchases of property and equipment	(102,017)	**(48,035)**	**(407)**
Purchases of intangible fixed assets	–	**(42,343)**	**(359)**
Purchases of investment securities	–	**(713,804)**	**(6,047)**
Acquisition of capital contribution accompanying in charge in scope of consolidation	(1,305,973)	**–**	**–**
Payments for security deposits	(94,530)	**(14,213)**	**(120)**
Proceeds from security deposits	78,330	**–**	**–**
Others, net	(24,748)	**12,168**	**103**
Net cash used in investing activities	(557,366)	**(1,085,497)**	**(9,195)**
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	5,667,000	**(1,804,000)**	**(15,282)**
Proceeds from long-term borrowings	2,500,000	**15,960,000**	**135,197**
Repayments of long-term borrowings	(1,661,800)	**(2,833,300)**	**(24,001)**
Proceeds from issuance of bonds	733,284	**–**	**–**
Payments for redemption of bonds	(274,000)	**(988,000)**	**(8,369)**
Proceeds from issuance of common stock	5,081,390	**8,310,583**	**70,399**
Dividends paid	(41,836)	**(96,643)**	**(819)**
Net cash provided by financing activities	12,004,037	**18,548,639**	**157,125**
Net increase in cash and cash equivalents	4,541,411	**4,163,957**	**35,273**
Cash and cash equivalents at beginning of year	1,463,913	**6,005,324**	**50,871**
Cash and cash equivalents at end of year	¥ 6,005,324	**¥10,169,282**	**$ 86,144**

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

Notes to the Consolidated Financial Statements

For the years ended March 31, 2006 and 2007

1. Basis of Presenting the Financial Statements

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

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

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate of ¥118.05 to U.S. $1 at March 31, 2007. 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.

Since the Code was established, the Code had been partially amended in order to adopt the Code to the changing business situation surrounding corporations, During 2005, Japan's parliament passed bills to amend the part of the Code regulating corporations significantly, which is called the Corporate law (the "Law"). The law is effective on May 1, 2006

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its 4 significant subsidiaries as of March 31,2007. Consolidated subsidiaries are SF Capital Co., Ltd., SF Investments Inc., Sun Frontier Real Estate Investment Advisors Inc. and SF Building Support.

The Company established SF Investments, Sun Frontier Real Estate Investment Advisors, and SF Building Support during the term, complementing subsidiary SF Capital. In December 2006, the Company liquidated and removed from consolidation Taisei Building Co., Ltd., which the Company consolidated in the previous fiscal year. The Company's consolidated statements of income, net assets and cash flows include income and loss, retained earnings and cash flows from that company through its removal from consolidation. The fiscal years of all these subsidiaries end on the same date.

From the year ended March 31, 2007, the Company recategorized the amortization of consolidation adjustment accounts as amortization of goodwill. The Company applied the straight-line method for the goodwill for subsidiaries over seven months.

The Company does not have any equity-method affiliates.

(2) Cash and Cash Equivalents

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

(3) Investment Securities

The Company has only non-marketable security classified as other securities. Non-marketable other securities are stated at cost determined by the moving-average method. However, the Company accounted for silent partnerships investments through the specific identification method, posting the equivalent to holdings in silent partnerships to Others and investments and other assets to Investment Securities. The Company recorded net gains and losses from silent partnerships investments for sales purposes in Net Sales and the Cost of Sales. The corresponding Others in current assets and Investment Ssecurities in investments and other assets rose and declined accordingly.

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

(4) Inventories

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

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

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

(5) Property and Equipment

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

	2006	2007
Buildings and structures	3 to 43 years	3 to 43 years
Vehicles	3 to 6 years	6 years
Other	2 to 10 years	3 to 10 years

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

(6) Intangible Assets

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

(7) Long-term Prepaid Expenses

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

(8) Stock and Bonds Issuance Costs

Stock and bonds issuance costs are expensed as incurred.

(9) Allowance for Doubtful Accounts

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

(10) Accrued Bonuses for Employees

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

(11) Accrued Bonuses for Directors

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

From the year ended March 31, 2007, the Company began accounting for directors' bonuses by posting these costs as they arise to selling, general and administrative expenses. This change decreased operating income and income before income taxes by ¥46,000 thousand ($390 thousand).

(12) 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. Effectively September 30, 2006, the company terminated the directors retirement benefit plan based on the approval made by the directors' and statutory auditors' meeting on August 22, 2006.

(13) Construction Warranty Reserve

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

(14) Reserve for Losses on Closure of Business Offices

The Company appropriates the amount as estimated to losses on closure of business offices for the year ended March 31, 2007.

(15) 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.

(16) 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.

(17) Appropriation of Retained Earnings

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

(18) 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.

(19) Use of Estimates

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

3. Changes in Accounting Policies and Adoption of New Accounting Standards

Accounting Standards for Presentation of Net Assets in the Balance Sheet Effective from the fiscal year beginning April 1, 2006, the Company applied the Financial Accounting Standard No. 5 "Accounting Standards for Presentation of Net Assets in the Balance Sheet" and its Implementation Guidance No. 8 "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" issued on December 9, 2005 by the Accounting Standards Board of Japan. In addition, reclassification has been made retroactively to the balance sheet data as of March 31, 2006 to confirm with the new accounting standard for the purpose of comparison only.

Accounting Standard for Share-based Payment Effective from the fiscal year beginning April 1, 2006, the Company applied Financial Accounting Standard No. 8 "Accounting Standard for Share-based Payment" issued on December 27, 2005 by the Accounting Standards Board of Japan, and its Implementation Guidance No. 11 "Guidance on Accounting Standard for Share-based Payment" issued on May 31, 2006 by the Accounting Standards Board of Japan. Applying these standards reduced operating income and income before income taxes by ¥2,918 thousand ($25 thousand). The impact on segment information was immaterial.

4. Property and Equipment

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

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Buildings and structures	¥1,193,666	**¥1,216,875**	**$10,308**
Vehicles	10,095	**9,922**	**84**
Land	1,186,585	**1,186,585**	**10,052**
Other	77,670	**90,921**	**770**
Accumulated depreciation	(172,641)	**(227,081)**	**(1,924)**
Total	¥2,295,375	**¥2,277,222**	**$19,290**

During the year ended March 31, 2006, building of ¥507,073 thousand and land of ¥777,250 thousand were reclassified to real estate under construction.

5. Assets Pledged as Collateral

Assets pledged as collateral as of March 31, 2006 and 2007 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Real estate held for sale	¥ 3,311,561	**¥ –**	**$ –**
Real estate under construction	5,172,112	**–**	**–**
Beneficiary interest in trust from real estate held for sale	6,188,302	**–**	**–**
Inventories	–	**32,013,010**	**271,182**
Buildings	993,796	**964,059**	**8,167**
Land	1,186,585	**1,186,585**	**10,052**
Total	¥16,852,358	**¥34,163,655**	**$289,400**

Liabilities secured by the above collateral are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Short-term borrowings	¥ 9,723,000	**¥ 7,919,000**	**$ 67,082**
Current portion of bonds, unsecured bonds guaranteed by bank	328,000	**108,000**	**915**
Current portion of long-term borrowings	264,000	**8,331,000**	**70,572**
Bonds unsecured bonds guaranteed by bank	1,254,000	**486,000**	**4,117**
Long-term borrowings	3,110,260	**8,209,260**	**69,541**
Total	¥14,679,260	**¥ 25,053,260**	**$212,226**

6. Contingent Liabilities

The Company was contingently liable for guarantee as of March 31, 2007 as follows:

	Thousands of yen	Thousands of U.S. dollars
	2007	**2007**
Maximum surety for leasing guarantee business	**¥1,619,692**	**$13,720**

7. Investment Securities

(1) The following table summarizes acquisition costs, book values and fair values of available-for-sale securities with available fair values at March 31, 2006 and 2007:

	Thousands of yen			Thousands of yen			Thousands of U.S. dollars		
	2006			**2007**			**2007**		
	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain	Acquisition cost	Carrying value	Unrealized gain
Equity	¥3,750	¥6,540	¥2,790	**¥3,750**	**¥11,700**	**¥7,950**	**$32**	**$99**	**$67**

(2) Book value of securities without fair value as of March 31, 2007 was as follows:

	Thousands of yen	Thousands of U.S. dollars
	2007	**2007**
Other securities		
Equity investment in silent partnerships	**¥136,056**	**$1,153**
Equity securities of affiliates	**575,000**	**4,871**

8. Short-term Borrowings and Long-term debts

Short-term borrowings represent mainly bank loans with weighted average interest rates of 1.44% and 1.83% as of March 31, 2006 and 2007, respectively.

Long-term debts and current portion of long-term debts as of March 31, 2006 and 2007 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
0.79% secured bonds, due on November 13, 2009	¥ 880,000	**¥ –**	**$ –**
0.33% secured bonds, due on September 25, 2012	702,000	**594,000**	**5,032**
Total Bonds	1,582,000	**594,000**	**5,032**
Secured long-term borrowings with interest rate of 4.89% as of March 31, 2005, due on September 26, 2005	785,000	**–**	**–**
Secured long-term borrowings with interest rate of 1.75% as of March 31, 2005, due on March 31, 2006	620,000	**–**	**–**
Unsecured long-term borrowings with interest rate of 2.20% as of March 31, 2005, due on August 31, 2006	8,500	**–**	**–**
Secured long-term borrowings with interest rate of 2.575% as of March 31, 2007, due on May 31, 2007	145,000	**13,000**	**110**
Unsecured long-term borrowings with interest rate of 1.84% as of March 31, 2007, due on December 4, 2007	45,800	**12,200**	**103**
Unsecured long-term borrowings with interest rate of 2.48% as of March 31, 2007, due on January 31, 2008	60,000	**20,000**	**169**
Secured long-term borrowings with interest rate of 2.40% as of March 31, 2007, due on September 20, 2015	470,960	**381,440**	**3,231**
Secured long-term borrowings with interest rate of 1.90% as of March 31, 2007, due on May 20, 2019	472,300	**405,820**	**3,438**
Secured long-term borrowings with interest rate of 1.63% as of March 31, 2007, due on April 6, 2008	–	**1,100,000**	**9,318**
Secured long-term borrowings with interest rate of 1.875% as of March 31, 2007, due on July 31, 2008	–	**900,000**	**7,624**
Secured long-term borrowings with interest rate of 1.875% as of March 31, 2007, due on June 30, 2008	–	**940,000**	**7,963**
Secured long-term borrowings with interest rate of 1.64% as of March 31, 2007, due on April 24, 2008	–	**420,000**	**3,558**
Secured long-term borrowings with interest rate of 1.875% as of March 31, 2007, due on March 31, 2009	–	**600,000**	**5,083**
Secured long-term borrowings with interest rate of 1.54% as of March 31, 2007, due on march 25, 2008	–	**8,000,000**	**67,768**
Secured long-term borrowings with interest rate of 1.64% as of March 31, 2007, due on April 30, 2008	–	**3,780,000**	**32,020**
Total long-term borrowings	3,445,760	**16,572,460**	**140,385**
Total long-term debts	¥5,027,760	**¥17,166,460**	**$145,417**

The aggregate annual future maturities of long-term debts as of March 31, 2007 are as follow:

Year ending March, 31	Thousands of yen	Thousands of U.S. dollars
2008	**¥8,471,200**	**$71,759**
2009	**7,686,000**	**65,108**
2010	**186,000**	**1,576**
2011	**186,000**	**1,576**
2012 and thereafter	**637,260**	**5,398**

9. Stock-based Remuneration System

(1) Sun Frontier Fudousan recorded ¥2,918 thousand ($25 thousand) in expenses relating to stock options to Selling, general and administrative expenses in the fiscal year ended March 31, 2007. The details and scale of the stock options and changes are as shown below.

(a) Details of stock options

	2004 stock options	2006 stock options
Categories and number of those granted stock options	The Company's directors: 5 The Company's auditors: 1 The Company's employees: 63 External partner companies: 2	The Company's directors: 5 The Company's employees: 113
Number of stock options (Note 1)	Common stock: 2,520 shares	Common stock: 1,128 shares
Date of grant	June 25, 2004	March 19, 2007
Vesting conditions	(Note 2)	(Note 3)
Service period	June 25, 2004 – June 25, 2006	March 19, 2007 – March 2, 2010
Exercise period	June 26, 2006 – June 25, 2014	March 3, 2010 – March 2, 2012

(Notes) 1. Number of stock options
These figures have been adjusted to reflect a 4-for-1 stock split on May 20, 2005 and a 3-for-1 stock split on April 1, 2006.

2. Vesting conditions of 2004 stock options

(i) Granter is required to be a director, an auditor, or an employee of Sun Frontier Fudousan at the time of exercise of stock acquisition rights. However, it shall be possible to exercise stock acquisition rights only under conditions specially approved by the board of directors of Sun Frontier Fudousan, including retirement due to termination of term of appointment, rtir ement at mandatory retirement age, and retirement or resignation due to company circumstances. Moreover, for granter at external partner companies, the partner relationship with Sun Frontier Fudousan must exist at the time of exercise of stock acquisition rights.

(ii) Succession of stock acquisition rights shall not be permitted when a granter dies. However, a successor may exercise stock acquisition rights only when the board of director of Sun Frontier Fudousan has given special approval.

(iii) Conditions for the 2004 stock options are as specified by the Stock Acquisition Rights Allotment Agreement concluded separately between Sun Frontier Fudousan and granters based on the resolution of the general meeting of shareholders convened on June 25, 2004 and the resolution of the board of directors meeting held on June 25, 2004 relating to the issuance of stock acquisition rights.

3. Vesting conditions of 2006 stock options

(i) Granter is required to be a director, an auditor, or an employee of Sun Frontier Fudousan at the time of exercise of stock acquisition rights. However, it shall be possible to exercise stock acquisition rights only under conditions specially approved by the board of directors of Sun Frontier Fudousan, including retirement due to expiry of term of appointment and retirement at mandatory retirement age.

(ii) Succession of stock acquisition rights shall not be permitted when a granter dies by March 22, 2010. However, a successor may exercise stock acquisition rights only when the board of directors of Sun Frontier Fudousan has given special approval.

(iii) Stock acquisition rights holders may not exercise the 2006 stock options unless the closing price of the Sun Frontier Fudousan's ordinary shares on the Tokyo Stock Exchange, Inc., on the date before the date of commencement of the exercise period for stock acquisition rights is at least 1.3 times the exercise price. In the event that the closing price is lower than this figure, the relevant stock acquisition rights shall forfeit on the date of commencement of the exercise period.

(b) Scale of stock options and changes

The number of stock options is shown converted into the number of shares for stock options in existence in the fiscal year ended March 31, 2007.

(i) Number of stock options

	2004 stock options	2006 stock options
Shares before vested		
Outstanding at end of previous fiscal year	–	–
Granted	–	1,128
Forfeited	–	–
Ascertaining of rights	–	–
Unascertained balance	–	1,128
Shares after vested		
Outstanding at end of previous fiscal year	840	–
Vested	–	–
Increase due to stock split	1,680	–
Exercise of rights	1,992	–
Forfeited	276	–
Exercisable at end of the year	252	252

Note: On April 1, 2006, the Company executed a 3-for-1 stock split of its common stock.

(ii) Unit price information

	2004 stock options	2006 stock options
Exercise price (¥)	6,667	298,620
Weighted average share price at time of exercise (¥)	234,250	–
Fair value unit price (Date of grant) (¥)	–	93,155

(2) Option-pricing model and assumptions to estimate the fair value unit price for stock options

The fair value unit price for the 2006 stock options granted in the fiscal year ended March 31, 2007 was estimated using the Black-Scholes option-valuation model, and the main basic values are as shown below.

Main basic values

	2006 stock options
Share price volatility (Note 1)	45.80%
Expected lives (Note 2)	3 years, 11 months
Expected dividend (Note 3)	¥333/share
Risk-free interest rate (Note 4)	0.956%

(Notes) 1. Computed on the basis of actual share prices for a period of 2 years and 5 months (November 2004 – March 2007).
2. As a reasonable estimate is difficult without adequate data, estimates are based on the assumption of exercise at the mid-point of the exercise period.
3. Based on the actual dividend for the year ended March 2006.
4. Government bond yield for the period corresponding to the forecast remaining period.

(3) Method for estimating the number of vesting rights

Basically, a method is adopted that reflects only the number of actual lapsed rights because of the difficulties in making a reasonable estimate of the future number of lapsed rights.

10. Derivatives

The Company has not presented information, as there was no year-end balance. The Company excluded interest rate swaps to which we applied hedge accounting.

11. Retirement Benefit Plan

The Company has a defined contribution pension plan covering substantially all employees who meet certain eligibility requirements. During the year ended March 31, 2006 and 2007, the Company made contributions to employees for ¥7,720 thousand and ¥10,180 thousand ($86 thousand), respectively.

12. Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2007 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Deferred tax assets – current			
Accrued bonuses for employees	¥ 22,979	**¥ 29,386**	**$249**
Accrued expenses	–	**25,297**	**214**
Accrued enterprise taxes	113,447	**213,995**	**1,813**
Inventories	38,998	**41,819**	**354**
Security deposits received	1,282	**3,997**	**34**
Sundry taxes	21,357	**21,004**	**178**
Construction warranty reserve	29,792	**24,867**	**211**
Other	30,291	**5,837**	**49**
Sub-total	258,143	**366,206**	**3,102**
Deferred tax assets – non-current			
Reserve for directors' retirement benefits	30,356	**31,929**	**270**
Losses carried forward on subsidiaries	3,611	**36,570**	**310**
Other	11,385	**4,061**	**34**
Sub-total	45,353	**72,561**	**615**
Valuation allowance	(3,611)	**(36,570)**	**(310)**
Total deferred tax assets	299,885	**402,196**	**3,407**
Deferred tax liabilities – current			
Inventory gains	(520,791)	**–**	**–**
Sub-total	(520,791)	**–**	**–**
Deferred tax liabilities – non-current			
Unrealized holding gain on securities	(1,135)	**(3,235)**	**(27)**
Sub-total	(1,135)	**(3,235)**	**(27)**
Total deferred tax liabilities	(521,927)	**(3,235)**	**(27)**
Deferred tax assets (liabilities), net	¥(222,041)	**¥398,961**	**$3,380**

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

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

Note: The reconciliation of difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2007 is omitted as the total of these differences is less than 5% of statutory tax rate.

13. Supplementary Cash Flow Information

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

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Cash and bank deposits	¥6,678,054	**¥11,170,280**	**$94,623**
Bank deposits with an original maturity over three months	(672,729)	**(1,000,998)**	**(8,479)**
Cash and cash equivalents	¥6,005,324	**¥10,169,282**	**$86,144**

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

	Thousands of yen
	2006
Current assets	¥1,417,709
Fixed assets	6,930
Consolidation adjustment accounts	551,924
Current liabilities	(563,780)
Long-term liabilities	(41,454)
Acquisition cost	1,371,328
Cash and cash equivalents	65,355
Cash used for acquisition	¥ 1,305,973

14. Segment Information

(1) Sales and operating income by business segment

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

	Thousands of yen					
	2007					
	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
Sales to external customers	**¥32,662,679**	**¥1,647,087**	**¥944,777**	**¥35,254,545**	**¥ –**	**¥35,254,545**
Intersegment sales	**–**	**223,628**	**–**	**223,628**	**(223,628)**	**–**
Total sales	**32,662,679**	**1,870,715**	**944,777**	**35,478,173**	**(223,628)**	**35,254,545**
Operating expenses	**24,151,905**	**1,833,555**	**58,258**	**26,043,719**	**502,668**	**26,546,387**
Operating income	**¥ 8,510,774**	**¥ 37,160**	**¥886,518**	**¥ 9,434,453**	**¥(726,296)**	**¥ 8,708,157**

	Thousands of U.S. dollars					
	2007					
	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
Sales to external customers	**$276,685**	**$13,952**	**$8,003**	**$298,641**	**$ –**	**$298,641**
Intersegment sales	**–**	**1,894**	**–**	**1,894**	**(1,894)**	**–**
Total sales	**276,685**	**15,847**	**8,003**	**300,535**	**(1,894)**	**298,641**
Operating expenses	**204,590**	**15,532**	**494**	**220,616**	**4,258**	**224,874**
Operating income	**$ 72,095**	**$ 315**	**$7,510**	**$ 79,919**	**$(6,152)**	**$ 73,767**

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

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

	Thousands of yen					
	2007					
	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
Assets	**¥42,499,828**	**¥864,914**	**¥1,780,272**	**¥45,145,016**	**¥9,357,670**	**¥54,502,686**
Depreciation	**33,249**	**27,478**	**234**	**60,961**	**18,221**	**79,183**
Capital expenditures	**16,480**	**27,786**	**419**	**44,685**	**14,375**	**59,061**

	Thousands of U.S. dollars					
	2007					
	Real-estate revitalization	Real-estate services	Other real-estate business	Total	Elimination/ Corporate	Consolidated
Assets	**$360,015**	**$7,327**	**$15,081**	**$382,423**	**$79,269**	**$461,692**
Depreciation	**282**	**233**	**2**	**516**	**154**	**671**
Capital expenditures	**140**	**235**	**4**	**379**	**122**	**500**

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

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

2. Among operating expenses, the amount of undistributable operating expenses included in the "Elimination/ Corporate" column were ¥444,431 thousand for the year ended March 31, 2006 and ¥672,852 thousand ($5,700 thousand) for the year ended March 31, 2007, mainly expenses for the Company's management departments.
3. Among assets, the amount of corporate assets included in the "Elimination/Corporate" column was ¥5,772,612 thousands as of March 31, 2006 and ¥9,424,981 ($79,839 thousand) as of March 31, 2007. These assets are primarily comprised of surplus funds of the Company (cash), long-term investment funds (investment securities) and assets related to the administration divisions.
4. From the year ended March 31, 2007, the Company began accounting for directors' bonuses by posting these costs as they arise to selling, general and administrative expenses. This change increased operating expenses in the real estate rehabilitation business by ¥7,301 thousand ($62 thousand), in the real estate services business by ¥13,873 thousand ($118 thousand), other real estate businesses by ¥7,301 thousand ($62 thousand), and increased eliminations and corporate by ¥17,523 thousand ($148 thousand), causing operating income to fall by these amounts.

15. Per Share Information

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

	Yen		U.S. dollars
	2006	**2007**	**2007**
Net assets per share	¥99,192.78	**¥68,613.51**	**$581.22**
Net income per share	18,914.91	**15,192.55**	**128.70**
Fully diluted net income per share	18,747.82	**15,134.76**	**128.21**

Note: The Company executed 3-for-1 stock split on April 1, 2006. If the stock split was deemed to have occurred on April 1, 2005, per share data are adjusted retroactively as follows:

	Yen
	2006
Net assets per share	¥33,064.26
Net income per share:	
Basic	6,304.97
Diluted	6,249.27

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

	Thousands of yen		housands of U.S. dollars
	2006	**2007**	**2007**
Net income	¥1,744,100	**¥4,853,931**	**$41,118**

	2006	**2007**
Weighted average number of shares outstanding (shares)	**90,886**	**319,494**
Increase in common stock (shares)	**810**	**1,220**

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

16. Subsequent Events

At a meeting on April 17, 2007, the board of directors of the Company decided to take out a large loan.

Purpose of borrowings	Purchase of real estate held for sale
Lender	Mizuho Bank, Ltd.
Borrowing amount	¥5,000,000 thousand
Interest rate	TIBOR+0.75% (1.35% as of May 1, 2007)
Repayment terms	Full repayment on May 2, 2008
Loan execution date	May 2, 2007
Repayment date	May 2, 2008
Assets pledged as collateral	Real estate held for sale

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of SUN FRONTIER FUDOUSAN CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in net assets 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 audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SUN FRONTIER FUDOUSAN CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

As discussed in Note 2 to the consolidated financial statements, the Company adopted "Accounting Standard for Directors' Bonus" in the year ended March 31, 2007.

As discussed in Note 3 to the consolidated financial statements, the Company changed the accounting policy for "Accounting Standard for Share-based Payment" in the year ended March 31, 2007.

The U.S. dollar amounts in the accompanying consolidated financial statements with respects to the year ended March 31, 2007 are presented solely for convenience. Such translation of amounts into U.S. dollar amounts, in our opinion, has been made on the basis set forth in Note 1 to the consolidated financial statements.

BDO Sanyu & Co.

BDO Sanyu & Co.
Tokyo, Japan

June 22, 2007

Financial Statements

Sun Frontier Fudousan Co., Ltd.

Non-consolidated Balance Sheets

As of March 31, 2006 and 2007

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
ASSETS			
Current assets:			
Cash and bank deposits	¥ 5,347,283	**¥ 8,756,578**	**$ 74,177**
Accounts receivable - trade	171,013	**241,024**	**2,042**
Real estate held for sale (Note 5)	562,533	**1,253,779**	**10,621**
Real estate under construction (Note 5)	5,260,850	**25,456,451**	**215,641**
Supplies	497	**4,741**	**40**
Advances paid	479,378	**780,090**	**6,608**
Prepaid expenses	47,124	**128,992**	**1,093**
Deferred tax assets (Note 7)	209,482	**139,043**	**1,178**
Other current assets	92,536	**491,581**	**4,164**
Allowance for doubtful accounts	(2,074)	**(1,006)**	**(9)**
Total current assets	12,168,625	**37,251,276**	**315,555**
Property and equipment, net (Note 4)	2,295,375	**2,277,095**	**19,289**
Intangible assets	55,827	**64,345**	**545**
Investments and other assets:			
Investment securities	6,540	**147,756**	**1,252**
Investment in affiliates	70,000	**150,000**	**1,271**
Other affiliate's securities	–	**575,000**	**4,871**
Capital contributions	9,510	**9,510**	**81**
Contributions to affiliates	1,451,328	**–**	**–**
Long-term loans to employees	562	**–**	**–**
Long-term loans to affiliates	3,590,000	**–**	**–**
Bankruptcy and delinquent receivables	1,372	**1,372**	**12**
Long-term prepaid expenses	21,911	**20,369**	**173**
Deferred tax assets (Note 7)	33,753	**32,727**	**277**
Security deposits	271,779	**285,892**	**2,422**
Other assets	67,368	**11,844**	**100**
Allowance for doubtful accounts	(1,313)	**(1,307)**	**(11)**
Total investments and other assets	5,522,813	**1,233,165**	**10,446**
Total assets	¥20,042,641	**¥40,825,883**	**$345,836**

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

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
LIABILITIES			
Current liabilities:			
Accounts payable - trade	¥ 123,800	**¥ 592,351**	**$ 5,018**
Short-term borrowings (Note 5)	4,723,000	**3,719,000**	**31,504**
Current portion of long-term debts (Note 5)	511,300	**8,231,200**	**69,726**
Accounts payable - other	132,656	**170,224**	**1,442**
Accrued expenses	55,061	**70,537**	**598**
Income taxes payable	1,495,474	**19,856**	**168**
Consumption taxes payable	130,316	**–**	**–**
Advances received	92,387	**250,318**	**2,120**
Deposits received	210,879	**301,440**	**2,553**
Accrued bonuses for employees	56,460	**72,203**	**612**
Accrued bonuses for directors	–	**46,000**	**390**
Construction warranty reserve	73,000	**61,100**	**518**
Reserve for losses on closure of business offices	–	**10,575**	**90**
Other current liabilities	171	**494**	**4**
Total current liabilities	7,604,697	**13,545,301**	**114,742**
Long-term liabilities:			
Long-term debts (Note 5)	2,086,460	**5,155,260**	**43,670**
Reserve for directors' retirement benefits	74,584	**78,451**	**665**
Security deposits received	487,343	**2,057,061**	**17,425**
Total long-term liabilities	2,648,388	**7,290,772**	**61,760**
Total liabilities	10,253,085	**20,836,074**	**176,502**
Contingent liabilities (Note 6)			
NET ASSETS			
Shareholders' equity:			
Common stock, 304,000 and 912,000 shares authorized, 96,966 and 331,303 shares issued and outstanding in 2006 and 2007, respectively	3,050,911	**7,227,668**	**61,225**
Additional paid-in capital	3,112,248	**7,289,003**	**61,745**
Retained earnings	3,624,740	**5,465,503**	**46,298**
Total shareholders' equity	9,787,901	**19,982,175**	**169,269**
Valuation and translation adjustments:			
Net unrealized holding gain on securities	1,654	**4,714**	**40**
Total valuation and Translation Adjustments	1,654	**4,714**	**40**
Stock acquisition rights	–	**2,918**	**25**
Total net assets	9,789,555	**19,989,808**	**169,333**
Total net assets and liabilities	¥20,042,641	**¥40,825,883**	**$345,836**

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

Sun Frontier Fudousan Co., Ltd.

Non-consolidated Statements of Income

For the years ended March 31, 2006 and 2007

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
Net sales	¥16,525,269	**¥17,228,323**	**$145,941**
Costs of sales	10,658,184	**11,067,310**	**93,751**
Gross profit	5,867,084	**6,161,012**	**52,190**
Selling, general and administrative expenses	2,110,978	**2,720,873**	**23,048**
Operating income	3,756,105	**3,440,139**	**29,141**
Other income (expenses):			
Interest and dividend income	35,906	**68,597**	**581**
Interest expenses	(133,844)	**(129,260)**	**(1,095)**
Bond issuance costs	(22,716)	**–**	**–**
Stock issuance costs	(38,119)	**–**	**–**
Stock delivery expenses	–	**(42,928)**	**(364)**
Stock market listing expenses	–	**(29,187)**	**(247)**
Reversal of allowance for doubtful accounts	183	**1,074**	**9**
Reversal of construction warranty reserve	–	**8,540**	**72**
Loss on disposal of property and equipment, net	(347)	**(1,197)**	**(10)**
Cancellation fee of interest rate swap agreements	(24,764)	**–**	**–**
Losses on liquidation of affiliates	–	**(10,575)**	**(90)**
Losses on closure of business offices	–	**(353,395)**	**(2,994)**
Other, net	(10,845)	**(20,996)**	**(178)**
Other expenses, net	(194,547)	**(509,328)**	**(4,315)**
Income before income taxes	3,561,558	**2,930,811**	**24,827**
Income taxes (Note 7):			
Current	1,805,000	**898,717**	**7,613**
Deferred	(133,459)	**69,365**	**588**
	1,671,540	**968,082**	**8,201**
Net income	¥ 1,890,018	**¥ 1,962,728**	**$ 16,626**

	Yen		U.S. dollars (Note 1)
Net income per share:			
Basic	¥20,520.4	**¥6,143.24**	**$52.04**
Diluted	20,339.1	**6,119.87**	**51.84**
Cash dividends per share	1,000.00	**1,000.00**	**8.47**

	Shares	
Weighted average shares outstanding:		
Basic	90,886	**319,494**
Diluted	91,696	**320,714**

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

Sun Frontier Fudousan Co., Ltd.

Non-consolidated Statements of Net Assets

For the years ended March 31, 2006 and 2007

	Number of Shares of Common Stock Issued	Thousands of yen					
		Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding Gain on Securities	Stock Acquisition Rights	Total Net Assets
Balance as of March 31, 2005	21,004	¥491,150	¥552,500	¥1,788,419	¥ 1,035	–	¥2,833,104
4-for-1 stock split	63,012	–	–	–	–	–	–
Common stock issued under the public offering	11,000	2,174,315	2,174,304	–	–	–	4,348,619
Common stock issued under the third party allotment	1,950	385,445	385,444	–	–	–	770,889
Net income	–	–	–	1,890,018	–	–	1,890,018
Cash dividends paid	–	–	–	(42,008)	–	–	(42,008)
Bonuses to directors and statutory auditors	–	–	–	(12,000)	–	–	(12,000)
Changes of items other than shareholders' equity, net	–	–	–	–	619	–	619
Balance as of March 31, 2006	96,966	¥3,050,911	¥3,112,248	¥3,624,740	¥1,654	–	¥9,789,555
3-for-1 stock split	193,932	–	–	–	–	–	–
Common stock issued under the public offering	35,000	3,799,600	3,799,600	–	–	–	7,599,200
Common stock issued under the third party allotment	3,413	370,515	370,515	–	–	–	741,030
Common stock issued under the execution of stock acquisition rights	1,992	6,641	6,639	–	–	–	13,280
Net income	–	–	–	1,962,728	–	–	1,962,728
Cash dividends paid	–	–	–	(96,966)	–	–	(96,966)
Bonuses to directors and statutory auditors	–	–	–	(25,000)	–	–	(25,000)
Changes of items other than shareholders' equity, net	–	–	–	–	3,059	2,918	5,978
Balance as of March 31, 2007	**331,303**	**¥7,227,668**	**¥7,289,003**	**¥5,465,503**	**¥4,714**	**¥2,918**	**¥19,989,808**

	Thousands of U.S. dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Holding Gain on Securities	Stock Acquisition Rights	Total Net Assets
Balance as of March 31, 2006	$25,844	$26,364	$30,705	$14	$ –	$82,927
3-for-1 stock split	–	–	–	–	–	–
Common stock issued under the public offering	32,186	32,186	–	–	–	64,373
Common stock issued under the third party allotment	3,139	3,139	–	–	–	6,277
Common stock issued under the execution of stock acquisition rights	56	56	–	–	–	112
Net income	–	–	16,626	–	–	16,626
Cash dividends paid	–	–	(821)	–	–	(821)
Bonuses to directors and statutory auditors	–	–	(212)	–	–	(212)
Changes of items other than shareholders' equity, net	–	–	–	26	25	51
Balance as of March 31, 2007	**$61,225**	**$61,745**	**$46,298**	**$40**	**$25**	**$169,333**

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

Notes to the Non-consolidated Financial Statements

For the years ended March 31, 2006 and 2007

1. Basis of Presenting the Financial Statements

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

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

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate of ¥118.05 to U.S. $1 at March 31, 2007. 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.

Since the Code was established, the Code had been partially amended in order to adopt the Code to the changing business situation surrounding corporations, During 2005, Japan's parliament passed bills to amend the part of the Code regulating corporations significantly, which is called the Corporate law (the "Law"). The law is effective on May 1, 2006.

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

2. Summary of Significant Accounting Policies

(1) 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. However, the Company accounted for silent partnerships investments through the specific identification method, posting the equivalent to holdings in silent partnerships to Others and investments and other assets to Investment Securities. The Company recorded net gains and losses from silent partnerships investments for sales purposes in Net Sales and the Cost of Sales. The corresponding Others in current assets and Investment Securities in investments and other assets rose and declined accordingly.

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

(2) Inventories

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

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

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

(3) 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:

	2006	2007
Buildings and structures	3 to 43 years	3 to 43 years
Vehicles	3 to 6 years	6 years
Machinery, equipment and furniture	2 to 10 years	3 to 10 years

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

(4) Intangible Assets

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

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

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

(7) 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.

(8) 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.

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

From the year ended March 31, 2007, the Company began accounting for directors' bonuses by posting these costs as they arise to selling, general and administrative expenses. This change decreased operating income and income before income taxes by ¥46,000 thousand ($390 thousand).

(10) Reserve for Directors' Retirement Benefits
To provide for retirement benefits to directors and statutory auditors, reserve is provided for the aggregate amount payable as of balance sheet date pursuant to the Company's internal rules. Effectively September 30, 2006, the company terminated the directors retirement benefit plan based on the approval made by the directors' and statutory auditors' meeting on August 22, 2006.

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

(12) Reserve for Losses on Closure of Business Offices
The Company appropriates the amount as estimated to losses on closure of business offices for the year ended March 31, 2007.

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

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

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

(18) Accounting for impairment of fixed assets

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

3. Changes in Accounting Policies and Adoption of New Accounting Standards

Accounting Standards for Presentation of Net Assets in the Balance Sheet Effective from the fiscal year beginning April 1, 2006, the Company applied the Financial Accounting Standard No. 5 "Accounting Standards for Presentation of Net Assets in the Balance Sheet" and its Implementation Guidance No. 8 "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" issued on December 9, 2005 by the Accounting Standards Board of Japan. In addition, reclassification has been made retroactively to the balance sheet data as of March 31, 2006 to confirm with the new accounting standard for the purpose of comparison only.

Accounting Standard for Share-based Payment Effective from the fiscal year beginning April 1, 2006, the Company applied Financial Accounting Standard No. 8 "Accounting Standard for Share-based Payment" issued on December 27, 2005 by the Accounting Standards Board of Japan, and its Implementation Guidance No. 11 "Guidance on Accounting Standard for Share-based Payment" issued on May 31, 2006 by the Accounting Standards Board of Japan. Applying these standards reduced operating income and income before income taxes by ¥2,918 thousand ($25 thousand). The impact on segment information was immaterial.

4. Property and Equipment

Property and equipment as of March 31, 2006 and 2007 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Buildings and structures	¥1,193,666	**¥1,216,875**	**$10,308**
Vehicles	10,095	**9,922**	**84**
Machinery, equipment and furniture	77,670	**90,731**	**769**
Land	1,186,585	**1,186,585**	**10,052**
Accumulated depreciation	(172,641)	**(227,018)**	**(1,923)**
Total	¥2,295,375	**¥2,277,095**	**$19,289**

During the year ended March 31, 2006, building of ¥507,073 thousand and land of ¥777,250 thousand were reclassified to real estate under construction.

5. Assets Pledged as Collateral

Assets pledged as collateral as of March 31, 2006 and 2007 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Real estate held for sale	¥ 562,533	**¥ 1,074,531**	**$ 9,102**
Real estate under construction	5,111,958	**19,813,108**	**167,837**
Buildings	993,796	**964,059**	**8,167**
Land	1,186,585	**1,186,585**	**10,052**
Total	¥7,854,873	**¥23,038,284**	**$195,157**

Liabilities secured by the above collateral are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Short-term borrowings	¥3,460,000	**¥ 3,719,000**	**$31,504**
Current portion of bonds, unsecured bonds guaranteed by bank	328,000	**108,000**	**915**
Current portion of long-term borrowings	144,000	**8,091,000**	**68,539**
Bonds unsecured bonds guaranteed by bank	1,254,000	**486,000**	**4,117**
Long-term borrowings	800,160	**4,669,260**	**39,553**
Total	¥5,986,260	**¥17,073,260**	**$144,627**

6. Contingent Liabilities

The Company was contingently liable for guarantees on loans of affiliates from financial institutions as of March 31, 2006 and 2007 as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
SF Investments Inc.	¥7,430,000	**¥7,980,000**	**$67,598**

7. Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2007 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Deferred tax assets – current			
Accrued bonuses for employees	¥22,979	**¥29,386**	**$249**
Accrued expenses	–	**25,297**	**214**
Accrued enterprise taxes	107,418	**6,694**	**57**
Inventories	15,058	**24,369**	**206**
Security deposits received	1,282	**3,997**	**34**
Sundry taxes	12,170	**18,592**	**157**
Construction warranty reserve	29,792	**24,867**	**211**
Other	20,781	**5,837**	**49**
Sub-total	209,482	**139,043**	**1,178**
Deferred tax assets – non-current			
Reserve for directors' retirement benefits	30,356	**31,929**	**270**
Other	4,533	**4,033**	**34**
Sub-total	34,889	**35,962**	**305**
Total deferred tax assets	244,371	**175,006**	**1,482**
Deferred tax liabilities – non-current			
Unrealized holding gain on securities	(1,135)	**(3,235)**	**(27)**
Sub-total	(1,135)	**(3,235)**	**(27)**
Total deferred tax liabilities	(1,135)	**(3,235)**	**(27)**
Deferred tax assets, net	¥243,236	**¥171,770**	**$1,455**

Reconciliations of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2006 and 2007 are as follows:

	2006	**2007**
Statutory tax rate	40.7%	**40.7%**
Expenses not deductible for income tax purposes	0.2	**0.1**
Per capita inhabitant tax	0.2	**0.2**
Taxation on retained earnings imposed on a family corporation	4.9	**5.3**
Income not deductible for income tax purposes	–	**(14.1)**
Accrued bonuses for directors	–	**0.6**
Other	0.9	**0.2**
Effective income tax rate	46.9%	**33.0%**

8. Per Share Information

(1) Per share information for the years ended March 31, 2006 and 2007 were as follows:

	Yen		U.S. dollars
	2006	**2007**	**2007**
Net assets per share	¥100,700.82	**¥60,328.12**	**$511.04**
Net income per share	20,520.41	**6,143.24**	**52.04**
Fully diluted net income per share	20,339.14	**6,119.87**	**51.84**

Note: The Company executed 3-for-1 stock split on April 1, 2006. If the stock split is deemed to have occurred on April 1, 2005, per share information for year ended March 31, 2006 are adjusted retroactively as follows:

	Yen
	2006
Net assets per share	¥33,566.94
Net income per share:	
Basic	6,840.13
Diluted	6,779.71

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

	Thousands of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Net income	¥1,890,018	**¥1,962,728**	**$16,626**

	2006	**2007**
Weighted average number of shares outstanding (shares)	¥90,886	**¥319,494**
Increase in common stocks (shares)	810	**1,220**

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

9. Subsequent Events

At a meeting on April 17, 2007, the board of directors of the Company decided to take out a large loan.

Purpose of borrowings	Purchase of real estate held for sale
Lender	Mizuho Bank, Ltd.
Borrowing amount	¥5,000,000 thousand
Interest rate	TIBOR + 0.75% (1.35% as of May 1, 2007)
Repayment terms	Full repayment on May 2, 2008
Loan execution date	May 2, 2007
Repayment date	May 2, 2008
Assets pledged as collateral	Real estate held for sale

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of SUN FRONTIER FUDOUSAN CO., LTD. as of March 31, 2006 and 2007, and the related statements of income, changes in net assets 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 audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SUN FRONTIER FUDOUSAN CO., LTD. as of March 31, 2006 and 2007, and the results of their operations for the years then ended in conformity with accounting principles generally accepted in Japan as described in Note1 to the financial statements.

As discussed in Note 2 to the financial statements, the Company adopted "Accounting Standard for Directors' Bonus" in the year ended March 31, 2007.

As discussed in Note 3 to the financial statements, the Company changed the accounting policy for "Accounting Standard for Share-based Payment" in the year ended March 31, 2007.

The U.S. dollar amounts in the accompanying financial statements with respects to the year ended March 31, 2007 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

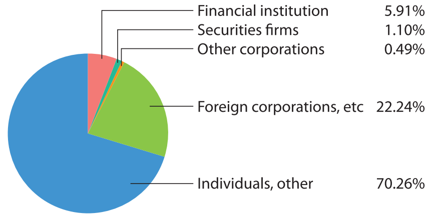
June 22, 2007

Corporate Information

Share Information
(as of March 31, 2007)

Number of authorized shares: 912,000 shares
Number of shares issued: 331,303 shares
Shares per trading unit: 1 share
Number of shareholders: 8,550

Breakdown of Shareholders



Change in Quantity of Outstanding Stock and Paid-in Capita

Date	Variation in quantity of outstanding stock	Balance of outstanding stock	Variation in capital stock (¥ thousand)	Balance of capital stock (¥ thousand)	Variation in paid-in capital (¥ thousand)	Balance of paid-in capital (¥ thousand)
May 20, 2005 (Note: 1)	63,012	84,016	–	491,150	–	552,250
September 15, 2005 (Note: 2)	11,000	95,016	2,174,315	2,665,465	2,174,304	2,726,804
October 14, 2005 (Note: 3)	1,950	96,966	385,446	3,050,911	385,444	3,112,248
April 1, 2006 (Note: 4)	193,932	290,898	–	3,050,911	–	3,112,248
July 11, 2006 (Note: 5)	35,000	325,898	3,799,600	6,850,511	3,799,600	6,911,848
August 8, 2006 (Note: 6)	3,413	329,311	370,515	7,221,027	370,515	7,282,364
April 1, 2006 through March 31, 2007 (Note: 7)	1,992	331,303	6,641	7,227,668	6,639	7,289,003

Notes: 1. The result of a stock split (four-for-one)
2. Public offering by the book-building method; issue price:¥420,010; issue value:¥395,329; amount credited to common stock: ¥197,665; total paid-in amount: ¥4,348,619 thousand
3. Capital increase by third-party allocation in conjunction with sale by over-allotment; issue price: ¥395,329; amount credited to common stock: ¥197,665; allocated to: Shinko Securities Co., Ltd.
4. The result of a stock split (three-for-one)
5. Public offering by the book-building method; issue price: ¥228,920; issue value: ¥217,120; amount credited to common stock: ¥108,560; total paid-in amount: ¥7,599,200 thousand
6. Capital increase by third-party allocation in conjunction with sale by over-allotment; issue price: ¥217,120; amount credited to common stock: ¥108,560; allocated to: Daiwa Securities SMBC Co., Ltd.
7. The number of shares increased from the exercise of warrants.
8. The exercise of warrants between April 1 2007 and May 31 2007 increased the total number of issued shares by 192, the capital by ¥640 thousand and the capital reserve by ¥639 thousand.

Principal Shareholders

Trade name	Number of the Company's shares held (shares)	Voting rights (%)
Tomoaki Horiguchi	176,329	53.22
The Chase Manhattan Bank NA London SL Omnibus Account	11,193	3.38
Japan Trustee Services Bank, Ltd. (trust units)	8,661	2.61
JPMCB Omnibus US Pension Treaty Jasdaq	8,434	2.55
Morgan Stanley & Co. Incorporated	7,591	2.29
Takeshi Kobayashi	5,543	1.67
Goldman Sachs International	5,532	1.67
Shinichi Hasegawa	5,250	1.58
BNP Paribas Securities Service London Jasdaq UK Residents	4,850	1.46
Keiko Horiguchi	3,990	1.20

Notes: 1. 8,111 of the shares attributed to Japan Trustee Services Bank Ltd. above are for that company's trust business. 5,505 of these shares are designated for pension trusts and the remaining 2,606 of them are designated for investment trusts.
2. JP Morgan Asset Management (UK) Limited and JP Morgan Asset Management Co., Ltd. sent a copy of a report of large-volume share ownership on March 31, 2007. It reported ownership of the share quantities below on that date. However, since the Company could not confirm the actual number of shares these companies owned at the end of the term, they have not been included among the major stockholders above.

Trade name	Number of the Company's shares held (shares)	Stock ownership ratios (%)
JP Morgan Asset Management (UK) Limited	4,159	1.26
JP Morgan Asset Management Limited	11,294	3.41

Corporate Data

(as of March 31, 2007)

Name:
Sun Frontier Fudousan Co., Ltd.

Date established:
April 8, 1999

Number of employees:
116 (Non-consolidated), 125 (Consolidated)

Paid-in capital:
¥7,227 million

Stock listing:
Tokyo stock exchange 1st section

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

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

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

Group Companies

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

SF Investments Inc.
(Business: Buying and selling, exchanging, leasing, owning)

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 June 30, 2007)

President
Tomoaki Horiguchi

Managing Directors
Shinichi Hasegawa
Masahiro Mochizuki

Directors
Seiichi Saito
Makoto Miyauchi

Full-time Statutory Auditor
Koichiro Shimomura

Statutory Auditors
Mizue Akita
Koichi Kase

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Sun Frontier Fudousan Co., Ltd.

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