

Annual Securities Report

The 23rd From April 1, 2021
Fiscal Year to March 31, 2022

Sun Frontier Fudousan Co., Ltd.

(Translation) This document has been translated from the Japanese original for the convenience of overseas stakeholders. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

A n n u a l S e c u r i t i e s R e p o r t

1. This is an English translation of the Annual Securities Report based on Article 24, Paragraph 1 of the Financial Instruments and Exchange Act filed via the Electronic Disclosure for Investors' Network (EDINET) system as set forth in Article 27-30-2 of the said act.
2. Appended to the back of this document, are English translations of the auditors' report that was attached to the Annual Securities Report when it was filed using the aforementioned method, and the internal control report and confirmation letter that were filed at the same time as the Annual Securities Report.

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Cover

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|-----------------------------------|---|
| Document title | Annual Securities Report |
| Clause of stipulation | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| Place of filing | Director-General of the Kanto Local Finance Bureau |
| Filing date | June 22, 2022 |
| Fiscal year | The 23rd Fiscal Year (from April 1, 2021 to March 31, 2022) |
| Company name | Sun Frontier Fudousan Kabushiki Kaisha |
| Company name in English | Sun Frontier Fudousan Co., Ltd. |
| Title and name of representative | Seiichi Saito, President Representative Director |
| Address of registered head office | 1-2-2 Yurakucho, Chiyoda-ku, Tokyo, Japan |
| Telephone number | +81 (0)3 5521-1301 |
| Name of contact person | Takeshi Hirahara, Executive Officer, General Manager of Corporate Planning Division |
| Nearest place of contact | 1-2-2 Yurakucho, Chiyoda-ku, Tokyo, Japan |
| Telephone number | +81 (0)3 5521-1301 |
| Name of contact person | Takeshi Hirahara, Executive Officer, General Manager of Corporate Planning Division |
| Place for public inspection | Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan) |

Part I Corporate Information

Item 1. Overview of the Company and Its Consolidated Subsidiaries

1. Summary of Business Results

(1) Consolidated

| Fiscal year | | 19th | 20th | 21st | 22nd | 23rd |
|--|---------------|----------------|----------------|----------------|----------------|----------------|
| Year ended | | March 31, 2018 | March 31, 2019 | March 31, 2020 | March 31, 2021 | March 31, 2022 |
| Net sales | (million yen) | 47,463 | 53,291 | 73,218 | 59,632 | 71,251 |
| Ordinary profit | (million yen) | 10,755 | 12,813 | 16,127 | 7,524 | 12,215 |
| Profit attributable to owners of parent company | (million yen) | 7,420 | 8,783 | 10,666 | 4,274 | 7,415 |
| Comprehensive income | (million yen) | 7,361 | 8,563 | 10,632 | 4,006 | 7,738 |
| Net assets | (million yen) | 48,849 | 55,860 | 64,809 | 69,773 | 74,452 |
| Total assets | (million yen) | 91,761 | 110,898 | 130,293 | 127,485 | 136,512 |
| Net assets per share | (yen) | 1,003.05 | 1,145.34 | 1,326.93 | 1,368.14 | 1,463.74 |
| Earnings per share | (yen) | 167.62 | 180.35 | 219.03 | 87.77 | 152.26 |
| Fully diluted earnings per share | (yen) | - | 180.33 | 218.97 | 87.73 | 152.12 |
| Equity ratio | (%) | 53.2 | 50.3 | 49.6 | 52.3 | 52.2 |
| Equity profit margin | (%) | 17.6 | 16.8 | 17.7 | 6.5 | 10.8 |
| Price earnings ratio | (times) | 7.0 | 6.6 | 3.7 | 11.0 | 6.9 |
| Cash flows from operating activities | (million yen) | (6,989) | (5,988) | (2,697) | 4,733 | 17,443 |
| Cash flows from investing activities | (million yen) | (2,443) | (4,258) | (4,441) | 451 | (9,386) |
| Cash flows from financing activities | (million yen) | 17,235 | 6,599 | 5,535 | (1,150) | 449 |
| Cash and cash equivalents at end of period | (million yen) | 22,682 | 18,933 | 17,394 | 21,319 | 29,951 |
| Number of employees [Number of temporary employees] | (persons) | 381 [335] | 522 [307] | 612 [401] | 641 [475] | 696 [532] |

Notes: 1. Fully diluted earnings per share for the 19th fiscal year is not stated because there are no dilutive shares.

2. "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 as of March 31, 2020) has been applied from the beginning of the 23rd fiscal year. Major management indicator, etc. for the 23rd fiscal year are the indicators after the application of the accounting standards, etc.

3. The Company has adopted the Employee Stock Ownership Plan (J-ESOP) since the 19th fiscal year, and the Company's shares held by the trust account of the Employee Stock Ownership Plan are included as treasury shares in the consolidated financial statements for the 19th fiscal year and thereafter. Therefore, when calculating earnings per share, the weighted average number of shares for the period in common shares is calculated including the number of the said shares in treasury share. In calculating the amount of net assets per share, the said number of shares is included in the number of treasury shares to be deducted from the total number of issued shares at the end of the period.

(2) The Company

| Fiscal year | | 19th | 20th | 21st | 22nd | 23rd |
|--|---------------|----------------|----------------|----------------|----------------|------------------|
| Year ended | | March 31, 2018 | March 31, 2019 | March 31, 2020 | March 31, 2021 | March 31, 2022 |
| Net sales | (million yen) | 44,254 | 48,722 | 64,472 | 42,002 | 59,563 |
| Ordinary profit | (million yen) | 10,761 | 12,846 | 16,822 | 7,994 | 14,356 |
| Profit | (million yen) | 7,444 | 8,806 | 11,122 | 5,314 | 9,284 |
| Share capital | (million yen) | 11,965 | 11,965 | 11,965 | 11,965 | 11,965 |
| Total number of shares outstanding | (shares) | 48,755,500 | 48,755,500 | 48,755,500 | 48,755,500 | 48,755,500 |
| Net assets | (million yen) | 48,502 | 55,683 | 64,934 | 68,204 | 74,432 |
| Total assets | (million yen) | 89,467 | 104,548 | 121,708 | 114,729 | 124,800 |
| Net assets per share | (yen) | 995.97 | 1,143.30 | 1,333.15 | 1,400.21 | 1,527.80 |
| Dividends per share (Including interim dividends per share) | (yen) | 33.50 (-) | 38.50 (-) | 42.00 (-) | 42.00 (-) | 44.00 (21.00) |
| Earnings per share | (yen) | 168.16 | 180.84 | 228.39 | 109.12 | 190.65 |
| Fully diluted earnings per share | (yen) | - | 180.82 | 228.33 | 109.07 | 190.47 |
| Equity ratio | (%) | 54.2 | 53.3 | 53.3 | 59.4 | 59.6 |
| Equity profit margin | (%) | 17.8 | 16.9 | 18.4 | 8.0 | 13.0 |
| Price earnings ratio | (times) | 6.9 | 6.5 | 3.6 | 8.9 | 5.5 |
| Dividend payout ratio | (%) | 19.9 | 21.3 | 18.4 | 38.5 | 23.1 |
| Number of employees | (persons) | 273 | 290 | 313 | 319 | 357 |
| Total shareholder yield | (%) | 124.28 | 129.48 | 96.29 | 115.77 | 128.87 |
| (Comparison index: TOPIX including dividends) | (%) | (115.90) | (110.00) | (99.60) | (141.50) | (144.30) |
| Highest share price | (yen) | 1,615 | 1,485 | 1,382 | 1,077 | 1,263 |
| Lowest share price | (yen) | 906 | 926 | 722 | 703 | 912 |

- Notes: 1. Fully diluted earnings per share for the 19th fiscal year is not stated because there are no dilutive shares.
2. "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 as of March 31, 2020) has been applied from the beginning of the 23rd fiscal period. Major management indicator, etc. for the 23rd fiscal period are the indicators after the application of the accounting standards, etc.
3. The Company has adopted the Employee Stock Ownership Plan (J-ESOP) since the 19th fiscal year, and the Company's shares held by the trust account of the Employee Stock Ownership Plan are included as treasury shares in the consolidated financial statements for the 19th fiscal year and thereafter. Therefore, when calculating earnings per share, the weighted average number of shares for the period in common shares is calculated including the number of the said shares in treasury share. In calculating the amount of net assets per share, the said number of shares is included in the number of treasury shares to be deducted from the total number of issued shares at the end of the period.
4. Dividend of 38.5 yen per share for the 20th fiscal year includes the 20th anniversary commemorative dividend of 2 yen per share.
5. The highest and lowest share prices are those on the First Section of the Tokyo Stock Exchange.

2. History

| Year and month | Matter |
|----------------|--|
| April 1999 | Established Sun Frontier Co., Ltd. in 1-4-8, Nishiki-cho, Kanda, Chiyoda-ku, Tokyo and its main business is in brokerage, leasing and management of commercial real estate. |
| December 1999 | Acquired license from the Minister of Construction as Real Estate Transaction Specialist (Minister of Construction (currently Ministry of Land, Infrastructure, Transport and Tourism) License). |
| September 2000 | Acquired the 1st building of the Company for rental business of real estate (Chuo-ku, Tokyo). |
| November 2000 | Changed trade name to Sun Frontier Fudousan Co., Ltd. for the purpose of clarifying business details. Sold the first used business revenue building (Chuo-ku, Tokyo) (Revitalization Business). |
| January 2001 | Started Replanning Business (Real Estate Revitalization and Utilization business). |
| April 2001 | Started rental brokerage of commercial business. |
| January 2002 | Obtained a general construction business license as a construction business (approved by the Governor of Tokyo.) Registered as a Senior Architect Office (registered by the Governor of Tokyo). |
| April 2002 | Relocated the head office (registered address of the head office) to 10-4, Ginza 3-chome, Chuo-ku, Tokyo. |
| February 2003 | Registered and started the real estate appraisal business (registered by the Governor of Tokyo). |
| November 2003 | Sale of 1st conversion type residential revenue building (Minato-ku, Tokyo) (Revitalization Business). |
| November 2004 | Over-the-counter registration of shares in Japan Securities Dealers Association General real estate investment advisory business registration (Minister of Land, Infrastructure, Transport and Tourism registration). |
| December 2004 | Canceled over-the-counter registration in Japan Securities Dealers Association and listed its shares on the JASDAQ Securities Exchange. Established the first revitalization real estate fund. |
| April 2005 | Moved registered place of business to 3-9-11, Ginza, Chuo-ku, Tokyo. |
| July 2005 | Established SF Building Support Inc. and started the Rent Guarantee Business. |
| August 2005 | Registered the business of the Sale and Purchase of Trust Beneficial Interests (registered by the Director-General of the Kanto Local Finance Bureau). |
| December 2005 | Obtained special construction license (from Governor of Tokyo). |
| February 2007 | Got listed on the first section of the Tokyo Stock Exchange. |
| June 2007 | Relocated head office to 1-2-2, Yurakucho, Chiyoda-ku, Tokyo |
| September 2007 | Registered the Type II Financial Instruments Business Operator (registered by the Director-General of the Kanto Local Finance Bureau). |
| January 2012 | Made Yubi Co., Ltd. (now SF Building Maintenance Inc.) a consolidated subsidiary and started Building Maintenance Business. |
| March 2013 | Sun Frontier Fudousan Taiwan Co., Ltd. is established in Taipei City. |
| November 2013 | Joined the Japan Business Federation. |
| August 2015 | Established Sun Frontier Hotel Management Inc. and began operating hotels. |
| October 2015 | Made a business alliance on hotel business in Japan with Spring Group of China. |
| December 2015 | SUN FRONTIER VIETNAM CO., LTD. established in Vietnam. |
| March 2016 | PT. SUN FRONTIER INDONESIA is established as a local subsidiary in Indonesia. |
| April 2016 | Started Conference Room Rental Business. |
| December 2016 | Made Hotel Sky Court Hotel Co., Ltd. (currently Sky Heart Hotel Inc.) into a consolidated subsidiary. |
| November 2017 | Established Sun Frontier Sado Co., Ltd. and started to work on Regional Revitalization Business. |
| February 2018 | Purchased the business of "Hotel AZUMA", a long-established ryokan. |
| June 2018 | Acquired "VIP Nangoku", a business hotel (currently SKY HEART Hotel Shimonoseki). |
| October 2018 | Obtained permission for Act on Specified Joint Real Estate Ventures (Commissioner of the Financial Services Agency / Minister of Land, Infrastructure, Transport and Tourism), started specified joint real estate ventures. |
| January 2019 | Made Kouwa Corporation (currently SF Engineering Corporation) into a consolidated subsidiary. |
| April 2019 | Spun off Conference Room Rental Business and established Sun Frontier Space Management Co., Ltd. |
| November 2020 | Sun Frontier Hotel Management Inc. takes over the Hotel Development Business through a corporate split (simplified absorption-type split). |
| January 2021 | Made Japan System Service Inc. into a consolidated subsidiary. |
| February 2021 | Made Communication Development Inc. into a consolidated subsidiary. |
| April 2021 | Made Hotel Osado Co., Ltd. into a consolidated subsidiary. |

3. Description of Business

The Group consists of the Company, 22 consolidated subsidiaries and 2 equity-method associated companies, and includes Real Estate Revitalization Business, Real Estate Service Business, Hotel and Tourism Business and Other.

The business and the positioning of the Company and its affiliates in relation to the business are as follows. The Group has changed the classification of reportable segment from the current consolidated fiscal year. For details, please refer to “Item 5. Financial Information 1. Consolidated Financial Statements, etc. (1) Consolidated Financial Statements Notes (Segment Information, etc.).”

(1) Real Estate Revitalization Business

In Real Estate Revitalization Business, we are engaged in Replanning Business and Rental Building Business.

(i) Replanning Business

We raise market value by purchasing an existing office building in central Tokyo and transforming it into a high-quality, well-designed building with a new concept that embodies the needs of the clients’ point of view and improve occupancy rate through ability of tenant mediation rooted in the local community, and then sell it to building owners and investors.

In addition, after the sale, we are working to build a deep and long relationship that enables us to stay close to clients through real estate services in Property Management Business.

(Major affiliated companies) Sun Frontier NY CO., Ltd.

(ii) Rental Building Business

The Company conducts Rental Building Business by purchasing, holding or leasing and subleasing properties in accordance with the Company’s ownership standards, such as profitable business buildings that are located in good locations and are expected to increase their value in the future. The Company has maintained high occupancy rate and secured stable rent income through the Group’s comprehensive real estate services and management capabilities cultivated in the Group’s leasing, property management, construction solutions, and Rent Guarantee Business, etc. Moreover, rent income from Replanning properties still in the process of planning until sales belongs to this business too.

(2) Real Estate Service Business

In Real Estate Service Business, we operate Property Management Business, Building Maintenance, Sales Brokerage Business, Leasing Brokerage Business, Conference Room Rental Business and Rent Guarantee Business.

(i) Property Management Business

A. Property Management Business

As building owners’ management partner, we are engaged in comprehensive property management from building management to tenant management and account operations. In addition, we continue to provide services to clients who purchase real estate through Replanning Business or intermediary services so that they can safely own a building.

B. Building Maintenance Business

We are engaged in comprehensive maintenance operations of buildings, from environmental maintenance management operations such as building cleaning with the swing of exterior windows and exterior walls, to security management operations, maintenance and inspection, in addition to waterproofing work and exterior wall repair work.

(Major affiliated companies) SF Building Maintenance Inc.
Japan System Service Co., Ltd.

(ii) Brokerage Business

A. Brokerage Business

The Company engages in a consulting Brokerage Business in which it coordinate with financial institutions, attorneys at law, tax accountants, etc., evaluates and assesses properties promptly in response to information on the sale of commercial profitable buildings and single-building profitable condominiums, and introduces potential buyers. In addition, among the abundant property information we have, properties that meet certain requirements are designated as Replanning Business

purchase properties, and we are engaged in introducing recycled properties to customers as sales properties.

(Major affiliated companies) Sun Frontier Fudousan Taiwan Co., Ltd.

B. Leasing Business

The Company specializes in commercial real estate and conducts leasing operations of community-based offices and stores limited to the central Tokyo area. In addition, we will provide tenants with the properties we have purchased, and will be responsible for rebuilding them as high-occupancy, high-profit buildings. It is also an important role to provide feedback to the building owners on the potential needs that can be obtained through day-to-day the needs of both Replanning Business and tenants.

(iii) Conference Room Rental Business

We are working to maximize the value of space and time in central Tokyo office buildings. We operate “Vision Center” which is our Conference Room Rental Business, “Vision Office” which is our monthly office rental business, and “Order Made Space” in which we rent spaces on a weekly or monthly basis. We have concentrated our stores in the central Tokyo area, where we can make use of the land intuition and branch network that we have cultivated in Office Building Business, and are pursuing convenience by responding quickly, flexibly and sensitively to client requests.

(Major affiliated companies) Sun Frontier Space Management Inc.

(iv) Rent Guarantee Business

Rent Guarantee Business provides guarantees to building owners for rent payment obligations for tenants using the commercial real estate, and focuses on reducing the economic burden of the tenant security deposit system. By reducing security deposits, tenants can reduce their financial burden when they move in. At the same time, making it possible to move in to offices and stores. For building owners and fund companies (asset management companies), in addition to the delinquent rent, restoration costs, and administrative burden, the Group provides peace of mind to building owners by reducing the mental burden associated with negotiations with tenants who are delinquent in rent.

(Major affiliated companies) SF Building Support Inc.

(3) Hotel and Tourism Business

In Hotel and Tourism Business, we operate Hotel Development Business and Hotel Operation Business.

(i) Hotel Development Business

After the revitalization of existing hotels and the development of new hotels, we plan to sell them as investment products to Japanese and Asian wealthy individuals to secure stable profits. In particular, the Group has entered into a long-term lease agreement with clients, the buyer of the hotels operated by the Group, after the sale of the hotels, and is working to build a deep and long-term relationship with clients.

(Major affiliated companies) Sun Frontier Hotel Management Inc.
Sun Frontier Okinawa Co., Ltd.

(ii) Hotel Operation Business

Under the theme of “a warm-hearted Hotel” where our heart-warming employees welcome guests, we operate our own hotel brands, “HIYORI Hotels & Resorts” and “Sky Heart Hotel Inc.,” and “Spring Sunny Hotel & Resorts” which is a joint hotel brand with the Chunqiu Group in China.

In addition, we have been working toward regional revitalization on Sado island, Niigata prefecture, under the slogan “We will energize Sado Island through tourism!”

(Major affiliated companies) Sun Frontier Hotel Management Inc.
Sky Heart Hotel Inc.
Sun Frontier Sado Co., Ltd.
Okesa Kanko Taxi Co., Ltd.

(4) Other

In Other, we are engaged in Overseas Development Business and Construction Business.

(i) Overseas Development Business

In addition to promoting the development and management business of high-rise condominiums in Vietnam, the Group has also been entrusted with the development of urban-type detached houses and the ownership and management of serviced apartments with the aim of providing opportunities for wealthy clients in Japan and Asia to invest in real estate in large Asian cities and contributing to the development of local economies.

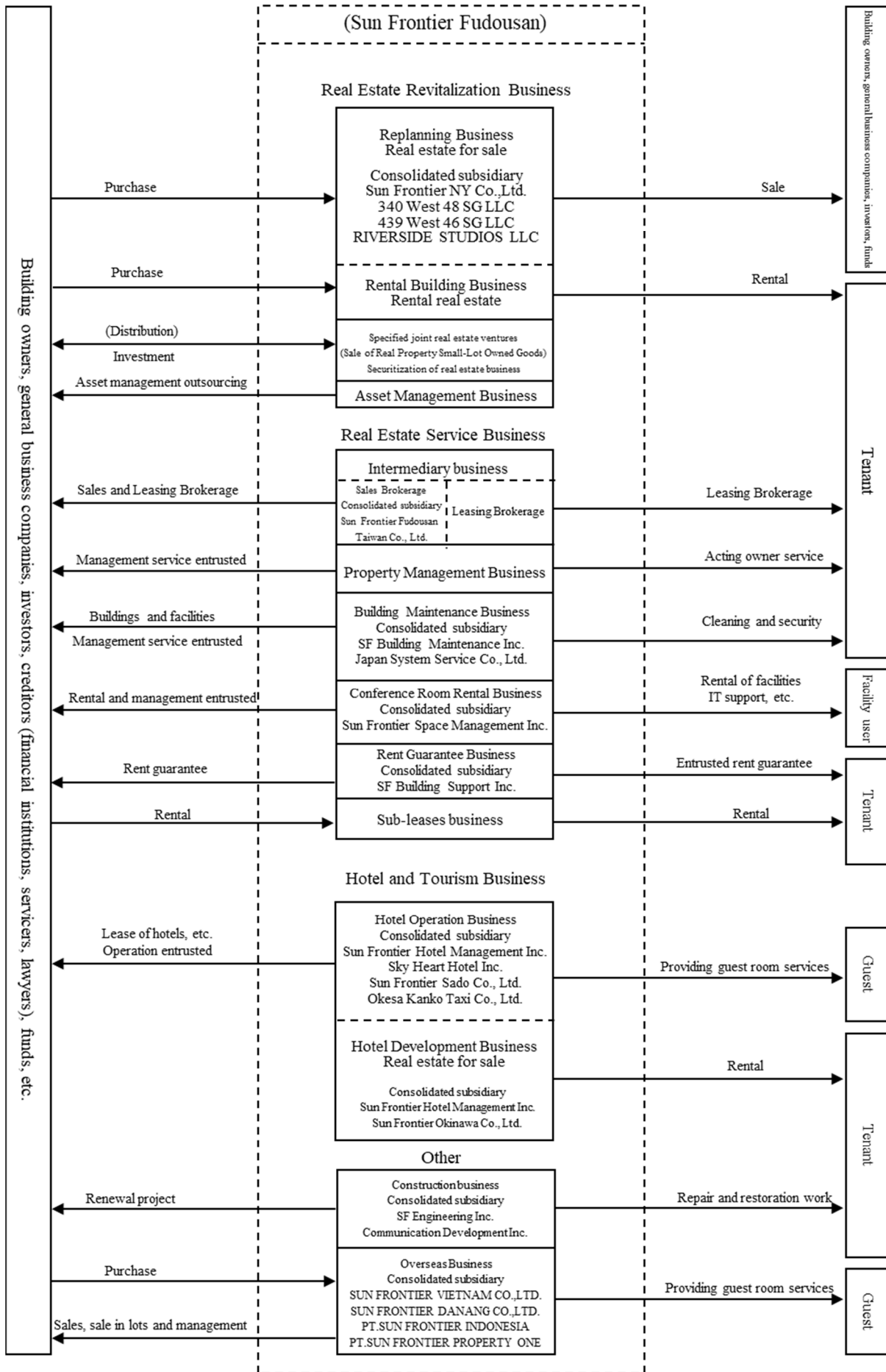
(Major affiliated companies) SUN FRONTIER VIETNAM CO.,LTD.
 SUN FRONTIER DANANG CO.,LTD.
 PT.SUN FRONTIER INDONESIA
 PT.SUN FRONTIER PROPERTY ONE

(ii) Construction Business

The Group is engaged in renovation planning, repair and renovation of commercial real estate. In addition to interior finishing work by tenants moving in and out, restoration work, work ordered from building owners, and renewal work, we also engage in contract work for interior finishing work in buildings and telecommunications work from major construction companies.

(Major affiliated companies) SF Engineering Inc.
 Communication Development Inc.

Business Structure



4. Overview of Subsidiaries and Affiliates

| Company name | Location | Share capital | Major business | Ownership of voting rights (%) | Relationship |
|--|-------------------------------|-----------------------------------|---|--------------------------------|--|
| (Consolidated subsidiaries) | | | | | |
| SF Building Support Inc. | Chiyoda-ku | 50 million yen | Rent Guarantee Business | 100.0 | One person serving concurrently as officers |
| SF Building Maintenance Inc. | Sumida-ku | 20 million yen | Building Maintenance business | 100.0 | One person serving concurrently as officers |
| Japan System Service Inc. | Minato-ku | 10 million yen | Building Maintenance business | 100.0 | One person serving concurrently as officers |
| Sun Frontier Space Management Inc. | Minato-ku | 50 million yen | Conference Room Rental Business | 100.0 | Two persons serving concurrently as officers |
| SF Engineering Inc. | Sumida-ku | 20 million yen | Construction and interior finishing | 100.0 | One person serving concurrently as officers |
| Communication Development Inc. | Chuo-ku | 45 million yen | Electrical and telecommunications engineering | 100.0 | One person serving concurrently as officers |
| Navd Co., Ltd. | Chuo-ku | 10 million yen | Office planning and design, Web marketing business | 90.0 | Two persons serving concurrently as officers |
| Sun Frontier Hotel Management Inc. | Chiyoda-ku | 100 million yen | Hotel development and hotel planning and operation business | 100.0 | Two persons serving concurrently as officers |
| Sky Heart Hotel Inc. | Chiyoda-ku | 10 million yen | Hotel planning and operation business | 100.0 | One person serving concurrently as officers |
| Sun Frontier Sado Co., Ltd. | Sado-shi, Niigata | 100 million yen | Hotel planning and operation business and Regional Revitalization | 100.0 | Two persons serving concurrently as officers |
| Hotel Osado Co., Ltd. | Sado-shi, Niigata | 100 million yen | Hotel operation business, Regional Revitalization Business | 100.0 | Two persons serving concurrently as officers |
| Okesa Kanko Taxi Co., Ltd. | Sado-shi, Niigata | 10 million yen | Passenger automobile transport business | 100.0 | One person serving concurrently as officers |
| Sun Frontier Okinawa Co., Ltd. | Naha-shi, Okinawa | 230 million yen | Hotel development, hotel planning and operation business | 100.0 | Two persons serving concurrently as officers |
| Sun Frontier Fudousan Taiwan Co., Ltd. | Taiwan | 10 million Taiwan dollar | Real estate consulting business | 100.0 | Two persons serving concurrently as officers |
| SUN FRONTIER VIETNAM CO.,LTD. | Socialist Republic of Vietnam | 6,000 million Vietnamese dong | Real estate business in Vietnam | 100.0 | One person serving concurrently as officers |
| SUN FRONTIER DANANG CO.,LTD. | Socialist Republic of Vietnam | 160,466 million Vietnamese dong | Real estate business in Vietnam | 100.0 | One person serving concurrently as officers |
| PT.SUN FRONTIER INDONESIA | REPUBLIC OF INDONESIA | 3,323 million Indonesian rupiah | Real estate business in Indonesia | 85.0 | Two persons serving concurrently as officers |
| PT.SUN FRONTIER PROPERTY ONE | REPUBLIC OF INDONESIA | 120,000 million Indonesian rupiah | Real estate business in Indonesia | 99.95 | Two persons serving concurrently as officers |
| Sun Frontier NY Co., Ltd. | United States | 18,189 thousand U.S. dollar | Real Estate Revitalization Business in the United States | 100.0 | Two persons serving concurrently as officers |
| 340 West 48 SG LLC | United States | 5,900 thousand U.S. dollar | Real Estate Revitalization Business in the United States | 90.0 | Two persons serving concurrently as officers |
| 439 West 46 SG LLC | United States | 9,065 thousand U.S. dollar | Real Estate Revitalization Business in the United States | 90.0 | Two persons serving concurrently as officers |
| RIVERSIDE STUDIOS LLC | United States | 11,150 thousand U.S. dollar | Real Estate Revitalization Business in the United States | 90.0 | Two persons serving concurrently as officers |

- Notes: 1. In addition to the above, there are two affiliates accounted for by the equity method. One affiliate accounted for by the equity method was sold on April 28, 2022.
2. On April 26, 2021, Hotel Osado Co., Ltd., which was newly acquired by Sun Frontier Hotel Management Co., Ltd. and Sun Frontier Sado Co., Ltd., was included in the consolidated subsidiaries. As of December 22, 2021, the newly established Navd Co., Ltd. was included in the Company's consolidated subsidiaries.
3. Sun Frontier Community Arrangement Co., Ltd. ceased to exist as a result of an absorption-type merger with the Company as the surviving company on January 1, 2022.

5. Employees

(1) Consolidated

As of March 31, 2022

| Segment Name | Number of Employees |
|-------------------------------------|---------------------|
| Real Estate Revitalization Business | 57 (1) |
| Real Estate Service Business | 284 (170) |
| Hotel and Tourism Business | 217 (336) |
| Reportable segment Total | 558 (507) |
| Other | 92 (10) |
| Company-wide (common) | 46 (15) |
| Total | 696 (532) |

- Notes: 1. The number of employees is the number of working employees.
2. Figures in the "Number of Employees" column are temporary employees.
3. Temporary employees include part-time and contract employees and exclude temporary workers.
4. The number of employees listed as "Company-wide (common)" refers to those belonging to corporate divisions.

(2) The Company

As of March 31, 2022

| Number of Employees | Average age (years old) | Average length of service (years) | Average annual salary (thousand yen) |
|---------------------|-------------------------|-----------------------------------|--------------------------------------|
| 357(32) | 36.2 | 6.5 | 7,160 |

| Segment Name | Number of Employees |
|-------------------------------------|---------------------|
| Real Estate Revitalization Business | 57 (1) |
| Real Estate Service Business | 209 (13) |
| Hotel and Tourism Business | 24 (0) |
| Reportable segment Total | 290 (14) |
| Other | 21 (3) |
| Company-wide (common) | 46 (15) |
| Total | 357 (32) |

- Notes: 1. The number of employees is the number of working employees.
2. Average annual salary includes bonuses and non-standard wages.
3. Figures in the "Number of Employees" column are temporary employees.
4. Temporary employees include part-time and contract employees, but exclude temporary workers.
5. The number of employees listed as "Company-wide (common)" refers to those belonging to corporate divisions.

(3) Status of labor unions

Although no labor union has been formed, labor-management relations are moving smoothly

Item 2: Business Overview

1. Management Policy, Business Environment and Tasks Ahead, etc.

The forward-looking statements in herein are based on the judgment of the Group as of the date of submission of the Annual Securities Report.

(1) Management policies and strategies

(i) Basic policy of corporate management

The Group is engaged in business activities with the following Management Principle and Corporate Philosophy as basic policy of management.

(Management Principle)

“We are committed to protecting all employees and pursuing their physical and mental well-being, while at the same time contributing to the prosperity of mankind and society with a spirit of coexistence.”

(Corporate Philosophy)

“Through our work, we improve our knowledge, skills, and personality with enthusiasm, and by concentrating on the utilization and distribution of real estate stocks, we will reduce the use of a resource that cannot be reproduced, and contribute to the lasting prosperity of humankind and flora and fauna on the earth.”

(ii) Target management indicators

Aiming for stable growth over the medium to long term, the Group places importance on maintaining at least 20% Ordinary profit margin from the perspective of profitability and productivity, at least 50% Equity Ratio from the perspective of financial security, and at least 10% ROE, which indicates how effectively the Group managed Shareholders' equity.

(iii) Management environment

In the Japanese economy, the number of people infected with COVID-19 is currently on a downward trend, and the business environment surrounding corporate earnings is showing positive signs, particularly in the hotel and tourism industries. Regarding the global economy, although the impact of variants has abated, supply chain disruptions and the invasion of Ukraine by Russia have accelerated price increases, and monetary easing has been reduced or tightened in various countries. Therefore, it is necessary to closely monitor fluctuations in financial and capital markets going forward.

(2) Priority business and financial issues to be addressed

The impact of the spread of COVID-19 infections since the beginning of 2020 has significantly changed the business environment surrounding the Group. Against the backdrop of these changes in the business environment and the shift to a new normal, the Group revised the medium-term management plan in May 2021 in order to reestablish a sustainable growth path. The end date of the plan was extended by two years to March 2025 without changing the quantitative target specified in the plan. Basic policy has been determined to provide “places where people gather and communicate with each other, and create social development and happiness for people.” We will redefine the value of places where people come together amid the major changes in values caused by the COVID-19 pandemic and work to solve new social issues through offices, hotels, and other facilities.

<Initiatives towards Sustainability>

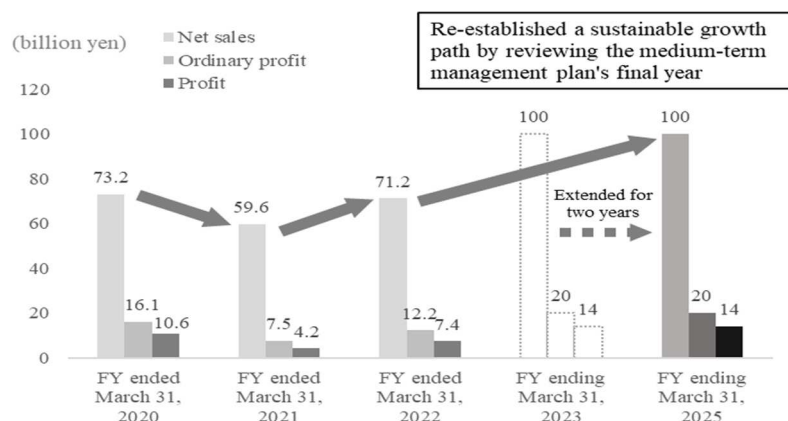
The ESG perspective is set as an important point in the plan. Amid the recent acceleration of ESG and the SDGs as global trends, since the founding of the Group, our Corporate Philosophy has always been “we reduce the waste of non-renewable resource on earth and contribute to the prosperity of the people, plants and animals” and we have developed operational activities that contribute to the sustainability of society. On March 28, 2022, the Group formulated its Sustainability Vision and identified important issues (materiality) in order to respond to this social background and to communicate the Group's activities once again. Going forward, we will strive to increase our corporate value over the medium to long term by contributing to the creation of a sustainable society through the realization of this vision and the implementation of specific measures for important issues.

<Initiatives towards Digital Transformation>

Digitalization is also our priority. Due to the COVID-19 pandemic, the digitalization of society has been rapidly and forcibly advanced. In addition, society is facing an era of labor shortages due to the decline in the working-age population caused by the declining birthrate. At the same time, improvements in labor productivity are required. Due to these changes in social conditions, digital transformation (DX) in companies has become an urgent task. In April 2022, the Company reorganized its existing division, the Digitalization Promotion Office, into the DX Business Division, which aims to speed up the use of digital technology and strengthen its expertise. The aim is to realize data driven management and to implement a digital transformation that integrates the Group’s expertise and digital technology.

FY ending March 31, 2025
(Quantitative target)

| | |
|------------------------|-----------------|
| Net sales | 100 billion yen |
| Ordinary profit | 20 billion yen |
| Profit | 14 billion yen |
| Ordinary profit margin | 20% or more |
| Equity ratio | 50% level |
| Return on Equity | 10% or more |



Sustainability Vision and Important Issues (Materiality)

1. Sustainability Vision

We will contribute to the realization of a sustainable society through our business activities while respecting the heart of altruism, the Group policy.

2. Important Sustainability Issues

We have identified three important issues to be addressed in order to realize our Sustainability Vision. Specific measures will be developed in each of the three areas of environmental protection, regional revitalization and human resource development. Specific measures will be reviewed as appropriate in accordance with future environmental and social trends and changes in the business environment.

| Important Issue | Vision | Policy | Related SDGs |
|----------------------------|--|--|--------------|
| Environmental protection | Increase environmental sustainability by significantly reducing waste and greenhouse gas emissions, as a frontier of Real Estate Revitalization Business | <ul style="list-style-type: none"> Extend the life and health of real estate Energy conservation and reduction of environmental impact by Real Estate Revitalization Business Expanded use of renewable energy | |
| Regional revitalization | Create sustainable growth of regional economies through offices, hotels, and tourism, as a frontier for sustainable regional revitalization | <ul style="list-style-type: none"> Create buildings, offices, and spaces with “job satisfaction” and “creativity” that contribute to economic growth Prevent and mitigate disaster through regional cooperation Solve regional issues through community activation and creation | |
| Human resource development | Spread the concept of “altruism” that is indispensable for realizing a sustainable society, as a frontier of philosophy management | <ul style="list-style-type: none"> Create workplaces with “job Satisfaction”, “creativity”, and “growth opportunities” Respect and utilize diversity Disseminate information on philosophy management to foster next-generation managers | |

2. Risk Factors

Among the matters related to the status of business and accounting described in Annual Securities Report, the following are matters that may have a significant impact on investors' decisions.

The forward-looking statements in this document are those determined by the Group as of the end of the consolidated fiscal year under review.

1. Business environment surrounding the Group and characteristics of the Group's business

(1) Business environment

The Group is developing one stop real-estate services that include brokerage, management, guarantee, construction, leasing, and trading, centered on office buildings and commercial buildings in the central Tokyo, which are located in real estate revitalization and initiatives, and in the central Tokyo, which is influential in enhancing market competitiveness as a company. However, the Group's operating results and financial position may be affected by a downturn in the real estate market, such as a rise in vacancy rate or a decline in rent, due to worsening economic conditions.

(2) Response to COVID-19 and Major Impacts of Projects

- (i) As a company-wide prevention of infection outbreak initiatives, we have introduced work styles suited to each business site, such as mobile work, satellite office use, and staggered commuting. We have also maintained the quality and quantity of communication among conferencing and chat tools while ensuring thorough avoidance of 3Cs.
- (ii) In Office Building Business, some tenants using those buildings which the Company are entrusted to manage requested rent reductions, exemptions and cancellation. In particular, there were many requests from tenants, such as restaurants, whose businesses faced headwinds due to COVID-19 pandemic. On the other hand, the reduction and diversification of office space at large-scale offices have led to an increase in inquiries regarding the relocation of offices to small and medium-sized office buildings, where the Company is strong. In addition, IT-related companies, cosmetic surgery companies and other companies that are expanding their COVID-19 pandemic businesses have also increased their floor space and expanded their business. However, if the effects of COVID-19 persist and the real estate market stagnates, such as a rise in vacancy rate or a decline in rent, the Group's operating results and financial position may be affected.
- (iii) In Hotel Operation Business, while the occupancy rate of hotels in areas with high business needs remained steady, the occupancy rate of hotels in urban areas remained low due to a sudden decrease in the entry of foreign visitors to Japan. If the COVID-19 pandemic is prolonged and the hotel occupancy rate slump continues, the Group's operating results and financial position may be further affected.

(3) Characteristics of Replanning Business

- (i) Replanning Business is a revitalization business that mainly targets commercial real estate. It is a business that improves profits by regenerating commercial real estate that is inactive or has high vacancy rate and low profits. The buyer is an individual or corporation that invests mainly in real estate rent income.
In the event of turmoil in the financial markets due to worsening economic conditions or credit crunch, etc., the distribution market for real estate may be sluggish, and the inventories value of properties handled Replanning Business may decline. In addition, sales activities may not progress as planned, which may have an impact on the Group's operating results and financial position.
- (ii) Replanning Business procures funds mainly by borrowing from financial institutions and purchases properties, so the interest-bearing debt balance changes depending on the status of property purchases and sales. In raising funds, the Company does not rely on borrowings from specific financial institutions, and strives to raise funds on stable and appropriate terms while always balancing with multiple financial institutions. However, if turmoil in the financial markets arises due to a credit crunch or other factors, the Group's operating results and financial position may be adversely affected due to a failure to procure the necessary funds for business development.
- (iii) Replanning Business will purchase the property and sell it after the completion of replanning, but cost of sales and net sales of the business will be recorded when the property is sold. In addition, the amount per transaction is high compared to

revenues from other Real Estate Service Business, etc. Consequently, the Group's operating results and financial position may be affected by factors such as the timing of the sale and changes in amount.

(4) Status of competition

The Group's businesses are comprised of Replanning Business, Rental Building Business, brokerage and leasing, Property Management Business, Building Maintenance Business, Rent Guarantee Business, Conference Room Rental Business, Hotel Development Business, Hotel Operation Business, Overseas Development Business, and Construction Business. These businesses are characterized by the organic combination of these businesses to provide consistent services related to commercial real estate.

In addition, by linking the functions of each business unit, the Company aims to maintain and strengthen its competitiveness and differentiate itself from competitors by conducting business operations in a coordinated manner, such as by purchasing potentially superior properties from a broad network of customers. However, if this advantage is not maintained, the Group's operating results and financial position may be affected.

(5) Hotel development

The Group is responsible for everything from hotel planning, development, and management of hotels. However, some of the properties owned by the Group may be sold to investors after stable operations. However, the basic business model is to continue leasing and operating the property even after it is sold. Unlike the Replanning Business, in the Hotel Development Business, there are cases in which the Company develops land from purchase and starts from scratch. In such cases, the Group's operating results and financial position may be affected by the fact that it takes a considerable period of time to complete the project, which may result in a longer period of time during which it is unable to record revenues, such as hotel room revenues, or by the fact that the Group's business period may be relatively longer making it more susceptible to economic fluctuations.

(6) Hotel operations

Hotel Operation Business generally tends to be affected by economic trends and consumer spending. Accordingly, the Group's operating results and financial position may be affected by a decline in demand for business trips by companies and a decline in demand for leisure activities by individuals due to the sluggish economy, oversupply of rooms due to the opening of new hotels, or a decline in room rates and occupancy rate due to the spread of infectious diseases. In addition, fluctuations in foreign currency exchange rates, territorial disputes with neighboring countries, growing anti-Japanese sentiment, and other changes in the situation may lead to a decrease in the number of foreign tourists, a reduction in travel forecast, or a decline in consumer confidence. These changes may have an impact on the Group's operating results and financial position.

(7) Country risk

The Group's strategy is to expand its operations Overseas Business. However, the Group may be exposed to risks such as exchange rate trends, differences in religions, cultures and business practices, uncertainty in economic conditions, political instability such as conflicts, civil commotions, terrorism and riots, and problems in local labor-management relations. There are also risks associated with political, economic, legal or other obstacles, such as investment regulations, restrictions on remittances and tax system reforms including tax rate changes. The expansion of Overseas Business operations may require a long period of time before the realization of investment profits, and may affect the Group's operating results and financial position.

(8) Disasters, etc.

In the event of a natural disaster such as an earthquake, storm or flood, or a man-made disaster such as a war, terrorism or fire, the value of real estate held, managed or invested by the Group may be significantly impaired, which may have an impact on the Group's operating results and financial position.

(9) Risks such as lawsuits

There is a possibility that a lawsuit other may be filed by a client or customer in connection with a property for which the Group

conducts trading, leasing, trading or leasing brokerage or management. The contents and results of these lawsuits may affect the Group's operating results and financial position.

(10) Risks related to climate change and the environment

As a corporate citizen, we are aware of the inevitableness and importance of addressing global environmental issues. Any delay in the use of products with low environmental impact or in the initiatives toward a carbon-neutral society could lead to a decline in the social reputation of the Group, which in turn could affect its performance.

(11) Risks related to the supply chain

The Group relies on external suppliers for materials and fixtures. In the event of a supply shortage, delivery delay or price hike in materials and fixtures that are used in the Group's products in a cross-sectional manner, the Group's business period may be prolonged, or business costs may rise, adversely affecting the Group's operating results.

2. Asset valuation

(1) Risks related to the evaluation of real estate for sale (including real estate for sale in process)

The Group holds a large amount of inventories in real estate for sale and real estate for sale in process (office buildings, hotel assets, etc.). The valuation of these inventories is based on the net selling price. The net selling price is the estimated amount of sales less the estimated amount of future construction costs and the estimated amount of sales expenses, etc., and the estimated amount of sales is mainly the return on profits estimated based on the business plan formulated by the Group. In addition, these inventory assets are exposed to risks such as lengthening of the ownership period due to delays in commercialization, including the impact of the novel coronavirus, tenant leasing status, profitability due to the management status of hotel occupancy rate, etc., fluctuations in the investment yield of real estate, and rising market interest rates. As a result, there is a possibility that the net selling price will decline and the unrealized loss will be recognized. As a result, the Group's operating results and financial position may be affected.

(2) Risks related to the non-current assets impairment loss related to Hotel Business

The Group owns non-current assets (buildings, facilities attached to buildings, land, software, etc.) in the Hotel Development Business and Hotel Operation Business of the Hotel and Tourism Business segment. These non-current assets are exposed to risks such as changes in the real estate market in the future and a decline in the occupancy rate of hotel rooms. Due to the impact of the novel coronavirus, the occupancy rate of hotel rooms has declined and profitability has declined. As a result, signs of impairment have emerged, claiming that these areas represent a significant deterioration in the business environment. The determination of impairment loss recognition in non-current assets for an indication of impairment is based on a comparison of the estimated undiscounted future cash flows over the economic remaining useful lives of major hotel assets with the book value of the hotel's asset group, based on the hotel's business plan. In the future, if the estimated amount of undiscounted future cash flows decreases due to the expansion of the above risks, impairment loss in non-current assets may occur. As a result, the Group's operating results and financial position may be affected.

3. Legal regulations

The Group's business is subject to legal restrictions and approvals under the Building Lots and Buildings Transaction Business Act Construction Business Law, the Law Concerning Real Estate Appraisal, the Real Estate Investment Advisory Business Registration Regulation, the Financial Instruments and Exchange Act, the Architect Law, the Security Business Law, the Law Concerning the Promotion of Proper Management of Condominiums, the residential management Leasing Business Registration Regulation, and the Law for Securing a sanitation Environment in Buildings.

The expiration dates of licenses, permissions, etc. pertaining to the Group's major operations are as follows. Currently, there are no grounds for cancellation of such licenses, permissions, etc., but if such grounds occur in the future, the Group's business activities may be significantly affected.

The business of the Group may also be affected in the future if these laws and regulations are revised or abolished or if new laws and regulations are established.

(1) Validity Period: The main other periods for which are stipulated by laws, contracts, etc. are as follows.

| License, permission, registration, etc. | Company Name | Effective period, registration date | Type | Relevant laws | Issuer of Registration, etc. |
|---|---------------------------------|---|---|--|--|
| Residential land buildings business operator license | Sun Frontier Fudousan Co., Ltd. | From December 29, 2019 December 28, 2024 | - | The Building Lots and Buildings Transaction Business Act | Minister of Land, Infrastructure, Transport and Tourism |
| | SF Building Maintenance Inc. | From February 25, 2022 February 24, 2027 | | | Governor of Tokyo |
| | Sun Frontier Okinawa Co., Ltd. | From January 9, 2019 January 8, 2024 | | | Governor of Okinawa Prefecture |
| Specific construction business license | Sun Frontier Fudousan Co., Ltd. | From July 20, 2017 July 19, 2022 | Building construction, roof construction, steel structure construction, carpenter construction, tile, brick and block construction, interior finishing | Construction Business Law | Governor of Tokyo |
| General construction license | SF Engineering Inc. | From September 17, 2021 September 16, 2026 | Interior finishing work | | Minister of Land, Infrastructure, Transport and Tourism |
| | SF Building Maintenance Inc. | From December 25, 2018 December 24, 2023 | Waterproofing work, interior finishing work, construction work, carpentry work, plastering work, stone work, roof work, tile, brick and block work, sheet metal work, glass work, painting work, heat insulation work, fittings work, fire fighting facilities work | | Governor of Tokyo |
| | Communication Development Inc. | From March 10, 2022 March 9, 2027 | Electrical work, telecommunications work, interior finishing work | | |
| Real estate appraiser registration | Sun Frontier Fudousan Co., Ltd. | From February 7, 2018 February 6, 2023 | - | Act on Real Estate Appraisal | Governor of Tokyo |
| General real estate investment advisory business registration | Sun Frontier Fudousan Co., Ltd. | From November 3, 2019 November 2, 2024 | - | Real Estate Investment Advisor Registration Regulations | Minister of Land, Infrastructure, Transport and Tourism |
| Type II Financial instruments business operator registration | Sun Frontier Fudousan Co., Ltd. | Registered on September 30, 2007 | - | The Financial Instruments and Exchange Act | Director-General of Kanto |
| Specified joint real estate ventures permit | Sun Frontier Fudousan Co., Ltd. | Approved on October 29, 2018 | - | Act on Specified Joint Real Estate Ventures | Minister of Land, Infrastructure, Transport and Tourism Commissioner of the Financial Services Agency |
| First class registered architect office | Sun Frontier Fudousan Co., Ltd. | From February 1, 2020 January 31, 2025 | - | Architect Law | Governor of Tokyo |
| Security business certification | Sun Frontier Fudousan Co., Ltd. | From December 26, 2021 December 25, 2026 | - | Security Business Law | Tokyo Metropolitan Public Safety Commission |
| | SF Building Maintenance Inc. | From April 5, 2019 April 4, 2024 | | | |
| Antique dealer | Sun Frontier Fudousan Co., Ltd. | Registered on October 2, 2019 | - | Antique Trade Law | Tokyo Metropolitan Public Safety Commission |
| | Communication Development Inc. | Registered on June 23, 2010 | | | |

| Licenses, permissions, registrations, etc. | Company Name | Effective period, registration date | Type | Relevant laws | Issuer of Registration, etc. |
|--|---------------------------------|---|------|---|---|
| Condominium management business registration | SF Building Maintenance Inc. | From January 8, 2022 January 7, 2027 | - | Act on Promotion of Proper Management of Condominiums | Minister of Land, Infrastructure, Transport and Tourism |
| Rental residential management business registration | Sun Frontier Fudousan Co., Ltd. | From October 20, 2021 October 19, 2026 | - | Act on Proper Management of Rental Housing | Director of Kanto Regional Development Bureau |
| | SF Building Maintenance Inc. | From February 1, 2022 January 31, 2027 | | | |
| Building environment sanitation comprehensive management business registration | SF Building Maintenance Inc. | From September 18, 2021 September 17, 2027 | - | Act on Securing a Sanitation Environment in Buildings | Governor of Tokyo |
| Building drinking water storage tank cleaning business registration | SF Building Maintenance Inc. | From June 29, 2018 June 28, 2024 | - | Act on Securing a Sanitation Environment in Buildings | Governor of Tokyo |
| Fire defense equipment business registration | SF Building Maintenance Inc. | Registered on July 3, 2018 | - | Fire Defense Law | Chief of Honjo Fire Station |
| Outdoor advertising license | SF Building Maintenance Inc. | From December 6, 2018 December 5, 2023 | - | Outdoor Advertising Law | Governor of Tokyo |
| Money lending business registration | SF Building Support Inc. | From July 1, 2020 June 30, 2023 | - | Money Lending Business Law | Governor of Tokyo |
| General chartered passenger automobile transport business | Okesa Kanko Taxi Co., Ltd. | Registered on January 19, 1999 | - | Road Transport Act | Director, Hokuriku Shinetsu Transport Bureau |
| General passenger automobile transport business | Okesa Kanko Taxi Co., Ltd. | Registered on May 6, 1955 | - | Road Transport Act | Director, Hokuriku Shinetsu Transport Bureau |
| Registered electric construction business operator license | Communication Development Inc. | From October 3, 2020 October 2, 2025 | - | Electrical Construction Business Law | Governor of Tokyo |

(2) In conducting securitization of real estate business, the Group will use special purpose companies (SPC) established by either special purpose companies based on the Asset Securitization Act or stock companies and limited liability companies based in the Companies Act. If a special purpose company based on the Asset Securitization Act conducts securitization business, it will be subject to the regulations of the Asset Securitization Act.

4. Changes in accounting standards and the real estate tax system

Changes in accounting standards and the real estate tax system may have an impact on the Group's operating results and financial position due to increased costs of property acquisitions and sales.

5. Protection of personal information

The Group is a "business entity handling personal information" that holds personal information on building owners, tenants, hotel guests, etc. in the course of business, and it is forecast that related information will increase as the Group expands its business in the future. Although we are strengthening our information management system to ensure thorough internal information management, if personal information such as customer information is leaked outside due to unforeseen circumstances, it may damage the credibility of the Group and affect its operating results and financial position.

3. Analyses of Consolidated Financial Position, Operating Results and Cash Flows from the management's perspective

A summary of the Company's financial position, operating results and cash flows for the consolidated fiscal year under review, as well as the content of recognition, analysis and discussion regarding the Company's operating results and other aspects from the perspective of management, are as follows.

The forward-looking statements contained herein are based on judgments made as of the end of the consolidated fiscal year under review.

(1) Operating Results

The Japanese economy showed signs of recovery after the lifting of the state of emergency at the end of September 2021. However, due to the impact of a COVID-19 variant, the number of infected people rose toward the end of the consolidated fiscal year under review. As a result, the business environment surrounding corporate earnings continues to be severe, particularly in the hotel and tourism industries. As for the global economy, while the impact of this new variant continues, the rise in raw material prices due to Russia's invasion of Ukraine and other factors has accelerated the rise in commodity prices, leading to growing expectations that monetary easing will be reduced or tightened in various countries. Therefore, it is necessary to closely monitor future fluctuations in the financial and capital markets.

The continuous worsening of average vacancy rates in the Tokyo Business District (5 wards of Central Tokyo: Chiyoda, Chuo, Minato, Shinjuku, and Shibuya), where the Group operates the Office Building Business, seems to have bottomed out in December 2021, but has been seesawing since January (according to a survey by a private research institution). In addition, the average rent was 20,366 yen (unit price per tsubo), down for the 20th consecutive month (total 2,648 yen/approximately 11.5%), and the overall office market remains weak. In the real estate investment market, although the willingness of institutional investors, etc. to invest remains high, the outlook remains unpredictable due to the global monetary tightening phase.

Under this business environment, the Group is steadily developing its businesses based on the medium-term management plan, which was announced in May 2021. In the current consolidated fiscal year, in the pandemic of COVID-19, the Group's core business, the Real Estate Revitalization Business, achieved high profitability and high-quality commercialization. As a result, sales of real estate for sale were steady, and business performance expanded steadily in the Real Estate Service Business. Meanwhile, in the Hotel Operation Business, losses were recorded in the current consolidated fiscal year due to the impact of the declaration of a state of emergency and start-up expenses at newly opened hotels.

As a result of the above, net sales increased 19.5% to 71,251 million yen from the previous period, operating profit increased 53.3% to 12,127 million yen from the previous period, ordinary profit increased 62.3% to 12,215 million yen from the previous period, and profit attributable to owners of parent increased 73.5% to 7,415 million yen from the previous period.

From the beginning of the first quarter consolidated accounting period, a reportable segment was partially changed. In line with this change, actual figures for the current consolidated fiscal year and the previous fiscal year have been reclassified to the new segment classification. The background and outline of the segment change are as follows. In November 2020, in order to utilize the know-how of the Hotel Operation Business for the Hotel Development Business to enhance profitability in an integrated manner, the Company changed the organizational structure by transferring the Hotel Development Business from Sun Frontier Fudousan Co., Ltd. to Sun Frontier Hotel Management Inc. through a corporate split. Accordingly, the Company changed its business segment to reflect this change and changed the name of its reportable segment to "Hotel and Tourism Business". At the same time, from the perspective of further strengthening coordination among our business segments in the Real Estate Service field, we have consolidated related businesses segments, such as the Conference Room Rental Business and the Rent Guarantee Business, into the "Real Estate Service Business".

Results by segment are as follows.

(Real Estate Revitalization Business)

In the Real Estate Revitalization Business, we are engaged in (1) Replanning Business and (2) Rental Building Business.

(1) In the Replanning Business, we are performing all processes in-house, from purchasing buildings to planning renovations, tenant placement, sales and after-sales support. Sales in the current consolidated fiscal year were steady due to strong investor enthusiasm. On the other side, regarding purchases, the Group carefully selects properties while monitoring the impact of macroeconomic fluctuations on the real estate market and interest rate trends. In commercialization, we aim to create offices that fit a hybrid working style and are sought-after even in the new normal, while anticipating changes in urban areas, offices and work styles. In addition, through coordination with the Leasing Division, which has established a branch network in central Tokyo, the Group promoted the attraction of tenants even during the COVID-19 pandemic and finished real estate products with high occupancy rates and high added value, thereby selling products that meet the expectations of a wide range of clients in Japan and overseas. As a result, the number of buildings sold in the Replanning Business progressed steadily to 21 and both net sales and profits increased significantly from the previous fiscal year.

(2) In the Rental Building Business, with the aim of building a stable revenue base, the Group will aim to increase rent income over the medium to long term by utilizing the operational capabilities cultivated in the Real Estate Service division while maintaining the number of properties in commercialization in the Replanning Business. However, both net sales and profits decreased from the previous fiscal year due to sales replacement of large mid-to-long-term buildings with high occupancy rates during the current fiscal year.

As a result, net sales in the Real Estate Revitalization Business as a whole increased 54.2% to 55,958 million yen from the same period of the previous period and segment profit increased 78.5% to 16,262 million yen from the same period of the previous period.

(Real Estate Service Business)

In the Real Estate Service Business, we operate (1) Property Management Business, (2) Building Maintenance Business, (3) Brokerage Business, (4) Leasing Business, (5) Conference Room Rental Business and (6) Rent Guarantee Business.

Each of these operating divisions is developing its businesses in the area of small to medium-sized office buildings in central Tokyo by combining their expertise and working together. This is also the foundation for generating high profitability in the Replanning Business by creating added value through a chain reaction of advanced technologies cultivated through originality and ingenuity in the field.

(1) In the Property Management Business, in cooperation with the Leasing Division, the Group aims to realize high-occupancy and high-profit building management by attracting tenants. At the same time, in the event of disasters such as earthquakes and typhoons, the Group will cooperate with the Building Maintenance Division and the Construction Division to quickly support the restoration of building facilities, thereby providing safe and secure building management for owners and tenants. Although the number of buildings under management increased, management revenue was stagnant due to a drop in occupancy rate. As a result, both net sales and profits decreased slightly from the previous fiscal year.

| | End of March 2020 | End of March 2021 | End of March 2022 |
|------------------------------|-------------------|-------------------|-------------------|
| Number of Managing Buildings | 392 buildings | 397 buildings | 421 buildings |
| Occupancy Rate | 98.6% | 94.4% | 91.5% |

- (2) In the Building Maintenance Business, the Group is promoting business with its strength in high-rise cleaning of exterior windows and walls using swings, waterproofing work and exterior wall renovation work. In the previous fiscal year, the Group acquired 100% of the shares of Japan System Service Inc., an industry peer, in an effort to strengthen its operating base in central Tokyo. In the current fiscal year, both net sales and profits significantly increased compared with the previous fiscal year. This is due to a reaction to a decrease in orders due to the impact of the COVID-19 pandemic in the previous fiscal year, an increase in the number of managing properties, and the addition of the sales and profits of Japan System Service Inc.
- (3) In the Sales Brokerage Business, as part of our real estate consulting services, we are responding quickly to requests for consultation from clients in other divisions such as the Property Management Business and Leasing Brokerage Business. During the current fiscal year, the Office Building Business Division worked together to support building owners manage their buildings and succeeded in concluding sales brokerage contracts based on the trust it has built up and both net sales and profits increased compared with the previous fiscal year.
- (4) In the Leasing Brokerage Business, we have developed a service network based in 11 sites, mainly in central Tokyo, which functions as a window for consultation close to the local building owners. In addition, we are rapidly creating added value from the clients' perspective by utilizing the needs and changes of tenants quickly acquired at tenant leasing sites in product planning in the Replanning Business. In the current fiscal year, both net sales and profits increased, partly due to a reaction to the stagnation of tenant relocation caused by the COVID-19 pandemic in the previous fiscal year.
- (5) In the Conference Room Rental Business, while meeting room usage needs remain limited due to the COVID-19 pandemic, we have been able to capture the demands of new customer segments by providing services that respond to the changing times and thoroughly implementing flexible proposal sales to meet clients' needs through close ties with local communities. Despite an increase in net sales compared to the previous fiscal year, profits decreased significantly due to the construction and closure of sites.
- (6) In the Rent Guarantee Business, when rent arrears occur, we provide services tailored to building owners not only with rent guarantee, but also support until the lease is surrendered, easing the sense of burden in building management. Consultations from building owners increased due to the increase of vacant rooms and tenant credit concerns, caused by the outbreak of COVID-19. As a result, the number of new and renewed guarantees handled remained steady and profits increased despite a slight decrease in net sales compared to the previous fiscal year.

As a result of the above, net sales in the Real Estate Service Business as a whole increased 15.7% to 7,154 million yen from the previous fiscal year and segment profit increased 9.0% to 3,803 million yen from the previous fiscal year.

(Hotel and Tourism Business)

In the Hotel and Tourism Business, we are engaged in (1) Hotel Development Business and (2) Hotel Operation Business.

- (1) In the Hotel Development Business, the sale of lots of the condominium hotel "HIYORI OCEAN RESORT OKINAWA" was completed, and during the current period, the delivery of a cumulative total of 43 lots was completed (of a total of 203 lots, one lot was not for sale). Both net sales and profits declined significantly in the fiscal year under review due to a rebound from the sale and profits of the 159 lots sold in the previous fiscal year.
- (2) In the Hotel Operation Business, we operate a total of 20 hotels (2,859 rooms). In the financial results for the current period, due to the impact of the voluntary restraint on tourism under the declaration of a state of emergency, occupancy rate and room unit prices were significantly lower mainly at hotels in urban areas. In addition, due to the recording of start-up expenses at newly opened hotels, although net sales increased, the Hotel Operation Business recorded a loss.

As a result of the above, net sales in Hotel and Tourism Business as a whole decreased 48.5% to 6,911 million yen from the previous period and segment loss was 1,950 million yen compared with 710 million yen in segment profit in the previous period.

(Other Business)

In Other Business, we are engaged in (1) Overseas Development Business and (2) Construction Business.

(1) In the Overseas Development Business, we have expanded into Southeast Asian countries where growth is expected. We are developing real estate mainly for condominiums and houses using Japanese advanced construction technology and are focusing on providing Asian people with a firsthand experience of Japanese quality. In terms of financial results for the current period, the Overseas Development Business recorded a loss due to a significant decrease in net sales following the addition of sales from a high-rise condominium project in Da Nang, Vietnam in the previous fiscal year.

(2) In the Construction Business, the Group is engaged in renewal planning, repair and reform, interior finishing work and telecommunications work for commercial buildings. Since we acquired 100% of the shares of Communication Development Inc. in the previous fiscal year and its results are added, profits increased significantly despite a decrease in net sales.

As a result of the above, net sales in Other Business as a whole decreased 59.8% to 1,695 million yen from the previous period and segment profit decreased 81.9% to 101 million yen from the previous period.

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, hereinafter the “Revenue Recognition Accounting Standard”) etc. has been applied from the beginning of the three months ended June 30, 2021.

As a result of the adoption of the Revenue Recognition Accounting Standard, net sales in the Construction Business in the “Other Business” segment of the current consolidated fiscal year increased by 17 million yen.

Production, orders received and sales results are as follows.

(i) Production performance

As it is difficult to define production operations of the Group (the Company and its consolidated subsidiaries; the same shall apply hereinafter), the actual production results are omitted.

(ii) Orders received

As the Group does not manufacture to order, the record of orders received is omitted.

(iii) Sales performance

The sales results by segment for current consolidated fiscal year are as follows.

| Segment Name | Amount (million yen) | YoY Change (%) |
|-------------------------------------|----------------------|----------------|
| Real Estate Revitalization Business | 55,958 | 54.2 |
| Real Estate Service Business | 7,154 | 15.7 |
| Hotel and Tourism Business | 6,911 | (48.5) |
| Other | 1,695 | (59.8) |
| Adjustment | (467) | - |
| Total | 71,251 | 19.5 |

Notes: 1. Adjustment is intersegment eliminations.

2. Sales performance by major customers and the ratio of such sales performance to total sales performance

| Other party | Previous fiscal year | | Consolidated fiscal year under review | |
|-----------------------------------|-------------------------|-----------|---------------------------------------|-----------|
| | Amount (million yen) | Ratio (%) | Amount (million yen) | Ratio (%) |
| Hiroshige Special Purpose Company | - | - | 17,220 | 24.2 |
| SST West Special Purpose Company | 8,510 | 14.3 | - | - |

3. Sales performance regarding Hiroshige Special Purpose Company for the previous fiscal year and SST West Special Purpose Company for the consolidated fiscal year under review are omitted because the ratio of the sales results to the total sales results is less than 10/100.

(2) Explanation regarding financial position

Total assets increased 7.1% to 136,512 million yen as of March 31, 2022 compared to March 31, 2021. Liabilities increased 7.5% to 62,060 million yen as of March 31, 2022 compared to March 31, 2021 and net assets increased 6.7% to 74,452 million yen as of March 31, 2022 compared to March 31, 2021.

The main factors for the increase in total assets were an increase of 8,544 million yen in cash and deposits, an increase of 621 million yen in real estate for sale, an increase of 5,886 million yen in buildings of property, plant and equipment (net amount), an increase of 3,225 million yen in land, and an increase of 729 million yen in guarantee deposits, despite a decrease of 9,348 million yen in real estate for sale in process.

The main reasons for the increase in liabilities were an increase of 1,344 million yen in long-term borrowings scheduled to be repaid within one year, an increase of 2,627 million yen in income taxes payable and an increase of 2,178 million yen in long-term borrowings, despite a decrease of 425 million yen in accrued consumption taxes included in other current liabilities and a decrease of 685 million yen in long-term deposits received included in other non-current liabilities.

The main reason for the increase in net assets was the recording of 7,415 million yen in profit attributable to owners of parent despite the payment of 2,047 million yen in year-end dividends and 1,023 million yen in interim dividends.

Equity ratio decreased 0.1 percentage point to 52.2% as of March 31, 2022 compared to March 31, 2021.

(3) Explanation regarding cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) at the end of the fiscal year increased by 8,632 million yen from the beginning of the fiscal year to 29,951 million yen as a result of an increase of 17,443 million yen in cash provided by operating activities, a decrease of 9,386 million yen in cash used in investing activities and an increase of 449 million yen in cash provided by financing activities.

Cash flows for the fiscal year under review and their factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 17,443 million yen compared with net cash provided of 4,733 million yen in the previous fiscal year. This was mainly due to profit before income taxes of 12,135 million yen, proceeds from a decrease in inventories of 7,874 million yen, and depreciation of 1,632 million yen, which offset corporate income tax payments of 2,460 million yen and a decrease in trades payable of 776 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 9,386 million yen compared with net cash provided of 451 million yen in the previous fiscal year. This was mainly due to the purchase of property, plant and equipment of 8,484 million yen, payments of guarantee deposits of 822 million yen and payments into time deposits of 183 million yen, which offset proceeds from withdrawal of time deposits of 271 million yen.

(Cash flows from financing activities)

Net cash provided by financing activities was 449 million yen compared with net cash outflow of 1,150 million yen in the

previous fiscal year. This was mainly due to proceeds from long-term borrowings of 24,183 million yen, which offset repayments of long-term borrowings of 20,661 million yen and dividends paid by the parent company of 3,070 million yen.

(Sources of capital and liquidity of funds)

The main demand for funds in our business activities is purchase of inventory assets, which is related to Real Estate Revitalization Business. Purchase of inventory assets is provided by long-term borrowings from financial institutions secured by individual inventory assets and funds acquired through operating activities. As a basic policy, the inventory asset is to be sold within one year, and borrowings is to make a lump-sum repayment at the time of sale of the inventory assets while taking into account the monthly scheduled repayment, and liquidity of funds is sufficiently secured.

(Financial measures)

The Group's fiscal policy is to create a debt structure that extends the weighted average borrowing period by reducing the ratio of short-term borrowings to interest-bearing debt and increasing the ratio of long-term borrowings. In addition, we are working to build a solid financial base by securing a substantial amount of cash and deposits as a basic policy.

(4) Significant accounting estimates and assumptions used in such estimates

The Group's consolidated financial statements are prepared in accordance with accounting standards generally accepted in Japan. The accompanying consolidated financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. However, actual results may differ from these estimates and assumptions.

Among the accounting estimates and assumptions used in the preparation of the consolidated financial statements, significant ones are described in "Item 5. Financial Information, 1. Consolidated Financial Statements, etc. (1) Notes to Consolidated Financial Statements (Significant Accounting Estimates)."

4. Material Agreements, etc.

Not applicable

5. Research and Development Activities

Not applicable.

Item. 3 Property, Plants and Equipment

1. Overview of Capital Investment

The Group's capital investment in current consolidated fiscal year was 8,533 million yen, mainly for the acquisition of office buildings (4,568 million yen) and hotel facilities (3,842 million yen).

2. Major Facilities

(1) Reporting company

As of March 31, 2022, the facilities, invested capital and employees at each business site were as follows.

| Name and location | Segment name | Use | Book value (million yen) | | | | Number of employees |
|--|---|---|--------------------------|----------------------|--------|-------|---------------------|
| | | | Buildings and Construct | Land (square meters) | Others | Total | |
| Head Office (Chiyoda-ku, Tokyo) | Real Estate Revitalization Business, Real Estate Service Business, Other, company-wide (common) | Supervisory business facility | 20 | - (-) | 36 | 57 | 209 |
| Branches, etc. (Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku, Shinagawa-ku, Shibuya-ku, Tokyo, and Nishi-ku Yokohama) | Real Estate Service Business | Commercial facility | 36 | - (-) | 8 | 45 | 180 |
| Institute (Chosei-gun, Chiba) | Company-wide (common) | Training facility | 38 | 74 (5,323) | - | 113 | - |
| Real estate for rental business (Minato-ku, Tokyo, etc.) | Real Estate Revitalization Business | Buildings for rent, etc. | 1,862 | 4,167 (1,397) | 1 | 6,030 | - |
| Hotel Operation Business real estate (Kyoto-shi, Kyoto) | Hotel Operation Business | Hotel operation | 4,409 | 5,396 (887) | 0 | 9,806 | - |
| Sub-leases Property (Chuo-ku, Tokyo, etc.) | Real Estate Service Business and others | Property management contract facilities, etc. | 147 | - (-) | 2 | 150 | - |

Notes: 1. Of the book value, "Other" consists of vehicles, tools, furniture and fixtures.

2. Details of major equipment leased from companies other than consolidated companies are as follows.

| Name and location | Segment name | Use | Leased area (square meters) |
|---|---|---|-----------------------------|
| Head Office (Chiyoda-ku, Tokyo) | Real Estate Revitalization Business, Real Estate Service Business, Other, company-wide (common) | Supervisory business facility | 2,145 |
| Property Management Business Department (Chiyoda-ku, Tokyo) | Real Estate Service Business | Commercial facility | 1,025 |
| Ginza branch and others (Chuo-ku, Tokyo, etc.) | Real Estate Service Business | Commercial facility | 789 |
| Sub-leases Property (Chuo-ku, Tokyo, etc.) | Real Estate Service Business and Others | Property management contract facilities, etc. | 5,883 |

(2) Domestic subsidiaries

| Company Name | Name and location | Segment name | Use | Book value (million yen) | | | | Number of employees |
|------------------------------------|--|------------------------------|----------------------------------|--------------------------|----------------------|-------|-------|---------------------|
| | | | | Buildings and structures | Land (square meters) | Other | Total | |
| Sun Frontier Hotel Management Inc. | Head office and hotel facilities (Chiyoda-ku, Tokyo, etc.) | Hotel and Tourism Business | Headquarters and hotel operation | 699 | 195 (18,345) | 706 | 1,602 | 127 (182) |
| Sky Heart Hotel Inc. | Head office and hotel facilities (Chiyoda-ku, Tokyo, etc.) | Hotel and Tourism Business | Hotel operation | 108 | 63 (-) | 1 | 173 | 19 (60) |
| Sun Frontier Sado Co., Ltd. | Head office and hotel facilities (Sado-shi, Niigata) | Hotel and Tourism Business | Hotel operation | 277 | 14 (-) | 8 | 300 | 23 (67) |
| Hotel Osado Co., Ltd. | Head office and hotel facilities (Sado-shi, Niigata) | Hotel and Tourism Business | Hotel operation | 122 | 58 (-) | 12 | 193 | 15 (24) |
| Sun Frontier Space Management Inc. | Head office and rental conference room facilities (Minato-ku, Tokyo, etc.) | Real Estate Service Business | Conference Room Rental Business | 136 | - (-) | 25 | 161 | 18 (39) |

Notes: 1. Of the book value, "Other" consists of vehicles, tools, furniture and fixtures.

2. The number of "Number of employees" column (external writing) are the annual average number of temporary employees.

3. Temporary employees include part-time and contract employees and exclude temporary workers.

(3) Overseas subsidiaries

As facilities of overseas subsidiaries are not significant, descriptions are omitted.

3. Plans for Capital Investment, Disposal of Property, Plants and Equipment, etc.

Not applicable.

Item. 4 Information on the Company

1. Information on the Company's Shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

| Type | Total number of shares authorized to be issued (shares) |
|---------------|---|
| Common shares | 91,200,000 |
| Total | 91,200,000 |

(ii) Issued shares

| Type | Number of shares issued as of the end of the fiscal year (March 31, 2022) | Number of shares issued as of filing date (June 22, 2022) | Name of Listed Financial Instruments Exchange or registered Authorized Financial Instruments Firms Association | Contents |
|---------------|---|---|--|----------------------------|
| Common shares | 48,755,500 | 48,755,500 | Tokyo Stock Exchange First Section (as of the end of the fiscal year) Prime Market (as of filing date) | Share unit : 100 shares |
| Total | 48,755,500 | 48,755,500 | - | - |

(2) Stock acquisition rights, etc.

(i) Stock option plans

A. Status of share acquisition rights grants

| Date of resolution | June 22, 2018 | June 21, 2019 | June 30, 2020 | June 22, 2021 |
|--|--|---|---|---|
| Category and number of individuals covered by the plan | Directors of the Company (excluding outside directors): 4 | | | Director of the Company (excluding outside directors) 6 persons |
| Number of Share Acquisition Rights* | 524 units | 740 units | 1,112 units | 2,155 units |
| Type, description and number of shares to be issued upon the Share Acquisition Rights* | Common shares 5,240 shares (Note 1) | Common shares 7,400 shares (Note 1) | Common shares 11,120 shares (Note 1) | Common shares 21,550 shares (Note 1) |
| Amount paid upon exercise of Share Acquisition Rights * | 1 yen | | | |
| Period for exercising Share Acquisition Rights* | From August 1, 2018 to July 31, 2048 | From August 1, 2019 to July 31, 2049 | From August 1, 2020 to July 31, 2050 | From July 31, 2021 to July 30, 2051 |
| Issue price of shares and amount to be incorporated into capital when shares are issued upon exercise of Share Acquisition Rights* | Issue price: 1,020 yen Amount included in share capital: 510 yen (Note 2) | Issue price: 790 yen Amount included in share capital: 395 yen (Note 2) | Issue price: 439 yen Amount included in share capital: 220 yen (Note 2) | Issue price: 658 yen Amount included in share capital: 329 yen (Note 2) |
| Conditions for exercising Share Acquisition Rights* | Share Acquisition Rights holders may exercise their Share Acquisition Rights in a lump sum during the period from the day following the day on which they lose their position as Director of the Company to the day on which ten days have elapsed. (Note 3) | | | |
| Matters related to transfer of Share Acquisition Rights* | Acquisition of a Share Acquisition Rights by transfer requires approval of the Board of Directors. | | | |
| Matters concerning the issuance of a Share Acquisition Rights in connection with an act of reorganization* | (Note 4) | | | |

* These items indicate the status as of the end of the fiscal year (March 31, 2022). There are no changes between the end of the fiscal year and the end of month previous to the filing month (May 31, 2022).

Notes: 1. The number of shares subject per Share Acquisition Right shall be 10 shares.

However, after the allotment date of Share Acquisition Rights, if the Company effects a share split (including allotment of its common stock to shareholders without consideration; the same applies hereinafter) or reverse stock split, the number of shares to be granted shall be adjusted according to the following formula for a Share Acquisition Rights that has not been exercised at the time of the share split or reverse stock split, and any fraction of less than one share resulting from the adjustment shall be discarded.

Number of granted shares after adjustment = Number of granted shares before adjustment × Split or consolidation ratio

In addition, in the event that the Company conducts a merger or corporate split after the Allotment Date, or in the event that an adjustment of the number of granted shares is required in the same manner as in these cases, the number of shares shall be adjusted within a reasonable scope taking into consideration the conditions of the merger or corporate split.

2. Increase in Share Acquisition Rights and share capital due to issuance of shares upon exercise of capital reserve

- (i) The amount of increase in Share capital upon issuance of shares upon exercise of Share Acquisition Rights shall be one half of the maximum amount of increase in share capital, etc. calculated pursuant to Article 17, Paragraph 1 of the Corporate Accounting Regulations, and any fraction less than one yen resulting from such calculation shall be rounded up.
- (ii) The amount of increase in Share Acquisition Rights upon issuance of shares upon exercise of capital reserve shall be amount obtained by subtracting the amount of increase in share capital set forth in (i) above from the maximum amount of increase in share capital, etc. set forth in (i) above.

3. Matters concerning acquisition of Share Acquisition Rights

- (i) In the event that Share Acquisition Rights cannot be exercised due to the aforementioned “Conditions for Exercise of Share Acquisition Rights” or the provisions of the Share Acquisition Rights Allocation Application Form prior to exercising his/her right, the Company may acquire such Share Acquisition Rights without consideration on a date separately determined by the Company's Board of Directors.
- (ii) In the event that a proposal for approval of a merger agreement under which the Company will be dissolved, an absorption-type company split agreement or an incorporation-type company split plan under which the Company will be split, or a share exchange agreement or share transfer plan under which the Company will become a wholly-owned subsidiary is approved at the General Meeting of Shareholders of the Company (or at the meeting of Board of Directors if a General Meeting of Shareholders is not required), the Share Acquisition Rights whose rights have not been exercised as of that date may be acquired without consideration on a date separately determined by the Board of Directors of the Company.

4. In the event where the Company engages in any merger (limited to a case where the Company ceases to exist as a result of the merger), a corporate split in which a division of the Company is merged into an existing company, a corporate split in which a division of the Company is spun off to establish a new company (for both, limited to cases where the Company is split up), or an exchange or transfer of shares (for both, limited to cases where the Company becomes a wholly-owned subsidiary) (collectively “Restructuring Actions”), each person holding the remaining Share Acquisition Rights at the time the Restructuring Actions take effect (hereinafter “Remaining Share Acquisition Rights”) shall respectively be granted the Share Acquisition Rights of the relevant stock companies set forth in Article 236, Paragraph 1, Item 8 (a) through (e) inclusive of the Companies Act of Japan (hereinafter “Reorganized Company”). In this event, the Remaining Share Acquisition Rights shall become null and void and the Reorganized Company shall issue new Share Acquisition Rights.

However, the new Share Acquisition Rights shall be granted, only if provisions for granting them in accordance with the following items are included as conditions in a merger agreement (in which the Company is merged into a Reorganized Company or a Reorganized Company is established as the result of the merger), a corporate split agreement (in which a division of the Company is merged into a Reorganized Company), a plan for a corporate split (in which a division of the Company is spun off to establish a Reorganized Company), a share exchange agreement, or a plan for transfer of shares (in both of which the Company becomes a fully-owned subsidiary of a Reorganized Company).

- (i) Number of Share Acquisition Rights of reorganized companies to be delivered
The same number of remaining Share Acquisition Rights held by the Share Acquisition Rights shall be issued.
- (ii) Type and number of shares of the restructured company to be issued upon Share Acquisition Rights
The type of shares to be issued by Share Acquisition Rights shall be common shares, the Reorganized Company, and the number of common shares, the Reorganized Company to be delivered upon exercise of Share Acquisition Rights shall be determined in accordance with (Note 1) above, taking into consideration the conditions of the Organizational

Restructuring.

(iii) Value of assets to be contributed upon exercise of Share Acquisition Rights

The value of the property to be contributed upon the exercise of the Share Acquisition Rights shall be the amount obtained by multiplying the post-reorganization exercise price specified below by the number of shares to be issued for each such Share Acquisition Right. The post-reorganization exercise price shall be 1 yen per Share Acquisition Right of the Reorganized Company.

(iv) Period during which the Share Acquisition Rights may be exercised

From the effective date of the reorganization to the expiration date of the exercise period of the Share Acquisition Rights set forth in the aforementioned "exercise period of the Share Acquisition Rights."

(v) Acquisition of Share Acquisition Rights

Determined in accordance with (Note 3) above.

(vi) Share Acquisition Rights transfer restrictions

Acquisition of Share Acquisition Rights by transfer shall require the approval of Board of Directors of the Reorganized Company.

(vii) Increase in Share Acquisition Rights and Share capital due to issuance of shares upon exercise of Capital reserve

Determined in accordance with (Note 2) above.

(ii) Rights plan

Not applicable.

(iii) Other Share Acquisition Rights, etc.

Not applicable.

(3) Exercises, etc., of moving strike convertible bonds, etc.

Not applicable.

(4) Changes in the number of issued shares, share capital, etc.

| Date | Changes in number of issued shares (shares) | Number of issued shares (shares) | Changes in share capital (million yen) | Balance of share capital (million yen) | Changes in capital reserve (million yen) | Balance of capital reserve (million yen) |
|----------------------------|---|----------------------------------|--|--|--|--|
| December 26, 2017 (Note 1) | 5,220,000 | 47,975,500 | 3,112 | 11,500 | 3,112 | 5,984 |
| January 24, 2018 (Note 2) | 780,000 | 48,755,500 | 465 | 11,965 | 465 | 6,449 |

Notes: 1. Public offering for compensation

| | |
|--------------------------------------|-------------------|
| Issue price per share: | 1,244 yen |
| Issued amount per share: | 1,192.68 yen |
| Increase of share capital per share: | 596.34 yen |
| Total amount paid in: | 6,225 million yen |

2. Paid third party allotment (Third Party Allotment Related to Secondary Offering through Over-Allotment)

| | |
|--------------------------------------|---------------------------|
| Issue price per share: | 1,192.68 yen |
| Increase of share capital per share: | 596.34 yen |
| Subject persons of allotment: | Daiwa Securities Co. Ltd. |

(5) Shareholdings by shareholder category

As of March 31, 2022

| Category | Number of shares (100 shares per unit) | | | | | | | | Shares less than one unit (shares) |
|-------------------------------|--|------------------------|--|--------------------|------------------------|-------------|------------------------|---------|------------------------------------|
| | National and local governments | Financial institutions | Financial instruments business operators | Other corporations | Foreign shareholders | | Individuals and others | Total | |
| | | | | | Other than individuals | Individuals | | | |
| Number of shareholders | - | 16 | 22 | 101 | 156 | 37 | 10,615 | 10,947 | - |
| Number of shares held (Units) | - | 63,035 | 10,841 | 198,806 | 94,135 | 274 | 120,351 | 487,442 | 11,300 |
| Shareholding ratio (%) | - | 12.93 | 2.22 | 40.79 | 19.31 | 0.06 | 24.69 | 100.00 | - |

- Notes: 1. "Financial institutions" includes 565 units of the Company's shares accounted in trust by the employee stock ownership plan (J-ESOP).
2. 144 shares of treasury share held by the Company are included in "Individuals and others" and "Share less than one unit" in the table. These amounts are 1 unit and 44 shares, respectively

(6) Major shareholders

As of March 31, 2022

| Name | Address | Number of shares held (shares) | Shareholding ratio (excluding treasury share) (%) |
|--|--|--------------------------------|---|
| HOUON Co.,Ltd | 2-41-8 Maihama, Urayasu-shi, Chiba | 17,957,500 | 36.83 |
| The Master Trust Bank of Japan, Ltd (Accounted in trust) | 2-11-3 Hamamatsu-cho, Minato-ku, Tokyo | 3,932,000 | 8.06 |
| Tomoaki Horiguchi | Urayasu-shi, Chiba | 3,016,100 | 6.19 |
| SKAWAGOE Co., Ltd. | 3-5-3 2902 Azabudai, Minato-ku, Tokyo | 1,566,400 | 3.21 |
| Custody Bank of Japan, Ltd. (Accounted in trust) | 1-8-12 Harumi, Chuo-ku, Tokyo | 1,561,600 | 3.11 |
| THE BANK OF NEW YORK MELLON 140044 (Standing proxy : Mizuho Bank, Ltd., Settlement & Clearing) | 240 GREENWICH STREET, NEW YORK, NY 10286, U.S.A (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo) | 1,015,900 | 2.08 |
| STATE STREET BANK AND TRUST COMPANY 505103 (Standing proxy : Mizuho Bank, Ltd., Settlement & Clearing) | P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo) | 493,740 | 1.01 |
| Keiko Horiguchi | Urayasu-shi, Chiba | 416,500 | 0.85 |
| SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy : Custody Business Department, Tokyo Branch, Hong Kong and Shanghai Banking Corporation) | ONE LINCOLN STREET, BOSTON MA USA 02111 (3-11-1 Nihonbashi, Chuo-ku, Tokyo) | 401,137 | 0.82 |
| NORTHERN TRUST CO.(AVFC) SUB A/C NON TREATY (Standing proxy : Custody Business Department, Tokyo Branch, Hong Kong and Shanghai Banking Corporation) | 50 BANK STREET CANARY WHARF LONDON E14 5NT, UK (3-11-1 Nihonbashi, Chuo-ku, Tokyo) | 394,722 | 0.81 |
| Total | - | 30,710,599 | 62.99 |

Note: 1. Of the number of shares held above, the number of shares held through trusts is as follows.

| | |
|--------------------------------------|------------------|
| The Master Trust Bank of Japan, Ltd. | 1,643,900 shares |
| Custody Bank of Japan, Ltd. | 1,069,700 shares |

(7) Voting rights

(i) Outstanding shares

As of March 31, 2022

| Classification | Number of shares (shares) | Number of voting rights (units) | Description |
|---|--|---------------------------------|-------------|
| Shares without voting rights | - | - | - |
| Shares with restricted voting rights (treasury share, etc.) | - | - | - |
| Shares with restricted voting rights (others) | - | - | - |
| Shares with full voting rights (treasury share, etc.) | (Treasury share) Common shares 100 | - | - |
| Shares with full voting rights (others) | Common shares 48,744,100 | 487,441 | - |
| Shares less than one unit | Common shares 11,300 | - | - |
| Number of issued shares | 48,755,500 | - | - |
| Total number of voting rights | - | 487,441 | - |

Notes: 1. Shares less than one unit include 44 shares in treasury shares.

2. Common shares in the “Shares with full voting rights (others)” includes 56,500 Company's treasury shares (565 voting rights) held by the employee stock ownership plan (J-ESOP).

(iii) Treasury share, etc.

As of March 31, 2022

| Name of shareholders | Address | Number of shares held under own name (shares) | Number of shares held under the names of others (shares) | Total shares held (shares) | Ownership percentage to the total number of issued shares (%) |
|--|------------------------------------|---|--|----------------------------|---|
| (Treasury shares) Sun Frontier Fudousan Co., Ltd. | 1-2-2 Yurakucho, Chiyoda-ku, Tokyo | 100 | - | 100 | 0.0 |
| Total | - | 100 | - | 100 | 0.0 |

Notes: 1. In addition to the above, there are 44 shares less than one unit.

2. The Company's 56,500 treasury shares owned by the employee stock ownership plan (J-ESOP) are not included in the above treasury shares, etc., but are accounted for as treasury shares in the consolidated financial statements and non-consolidated financial statements.

(8) Details of officers and employee stock ownership plan

The Company implemented an incentive plan, the “employee stock ownership plan (J-ESOP)” (hereinafter referred to as the “Plan” and the trust established under the trust agreement concluded with Mizuho Trust & Banking Co., Ltd. concerning the Plan is referred to as the “Trust”) in which the Company’s stock price and performance are linked to employee (including employees of the Company and some employees of the Company's subsidiaries. The same applies hereinafter) compensation and shared with shareholders to motivate employees to improve their stock price and performance.

(i) Outline of the Plan

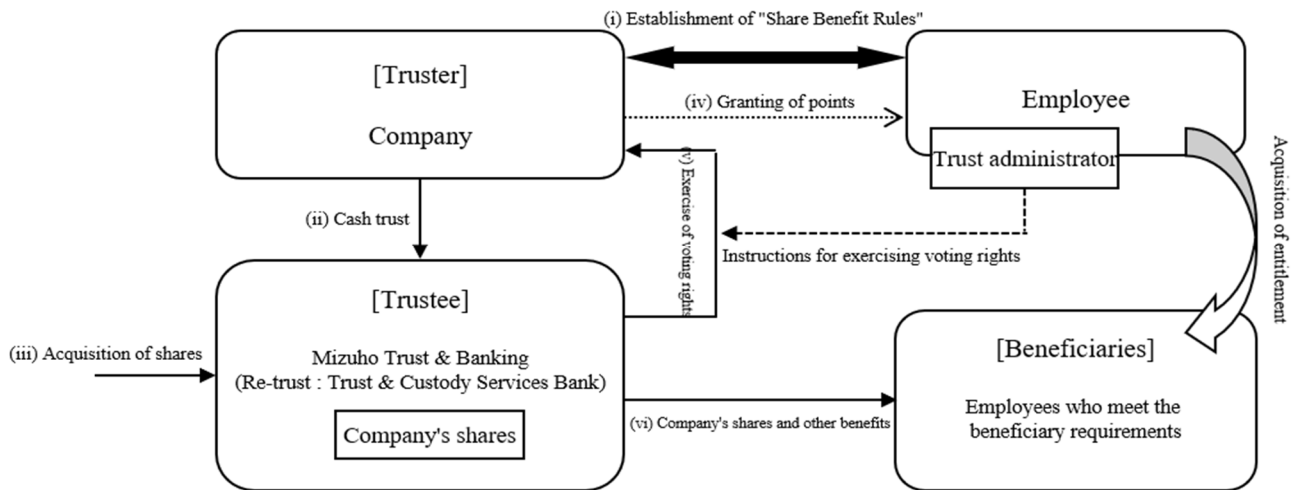
Based on the Share Benefit Regulations established by the Company in advance, the Plan provides the Company's employees who meet certain requirements with the cash equivalent to Company's shares and Company's shares converted at market value (hereinafter referred to as “Company's shares”).

The Company grants points to employees according to their length of service and other factors, and provides them with Company's shares and other benefits equivalent to the points granted when they acquire the right to receive benefits under certain conditions. Shares to be granted to employees shall be acquired by cash established in advance as a trust, including

future shares, and separately managed as trust assets.

The introduction of this system will increase the interest of the Company's employees in improving their stock prices and business performance, and will contribute to the Company's more ambitious work.

Structure of the System



- A. Upon the introduction of the Plan, the Company shall establish “Share Benefit Regulations.”
- B. The Company entrusts cash (third party benefit trust) to Mizuho Trust & Banking Co., Ltd. (re-trustee: Custody Bank of Japan, Ltd.) in order to acquire in advance shares to be provided to employees in the future based on the “Share Benefit Regulations.”
- C. The Trust will acquire the Company's shares using cash entrusted in (ii) above through the stock exchange market or by accepting the Company’s treasury shares disposition.
- D. The Company will grant points to employees based on the “Share Benefit Regulations.”
- E. The Trust will exercise its voting rights based on instructions from the trust administrator.
- F. The Trust shall be deemed to be a beneficial interest of the Employee who satisfies the beneficiary requirements set forth in the “Share Benefit Regulations” (hereinafter referred to as the “Beneficiary”) and will provide the said Beneficiary with Company’s shares depending on the number of points they are provided. However, if the employees meets the requirements in the Share Benefit Regulations, they will be provided with Cash equivalent to the market value of Company's shares.

(ii) Total number of shares to be delivered to employees, etc.

56,500 shares

(iii) Scope of persons who can receive beneficial interests and other rights under the Plan

A person who satisfies the beneficiary requirements specified in the Company's Shares Benefit Regulations.

2. Acquisitions, etc. of Treasury Share

Classes of shares Companies Act of Japan Acquisition of common shares pursuant to Article 155, Item 3

(1) Acquisitions by a resolution of the General Meeting of Shareholders

Not applicable.

(2) Acquisition by a resolution of the Board of Directors

| Category | Number of shares | Total value (million yen) |
|---|------------------|---------------------------|
| Resolution situation in Board of Directors (May 13, 2022) (Acquisition period : May 16, 2022 to June 20, 2022) | 150,000 | 150 |
| Treasury shares acquired prior to the beginning of the fiscal year under review | - | - |
| Treasury shares acquired during the fiscal year under review | - | - |
| Total number and total value of the remaining resolution shares | - | - |
| Unexercised ratio (%) as of the end of the fiscal year under review | - | - |
| Treasury shares acquired during the period | 143,800 | 149 |
| Unexercised ratio as of the filing date | - | - |

Note: As the acquisition was completed by the filing date of the Annual Securities Report, the unexercised ratio as of the filing date is not stated.

(3) Content is not based on the resolution of the General Meeting of Shareholders or the resolution of the Board of Directors

Not applicable.

(4) Status of disposal and possession of the acquired treasury shares

| Category | During the fiscal year under review | | During the period | |
|---|-------------------------------------|-------------------------------------|---------------------------|-------------------------------------|
| | Number of shares (shares) | Total disposal amount (million yen) | Number of shares (shares) | Total disposal amount (million yen) |
| Acquired treasury shares that were offered to subscribers for subscription | - | - | - | - |
| Acquired treasury shares that were canceled | - | - | - | - |
| Acquired treasury shares that were transferred due to merger, exchange of shares, issue of shares, or corporate split | - | - | - | - |
| Other (-) | - | - | - | - |
| Number of treasury shares held | 144 | - | 143,944 | - |

Notes: 1. The number of treasury shares held during the current period does not include the number of shares acquired through the purchase of shares less than one unit during the period from June 1, 2022 to the filing date of this Annual Securities Report.

2. The number of treasury shares held by the employee stock ownership plan (J-ESOP) is not included in the number of shares held during the fiscal year under review and during the period.

3. Dividend Policy

The Company's basic policy is to contribute to the interests of shareholders in a comprehensive manner by striving to return profits to shareholders in a stable manner over the long term, to secure investment funds that will aggressively challenge Office Building Business and Overseas Business for future growth, and by taking into consideration the stability and enhancement of financial position.

The Company's policy is to continue to distribute dividends twice a year, with the record date set on March 31 and September 30 each year. The distribution of dividends is resolved by either the General Meeting of Shareholders or the Board of Directors.

In addition, at the 23rd Annual General Meeting of Shareholders held on June 21, 2022, the Company obtained approval for necessary amendments to the Company's Articles of Incorporation and stipulated in its Articles of Incorporation that dividends from surplus, etc. may also be determined by the resolution of the Board of Directors.

The dividends of surplus whose record date belongs to this fiscal year is as follows.

| Date of resolution | Total dividend amount (million yen) | Dividends per share (yen) |
|---|--|------------------------------|
| November 9, 2021 Resolution Board of Directors | 1,023 | 21.00 |
| June 21, 2022 Resolution of the Annual General Meeting of Shareholders | 1,121 | 23.00 |

Note: The total amount of dividends includes the Company's shares' dividends accounted in trust by the employee stock ownership plan (J-ESOP).

4. Corporate Governance, etc.

(1) Overview of corporate governance

(i) Basic stance on corporate governance

The Company's basic stance on corporate governance is that all officers and employees should set "the right thing to do as a human being" based on high ethical standards as a criterion for business execution and practice it. Based on this, we recognize that it is an important mission of management to contribute to society through business activities and to pursue profit fairly, and to build firm trust from stakeholders such as shareholders, customers and employees by continuously increasing corporate value over the long term.

Based on this recognition, the Company is working to strengthen its corporate governance with the below basic policies:

1. improving transparency and ensuring fairness,
2. swift decision-making and business execution,
3. thorough accountability,
4. timely and appropriate information disclosure, and
5. enhancement of compliance awareness.

(ii) Outline and reason for adoption of the current corporate governance system

A. Overview of current corporate governance system;

At the 23rd Annual General Meeting of Shareholders held on June 21, 2022, the Company obtained approval for necessary amendments to the Company's Articles of Incorporation and made a transition from a Company with Audit & Supervisory Board to a Company with Audit & Supervisory Committee.

By adopting this corporate governance system, Audit & Supervisory Committee members, who audit and supervise the execution of duties of the directors, will become members of the Board of Directors, thereby strengthening the supervisory function of the Board of Directors and further enhancing corporate governance.

In addition, by enabling the Board of Directors to broadly delegate decisions on business execution to the directors, we aim for a swift decision-making on business execution. At the same time, we aim to achieve sustainable growth and increase corporate value in the medium to long term by having the Board of Directors focus on important management decisions such as management plans.

(a) Board of Directors

The Company's Board of Directors consists of 11 members from directors (including four outside directors) and is responsible for passing resolutions on matters stipulated in laws and regulations and the Articles of Incorporation, as well as making management decisions and supervising the execution of duties.

The Board of Directors meeting is held once a month and an extraordinary Board of Directors meeting is held as necessary.

(b) Audit & Supervisory Committee

The Audit & Supervisory Committee consists of three Audit & Supervisory Committee members (including two outside directors), and each Audit & Supervisory Committee member shall conduct audit as described in "(3) Conditions of audit (i) Audit & Supervisory Committee's Audit" in accordance with the audit policy, audit plan, etc. established by the Audit & Supervisory Committee.

(c) Nomination and Compensation Committee (optional)

In order to improve the objectivity and transparency of procedures relating to the officer's election, dismissal, and remuneration, the Company has established the Nomination and Compensation Committee, which consists of Chairman

Representative Director, President Representative Director and two or more members of Outside Director, as the voluntary advisory body of Board of Directors. In Nomination and Compensation Committee, standards and processes related to the officer' s election, dismissal, and remuneration as well as the evaluation basic policy are examined and deliberated, and the Board of Directors will make decisions regarding officer' s election, dismissal, and remuneration as well as the evaluation basic policy with maximum respect for the deliberation contents.

The members of each organization are as follows. (◎ Represents the chairman.)

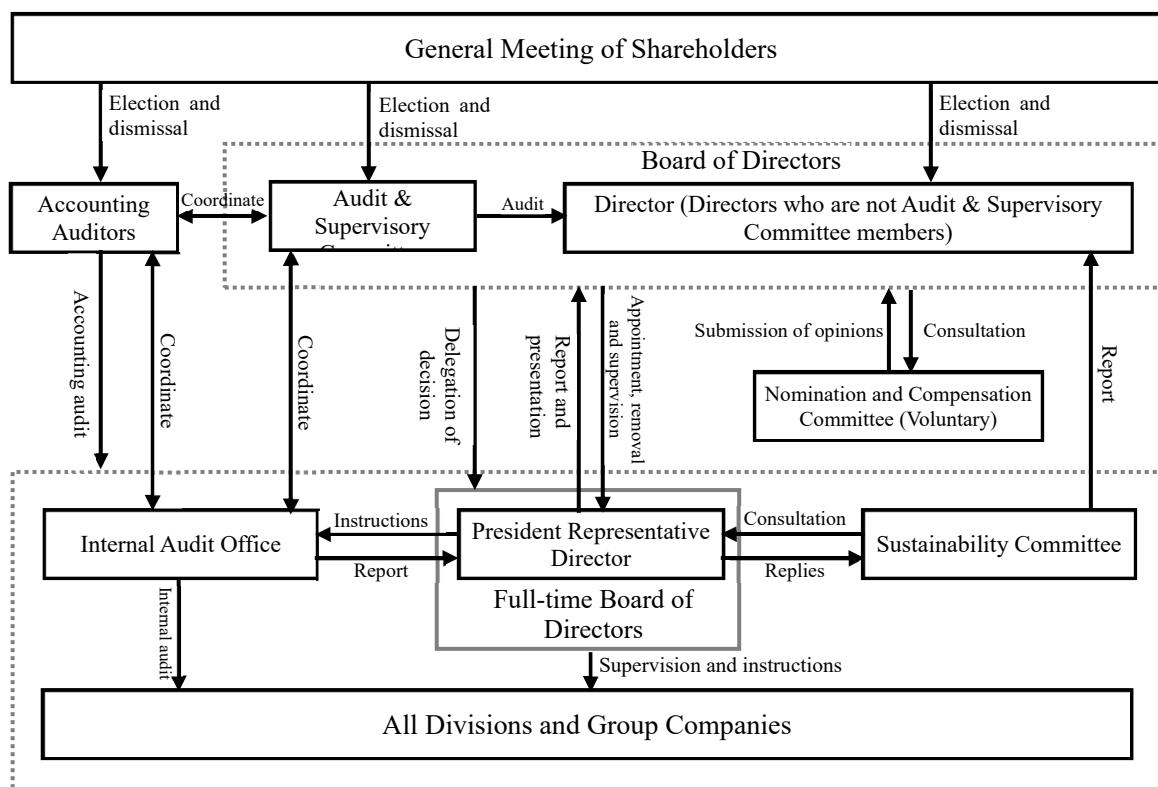
| Title | Surname | Board of Directors | Audit & Supervisory Board | Nomination and remuneration Committee (optional) |
|---|--------------------|--------------------|---------------------------|--|
| Chairman Representative Director | Tomoaki Horiguchi | ○ | | ◎ |
| President Representative Director | Seiichi Saito | ◎ | | ○ |
| Vice President Director | Izumi Nakamura | ○ | | |
| Senior Managing Director | Yasushi Yamada | ○ | | |
| Director | Mitsuhiro Ninomiya | ○ | | |
| Director | Kenji Honda | ○ | | |
| Outside Director | Kazutaka Okubo | ○ | | ○ |
| Outside Director | Keiichi Asai | ○ | | |
| Audit & Supervisory Board Member Director | Shinichi Tominaga | ○ | ◎ | |
| Audit & Supervisory Board Member Outside Director | Hidetaka Tanaka | ○ | ○ | ○ |
| Audit & Supervisory Board Member Outside Director | Tsuneko Murada | ○ | ○ | |

The diagram of the Company's corporate governance system is as follows.

B. Reason for adoption of the said system

The Company operates an Audit & Supervisory Committee system. Four of the 11 Board of Directors members are independent outside directors, and they supervise directors' execution of duties.

The Company has adopted the current governance system as we have determined that the above corporate governance system is appropriate considering the scale and business of the Company based on our basic stance of corporate governance.



B. Reason for adoption of the said system

The Company adopted this corporate governance system based on the judgment that mutual monitoring of directors and management monitoring by the Audit & Supervisory Board Member are appropriate and effective in realizing the Company's 5 basic policies regarding corporate governance.

(iii) Other matters concerning corporate governance

A. Development of the internal control system

In accordance with the Ordinance for Enforcement of the Companies Act and the Companies Act, the Company has adopted the following “basic policy for building an internal control system” in the meeting of Board of Directors, and established and operates the system.

B. Basic policy for building an internal control system

(a) Systems to ensure that the execution of duties by directors and employees complies with laws and regulations and the Articles of Incorporation

All directors and employees shall strive to establish a management system that is trusted by society on an ongoing basis in the future by strengthening internal management systems and raising awareness of compliance, based on the recognition that it is our social responsibility as a company to always embody the spirit of legal compliance and execute business based on a fair and high level of ethics. In concrete terms, the Internal Audit Office, which is under direct control of the President Representative Director, will be established to conduct regular internal audits of all divisions and group companies without exception. In internal audits, the Company shall ascertain the status of business operations and systems, and shall fairly investigate and verify whether all business operations are conducted appropriately in compliance with laws and regulations, the Articles of Incorporation, and internal rules, and whether corporate systems, organizations, and rules are proper and appropriate. The results of audits shall be reported to the President Representative Director and Audit and Supervisory Committee on a regular basis. Also the Company shall report to board of directors as needed.

In addition, the Company will establish a “Corporate Ethics Help Line” and establish an internal reporting system with various contact methods that thoroughly protects reporters in order to prevent and promptly detect violations of laws and regulations and misconduct to improve the mobility of the self-cleaning process, control reputational risks, and ensure public trust. Furthermore, in order to raise awareness of compliance, the Legal Department will be established and various training and education will be conducted. The Company and group companies shall have no relationship with anti-social forces and shall respond resolutely to unreasonable demands.

(b) System for storage and management of information related to the execution of duties by directors

Information related to the execution of duties by directors, such as records related to decision-making at important meetings including the Board of Directors meetings and documents approved by each director in accordance with the “Regulations on Administrative Authority,” shall be appropriately recorded, and shall be retained for a specified period of time in accordance with laws and regulations and the “Regulations on the Handling of Documents,” and shall be kept available for inspection by directors and Audit & Supervisory Board Members as necessary. The General Manager of the Administration Department shall be responsible for supervising the storage and management of information.

(c) Regulations concerning the management of risk of loss and other system

In order to respond to all risks that threaten the improvement of corporate value and the sustainable development of the Company, the Company will strive to establish an organizational crisis management system by creating a risk management manual and establishing a task force headed by the President Representative Director (including a team of external experts such as corporate lawyers) in the event of an unforeseen event.

(d) Systems to ensure efficient execution of duties by directors

As an indicator for establishing and implementing the corporate vision of the entire corporation, the Company has formulated a medium-term management policy and a single-year management plan. In order to realize the management policy and the management plan, the Board of Directors has clarified the executive authority and responsibilities of directors and has increased the efficiency of the execution of duties. In addition, with regard to matters for which decisions on business execution have been delegated to the President Representative Director and directors in charge of business execution of other matters, necessary decisions shall be made based on the “Organization Regulations” or the “Regulations for Management of Affiliated Companies” including group companies. These regulations shall also be appropriately reviewed based on revisions and abolition of laws and regulations and for the purpose of improving the efficiency of the execution of duties.

(e) Systems to ensure the appropriateness of operations within the corporate group consisting of the Company and group companies

In order to ensure the appropriate execution of operations by group companies, the Corporate Planning Department shall be responsible for the management of the group companies in accordance with the “Regulations for the Management of Affiliated Companies.” While respecting the autonomy of the group companies, the Corporate Planning Department shall receive periodic reports on the status of the business of the group companies. In addition, the Corporate Planning Department shall require prior consultation or prior approval with the Company for important management matters of the 3 group companies. Group companies' management plans are also formulated under the control of the Company, and the Company provides timely and appropriate advice and guidance during the business period to improve the efficiency of group companies' operations. In addition, the Company and its group companies have established a Risk Management Committee chaired by the President Representative Director and assign risk management officers to each division. In the event that any risk is discovered in management or business, it shall be reported to the Risk Management Committee, and the risk information shall be analyzed and countermeasures shall be considered to prevent damage or to minimize damage to the Company and the group companies if such damage occurs. We will establish a system for reporting violations of laws and regulations or illegal acts that have occurred or

may occur at group companies to the internal reporting desk or outside Audit & Supervisory Board Members specified in the “Regulations on the Corporate Ethics Help Line”. We will strive for early detection and resolution of these violations. The Internal Audit Office shall conduct internal audits of all group companies in order to ensure the effectiveness and appropriateness of systems, organizations, and regulations covering the overall operations of group companies. The results of these audits shall be reported to the organization designated by the Company’s President Representative Director. President Representative Director shall prepare and report its financial statements in accordance with fair and appropriate accounting standards in order to enhance the reliability of financial reporting and increase corporate value of the Company and its group companies.

- (f) Matters relating to employees who are required to assist Audit & Supervisory Board Members in performing their duties

In the event that Audit & Supervisory Board Members request that an employee be assigned to assist them in performing their duties, such employee shall be assigned as an Audit & Supervisory Board Members’ assistant. The auditor’s assistant shall be appointed from persons who have sufficient knowledge of accounting and law and shall perform their duties in accordance with the instructions of the Audit & Supervisory Board Members. In addition, if an Audit & Supervisory Board has been established, it shall also serve as the secretariat of the Audit & Supervisory Board.

- (g) Matters related to the independence of employees from directors in the preceding paragraph

In order to ensure the independence of the auditor’s assistant as set forth in the preceding paragraph, personnel changes and evaluations of such employees shall be reported to Audit & Supervisory Board Members in advance and their consent shall be obtained.

- (h) Matters related to ensuring the effectiveness of instructions given by Audit & Supervisory Board Members to employees in Paragraph (f)

The auditor’s assistant in Paragraph (f) will have the opportunity to accompany the Audit & Supervisory Board Members to Board of Directors meetings and other important meetings. They will also accompany the Audit & Supervisory Board Members and regularly exchange opinions with the President Representative Director and accounting auditors. Directors and other employees will cooperate with the Audit & Supervisory Board Members to improve the auditing environment so that the duties of the auditor’s assistant are carried out smoothly.

- (i) System for reporting to Audit & Supervisory Board Member and other Members by Directors and employees of the Company and group companies

All directors and department heads shall report on the status of the execution of their duties from time to time at meetings in the Board of Directors and other meetings attended by corporate auditors. Auditors shall be permitted to attend any Company meetings they request to attend. All directors and employees of the Company and its group companies shall report to the Audit & Supervisory Board Members as soon as they discover any matter that may or may not have a material impact on the Company's credibility, business performance or any material violation of the Corporate Vision and/or Corporate Code of Conduct. Directors and employees of the Company and group companies may report to the internal reporting office of the Company as set forth in the “Regulations on the Corporate Ethics Help Line” at any time. In addition, they may voluntarily report to outside Audit & Supervisory Board Members. The Compliance Department of the Company provides education and training opportunities for directors and employees to raise awareness of the hotline and encourage active reporting. The Company shall explicitly stipulate in the “Regulations on the Corporate Ethics Help Line” that directors and employees of the Company and group companies shall not be subjected to unfavorable treatment in personnel evaluation and shall not be subject to adverse dispositions such as disciplinary action by reporting to the internal reporting office, and shall make it known that they shall not be subject to adverse dispositions due to reporting to Audit & Supervisory Board Members.

- (j) Matters related to the policy regarding the handling of expenses and obligations arising from the execution of duties by Audit & Supervisory Board Members

The Company shall promptly respond to requests from Audit & Supervisory Board Members for advance payment of 4 expenses incurred in the execution of their duties, reimbursement of expenses incurred and repayment of obligations incurred, except in cases where such expenses can be proved not to have arisen in the execution of their duties.

- (k) Systems to ensure effective audits by Audit & Supervisory Board Members

President Representative Director will hold regular meetings with Audit & Supervisory Board Members in order to facilitate mutual communication. In addition, in accordance with the “Regulations for Internal Audit” and the “Internal Audit Implementation Guidelines,” the Internal Audit Office shall maintain close contact and coordination and cooperate to ensure that audits by Audit & Supervisory Board Members and audits by the accounting auditor are conducted efficiently and effectively.

C. Outline of the operating status

- (a) Directors' execution of duties

We have established internal rules to ensure that directors act in compliance with laws and regulations and the Articles of Incorporation. During the fiscal year under review, the Company held 18 Board of Directors meetings to discuss each proposal, supervise the status of business execution, and actively exchange opinions.

- (b) Execution of duties by Audit & Supervisory Board

During the fiscal year under review, the Audit & Supervisory Board Members held 14 Audit & Supervisory Board Members meetings and implemented audits based on the audit plan. In addition, the Audit & Supervisory Board Members attended Board of Directors meetings and other important meetings and regularly exchanged information with the President Representative Director, the accounting auditor, and the Internal Audit Office to audit the execution of duties by the directors and to confirm the development and operational status of the internal control system.

- (c) Ensuring the appropriateness of operations at the Company's subsidiaries

The Company receives periodic reports on the status of its business from its subsidiaries in accordance with the “Regulations for Management of Affiliated Companies” and monitors their business activities.

- (d) Compliance and Risk Management

The Company has established the “Corporate Ethics Help Line” to ensure that employees who have reported compliance violations or acts are not treated unfavorably for the reason of the report. The Company ensures that employees who report compliance violations or questionable acts are not treated unfavorably for the reason of the report. In addition, we are preparing for unexpected situations such as training for countermeasures against large-scale disasters and securing supplies for people with difficulty in returning home.

D. Status of the development of the risk management system

The Company's risk management system includes risk management in each division. At the same time, the director, division head, and chief grasp the status of important management matters (contracts, quality, intellectual property, etc.) in a cross-sectional manner. If necessary, the director, division head, and chief hold weekly meetings for report and review. In the event of an emergency, the Company has established a system to promptly hold a temporary Board of Directors' meeting to respond.

In addition, in order to strengthen risk management, the Company strives to implement internal audit and enhance education and training regarding various laws and regulations for officers and employees, and carries out educational activities to ensure awareness.

Moreover, the Company has entered into an advisory contract with a law firm in order to deal with cases that require

guidance and has received advice and guidance appropriately.

E. Outline of the liability limitation agreement

The Company has concluded a liability limitation agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act with the Outside Directors and Audit & Supervisory Board Members under Article 423, Paragraph 1 of the said Law. The maximum amount of liability for damages under the agreement is the amount stipulated by laws and regulations.

Such limitation of liability is permitted only when the Outside Director or the Outside Audit & Supervisory Board Member has acted in good faith and without gross negligence in performing the duties that caused the liability.

F. Outline of officers' liability insurance contract

The Company has entered into liability insurance contracts for officers, etc. as stipulated in Article 430 (3), Item 1 of the Companies Act with the Company's and its subsidiaries' Directors, Audit & Supervisory Board Member, executive officers and other employees as insured persons. Claims for damages arising from an act performed by an insured person in relation with the business of the Company (including inaction) are covered by compensation for damages and court costs incurred by the insured. The Company pays all insurance premiums for all insured persons, but damage caused by criminal acts or intentional illegal acts is excluded so as not to impair the appropriateness of the execution of duties.

(iv) Matters related to director

A. Maximum number of directors

The Company's Articles of Incorporation stipulate that the number of directors of the Company shall not exceed 10 and the number of Audit & Supervisory Board Members shall not exceed 4.

B. Requirements for a resolution on the appointment of a director

The Company's Articles of Incorporation stipulate that a resolution for the election of a director shall be adopted by a majority of the voting rights of the shareholders who are eligible to exercise the voting rights and who are present at the meeting, where the shareholders holding one-third or more of the voting rights of all shareholders eligible to exercise the voting rights must be present and cumulative voting shall not be used in a resolution for the election of a director.

(v) Matters concerning General Meeting of Shareholders

A. General Meeting of Shareholders special resolution requirements

When a special resolution is required, resolutions made pursuant to Article 309, Paragraph 2 of the Companies Act of Japan shall be adopted by two-thirds or more of the voting rights of the shareholders who are eligible to exercise the voting rights and who are present at the meeting, where the shareholders holding one-third or more of the voting rights of all shareholders eligible to exercise the voting rights must be present. The purpose of this agreement is to facilitate the smooth operation of General Meeting of Shareholders by securing a quorum for special resolutions in General Meeting of Shareholders.

B. Matters to be resolved in the General Meeting of Shareholders Resolution Matters that may be resolved at the meeting of Board of Directors

(a) Acquisition of own shares

To enable the execution of flexible capital policy to respond to changes in the business environment, pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act of Japan, the Company may acquire its own shares through transactions on the market, etc., by a resolution of the Board of Directors.

(b) Exemption from liability of director and Audit & Supervisory Board Member

To ensure directors and Audit & Supervisory Board Members can fully perform the role expected of them, in accordance with the provisions of Article 426, Paragraph 1 of the Companies Act of Japan, the Company may, by a resolution of the Board of Directors, exempt a Director or an Audit & Supervisory Board Member (including those who were Director and Audit & Supervisory Board Member) from his/her liability for damages caused by his/her dereliction of duty, within the limits stipulated by laws or regulations.

(c) Dividends of surplus, etc.

In order for the Company to flexibly implement its capital and dividend policies, we provide in our Articles of Incorporation that matters stipulated in each item of Article 459, Paragraph 1 of the Companies Act of Japan, such as dividends of surplus, may be determined by resolution of the Board of Directors, except as otherwise provided by laws and regulations.

(2) Board of Directors and Audit & Supervisory Board Members

(i) List of Board of Directors and Audit & Supervisory Board Members

Male: 10 persons, Female: 1 person (percentage of the female: 9%)

| Title & Position | Name | Date of birth | Career summary | Term of office | Share ownership (shares) |
|----------------------------------|-------------------|----------------|--|----------------|--------------------------|
| Chairman Representative Director | Tomoaki Horiguchi | April 21, 1958 | March 1990 Sun Frontier Co., Ltd. (merged company) President Representative Director April 1999 Establishment of the Company President Representative Director January 2012 Chairman of Board of Directors of Yubi Co., Ltd. (present SF Building Maintenance Inc.) August 2015 Representative Director of Sun Frontier Hotel Management Inc. (current position) November 2015 Chairman of Board of Directors of SUN FRONTIER VIETNAM CO., LTD. September 2016 Chairman of Board of Directors of SUN FRONTIER DANANG CO., LTD. December 2016 Representative Director of Hotel Sky Court Hotel Co. (currently Sky Heart Hotel Inc.) November 2017 Representative Director of Sun Frontier Sado Co., Ltd. (current position) June 2018 Representative Director of Sun Frontier Okinawa Co., Ltd. (current position) August 2018 Representative Director of Okesa Kanko Taxi Co., Ltd. (current position) April 2020 Chairman Representative Director of the Company (current position) May 2021 President Representative Director of Hotel Osado Co., Ltd. (current position) | (Note 2.) | 3,016,283 |

| Title & Position | Name | Date of birth | Career summary | Term of office | Share ownership (shares) |
|---|----------------|----------------|---|----------------|--------------------------|
| President Representative Director | Seiichi Saito | June 9, 1960 | <p>September 2005 Joined the Company</p> <p>November 2005 General Manager of Administration Division</p> <p>June 2006 Director, General Manager of Management Division</p> <p>June 2008 Senior Managing Director, General Manager of Management Division</p> <p>June 2012 Executive Vice President, Vice President Executive Officer, General Manager of Administration Division</p> <p>June 2014 Representative Executive Vice President, Vice President Executive Officer, General Manager of Administration Division</p> <p>April 2015 Representative Executive Vice President, Vice President Executive Officer, General Manager of Asset Management Division</p> <p>June 2017 Chairman of Sun Frontier Fudousan Taiwan Co., Ltd. (current position)</p> <p>December 2018 Representative Director of Sun Frontier NY Co.,Ltd. (current position)</p> <p>January 2019 Representative Director of Kouwa Corporation (currently SF Engineering Inc.) (current position)</p> <p>April 2020 President Representative Director of the Company, President Executive Officer (current position)</p> | (Note 2) | 65,075 |
| Vice President Director, General Manager of Entrusted Asset Management Division | Izumi Nakamura | March 16, 1952 | <p>September 2006 Joined the Company Head of Sales Administration Entrusted Asset Management Division</p> <p>June 2008 Director, General Manager of Entrusted Asset Management Division of the Company</p> <p>June 2012 Representative Director SF Building Support Inc. (current position)</p> <p>June 2012 Managing Director, Managing Executive Officer, General Manager of Entrusted Asset Management Division of the Company</p> <p>November 2013 Representative Director of Yubi Co., Ltd. (present SF Building Maintenance Inc.) (current position)</p> <p>June 2016 Senior Managing Director, Senior Managing Executive Officer, General Manager of Entrusted Asset Management Division</p> <p>April 2019 Representative Director of Sun Frontier Space Management Inc. (current position)</p> <p>April 2020 Executive Vice President, Vice President Executive Officer, General Manager of Entrusted Asset Management Division (current position)</p> | (Note 2) | 51,037 |

| Title & Position | Name | Date of birth | Career summary | Term of office | Share ownership (shares) |
|--|--------------------|-------------------|---|----------------|--------------------------|
| Senior Managing Director, General Manager of Business Promotion Division | Yasushi Yamada | December 23, 1965 | <p>August 2010 Joined the Company, Manager of Corporate Planning Division</p> <p>June 2012 Executive Officer, Manager of Corporate Planning Division</p> <p>April 2015 Executive Officer, General Manager of Administration Division</p> <p>June 2015 Director, Executive Officer, General Manager of Administration Division</p> <p>June 2016 Managing Director, Managing Executive Officer, General Manager of Administration Division</p> <p>November 2017 Representative Director of PT.SUN FRONTIER PROTERTY ONE (current position)</p> <p>December 2017 Representative Director of PT.SUN FRONTIER INDONESIA (current position)</p> <p>April 2020 Senior Managing Director, Senior Managing Executive Officer, General Manager of Business Promotion Division (current position)</p> <p>June 2020 Chairman Representative Director of SUN FRONTIER VIETNAM CO., LTD. (current position)</p> <p>June 2020 Chairman Representative Director of SUN FRONTIER DANANG CO., LTD. (current position)</p> <p>June 2020 Representative Director of Sun Frontier Community Arrangement Co., Ltd. (current position)</p> | (Note 2.) | 13,483 |
| Director, General Manager of Administration Division | Mitsuhiro Ninomiya | March 1, 1969 | <p>September 2003 Joined the Leasing Business Division of the Company</p> <p>March 2006 Manager of Property Management Business Division</p> <p>October 2010 Manager of Human Resources General Affairs Division</p> <p>June 2014 Executive Officer, Manager of Human Resources General Affairs Division</p> <p>April 2018 Executive Officer, Deputy General Manager of Administration Division, Manager of Corporate Planning Division</p> <p>April 2019 Executive Officer, Deputy General Manager of Administration Division, Manager of Corporate Planning Division, Manager of Information System Division</p> <p>July 2019 Executive Officer, Deputy General Manager of Administration Division, Manager of General Affairs Division, Manager of Information System Division</p> <p>October 2019 Executive Officer, Deputy General Manager of Administration Division, Manager of General Affairs Division</p> <p>April 2020 Executive Officer, General Manager of Administration Division, Manager of General Affairs Division of the Company</p> <p>June 2020 Director, Executive Officer, General Manager of Administration Division and Manager of General Affairs Division (current position)</p> | (Note 2.) | 31,873 |

| Title & Position | Name | Date of birth | Career summary | Term of office | Share ownership (shares) |
|--|----------------|--------------------|---|----------------|--------------------------|
| Director, General Manager of Asset Management Division | Kenji Honda | March 5, 1967 | <p>April 2006 Joined the Company in Entrusted Asset Management Division Corporate Sales Section</p> <p>October 2010 Chief of Property Management Business Division and Manager of Quality Control Office</p> <p>June 2014 Executive Officer, Manager of Property Management Business Division (current position)</p> <p>March 2016 Representative Director of PT. SUN FRONTIER INDONESIA</p> <p>April 2018 Executive Officer, Deputy General Manager of Entrusted Asset Management Division and the 1st Manager of Property Management Business Division</p> <p>April 2020 Executive Officer, General Manager of Asset Management Division (current position)</p> <p>June 2020 Director, Executive Officer, General Manager of Asset Management Division (current position)</p> <p>February 2021 Representative Director of Communication Development Inc. (current position)</p> | (Note 2.) | 4,145 |
| Director | Kazutaka Okubo | March 22, 1973 | <p>November 1995 Passed the second Certified Public Accountant examination</p> <p>November 1995 Joined Century Audit Corporation (currently Ernst & Young ShinNihon LLC)</p> <p>April 1999 Registered as Certified Public Accountant</p> <p>June 2006 Partner of ShinNihon Audit Corporation (currently Ernst & Young ShinNihon LLC)</p> <p>July 2012 Senior Partner of ShinNihon LLC (currently Ernst & Young ShinNihon LLC)</p> <p>February 2016 Senior Managing Director and General Manager of ERM of the same audit corporation</p> <p>June 2019 President Representative Director of Okubo Associates Co., Ltd. (current position)</p> <p>June 2019 Director of the Company (current position)</p> <p>June 2019 Outside Audit & Supervisory Board Member of SEGA SAMMY HOLDINGS Inc. (current position)</p> <p>September 2019 Outside Audit & Supervisory Board Member of BrainPad Inc. (current position)</p> <p>December 2019 Outside Director of LIFULL Co., Ltd. (current position)</p> <p>February 2020 Outside Director of SALA Corporation (current position)</p> <p>June 2020 Outside Director of The Shoko Chukin Bank, Ltd. (current position)</p> <p>June 2020 Outside Director, Audit & Supervisory Board Member of Musashi Seimitsu Industry Co., Ltd. (current position)</p> <p>November 2020 Representative Director of SS DNAFORM (current position)</p> <p>September 2021 Outside Director, Audit & Supervisory Committee Member of BrainPad Inc. (current position)</p> | (Note 2.) | 2,073 |
| Director | Keiichi Asai | September 29, 1954 | <p>April 1978 Joined Mitsubishi Corporation</p> <p>April 2009 Executive Officer and Head of the Energy Business Group CEO Office of the same company</p> <p>April 2013 Vice President Director of Lithium Energy Japan</p> <p>September 2014 President Representative Director of KH Neochem Co., Ltd.</p> <p>April 2019 Retired from the same company</p> <p>June 2021 Outside Director, Audit & Supervisory Committee Member of Cosmo Energy Holdings Co., Ltd. (current position)</p> <p>June 2022 Outside Director of the Company (current position)</p> | (Note 2.) | - |

| Title & Position | Name | Date of birth | Career summary | Term of office | Share ownership (shares) |
|--|-------------------|--------------------|---|----------------|--------------------------|
| Director, Audit & Supervisory Committee Member | Shinichi Tominaga | June 13, 1957 | <p>April 1981 Joined The Sumitomo Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation)</p> <p>September 2007 Compliance Manager of Kenedix Advisors, Inc.</p> <p>March 2009 Manager of Finance & Accounting Department of Kenedix, Inc.</p> <p>September 2010 Manager of Business Management Department of Kenedix, Inc.</p> <p>July 2017 Joined the Company, Deputy General Manager of Administration Division</p> <p>April 2018 Manager for Governance and Other Special Missions of the Company</p> <p>April 2019 Accounting Manager of the Company</p> <p>July 2020 Manager of Corporate Planning Division of the Company</p> <p>June 2022 Director, Audit & Supervisory Committee Member of the Company (current position)</p> | (Note 3.) | 532 |
| Director, Audit & Supervisory Committee Member | Hidetaka Tanaka | January 25, 1953 | <p>April 1975 <u>Joined The Industrial Bank of Japan, Limited</u></p> <p>May 1996 <u>Deputy Branch Manager of Singapore Branch, President and CEO of IBJ Merchant Bank (Singapore) Limited</u></p> <p>June 1996 <u>Chief of International Finance Division of the same bank</u></p> <p>May 2000 <u>Manager of International Finance Division of the same bank</u></p> <p>March 2002 <u>Joined Rating and Investment Information, Inc. as Deputy General Manager of Rating Division and General Manager of Structured Finance Division of the same company</u></p> <p>March 2004 <u>Manager of Structured Finance Division of the same company</u></p> <p>March 2006 <u>Director, General Manager of Structured Finance Division of the same company, President Representative Director of Financial Technology Research Institute</u></p> <p>March 2008 <u>Managing Executive Director of the same company</u></p> <p>March 2013 <u>Senior Managing Executive Officer of the same company</u></p> <p>March 2016 <u>Director, Senior Managing Executive Officer of the same company</u></p> <p>June 2019 <u>Audit & Supervisory Board Member of the Company</u></p> <p>June 2022 <u>Outside Director, Audit & Supervisory Committee Member of the Company (current position)</u></p> | (Note 3) | - |
| Director, Audit & Supervisory Committee Member | Tsuneko Murata | September 27, 1958 | <p>April 1982 Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>May 2003 Legal Manager of Panasonic System Solutions Co., Ltd. of the same company</p> <p>April 2007 Director of the same company Legal and CSR Manager of Home Appliances Company</p> <p>June 2008 Director of Matsushita Facilities Net Services Co., Ltd. (currently Panasonic Appliances Safety Service Co., Ltd.)</p> <p>February 2010 Director of the Lifelong Learning Division of the Lifelong Learning Policy Bureau, Ministry of Education, Culture, Sports, Science and Technology</p> <p>July 2013 Director for Special Missions of the Legal Division of Panasonic Corporation</p> <p>January 2014 Director of Japan Pension Service</p> <p>January 2016 Auditor of the same organization</p> <p>June 2018 Outside Audit of Japan Finance Corporation</p> <p>June 2018 Outside Director, Audit & Supervisory Committee Member of Advantest Corporation</p> <p>June 2019 Outside Director, Audit & Supervisory Committee Member of Fujikura Ltd.</p> <p>March 2021 Outside Director of Milbon Co., Ltd. (current position)</p> | (Note 3.) | - |

| Title & Position | Name | Date of birth | Career summary | Term of office | Share ownership (shares) |
|------------------|------|---------------|---|----------------|--------------------------|
| | | | June 2021 Outside Director of Kakuyasu Group, Co., Ltd. (current position) June 2022 Outside Director, Audit & Supervisory Committee Member of Tokyo Seimitsu Co., Ltd. (current position) June 2022 Outside Director, Audit & Supervisory Committee Member of the Company (current position) | | |
| Total | | | | | 3,184,501 |

- Notes: 1. Director Mr. Keiichi Asai, Mr. Kazutaka Okubo, Mr. Hidetaka Tanaka and Ms. Tsuneko Murata are “Outside Directors.”
 2. For one year from the conclusion of Annual General Meeting of Shareholders on June 21, 2022
 3. For two years from the conclusion of Annual General Meeting of Shareholders on June 21, 2022
 4. The Company has appointed 1 substitute Audit & Supervisory Committee Member who is a director as stipulated in Article 329, Paragraph 3 of the Companies Act of Japan in preparation for the event that the number of Audit & Supervisory Committee Member who is a director falls short of the number stipulated by laws and regulations.

The career summary of alternate Audit & Supervisory Committee Member who is a director is as follows.

| Name | Date of birth | Career summary | Share ownership (shares) |
|----------------|---------------|---|--------------------------|
| Fumio Tsuchiya | July 26, 1952 | April 1985 Registered as an attorney (Daini Tokyo Bar Association) April 1989 Established and is the General Manager of Tsuchiya Law Office (current position) | - |

5. The Company has introduced an executive officer system in order to improve efficiency by separating management decision-making and supervisory functions from business execution functions and to strengthen business execution functions. The 11 executive officers is as follows.

| Name | Title | Position |
|----------------------|-----------------------------------|--|
| * Seiichi Saito | President Executive Officer | |
| * Izumi Nakamura | Vice President Executive Officer | General Manager of Entrusted Asset Management Division |
| * Yasushi Yamada | Senior Managing Executive Officer | General Manager of Business Promotion Division |
| * Mitsuhiro Ninomiya | Executive Officer | General Manager of Administration Division and Manager of General Affairs Division |
| * Kenji Honda | Executive Officer | General Manager of Asset Management Division |
| Shuhei Oda | Executive Officer | General Manager of Asset Management Division and Manager of Replanning Business Division |
| Kenji Wakao | Executive Officer | General Manager of Asset Management Division and Manager of Construction Division |
| Kentaro Kawanishi | Executive Officer | General Manager of Entrusted Asset Management Division and Property Management Business |
| Takeshi Hirahara | Executive Officer | General Manager of Administration Division and Manager of Corporate Planning Division |
| Midori Kaneko | Executive Officer | Group Marketing Manager |
| Hiroyuki Takekawa | Executive Officer | DX Project Manager |

* Indicates Executive Officer concurrently serving as Director.

(ii) Outside Officers

Annual Securities Report As of the submission date, the relationship with the four Outside Director members is as follows.

Mr. Kazutaka Okubo Outside Director is well versed in corporate audit as a Certified Public Accountant. He has served as a manager of audit corporations, various expert committee members of government agencies and executive officers of business associations. He has a wealth of insight and experience in areas such as crisis management, compliance and CSR. The Company

has appointed him as Outside Director because the Company has judged that it is possible for him to provide appropriate advice and proposals at an independent standpoint to the managers involved in business execution in the decision-making of the Board of Directors.

The Company has designated him as an independent officer under the provisions of the Tokyo Stock Exchange, Inc. and has notified the Tokyo Stock Exchange of the designation. Although he holds Company's shares (2,073 shares) as of the filing date, there are no other personal relationships, capital relationships, significant business relationships, or any other interests between the Company and him.

Outside Director Mr. Keiichi Asai joined Mitsubishi Corporation and worked in various divisions of the petroleum business including sales, supply and marketing and refining of petroleum products. He was also stationed in the United States and India and has engaged in international business of the energy business group almost consistently.

He has a wealth of knowledge and experience as he assumed the positions of Vice President Director of Lithium Energy Japan in 2013 and President Representative Director of KH Neochem Co., Ltd. in 2014 and has been involved in overall corporate management.

The Company has appointed him as Outside Director because the Company has judged that he can be expected to supervise the management of the Company based on his wealth of knowledge and experience, and appropriately perform his duties.

The Company has designated him as an independent officer under the provisions of the Tokyo Stock Exchange, Inc. and has notified the Tokyo Stock Exchange of the designation.

There are no other personal relationships, capital relationships, significant business relationships, or any other interests between the Company and Mr. Asai.

Outside Director Mr. Hidetaka Tanaka, who is an Audit & Supervisory Committee Member, is a Certified Public Accountant in the United States of America and has served as an expert member of government agencies.

In addition, he has a wealth of business experience in foreign countries. Based on his specialized knowledge in the financial industry and his experience working abroad and as a corporate manager, the Company has judged that he will be able to utilize the Company's auditing system from an independent standpoint with regard to the Company's overall management, including overseas business development operations, and has therefore appointed him as Outside Director who is an Audit & Supervisory Committee Member.

The Company has designated him as an independent officer under the provisions of the Tokyo Stock Exchange, Inc. and has notified the Tokyo Stock Exchange of the designation.

There are no other personal relationships, capital relationships, significant business relationships, or any other interests between the Company and Mr. Tanaka.

Outside Director Ms. Tsuneko Murata, who is an Audit & Supervisory Committee Member, has experience as the head of the legal department of Panasonic Group and as a director and auditor of Japan Pension Service, as well as an outside officer at listed companies. In addition to a wealth of knowledge related to legal affairs, management and audit, she has a broad knowledge on promotion of women's participation and advancement in the workplace.

Based on her insight, the Company has appointed her as Outside Director who is an Audit & Supervisory Committee Member because the Company judges that she will be able to provide the Company with constructive proposals mainly on strengthening corporate governance, deliberation on important management matters and management monitoring by the Board of Directors and promoting sustainability.

Outside Audit & Supervisory Board Member Mr. Hidetaka Tanaka is a Certified Public Accountant in the United States of America and has served as an expert member of government agencies. In addition, he has a wealth of business experience in foreign countries. Based on his specialized knowledge in the financial industry and his experience working abroad and as a corporate manager, the Company has judged that he will be able to utilize the Company's auditing system from an independent standpoint with regard to the Company's overall management, including overseas business development operations, and has therefore appointed him as an Outside Audit & Supervisory Board Member. The Company has designated him as an independent officer under the provisions of the Tokyo Stock Exchange, Inc. and has notified the Tokyo Stock Exchange of the designation. There are no other personal relationships, capital relationships, significant business relationships, or any other interests between the Company and Mr. Kobayashi.

As described above, Outside Director and Outside Audit & Supervisory Board Member are expected to fulfill their functions and roles to contribute to the sustainable growth of the Company and the enhancement of corporate value over the medium - to long-term, and the Company believes that Outside Directors and Outside Audit & Supervisory Board Members are sufficiently selected.

Although there are no specific standards or policies regarding the independency of the Outside Director and the Outside Audit & Supervisory Board Member, the Company considers that the Outside Director and the Outside Audit & Supervisory Board Member, which are unlikely to cause conflicts of interest with general shareholders, are selected to ensure the independency of management by referring to the standards for independency of the independent officers established by the Tokyo Stock Exchange, Inc.

- (iii) Coordination among supervisions or audits by Outside Directors or Outside Audit & Supervisory Board Members, internal audits, audits by Audit & Supervisory Board Members and accounting audits, and relations with the Internal Control Division
- With regard to the supervision by Outside Director or an outside Audit & Supervisory Board Member, or the relationship between audit and internal audit, Audit & Supervisory Board Member Audit and accounting audit, Internal Audit Office implements internal audit based on the internal audit plan on business activities, effectiveness and accuracy of business implementation, compliance status, etc. The results are regularly reported to the President Representative Director, Audit & Supervisory Board Member including outside Audit & Supervisory Board Member, and Director including Outside Director, and at the same time, the Internal Audit Office explains the purpose of internal control and evaluation of control, etc., and provides specific advice and recommendations for business improvement and appropriate management. In addition, Internal Audit Office, Audit & Supervisory Board, and accounting auditor work closely with each other, and Audit & Supervisory Board and accounting auditor has a system that allows them to grasp the situation of internal audit in a timely manner. Audit & Supervisory Board Member and accounting auditor also share information on Audit & Supervisory Board Member Audit and accounting audit and coordinate with each other.

Based on the audit plan formulated in Audit & Supervisory Board, Audit & Supervisory Board Member, mainly the full-time Audit & Supervisory Board Member, conducts a planned and comprehensive audit of the overall business of the Company and its subsidiaries. In addition, to attending important Board of Directors meetings, other important meetings, and expressing opinions, audit is conducted through interviews with directors and access to important approval documents. From the standpoint of an independent organization, the 3 members of Audit & Supervisory Board Member regularly hold Audit & Supervisory Board meetings to ensure appropriate monitoring, and actively exchange information, including accounting auditor, to secure coordination.

Moreover, Internal Audit Office, Audit & Supervisory Board and accounting auditor hold regular meetings to exchange information and communicate with each other.

(3) Conditions of Audit

(i) Audit & Supervisory Committee's Audit

We are a Company with Audit & Supervisory Committee. The Audit & Supervisory Committee consists of three Audit & Supervisory Committee Members (including two Independent Outside Directors).

The Rules of Audit & Supervisory Committee stipulates that, as a general rule, the Audit & Supervisory Committee meeting shall be held once a month and additional meetings may be held as needed. In addition to determining audit policies, plans and allocation, the members will exchange opinions based on business operation audit reports developed by full-time (by selection) Audit & Supervisory Committee Members, deliberate on the legality of regular Board of Directors meeting proposals, and share information on risk cases, etc.

In addition, the Audit & Supervisory Committee will regularly communicate with the Accounting Auditor and the Internal Audit Office, receives reports and explanations on the audit conditions and results, and exchange opinions.

Each Audit & Supervisory Committee Member will perform one's duties based on the plan throughout the period in accordance with the audit policies, allocation, etc. determined by the Audit & Supervisory Committee. In order to audit the execution of duties by the Board of Directors, each Audit & Supervisory Committee Member will ask questions and express opinions as appropriate in Board of Directors meetings.

Throughout the year, the full-time (by selection) Audit & Supervisory Committee Member (1 person) will conduct on-site inspections at each division and subsidiary, attend major meetings such as the Management Committee, inspect various important documents, including significant meeting minutes and approval requests, and receive explanations on questions as appropriate from directors and employees, request reports, and state opinions. In addition, we will attend Accounting Auditor inspections, conduct joint audits with the Internal Audit Office, and exchange opinions as appropriate to work closely with each other, making efforts to enhance the effectiveness of the audit.

By the resolution of the 23rd Annual General Meeting of Shareholders held on June 21, 2022, we have made a transition to a Company with Audit & Supervisory Committee. Prior to the transition, 14 Audit & Supervisory Board meetings were held in the fiscal year 2021. Main activities by the Audit & Supervisory Board are as follows.

A. Accounting audit;

Audit & Supervisory Board Member monitors whether accounting auditor maintains an independent position, receives an explanation of the audit plan from accounting auditor, and verifies whether appropriate audit is being implemented. In addition, regarding the execution of duties, the Company receives non-consolidated and consolidated reviews and reviews report for each quarter, receives audit results report at the end of the fiscal year, and requests explanations as necessary.

B. Business operation audit and internal control audit

Audit & Supervisory Board Member coordinates with the Internal Audit Office and checks the audit situation. If necessary, audit is implemented as Audit & Supervisory Board Member, where important documents are inspected and visits to each department are conducted. Moreover, Audit & Supervisory Board Member attended the Board of Directors meetings, audit the execution of duties of directors, the management of the meeting, the content of the resolution, etc., and express opinions as necessary. The attendance status of Board of Directors meeting by each Audit & Supervisory Board Member is as follows.

C. Exchanging of views with President Representative Director;

The Company holds regular meetings with President Representative Director to exchange opinions on management issues, business plans, and other matters and communicate with each other.

D. Activities in the Audit & Supervisory Board

Audit & Supervisory Board meetings, deliberations on the Audit & Supervisory Board Member audit policy and audit plan, evaluations of accounting auditor, etc., and the results of the Audit & Supervisory Board Member audit and internal audit, are held once a month, and additional meetings are held as needed. A total of 13 meetings were held in this fiscal year and the attendance of each Audit & Supervisory Board Member at the Audit & Supervisory Board meeting is as follows.

The full-time Audit & Supervisory Board Member attends important meetings such as the Management Committee, the Risk Management Committee and the Market Research Committee, as well as Board of Director meetings of subsidiaries, and expresses opinions as necessary. In addition, he will share information on the content of important meetings with independent Outside Audit & Supervisory Board Members and communicate through exchanging opinions.

Attendance at Audit & Supervisory Board meetings

| Classification | Name | Attendance |
|--|-----------------|---------------------|
| Audit & Supervisory Board Member (full-time) | Kouchi Shinada | 14 times / 14 times |
| Outside Audit & Supervisory Board Member | Koichi Moriya | 14 times / 14 times |
| Outside Audit & Supervisory Board Member | Hidetaka Tanaka | 14 times / 14 times |

(ii) Internal audit

The Internal audit of the Company has established the Internal Audit Office (three persons) as a department under direct control of the President Representative Director. For the purpose of verifying the appropriateness and effectiveness of the internal control system for overall business operations, regular audit is conducted based on the internal audit plan based on the status of risk management in each department. In implementing internal audit, we have asked each department to improve and correct the matters pointed out by audit. For the audit results, we have prepared the internal audit report manual and report to President Representative Director. In addition, the Company holds regular meetings with the Audit & Supervisory Committee and accounting auditor to exchange information and communicate with each other to coordinate and to ensure that internal checks and balances function adequately.

A. Internal audit policy

- The business audit shall objectively evaluate the rational and effective business activities of each department based on the management policy and laws and regulations, etc. In addition, with regard to the new system that will be implemented into operation, the status of the review of business processes shall be checked, and appropriate business activities shall be maintained and improved.
- Coordinate with the chief of each department to solve problems and issues of the internal control system of each department.

B. Internal audit priority items

- Understanding the company policy and monthly schedule, and understanding the progress of specific action plans
- Correlation between approval documents such as request for approval and business execution/results
- Compliance with laws and regulations such as the Housing Construction Business Act, the Construction Business Act, the Financial Instruments and Exchange Act, the Crime Proceeds Transfer Prevention Act, and the Personal Information Protection Act
- Contents of training and education/training in each department and status of effectiveness confirmation

(iii) Accounting audit

A. Name of the Audit Corporation

BDO Sanyu

As for accounting audit, we have asked BDO Sanyu to provide audit throughout the period without being biased towards the final audit. In addition to accounting audit, we receive advice on accounting issues and internal control issues as needed.

B. The number of consecutive years they have conducted audits

22 years from the year ended March 2001

C. Certified public accountants who performed the work

Hiroshi Saito, Engagement Partner, Designated Partner

Satoshi Morita, Engagement Partner, Designated Partner

The Engagement Partner rotation is appropriately implemented, and in principle, have not been involved in audit operations for more than seven consecutive accounting periods.

D. Composition of assistants who supported the audit work

Certified Public Accountant 7, Other 2 persons

Note: Other is those in charge of system audit.

E. Selection policy and reasons for the Audit Corporation

The Company has received explanation from BDO Sanyu regarding the audit system, audit plan, etc. of the Audit Corporation. The Company has determined that it is appropriate to select the Corporation as accounting auditor based on the "Accounting Auditor Selection and Evaluation Criteria" established by Audit & Supervisory Board as follows, comprehensively considering the independence of the Corporation, its quality control system, its presence or absence of expertise, its level of understanding of the Company's business fields, audit remuneration, etc.

• Accounting Auditor selection and assessment criteria

(1) Audit system

(2) Audit project

(3) Quality of audit operations

(4) Results of audit operations

(5) Audit remuneration

F. Evaluations of Audit Corporations by Audit & Supervisory Board Member and Audit & Supervisory Board

As a result of evaluating each item in accordance with the "Selection policy and reasons for the Audit Corporation" established by Audit & Supervisory Board as described in "E" above, Audit & Supervisory Board Member and Audit & Supervisory Board have determined that none of the evaluation items poses any problem in terms of accounting audit eligibility, independency, reliability, etc.

(iv) Details of audit remuneration, etc.

A. Details of remuneration to auditors

| Category | Fiscal year ended March 31, 2020 | | Fiscal year ended March 31, 2021 | |
|---------------------------|--|--|--|--|
| | Remunerations for audit services (million yen) | Remunerations for non-audit services (million yen) | Remunerations for audit services (million yen) | Remunerations for non-audit services (million yen) |
| The Company | 35 | - | 37 | - |
| Consolidated subsidiaries | - | - | - | - |
| Total | 35 | - | 37 | - |

For the previous fiscal year and current consolidated fiscal year, there are no applicable matters regarding the content of non-business audit of the Certified Public Accountant to reporting companies.

B. Details of remuneration to individual member firms affiliated with the same network, to which auditors belong (excluding

“(a)”

Not applicable.

C. Other material remunerations for audit services

Not applicable.

D. Policy on determining audit remuneration

The Company's audit remuneration for audit of Certified Public Accountant, etc. has been determined at Board of Directors with the consent of Audit & Supervisory Board as a result of confirming the transition of audit time and audit remuneration under the audit plan, as well as the status of the audit plan and actual results of this fiscal year, and examining the validity of the estimate of remuneration amount.

E. Reason for the Audit & Supervisory Board giving consent to remuneration for the accounting auditors

The Audit & Supervisory Board, based upon the “Practical Guidelines for Cooperation with Financial Auditors,” etc. released by the Japan Audit & Supervisory Board Members Association, confirmed the actual number of audit hours and the amount of remuneration by audit category and hierarchy in the audit plan for the past years, as well as the status of the performance of duties by accounting auditor. As a result of examining the appropriateness of this fiscal year's audit plan and the amount of remuneration, gives consent in accordance with Article 399, Paragraph 1 of the Companies Act of Japan.

(4) Compensation

(i) Matters pertaining to the policy for determining the amount of officers' remuneration, etc. or the methods for calculating such amount

The Company has established the following policies for determining the amount of remuneration, etc. for officers and the method of calculating such amount (policies for determining the details of individual remuneration, etc. in Director were held in resolution at Board of Directors on June 21, 2022).

The remuneration, etc., of the Company's directors (excluding outside directors) consists of fixed remuneration, performance-linked remuneration and stock-based compensation (compensation for restricted stock, with a target of 65% fixed remuneration, 30% performance-linked remuneration and 5% stock-based compensation (compensation for restricted stock)).

The fixed remuneration is an amount that is deemed to be an appropriate level in comparison with the performance of other companies in the real estate industry, taking into consideration the duties of directors and the status of the Company. With a viewpoint of reflecting the results of performance improvement, performance-linked remuneration is determined based on the consolidated performance (Ordinary profit (loss)) for the fiscal year concerned, taking into consideration the achievement status for the consolidated performance forecast.

At the 23rd Annual General Meeting of Shareholders held on June 21, 2022, the Company resolved that the maximum amount of remuneration, etc. for directors of the Company to be no more than 360 million yen per year (including 36 million yen for outside directors, but excluding salaries for directors who concurrently serve as employees). (The number of directors at the conclusion of the said general meeting for shareholders was 8 (including 2 outside directors)).

Moreover, at the 23rd Annual General Meeting of Shareholders held on June 21, 2022, the Company resolved to allocate stock acquisition rights as share-based compensation type stock options to directors (excluding outside directors) within the range of 36 million yen per year (the number of directors excluding outside directors at the conclusion of the said general meeting for shareholders was 2).

Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors, hereinafter referred to as “Eligible Directors”)

As for the remuneration of the Company's Audit & Supervisory Board Member, due to the nature of its functions as audit, the Company has centralized its operations in fixed remuneration in light of its neutrality and independency. At the 7th Annual General Meeting of Shareholders meeting held on June 22, 2006, it was resolved that the maximum amount of remuneration, etc. of the Company's Audit & Supervisory Board Member shall be no more than 36 million yen per year (the number of Audit & Supervisory Board Member at the conclusion of the General Meeting of Shareholders was 3 (including 1 Outside Audit & Supervisory Board Member).

As for stock remuneration for directors other than Audit & Supervisory Committee Members (excluding outside directors, hereinafter “Eligible Directors”), the Company has introduced the Restricted Stock (“RS”) remuneration system for the purpose of providing an incentive for sustainable enhancement of our corporate value and advancing a further sharing of value with the shareholders.

The specific timing of payment and allocation to the Eligible Directors will be determined in the Board of Directors meetings after the Nomination and Compensation Committee’ s deliberation respecting the contents discussed by them.

At the 23rd Annual General Meeting of Shareholders held on June 21, 2022, it was resolved that the total number of the Company's common shares to be issued to the Eligible Directors or disposed of shall be no more than 50,000 shares per year and the total amount of such remuneration shall be no more than 36 million yen per year (the number of Eligible Directors at the conclusion of the said general meeting of shareholders was 6).

With regard to the amount of remuneration, etc., for directors of the Company or the method of calculating such amount, the Company has established a voluntary Nomination and Compensation Committee consisting of the Chairman-Representative Director and President-Representative Director as well as 2 or more outside directors in order to ensure the objectivity and transparency of the procedures for determining remuneration for directors. The Chairman-Representative Director Tomoaki Horiguchi has the authority to prepare a draft of the calculation method and the basic policy for the amount of remuneration, etc., of the Company's directors. Based on the draft, the Nomination and Compensation Committee deliberates on the composition of remuneration, etc., the ratio thereof, the method for calculating the setting of indicators, etc. The Board of Directors has the authority to determine the policy regarding the determination of the amount of remuneration, etc., of the Company's directors or the method of calculating such amount. However, the Board of Directors determines the amount of remuneration, etc., of the Company's directors or the method of calculating such amount, while respecting the contents of discussions by the Nomination and Compensation Committee to the maximum extent possible.

The Company has held 9 Nomination and Compensation Committee meetings in total since its establishment on December 18, 2018. The Committee is attended by all members and deliberates matters related to the election and dismissal of the Company's director and matters related to the amount of remuneration, etc. Based on the deliberations of the Nomination and Compensation Committee, the Company's Board of Directors has made a resolution regarding the amount of remuneration, etc. in director or the method for calculating such amount.

In order to ensure the independency of the authority to make decisions regarding the amount of remuneration, etc. of the Company's Audit & Supervisory Board Member or the method of calculating such amount, Audit & Supervisory Board Member has the authority to make decisions on policies regarding the amount of remuneration, etc. of each Audit & Supervisory Board Member.

Moreover, the consolidated ordinary profit, the target indicator for performance-linked remuneration this fiscal year, was 11,500 million yen with a total of 12,215 million yen. Board of Directors received report from the Nomination and Compensation Committee and determined that the contents of director's individual remuneration pertaining to this fiscal year,

including the procedure and contents of the decision by Chairman Representative Director Tomoaki Horiguchi, are in line with the above decision policy.

(ii) The total amount of officers, etc. by remuneration category, the total amount of remuneration, etc. by type, and the number of eligible officers

| Classification | Total Amount of Remuneration, etc. Paid (million yen) | Total Amount by Type of Remuneration, etc. (million yen) | | | Number of Persons Paid |
|---|---|--|---------------------------------|--------------|------------------------|
| | | Fixed Remuneration | Performance-linked remuneration | Stock Option | |
| Director (excluding Outside Director) | 239 | 154 | 70 | 14 | 6 |
| Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Member) | 9 | 9 | - | - | 1 |
| Outside Officers | 29 | 29 | - | - | 5 |

(iii) Total amount of consolidated remuneration by officers

Not listed because there are no consolidated remuneration whose total amount is 100 million yen or more.

(iv) Important employee salaries for officers who also serve as employees

Not listed because there are no officers who concurrently serves as employee.

(5) Status of shareholdings

(i) Classification of investment shares

Not applicable because the Company does not hold investment shares for purposes other than pure investment and investment shares for purposes other than pure investment.

(ii) Investment shares held for purposes other than pure investment

Not applicable.

Item. 5 Financial Information

1. Basis of preparation of the consolidated financial statements and the non-consolidated financial statements

(1) The Company's consolidated financial statements are based on the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976).

(2) The financial statements of the Company are described in the "Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements, etc." (Ordinance of the Ministry of Finance No. 59 of 1963. Hereinafter referred to as the "Ordinance on Financial Statements, etc.").

Also, the Company is qualified as a company submitting financial statements prepared in accordance with special provision and prepares financial statements in accordance with the provision of Article 127 of the Ordinance on Financial Statements, etc.

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the consolidated financial statements for the fiscal year from April 1, 2021 to March 31, 2022 and the non-consolidated financial statements for the business year (from April 1, 2021 to March 31, 2022) were audited by BDO Sanyu.

3. Particular efforts to secure the appropriateness of the consolidated financial statements, etc.

The Company carries out special measures for ensuring the appropriateness of consolidated financial statements, etc. Specifically, for the purpose of both ensuring that the Company has an appropriate grasp of the contents of Accounting Standards and related regulations, and properly preparing consolidated financial statements, etc., the Company became a member of the Financial Accounting Standards Foundation, and is kept informed of changes in Accounting Standards and other events by participating in seminars and other events hosted by the foundation.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(Unit: million yen)

| | As of March 31, 2021 | As of March 31, 2022 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 21,508 | 30,053 |
| Notes and accounts receivable - trade and contract assets | *1 1,532 | *1 945 |
| Real estate for sale | *2 13,601 | *2 14,222 |
| Real estate for sale in process | *2 72,282 | *2 62,934 |
| Costs of uncompleted construction contracts | 157 | 100 |
| Supplies | 46 | 83 |
| Other | 1,693 | 2,603 |
| Allowance for doubtful accounts | (36) | (21) |
| Total current assets | 110,785 | 110,920 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 2,851 | 11,489 |
| Accumulated depreciation | (855) | (3,609) |
| Accumulated impairment | (6) | (3) |
| Buildings (net amount) | *2 1,989 | *2 7,876 |
| Land | *2 6,821 | *2 10,046 |
| Other | 2,016 | 1,800 |
| Accumulated depreciation | (291) | (921) |
| Accumulated impairment | (7) | (6) |
| Other (net amount) | *2 1,717 | *2 872 |
| Total property, plant and equipment | 10,528 | 18,796 |
| Intangible assets | | |
| Goodwill | 552 | 408 |
| Other | 149 | 164 |
| Total intangible assets | 701 | 572 |
| Investments and other assets | | |
| Guarantee deposits | 3,997 | 4,726 |
| Deferred tax assets | 973 | 1,036 |
| Other | *3 500 | *3 460 |
| Allowance for doubtful accounts | (1) | (0) |
| Total investments and other assets | 5,470 | 6,222 |
| Total non-current assets | 16,700 | 25,591 |
| Total assets | 127,485 | 136,512 |

(Unit: million yen)

| | As of March 31, 2021 | As of March 31, 2022 |
|--|----------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 1,634 | 1,345 |
| Short-term borrowings | - | 30 |
| Current portion of long-term borrowings | *2 5,530 | *2 6,874 |
| Income taxes payable | 901 | 3,528 |
| Provision for bonuses | 197 | 191 |
| Provision for bonuses for directors (and other officers) | 52 | 73 |
| Provision for fulfillment of guarantees | *4 53 | *4 39 |
| Other | 4,988 | 4,126 |
| Total current liabilities | 13,358 | 16,210 |
| Non-current liabilities | | |
| Long-term borrowings | *2 41,991 | *2 44,169 |
| Retirement benefit liability | 11 | 6 |
| Provision for share-based remuneration | 56 | 68 |
| Other | 2,295 | 1,605 |
| Total non-current liabilities | 44,354 | 45,849 |
| Total liabilities | 57,712 | 62,060 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 11,965 | 11,966 |
| Capital surplus | 6,445 | 6,445 |
| Retained earnings | 48,573 | 52,917 |
| Treasury shares | (67) | (67) |
| Total shareholders' equity | 66,916 | 71,260 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 2 | 3 |
| Foreign currency translation adjustment | (292) | 19 |
| Total accumulated other comprehensive income | (289) | 22 |
| Share Acquisition Rights | 16 | 30 |
| Non-controlling interests | 3,129 | 3,139 |
| Total net assets | 69,773 | 74,452 |
| Total liabilities and net assets | 127,485 | 136,512 |

(ii) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Unit: million yen)

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--|--------------------------------------|--------------------------------------|
| Net sales | *1 59,632 | *1 71,251 |
| Cost of sales | *2 44,549 | *2 51,907 |
| Gross profit | 15,083 | 19,344 |
| Selling, general and administrative expenses | *3 7,170 | *3 7,216 |
| Operating profit | 7,912 | 12,127 |
| Non-operating income | | |
| Interest income | 43 | 35 |
| Dividend income | 0 | 0 |
| Penalty income | - | 200 |
| Foreign exchange gains | 33 | 86 |
| Subsidy income | 154 | 215 |
| Other | 38 | 77 |
| Total non-operating income | 270 | 614 |
| Non-operating Expenses | | |
| Interest expenses | 502 | 446 |
| Loss on investments based on equity method | 55 | 23 |
| Other | 99 | 56 |
| Total non-operating expenses | 658 | 526 |
| Ordinary profit | 7,524 | 12,215 |
| Extraordinary income | | |
| Negative goodwill gain | - | 115 |
| Settlement money | - | 144 |
| Other | *4 1 | 0 |
| Total extraordinary income | 1 | 260 |
| Extraordinary loss | | |
| Loss on sales of non-current assets | 0 | 0 |
| Loss on retirement of non-current assets | 5 | 20 |
| Impairment loss | *5 51 | *5 65 |
| Settlement money | - | 254 |
| Other | 6 | - |
| Total extraordinary loss | 63 | 340 |
| Profit before income taxes | 7,462 | 12,135 |
| Income taxes - current | 3,295 | 4,812 |
| Income taxes - deferred | (70) | (85) |
| Total income taxes | 3,224 | 4,726 |
| Profit | 4,238 | 7,408 |
| Loss attributable to non-controlling interests | (36) | (6) |
| Profit attributable to owners of parent | 4,274 | 7,415 |

Consolidated Statement of Comprehensive Income

(Unit: million yen)

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Profit | 4,238 | 7,408 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (0) | 0 |
| Foreign currency translation adjustment | (230) | 329 |
| Total other comprehensive income | * (231) | * 330 |
| Comprehensive Income | 4,006 | 7,738 |
| Comprehensive income attributable to | | |
| Owners of parent | 4,054 | 7,727 |
| Non-controlling interests | (47) | 11 |

(iii) Consolidated Statement of Changes in Equity

For the fiscal year ended March 31, 2021

(Unit: million yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of the period | 11,965 | 6,445 | 46,347 | (67) | 64,690 |
| Changes during period | | | | | |
| Dividends of surplus | | | (2,047) | | (2,047) |
| Profit attributable to owners of parent | | | 4,274 | | 4,274 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (0) | | | (0) |
| Net changes in items other than shareholders' equity, net | | | | | |
| Total changes during period | - | (0) | 2,226 | - | 2,226 |
| Balance at end of the period | 11,965 | 6,445 | 48,573 | (67) | 66,916 |

| | Accumulated other comprehensive income | | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|---|---|--|--------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of the period | 3 | (73) | (69) | 11 | 177 | 64,809 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (2,047) |
| Profit attributable to owners of parent company | | | | | | 4,274 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | (0) |
| Net changes in items other than shareholders' equity, net | (0) | (219) | (219) | 4 | 2,952 | 2,737 |
| Total changes during period | (0) | (219) | (219) | 4 | 2,952 | 4,963 |
| Balance at end of the period | 2 | (292) | (289) | 16 | 3,129 | 69,773 |

For the fiscal year ended March 31, 2022

(Unit: million yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of the period | 11,965 | 6,445 | 48,573 | (67) | 66,916 |
| Changes during period | | | | | |
| Dividends of surplus | | | (3,071) | | (3,071) |
| Profit attributable to owners of parent | | | 7,415 | | 7,415 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | - |
| Net changes in items other than shareholders' equity, net | | | | | |
| Total changes during period | - | - | 4,343 | - | 4,343 |
| Balance at end of the period | 11,965 | 6,445 | 52,917 | (67) | 71,260 |

| | Accumulated other comprehensive income | | | Share Acquisition Rights | Non-controlling interests | Total net assets |
|---|---|---|--|--------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of the period | 2 | (292) | (289) | 16 | 3,129 | 69,773 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (3,071) |
| Profit attributable to owners of parent | | | | | | 7,415 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | - |
| Net changes in items other than shareholders' equity, net | 0 | 311 | 312 | 14 | 9 | 335 |
| Total changes during period | 0 | 311 | 312 | 14 | 9 | 4,679 |
| Balance at end of the period | 3 | 19 | 22 | 30 | 3,139 | 74,452 |

(iv) Consolidated Statements of Cash Flows

(Unit: million yen)

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|---|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Profit before income taxes | 7,462 | 12,135 |
| Depreciation | * 2 1,346 | * 2 1,632 |
| Impairment loss | 51 | 65 |
| Amortization of goodwill | 110 | 78 |
| Increase (decrease) in allowance for doubtful accounts | 18 | (14) |
| Increase (decrease) in provision for bonuses | (19) | (8) |
| Increase (decrease) in provision for bonuses for directors (and other officers) | (27) | 21 |
| Increase (decrease) in provision for fulfillment of guarantees | 2 | (13) |
| Increase (decrease) in provision for share-based remuneration | 16 | 11 |
| Interest and dividend income | (44) | (35) |
| Subsidy income | (154) | (215) |
| Interest expenses | 502 | 446 |
| Loss (gain) on investments based on equity method | 55 | 23 |
| Loss (gain) on retirement of non-current assets | 5 | 20 |
| Negative goodwill gain | - | (115) |
| Decrease (increase) in trade receivables | (2,688) | 496 |
| Decrease (increase) in inventories | 4,377 | 7,874 |
| Increase (decrease) in trade payables | (1,509) | (776) |
| Other | 1,486 | (1,271) |
| Subtotal | 10,993 | 20,354 |
| Interest and dividends received | 48 | 35 |
| Interest paid | (497) | (447) |
| Income taxes (paid) refund | (5,964) | (2,460) |
| Proceeds from subsidy income | 154 | 215 |
| Settlement money payments | - | (254) |
| Net cash provided by (used in) operating activities | 4,733 | 17,443 |
| Cash flows from investing activities | | |
| Payments into time deposits | (530) | (183) |
| Proceeds from withdrawal of time deposits | 1,574 | 271 |
| Purchase of property, plant and equipment | (319) | (8,484) |
| Proceeds from sales of property, plant and equipment | 3 | 5 |
| Purchase of intangible assets | (25) | (48) |
| Payments of guarantee deposits | (221) | (822) |
| Other | (30) | (123) |
| Net cash provided by (used in) investing activities | 451 | (9,386) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (564) | 30 |
| Proceeds from long-term borrowings | 19,990 | 24,183 |
| Repayments of long-term borrowings | (21,461) | (20,661) |
| Dividends paid | (2,046) | (3,070) |
| Proceeds from share issuance to non-controlling shareholders | 3,000 | 6 |
| Other | (67) | (39) |
| Net cash provided by (used in) financing activities | (1,150) | 449 |
| Effect of exchange rate change on cash and cash equivalents | (110) | 125 |

(Unit: million yen)

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|--|-------------------------------------|-------------------------------------|
| Net increase (decrease) in cash and cash equivalents | 3,924 | 8,632 |
| Cash and cash equivalents at beginning of period | 17,394 | 21,319 |
| Cash and cash equivalents at end of period | * 1 21,319 | * 1 29,951 |

Notes

(Notes on Going Concern Assumption)

Not applicable.

(Significant Accounting Policies for the Preparation of Consolidated Financial Statements)

1. Scope of Consolidation

All subsidiaries are consolidated.

(1) Number of consolidated subsidiaries

22 companies

Names of consolidated subsidiaries

SF Building Support Inc.

SF Building Maintenance Inc.

Sun Frontier Space Management Co., Ltd.

SF Engineering Inc.

Sun Frontier Sado Co., Ltd.

Okesa Kanko Taxi Co., Ltd.

Sun Frontier Okinawa Co., Ltd.

Sun Frontier Hotel Management Inc.

Sky Heart Hotel Inc.

Japan System Service Inc.

Communication Development Inc.

Hotel Osado Co., Ltd.

Navd Co., Ltd.

Sun Frontier Fudousan Taiwan Co., Ltd.

SUN FRONTIER VIETNAM CO.,LTD.

SUN FRONTIER DANANG CO.,LTD.

PT. SUN FRONTIER INDONESIA

PT. SUN FRONTIER PROPERTY ONE

Sun Frontier NY Co.,Ltd.

340 West 48 SG LLC

439 West 46 SG LLC

RIVERSIDE STUDIOS LLC

In the consolidated fiscal year under review, the newly acquired Hotel Osado Co., Ltd. and the newly established Navd Co., Ltd. Communication Development Inc. are included in the scope of consolidation.

Sun Frontier Community Arrangement Co., Ltd., a subsidiary of Sun Frontier Fudousan Co., Ltd., ceased to exist as a result of an absorption-type merger with the said company as the surviving company.

(2) Special purpose company subject to disclosure

An outline of the special purpose company subject to disclosure, an outline of transactions using the special purpose company subject to disclosure, and the transaction amount with the special purpose company subject to disclosure are described in “Notes on special purpose company subject to disclosure.”

2. Application of Equity Method

(1) Number of affiliates accounted for by the equity method

2 companies

Name of equity-method affiliate

Power Consulting Networks Co., Ltd.

SKY ESTATE Inc.

(2) Names of major affiliates not accounted for by the equity method

Not applicable.

3. Fiscal year of consolidated subsidiaries

Consolidated domestic subsidiaries and Sun Frontier Fudousan Taiwan Co., Ltd. close their books on March 31, and SUN FRONTIER VIETNAM CO., LTD., SUN FRONTIER DANANG CO., LTD., PT. SUN FRONTIER INDONESIA, PT. SUN FRONTIER PROPERTY ONE, Sun Frontier NY Co., Ltd., 340 West 48 SG LLC, 439 West 46 SG LLC and RIVERSIDE STUDIOS LLC close their books on December 31.

In preparing the consolidated financial statements, the financial statements as of December 31 are used for the consolidated subsidiaries whose closing date is December 31, and necessary adjustments are made for significant transactions occurring between the consolidated closing date and December 31.

4. Matters concerning accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

Other securities (available-for-sale securities)

A. Securities with market quotations

Stated at market based on the market price, etc., on the balance sheet date (Valuation difference is reported as a component of net assets. The cost of sale is calculated using the moving-average method.)

B. Securities without a market price, etc.

Stated at cost determined by moving-average method.

(ii) Inventories

A. Real estate for sale and real estate for sale in process

Stated at cost determined by specific identification method (Balance Sheet values are calculated by the book value devaluation method based on decline in profitability).

Property under lease is amortized in accordance with property, plant and equipment.

B. Costs of uncompleted construction contracts

Stated at cost determined by the specific identification method (Balance Sheet values are calculated by the book value devaluation method based on decline in profitability)

C. Supplies

Stated at most recent purchase cost method (Balance Sheet values are calculated by the book value devaluation method based on decline in profitability).

(2) Depreciation or amortization method for significant depreciable assets

(i) Property, plant and equipment

The declining-balance method is applied. However, buildings (excluding facilities attached to buildings) and facilities attached to buildings acquired on or after April 1, 2016 are depreciated using the straight-line method.

The estimated useful lives are as follows:

| | |
|-----------|---------------|
| Buildings | 3 to 29 years |
| Other | 2 to 15 years |

Small-amount depreciable assets with an acquisition cost of 100,000 yen or more but less than 200,000 yen are amortized over three years on a straight-line basis.

(ii) Intangible assets

The straight-line method is used. Software for internal use is amortized on a straight-line basis over the estimated internal useful life (5 years).

(3) Significant provisions

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on the historical write-off rate for ordinary receivables, the estimated amount of irrecoverable debt based on recoverability of individual cases for specified receivables such as doubtful accounts.

(ii) Provision for bonuses

To prepare for the payment of bonuses to employees, the Company records the portion of the estimated bonuses incurred at the end of the consolidated fiscal year under review.

(iii) Provision for bonuses for directors (and other officers)

Provision for directors' bonuses is provided based on the estimated amount incurred at the end of the consolidated fiscal year under review.

(iv) Provision for fulfillment of guarantees

In order to prepare for losses related to Rent Guarantee Business operations, costs for which the amount incurred can be estimated individually are recorded in the amount of such costs, and for others, the estimated losses are recorded in the estimated losses by taking into the historical loss rate.

(v) Provision for share-based remuneration

In order to prepare for the provision of the Company's shares to employees based on the Share Benefit Regulations, the provision for the Company's shares is recorded based on the estimated amount of the share benefit obligation at the end of the consolidated fiscal year under review.

(4) Accounting treatment for retirement benefits

In calculating the retirement benefit liability and retirement benefit expenses, certain of the Company's consolidated subsidiaries apply the simplified method where the amount of retirement benefits payable at the end of the fiscal year for voluntary resignations is the retirement benefit obligation.

(5) Standards for recording significant revenues and expenses

The details of major performance obligations in major businesses related to revenue arising from contracts with customers of the Company and its consolidated subsidiaries and the normal point in time when such performance obligations are

satisfied (in time when revenue is recognized) are as follows.

(i) Real Estate Revitalization Business

Replanning Business

Replanning Business is a business of purchasing existing office buildings, renovating the buildings and facilities, and selling them to customers in Japan and overseas with added value by attracting high-quality tenants. The Company is obligated to deliver the properties based on real estate sales contracts with customers.

The performance obligation is satisfied at one point in time when the property is delivered, and revenue is recorded at the time of delivery of the property.

(ii) Real Estate Service Business

(a) Property Management Business

Property Management Business enters into property management agreements with customers and is obligated to perform various services related to real estate properties on behalf of customers, such as maintenance and management of properties and collection of rents for tenants.

The performance obligations are satisfied when services are provided based on the property management contract, and revenue is recorded over the term of the contract.

(b) Building Maintenance Business

Building Maintenance Business is mainly responsible for the inspection of building facilities by entering into various contracts with customers or exchanging purchase orders with contract documents.

The performance obligation is satisfied when the work based on the contract is completed, and revenue is recorded when the completion report for the work and construction is issued.

(c) Sales Brokerage Business

Sales Brokerage Business stands between the buyer and the seller at the time of sale and purchase of real estate and is engaged in concluding sales and purchase agreements. Based on brokerage agreements with customers, the Company is responsible for a series of services, including services for concluding agreements such as negotiation and adjustment of transaction terms, delivery and explanation of important points explanation, preparation and delivery of agreements, and participation in procedures for performance of agreements.

The performance obligation is satisfied at one point in time when the property related to the real estate sales contract concluded by the intermediary contract is delivered, and revenue is recorded at the time of the delivery.

(d) Leasing Brokerage Business

When leasing real estate, Leasing Brokerage Business stands between the lessee and the lessor to conclude a lease agreement. Based on the mediation agreement with the customer, the Company has obligations related to a series of services, including services for concluding agreements such as negotiation and adjustment of transaction terms, delivery and explanation of important points explanation, preparation and delivery of agreements, and participation in procedures for performance of agreements.

The performance obligation is satisfied at one point in time when the real estate lease agreement for the property mediated by the mediation agreement is concluded, and revenue is recorded at the time when the agreement is concluded.

(iii) Hotel and Tourism Business

(a) Hotel Operation Business

Hotel Operation Business is mainly engaged in the operation of hotels owned by the Company or hotels for which lease agreements have been entered into. It is obligated to provide hotel services to accommodate customers and meals at restaurants established within the hotel.

Such performance obligations are satisfied at a point in time by providing services to customers, and revenue is recorded at the time of customer check-in.

(b) Hotel Development Business

Hotel Development Business is engaged in the business of selling hotels that have been completed from the purchase of land to the construction of buildings to customers and is obligated to deliver such properties based on

real estate sales contracts with customers.

The performance obligation is satisfied at one point in time when the property is delivered, and revenue is recorded at the time of delivery.

(iv) Others

(a) Overseas Development Business

Overseas Business is engaged in real estate development centered on condominiums and houses in Southeast Asian countries and sells them to customers in Japan and overseas. It is obligated to deliver such properties based on real estate sales contracts with customers.

The performance obligation is satisfied at one point in time when the property is delivered, and revenue is recorded at the time of delivery.

(b) Construction Business

The Company carries out renewal planning, repair and renovation work of commercial buildings, telecommunications work, and contracted interior construction work for large, medium and small sized facilities.

When control over a good or service is transferred to a customer over a period of time, revenue is recognized over a period of time as the obligation to transfer the good or service to the customer is satisfied.

The Company applies an alternative treatment to contracts in which the period from the transaction start date in the contract to the point in time when the performance obligations are expected to be fully satisfied is very short, or construction in which the amount of order received per construction unit is insignificant. Revenue is not recognized over a certain period but is recognized when the performance obligations are fully satisfied.

(6) Standards for translation of foreign currency-denominated assets and liabilities into Japanese currency

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates on the consolidated balance sheet date, and translation differences are charged or credited to income. Assets, liabilities and income and expenses of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of the foreign subsidiaries. Translation differences are included in foreign currency translation adjustment and non-controlling interests in net assets.

(7) Amortization methods and periods for goodwill

Goodwill is amortized on a straight-line basis over mainly 10 years.

(8) Scope of funds in the consolidated statements of cash flows

Cash on hand, deposits that can be withdrawn at any time, and short-term investments that are readily convertible into cash and that are subject to insignificant risk of changes in value and that mature or become due within three months of the date of acquisition.

(9) Significant matters for the preparation of other consolidated financial statements

(i) Non-deductible consumption tax accounting for assets

Non-deductible consumption tax and local consumption tax are treated as current consolidated fiscal year expenses.

(ii) Application of consolidated tax payment system

Consolidated taxation system is applied.

(iii) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

From the next fiscal year, the Company and some domestic consolidated subsidiaries will shift from the consolidated taxation system to the group tax sharing system. However, the provisions of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) have not been applied to the items for which the group tax sharing system has been adopted and the non-consolidated tax payment system has been revised in line with the transition to the group tax sharing system established under the Act for Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020) due to the treatment in Paragraph 3 of the “Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), and the amounts of deferred tax assets and deferred tax liabilities have been based on the provisions of the tax act prior to the revision. Moreover, from the beginning of the following consolidated fiscal year, the Company plans to apply the “Treatment of the Accounting and Disclosure under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021), which provides for the handling of accounting treatment and disclosure of corporate tax, local corporate tax and tax effect accounting with the application of the group tax sharing system.

(Significant Accounting Estimates)

1. Assessment of real estate for sale, etc.

(1) Amount included in consolidated financial statements of the current consolidated fiscal year

| | Previous fiscal year | Current consolidated fiscal year |
|---------------------------------|----------------------|----------------------------------|
| Real estate for sale | 13,601 million yen | 14,222 million yen |
| Real estate for sale in process | 72,282 million yen | 62,934 million yen |

(2) Information on significant accounting estimates related to the identified items

For real estate for sale, etc., if the net selling price falls below the acquisition cost, the net selling price is stated as the balance sheet amount. The net selling price is calculated by deducting the estimated future cost of construction work and the estimated selling expenses from the return value estimated based on the business plan.

The business plan that forms the basis for the value of the return to profits includes the expected tenant rent and the occupancy rate of hotel rooms, and is based on important assumptions such as the assumed market conditions in the future and the forecast of the convergence time of the COVID-19.

In the following fiscal year, the net selling price may change due to changes in assumptions used in formulating business plans in the event of events that were not anticipated at the time of formulating business plans. This may have a significant impact on the amount of real estate for sale, etc., recognized in the consolidated financial statements for the following fiscal year and thereafter.

2. Non-current assets impairment

(1) Amount recorded in the consolidated financial statements for the current fiscal year

| | Previous fiscal year | Current consolidated fiscal year |
|---|----------------------|----------------------------------|
| Non-current assets related to hotel development business and Hotel Operation Business | 8,541 million yen | 12,080 million yen |

(2) Information on significant accounting estimates related to the identified items

Due to the impact of the spread of COVID-19, the occupancy rate of hotel rooms has decreased and profitability has declined. As a result, signs of impairment have emerged as a significant deterioration in the business environment. Impairment losses are losses based on a comparison of the estimated undiscounted future cash flows over the remaining economic useful lives of the hotel's major assets with the carrying amounts of the hotel's asset groups.

The business plan of the hotel, which is the basis of future cash flows, has been formulated under the policy of conducting long-term management, based on important assumptions including the forecast of the occupancy rate of hotel rooms, etc., as well as the assumption of future market conditions and the forecast of the convergence time of the COVID-19.

In the following fiscal year, the assumptions used in formulating business plans may change in the event of a situation that was not anticipated when the business plan was formulated. This may have a material impact on the non-current asset amounts recognized in the consolidated financial statements for the following fiscal year and thereafter.

(Change in Accounting Policies)

1. Application of “Accounting Standard for Revenue Recognition”, etc.

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) is applied from the beginning of current consolidated fiscal year, and revenue is recognized at the amount expected to be received in exchange for the promised goods or services when control of the promised goods or services is transferred to customers.

As a result, in cases where control over goods or services related to renewal planning of business buildings, repair or renovation work, telecommunications work, or contract interior work for large, medium and small facilities is transferred to customers over a certain period of time, revenue is recorded over a certain period as the performance obligation to transfer goods or services to customers is satisfied.

The application of this accounting standard is in accordance with the transitional treatment set forth in the Paragraph 84 of this accounting standard. However, it has no impact on the balance of retained earnings at the beginning of the current consolidated fiscal year. “Notes and accounts receivable - trade” that was included in “Current assets” in Consolidated Balance Sheet for the previous fiscal year is included in “Notes and accounts receivable - trade and contract assets” from the current consolidated fiscal year. As a result of the adoption of this accounting standard, Consolidated Statement of Income in current consolidated fiscal year increased 17 million yen in net sales and 3 million yen each in operating profit, ordinary profit, and profit before income taxes.

Current consolidated fiscal year's consolidated statement of cash flows showed an increase of 3 million yen in profit before income taxes and 3 million yen in cash flows from operating activities.

The impact on per share information is described in the relevant section.

Also, in accordance with the transitional treatment set forth in Revenue Recognition Accounting Standard, Paragraph 89-3, no notes to “Revenue recognition” for the previous fiscal year are stated.

2. Application of “Accounting Standard for Fair Value Measurement”

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as “Fair Value Measurement Accounting Standard”), etc. will be applied from the beginning of the current consolidated fiscal year, and in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standards for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new Accounting Policies stipulated in the Fair Value Measurement Accounting Standard will be applied into the future.

Also, in the notes to “Financial Instruments”, the Company has decided to include notes on matters related to the breakdown of the market value of financial instruments by level. However, in accordance with the transitional treatment set forth in Section 7-4 of the “Implementation Guidance on Disclosure about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), the notes pertaining to the previous consolidated fiscal year are not stated.

(Change of Presentation Method)

(Consolidated Statement of Income)

“Gain on sales of non-current assets”(1 million yen in the previous fiscal year) in “Extraordinary income”, which was presented separately in the previous fiscal year, is included in “Other” from current consolidated fiscal year due to a decrease in its financial significance. To reflect this change in presentation method, Consolidated Financial Statements has been reclassified for the previous fiscal year.

As a result, “Gain on sales of non-current assets” of 1 million yen, which was presented as “Extraordinary income” in Consolidated Statement of Income for the previous fiscal year, has been reclassified as “Other” of 1 million yen.

(Consolidated statement of cash flows)

“Loss (gain) on sales of non-current assets” in “Cash Flows from Operating Activities”, which was presented separately in the previous consolidated fiscal year, is included in “Other” from current consolidated fiscal year because it has become immaterial. To reflect this change in presentation method, Consolidated Financial Statements has been reclassified for the previous fiscal year.

As a result, “Cash Flows from Operating Activities” of negative 1 million yen and “Other” of 1,488 million yen, which were presented as “Loss (gain) on sales of non-current assets” in the consolidated statements of cash flows for the previous fiscal year, have been reclassified as “Other” of 1,486 million yen.

(Additional Information)

Transactions of delivering the company’s own shares to employees etc. through trusts

The Company conducts transactions to deliver its own shares through trust for the purpose of employee welfare.

(i) Overview of transaction

The plan provides the Company's shares to employees of the Company who meet certain requirements based on the share benefit regulations established by the Company in advance.

The Company will grant points to employees who satisfy certain conditions at the end of the fiscal year, and when they acquire the right to receive benefits, the Company shares corresponding to the granted points will be delivered. The shares to be granted to employees are acquired in the future with the money set in trust in advance and managed separately as trust assets. The total amount method is applied to the Employee Stock Ownership Plan (J-ESOP) in accordance with the “Practical Solution on Transactions of Delivering the Company’s Own Shares to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015).

(ii) Own shares remaining in the trust

The book value of the Company's shares remaining in the trust (excluding the amount of incidental expenses) is included in net assets. The book value and number of shares of the treasury shares at the end of the previous fiscal year were 67 million yen and 56,500 shares and at the end of the current fiscal year were 67 million yen and 56,500 shares.

(Related to Consolidated Balance Sheet)

* 1 Within notes and accounts receivable - trade and contract assets, the amounts of claims and contracted assets arising from contracts with customers are shown in “Notes (Revenue Recognition) of Consolidated Financial Statements. 3. (1) Balance of Contract Assets and Contract Liabilities.”

* 2 Collateralized assets and liabilities

(1) Assets pledged as collateral are as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---------------------------------|--------------------------------------|--------------------------------------|
| Real estate for sale | 9,180 million yen | 8,963 million yen |
| Real estate for sale in process | 69,524 | 59,769 |
| Buildings | 849 | 4,040 |
| Land | 6,533 | 9,700 |
| Other | 1,568 | 1,374 |
| Total | 87,656 million yen | 83,848 million yen |

(2) Collateralized obligations are as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Long-term borrowings (including current portion of long-term borrowings) | 44,507 million yen | 47,724 million yen |
| Total | 44,507 million yen | 47,724 million yen |

* 3 Items relating to affiliated companies are as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Other (shares of subsidiaries and affiliates) | 149 million yen | 126 million yen |

* 4 Contingent Liabilities

Liability guarantee by rent guarantee

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| (Guarantee) | | |
| Customers pertaining to Rent Guarantee Business (amount equivalent to the guarantee limit) | 40,048 million yen | 43,143 million yen |
| Provision for fulfillment of guarantees | (53) | (39) |
| Total | 39,994 million yen | 43,103 million yen |

(Related to Consolidated Statement of Income)

* 1 Revenue arising from contracts with customers

Revenue arising from contracts with customers and other revenue are not presented separately for net sales. The amount of revenue arising from contracts with customers is shown in Consolidated Financial Statements Notes (segment information, etc.) 3. “Information on amounts of net sales, profits or losses, assets, and liabilities others by reportable segment.”

* 2 Ending inventory is the amount after write-down of book value by decline in profitability. The following loss on revaluation of inventories is included in cost of sales.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--|--------------------------------------|--------------------------------------|
| | 426 million yen | 307 million yen |

* 3 Major expense items and amount in selling, general and administrative expenses are as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--|--------------------------------------|--------------------------------------|
| Sales commission | 852 million yen | 614 million yen |
| Salaries and allowances | 2,363 | 2,403 |
| Retirement benefit costs | 63 | 69 |
| Provision for bonuses provision | 162 | 155 |
| Provision for bonuses for directors (and other officers) provision | 52 | 73 |
| Provision for share-based remuneration provision | 14 | 11 |
| Allowance for doubtful accounts provision | 0 | 13 |
| Commission paid | 849 | 918 |

* 4 The breakdown of gain on sales of non-current assets is as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|------------------|--------------------------------------|--------------------------------------|
| Other (vehicles) | 1 million yen | - |
| Total | 1 million yen | - |

* 5 Impairment loss

The Company recorded impairment loss for the following asset groups.

For the year ended March 31, 2021

| Location | Use | Type | Impairment loss (million yen) |
|-------------------|-----------------|--|----------------------------------|
| Minato-ku, Tokyo | Business assets | Facilities attached to buildings, etc. | 3 |
| Chiyoda-ku, Tokyo | Business assets | Facilities attached to buildings, etc. Goodwill | 3 44 |

In calculating impairment loss, the Company identifies the smallest unit that generates independent cash flows based on the business segment and groups assets. Assets that do not generate cash flows independently, such as the head office, are common assets.

As a result of a review of the company's future revenue outlook for business assets, etc. held by some consolidated subsidiaries, the recoverable amount of the cash-generating unit (asset group) fell below the book value. Therefore, the book value was reduced to the recoverable amount and the decrease was recorded in extraordinary loss. The breakdown is 6 million yen for facilities attached to buildings, etc. and 44 million yen for goodwill.

The recoverable amount of the asset or asset group is measured by the net selling price or the value in use. The net selling price is calculated based on the non-current assets tax valuation, and the value in use is zero because future cash flows are not expected.

For the year ended March 31, 2022

| Location | Use | Type | Impairment loss (million yen) |
|----------------|-----------------|----------|----------------------------------|
| Chuo-ku, Tokyo | Business assets | Goodwill | 65 |

In calculating impairment loss, the Company identifies the smallest unit that generates independent cash flows based on the business segment and groups assets. Assets that do not generate cash flows independently, such as the head office, are common assets.

As a result of a review of the company's future revenue outlook for business assets, etc. held by some consolidated subsidiaries, the recoverable amount of the cash-generating unit (asset group) fell below the book value. Therefore, the book value was reduced to the recoverable amount and the decrease was recorded in extraordinary loss. The breakdown is 65 million yen in goodwill.

The recoverable amount of the asset or asset group is measured by the net selling price or the value in use. The net selling price is calculated based on the non-current assets tax valuation, and the value in use is zero because future cash flows are not expected.

(Consolidated statements of Comprehensive Income)

* Reclassification adjustment and tax effect related to other comprehensive income

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Valuation difference on available-for-sale securities | | |
| Current amount incurred | (0) million yen | 0 million yen |
| Reclassification adjustment | - | - |
| Before tax effect adjustment | (0) | 0 |
| Tax effect | 0 | (0) |
| Valuation difference on available-for-sale securities | (0) | 0 |
| Foreign currency translation adjustment | | |
| Current amount incurred | (230) | 329 |
| Total other comprehensive income | (231) | 330 |

(Notes to Consolidated Statement of Changes in Equity)

For the year ended March 31, 2021

1. Total number of issued shares

| Type of shares | Beginning of the previous consolidated fiscal year | Increase | Decrease | End of the previous consolidated fiscal year |
|----------------|--|----------|----------|--|
| Common shares | 48,755,500 shares | - | - | 48,755,500 shares |

(Summary of Reasons for Change)

Not applicable.

2. Matters concerning Treasury shares

| Type of shares | Beginning of the previous consolidated fiscal year | Increase | Decrease | End of the previous consolidated fiscal year |
|----------------|--|----------|----------|--|
| Common shares | 56,644 shares | - | - | 56,644 shares |

Note: The number of Treasury shares in common shares, includes the Company's share of 56,500 held by the trust account of the Employee Stock Ownership Plan (J-ESOP).

(Summary of Reasons for Change)

Not applicable.

3. Matters related to Share Acquisition Rights

| Company Name | Breakdown | Type of shares to be issued | Number of shares to be issued (shares) | | | | Balance at the end of the previous consolidated fiscal year (million yen) |
|--------------------|---|-----------------------------|--|----------|----------|--|---|
| | | | Beginning of the previous consolidated fiscal year | Increase | Decrease | End of the previous consolidated fiscal year | |
| Submitting company | 2018 Share Acquisition Rights as Stock Option | - | - | - | - | 5 | |
| Submitting company | 2019 Share Acquisition Rights as Stock Option | - | - | - | - | 5 | |
| Submitting company | 2020 Share Acquisition Rights as Stock Option | - | - | - | - | 4 | |
| Total | | | - | - | - | 16 | |

4. Matters concerning dividends

(1) Cash dividends paid

| Resolution | Type of shares | Total dividends (million yen) | Dividends per share (yen) | Record date | Effective date |
|--|----------------|-------------------------------|---------------------------|----------------|----------------|
| June 23, 2020 Annual General Meeting of Shareholders | Common shares | 2,047 | 42.00 | March 31, 2020 | June 24, 2020 |

Note: The total amount of dividends decided at the Annual General Meeting of Shareholders on June 23, 2020 includes dividends of 2 million yen for the Company's shares held by the trust account of the Employee Stock Ownership Plan (J-ESOP).

(2) Dividends whose record date is in current consolidated fiscal year and whose effective date is in the following consolidated fiscal year

| Resolution | Type of shares | Source of dividends | Total amount of dividends (million yen) | Dividends per share (yen) | Record date | Effective date |
|---|----------------|---------------------|---|---------------------------|----------------|----------------|
| Annual General Meeting of Shareholders, June 22, 2021 | Common shares | Retained earnings | 2,047 | 42.00 | March 31, 2021 | June 23, 2021 |

Note: The total amount of dividends decided at the Annual General Meeting of Shareholders held on June 22, 2021, includes dividends of 2 million yen for the Company's shares held by the Employee Stock Ownership Plan (J-ESOP).

For the year ended March 31, 2022

1. Total number of issued shares

| Type of shares | Beginning of the current consolidated fiscal year | Increase | Decrease | End of the current consolidated fiscal year |
|----------------|---|----------|----------|---|
| Common shares | 48,755,500 shares | - | - | 48,755,500 shares |

(Summary of Reasons for Change)

Not applicable.

2. Matters concerning Treasury shares

| Type of shares | Beginning of the current consolidated fiscal year | Increase | Decrease | End of the current consolidated fiscal year |
|----------------|---|----------|----------|---|
| Common shares | 56,644 shares | - | - | 56,644 shares |

Note: The number of Treasury shares in common shares, includes the Company's share of 56,500 held by the trust account of the Employee Stock Ownership Plan (J-ESOP).

(Summary of Reasons for Change)

Not applicable.

3. Matters related to Share Acquisition Rights

| Company Name | Breakdown | Type of shares to be issued | Number of shares to be issued (shares) | | | | Balance at the end of the current consolidated fiscal year (million yen) |
|--------------------|---|-----------------------------|---|----------|----------|---|--|
| | | | Beginning of the current consolidated fiscal year | Increase | Decrease | End of the current consolidated fiscal year | |
| Submitting company | 2018 Share Acquisition Rights as Stock Option | - | - | - | - | - | 5 |
| Submitting company | 2019 Share Acquisition Rights as Stock Option | - | - | - | - | - | 5 |
| Submitting company | 2020 Share Acquisition Rights as Stock Option | - | - | - | - | - | 4 |
| Submitting company | 2021 Share Acquisition Rights as Stock Option | - | - | - | - | - | 14 |
| Total | | | - | - | - | - | 30 |

4. Matters concerning dividends

(1) Cash dividends paid

| Resolution | Type of shares | Total amount of dividends (million yen) | Dividends per share (yen) | Record date | Effective date |
|---|----------------|--|------------------------------|--------------------|------------------|
| Annual General Meeting of Shareholders, June 22, 2021 | Common shares | 2,047 | 42.00 | March 31, 2021 | June 23, 2021 |
| Board of Directors, November 9, 2021 | Common shares | 1,023 | 21.00 | September 30, 2021 | December 7, 2021 |

Note: The total amount of dividends decided at the Annual General Meeting of Shareholders on June 22, 2021 includes dividends of 2 million yen for the Company's shares held by the trust account of the Employee Stock Ownership Plan (J-ESOP). The total amount of dividends decided by the Board of Directors on November 9, 2021 includes dividends of 1 million yen to company's shares owned by accounted in trust of Employee stock ownership plan (J-ESOP).

(2) Dividends whose record date is in current consolidated fiscal year and whose effective date is in the following fiscal year

| Resolution | Type of shares | Source of dividends | Total amount of dividends (million yen) | Dividends per share (yen) | Record date | Effective date |
|---|----------------|---------------------|--|------------------------------|----------------|----------------|
| Annual General Meeting of Shareholders, June 21, 2022 | Common shares | Retained earnings | 1,121 | 23.00 | March 31, 2022 | June 22, 2022 |

Note: The total amount of dividends decided at the Annual General Meeting of Shareholders held on June 21, 2022, includes dividends of 1 million yen for the Company's shares held by the Employee Stock Ownership Plan (J-ESOP).

(Consolidated Statements of Cash Flows)

* 1 The relationship between cash and cash equivalents at end of period and amount in item listed in Consolidated Balance Sheet is as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Cash and deposits account | 21,508 million yen | 30,053 million yen |
| Time deposits with a deposit period of more than three months | (189) | (101) |
| Cash and cash equivalents | 21,319 million yen | 29,951 million yen |

* 2 Depreciation for Inventories under lease included in Depreciation is as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--|--------------------------------------|--------------------------------------|
| | 1,023 million yen | 1,136 million yen |

(Lease Transactions)

Operating lease transactions

(Lessee)

Future minimum lease payments for non-cancelable operating lease transactions

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|-----------------|--------------------------------------|--------------------------------------|
| Within one year | 1,337 million yen | 1,470 million yen |
| Over one year | 17,116 | 17,030 |
| Total | 18,453 million yen | 18,500 million yen |

(Financial Instruments)

1. Items relating to financial instruments

(1) Policy on financial instruments

The Company limits its fund management to short-term deposits, etc. With regard to fund procurement, the Company's policy is to procure funds through indirect financing through bank loans and direct financing through issuance of bonds and shares, etc., taking into comprehensive consideration the characteristics of necessary fund demand, financial market environment, long and short-term redemption periods. Derivative transactions are used to avoid interest rate fluctuation risks borrowings or to limit them to a certain range, and the Company's policy is not to engage in speculative transactions.

(2) Content as well as risks of financial instruments

Trade receivables are exposed to customers' credit risk. Borrowings raised funds mainly for investment in business purposes and business strategies. Variable borrowings are exposed to interest rate fluctuation risk. Borrowings, which procures funds mainly from financial institutions, is exposed to liquidity risks that restrict fund procurement due to changes in the stance of transactions with the group.

(3) Risk management system for financial instruments

(i) Management of credit risks (risks pertaining to non-performance of contracts by counterparties)

Based on the Management Regulations for Trade Receivables and other rules, the Company regularly monitors the business conditions of major business partners with regard to trade receivables, strives to identify and mitigate early concerns about collection of trade receivables due to deterioration in financial conditions and other factors.

(ii) Management of market risks (risks related to market price fluctuations)

Derivative transactions are not conducted for speculative purposes not stipulated in the investment regulations.

(iii) Management of liquidity risk related to fund procurement (risk of inability to pay on the due date)

The Company aims to diversify its funding sources by accurately assessing the group's funding needs and financial position, and by strengthening relationships with financial institutions.

(4) Supplementary explanation of fair value of financial instruments

The fair values of financial instruments include values based on market prices and reasonably calculated values if there is no market price. Since variable factors are incorporated in the calculation of the value, the value may fluctuate by adopting different assumptions, etc.

2. Fair value of financial instruments

The amount, fair value and the difference between the Consolidated Balance Sheets are as follows.

For the year ended March 31, 2021

| | Consolidated Balance Sheet amount (million yen) | Market value (million yen) | Difference (million yen) |
|---|--|-------------------------------|-----------------------------|
| Long-term borrowings (including current portion) | 47,521 | 47,027 | (494) |
| Total liabilities | 47,521 | 47,027 | (494) |

For the year fiscal year March 31, 2022

| | Consolidated Balance Sheet amount (million yen) | Market value (million yen) | Difference (million yen) |
|---|--|-------------------------------|-----------------------------|
| Long-term borrowings (including current portion) | 51,043 | 50,275 | (768) |
| Total liabilities | 51,043 | 50,275 | (768) |

Notes: 1. Methods for calculating the market values of financial instruments and derivative transactions

Asset

Cash and deposits

Since the settlement periods for the foregoing are short, the market values thereof are essentially equal to the book values. Therefore, the corresponding book value is used as the market value.

Liabilities

Long-term borrowings

The market value of long-term borrowings is calculated by discounting the total amount (*) of the long-term borrowings divided by a certain period by the interest rate assumed for similar new loans.

(*) For long-term borrowings that were subject to interest rate caps in accordance with the special treatment of interest rate swaps, the total amount of principal and interest accounted for as an integral part of the interest rate caps

2. The Consolidated Balance Sheet amounts of financial instruments for which it is extremely difficult to ascertain their fair values are as follows:

(million yen)

| Category | For the year ended March 31, 2021 |
|---------------------------------------|--------------------------------------|
| Shares of subsidiaries and affiliates | 149 |
| Shares of unlisted companies | 2 |

The Consolidated Balance Sheet amount of the financial instruments, such as stocks without market price, is as follows.

(million yen)

| Category | For the year ended March 31, 2022 |
|---------------------------------------|--------------------------------------|
| Shares of subsidiaries and affiliates | 126 |
| Shares of unlisted companies | 107 |

The above items are not included in “2. Fair value of financial instruments” because there is no market price and it is extremely difficult to grasp the fair value.

3. Redemption schedule of cash receivables after consolidated close date

For the year ended March 31, 2021

| | Within 1 year (million yen) | Over 1 year and within 5 years (million yen) | Over 5 years and within 10 years (million yen) | Over 10 years (million yen) |
|-------------------|--------------------------------|--|--|--------------------------------|
| Cash and deposits | 21,508 | - | - | - |
| Total | 21,508 | - | - | - |

For the year ended March 31, 2022

| | Within 1 year (million yen) | Over 1 year and within 5 years (million yen) | Over 5 years and within 10 years (million yen) | Over 10 years (million yen) |
|-------------------|--------------------------------|--|--|--------------------------------|
| Cash and deposits | 30,053 | - | - | - |
| Total | 30,053 | - | - | - |

4. Scheduled repayment amount of short-term borrowings and long-term borrowings after consolidated close date

For the year ended March 31, 2021

| | Within 1 year (million yen) | Over 1 year and within 2 years (million yen) | Over 2 years and within 3 years (million yen) | Over 3 years and within 4 years (million yen) | Over 4 years and within 5 years (million yen) | Over 5 years (million yen) |
|-----------------------|--------------------------------|--|---|---|---|-------------------------------|
| Short-term borrowings | - | - | - | - | - | - |
| Long-term borrowings | 5,530 | 15,780 | 12,595 | 7,722 | 3,162 | 2,729 |
| Total | 5,530 | 15,780 | 12,595 | 7,722 | 3,162 | 2,729 |

For the year ended March 31, 2022

| | Within 1 year (million yen) | Over 1 year and within 2 years (million yen) | Over 2 years and within 3 years (million yen) | Over 3 years and within 4 years (million yen) | Over 4 years and within 5 years (million yen) | Over 5 years (million yen) |
|-----------------------|--------------------------------|--|---|---|---|-------------------------------|
| Short-term borrowings | 30 | - | - | - | - | - |
| Long-term borrowings | 6,874 | 8,320 | 23,071 | 2,826 | 3,106 | 6,844 |
| Total | 6,904 | 8,320 | 23,071 | 2,826 | 3,106 | 6,844 |

3. Matters concerning the breakdown of the market value of financial instruments by level

The market value of financial instruments is classified into the following three levels according to the input, observability and importance of Calculation of Market Value.

Level 1 market value: market value of the same asset or liability based on the quoted (unadjusted) price in an active market

Level 2 market value: market value calculated using directly or indirectly observable inputs other than Level 1 inputs

Level 3 market value: market value calculated using significant unobservable inputs

If multiple inputs that significantly affect the calculation of market value are used, the market value is classified at the lowest priority level in the calculation of market value among the levels to which each of those inputs belongs.

(1) Financial instruments recorded Consolidated Balance Sheet at market value

Current consolidated fiscal year (March 31, 2022)

There are no applicable matters.

(2) Financial instruments other than those recorded Consolidated Balance Sheet at market value

Current consolidated fiscal year (March 31, 2022)

| Category | Market Value (million yen) | | | |
|-----------------|----------------------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | Total |
| Long-term loans | - | 50,275 | - | 50,275 |

Note: Explanation of Valuation Techniques Used to Calculate Market Value and Inputs to Calculate Market Value

Long-term loans

These market values are calculated using the discounted present value method based on the total amount of principal and interest, the interest rate taking into account the remaining period of the credit risk. They are classified as Level 2 market value.

(Securities)

Other securities (available-for-sale securities)

For the year ended March 31, 2021

Omitted due to lack of importance.

For the year ended March 31, 2022

Omitted due to lack of importance.

(Derivative Transactions)

1. Derivative transactions for which hedge accounting is not applied

Not applicable.

2. Derivative transactions for which hedge accounting is applied

Interest rate related

For the year ended March 31, 2021

Omitted due to lack of importance.

For the year ended March 31, 2022

Omitted due to lack of importance.

(Retirement Benefits)

1. Overview of stated retirement benefit plans

The Company and certain of its consolidated subsidiaries implement the defined contribution pension plans.

Certain consolidated subsidiaries implement the lump-sum retirement allowance plans and apply the simplified method for calculating retirement benefit liability and retirement benefit expenses.

2. Defined benefit plan applying simplified method

(1) Reconciliation of beginning and ending balances of retirement benefit liability under the system to which the simplified method is applied

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Beginning balance of Retirement benefit liability | 11 million yen | 11 million yen |
| Payments for retirement benefits | 0 | 4 |
| Retirement benefit liability balance at end of year | 11 | 6 |

(2) Reconciliation between the balance of retirement benefit obligations at the end of the fiscal year and retirement benefit liability recorded in the Consolidated Balance Sheet

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Unfunded retirement benefit obligation | 11 million yen | 6 million yen |
| Net liabilities and assets recorded in Consolidated Balance Sheet | 11 | 6 |
| Retirement benefit liability | 11 | 6 |
| Net liabilities and assets recorded in Consolidated Balance Sheet | 11 | 6 |

3. Defined Contribution Plan

The amount required to be contributed by the Company and its consolidated subsidiaries to the defined contribution plan was 66 million yen for the year ended March 31, 2021 and 69 million yen for the year ended March 31, 2022.

(Stock Options, etc.)

1. Amount recorded as expenses for stock options and name of item

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--|-----------------------------------|-----------------------------------|
| Selling, general and administrative expenses | 4 million yen | 14 million yen |
| Stock remuneration expenses | | |

2. Details and size of stock options and changes in stock options

(1) Details of stock options

| Company Name | Submitting company | Submitting company |
|-----------------------------------|---|---|
| Date of resolution | June 22, 2018 | June 21, 2019 |
| Category and number of grantees | 4 Directors (excluding Outside Director) of the Company | 4 Directors (excluding Outside Director) of the Company |
| Type and number of shares granted | Common shares 5,240 shares | Common shares 7,400 shares |
| Grant date | July 31, 2018 | July 31, 2019 |
| Vesting conditions | Share Acquisition Rights holders may exercise their Share Acquisition Rights in a lump sum during the period from the day following the day on which they lose their position as Director of the Company to the day on which ten days have elapsed. | Share Acquisition Rights holders may exercise their Share Acquisition Rights in a lump sum during the period from the day following the day on which they lose their position as Director of the Company to the day on which ten days have elapsed. |
| Applicable service period | There are no applicable service periods. | There are no applicable service periods. |
| Exercise period | August 1, 2018 to July 31, 2048 | August 1, 2019 to July 31, 2049 |

| Company Name | Submitting company | Submitting company |
|-----------------------------------|---|---|
| Date of resolution | June 30, 2020 | June 22, 2021 |
| Category and number of grantees | 4 Directors (excluding Outside Director) of the Company | 6 Directors (excluding Outside Director) of the Company |
| Type and number of shares granted | Common shares 11,120 shares | Common shares 21,550 shares |
| Grant date | July 31, 2020 | July 31, 2021 |
| Vesting conditions | Share Acquisition Rights holders may exercise their Share Acquisition Rights in a lump sum during the period from the day following the day on which they lose their position as Director of the Company to the day on which ten days have elapsed. | Share Acquisition Rights holders may exercise their Share Acquisition Rights in a lump sum during the period from the day following the day on which they lose their position as Director of the Company to the day on which ten days have elapsed. |
| Applicable service period | There are no applicable service periods. | There are no applicable service periods. |
| Exercise period | August 1, 2020 to July 31, 2050 | From July 31, 2021 to July 30, 2051 |

(2) Size and changes in stock options

As for stock options existing in current consolidated fiscal year (for the year ended March 31, 2022), the number of stock options is converted into the number of shares.

(i) Number of stock options

| Company Name | Submitting company | Submitting company |
|--------------------------------------|--------------------|--------------------|
| Date of resolution | June 22, 2018 | June 21, 2019 |
| Before vesting (shares) | | |
| End of previous fiscal year | - | - |
| Granted | - | - |
| Forfeited | - | - |
| Vested | - | - |
| Unvested balance | - | - |
| After the vesting of rights (shares) | | |
| End of previous fiscal year | 5,240 | 7,400 |
| Vested | - | - |
| Exercised | - | - |
| Forfeited | - | - |
| Unexercised balance | 5,240 | 7,400 |

| Company Name | Submitting company | Submitting company |
|--------------------------------------|--------------------|--------------------|
| Date of resolution | June 30, 2020 | June 22, 2021 |
| Before vesting (shares) | | |
| End of previous fiscal year | - | - |
| Granted | - | 21,550 |
| Forfeited | - | - |
| Vested | - | - |
| Unvested balance | - | - |
| After the vesting of rights (shares) | | |
| End of previous fiscal year | 11,120 | - |
| Vested | - | 21,550 |
| Exercised | - | - |
| Forfeited | - | - |
| Unexercised balance | 11,120 | 21,550 |

(ii) Unit price information

| Company Name | Submitting company | Submitting company |
|---------------------------------------|--------------------|--------------------|
| Date of resolution | June 22, 2018 | June 21, 2019 |
| Exercise price (yen) | 1 | 1 |
| Average stock price at exercise (yen) | - | - |
| Fair value at grant date (yen) | 1,019 | 789 |

| Company Name | Submitting company | Submitting company |
|---------------------------------------|--------------------|--------------------|
| Date of resolution | June 30, 2020 | June 22, 2021 |
| Exercise price (yen) | 1 | 1 |
| Average stock price at exercise (yen) | - | - |
| Fair value at grant date (yen) | 438 | 657 |

3. Method of estimating the fair value of stock options granted to current consolidated fiscal year

(1) Evaluation technique used Black-Scholes method

(2) Main basic figures and their estimation methods

| | | |
|-------------------------|----------|--------------------|
| Stock Price Volatility | Note: 1. | 51.3% |
| Forecast Remaining Life | Note: 2. | 11.0 years |
| Forecast Dividend | Note: 3. | 42.0 yen per share |
| Risk free rate | Note: 4. | 0.07% |

Notes: 1. Calculated based on the stock price performance from July 2010 to July 2021.

2. The Company estimates and calculates the length of forecast's tenure until retirement.

3. Based on the annual dividend for the fiscal year ended March 31, 2021.

4. The yield of government bonds corresponding to the remaining period of forecast is used.

4. Method of estimating the number of stock options vested

There are no applicable matters because the rights have been determined at the time of granting.

(Tax Effect Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

| | For the year ended March 31, 2021 | | For the year ended March 31, 2022 | |
|---|--------------------------------------|--------------------|--------------------------------------|--------------------|
| Deferred tax assets | | | | |
| Inventories | 1,000 | million yen | 1,019 | million yen |
| Taxes and duties | 66 | | 51 | |
| Accounts payable | 17 | | 9 | |
| Accrued enterprise tax | 49 | | 187 | |
| Accrued expenses | 77 | | 88 | |
| Proceeds from uncompleted work | 48 | | 12 | |
| Provision for bonuses | 97 | | 100 | |
| Long-term accounts payable | 17 | | 17 | |
| Loss carried forward Note: 2. | 917 | | 1,847 | |
| Other | 238 | | 761 | |
| Subtotal deferred tax assets | 2,532 | million yen | 4,096 | million yen |
| Valuation allowance for loss carryforwards for tax purposes Note: 2. | (917) | | (1,844) | |
| Valuation allowance for future deductible temporary differences, etc. | (570) | | (1,165) | |
| Valuation allowance subtotal Note: 1. | (1,488) | | (3,010) | |
| Deferred tax assets total | 1,044 | million yen | 1,085 | million yen |
| Deferred tax liabilities | | | | |
| Land valuation difference | 45 | million yen | 29 | million yen |
| Uncompleted construction expense | 50 | | 25 | |
| Other | 1 | | 13 | |
| Deferred tax liabilities total | 97 | million yen | 68 | million yen |
| Deferred tax assets net | 947 | million yen | 1,016 | million yen |

Deferred tax liabilities are included in "Other" in Consolidated Balance Sheet and non-current liabilities.

Notes: 1. Valuation allowance increased by 1,522 million yen. This increase was mainly due to the additional recognition of 630 million yen in valuation allowance for loss carryforwards for tax purposes and 249 million yen in valuation allowance for future deductible temporary differences, etc. at consolidated subsidiary Sun Frontier Hotel Management Inc. and 224 million yen in valuation allowance for loss carryforwards for tax purposes and 425 million yen in valuation allowance for future deductible temporary differences, etc. at consolidated subsidiary Hotel Osado Co., Ltd.

2. Tax loss carryforwards and the deferred tax assets' amount by carryforward period

| | For the year ended March 31, 2021 | | | | | | million yen | |
|----------------------------|-----------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------|-------------|--|
| | Within 1 year | Over 1 year and within 2 years | Over 2 years and within 3 years | Over 3 years and within 4 years | Over 4 years and within 5 years | Over 5 years | Total | |
| Tax loss carryforwards (a) | - | - | - | 14 | 1 | 902 | 917 | |
| Valuation allowance | - | - | - | (14) | (1) | (901) | (917) | |
| Deferred tax assets (b) | - | - | - | - | - | 0 | 0 | |

(a) Tax loss carryforwards are calculated by multiplying the effective statutory tax rate.

(b) The deferred tax assets for the tax loss carryforwards is determined to be recoverable based on future taxable income.

For the year ended March 31, 2022

million yen

| | Within 1 year | Over 1 year and within 2 years | Over 2 years and within 3 years | Over 3 years and within 4 years | Over 4 years and within 5 years | Over 5 years | Total |
|----------------------------|---------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------|---------|
| Tax loss carryforwards (a) | 140 | 5 | 14 | 0 | 19 | 1,666 | 1,847 |
| Valuation allowance | (140) | (5) | (14) | (0) | (19) | (1,664) | (1,844) |
| Deferred tax assets (b) | - | - | - | - | - | 2 | 2 |

(a) Tax loss carryforwards are calculated by multiplying the effective statutory tax rate.

(b) The deferred tax assets for the tax loss carryforwards is determined to be recoverable based on future taxable income.

2. Reconciliation between the statutory effective tax rate and the Corporate Income Taxes effective tax rate

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--|--------------------------------------|--------------------------------------|
| Statutory effective tax rate | 30.6 % | 30.6 % |
| (Adjustments) | | |
| Entertainment expenses, etc. permanently excluded from deductible expenses | 0.6 % | 0.3 % |
| Per capita inhabitant tax | 0.3 % | 0.2 % |
| Change in valuation allowance | 12.3 % | 12.5 % |
| Effect of change in scope of consolidation | - % | (5.2) % |
| Difference in applicable tax rate from consolidated subsidiaries | (1.0) % | (0.7) % |
| Tax credit | (0.3) % | (0.2) % |
| Other | 0.7 % | 1.3 % |
| Corporate Income Taxes share after applying tax effect accounting | 43.2 % | 39.0 % |

(Asset Retirement Obligations)

The Company recognizes asset retirement obligations mainly related to recovery to the original state at the time of removal based on real estate lease agreements. In addition, in lieu of recording asset retirement obligations as liabilities, lease deposits and security deposits related to real estate lease agreements are recorded as expenses by reasonably estimating the amount for which collection is not expected in the end (expenses for restoring the leased buildings to its original state) and recording the amount that is borne by the current consolidated fiscal year as expenses.

In addition, the amount which belongs to the burden of current consolidated fiscal year is calculated based on the expected occupancy period.

(Rental, etc. Real Estate)

The Company operates rental office buildings (including land) in Tokyo and other areas, and hotel facilities (including land).

For the year ended March 31, 2021, net rental income from such rental properties was 171 million yen (rent revenue is recorded in net sales and rental expenses are recorded in cost of sales).

For the year ended March 31, 2022, net rental income from such rental properties was 159 million yen (rent revenue is recorded in net sales and rental expenses are recorded in cost of sales).

The Consolidated Balance Sheet book value, increase/decrease during the period and market value of the rental properties are as follows.

| | | million yen | |
|----------------------------------|--------------------------|--------------------------------------|--------------------------------------|
| | | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
| Consolidated Balance Sheet value | Beginning balance | 2,174 | 2,183 |
| | Middle Increase/Decrease | 9 | 4,475 |
| | Year-end balance | 2,183 | 6,659 |
| Year-end market value | | 4,447 | 9,255 |

- Notes:
- The amount recorded in Consolidated Balance Sheet is amount cost deducting accumulated depreciation.
 - In increase/decrease during the previous fiscal year, the major increase was due to equipment upgrades (65 million yen) and the decrease was due to depreciation (56 million yen).
For the year ended March 31, 2022, the increase was mainly due to equipment upgrades (4,567 million yen) and the decrease was due to depreciation (91 million yen).
 - Fair values at the end of the fiscal period are amount based on real estate appraisal reports by external real estate appraisers or amount adjusted using certain appraisal values or indicators.

(Revenue Recognition)

1. Breakdown of revenue from contracts with customers

Breakdown of revenue from contracts with customers is described in “(Segment information, etc.) Segment information (3) Information on Net Sales, Profit (loss), Assets, Liabilities, and Others for each reportable segment.

2. Information that serves as the basis for understanding the revenue arising from contracts with customers

Information that serves as the basis for understanding revenue is described in “(Significant Accounting Policies for the Preparation of Consolidated Financial Statements) 4. Matters concerning Accounting Policies (5) Standards for recording significant revenues and expenses.”

3. Information on the relationship between the fulfillment of performance obligations based on contracts with customers and cash flows arising from those contracts as well as the amount and time of revenues expected to be recognized in and after the following fiscal year from contracts with customers that exist at the end of the current fiscal year

(1) Balance of contract assets and contract liabilities

The contract balances of the Group are as follows.

| | (million yen) |
|---|--|
| | Current consolidated fiscal year (March 31, 2022) |
| Claims arising from contracts with customers (beginning of the fiscal year) | 1,482 |
| Claims arising from contracts with customers (end of the fiscal year) | 854 |
| Contract assets (beginning of the fiscal year) | 25 |
| Contract assets (end of the fiscal year) | 18 |
| Contract liabilities (beginning of the fiscal year) | 758 |
| Contract liabilities (end of the fiscal year) | 561 |

- Notes:
- Claims arising from contracts with customers
Claims arising from contracts with customers mainly consist of uncollected payments of condominium hotel sales and hotel charges recognized in the Hotel and Tourism Business and rights to customers arising from the contract performance in Real Estate Service Business. The collection of these claims is generally within one to three months.

2. Contract assets

Contract assets consist of rights to customers arising from the payments received from customers in line with a series of obligations recognized in connection with the contract work agreement in Construction Business. The contract assets for the completed work are recognized in advance and transferred to operating claims upon customer acceptance and billing. The contract assets are included in notes, accounts receivable and contract assets in the Consolidated Balance Sheet.

3. Contract liabilities

Contract liabilities mainly consist of earnest money received at the conclusion of sales contracts in Replanning Business, the payment received prior to the work based on the contract for construction agreements in Construction Business, and accommodation charges received as advance payment in Hotel Operation Business. Based on the agreement, they are transferred to revenue when the Group performs them. Contract liabilities are included in Other current liabilities in the Consolidated Balance Sheet.

In the contract liabilities at the beginning of the current consolidated fiscal year, 758 million yen was recognized as the revenue for the current consolidated fiscal year. The decrease in contract assets for the current consolidated fiscal year was mainly due to a decrease in construction orders, and the decrease in contract liabilities was mainly due to a decrease in the balance of the earnest money in Replanning Business.

(2) Transaction price allocated to remaining performance obligations

As the Group does not have any important contracts with an initial expected contract period of more than one year, information on the remaining performance obligations is omitted by using practical expedient measures.

Also, there are no significant amounts (that are not included in the transaction prices) in the consideration arising from contracts with customers.

(Segment Information, etc.)

Segment information

1. Overview of Reportable Segments

The reportable segments of the Company are the constituent units of the company group for which separate financial information is available and which are subject to periodic review by the Board of Directors in order to determine the allocation of management resources and evaluate performance. The head office formulates comprehensive strategies for each type of product and service and conducts business activities.

Accordingly, the Company consists of three reportable segments: “Real Estate Revitalization Business”, “Real Estate Service Business”, and “Hotel and Tourism Business”, which are defined by the product and service segments established by the head office.

“Real Estate Revitalization Business” is engaged in Replanning Business and Rental Building Business. “Real Estate Service Business,” is engaged in Property Management Business, Building Maintenance Business, Sales Brokerage Business, Leasing Brokerage Business, Conference Room Rental Business and Rent Guarantee Business. “Hotel and Tourism Business” is engaged in Hotel Development Business, Hotel Operation Business, etc.

Effective from the first quarter consolidated accounting period, the reportable segment classification has been revised in line with the business reorganization implemented in November 2020. The major changes are as follows:

- (1) The “Hotel Development Business” previously disclosed as “Real Estate Revitalization Business” and the “Hotel Operation Business” previously disclosed as “Operation Business” have been merged into “Hotel and Tourism Business” under the new reportable segment.
- (2) The “Sub-lease Business” previously disclosed as “Real Estate Revitalization Business”, the “Conference Room Rental Business” previously disclosed as “Operation Business” and the “Rent Guarantee Business” previously disclosed as “Other” are now disclosed as “Real Estate Service Business.”

2. Method of Calculating the Net Sales, Profit (loss), Assets and Liabilities for Each Reportable Segment

The methods of accounting for the reportable business segments are the same as those described in “Significant matters that form the basis of preparation of consolidated financial statements” Reportable segment profit is based on ordinary profit (loss).

As described in “Change in Accounting Policies”, the accounting method for revenue recognition was changed by applying the Revenue Recognition Accounting Standard from the consolidated financial statements of the current consolidated fiscal year. Therefore, the method for calculating profit or loss of business segments was also changed.

As a result of this change, the net sales of “Other” for the current consolidated fiscal year increased by 17 million yen compared with the previous calculation method.

3. Breakdown of the revenue and information on Net Sales, Profit (loss), Assets, Liabilities, and Others for each reportable segment

For the fiscal year ended March 31,2021

(Unit: million yen)

| | Reportable segments | | | | Other (Note: 1.) | Total | Adjustment (Note: 2.) | Amount on consolidated statement of income (Note: 3.) |
|---|-------------------------------------|------------------------------|----------------------------|---------|---------------------|---------|--------------------------|--|
| | Real Estate Revitalization Business | Real Estate Service Business | Hotel and Tourism Business | Total | | | | |
| Net sales | | | | | | | | |
| Net sales to external customers | 36,261 | 5,730 | 13,419 | 55,411 | 4,221 | 59,632 | - | 59,632 |
| Internal sales or transfers between segments | 23 | 452 | - | 475 | (0) | 475 | (475) | - |
| Subtotal | 36,284 | 6,182 | 13,419 | 55,886 | 4,221 | 60,107 | (475) | 59,632 |
| Segment profit (loss) | 9,111 | 3,490 | 710 | 13,312 | 562 | 13,874 | (6,349) | 7,524 |
| Segment assets | 73,628 | 1,784 | 26,893 | 102,306 | 1,563 | 103,870 | 23,615 | 127,485 |
| Segment liabilities | 38,437 | 2,588 | 10,701 | 51,727 | 282 | 52,010 | 5,702 | 57,712 |
| Others | | | | | | | | |
| Depreciation | 1,054 | 36 | 151 | 1,242 | 16 | 1,259 | 87 | 1,346 |
| Amortization of goodwill | - | 2 | 59 | 62 | 48 | 110 | - | 110 |
| Interest expenses | 349 | 0 | 90 | 439 | - | 439 | 63 | 502 |
| Income(loss) on investments based on equity method | - | - | - | - | - | - | (55) | (55) |
| Increase in Property, plant and equipment and intangible assets | 74 | 167 | 173 | 415 | 81 | 496 | 31 | 528 |

Notes: 1. The "Other" segment is a business segment that is not included in the reportable segment and includes the overseas development business, construction business, etc.

2. Details of the "Adjustment" are as follows:

- (1) Adjustment in segment profit of negative 6,349 million yen includes elimination of intersegment transactions of 0 million yen and company-wide expenses of negative 6,349 million yen is not allocated to each reportable segment. Company-wide expenses are mainly selling, general and administrative expenses that are not attributable to reportable segments.
- (2) Adjustment in segment assets of 23,615 million yen include eliminations of intersegment transactions of 17,297 million yen and company-wide assets of 40,913 million yen that are not allocated to each reportable segment. Company-wide assets consist mainly of surplus operating funds (cash and deposits and marketable securities) and administration department's assets that do not belong to any reportable segment.
- (3) Adjustment in segment liabilities of 5,702 million yen include elimination of intersegment transactions of 90 million yen and company-wide liabilities of 5,792 million yen that are not allocated to each reportable segment.
- (4) Adjustment of depreciation under the "Others" of 87 million yen includes depreciation of company-wide assets not allocated to each reportable segment of 87 million yen.
- (5) Adjustment of income(loss) on investments based on equity method under the "Others" of negative 55 million includes negative 55 million yen of income(loss) on investments based on equity method relating to company-wide assets not allocated to each reportable segment.
- (6) Adjustment of increase in property, plant and equipment and intangible assets under the "Others" of 31 million yen includes the 31 million yen increase in property, plant and equipment and intangible assets related to company-wide assets not allocated to each reportable segment.

3. Segment profit is reconciled to ordinary profit (loss) in the consolidated statement of income.

For the fiscal year ended March 31, 2022

(Unit: million yen)

| | Reportable segments | | | | Other (Note: 1.) | Total | Adjustment (Note: 2.) | Amount on consolidated statement of income (Note: 3.) |
|--|---|------------------------------------|----------------------------------|---------|---------------------|---------|--------------------------|---|
| | Real Estate Revitalization Business | Real Estate Service Business | Hotel and Tourism Business | Total | | | | |
| Net sales | | | | | | | | |
| Revenue arising from contracts with customers | 51,644 | 5,447 | 6,797 | 63,889 | 1,690 | 65,580 | - | 65,580 |
| Other income | 4,301 | 1,255 | 114 | 5,671 | - | 5,671 | - | 5,671 |
| Net sales to external customers | 55,946 | 6,703 | 6,911 | 69,561 | 1,690 | 71,251 | - | 71,251 |
| Internal sales or transfers | 12 | 450 | - | 462 | 5 | 467 | (467) | - |
| Subtotal | 55,958 | 7,154 | 6,911 | 70,023 | 1,695 | 71,719 | (467) | 71,251 |
| Segment profit (loss) | 16,262 | 3,803 | (1,950) | 18,115 | 101 | 18,217 | (6,001) | 12,215 |
| Segment assets | 70,812 | 1,941 | 29,809 | 102,563 | 1,029 | 103,592 | 32,919 | 136,512 |
| Segment liabilities | 37,388 | 3,049 | 13,789 | 54,226 | 192 | 54,419 | 7,640 | 62,060 |
| Others | | | | | | | | |
| Depreciation | 829 | 40 | 657 | 1,527 | 11 | 1,539 | 93 | 1,632 |
| Amortization of goodwill | - | 17 | - | 17 | 61 | 78 | - | 78 |
| Interest expenses | 283 | 1 | 119 | 404 | - | 404 | 41 | 446 |
| Income(loss) on investments based on equity method | - | - | - | - | - | - | (23) | (23) |
| Increase in Property, plant and equipment and intangible assets | 4,568 | 107 | 3,842 | 8,517 | 1 | 8,518 | 14 | 8,533 |

Notes: 1. The "Other" segment is a business segment that is not included in the reportable segment and includes the overseas development business, construction business, etc.

2. Details of the "Adjustment" are as follows:

- (1) Adjustment in segment profit of negative 6,001 million yen includes elimination of intersegment transactions of 2 million yen and company-wide expenses of negative 5,999 million yen not allocated to each reportable segment. Company-wide expenses are mainly selling, general and administrative expenses that are not attributable to reportable segments.
- (2) Adjustment in segment assets of 32,919 million yen include eliminations of intersegment transactions of 19,189 million yen and company-wide assets of 52,109 million yen that are not allocated to each reportable segment. Company-wide assets consist mainly of surplus operating funds (cash and deposits and marketable securities) and administration department's assets that do not belong to any reportable segment.
- (3) Adjustment in segment liabilities of 7,640 million yen include elimination of intersegment transactions of 97 million yen and company-wide liabilities of 7,737 million yen that are not allocated to each reportable segment.
- (4) Adjustment of depreciation under the "Others" of 93 million yen includes depreciation of company-wide assets not allocated to each reportable segment of 93 million yen.
- (5) Adjustment of income(loss) on investments based on equity method in the "Others" of negative 23 million yen includes income(loss) on investments based on equity method of negative 23 million yen related to company-wide assets not allocated to each reportable segment.
- (6) Adjustment of increase in property, plant and equipment and intangible assets under the "Others" of 14 million yen includes the 14 million yen increase in property, plant and equipment and intangible assets related to company-wide assets not allocated to each reportable segment.

3. Segment profit is reconciled to ordinary profit (loss) in the consolidated statement income.

Related Information

For the fiscal year ended March 31, 2021

1. Information by product and service

Information by product and service is omitted because similar information is provided in “Segment information.”

2. Regional information

(1) Net sales

Net sales to external customers in Japan accounts for more than 90% of net sales in Consolidated Statement of Income, so the description is omitted.

(2) Property, plant and equipment

Property, plant and equipment, which is located in Japan, accounts for more than 90% of amount in property, plant and equipment in the Consolidated Balance Sheet, so the description is omitted.

3. Information by major customers

(Unit: million yen)

| Name of the customer | Net sales | Associated segment name |
|----------------------------------|-----------|-------------------------------------|
| SST West Special Purpose Company | 8,510 | Real Estate Revitalization Business |

For the fiscal year ended March 31, 2022

1. Information by product and service

Information by product and service is omitted because similar information is provided in “Segment information.”

2. Regional information

(1) Net sales

Net sales to external customers in Japan accounts for more than 90% of net sales in Consolidated Statement of Income, so the description is omitted.

(2) Property, plant and equipment

Property, plant and equipment, which is located in Japan, accounts for more than 90% of amount in property, plant and equipment in the Consolidated Balance Sheet, so the description is omitted.

3. Information by major customers

(Unit: million yen)

| Name of the customer | Net sales | Associated segment name |
|-----------------------------------|-----------|-------------------------------------|
| Hiroshige Special Purpose Company | 17,220 | Real Estate Revitalization Business |

Information on non-current assets impairment loss by report segment

For the fiscal year ended March 31,2021

(Unit: million yen)

| | Reportable segments | | | | Other | Corporate and elimination | Total |
|-----------------|-------------------------------------|----------------------|----------------------------|-------|-------|---------------------------|-------|
| | Real Estate Revitalization Business | Real estate services | Hotel and Tourism Business | Total | | | |
| Impairment loss | - | - | 51 | 51 | - | - | 51 |

For the fiscal year ended March 31,2022

(Unit: million yen)

| | Reportable segments | | | | Other | Corporate and elimination | Total |
|-----------------|-------------------------------------|------------------------------|----------------------------|-------|-------|---------------------------|-------|
| | Real Estate Revitalization Business | Real Estate Service Business | Hotel and Tourism Business | Total | | | |
| Impairment loss | - | - | - | - | 65 | - | 65 |

Information on goodwill amortization and unamortized balance by report segment

For the fiscal year ended March 31,2021

(Unit: million yen)

| | Reportable segments | | | | Other | Corporate and elimination | Total |
|------------------------------|-------------------------------------|------------------------------|----------------------------|-------|-------|---------------------------|-------|
| | Real Estate Revitalization Business | Real Estate Service Business | Hotel and Tourism Business | Total | | | |
| Balance at end of the period | - | 99 | - | 99 | 452 | - | 552 |

Note: Information regarding amortization of goodwill is omitted because similar information is disclosed in the segment information.

For the fiscal year ended March 31,2022

(Unit: million yen)

| | Reportable segments | | | | Other | Corporate and elimination | Total |
|------------------------------|-------------------------------------|------------------------------|----------------------------|-------|-------|---------------------------|-------|
| | Real Estate Revitalization Business | Real Estate Service Business | Hotel and Tourism Business | Total | | | |
| Balance at end of the period | - | 82 | - | 82 | 325 | - | 408 |

Note: Information regarding amortization of goodwill is omitted because similar information is disclosed in the segment information.

Information on negative goodwill gain by report segment

In Hotel and Tourism Business, we acquired shares of Hotel Osado Co., Ltd. effective from April 2021. As a result, negative goodwill gain of 115 million yen was recorded in current consolidated fiscal year.

(Related Party Information)

1. Transactions with related parties

(1) Transactions between the company submitting consolidated financial statements and related parties

(i) Non-consolidated subsidiaries and affiliates of the company submitting consolidated financial statements

For the fiscal year ended March 31,2021

There are no important matters to be stated.

For the fiscal year ended March 31,2022

There are no important matters to be stated.

(ii) Officers and major shareholders of the Company Submitting Consolidated Financial Statements (limited to individuals), etc.

For the fiscal year ended March 31,2021

There are no important matters to be stated.

For the fiscal year ended March 31,2022

There are no important matters to be stated.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties

For the fiscal year ended March 31,2021

| Type | Name of the company, etc. | Location | Share capital or investment (million yen) | Contents of business or occupation | Percentage of voting rights owned (%) | Relationship with related parties | Contents of the transaction | Transaction amount (million yen) | Item | Year-end balance (million yen) |
|---|---------------------------|---------------------|---|------------------------------------|---------------------------------------|-----------------------------------|-----------------------------|----------------------------------|------|--------------------------------|
| Companies in which the majority of voting rights are held by the officers and his/her relatives | TAM Incubator Co., Ltd. | Shinagawa-ku, Tokyo | 50 | Asset management | None | None | Sale of real estate | 68 | - | - |
| Companies in which the majority of voting rights are held by the officers and his/her relatives | TH Kosan Co., Ltd. | Urayasu, Chiba | 1 | Asset management | None | None | Sale of real estate | 65 | - | - |
| Companies in which the majority of voting rights are held by the officers and his/her relatives | SS DNAFORM | Yokohama, Kanagawa | 25 | Clinical Testing | None | None | Real estate leasing | 10 | - | - |

Note: Sales of real estate and leasing of real estate are conducted under general terms and conditions similar to those for independent third party transactions.

For the fiscal year ended March 31,2022

| Type | Name of the company, etc. | Location | Share capital or investment (million yen) | Contents of business or occupation | Percentage of voting rights owned (%) | Relationship with related parties | Contents of the transaction | Transaction amount (million yen) | Item | Year-end balance (million yen) |
|---|---------------------------|--------------------|---|------------------------------------|---------------------------------------|-----------------------------------|------------------------------|----------------------------------|------|--------------------------------|
| Companies in which the majority of voting rights are held by the officers and his/her relatives | SS Dnaform Co., Ltd. | Yokohama, Kanagawa | 25 | Clinical testing business | None | None | Leasing of real estate, etc. | 43 | - | - |

2. Notes on parent company and significant affiliated companies

Not applicable.

(Special Purpose Companies subject to Disclosure)

- (1) Overview of the special purpose company subject to disclosure and overview of transactions using the special purpose company subject to disclosure

The Company operates an investment product in sub-divided real estate sales business in Real Estate Revitalization Business based on Act on Specified Joint Real Estate Ventures (voluntary partnership type) and uses voluntary partnership as part of the business structure.

In this business, sub-divided real estate investment product purchasers (hereinafter referred to as investors) will enter into an agreement with voluntary partnership to participate in the real estate specified business and make cash contribution or contribution in kind. Voluntary partnership is structured to receive distributions of profits and losses arising from the real estate investments by investors. Profits and losses on leasing and sales of the real estate are attributable to investors.

As a Managing Partner (Chairman), the Company receives chairman compensation in accordance with the Voluntary Partnership Agreement, and also receives compensation from voluntary partnership for entrusting building management in a lump sum. In the case of cash investment type, real estate transfer occurs between the Company and voluntary partnership.

The latest financial position for the current consolidated fiscal year is as follows.

| | For the fiscal year ended March 31,2021 | For the fiscal year ended March 31,2022 |
|--|--|--|
| Number of Special Purpose Companies | 2 union | 5 union |
| Total assets as of the latest balance sheet date (simple sum) | 2,048 million yen | 4,062 million yen |
| Total liabilities (simple sum) | 85 million yen | 126 million yen |

The total assets and total liabilities of one partnership are not included in the total amount above because the closing date has not yet arrived.

- (2) Transaction amount with the special purpose company subject to disclosure

For the fiscal year ended March 31, 2021

As the transaction amount and transaction balance have become immaterial, the description is omitted.

For the fiscal year ended March 31, 2022

As the transaction amount and transaction balance have become immaterial, the description is omitted.

(Per share information)

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|--|-------------------------------------|-------------------------------------|
| Net assets per share (yen) | 1,368.14 | 1,463.74 |
| Earnings per share (yen) | 87.77 | 152.26 |
| Fully diluted earnings per share (yen) | 87.73 | 152.12 |

Notes: 1. Basis for calculation of earnings per share and fully diluted earnings per share is as follows.

2. As described in “Change in Accounting Policies” the “Accounting Standard for Revenue Recognition” etc. have been applied. As a result, net assets per share, earnings per share and Fully Diluted Earnings per Share in current consolidated fiscal year increased by 0.06 yen, 0.06 yen, and 0.06 yen, respectively.

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|---|-------------------------------------|-------------------------------------|
| Earnings per share | | |
| Profit attributable to owners of parent company (million yen) | 4,274 | 7,415 |
| Amount not attributable to common shareholders (million yen) | - | - |
| Profit attributable to owners of parent company for common shares (million yen) | 4,274 | 7,415 |
| Average number of shares (shares) | 48,698,856 | 48,698,856 |
| Fully diluted earnings per share | | |
| Adjustment of profit attributable to owners of parent company (million yen) | - | - |
| Common shares increase (shares) | 20,021 | 45,267 |
| (including share acquisition rights (million yen) | (16) | (30) |
| Outline of dilutive shares not included in the calculation of fully diluted earnings per share because they have no dilutive effect | - | - |

Note: 3. Basis for calculation of net assets per share is as follows.

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|---|-------------------------------------|-------------------------------------|
| Total net assets (million yen) | 69,773 | 74,452 |
| Amount of deduction from total net assets (million yen) | 3,145 | 3,169 |
| (including share acquisition rights (million yen) | (16) | (30) |
| (including non-controlling interests (million yen) | (3,129) | (3,129) |
| Net assets at year end available to common shares (million yen) | 66,627 | 71,282 |
| Number of common shares used for the calculation of net assets per share (shares) | 48,698,856 | 48,698,856 |

Note: 4. The Company’s shares held by the trust account of the Employee Stock Ownership Plan (J-ESOP) are included in weighted average number of shares for the period in common shares and treasury shares deducted in the calculation of the total number of outstanding shares at the end of the fiscal year under review. The weighted average number of shares for the period of the Company’s shares held by the trust account is 56,500 shares for the previous fiscal year and 56,500 shares for the current fiscal year. The number of shares at the end of the fiscal year is 56,500 shares for the previous fiscal year and 56,500 shares for the current fiscal year.

(Significant Subsequent Events)

Not applicable.

(v) Consolidated supplementary schedule

Schedule of corporate bonds

Not applicable.

Borrowings and other details

| Classification | Balance at beginning of the period (million yen) | Balance at end of the period (million yen) | Average interest rate (%) | Due date |
|--|--|--|---------------------------|-----------|
| Short-term borrowings | - | 30 | 0.85 | - |
| Long-term borrowings due within one year | 5,530 | 6,874 | 0.89 | - |
| Long-term borrowings | 41,991 | 44,169 | 0.96 | 2023-2046 |
| Total | 47,521 | 51,073 | - | - |

Notes: 1. The average interest rate is the weighted average interest rate on the year-end borrowings balance.
2. The repayment schedule for Long-term borrowings for five (5) years after the Consolidated Balance Sheet date is as follows:

| | Over 1 year and within 2 years (million yen) | Over 2 years and within 3 years (million yen) | Over 3 years and within 4 years (million yen) | Over 4 years and within 5 years (million yen) |
|----------------------|--|---|---|---|
| Long-term borrowings | 8,320 | 23,071 | 2,826 | 3,106 |

Asset retirement obligations

There are no applicable items regarding asset retirement obligations because, in lieu of recording asset retirement obligations as liabilities, security deposits and guarantee deposits related to real estate lease agreements are recorded as expenses for the amount that is to be borne by unlikely to be recovered (restoration costs for the leased buildings) by reasonably estimating the amount to which the current consolidated fiscal year bears.

(2) Other

Quarterly information of current consolidated fiscal year

| (Cumulative period) | 1st Quarter | 2nd Quarter | 3rd Quarter | Current consolidated fiscal year |
|---|-------------|-------------|-------------|----------------------------------|
| Net sales (million yen) | 31,213 | 45,326 | 61,618 | 71,251 |
| Quarterly profit before income taxes (million yen) | 7,356 | 9,154 | 11,831 | 12,135 |
| Quarterly profit attributable to owners of parent company (million yen) | 4,802 | 5,862 | 7,519 | 7,415 |
| Quarterly earnings per share (yen) | 98.61 | 120.37 | 154.40 | 152.26 |

| (Accounting Period) | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|------------------------------------|-------------|-------------|-------------|-------------|
| Quarterly earnings per share (yen) | 98.61 | 21.76 | 34.03 | (2.14) |

2. Non-Consolidated Financial Statements, etc.

(1) Non-Consolidated Financial Statements

(i) Non-Consolidated Balance Sheet

(Unit: million yen)

| | As of March 31, 2021 | As of March 31, 2022 |
|---------------------------------------|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 14,943 | 23,403 |
| Account receivable - trade | * 2 282 | * 2 279 |
| Real estate for sale | * 1 11,534 | * 1 13,289 |
| Real estate for sale in process | * 1 58,646 | * 1 48,674 |
| Short-term loans to affiliates | 390 | 490 |
| Other | * 2 1,371 | * 2 2,149 |
| Allowance for doubtful accounts | (0) | (4) |
| Total current assets | 87,167 | 88,282 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | * 1 661 | * 1 6,503 |
| Land | * 1 6,472 | * 1 9,639 |
| Other | * 1 1,614 | * 1 61 |
| Total property, plant and equipment | 8,748 | 16,203 |
| Intangible assets | | |
| Other | 111 | 124 |
| Total intangible assets | 111 | 124 |
| Investments and other assets | | |
| Shares of subsidiaries and affiliates | 15,283 | 14,586 |
| Long-term loans to affiliates | 1,243 | 3,114 |
| Deferred tax assets | 964 | 1,033 |
| Other | * 2 1,427 | 1,577 |
| Allowance for doubtful accounts | (218) | (121) |
| Total investments and other assets | 18,701 | 20,190 |
| Total non-current assets | 27,561 | 36,518 |
| Total assets | 114,729 | 124,800 |

(Unit: million yen)

| | As of March 31, 2021 | As of March 31, 2022 |
|--|----------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | * 2,966 | * 2,665 |
| Current portion of long-term borrowings | * 13,258 | * 15,763 |
| Income taxes payable | 194 | 3,465 |
| Deposits payable | * 21,654 | * 21,388 |
| Provision for bonuses | 125 | 120 |
| Provision for bonuses for directors (and other officers) | 50 | 70 |
| Other | * 21,576 | * 21,225 |
| Total current liabilities | 7,827 | 12,700 |
| Non-current liabilities | | |
| Long-term borrowings | * 136,629 | * 136,273 |
| Long-term deposits received | 1,963 | 1,279 |
| Provision for share-based remuneration | 48 | 57 |
| Other | 56 | 56 |
| Total non-current liabilities | 38,696 | 37,667 |
| Total liabilities | 46,524 | 50,367 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 11,965 | 11,965 |
| Capital surplus | | |
| Capital reserve | 6,449 | 6,449 |
| Capital surplus total | 6,449 | 6,449 |
| Retained earnings | | |
| Legal reserve | 13 | 13 |
| Other retained earnings | | |
| Retained earnings brought forward | 49,825 | 56,039 |
| Retained earnings total | 49,838 | 56,052 |
| Treasury shares | (67) | (67) |
| Total shareholders' equity | 68,186 | 74,399 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 2 | 3 |
| Valuation and translation adjustments total | 2 | 3 |
| Share acquisition rights | 16 | 30 |
| Total net assets | 68,204 | 74,432 |
| Total liabilities and net assets | 114,729 | 124,800 |

(ii) Non-consolidated Statement of Income

(Unit: million yen)

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|--|-------------------------------------|-------------------------------------|
| Net sales | *142,002 | *159,563 |
| Cost of sales | *128,973 | *139,856 |
| Gross profit | 13,029 | 19,706 |
| Selling, general and administrative expenses | *1,*25,011 | *1,*25,406 |
| Operating profit | 8,017 | 14,300 |
| Non-operating income | | |
| Interest income | *169 | *1157 |
| Dividend income | 0 | 0 |
| Foreign exchange gains | 35 | 89 |
| Penalty income | - | 200 |
| Reversal of allowance for doubtful accounts | 312 | 0 |
| Other | 19 | 5 |
| Total non-operating income | 438 | 453 |
| Non-operating Expenses | | |
| Interest expenses | 432 | 339 |
| Allowance for doubtful accounts provision | - | 39 |
| Other | 28 | 18 |
| Total non-operating expenses | 461 | 396 |
| Ordinary profit | 7,994 | 14,356 |
| Extraordinary income | | |
| Gain on extinguishment of tie-in shares | 26 | - |
| Settlement money | - | 144 |
| Total extraordinary income | 26 | 144 |
| Extraordinary loss | | |
| Loss on devaluation of shares of subsidiaries and affiliates | 99 | 542 |
| Loss on valuation of investments in capital of subsidiaries and affiliates | 190 | - |
| Loss on extinguishment of tie-in shares | - | 24 |
| Settlement money | - | 254 |
| Other | 6 | 0 |
| Extraordinary loss total | 296 | 821 |
| Profit before income taxes | 7,724 | 13,679 |
| Income taxes - current | 2,452 | 4,464 |
| Income taxes - deferred | (42) | (68) |
| Total income taxes | 2,409 | 4,395 |
| Profit | 5,314 | 9,284 |

Cost of sales specification

| Classification | Note Number | For the year ended March 31,2021 | | For the year ended March 31,2022 | |
|--|-------------|----------------------------------|-----------------------|----------------------------------|-----------------------|
| | | Amount (million yen) | Composition ratio (%) | Amount (million yen) | Composition ratio (%) |
| Real Estate Revitalization Business cost | | | | | |
| Buildings Land | | 24,552 | 84.7 | 37,316 | 93.6 |
| Outsourcing costs | | 231 | 0.8 | 193 | 0.4 |
| Expense | | 1,224 | 4.2 | 1,238 | 3.1 |
| (including taxes and duties) | | (258) | | (262) | |
| (including depreciation) | | (852) | | (790) | |
| Real Estate Revitalization Business cost total | | 26,009 | 89.8 | 38,748 | 97.2 |
| Real Estate Service Business cost | | | | | |
| Outsourcing costs | | 321 | 1.1 | 452 | 1.1 |
| Expense | | 237 | 0.8 | 286 | 0.7 |
| (including rent) | | (195) | | (235) | |
| Real Estate Service Business cost total | | 558 | 1.9 | 738 | 1.9 |
| Hotel and Tourism Business cost | | | | | |
| Buildings Land | | 1,853 | 6.4 | 104 | 0.2 |
| Expense | | 454 | 1.6 | 111 | 0.2 |
| (including rent) | | (240) | | 110 | |
| (including depreciation) | | (147) | | - | |
| Hotel and Tourism Business cost total | | 2,307 | 8.0 | 216 | 0.5 |
| Other Business cost | | | | | |
| Outsourcing costs | | 79 | 0.3 | 127 | 0.3 |
| Labor costs | | 5 | 0.0 | 9 | 0.0 |
| Expense | | 12 | 0.0 | 15 | 0.0 |
| Other Business cost total | | 97 | 0.3 | 153 | 0.4 |
| Cost of sales | | 28,973 | 100.0 | 39,856 | 100.0 |

Note: Cost accounting is based on individual cost accounting.

(iii) Non-Consolidated Statement of Changes in Equity

For the year ended March 31,2021

(Unit: million yen)

| | Shareholders' equity | | | | | | | Total shareholders' equity |
|--|----------------------|-----------------|-----------------------|---------------|-----------------------------------|-------------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | | Legal reserve | Retained earnings | | Treasury shares | |
| | | Capital reserve | Total capital surplus | | Other retained earnings | Total retained earnings | | |
| | | | | | Retained earnings brought forward | | | |
| Balance at beginning of the period | 11,965 | 6,449 | 6,449 | 13 | 46,559 | 46,572 | (67) | 64,919 |
| Changes during period | | | | | | | | |
| Dividends of surplus | | | | | (2,047) | (2,047) | | (2,047) |
| Profit | | | | | 5,314 | 5,314 | | 5,314 |
| Net changes in items other than shareholders' equity | | | | | | | | |
| Total changes during period | - | - | - | - | 3,266 | 3,266 | - | 3,266 |
| Balance at end of the period | 11,965 | 6,449 | 6,449 | 13 | 49,825 | 49,838 | (67) | 68,186 |

| | Valuation and translation difference | | Share acquisition rights | Net assets total |
|--|---|--|--------------------------|------------------|
| | Valuation difference on available-for-sale securities | Total valuation and translation difference | | |
| Balance at beginning of the period | 3 | 3 | 11 | 64,934 |
| Changes during period | | | | |
| Dividends of surplus | | | | (2,047) |
| Profit | | | | 5,314 |
| Net changes in items other than shareholders' equity | (0) | (0) | 4 | 4 |
| Total changes during period | (0) | (0) | 4 | 3,270 |
| Balance at end of the period | 2 | 2 | 16 | 68,204 |

For the year ended March 31,2022

(Unit: million yen)

| | Shareholders' equity | | | | | | | |
|--|----------------------|-----------------|-----------------------|-----------------------------------|-------------------------|-------------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | | Legal reserve | Retained earnings | | Treasury shares | Total shareholders' equity |
| | | Capital reserve | Total capital surplus | | Other retained earnings | Total retained earnings | | |
| | | | | Retained earnings brought forward | | | | |
| Balance at beginning of the period | 11,965 | 6,449 | 6,449 | 13 | 49,825 | 49,838 | (67) | 68,186 |
| Changes during period | | | | | | | | |
| Dividends of surplus | | | | | (3,071) | (3,071) | | (3,071) |
| Profit | | | | | 9,284 | 9,284 | | 9,284 |
| Net changes in items other than shareholders' equity | | | | | | | | |
| Total changes during period | - | - | - | - | 6,213 | 6,213 | - | 6,213 |
| Balance at end of the period | 11,965 | 6,449 | 6,449 | 13 | 56,039 | 56,052 | (67) | 74,399 |

| | Valuation and translation difference | | Share acquisition rights | Net assets total |
|--|---|--|--------------------------|------------------|
| | Valuation difference on available-for-sale securities | Total valuation and translation difference | | |
| Balance at beginning of the period | 2 | 2 | 16 | 68,204 |
| Changes during period | | | | |
| Dividends of surplus | | | | (3,071) |
| Profit | | | | 9,284 |
| Net changes in items other than shareholders' equity | 0 | 0 | 14 | 14 |
| Total changes during period | 0 | 0 | 14 | 6,227 |
| Balance at end of the period | 3 | 3 | 30 | 74,432 |

Notes

(Significant Accounting Policies)

1. Valuation standards and methods for assets

(1) Valuation standards and methods for securities

(i) Shares of subsidiaries and affiliates

Stated at cost using the moving-average method.

(ii) Other securities (available-for-sale securities)

Securities other than securities without market price

Stated at market based on the market price, etc. (Valuation difference is reported as a component of net assets. The cost of sale is calculated using the moving-average method.)

Securities without market price

Stated at cost using the moving-average method.

(2) Assessment criteria and assessment methods of Inventories

Real estate for sale and real estate for sale in process

Stated at cost determined by the specific identification method (The figures shown in the balance sheet have been calculated by writing them down based on decline in profitability.) Leased assets are amortized in accordance with property, plant and equipment standards.

2. Depreciation of non-current assets

(1) Property, plant and equipment

The declining-balance method is applied.

However, buildings (excluding facilities attached to buildings) and facilities attached to buildings acquired on or after April 1, 2016 are depreciated using the straight-line method.

The estimated useful lives are as follows:

Buildings 3 to 29 years

Other 2 to 15 years

Small-amount depreciable assets with an acquisition cost of 100,000 yen or more but less than 200,000 yen are amortized over three years on a straight-line basis.

(2) Intangible assets

The straight-line method is used

Software for internal use is amortized on a straight-line basis over the estimated internal useful life (5 years).

3. Standards for provisions

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on the historical write-off rate for ordinary receivables, the estimated amount of irrecoverable debt based on recoverability of individual cases for specified receivables such as doubtful accounts.

(2) Provision for bonuses

To prepare for the payment of bonuses to employees, the Company records the portion of the estimated bonuses to be paid during the fiscal year under review.

(3) Provision for bonuses for directors (and other officers)

Provision for directors' bonuses is provided based on the estimated amount incurred at the end of the fiscal year under review.

(4) Provision for share-based remuneration

In order to prepare for the provision of the Company's shares to employees based on the Share Benefit Regulations, the provision for the Company's shares is recorded based on the estimated amount of the share benefit obligation at the end of the fiscal year under review.

4. Method of recording revenue and expenses

The details of the main performance obligations in major businesses related to the revenue arising from contracts with customers of the Company and the normal time at which such performance obligations are satisfied (normal time to recognize revenue) are as follows.

(a) Real Estate Revitalization Business

Replanning Business

In the Replanning Business, the Company buys existing office buildings, renovates the buildings and facilities, and sells them to customers in Japan and overseas with added value by attracting high-quality tenants. The Company is obligated to deliver the properties based on real estate sales contracts with customers.

The performance obligation is satisfied at the point the Company delivers the property. The Company records the revenue at the time of this delivery.

(b) Real Estate Service Business

(1) Property Management Business

In the Property Management Business, the Company concludes the property management agreement with customers and is obligated to perform various services related to real estate properties on behalf of customers, such as maintenance and management of properties and collection of rents for tenants.

The performance obligation is satisfied when the Company provides services based on the property management contract. The Company records the revenue over the contract period.

(2) Sales Brokerage Business

In the Sales Brokerage Business, the Company stands between the buyer and the seller at the time of sale and purchase of real estate property and engages in the conclusion of sales contracts. Based on the mediation agreement with the customer, the Company has obligations related to a series of services, such as negotiation and adjustment of transaction, delivery and explanation of important facts, preparation and delivery of contracts, and involvement in procedures for performance of agreements.

The performance obligation is satisfied at a point when the Company delivers the property related to the real estate sales contract. The Company records the revenue at the time of this delivery.

(3) Leasing Brokerage Business

In the Leasing Brokerage Business, the Company stands between the lessee and lessor at the time of lease of real estate and engages in the conclusion of lease contracts. Based on the mediation agreement with the customer, the Company has obligations related to a series of services, such as negotiation and adjustment of transaction, delivery and explanation of important facts, preparation and delivery of contracts, and involvement in procedures for contract agreements.

The performance obligation is satisfied at a point the customer agrees to the real estate lease contract for the property rented by the mediation agreement. The Company records the revenue after the conclusion of this agreement.

(c) Hotel and Tourism Business

Hotel Development Business

In the Hotel Development Business, the Company engages in the development of new hotels starting from the purchase of land to the construction of buildings, and sells the developed hotels to customers. The Company is obligated to deliver the properties based on real estate sales contracts with customers.

The performance obligation is satisfied at a point the Company delivers the property. The Company records the revenue at the time of this delivery.

(d) Other

Construction Business

The Company engages in renewal planning, repair and reform of commercial buildings, telecommunications work, and contracted interior construction work for large, medium, and small-sized facilities.

If control of goods or services is transferred to the customer over a certain period, the performance obligation is satisfied at a point the Company transfers the goods or services to the customer. Also, the Company records the revenue during this period.

In addition, the Company applies an alternative treatment to contracts with a very short period from the transaction start date to the point when the performance obligations are expected to be fully satisfied, or for construction work with a small amount of order per construction unit. The revenue is not recognized over the period of this alternative treatment, and the Company will record the revenue when the performance obligations are fully satisfied.

5. Standards for translation of significant assets or liabilities denominated in foreign currencies into Japanese currency

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates prevailing at the respective balance sheet dates, and translation differences are charged or credited to income.

6. Basis for preparation of other financial statements

(1) Accounting for non-deductible consumption taxes

Non-deductible consumption taxes related to assets are accounted for as expenses for the current fiscal year.

(2) Application of consolidated tax payment system

Consolidated taxation system is applied.

(3) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

The provisions of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) have not been applied to the items for which the group tax sharing system has been adopted and the non-consolidated tax payment system has been revised in line with the transition to the group tax sharing system established under the Act for Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020) due to the treatment in Paragraph 3 of the “Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), and the amounts of deferred tax assets and deferred tax liabilities have been based on the provisions of the tax act prior to the revision. Moreover, from the beginning of the following fiscal year, the Company plans to apply the “Treatment of the Accounting and Disclosure under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021), which provides for the handling of accounting treatment and disclosure of corporate tax, local corporate tax and tax effect accounting with the application of the group tax sharing system.

(Notes on Accounting Estimates)

1. Assessment of the real estate for sale

(1) Amount recorded in the financial statements for the current business year

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|---------------------------------|-------------------------------------|-------------------------------------|
| Real estate for sale | 11,534 million yen | 13,289 million yen |
| Real estate for sale in process | 58,646 million yen | 48,674 million yen |

(2) Information on significant accounting estimates related to the identified items

For real estate for sale, etc., if the net selling price falls below the acquisition cost, the net selling price is stated as the balance sheet value. The net selling price is calculated by deducting the estimated future cost of construction work and the estimated selling expenses from the return value estimated based on the business plan.

The business plan that forms the basis for the value of the return to profits includes the expected tenant rent and the occupancy rate of hotel rooms, and is based on important assumptions such as the assumed market conditions in the future and the forecast of the of the convergence time of the COVID-19.

In the following fiscal year, the net selling price may change due to changes in assumptions used in formulating business plans in the event of events that were not anticipated at the time of formulating business plans. This may have a significant impact on the amount of real estate for sale, etc., recognized in the financial statements for the following fiscal year and thereafter.

2. Non-current assets impairment

(1) Amount recorded in the financial statements for the current business year

| | For the year ended March 31,2021 | For the year ended March 31,2022 |
|---|-------------------------------------|-------------------------------------|
| Non-current assets related to hotel development business | 6,874 million yen | 9,787 million yen |

(2) Information on significant accounting estimates related to the identified items

Due to the impact of the spread of COVID-19, the occupancy rate of hotel rooms has decreased and profitability has declined. As a result, signs of impairment have emerged as a significant deterioration in the business environment. Impairment losses are losses based on a comparison of the estimated undiscounted future cash flows over the remaining economic useful lives of the hotel's major assets with the carrying amounts of the hotel's asset groups.

The business plan of the hotel, which is the basis of future cash flows, has been formulated under the policy of conducting long-term management, based on important assumptions including the forecast of the occupancy rate of hotel rooms, etc., as well as the assumption of future market conditions and the forecast of the convergence time of the COVID-19.

In the following fiscal year, the assumptions used in formulating business plans may change in the event of a situation that was not anticipated when the business plan was formulated. This may have a material impact on the non-current asset amounts recognized in the financial statements for the following fiscal year and thereafter.

(Change in Accounting Policies)

1. Adoption of the “Accounting Standard for Revenue Recognition”

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) is applied from the beginning of the Fiscal Year ended March 31, 2022, and the revenue is recognized by the amount expected to be received in exchange for the promised goods or services when control of these goods or services is transferred to customers.

As a result, in cases where control of goods or services related to renewal planning, repair and reform of commercial buildings, telecommunications work, and contracted interior construction work for large, medium, and small-sized facilities is transferred to customers over a certain period, the Company records the revenue during this period as the performance obligation to transfer goods or services to customers is satisfied.

The adoption of this accounting standard is in accordance with the transitional treatment described in the proviso of paragraph

84. However, there is no impact on the balance of retained earnings brought forward at the beginning of the period. Also, the adoption of this accounting standard will have no impact on the Non-Consolidated Fiscal Statements for the Fiscal Year ended March 31, 2022.

In accordance with the transitional treatment described in Paragraph 89-3 of the Revenue Recognition Accounting Standard, the Company has not included the notes on “Relationship of the Revenue Recognition” for the previous fiscal year.

2. Adoption of “Accounting Standards for Fair Value Measurement”

“Accounting Standards for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as “Fair Value Measurement Accounting Standard”) is applied from the beginning of the fiscal year ended March 31, 2022. In accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standards for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policy stipulated by the Fair Value Measurement Accounting Standard in the near future. Also, the adoption of this standard will have no impact on the Non-Consolidated Financial Statements for the Fiscal Year ended March 31, 2022.

(Change of Presentation Method)

(Related to Non-consolidated Statement of Income)

“Foreign exchange gains” (35 million yen in the previous fiscal year), which were included in “Other” of non-operating income in the previous fiscal year, have become very significant to the business. This record will be presented separately for the Fiscal Year ended March 31, 2022.

(Additional Information)

Transactions of delivering the company’s own shares to employees etc. through trusts

The Company conducts transactions to deliver its own shares through trust for the purpose of employee welfare.

(i) Overview of transaction

The plan provides the Company’s shares to employees of the Company who meet certain requirements based on the share benefit regulations established by the Company in advance.

The Company will grant points to employees who satisfy certain conditions at the end of the fiscal year, and when they acquire the right to receive benefits, the Company shares corresponding to the granted points will be delivered. The shares to be granted to employees are acquired in the future with the money set in trust in advance and managed separately as trust assets.

The total amount method is applied to the Employee Stock Ownership Plan (J-ESOP) in accordance with the “Practical Solution on Transactions of Delivering the Company’s Own Shares to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015).

(ii) Own shares remaining in the trust

The book value of the Company’s shares remaining in the trust (excluding the amount of incidental expenses) is included in net assets. The book value and number of shares of the treasury shares at the end of the previous fiscal year were 67 million yen and 56,500 shares and at the end of the current fiscal year were 67 million yen and 56,500 shares.

(Related to Non-consolidated Balance Sheet)

* 1. Assets pledged as collateral and corresponding obligations are as follows.

(1) Assets pledged as collateral

| | As of March 31, 2021 | As of March 31, 2022 |
|---------------------------------|----------------------|----------------------|
| Real estate for sale | 9,180 million yen | 8,963 million yen |
| Real estate for sale in process | 58,203 | 46,962 |
| Buildings | 412 | 3,631 |
| Land | 6,398 | 9,564 |
| Other | 1,568 | 1,374 |
| Total | 75,763 million yen | 70,496 million yen |

(2) Liabilities for the above

| | As of March 31, 2021 | As of March 31, 2022 |
|--|----------------------|----------------------|
| Long-term borrowings (including current portion of long-term borrowings) | 38,086 million yen | 40,631 million yen |
| Total | 38,086 million yen | 40,631 million yen |

* 2. Assets and liabilities of affiliated companies (excluding those listed by category)

| | As of March 31, 2021 | As of March 31, 2022 |
|---------------------------------|----------------------|----------------------|
| Short-term monetary claim | 302 million yen | 330 million yen |
| Short-term monetary obligations | 165 | 115 |
| Long-term monetary claim | 7 | - |

3. Debt Guarantees

Guarantees for borrowings loans by financial institutions of affiliated companies

| | As of March 31, 2021 | As of March 31, 2022 |
|------------------------------------|----------------------|----------------------|
| Sun Frontier Hotel Management Inc. | 6,721 million yen | 7,882 million yen |
| Sun Frontier Sado Co., Ltd. | - | 121 |
| Communication Development Inc. | - | 74 |

(Related to Non-consolidated Statement of Income)

* 1 Total amount of transactions with affiliated companies and transactions other than business transactions

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Operating transactions (revenue) | 382 million yen | 187 million yen |
| Operating transactions (expenses) | 372 | 339 |
| Non-operating transactions (revenue) | 69 | 160 |

* 2 Major expense items and amount in selling, general and administrative expenses are as follows.

| | For the year ended March 31, 2021 | For the year ended March 31, 2022 |
|--|--------------------------------------|--------------------------------------|
| Sales commission | 415 million yen | 495 million yen |
| Commission paid | 660 | 764 |
| Salaries and allowances | 1,826 | 1,813 |
| Provision for bonuses provision | 125 | 120 |
| Provision for bonuses for directors (and other officers) provision | 50 | 70 |

| | | |
|--|-------|-------|
| Provision for share-based remuneration | 12 | 9 |
| Allowance for doubtful accounts | 0 | 12 |
| Depreciation | 88 | 66 |
| Approximate percentage | | |
| Selling costs | 8.3% | 9.2% |
| General and administrative expenses | 91.7% | 90.8% |

(Securities)

For the year ended March 31, 2021

Since there is no market price for shares of subsidiaries and affiliates and it is extremely difficult to ascertain the market value of shares of subsidiaries and affiliates, the market value of shares of subsidiaries and affiliates is not stated.

The non-consolidated balance sheet amounts of shares of subsidiaries and affiliates for which it is extremely difficult to ascertain their fair values are as follows.

| Classification | As of March 31, 2021 (million yen) |
|----------------------|---------------------------------------|
| Subsidiary stock | 15,058 |
| Shares of affiliates | 224 |
| Total | 15,283 |

For the year ended March 31, 2022

Since the shares of subsidiaries and affiliates are securities without market price, the market value of shares of subsidiaries and affiliates is not stated.

The non-consolidated balance sheet amounts of shares of subsidiaries and affiliates which are securities without market price are as follows.

| Classification | As of March 31, 2022 (million yen) |
|----------------------|---------------------------------------|
| Subsidiary stock | 14,361 |
| Shares of affiliates | 224 |
| Total | 14,586 |

(Tax Effect Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

| | As of March 31, 2021 | As of March 31, 2022 |
|---|----------------------|----------------------|
| Deferred tax assets | | |
| Inventories | 594 million yen | 494 million yen |
| Denial of loss on devaluation of subsidiaries' and affiliates' stocks | 469 | 661 |
| Accrued enterprise tax | 39 | 175 |
| Allowance for doubtful accounts | 67 | 39 |
| Taxes and duties | 62 | 47 |
| Accounts payable | 13 | 4 |
| Accrued expenses | 41 | 43 |
| Provision for bonuses | 73 | 77 |

| | | |
|---|-------------------|-------------------|
| Long-term accounts payable | 17 | 17 |
| Unrealized loss non-current assets denied | 8 | 9 |
| Excess depreciation | 2 | 36 |
| Other | 83 | 81 |
| Subtotal deferred tax assets | 1,474 million yen | 1,690 million yen |
| Valuation allowance | (509) | (656) |
| Deferred tax assets total | 965 million yen | 1,034 million yen |
| Deferred tax liabilities | | |
| Valuation difference on available-for-sale securities | 1 million yen | 1 million yen |
| Deferred tax liabilities total | 1 million yen | 1 million yen |
| Deferred tax assets, net | 964 million yen | 1,033 million yen |

2. Reconciliation between the statutory effective tax rate and the Corporate Income Taxes' effective tax rate

Omitted because the difference between the statutory effective tax rate and Corporate Income Taxes' contribution rate after the application of tax effect accounting is 5/100 or less of the statutory effective tax rate for both the previous and current fiscal year.

(Revenue Recognition)

Information that serves as the basis for understanding the revenue arising from contracts with customers is omitted because the same contents are stated in "Notes (Revenue Recognition)" of the consolidated financial statements.

(Significant Subsequent Events)

Not applicable.

(iv) Non-Consolidated Supplementary Schedule

Detailed statement of property, plant and equipment, etc.

(Unit: million yen)

| Category | Type of asset | Balance at beginning of the fiscal year | Increase during the fiscal year ended March 31, 2022 | Decrease during the fiscal year ended March 31, 2022 | Current amortization | Balance at end of the fiscal year | Accumulated depreciation |
|-------------------------------|---------------|---|--|--|----------------------|-----------------------------------|--------------------------|
| Property, plant and equipment | Buildings | 661 | 5,931 | 1 | 88 | 6,503 | 504 |
| | Land | 6,472 | 3,166 | - | - | 9,639 | - |
| | Other | 1,614 | 2,920 | 4,449 | 24 | 61 | 135 |
| | Total | 8,748 | 12,018 | 4,450 | 112 | 16,203 | 640 |
| Intangible assets | Other | 111 | 41 | - | 28 | 124 | 67 |
| | Total | 111 | 41 | - | 28 | 124 | 67 |

Notes: 1. Of the increase during the current period, the main items are as follows.

| | | |
|-----------|----------------------------|-------------------|
| Buildings | Hotel development | 4,376 million yen |
| | Real estate revitalization | 1,492 million yen |
| Land | Real estate revitalization | 3,075 million yen |

2. Of the decrease during the year, the main items are as follows.

| | | |
|-------|--|-------------------|
| Other | Hotel development (transfer of construction in progress) | 2,959 million yen |
|-------|--|-------------------|

Schedule of allowances

(Unit: million yen)

| Item | Balance at beginning of the fiscal year | Increase during the fiscal year ended March 31, 2022 | Decrease during the fiscal year ended March 31, 2022 | Balance at end of the fiscal year |
|--|---|--|--|-----------------------------------|
| Allowance for doubtful accounts | 219 | 3 | 97 | 125 |
| Provision for bonuses | 125 | 120 | 125 | 120 |
| Provision for bonuses for directors (and other officers) | 50 | 70 | 50 | 70 |
| Provision for share-based remuneration | 48 | 9 | - | 57 |

(2) Major assets and liabilities

Omitted because consolidated financial statements are prepared.

(3) Other

Not applicable.

Item. 6 Stock-Related Administration for the Company

| Fiscal year | April 1 to March 31 | | | | | | | | | |
|--|--|--|--|--------------|-----|-----------------------------------|---|------|-----------------------------------|--|
| Annual General Meeting of Shareholders | June | | | | | | | | | |
| Record date | March 31 | | | | | | | | | |
| Record date of dividends | Interim dividends: September 30 Year-end dividends: March 31 | | | | | | | | | |
| Number of shares per unit | 100 shares | | | | | | | | | |
| Purchase of shares less than one unit | <p>(Special Account) 1-3-3 Marunouchi, Chiyoda-ku, Tokyo, Mizuho Trust & Banking Co., Ltd., Securities Agency</p> <p>(Special Account) 1-3-3 Marunouchi, Chiyoda-ku, Tokyo, Mizuho Trust & Banking Co., Ltd.</p> <p>-</p> <p>Amount to be separately determined as the amount equivalent to the commission for the entrustment of the purchase and sale of shares</p> | | | | | | | | | |
| Handling office | | | | | | | | | | |
| Transfer agent | | | | | | | | | | |
| Forward office | | | | | | | | | | |
| Purchase and sales fee | | | | | | | | | | |
| Publication method | <p>The Company's method of public notice is electronic public notice. However, if the use of the electronic public notice becomes impossible, due to an accident or any other unavoidable reason, the public notices of the Company shall be made by publication in The Nihon Keizai Shimbun published in Tokyo.</p> <p>The URL for public notice of the Company is as follows. https://www.sunftr.co.jp/</p> | | | | | | | | | |
| Special benefits to shareholders | <p>The “Complimentary Coupon” for hotels operated by the Company is presented to shareholders listed on the shareholder register as of the end of March in accordance with the number of shares held.</p> <p>1. Details of discount coupons</p> <table border="1"> <thead> <tr> <th colspan="2">Type</th> <th>Target hotel</th> </tr> </thead> <tbody> <tr> <td>(i)</td> <td>Complimentary coupon 1,000 yen</td> <td> <ul style="list-style-type: none"> • HIYORI Ocean Resort Okinawa • HIYORI Chapter Kyoto Tribute Portfolio Hotel • HIYORI Hotel Maihama • HIYORI Hotel Osaka Namba Ekimae • Hiyori Hotel Tokyo Ginza East • Tabino Hotel Hida-Takayama </td> </tr> <tr> <td>(ii)</td> <td>Complimentary coupon 5,000 yen</td> <td> <ul style="list-style-type: none"> • Tabino Hotel Sado • Tabino Hotel Kurashiki Mizushima • Tabino Hotel Kashima • Tabino Hotel lit Miyakojima • Tabino Hotel lit Matsumoto • Spring Sunny Hotel Nagoya Tokoname Ekimae • COURTYARD BY MARRIOTT Osaka Honmachi • Shijo Kawaramachi Onsen Soraniwa Terrace Kyoto • Shijo Kawaramachi Onsen Bettei Kamogawa • Sado Resort Hotel AZUMA • Kasugazaki Onsen Hotel Oosado </td> </tr> </tbody> </table> <p>* In HIYORI Ocean Resort Okinawa, HIYORI Chapter Kyoto Tribute Portfolio Hotel, and COURTYARD BY MARRIOTT Osaka Honmachi, you can use it at restaurants in the building.</p> | Type | | Target hotel | (i) | Complimentary coupon 1,000 yen | <ul style="list-style-type: none"> • HIYORI Ocean Resort Okinawa • HIYORI Chapter Kyoto Tribute Portfolio Hotel • HIYORI Hotel Maihama • HIYORI Hotel Osaka Namba Ekimae • Hiyori Hotel Tokyo Ginza East • Tabino Hotel Hida-Takayama | (ii) | Complimentary coupon 5,000 yen | <ul style="list-style-type: none"> • Tabino Hotel Sado • Tabino Hotel Kurashiki Mizushima • Tabino Hotel Kashima • Tabino Hotel lit Miyakojima • Tabino Hotel lit Matsumoto • Spring Sunny Hotel Nagoya Tokoname Ekimae • COURTYARD BY MARRIOTT Osaka Honmachi • Shijo Kawaramachi Onsen Soraniwa Terrace Kyoto • Shijo Kawaramachi Onsen Bettei Kamogawa • Sado Resort Hotel AZUMA • Kasugazaki Onsen Hotel Oosado |
| Type | | Target hotel | | | | | | | | |
| (i) | Complimentary coupon 1,000 yen | <ul style="list-style-type: none"> • HIYORI Ocean Resort Okinawa • HIYORI Chapter Kyoto Tribute Portfolio Hotel • HIYORI Hotel Maihama • HIYORI Hotel Osaka Namba Ekimae • Hiyori Hotel Tokyo Ginza East • Tabino Hotel Hida-Takayama | | | | | | | | |
| (ii) | Complimentary coupon 5,000 yen | <ul style="list-style-type: none"> • Tabino Hotel Sado • Tabino Hotel Kurashiki Mizushima • Tabino Hotel Kashima • Tabino Hotel lit Miyakojima • Tabino Hotel lit Matsumoto • Spring Sunny Hotel Nagoya Tokoname Ekimae • COURTYARD BY MARRIOTT Osaka Honmachi • Shijo Kawaramachi Onsen Soraniwa Terrace Kyoto • Shijo Kawaramachi Onsen Bettei Kamogawa • Sado Resort Hotel AZUMA • Kasugazaki Onsen Hotel Oosado | | | | | | | | |

2. Number of shares held and ranking by holding period

| Number of shares held | Holding period | Number of gifts | |
|---|---------------------|------------------------------------|-------------------------------------|
| | | (i) Complimentary coupon 1,000 yen | (ii) Complimentary coupon 5,000 yen |
| 100 shares or more but less than 300 shares | - | 1 sheet | - |
| 300 shares or more but less than 500 shares | - | - | 1 sheet |
| 500 shares or more and less than 1,000 shares | - | - | 2 sheets |
| 1,000 shares or more | - | - | 4 sheets |
| 500 shares or more and less than 1,000 shares | 3 years or more * 1 | - | 4 sheets |
| 1,000 shares or more | | - | 8 sheets |

* 1 Shareholders listed (or recorded) with the same shareholder number for three consecutive years or more on the shareholder register as of the end of March 2022.

Note: Shareholders of the Company are not entitled to exercise their rights pertaining to shares constituting less than one unit of shares held by them, except for the following rights:

The rights provided for in each item of Article 189, Paragraph 2 of the Companies Act of Japan

The right to make a request provided for in the provisions of Article 166, Paragraph 1 of the Companies Act of Japan

The right to receive the allotment of offered shares and offered stock acquisition rights in proportion to the number of shares held by each shareholder

The right to make a request to the Company for transfer of shares constituting less than one unit

Item. 7 Reference Information on the Company

1. Information on the Parent Company

The Company has no parent companies, etc. as stipulated in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

The following documents have been submitted from the start date of the fiscal year ended March 31, 2022 to the filing date of Annual Securities Report.

(1) Annual Securities Report and Documents Attached, and Confirmation Letter

The 23rd fiscal year (from April 1, 2021 to March 31, 2022) June 22, 2022

Submitted to the Director-General of the Kanto Local Finance Bureau

(2) Internal Control Report and Documents Attached

Submitted to the Director-General of the Kanto Local Finance Bureau on June 22, 2022

(3) Quarterly Report and Confirmation Letter

First quarter for the 23rd fiscal year (from April 1, 2021 to June 30, 2021)

Submitted to the Director-General of the Kanto Local Finance Bureau on August 11, 2021

Second quarter for the 23rd fiscal year (from July 1, 2021 to September 30, 2021)

Submitted to the Director-General of Kanto Local Finance Bureau on November 10, 2021

Third quarter for the 23rd fiscal year (from October 1, 2021 to December 31, 2021)

Submitted to the Director-General of the Kanto Local Finance Bureau on February 14, 2022

(4) Extraordinary Report

Extraordinary Report pursuant to Article 19, Paragraph 2, Item 9-2 (Results of Exercise of Voting Rights in General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to the Director-General of the Kanto Local Finance Bureau on June 22, 2022

(5) Report on Repurchase of Own Shares

Submitted to the Director-General of the Kanto Local Finance Bureau on June 8, 2022

Part II Information on Guarantors, etc., for the Company

Not applicable.

**Independent Auditor's Report on the Financial Statements and Internal Control Over
Financial Reporting**

June 22, 2022

To the Board of Directors of Sun Frontier Fudousan Co., Ltd.

BDO Sanyu
Tokyo Office, Japan

Hiroshi Saito
Designated Partner
Engagement Partner
Certified Public Accountant

Satoshi Morita
Designated Partner
Engagement Partner
Certified Public Accountant

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Sun Frontier Fudousan Co., Ltd ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Sun Frontier Fudousan's Annual Securities Report, which comprise the consolidated balance sheet from April 1, 2021 to March 31, 2022, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended, and notes to the consolidated financial statements and supplementary schedules, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Assessment of real estate for sale | |
|--|--|
| The key audit matter | How the matter was addressed in our audit |
| <p>The Company owns real estate for sale and others in the Replanning Business and Hotel Development Business of the Hotel and Tourism Business segment. As described in notes to consolidated financial statements (significant accounting estimates), the Consolidated Balance Sheet for the current consolidated fiscal year, recorded 14,222 million yen in real estate for sale and 62,934 million yen in real estate for sale in process, accounting for 56.5% of total assets.</p> <p>Real estate for sale is exposed to risks such as changes in the real estate market in the future and declines in tenant rent and hotel room occupancy rate, and unrealized loss may occur due to a decline in the net selling price.</p> <p>The net selling price is the estimated amount of sales less the estimated amount of future construction costs and the estimated amount of selling expenses. The estimated amount of sales is mainly the profit return value estimated based on the business plan formulated by the Company.</p> <p>The business plan that forms the basis of the appraisal value includes the expected future rent for tenants and the occupancy rate of hotel rooms. The business plan is based on the assumption that the market conditions will recover in the future and the time when the COVID-19 will come to an end, as well as the management's assumptions and judgment.</p> <p>Based on the above, the valuation of real estate for sale, etc. has a large potential impact on the consolidated financial statements and involves assumptions and judgments by the management, and requires a high level of judgment in consideration of audit. Therefore, we have determined that this matter is a major consideration in key audit matter.</p> | <p>We mainly implemented the following procedures for the evaluation of real estate for sale, etc.</p> <ul style="list-style-type: none"> • The net selling price was compared with the book value for properties valued at the net selling price based on the profit return value estimated based on the business plan. • The net selling price and actual selling price of the real estate for sale etc. sold to current consolidated fiscal year in the previous consolidated fiscal year were compared. • Regarding the timing of the convergence of COVID-19 and the tenant rent and the occupancy rate of hotel rooms after the convergence, which are important assumptions in formulating the business plan, we interviewed the senior management and the executive officer in charge how to make estimates and the basis for them, confirmed their reflection in the business plan, and evaluated the reasonableness of estimates and the degree of uncertainty. • With regard to the properties that the business plan states are to be held until the spread of COVID-19 settles down, by confirming the current cash flow situation, the future cash flow budget, and the borrowings contract terms associated with each property, we examined the existence of a situation that will need to sell the properties earlier than planned, and evaluated the intention and ability of the Company to hold properties until the convergence of COVID-19. |
| Impairment loss on non-current assets related to hotels | |
| The key audit matter | How the matter was addressed in our audit |
| <p>The Company owns non-current assets in the Hotel Operation Business of the Hotel and Tourism Business segment. As described in notes to consolidated financial statements (significant accounting estimates), the Consolidated Balance Sheet for the current consolidated fiscal year, recorded non-current assets related to hotels of 12,080 million yen accounting for 8.8 % of total assets.</p> <p>The non-current assets of hotels is exposed to risks such as changes in the real estate market in the future and a decline in the occupancy rate of hotel rooms. Due to the impact of COVID-19, the occupancy rate of hotel rooms has declined and profitability has declined. Therefore, there are signs of impairment, and impairment loss may be generated.</p> <p>The determination of impairment loss recognition is based on a comparison of the estimated undiscounted future cash flows over the economic remaining life of the hotel's key assets with</p> | <p>We mainly implemented the following procedures in order to examine whether the recognition and judgment of the impairment loss of non-current assets related to the hotel was appropriately conducted.</p> <ul style="list-style-type: none"> • The estimated total undiscounted future cash flows based on the business plan and the book value of the hotel non-current assets were compared. In addition, the degree of confidence and uncertainty in management's estimates was assessed by comparing historical estimates of undiscounted future cash flows with actual figures. • Regarding the timing of the convergence of COVID-19 and the occupancy rate after the convergence, which are important assumptions in formulating the business plan, we interviewed the senior management and the executive officer in charge how to make the estimate and the basis for it, checked whether it was reflected in the business plan, and evaluated the rationality of the estimate and the degree of |

| | |
|--|--|
| <p>the book value of the hotel's asset group. Since the hotel is intended to be managed over a long period of time, the economic life of the hotel is long and the estimated future cash flows are also long.</p> <p>The business plan of the hotel, which is the basis of future cash flows, includes the occupancy rate of hotel rooms, etc., and is based on the assumption of future market conditions and the forecast of the time when the COVID-19 will converge, as well as the assumption and judgment by the management.</p> <p>Based on the above, the recognition of non-current assets impairment losses for hotels has a large potential impact on the consolidated financial statements and involves assumptions and judgments by management, and requires a high level of judgment in audit considerations. Therefore, we have determined that the recognition of impairment losses for hotels is a major consideration in key audit matter.</p> | <p>uncertainty.</p> <ul style="list-style-type: none"> ●With regard to the hotels that the business plan states are to be managed over the long term even after the COVID-19 subsides, by confirming the current cash flow situation and future cash flow budget, we examined the existence of a situation that will need to withdraw from hotel operation earlier than planned, and evaluated the intention and ability of the Company to manage the hotels over the long term even after the COVID-19 has subsided. |
|--|--|

Other Information

Other information included in the Annual Securities Report is information other than the consolidated financial statements and non-consolidated financial statements and their audit reports. Management is responsible for the preparation and disclosure of the other information. The Audit & Supervisory Committee are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the reporting process for the other information.

The scope of our opinion on the consolidated financial statements does not include the other information, and we do not provide our opinion on the other information.

Our responsibility for the audit of the consolidated financial statements is to read the other information, and, in doing so, consider whether there is a material inconsistency between the other information and the consolidated financial statements or our knowledge obtained during audit, and give attention to whether there are any other indications of material errors in the other information aside from such material inconsistency.

If, based on the audit work performed, we determine that there is a material misstatement in the other information, we are required to report such facts.

We have no matters to report with respect to the other information.

Responsibilities of Management and the Audit & Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in Japan, for disclosing, as necessary, matters related to going concern. Audit & Supervisory Committee are responsible for overseeing the Directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that expresses our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of these consolidated financial statements. In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Identify and assess the risks of material misstatement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- When auditing the consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates made by management and related notes thereto.
- Conclude on the appropriateness of preparing the consolidated financial statements with the assumption of a going concern by management, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a modified opinion on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America, as well as evaluate the presentation, structure, and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly present the underlying transactions and accounting events.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our opinion.

We report to the Audit & Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit process, and other matters required by auditing standards.

We also provide the Audit & Supervisory Committee with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be deemed to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

From the matters communicated with the Audit & Supervisory Committee, we determine those matters that were of most significance

in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of the Company as at March 31, 2022, in accordance with Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan. In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2022, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Internal Control Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit & Supervisory Committee for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Committee are responsible for overseeing and examining the design and operation of internal control over financial reporting. Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor's Responsibilities for the Audit of the Internal Control Report

Our responsibilities are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor's report that expresses our opinion on the internal control report based on our audit from an independent point of view. In accordance with internal control auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor's judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We report to the Audit & Supervisory Committee regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated, and other matters required by internal control auditing standards.

We also provide the Audit & Supervisory Committee with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be deemed to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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- Notes: 1. The original copy of the above Audit Report is kept separately by the Company (Annual Securities Report Submission Company).
2. XBRL data is not included in audit coverage.

Independent Auditor's Report on the Financial Statements

June 22, 2022

To the Board of Directors of Sun Frontier Fudousan Co., Ltd.

BDO Sanyu
Tokyo Office, Japan

Hiroshi Saito
Designated Partner
Engagement Partner
Certified Public Accountant

Satoshi Morita
Designated Partner
Engagement Partner
Certified Public Accountant

Opinion

We have audited the non-consolidated financial statements of Sun Frontier Fudousan Co., Ltd. provided in the "Financial Information" section in the Sun Frontier Fudousan's Annual Securities Report, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity, significant accounting policies, the related notes, and the supplementary schedules of Sun Frontier Fudousan Co., Ltd. as at March 31, 2022 and for the 23rd fiscal year from April 1, 2021 to March 31, 2022, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sun Frontier Fudousan Co., Ltd. as at March 31, 2022, and its financial performance for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the non-consolidated financial statements of the current period. These matters were addressed in the context of our audit of the non-consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Assessment of real estate for sale | |
|--|--|
| The key audit matter | How the matter was addressed in our audit |
| <p>The Company owns real estate for sale and other properties in Replanning Business. As described in notes to financial statements (significant accounting estimates), the Non-consolidated Balance Sheet for the current consolidated fiscal year, recorded 13,289 million yen in real estate for sale and 48,674 million yen in real estate for sale in process, accounting 49.6% of total assets.</p> <p>Real estate for sale is exposed to risks such as changes in the real estate market in the future and declines in tenant rent and hotel room occupancy rate, and unrealized loss may occur due to a decline in the net selling price.</p> <p>The net selling price is the estimated amount of sales less the estimated amount of future construction costs and the estimated amount of selling expenses. The estimated amount of sales is mainly the profit return value estimated based on the business plan formulated by the Company.</p> <p>The business plan that forms the basis of the appraisal value includes the expected future rent for tenants and the occupancy rate of hotel rooms. The business plan is based on the assumption that the market conditions will recover in the future and the time when the COVID-19 will come to an end, as well as the management's assumptions and judgment.</p> <p>Based on the above, the valuation of real estate for sale, etc. has a large potential impact on the consolidated financial statements and involves assumptions and judgments by the management, and requires a high level of judgment in consideration of audit. Therefore, we have determined that this matter is a major consideration in key audit matter.</p> | <p>We mainly implemented the following procedures for the evaluation of real estate for sale, etc.</p> <ul style="list-style-type: none"> • The net selling price was compared with the book value for properties valued at the net selling price based on the profit return value estimated based on the business plan. • The net selling price and actual selling price of the real estate for sale etc. sold to current consolidated fiscal year in the previous consolidated fiscal year were compared. • Regarding the timing of the convergence of COVID-19 and the tenant rent and the occupancy rate of hotel rooms after the convergence, which are important assumptions in formulating the business plan, we interviewed the senior management and the executive officer in charge how to make estimates and the basis for them, confirmed their reflection in the business plan, and evaluated the reasonableness of estimates and the degree of uncertainty. • With regard to the properties that the business plan states are to be held until the spread of COVID-19 settles down, by confirming the current cash flow situation, the future cash flow budget, and the borrowings contract terms associated with each property, we examined the existence of a situation that will need to sell the properties earlier than planned, and evaluated the intention and ability of the Company to hold properties until the convergence of COVID-19. |

| Impairment loss on non-current assets related to hotels | |
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| The key audit matter | How the matter was addressed in our audit |
| <p>The Company owns non-current assets in the Hotel Development Business. As described in the notes to financial statements (significant accounting estimates), the Non-consolidated Balance Sheet for the current consolidated fiscal year, recorded 9,787 million yen in non-current assets related to hotels, accounting for 7.8% of total assets.</p> <p>The non-current assets of hotels is exposed to risks such as changes in the real estate market in the future and a decline in the occupancy rate of hotel rooms. Due to the impact of COVID-19, the occupancy rate of hotel rooms has declined and profitability has declined. Therefore, there are signs of impairment, and impairment loss may be generated.</p> <p>The determination of impairment loss recognition is based on a comparison of the estimated undiscounted future cash flows over the economic remaining life of the hotel's key assets with the book value of the hotel's asset group. Since the hotel is</p> | <p>We mainly implemented the following procedures in order to examine whether the recognition and judgment of the impairment loss of non-current assets related to the hotel was appropriately conducted.</p> <ul style="list-style-type: none"> • The estimated total undiscounted future cash flows based on the business plan and the book value of the hotel non-current assets were compared. In addition, the degree of confidence and uncertainty in management's estimates was assessed by comparing historical estimates of undiscounted future cash flows with actual figures. • Regarding the timing of the convergence of COVID-19 and the occupancy rate after the convergence, which are important assumptions in formulating the business plan, we interviewed the management and the executive officer in charge how to make the estimate and the basis for it, checked whether it was reflected in the business plan, and evaluated the rationality of the estimate and the degree of uncertainty. |

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| <p>intended to be managed over a long period of time, the economic life of the hotel is long and the estimated future cash flows are also long.</p> <p>The business plan of the hotel, which is the basis of future cash flows, includes the occupancy rate of hotel rooms, etc., and is based on the assumption of future market conditions and the forecast of the time when the COVID-19 will converge, as well as the assumption and judgment by the management.</p> <p>Based on the above, the recognition of non-current assets impairment losses for hotels has a large potential impact on the consolidated financial statements and involves assumptions and judgments by management, and requires a high level of judgment in audit considerations. Therefore, we have determined that the recognition of impairment losses for hotels is a major consideration in key audit matter.</p> | <ul style="list-style-type: none">●With regard to the hotels that the business plan states are to be managed over the long term even after the COVID-19 subsides, by confirming the current cash flow situation and future cash flow budget, we examined the existence of a situation that will need to withdraw from hotel operation earlier than planned, and evaluated the intention and ability of the Company to manage the hotels over the long term even after the COVID-19 has subsided. |
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Other Information

Other information included in the Annual Securities Report is information other than the consolidated financial statements and non-consolidated financial statements and their audit reports. Management is responsible for the preparation and disclosure of the other information. The Audit & Supervisory Committee are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the reporting process for the other information.

The scope of our opinion on the non-consolidated financial statements does not include the other information, and we do not provide our opinion on the other information.

Our responsibility for the audit of the non-consolidated financial statements is to read the other information, and, in doing so, consider whether there is a material inconsistency between the other information and the non-consolidated financial statements or our knowledge obtained during audit, and give attention to whether there are any other indications of material errors in the other information aside from such material inconsistency.

If, based on the audit work performed, we determine that there is a material misstatement in the other information, we are required to report such facts.

We have no matters to report with respect to the other information.

Responsibilities of Management and the Audit & Supervisory Committee for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the non-consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the non-consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in Japan, for disclosing, as necessary, matters related to going concern. Audit & Supervisory Committee are responsible for overseeing the Directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that expresses our opinion on the non-consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of these non-consolidated financial statements. In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Identify and assess the risks of material misstatement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- When auditing the non-consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates made by management and related notes thereto.
- Conclude on the appropriateness of preparing the non-consolidated financial statements with the assumption of a going concern by management, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the notes to the non-consolidated financial statements or, if the notes to the non-consolidated financial statements on material uncertainty are inadequate, to express a modified opinion on the non-consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the non-consolidated financial statements and notes to the non-consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America, as well as evaluate the presentation, structure, and content of the non-consolidated financial statements, including the related notes thereto, and whether the non-consolidated financial statements fairly present the underlying transactions and accounting events.

We report to the Audit & Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit process, and other matters required by auditing standards.

We also provide the Audit & Supervisory Committee with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be deemed to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

From the matters communicated with the Audit & Supervisory Committee, we determine those matters that were of most significance in the audit of the non-consolidated financial statements of the current business year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

- Notes:
1. The original copy of the above Audit Report is kept separately by the Company (Annual Securities Report Submission Company).
 2. XBRL data is not included in audit coverage.